SCOTTISH FRIENDLY ASSURANCE SOCIETY LIMITED

Solvency and Financial Condition Report 2024

Contents

SUMMARY

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

Today, as at 31 December 2024, the Group has assets under management of £4.2 billion (2023: £4.6 billion) and has an estimated 853,000 members (2024: 838,000).

Over the past decade, Scottish Friendly has significantly restructured its business. Despite the challenging external business environment, with high inflation and volatile investment markets, the business remains well-capitalised, reflecting the strength of the capital position and actions taken to manage that position. The solvency and liquidity positions are monitored frequently, and actions taken, as appropriate, to protect the long-term interest of policyholders and the overall capital and liquidity position of Scottish Friendly.

Scottish Friendly continues to build on existing strengths by investing in improving customer experience, developing people and targeting further growth in customer base and the products and services offered.

Since 2012, Scottish Friendly's organic growth has been founded on the introduction of innovative and affordable ISA investments via the Group's My Plans platform, including a multi-award-winning Junior ISA for children, and a range of protection products. Scottish Friendly has continued to deliver sales and increase membership as a result of strong e-business and direct marketing and major collaborations with companies like the Neilson Financial Services and Guardian Financial Services. The success of this strategy was reflected in another year of strong financial results, with Scottish Friendly delivering total sales of £50.6m APE[1] (2023: £51.1m). 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.

This growth has been built on the foundation of a robust capital position, with a solvency ratio[2] of 216% (2023: 190%) under the PRA regulations. This ratio has remained resilient in light of continued volatility in financial markets and shows a significant excess over the minimum required by regulations, as well as the level required by Scottish Friendly's own risk appetite. Our solvency ratio demonstrates that, even in an extreme 1-in-200 year scenario, we expect to have enough capital to meet our liabilities to policyholders.

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

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[1] Annual Premium Equivalent, the industry standard measure of premium volumes, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year.
[2] The solvency ratio is the Own Funds divided by the Solvency Capital Requirement (SCR)

DIRECTORS' RESPONSIBILITIES STATEMENT IN RESPECT OF THE SOLVENCY AND FINANCIAL CONDITION REPORT ("SFCR")

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

The PRA Rulebook requires that Scottish Friendly must have in place a policy of ensuring the ongoing appropriateness of any information disclosed and that Scottish Friendly must ensure that its SFCR is approved by the Directors.

Each Director certifies that:

a) the Solvency and Financial Condition Report ("SFCR") has been properly prepared in all material respects in accordance with the PRA rulebook and regulatory framework;

b) throughout the financial year in question, the Company has complied in all material respects with the requirements of the PRA rulebook and regulatory framework as applicable to the Company; and

c) it is reasonable to believe that, at the date of the publication of the SFCR, the Company has continued so to comply, and will continue so to comply in future.

By order of approval of the Board.

Stephen McGee	Alan Rankine
Director	Director
27 March 2025	27 March 2025

Report of the external independent auditors to the Directors of Scottish Friendly Assurance Society Limited ('the Society') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the relevant elements of the Solvency and Financial Condition Report

Opinion

We have audited the following documents prepared by the Society as at 31 December 2024:

- The 'Valuation for solvency purposes' and 'Capital management' sections of the Solvency and Financial Condition Report of the Society as at 31 December, 2024 ('**the Narrative Disclosures subject to audit**'); and

- Company templates IR.02.01.02, IR.12.01.02, IR.23.01.01, IR.25.04.21 and IR.28.01.01 ('**the Templates subject to audit'**).

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the '**relevant elements of the Solvency and Financial Condition Report'**.

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

- the **Other Information** which comprises:
  - The 'Summary', 'Business and performance', 'System of governance' and 'Risk profile' elements of the Solvency and Financial Condition Report;

  - Company templates IR.05.02.01, IR.05.03.02, IR.05.04.02; and

  - The written acknowledgement by management of their responsibilities, including for the preparation of the Solvency and Financial Condition Report ('**the Responsibility Statement**').

In our opinion, the information subject to audit in the relevant elements of the Solvency and Financial Condition Report of the Society as at 31 December, 2024 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based.

Basis for opinion

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

Conclusions relating to going concern

Our evaluation of the Directors' assessment of 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 Society's ability to continue as a going concern for a period of at least twelve months from the date on which the Solvency and Financial Condition Report is authorised for issue.

In auditing the Solvency and Financial Condition Report, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Solvency and Financial Condition Report is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to 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.

Emphasis of Matter - Basis of Accounting

We draw attention to the 'Valuation for solvency purposes' and 'Capital management' of the Solvency and Financial Condition Report, which describe the basis of accounting. The Solvency and Financial Condition Report is prepared in compliance with the financial reporting provisions of the PRA Rules, and therefore in accordance with a special purpose financial reporting framework. The Solvency and Financial Condition Report is required to be published, and intended users include but are not limited to the Prudential Regulation Authority. As a result, the Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Other Information

The Directors are responsible for the Other Information.

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

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

Responsibilities of Directors for the Solvency and Financial Condition Report

The Directors are responsible for the preparation of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules.

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

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

It is our responsibility to form an independent opinion as to whether the information subject to audit in the relevant elements of the Solvency and Financial Condition Report is prepared, in all material respects, in accordance with financial reporting provisions of the PRA Rules.

Our objectives are to obtain reasonable assurance about whether the relevant elements of the Solvency and Financial Condition Report 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 it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the Solvency and Financial Condition Report.

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 Society 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 Solvency and Financial Condition Report. We also considered those laws and regulations that have a direct impact on the Solvency and Financial Condition Report such as applicable Solvency II regulations. We evaluated management's incentives and opportunities for fraudulent manipulation of the Solvency and Financial Condition Report (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate adjustments between UKGAAP and Solvency II values and management bias in accounting estimates and judgemental areas of the Solvency and Financial Condition Report, such as the best estimate liabilities. Audit procedures performed 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 balances that include accounting estimates and judgements, such as the valuation of best estimate liabilities;
- Identifying material adjustments to derive for Solvency II financial information from the statutory financial statements and assessing for indicators of material non-compliance with Solvency II regulations; 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 Solvency and Financial Condition Report. 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.

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

Use of this report

This report, including the opinion, has been prepared for the Board of Directors of the Society in accordance with External Audit rule 2.1 of the Solvency II firms Sector of the PRA Rulebook and for no other purpose. We do not, in providing this report, accept or assume responsibility for any other purpose or to any other party save where expressly agreed by our prior consent in writing.

Report on Other Legal and Regulatory Requirements

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the relevant elements of the Solvency and Financial Condition Report and (where applicable) the audit of the Society's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers LLP

Chartered Accountants

7 More London Riverside

London

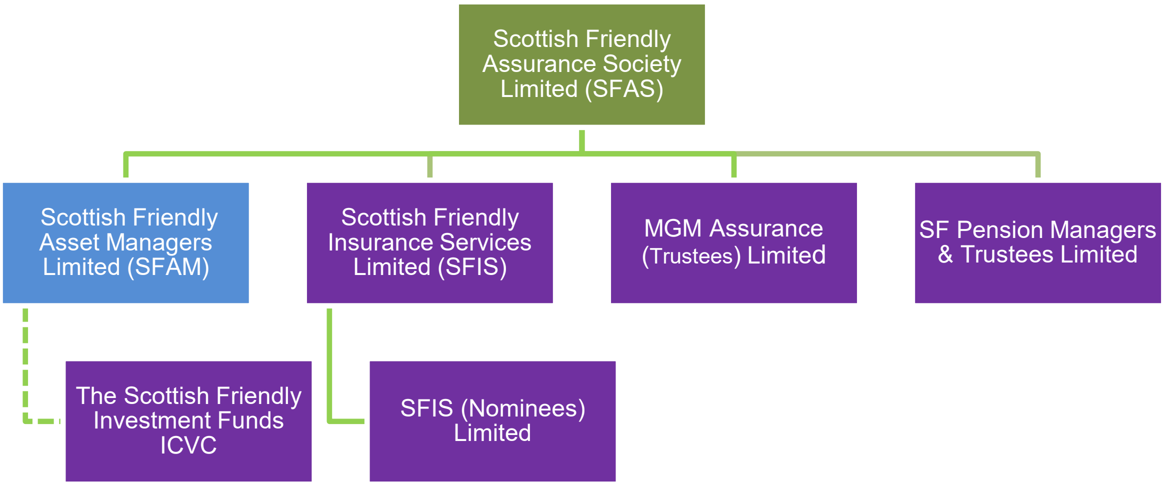
SE1 2RT

27 March 2025

A Business and Performance

A.1 Business

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



Green denotes insurance company, subject to full Senior Managers & Certification Regime ("SM&CR") rules.

Blue denotes a firm regulated in accordance with the Prudential Sourcebook for Investment Firms ('IFPRU'), in scope for SM&CR.

Purple denotes unregulated entity not in scope for SM&CR.

Scottish Friendly Asset Managers Limited is authorised and regulated by the Financial Conduct Authority and is the manager 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 it was de-regulated in October 2022. 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 for some Scottish Friendly ISA 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.

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

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

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

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

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

Scottish Friendly's auditor is PricewaterhouseCoopers LLP, whose office is 7 More London Riverside, London, SE1 2RT.

A.2 Underwriting Performance

The following table illustrates Scottish Friendly's performance over 2024, as reflected in the 2024 Annual Report and Accounts:

Technical Account - Long Term Business
For year ended 31 December

	2024 £000	2023 £000
Earned Premiums	**219,722**	208,205
Reinsurance Premiums	**(97,754)**	(84,719)
Earned Premiums, Net of Reinsurance	**121,968**	123,486
Investment Income	**61,936**	23,048
Unrealised Gains/(Losses) on Investments	**181,571**	239,500
Other Technical Income	**30,940**	30,067
Release of Negative Goodwill	**6,060**	6,060
	402,475	422,161
Claims Incurred	**254,140**	254,429
Reinsurance Claims	**(131,254)**	(117,296)
Net Claims Incurred	**122,886**	137,133
Change in Long-term Business Provision	**(68,810)**	(30,154)
Change in Technical Provisions for Linked Liabilities	**220,476**	191,532
Operating Expenses	**125,909**	103,539
Investment Expenses & Charges	**3,343**	4,087
Other Technical Charges	**1,108**	1,174
Tax attributable to Long Term Business	**6,964**	(1,382)
Actuarial (Gain)/Loss re pension scheme	**(182)**	13,941
Transfer to the Fund for Future Appropriations	**(9,219)**	2,291
	402,475	422,161

Scottish Friendly writes four lines of business as detailed below:

- Insurance with participation
- Index Linked and Unit Linked
- Other Life Insurance
- Health Insurance business

The table below illustrates Scottish Friendly's premiums, claims and expenses split by PRA lines of business for the periods ended 31 December 2024 and 31 December 2023.

2024

	Insurance with participation £000	Index Linked & Unit Linked Insurance £000	**Other Life Insurance £000**	Health Insurance £000	**Total**
Gross Premiums	**33,706**	**6,099**	**178,095**	**1,822**	**219,722**
Gross Claims	**86,431**	**36,987**	**128,315**	**2,407**	**254,140**
Expense	**8,429**	**1,525**	**118,843**	**455**	**129,252**

2023

	Insurance with participation £000	Index Linked & Unit Linked Insurance £000	**Other Life Insurance £000**	Health Insurance £000	**Total**
Gross Premiums	**39,654**	7,097	**159,881**	1,573	**208,205**
Gross Claims	**92,522**	45,252	**113,953**	2,701	**254,428**
Expense	**20,498**	3,669	**82,646**	813	**107,626**

A.3 Investment Performance

The return attributed to the asset shares within the Scottish Friendly with-profits Main Fund for 2024 was 7.3% (2023: 9.1%) reflecting the positive returns in equity markets, particularly the US, in spite of continued complexity in the geopolitical landscape.

Profitshare distribution of £4.5 million (2023: £4.4 million) was returned to eligible policyholders in the form of regular and final bonuses.

The Group assets under management decreased to £4,244 million (2023: £4,576 million), reflecting the impact of claims paid out over the year as well as a reduction in the value of the reinsurance asset due to actuarial assumption and model changes and market movements. This was offset by the receipt of premiums from policyholders.

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

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

The following table illustrates Scottish Friendly's investment performance over 2024, as reflected in the annual report and accounts. The significant unrealised gains in the year reflect the stronger market environment.

	2024 £000	2023 £000
Income from land & buildings	**126**	141

Income from other investments	**82,324**	84,260
Net losses on the realisation of investments	**(20,514)**	(61,353)
Unrealised gains on investments	**181,571**	239,500
	243,507	262,548

A.4 Performance of other activities

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

In 2024, the total other technical income was £30.9m, compared to £30.1m in 2023. Of the 2024 total, £25.9m relates to fee income (2023: £24.8m).

A.5 Any other material information

Scottish Friendly recently announced the acquisition of pension and annuity in payment books of business from Fidelity International. The acquisition consists of a book of unit-linked Section 32[3] 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.

[3] Section 32 of the Finance Act 1981

B System of Governance

B.1 General information on the system of governance

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

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

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

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

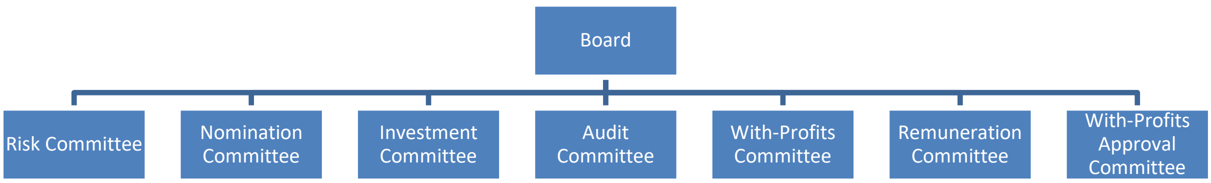
As a mutual, Scottish Friendly has no shareholders.

Internal Control Framework

The Board is responsible for directing the affairs of Scottish Friendly. In addition to the principles of prudent management, there are several specific powers given to the Board, which are defined in the Scottish Friendly Rules.

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

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



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

Risk Committee

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

Nomination Committee

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

Investment Committee

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

Audit Committee

- Reviews internal control systems, including internal financial controls and ensures that these continue to be effective; advises the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework.

- Considers the Audit Plan from external auditors which highlights key judgement areas and summarises changes in reporting requirements.

- Reviews the annual financial statements and regulatory returns and approves these for submission to the Board.

- Approves the internal audit programmes and receives regular process reports from internal audit and ensures that recommendations made are followed up. Also monitors co-ordination between the internal and external auditors and ensures that the Internal Audit Function (IAF) is adequately resourced and has appropriate standing within the organisation.

- Assesses the effectiveness of the internal and external audit processes through the reporting that it receives from the respective auditors who are present at each Committee meeting.

- Provides recommendations to the Board in relation to the appointment of the external auditors.

With-Profits Committee

- Provides recommendations and advice to the Board on the way each with-profits fund is managed.

- Considers compliance with the principles and practices set out in the relevant Principles and Practices of Financial Management (PPFM).

- Provides recommendations to the Board relating to changes that would result in a revision to the PPFM(s).

- Provides advice to the Board as to whether Scottish Friendly has effectively addressed the conflicting rights and interests of with-profits policyholders and other policyholders or stakeholders.

- Considers other issues which with-profits policyholders might reasonably expect the With-Profits Committee to be involved in, including bonus setting, the development of run-off plans and the identification of surplus within the various funds.

Remuneration Committee

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

With-Profits Approval Committee

- Supports the Board in the consideration of certain delegated matters relating to the management of with-profits policies – such as approving changes in bonus rates and approving distributions of excess / miscellaneous surplus where these have been determined in accordance with frameworks specified by the Board – as well as to support the Board in its responsibilities as set out in COBS 20 insofar as they relate to the management of with-profits matters.

There were no material changes to the structure of the internal control framework over 2024, although the With-Profits Approval Committee was formed over the year in order to improve the efficiency of the business-as-usual management of with-profits business.

Details of the individuals performing key functions as at 31 December 2024 are set out in Appendix F2.

Remuneration Policy

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

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

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

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

Fees for the Chair are set by the Committee in his absence. Fees for Non-Executive Directors are monitored and reviewed annually with changes effective from 1 May through approval by the Executive Directors and the Chair. Fees are designed to recognise the responsibilities of Non-Executive Directors and to attract individuals with the necessary skills and experience to contribute to the future development of Scottish Friendly.

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

The aggregate premiums payable for the year by 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 of Scottish Friendly had any beneficial interest in shares of Scottish Friendly's subsidiary companies.

Service contracts

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

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

Changes to the System of Governance

There were no significant changes to the system of governance over 2024.

Assessment of the adequacy of Systems of Governance

The systems of governance in place within Scottish Friendly are assessed to be effective. The Board reports on its effectiveness as part of the Directors' Report in the Annual Report and Accounts. Where relevant, external support has been obtained to assess effectiveness. In addition, each Committee (where appropriate) completes an annual self-assessment to consider how effectively it has discharged its terms of reference, as well as more generally how effectively it has operated over the period. In addition, the Risk Committee undertakes an assessment of the effectiveness of the Risk Function and the Audit Committee undertakes an assessment of the effectiveness of the Internal Audit Function. This ensures that adequate and effective governance and oversight arrangements are in place.

B.2 Fit and Proper requirements

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

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

The SM&CR consists of 3 parts:

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

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

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

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

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

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

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

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

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

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

- **Fitness and Propriety Questionnaire** - considers honesty, integrity and reputation and considers whether the individual is financially sound.
- **Regulatory References** (on commencement of employment) - provides information on previous employers' assessment of the individual`s conduct and fitness and propriety.
- **Employee Screening Check** - supplements the self-attestation in the F&P questionnaire and identifies whether the individual has had any CCJ`s/Court Decrees or Bankruptcy, Sequestration or Insolvency arrangements.
- **Criminal Records Check** (on commencement of employment) - supplements the F&P Questionnaire and considers whether the individual has been convicted of a criminal offence.
- **Competency Assessment** - records why the individual is competent and capable to carry out the function.

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

The Chief Executive performs the F&P assessments.

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

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

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

Risk governance

The overall accountability for 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.

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.

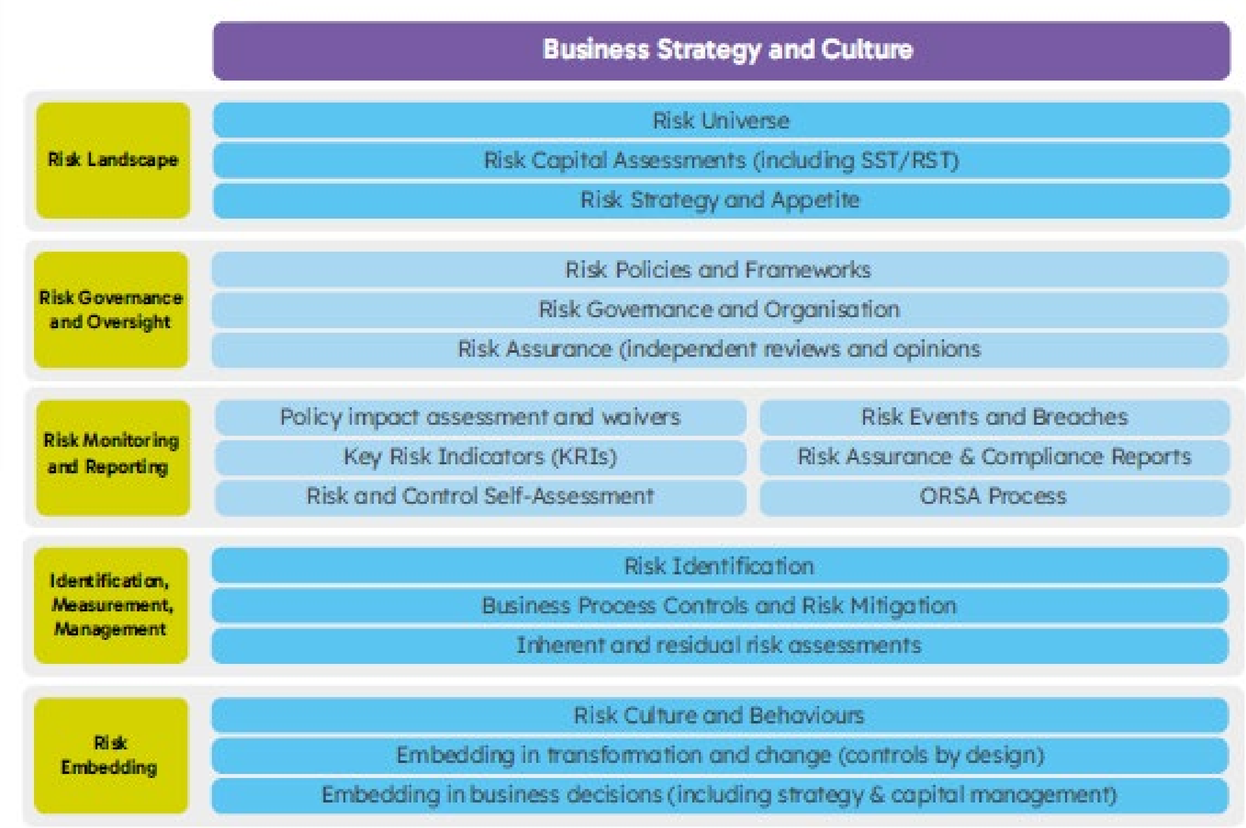
3. The Third Line of Defence is the Internal Audit function, which provides independent assurance of the adequacy and effectiveness of our risk and control environment. This is delivered via a cyclical and prioritised programme of risk-based audits covering all aspects of work undertaken in the First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

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

The Risk Management Framework

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

The five key components of the RMF are:



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.

ORSA

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

The ORSA process is a dynamic process which links:

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

The purpose of the ORSA is to:

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

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

The ORSA is an integral part of the strategic decision-making process within Scottish Friendly and its results inform capital management, investment and product development decisions taken by the Executive and the Board. The ORSA is completed alongside, and is consistent with, the business planning process.

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

Internal Control System

Each Function within the business is required to identify, in accordance with the risk management framework and risk policies, the risks arising from the specific activities undertaken within the function and to design and operate a suite of key controls which mitigate those risks.

For the purposes of assessing risk and the performance of key controls, Scottish Friendly maintains a suite of Risk Registers. The risk registers document the risk definition, inherent and residual risk ratings, effectiveness of design and operation of key controls and Executive Risk Owners.

Functional Risk Registers are in place to record and report on operational risks and controls across key processes within each business area. On a quarterly basis, the Executive Risk Owners for each functional area are required to submit their self-assessments of control effectiveness to the second line. The output of this process enables Executive Risk Owners at functional area level to confirm to their assessment of residual risk.

The output of the functional risk assessment is incorporated in the Corporate Risk Register ('CRR'). The CRR records and reports the inherent and residual risk to the business as a whole per risk category i.e. the CRR provides a 'total' view of the risk exposure across Scottish Friendly. The CRR is informed by underlying functional risk assessments, key risk indicators, risk events and breaches and other sources of information. It also incorporates a forward looking view as well as a current point in time of risk exposure.

The Risk Committee is responsible for overseeing the process as well as the output of the process. Each Executive Risk Owner is responsible for ensuring that the control self-assessment is completed within the timeframe set by the Risk Function, as well as ensuring that evidence of testing is collated to support the confirmation that key controls are fit for purpose and that they are operating as intended. Where a failure is identified, action is required, and the Risk Function will track progress of remediation. On a quarterly basis, or more frequently, the Compliance function in conjunction with the Risk Function, reviews and challenges the assessments made by the Executive Risk Owners.

B.4 Internal Audit System

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

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

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

Fundamental Principles under the PRAs regulatory framework

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

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

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

The IAF shall:

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

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

Relationship with Management/Other Stakeholders

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

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

IAF Process

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

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

B.5 Actuarial Function

Scottish Friendly's actuarial function has the following responsibilities:

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

B.6 Outsourcing

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

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

As at 31 December 2024, the following key co-sourced / outsourced functions are considered critical or important in line with the terms of 7.2 of Conditions Governing Business in the PRA Rulebook for regulated firms:

- Internal Audit (BDO LLP) (co-sourced arrangement)

In addition, there are also a number of other material outsourcers recorded on the Outsourcer Register:

- Thirteen contracts which involve an element of policy administration or related servicing activities (Aegon, One Family Limited[4], Neilson Financial Services, Nucleus Financial, Guardian Financial Services, iCOM, Geo Underwriting Services Limited, Certua Group Limited, Hannover Reinsurance, M&G Wealth, Union Insurance Services & Unisure Limited).

- Six arrangements which cover investment management and related activities such as unit pricing, investment administration or asset management (Linedata, Bank of New York, Canada Life Limited, JP Morgan Chase & Co, Aberdeen plc and Mobius Life Limited).

- Three other arrangements, while not classified as material outsourcing, relate to the provision of IT services (Database Service Provider Global Limited, Pulsant Limited and FMP Global Ltd).

All of these outsourcers are located within the United Kingdom.

B.7 Other Information

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

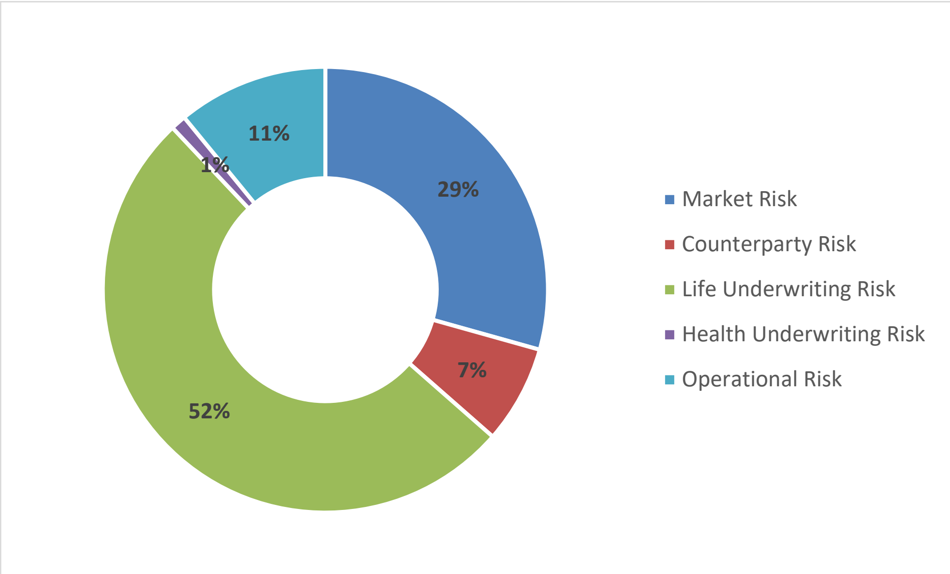
[4] Beagle Street was acquired by OneFamily in 2022, with the Deed of Novation and Amendment for the administration services provided to SFA completed on 20th February 2024.

C RISK PROFILE

The key risks facing Scottish Friendly are considered within the ORSA and presented to the Board on at least an annual basis. Data is presented to the Executive Risk Committee, Risk Committee and Board on a quarterly basis to highlight any significant movements in the risk profile of the business or the forward-looking risks.

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

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



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

C.1 Market Risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows from fluctuations in interest rates, foreign currency exchange rates, equity prices and property values.

As at 31 December 2024, the total capital required in respect of market risk facing the business was £34.9m (2023: £41.2m). This has decreased significantly over the year, driven primarily by the decreases in Equity, Interest rate and Property risk. The overall reduction in market risk capital is driven by enhanced ALM activity to more closely manage the balance sheet exposures and also to trade out of riskier assets which were previously held within the estate of the Main Fund.

The total market risk capital is comprised of the following risks across each of the sub funds:

Business Block	SF Main Fund	LANMAS	Rational Shelley	Scottish Legal	M&GM	Manulife	Aggregate
	£m	£m	£m	£m	£m	£m	£m
Interest rate risk	1.8	0.0	0.1	1.2	2.0	0.0	5.1

Equity risk	27.4	0.0	0.0	0.8	0.6	0.0	28.8
Property risk	1.3	0.0	0.0	0.0	0.5	0.0	1.8
Spread risk	1.2	0.0	0.0	0.4	2.2	0.0	3.8
Currency risk	0.0	0.0	0.0	0.4	0.0	0.0	0.4
Other market risk	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Diversification	(2.3)	(0.0)	(0.0)	(1.0)	(1.7)	0.0	**(5.0)**
Total market risk	**29.4**	**0.0**	**0.1**	**1.8**	**3.6**	**0.0**	**34.9**

The primary driver of market risk is “equity risk”. This risk arises from the equities held to back with-profits asset shares, whereby a fall in equity values results in an increase in the cost of guarantees. In addition, equity risk arises as a result of holdings of equity within the unit-linked funds, including those transferred from Canada Life. Falls in equity values reduce the value of these funds, resulting in a corresponding reduction in the expected future income stream for Scottish Friendly.

Further quantitative analysis on the composition of Scottish Friendly’s investment portfolio can be found within Note 14 – Note 18 inclusive of the 2024 Annual Report and Accounts.

In addition, further quantitative analysis on the credit quality of Scottish Friendly’s investments can be found within the “Credit Risk” section of Note 36 of the 2024 Annual Report and Accounts.

Risk concentrations

Scottish Friendly avoid concentrations of market risk through the design of its investment strategy. Scottish Friendly primarily invests in a range of OEICs and other similar collective investment vehicles which maintain a balanced and diversified investment strategy and avoid material exposures to single names. The Investment Function also undertakes analysis at an appropriate frequency to consider the aggregate exposure across all of Scottish Friendly’s investments and ensure that there are no material single name exposures which are outside of risk appetite. The largest single name exposure is to the UK Government through holdings in gilts.

Risk mitigation

Market risk is mitigated through the selection of assets to closely match key characteristics - such as duration and currency - of Scottish Friendly’s liabilities. Scottish Friendly also maintains a portfolio of derivatives, primarily swaptions and exchange traded futures and forward contracts, which are held to mitigate exposure to interest rate risk and currency risk which arises from certain liabilities or features of investment strategy.

Scottish Friendly’s non-linked asset portfolio is managed on a day-to-day basis by external specialists within JP Morgan and aberdeen. These managers are permitted to make short-term tactical decisions, within pre-defined upper and lower bounds, to actively manage and mitigate market risks as the external environment develops. The Investment Function and Investment Committee provide close oversight over these external managers, with formal reporting to the Investment Committee on a quarterly basis.

C.2 Underwriting Risk

Underwriting risk is the risk of potential losses arising from inaccurate assessment of the risks entailed in writing an insurance policy. This is mitigated by the provision of reinsurance arrangements, limits on cover and explicit exclusions.

In accordance with the requirements of the PRA rulebook, underwriting risk is calculated separately for life insurance business and health insurance business.

As at 31 December 2024, the total capital required in respect of the life underwriting risk exposure was £61.3m (2023: £66.8m). This is comprised of the following risks across each of the sub funds:

Business Block	SF Main Fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Manulife £m	Aggregate £m
Mortality	11.1	0.0	0.0	0.0	0.2	0.0	11.3
Longevity	2.5	0.0	0.0	0.2	5.9	0.0	8.6
Disability	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lapse	35.4	0.0	0.0	0.0	4.6	0.0	40.0
Expense	19.7	0.0	0.0	0.3	1.8	0.0	21.8
Revision	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Catastrophe risk	0.9	0.0	0.0	0.0	0.0	0.0	0.9
Diversification	(18.0)	(0.0)	(0.0)	(0.1)	(3.2)	0.0	**(21.3)**
Total life underwriting risk	**51.6**	**0.0**	**0.0**	**0.4**	**9.3**	**0.0**	**61.3**

The corresponding exposure to health underwriting risk was £1.3m (2023: £2.1m), split as set out in the table below:

Business Block	SF Main Fund £m	LANMAS £m	Rational Shelley £m	Scottish Legal £m	M&GM £m	Manulife £m	Aggregate £m
Health Mortality	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Longevity	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Health Disability	1.3	0.0	0.0	0.0	0.0	0.0	1.3
Health Expense	0.1	0.0	0.0	0.0	0.0	0.0	0.1
Health Revision	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Health Lapse	0.3	0.0	0.0	0.0	0.0	0.0	0.3
Diversification	(0.3)	0.0	0.0	0.0	(0.0)	0.0	**(0.3)**
Total health underwriting risk	**1.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.3**

The level of underwriting risk capital has decreased from 2023. This is primarily due to an overall increase in the interest rates which reduced the base best estimate liabilities and consequently results in a lower absolute increase in liabilities in each of the underwriting stress scenarios. There is also a reduction in the mass lapse stress due to changes in expense assumptions which reduced the expected future profitability of some product lines. This was somewhat offset by an increase in longevity risk capital in the M&GM sub-fund following a recapture of an annuity reinsurance treaty from Hannover Re in October 2024.

Lapse risk remains the most significant exposure. Scottish Friendly's lapse capital is based on its exposure to a "mass lapse" event, under which there is a sudden and significant exit of business that is expected to be profitable in the future.

Risk concentrations

Scottish Friendly's diverse back-book of insurance contracts avoids any material concentrations arising in respect of underwriting risk – in particular, this offers Scottish Friendly diversification across product type, geography, age and gender.

Scottish Friendly also makes extensive use of reinsurance – both in respect of the back-book and in respect of new business - to avoid concentration exposure to very large policies, and to avoid creating an exposure to a single product line.

Scottish Friendly does actively sell a number of products which give rise to lapse risk. This is the most material underwriting risk. Whilst this risk is not concentrated on a single line of business or single target market, it has been identified that certain external events, such as a deep and prolonged recession in the UK, could cause this risk to crystallise concurrently across multiple lines of business. This is considered as part of the annual ORSA assessment and capital is held to ensure that Scottish Friendly is able to withstand a very extreme mass lapse event occurring.

Risk mitigation

Underwriting risk arising from selling new business is primarily mitigated in accordance with the insurance risk management policy, and, more generally, the product design / new business sales processes, which are specifically designed to identify and mitigate any underwriting risks which are outside of Scottish Friendly's risk appetite.

Scottish Friendly also makes extensive use of reinsurance – both for new business and in respect of the legacy back-book - to cede underwriting risks to third party reinsurers. This allows acts as a mitigant to the concentration risk which could otherwise arise from very large claims on the protection book.

There are risks which, by the nature of operating insurance business, cannot be fully mitigated. The Actuarial and Commercial Functions undertake regular close monitoring of emerging experience which would allow corrective action to be taken if it became clear that experience was emerging in a manner which is not consistent with Scottish Friendly's expectations.

The business strategy also offers a mitigant against underwriting risk, by ensuring diversification is achieved across product lines and target markets.

C.3 Counterparty Default Risk

Counterparty default risk is the risk of financial loss as a result of the default or failure of third parties to meet their obligations.

As at 31 December 2024, the total capital required in respect of counterparty risk facing the business was £8.5m (2023: £10.7m). This decrease is primarily due a material reduction in the reinsurance asset as a result of changes to best estimate morbidity assumptions.

This is comprised of the following risks across each of the sub funds:

Business Block	SF Main Fund	LANMAS	Rational Shelley	Scottish Legal	M&GM	Manulife	Aggregate
	£m	£m	£m	£m	£m	£m	£m
Type 1	6.9	0.0	0.0	0.0	0.6	0.0	**7.5**
Type 2	1.3	0.0	0.0	0.0	0.0	0.0	**1.3**
Diversification	(0.3)	0.0	0.0	0.0	0.0	0.0	**(0.3)**
Total counterparty risk	**7.9**	**0.0**	**0.0**	**0.0**	**0.6**	**0.0**	**8.5**

Note:

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

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

Risk concentrations

Scottish Friendly's counterparty risk appetite places an upper limit on the level of counterparty risk exposure which is permitted from a single counterparty. This applies to reinsurers, banks, third-parties to derivative contracts and debtors. The position against risk appetite is monitored by the Technical Review Committee on a monthly basis, which would allow corrective to be taken if it was identified to be likely that a counterparty exposure may breach the risk appetite trigger level.

The most material counterparty risk concentrations arise from Scottish Friendly's reinsurers, to whom underwriting risk has been ceded in the past as well in respect of new business. These concentrations are closely monitored and scenario testing is conducted as part of the annual ORSA assessment to assess the sensitivity of the capital position to key counterparties, both now and in the future as a result of writing new business. This is in turn used to inform business strategy and guide the selection of new counterparties if necessary.

Risk mitigation

Counterparty risk is primarily mitigated through ensuring compliance with Scottish Friendly's risk appetite statements as well as the counterparty risk management policy. In particular, this requires all material counterparties to have a minimum credit rating and also limits the maximum exposure permitted to any single name.

The Finance Function monitor the counterparty exposures and provide a monthly credit report to the Technical Review Committee which highlights the position against risk appetite and would permit timely action to be taken if a counterparty's credit quality was deteriorating.

In addition, a number of counterparty exposures are also mitigated by the third-party providing collateral to Scottish Friendly – either by posting assets into a custody account, or by way of granting a legal charge to Scottish Friendly over the third-party's balance sheet.

C.4 Liquidity Risk

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

Liquidity risk is subject to extensive management oversight and reporting. Analysis of projected cash inflows and outflows is performed by Finance with input from Actuarial on a monthly basis, and the projected liquidity position is monitored through regular risk reporting. Liquidity requirements are considered over one-month and three-month time horizons.

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

Given the nature of this risk and the controls in place, Scottish Friendly did not hold any capital against this risk as at 31 December 2024.

Further quantitative analysis on the maturity profile of Scottish Friendly's liabilities can be found within the "Liquidity Risk" section in Note 36 of the 2024 Annual Report and Accounts.

C.5 Operational Risk

Operational risk is the risk of loss or adverse consequences for the business resulting from inadequate or failed internal processes, people or systems, cyber risk, or from external events.

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

As at 31 December 2024, the total capital required in respect of operational risk facing the business was £13.0m (2023: £12.5m). The operational risk in respect of the Manulife fund is held in the SF Main Fund. Operational risk is comprised of the following capital requirements across each of the sub funds:

Business Block	SF Main Fund	LANMAS	Rational Shelley	Scottish Legal	M&GM	Manulife	Aggregate
	£m	£m	£m	£m	£m	£m	£m
Total operational risk	10.0	0.0	0.0	0.2	2.8	0.0	13.0

The level of operational risk capital is broadly unchanged from that in 2023. This has increased slightly as a result of increased new business premiums.

Risk mitigation

The nature of operational risk means that it is most effectively mitigated through effective first line of defence controls within procedures and, where appropriate, automated processes to minimise the risk of human error. The internal control system which is operated by Scottish Friendly to mitigate operational risk is described within section B3.

In addition, Scottish Friendly also has insurance policies which further mitigate against certain operational risks which are not otherwise well mitigated through a robust control environment.

In addition to the Standard Formula operational risk capital requirements, Scottish Friendly also monitors operational risk using bespoke stress and scenario modelling within the ORSA, calibrated using inputs from Scottish Friendly's Executive management team.

C.6 Risk Sensitivities

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

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

- Combined economic and demographic scenario
- Persistent inflation and increase in interest rates

- High profile operational failure scenario
- Demographic misestimation
- Counterparty downgrade following an increase in mortality experience
- Liquidity scenario
- Climate change scenario

The scenarios consider the immediate impact to the capital position e.g. payment of remediation and costs, as well as the longer-term impact on revenues e.g. impacting ongoing sales volumes. The exercise concluded that Scottish Friendly remains well capitalised under an appropriate range of adverse scenarios and that Scottish Friendly is comfortably able to meet its solvency capital requirement and maintain a solvency coverage ratio well in excess of 100% without deploying any additional management actions.

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

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

Further quantitative analysis which demonstrates the sensitivity of the capital position to insurance and market risks can be found within Note 36 of the 2024 Annual Report and Accounts.

C.7 Other Risks

Emerging Risks

The ORSA considers the “emerging risks” to which Scottish Friendly is exposed. 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. Examples of the emerging risks considered in the ORSA include risks related to the external business environment such as persistent high inflation / widening geopolitical conflict.

D VALUATION FOR SOLVENCY PURPOSES

Valuation Basis

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

The differences between the Statutory Accounts and balance sheet which is calculated in accordance with the requirements of the PRA rulebook (the "regulatory balance sheet") as at 31 December 2024 are shown below. As the Statutory Accounts are principally valued at fair value, the differences between the regulatory balance sheet and the Statutory Accounts are limited in nature.

The differences between the Statutory Accounts and regulatory balance sheet are shown below as at 31 December 2024:

	Statutory Accounts £'000	Adjustments £'000	Regulatory Balance Sheet £'000	Note
Property & Equipment	3,943	0	3,943	
Investments	3,231,852	(255,941)	2,975,911	1 & 2
Derivative assets	2,692	(0)	2,692	
Reinsurance	771,993	262,033	1,034,026	1
Cash	72,651	(6,134)	66,517	2
Pension scheme surplus	11,685	(11,685)	0	3
Negative Goodwill	(29,295)	29,295	0	4
Other	43,196	0	43,196	6
Total Assets	**4,108,718**	**17,568**	**4,126,286**	
Technical Provisions	(3,802,437)	5,843	(3,796,594)	5
Derivative liabilities	(2,074)	0	(2,074)	
Other	(89,328)	2,921	(86,407)	3 & 6
Total Liabilities	**(3,893,839)**	**8,765**	**(3,885,074)**	
Net Assets	**214,878**	**26,333**	**241,211**	

Explanatory Notes:

1. There is a unit-linked reinsurance agreement in place with Mobius Life. Within the Statutory Accounts the underlying investments held by the Mobius policyholders are recognised directly, whereas on the regulatory balance sheet this is recognised as a reinsurance asset. This results in a large switch, £262.0m, from investment assets to reinsurance assets. This is entirely presentational and there is no impact on the net position.

2. Certain cash assets held in respect of unit-linked contracts of insurance (£6.1m) are recognised as cash on the Statutory Accounts basis and as investments on the regulatory balance sheet.

3. The pension scheme surplus is restricted on a regulatory basis to be in line with the contribution of the pension scheme to the capital requirements. There is no such restriction in the Statutory Accounts. This results in a valuation difference of £11.7m. The related tax charge of £2.1m, recognised as part of the "other" liabilities within the Statutory Accounts, is not recognised on the regulatory balance sheet, as the impact is already reflected in the surplus restriction.

4. A £29.3m negative goodwill liability is recognised on the Statutory Accounts balance sheet. This recognises that the price paid for the acquisition of business from Canada Life Limited and Mobius Life Limited was less than the fair value of the net assets acquired. This amount is amortised over time as the capital requirements run-off and expected profits from this book emerge. Intangible assets such as goodwill are not recognised on the regulatory balance sheet in accordance with PRA rulebook.

5. In the Statutory Accounts the financial liability for investment contracts is valued based on the carrying value of the assets and liabilities that are held to back the contract, plus an additional amount equal to the present value of excess future policy costs over future charges. On a regulatory basis these contracts are valued equal to the expected future cash flows (including allowing the recognition of future charges where they are projected to exceed future expenses) plus a risk margin. This gives rise to a valuation difference of £5.8m.

6. An aggregate deferred tax asset is shown in the statutory accounts, but for regulatory reporting this deferred tax asset is notionally split between the sub-funds. As some of the sub-funds are in a notional deferred tax liability position this results in a switch of £3.5m between "other assets" and "other liabilities", with no change in the aggregate net position.

D.1 Assets Valuation

Scottish Friendly's regulatory valuation principles (including the bases, methods and main assumptions) for each asset class are set out below. Unless otherwise stated (i.e. where there are differences to the Statutory Accounts value column) the valuation methods for UK GAAP are consistent with the valuation methods as required by the PRA rulebook. Further details on the UK GAAP valuation principles are set out in the Notes to the Annual Accounts in the Scottish Friendly Annual Report and Accounts for the year ended 31 December 2024.

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

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

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

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

Property, plant and equipment

Land and buildings are valued at fair value. This is the same basis as the Statutory Accounts for regulatory purposes. A formal valuation of 15-17 Blythswood Square, completed by a professional independent valuer, takes place every three years and was most recently completed ahead of the 31 December 2024 reporting period.

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

Investments

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

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

As at 31 December 2024 the following investments were held by Scottish Friendly (values exclude the cash held in respect of unit-linked contracts of insurance):

	QMP £000	QMPS £000	AVM £000	**Total £000**
Property held for own use	-	-	3,100	3,100
Government Bonds	366,975	-	-	366,975
Corporate Bonds	-	69,712	-	69,712
Structured notes	-	-	2,475	2,475
Collective Investments Undertakings	-	-	424,210	424,210
Derivatives assets	-	1,259	1,433	2,692
Assets held for index-linked and unit-linked contracts	264,441	-	2,099,093	2,363,534
Total financial assets	631,416	70,971	2,530,311	**3,232,698**
Derivative liabilities	-	(2,074)	-	(2,074)

Reinsurance assets

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

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

Reinsurance contracts in respect of investment business which do not transfer risk to the third party are not recognised as a reinsurance asset in the Statutory Accounts. Instead, the Statutory Accounts looks through to the underlying assets held by policyholders within 'assets held for index-linked and unit-linked contracts'.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and cash in hand as well as short-term deposits with a maturity of three months or less and known redemption values which are held to manage short-term operational cash requirements on origination. The valuation in the Statutory Accounts basis is materially consistent with a fair value and therefore the valuation is unadjusted in the regulatory balance sheet.

Other Assets

These include sundry debtors and prepayments and are recorded at amortised cost. This approximates the fair value valuation basis which is required by the PRA rulebook for these assets. The Statutory Accounts also include a negative goodwill asset, which was recognised on the transfer of a block of business from Mobius Life Limited and a further amount recognised as part of the transfer of the Canada Life book. As an intangible asset, this is not recognised on the regulatory balance sheet in accordance with the requirements of the PRA rulebook.

D.2 Technical Provisions

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

Best estimate assumptions

The key demographic assumptions (expense, mortality, longevity, morbidity and persistency) are based on the experience investigations carried out in late 2024 and presented to the Audit Committee of the Board in December 2024 and January 2025.

The most material best estimate demographic assumptions are reviewed at least annually and less material assumptions are reviewed on a three-yearly rolling cycle. The exception to this is for longevity analysis where the assumptions are reviewed at least every two years. Assumptions are set based on relevant internal experience where this is available, robust and credible. Where there is no credible internal experience, relevant external information will be sourced and used. This may include population experience or reinsurer rates.

Assumptions are set to reflect expected experience for a given product/group of products. Products are typically grouped where these have similar features, in order to ensure that assumptions are based on a credible volume of data. Assumptions are rounded, where appropriate, to avoid spurious accuracy.

The analysis window over which data points are grouped into years runs from March to March. This means that the assumptions used at year-end 2024 are based on data up to 31 March 2024. Experience is generally analysed over a three-year analysis window, with the exception of longevity experience which is analysed over a five-year period given the longer-term nature of the assumption.

Best estimate expense assumptions have been set to reflect the expected long-term administration costs for the in-force policies, based on the latest business plan. Short-term reserves have also been established to reflect some items of cost which Scottish Friendly expect to incur in the coming years as part of developing the business, but which are not expected to continue in the longer term.

The key economic assumptions used to calculate technical provisions (e.g. yield curves and volatilities) are based on relevant market data at 31 December 2024. The risk-free yield curve is published by the PRA.

Methodology

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

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

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

The with-profits benefit reserves at 31 December 2024 are all valued using a retrospective approach except for the Rational Shelley business and the with-profits business held in the Manulife sub-fund, which are valued using a prospective approach.

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

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

Risk margin

The Risk Margin is calculated by projecting forward the capital requirement held for non-hedgeable risks – as defined within the PRA rulebook regulations – using a risk driver approach. Risk drivers were selected to provide an appropriate proxy for the evolution of the capital held for each risk (for example, change in the number of in-force policies or change in the BEL).

The resulting projected capital requirement is then adjusted to reflect the time decay parameter set out in the PRA rulebook and multiplied by the cost of capital rate set out in the PRA rulebook (currently 4%), before being discounted to the valuation date.

Other

Scottish Friendly does not use the matching adjustment ('MA') or volatility adjustment ('VA'), nor does it avail of any of the transitional measures set out within the PRA rulebook (including the Transitional Measures on Technical Provisions), when calculating its technical provisions.

	2024 £000	2023 £000
Total Best Estimate Liability	3,785,281	3,991,016
BEL - Health	8,996	9,778
BEL – Life	1,410,004	1,547,608
BEL - Unit-linked and index linked	2,366,281	2,433,630
Total Risk Margin	11,313	13,145
Risk Margin - Health	57	80
Risk Margin - Life	7,087	8,101
Risk Margin - Unit-linked and index linked	4,169	4,964
Technical Provisions	**3,796,594**	**4,004,161**

Restatement

The Technical Provisions as at 31 December 2023 have been restated to correct an error which was identified in the treatment of the tax within the actuarial model for some non-BLAGAB lines of business, as well as to correct the conversion of some lapse assumptions from annual rates to monthly rates.

There was an offsetting change in the reinsurance asset of broadly the same magnitude, and consequently this restatement had an immaterial impact on Own Funds. The restated position has been used as the prior year comparative throughout sections D and E:

£000	2023 as previously reported	Restatement	Restated 2023
Technical Provisions – Life	1,630,911	(75,202)	1,555,709
Reinsurance Asset	1,239,686	(76,075)	1,163,611
Unrestricted Own Funds	**258,836**	**(873)**	**257,963**
Ring Fencing Restriction	(110,494)	-	(110,494)
Own Funds	**148,342**	**(873)**	**147,469**

D.3 Uncertainties within the Technical Provisions

Actuarial assumptions are inherently judgemental in nature and the application of this judgement, alongside the potential volatility in future experience as a result of the challenging external environment, gives rise to a degree of uncertainty within the Technical Provisions.

The key areas of uncertainty within technical provisions which were considered by the Audit Committee during the year-end 2024 assumption were:

- Impact of high inflation / "cost of living" on assumption setting – where persistency assumptions have been set based on Scottish Friendly's view of long-term expected lapse, surrender and withdrawal experience, as informed by observed experience data.
- Allowance for future impacts of climate change – where Scottish Friendly does not believe that it is necessary to make any adjustment to best estimate assumptions to allow for the impact of climate change risk at present.

In addition, a number of factors were considered for specific demographic assumptions - most significantly in relation to the ex-Canada Life business where Scottish Friendly has now moved to use actual observed experience since the acquisition of the business in 2019.

Further quantitative analysis which demonstrates the sensitivity of Technical Provisions to changes in key assumptions can be found within Note 36 of the 2024 Annual Report and Accounts.

D.4 Other Liabilities

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

Claims outstanding is measured on a best estimate of the expected cashflows resulting from all outstanding obligations. This is based on observed experience and relies on judgements about how to interpret that experience and how that experience may change in the future. An increase in the experience of making payments to customers by 10% would increase outstanding claims by approximately £1.2m and a decrease in the experience of making payments to customer by 10% would reduce outstanding claims by approximately £0.2m.

The total amount of other liabilities is £89.3m prior to the application of any regulatory adjustments. The key liabilities within this total are detailed in the table below:

	2024 £000	**2023 £000**
Deposits from reinsurers	**5,164**	26,570
Claims outstanding	**39,886**	48,676
Creditors arising out of Direct Insurance Operations	**13,730**	10,217
Other Creditors	**5,584**	6,954
Accruals and Deferred Income	**17,807**	22,556
Provisions for liabilities	**7,157**	6,930
Total	**89,328**	121,903

D.5 Alternative Valuation Methods

Some of Scottish Friendly's financial instruments are valued using alternative valuation methods, which use a combination of observable and non-observable market inputs. All of the alternative valuation methods described below follow accepted market practice. The methods are consistent with the permitted alternative valuation methods detailed in the Conditions Governing Business section of the PRA Rulebook, specifically, Chapter 11A: Alternative Methods for Valuation.

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

Asset	**AVM £000**	**Alternative Valuation Method**	**Assumption**
Property held for own use	3,100	Royal Institution of Chartered Surveyors ('RICS') Appraisal and valuation methodology.	As per RICS valuation manual and based on professional judgement of independent valuers.

Structured notes	2,475	Combination of observable and non-observable market inputs including modelling.	The valuation is based on the discounted value of the estimated future cashflows, including a proportion of the shared appreciation on the underlying property assets.
Collective Investments Undertakings	424,210	Prices are obtained from published information representing the value at which units could be redeemed via the investment manager.	None
Derivative assets	1,433	Market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities.	Various assumptions used depending on derivative, including interest rate curve, discount curve and implied volatility.
Assets held for index-linked and unit-linked contracts	2,099,093	Prices are obtained from published information representing the value at which units could be redeemed via the investment manager.	For property assets, as per RICS valuation manual and based on professional judgement of independent valuers.

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

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

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

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

D.6 Other Material Information

The information presented in section D provides a true and fair view of the valuation of Scottish Friendly as completed in accordance with the requirements stated in the PRA rulebook.

E CAPITAL MANAGEMENT

E.1 Own Funds

Scottish Friendly's capital management objectives are:

- To protect Scottish Friendly's financial strength, providing security to policyholders;
- To comply with the regulatory capital requirements as stated in the PRA rulebook;
- To enable smoothing of investment returns and payouts; and
- To ensure that Scottish Friendly's capital position is sufficient to enable it to invest in the development of the business in order to fulfil its core strategic objectives as determined by the Board.

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

Composition of Own Funds

Scottish Friendly's capital comprises of its Own Funds. As a mutual these comprise 100% of the profits not yet allocated to members. The vast majority of Scottish Friendly's Own Funds are Tier 1 capital, there was a reduction in Tier 3 capital over 2024 of c£2m due a reduction in carried forward taxable losses.

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

	2024 £000	2023 £000
Own Funds	**134,723**	**147,469**
Tier 1	**134,432**	**145,008**
Surplus Funds	241,211	257,963
Reconciliation Reserve	(106,488)	(110,494)
Tier 2	-	-
Tier 3	291	2,461
% Tier 1	**100%**	**98%**

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

Reconciliation to Funds for Future Appropriations shown in the financial statements

There is a difference between the net assets as shown in the financial statements and the excess of assets over liabilities shown on the regulatory balance sheet. This is primarily due to the recognition of an intangible negative goodwill on the Statutory Accounts basis which is not recognised on the regulatory balance sheet in accordance with the requirements of the PRA rulebook. This reflected the transfer of business from Canada Life Limited and Mobius Life Limited. In addition, in accordance with the PRA rulebook, the level of pension scheme surplus is restricted. Finally, within the Statutory Accounts a different valuation approach is used for investment contracts in line with the requirements stated in the relevant accounting standards. As at 31 December 2024, excess assets over liabilities were £214.9m on a Statutory Accounts basis and £241.2m as determined in accordance with the requirements of the PRA rulebook (before ring-fencing).

Change in Own Funds

The following table shows the change in Scottish Friendly's Own Funds from 31 December 2023 to 31 December 2024.

	2024 £000
Opening Own Funds	**147,469**
Increase/(Decrease) in Total Assets	(125,142)
(Increase)/Decrease in Technical Provisions	77,981
(Increase)/Decrease in Current Liabilities	30,408
Total	**130,717**
Decrease/(Increase) in ring-fencing of available capital	4,007
Closing Own Funds	**134,723**

The assets and liabilities in the table above are shown net of reinsurance.

Ring Fenced Funds

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

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

	2024 £000	2023 £000
Excess assets over liabilities	241,211	257,964
Adjustment for restrictions due to ring fencing	(106,488)	(110,494)
Own Funds	134,723	147,469

E.2 Solvency Capital Requirement and Minimum Capital Requirement

Scottish Friendly uses the Standard Formula as the basis for calculating capital requirements, having reviewed and assessed the Standard Formula as appropriate for the firm. Scottish Friendly complies in all material respects with the requirements of the PRA rulebook and regulatory framework related to the SCR and MCR.

The capital position of the business is estimated on at least a monthly basis, with the results communicated to the Board. The Risk Committee reviews solvency by risk indicators and the financial markets are monitored with the implications on solvency considered if volatility triggers are breached.

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

	2024 £000	2023 £000
Own Funds	134,723	147,469
Minimum Capital Requirement	28,013	35,046
Solvency Capital Requirement	62,250	77,879
Solvency Ratio	**216.4%**	**189.4%**

The solvency coverage ratio has increased relative to the 31 December 2023 position, primarily as a result of market movements and assumption changes which have reduced both the Own Funds and the SCR. There is also an increase in the loss absorbing capacity for technical provisions due to a further distribution of miscellaneous surplus over the year which resulted in a reduction to the SCR.

Solvency Capital Requirement split by risk modules

The table below shows the risk modules that make up Scottish Friendly Assurance Society Limited's SCR at 31 December 2024.

	2024 £000	2023 £000
Market Risk	34,913	41,200
Counterparty Default Risk	8,468	10,675
Life Underwriting	61,272	66,768
Health Underwriting	1,327	2,062
Undiversified BSCR	**105,980**	**120,705**
Diversification Credit	(24,783)	(29,339)
Basic SCR	**81,197**	**91,366**
Operational Risk	13,012	12,539
Adjustment due to RFF/MAP	603	341
Loss-absorbing capacity of technical provisions	(29,516)	(24,361)
Loss-absorbing capacity of deferred taxes	(3,046)	(2,006)
Solvency Capital Requirement	**62,250**	**77,879**

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

The SCR for each of the risk modules have been determined using a comparable approach with the prior year.

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

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

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

Minimum Capital Requirement

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

The detail of the MCR calculation is shown below:

	2024 **£000**	**2023** **£000**
Linear MCR	35,787	35,483
SCR	62,250	77,879
MCR cap	28,013	35,046
MCR floor	15,563	19,470
Combined MCR	**28,013**	**35,046**
Absolute floor of the MCR	3,500	3,495
Minimum Capital Requirement	**28,013**	**35,046**

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

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

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

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

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

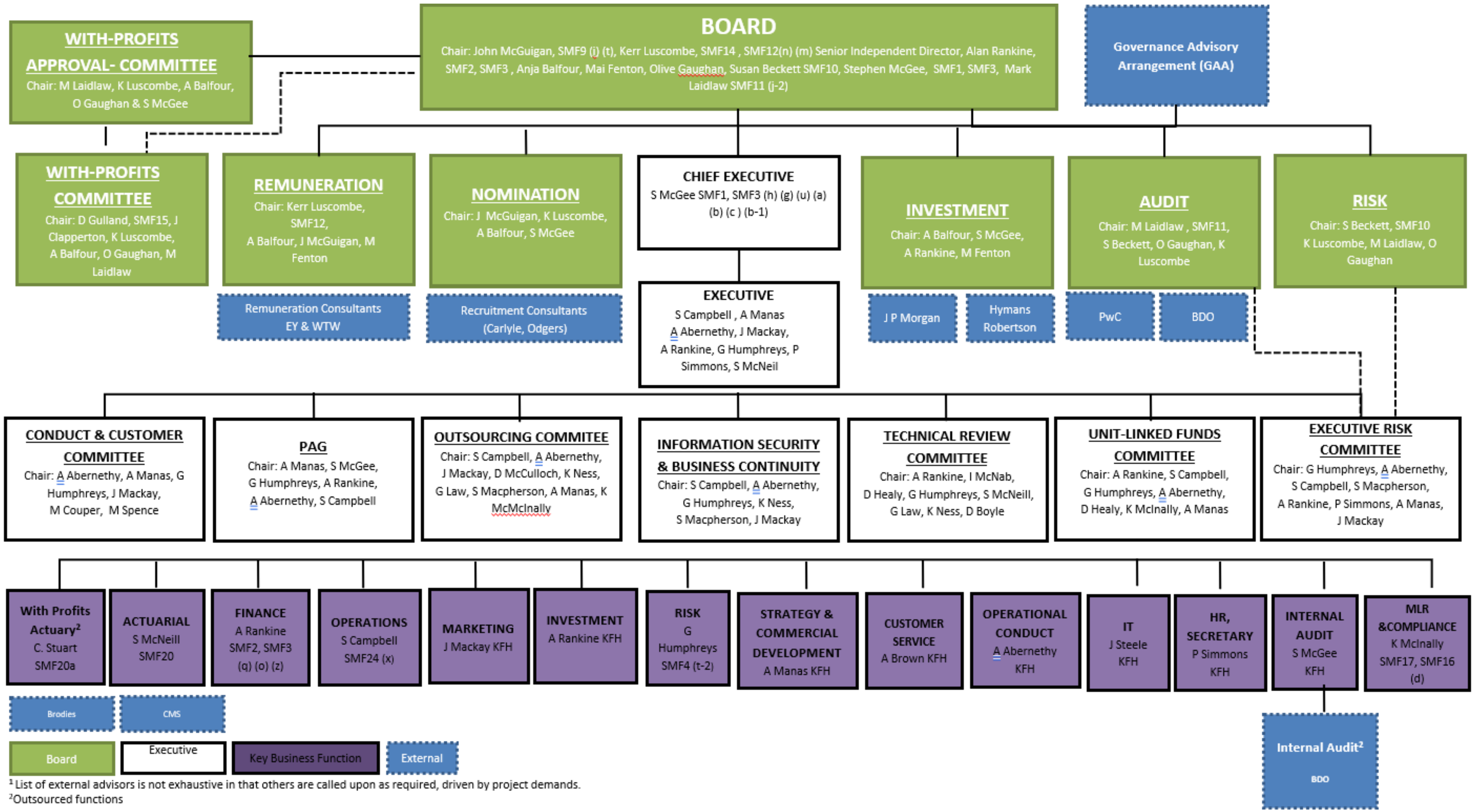
Scottish Friendly has complied with the MCR and the SCR throughout the period.

E.6 Other Material Information

There is no other material information to disclose in respect of capital management.

F APPENDICES

F.1 Appendix – Functional Structure as at 31 December 2024



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

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

F.2 Individual Performing Function (as at 31 December 2024)

SMF / KFH	Regulator	Function	Individual Performing Function
SMF1	PRA	Chief Executive function	Stephen McGee
SMF2	PRA	Chief Finance function*	Alan Rankine
SMF3	FCA	Executive Director	Stephen McGee
SMF3	FCA	Executive Director	Alan Rankine
SMF4	PRA	Chief Risk function*	Genevieve Humphreys
SMF9	PRA	Chair	John McGuigan
SMF10	PRA	Chair of the Risk Committee***	Susan Beckett
SMF11	PRA	Chair of the Audit Committee	Mark Laidlaw
SMF 12	PRA	Chair of the Remuneration Committee	Kerr Luscombe
SMF14	PRA	Senior Independent Director	Kerr Luscombe
SMF15	FCA	Chair of the With-Profits Committee	David Gulland
SMF16	FCA	Compliance*	Kevin McInally
SMF17	FCA	Money Laundering Reporting	Kevin McInally
SMF20	PRA	Chief Actuary function	Scott McNeill
SMF20a	PRA	With Profits Actuary function*	Callum Stuart
SMF24	PRA	Chief Operations Function	Stephen Campbell
KFH	PRA	Internal Audit Function**	Stephen McGee
KFH	PRA	Investment	Alan Rankine
KFH	PRA	Marketing	Jill Mackay
KFH	PRA	IT	John Steele
KFH	PRA	Strategy and Commercial Development	Alexander Manas
KFH	PRA	Human Resources	Pamela Simmons
KFH	PRA	Customer Service	Alan Brown
KFH	PRA	Operational Conduct	Aileen Abernethy

* Denotes SMF's that are mandatory key functions.

** Stephen McGee is the Key Function Holder for Internal Audit however the prescribed responsibility sits with Mark Laidlaw, Chair of the Audit Committee.

*** Holds Consumer Duty Champion responsibilities

Notes:

1. Anja Balfour, Olive Gaughan & Mai Fenton do not hold a SMF role under the regime but perform the role of non-executive director.

F.3 Public Quantitative Reports Template

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

IR.02.01.02	Balance Sheet
IR.05.02.01 -	Premiums, claims and expenses by country
IR.05.03.02	Life income and expenditure
IR.12.01.02	Life technical provisions
IR.23.01.01	Own Funds
IR.25.04.21	Solvency Capital Requirement
IR.28.01.01	Minimum Capital Requirement

Scottish Friendly

Solvency and Financial Condition Report

Disclosures

31 December

2024

(Monetary amounts in GBP thousands)

General information

Entity name	Scottish Friendly
Entity identification code and type of code	LEI/21380058XYHZJQMXDQ26
Type of undertaking	Life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

-

IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	
R0040	Deferred tax assets	3,901
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	3,943
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	871,010
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	4,946
R0100	*Equities*	0
R0110	*Equities - listed*	
R0120	*Equities - unlisted*	
R0130	*Bonds*	439,162
R0140	*Government Bonds*	366,975
R0150	*Corporate Bonds*	69,712
R0160	*Structured notes*	2,475
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	424,210
R0190	*Derivatives*	2,692
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	2,107,593
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	
R0270	Reinsurance recoverables from:	1,034,026
R0280	*Non-life and health similar to non-life*	
R0315	*Life and health similar to life, excluding index-linked and unit-linked*	771,991
R0340	*Life index-linked and unit-linked*	262,035
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	18,695
R0370	Reinsurance receivables	12,501
R0380	Receivables (trade, not insurance)	8,100
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	66,517
R0420	Any other assets, not elsewhere shown	
R0500	**Total assets**	4,126,286

		Solvency II value
	Liabilities	C0010
R0505	Technical provisions - total	3,796,594
R0510	*Technical provisions - non-life*	0
R0515	*Technical provisions - life*	3,796,594
R0542	Best estimate - total	3,785,281
R0544	*Best estimate - non-life*	
R0546	*Best estimate - life*	3,785,281
R0552	Risk margin - total	11,313
R0554	*Risk margin - non-life*	
R0556	*Risk margin - life*	11,313
R0565	Transitional (TMTP) - life	0
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	40,617
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	5,164
R0780	Deferred tax liabilities	3,504
R0790	Derivatives	2,074
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance & intermediaries payables	13,730
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	23,391
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in Basic Own Funds*	
R0870	*Subordinated liabilities in Basic Own Funds*	0
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	3,885,074
R1000	**Excess of assets over liabilities**	241,211

IR.05.02.01

Premiums, claims and expenses by country: Life insurance and reinsurance obligations

		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations					Total Top 5 and home country
		C0150	C0160	C0170	C0180	C0190	C0200	C0210
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	219,722						219,722
R1420	Reinsurers' share	97,754						97,754
R1500	Net	121,969						121,969
	Premiums earned							
R1510	Gross	219,722						219,722
R1520	Reinsurers' share	97,754						97,754
R1600	Net	121,969						121,969
	Claims incurred							
R1610	Gross	254,140						254,140
R1620	Reinsurers' share	131,254						131,254
R1700	Net	122,886						122,886
R1900	**Net expenses incurred**	129,253						129,253

IR.05.03.02

Life income and expenditure

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Premiums written							
R0010	*Gross direct business*	33,706	6,100	0	0	178,095	1,822	219,722
R0020	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0030	Gross	33,706	6,100	0	0	178,095	1,822	219,722
R0040	*Reinsurers' share*	10,713	65	0	0	86,773	203	97,754
R0050	Net	22,994	6,035	0	0	91,322	1,619	121,969
	Claims incurred							
R0110	*Gross direct business*	86,431	36,987	0	0	128,315	2,407	254,140
R0120	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0130	Gross	86,431	36,987	0	0	128,315	2,407	254,140
R0140	Reinsurers' share	47,646	0	0	0	83,061	547	131,254
R0150	Net	38,785	36,987	0	0	45,254	1,860	122,886
	Expenses incurred							
R0160	*Gross direct business*	8,429	1,525	0	0	118,843	455	129,253
R0170	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0180	Gross	8,429	1,525	0	0	118,843	455	129,253
R0190	Reinsurers' share	0	0	0	0	0	0	0
R0200	Net	8,429	1,525	0	0	118,843	455	129,253
R0300	Other expenses							0
	Transfers and dividends							
R0440	Dividends paid							

IR.12.01.02

Life technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Best estimate							
R0025	Gross Best Estimate (direct business)	819,535	2,366,281	191,238	0	399,230	8,996	3,785,281
R0026	Gross Best Estimate (reinsurance accepted)							0
R0030	**Gross Best Estimate**	819,535	2,366,281	191,238	0	399,230	8,996	3,785,281
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default	352,430	262,035	117,341	0	299,866	2,354	1,034,026
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	467,105	2,104,246	73,898	0	99,364	6,642	2,751,255
R0100	**Risk margin**	710	4,169	2,071	0	4,305	57	11,313
	Amount of the transitional on Technical Provisions							
R0140	TMTP - risk margin							0
R0150	TMTP - best estimate dynamic component							0
R0160	TMTP - best estimate static component							0
R0170	TMTP - amortisation adjustment							0
R0180	**Transitional Measure on Technical Provisions**	0	0	0	0	0	0	0
R0200	**Technical provisions - total**	820,245	2,370,450	193,310	0	403,536	9,053	3,796,594

IR.23.01.01

Own Funds

		Total	Tier 1 unrestricted	Tier 1 restricted	Tier 2	Tier 3
	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	240,919	240,919			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-106,488	-106,488			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	292				292
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0290	**Total basic own funds after deductions**	134,723	134,432	0	0	292
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	134,723	134,432	0	0	292
R0510	Total available own funds to meet the MCR	134,432	134,432	0	0	
R0540	Total eligible own funds to meet the SCR	134,723	134,432	0	0	292
R0550	Total eligible own funds to meet the MCR	134,432	134,432	0	0	
R0580	**SCR**	62,250				
R0600	**MCR**	28,013				
R0620	**Ratio of Eligible own funds to SCR**	216.42%				
R0640	**Ratio of Eligible own funds to MCR**	479.89%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	241,211
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0725	Deductions for participations in financial and credit institutions	
R0730	Other basic own fund items	241,211
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	106,488
R0760	**Reconciliation reserve**	-106,488

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
	Market risk	
R0070	Interest rate risk	5,103
R0080	Equity risk	11,368
R0090	Property risk	1,830
R0100	Spread risk	3,788
R0110	Concentration risk	0
R0120	Currency risk	432
R0125	Other market risk	
R0130	Diversification within market risk	-4,737
R0140	**Total Market risk**	17,784
	Counterparty default risk	
R0150	Type 1 exposures	7,485
R0160	Type 2 exposures	1,252
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	-269
R0180	**Total Counterparty default risk**	8,468
	Life underwriting risk	
R0190	Mortality risk	11,301
R0200	Longevity risk	8,578
R0210	Disability-Morbidity risk	0
R0220	Life-expense risk	18,123
R0230	Revision risk	0
R0240	Lapse risk	20,916
R0250	Life catastrophe risk	897
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	-16,888
R0270	**Total Life underwriting risk**	42,927
	Health underwriting risk	
R0280	Health SLT risk	1,327
R0290	Health non SLT risk	
R0300	Health catastrophe risk	
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	
R0320	**Total Health underwriting risk**	1,327
	Non-life underwriting risk	
R0330	Non-life premium and reserve risk (ex catastrophe risk)	
R0340	Non-life catastrophe risk	
R0350	Lapse risk	
R0355	Other non-life underwriting risk	
R0360	Diversification within non-life underwriting risk	
R0370	**Non-life underwriting risk**	0
R0400	**Intangible asset risk**	
	Operational and other risks	
R0422	Operational risk	13,012
R0424	Other risks	
R0430	**Total Operational and other risks**	13,012
R0432	**Total before all diversification**	105,411
R0434	Total before diversification between risk modules	83,517
R0436	Diversification between risk modules	-21,826
R0438	**Total after diversification**	61,690
R0440	Loss absorbing capacity of technical provisions	3,606
R0450	Loss absorbing capacity of deferred tax	-3,046
R0455	Other adjustments	
R0460	**Solvency capital requirement including undisclosed capital add-on**	62,250
R0472	Disclosed capital add-on - excluding residual model limitation	
R0474	Disclosed capital add-on - residual model limitation	
R0480	**Solvency capital requirement including capital add-on**	62,250
R0490	Biting interest rate scenario	increase
R0495	Biting life lapse scenario	mass

IR.28.01.01

Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	35,787

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	430,812	
R0220	Obligations with profit participation - future discretionary benefits	36,294	
R0230	Index-linked and unit-linked insurance obligations	2,104,246	
R0240	Other life (re)insurance and health (re)insurance obligations	179,904	
R0250	Total capital at risk for all life (re)insurance obligations		4,609,764

	Overall MCR calculation	C0070
R0300	Linear MCR	35,787
R0310	SCR	62,250
R0320	MCR cap	28,013
R0330	MCR floor	15,563
R0340	Combined MCR	28,013
R0350	Absolute floor of the MCR	3,500
R0400	**Minimum Capital Requirement**	28,013