

# Annual Report & Financial Statements 2025





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For more information on Scottish Friendly and its products visit

[scottishfriendly.co.uk](https://www.scottishfriendly.co.uk)

# 2025 Highlights

Key to our ability to deliver against our purpose is driving value for our members. To this end, we have distributed a total of £23.0m to eligible members in the last year, including £4.9m shared through our ProfitShare scheme.



## Transfer from Fund for Future Appropriations<sup>1</sup>

**£(19.8)m**

The transfer from the Fund for Future Appropriations (FFA) represents the change in value attributable to members<sup>2</sup> by Scottish Friendly over the course of the year. The transfer from the FFA of £19.8m (2024: transfer from the FFA £9.4m restated) reflects our commitment to deliver value for our members. Over the course of the year, we have enhanced member benefits by £23.0m<sup>3</sup> (2024: £23.0m), including £4.9m through our ProfitShare<sup>4</sup> scheme. Further to this, we have continued to invest in key strategic initiatives and in supporting our distribution activities, which together support long-term growth.

**2023 £2.3m**  
**2024 £(9.4)m (restated)<sup>5</sup>**  
**2025 £(19.8)m**

## Financial strength capital coverage ratio<sup>7</sup>

**197%**

(UK Solvency II Pillar 1 capital) The solvency position (as measured by UK Solvency II Pillar 1 capital) of Scottish Friendly has decreased, with a ratio of 197% at 31 December 2025, down 19% from the previous year. The decreased level reflects the impact of market movements and assumption changes. The solvency position continues to be well above regulatory requirements, demonstrating continued financial strength.

**2023 190%**  
**2024 216%**  
**2025 197%**

<sup>1</sup> Transfer from/to the fund for future appropriations represents the statutory UK GAAP measure 'Transfer from/to the fund for future appropriations' in the Technical Account - Long Term Business.  
<sup>2</sup> All Scottish Friendly customers become members of the Society when they take out a policy with us, and members with policies invested in the Scottish Friendly With-Profits fund are also currently eligible for a share of profits earned by the Society.  
<sup>3</sup> The distribution reflects enhancements made to customer policy values, including the distribution of assets from our closed With-Profits sub-funds.  
<sup>4</sup> ProfitShare is an alternative performance metric representing the amounts distributed and enhancements to funds of the With-Profits policyholders in our main fund during the year from the Main Fund. Distributions were also made to Scottish Legal Life and MGM policyholders.

## ProfitShare

**£4.9m**

Scottish Friendly's ProfitShare rewards customers by returning a portion of our financial success to eligible policyholders each year in the form of regular and final bonuses. In 2025, ProfitShare distribution was £4.9m (2024: £4.5m), which represents 2% (2024: 2%) addition to asset shares. This reflects our commitment to delivering long-term value while ensuring sustainable growth for our members.

**2023 £4.4m**  
**2024 £4.5m**  
**2025 £4.9m**

## Assets under management<sup>8</sup>

**£4.4bn**

Total assets under management as at 31 December 2025 were £4.4bn, up from 2024 (£4.3bn restated). This reflects the positive investment market returns during the year and the combined impact of premiums received from policyholders and claims paid out, as well as reductions to the value of the reinsurance asset due to actuarial assumption and model changes.

**2023 £4.5bn**  
**2024 £4.3bn (restated)<sup>5</sup>**  
**2025 £4.4bn**

<sup>5</sup> Details on the restatement are included in note 38.  
<sup>6</sup> Investment return is the return in the year, gross of charges and includes realised and unrealised gains. It is an alternative performance measure.  
<sup>7</sup> The Financial Strength capital coverage ratio is calculated as the Own Funds, being the regulatory capital under Solvency II, divided by the Solvency Capital Requirement (SCR).  
<sup>8</sup> Assets under management is an alternative performance measure and includes assets in the Scottish Friendly Investment Funds ICVC.  
<sup>9</sup> Annual Premium Equivalent is an alternative performance measure and is gross of reinsurance (APE = Annual Premium Equivalent, calculated as the annual amount of regular premiums plus one tenth of the single premiums on business written during the year).

## Investment return<sup>6</sup>

**13.0%**

The return on asset shares within the Scottish Friendly Main With-Profits fund was 13.0%. These investment returns contribute to bonuses we pay to our With-Profits policyholders. The positive investment return was primarily driven by strong global equity markets, which recovered sharply following the mid-year weakness caused by US tariff actions. With-Profits policy pay-outs benefit from our smoothing policy, which can help to reduce the impact of market volatility.

**2023 9.1%**  
**2024 7.3%**  
**2025 13.0%**

## New business sales

**£56.1m (APE)<sup>9</sup>**

New business sales, as measured by APE, were of £56.1m versus £50.6m in 2024. The increase of 11% was due to strong sales of Scottish Friendly products, which grew by over 60% compared to 2024, partially offset by sales of protection business, which fell by 8% compared to 2024.

**2023 £51.1m**  
**2024 £50.6m**  
**2025 £56.1m**

# Chair's Statement



*“Guided by a clear commitment to growth and investment, we continue to deliver long-term value for our members and their families.”*

John McGuigan,  
Chair

I am pleased to present the 2025 Annual Report and Financial Statements as Chair of Scottish Friendly, in a year that has once again demonstrated the enduring resilience of our Society. Guided by a clear commitment to growth and investment, we have achieved strong sales performance while continuing to deliver long-term value for our members and their families. Alongside strong financial performance, the year also marked important strategic progress, including the announcement of our proposed merger with OneFamily<sup>1</sup> and the agreement to acquire certain pension and annuity business from Fidelity International. Our progress over the year reinforces the purpose that underpins everything we do and our role as a trusted mutual organisation.

## The economy

During 2025, the UK economy began to show encouraging signs of stabilisation, with inflation and interest rates easing from recent highs and creating a more supportive environment for households and businesses alike. While recent events in the Middle East remain concerning and economic and geopolitical uncertainties persist, Scottish Friendly continues to deliver sustainable value and support our members, colleagues and communities in achieving long-term financial wellbeing through clear, accessible and appropriate investment options.

## Our members

Delivering value for our members remains central to our purpose. In 2025, our ProfitShare scheme once again delivered tangible benefits, with over £4.9 million shared among members with eligible policies, in addition to the £4.5 million distributed in 2024. Over the year, we have made distributions of surplus totalling £23.0m, (2024: £23.0m) to members with with-profits policies across our business.

Mergers and acquisitions have continued to play an important role in helping us to fulfil our purpose. In February 2026 we announced a proposed merger with OneFamily, bringing together two mutual organisations with shared values and a strong focus on member outcomes. This followed an agreement in early 2025 to acquire certain pension and annuity business from Fidelity International, further strengthening our long-term growth prospects.

The proposed merger joins two organisations built on common values, putting members at the heart of everything we do and demonstrating a shared commitment to colleagues and communities. By combining our respective strengths, we can build on what we have already achieved and support the delivery of our long-term strategy. Together, we have a significant opportunity to enhance outcomes for our members, both today and in the future.

Further detail on our performance and member outcomes can be found in the Chief Executive Officer's Report on pages 8 - 11.

## Our delegates

I would like to express my sincere thanks to our delegates for their continued dedication and support. Their insight, commitment, and collaborative approach complement our member-focused culture, ensuring we remain firmly aligned to our mutual values. We greatly appreciate the time and passion they bring to shaping the future of our Society.

## Our community

Supporting the next generation to build a secure financial future remains a priority. We continue to advocate for the modernisation of Junior ISA rules to allow grandparents to open policies on a child's behalf. We believe this reform represents an important step towards strengthening intergenerational wealth and enabling young people to begin their financial journey with confidence.

Our commitment to young people is further reflected in our charity partnerships. Through our work with Action for Children, we continue to fund a wellbeing programme for high-school pupils across Glasgow. In addition, we have partnered with Just Finance Foundation to support the delivery of financial education and inclusion programmes in Scottish primary schools. Together, these initiatives provide meaningful and lasting benefits for the communities we serve.

## Our board

In April 2025, Kerr Luscombe, our Vice-Chair and Senior Independent Director, retired from the Board after ten years of exceptional and dedicated service. On behalf of the Board and everyone at Scottish Friendly, I would like to thank Kerr for his significant contribution and wish him well for the future.

Following his retirement, Anja Balfour assumed the role of Vice-Chair and Senior Independent Director. In addition, Mai Fenton became Chair of the Remuneration Committee, while Olive Gaughan joined the Risk Committee, Audit Committee, With-Profits Committee and With-Profits Approval

1. OneFamily is a UK mutual financial services organisation that provides savings, investment and protection products.

Committee. Together, the Board brings a strong breadth of experience and expertise to support the delivery of our strategy.

### Our sector

We enter 2026 from a position of strength, supported by a renewed government commitment to doubling the size of the mutual and co-operative sector that recognises its vital contribution to UK economic and social growth. Recent reports highlight both the sector's impact and the opportunity to unlock further growth by removing unnecessary regulatory barriers.

Regulators, including the PRA and the FCA, have reaffirmed their support through measures designed to help mutuals compete more effectively. With inflation approaching the Bank of England's target level and interest-rate reductions expected to support economic activity, we remain focused on delivering positive outcomes for our members while managing investment risk responsibly.

The FCA's flagship Consumer Duty regulation continues to align closely with our long-standing commitment to fairness, transparency and long-term value. Putting members first has always been central to how we design products, support customers and communicate with them. As the implementation of the Duty evolves, we will continue to strengthen our processes and insight to ensure our products deliver lasting value and uphold the trust our members place in us.

### The future

Looking ahead, the UK financial services landscape will continue to evolve, shaped by a more stable economic environment and rising expectations around transparency, value and trust. For households, this places renewed emphasis on financial security and accessible investment solutions that support long-term wellbeing.

This further reinforces our responsibility to uphold our mutual values by putting members first, driving sustainable growth and ensuring our colleagues are equipped and supported to succeed.

We remain committed to deepening member engagement and operating a strong, sustainable business that continues to deliver positive outcomes for members.

We are releasing this report at a critical point for our business. The proposed merger, which is subject to member and regulatory approval, will bring our organisations together to create one of the UK's largest mutuals and represents a natural next step in the efforts to strengthen and grow the mutual sector. We believe this is aligned with the government's commitment to double the size of the mutual and co-operative sector, which acknowledges its important influence on the UK's economic and social landscape.

The combined entity will have almost £10bn of assets under management and serve over 2.3 million members and their families across the UK. This proposal reflects a shared commitment to long-term stability, transparency and value for our members.

Both organisations firmly believe this represents an exceptional opportunity to deepen our support for members and enhance outcomes over the long term. By building on our collective mutual values and working together, we aim to deliver sustainable growth, strengthen engagement and make a meaningful difference in the markets we serve, for the benefit of our current and future members.

### John McGuigan

Chair  
25 March 2026



# Chief Executive Officer's Report



*“Everything we do is focused on delivering meaningful long-term value for our members, through strong performance and disciplined execution”*

Stephen McGee,  
CEO

Looking back on 2025, I am pleased to report strong progress for our Society as a mutual organisation. We delivered robust financial performance, maintained disciplined risk management, and made clear advances against our strategic priorities. Alongside this performance, we also made important strategic progress, including announcing our proposed merger with OneFamily and agreeing the acquisition of certain pension and annuity business from Fidelity International. Combined with our continued focus on operational efficiency and long-term value, these initiatives position us well to meet the evolving needs of our members and customers.

## Delivering growth and long-term value for our members

I am proud to report another year of sustained growth in our sales. Our performance reflects the strength of our strategy and our continued commitment to delivering value for our members. Over the year, we maintained a strong capital position, progressed our long-term growth plans, and invested further in our people, systems and overall member experience.

Total sales of £56.1m annual premium equivalent (APE) represent the highest annual result in our 164-year history. This achievement demonstrates our ability to navigate a complex operating environment while remaining firmly focused on the needs of our customers.

Despite a prolonged period of high interest rates, during which cash accounts remained attractive, we delivered own-brand sales that are our strongest on record. Our Stocks and Shares ISA and Junior ISA products ended the year well ahead of plan, achieving over 60% APE sales growth compared with 2024. This performance reflects the continued attractiveness and accessibility of our products for customers' savings and investment needs and the positive impact of our strengthened, data-driven marketing and targeted brand awareness activity. Throughout the year, we have increased our focus on customer behaviours, with initiatives to address and improve our interactions with and retention of customers. Better understanding these behaviours supports us in delivering good outcomes for our customers and growing the business profitably.

As the protection market continued to evolve, partner sales of £33.9m APE were ahead of plan, but were down year-on-year (2024: £36.9m), reflecting our focus on building our own-brand proposition. These partnerships remain a core part of our strategy and continue to be an important driver of both sales and profitability.

The transfer from the Fund for Future Appropriations for the year was £19.8m (2024: £9.4m restated), supporting reinvestment in the business to enable long-term growth and deliver value for our members.

Over 2025, we distributed £23.0m (2024: £23.0m), including £4.9m (2024: £4.5m) through our ProfitShare scheme, making a tangible difference to the outcomes members receive.

## Strategic developments

In February this year, Scottish Friendly and OneFamily announced plans to merge, bringing together two investment and life assurance providers to form a larger mutual with a broader product range for our members. This represents a positive step forward for Scottish Friendly and our members, uniting two likeminded mutuals built on shared values, a clear member-first approach, and a strong commitment to colleagues and local communities.

Subject to regulatory and Delegate approval, the merger is expected to take effect in early 2027 and will support the Society's long-term resilience and ability to deliver sustainable value for members.

Alongside this, in 2025, Scottish Friendly also agreed the acquisition of pension and annuities-in-payment books of business from FIL Life Insurance Limited, part of the Fidelity International Group. This includes a £2.16bn block of unit-linked Section 32 pensions for around 40,000 policyholders, along with an annuities-in-payment book covering £7.3m of liabilities and approximately 1,000 annuitants. Subject to Court approval, the transfer is on track for completion in September 2026. We look forward to welcoming these customers and supporting them throughout the transition and beyond.

## Maintaining a financially stable and resilient business

Investment returns of 13.0% were attributed to the asset shares within the Scottish Friendly Main With-Profits Fund for 2025, compared with returns of 7.3% in 2024. With-Profits policies in the Fund also benefitted from additional enhancements relating to our ProfitShare of £4.9m (2024: £4.5m).

Our solvency ratio reduced from 216% over the year to 197%, and remains well above regulatory requirements and our own risk appetite thresholds. We actively monitor and manage the risks facing

our business, supported by extensive stress and scenario testing that considers the impact of multiple adverse events occurring concurrently. The results are reviewed by the Board annually. Even under very severe scenarios, we continue to hold sufficient capital to meet all regulatory requirements, giving our members confidence in our ability to meet our commitments over the long term.

### Executing our strategy

We made strong progress across our strategic priorities in 2025, centred on supporting customers' needs and delivering on our purpose: helping individuals and their families achieve financial wellbeing through friendly products and customer care. During the year, we completed a significant simplification of our investment fund range under a single fund manager. This has reduced costs for both the business and our customers, while maintaining existing investment risk profiles. Customers benefit from clearer, more personalised communications, and colleagues from simpler administration and improved understanding of customer portfolios.

As we progress our proposed merger with OneFamily and prepare for the integration of the Fidelity pension portfolio, we remain focused on growing a modern savings and investment business, in which our customers and colleagues are confident advocates.

### Growing our business

To extend our reach, we continued to invest in a targeted, multi-channel marketing strategy, including radio, outdoor advertising, UK-wide leaflet distribution and a strong digital presence focused on families. This activity has supported growth during the year and will continue to be a priority throughout 2026.

While we have notified funeral plan partners of our intention to close to new business in Q4 2026, we remain focused on working with our protection partners to deliver solutions that meet the needs of current and future customers. We also continue to carefully assess new partnership opportunities that align with our strategic objectives.

We made further progress in strengthening our operations, technology and security infrastructure, including enhancements to our customer relationship management system to support the acceleration of our strategy. We also continued to invest in the talent required to drive the business forward.

Looking ahead, our priorities include:

- our proposed merger with OneFamily, subject to member and regulatory approval;
- growing the business profitably through improved retention, own-brand sales and partnerships;
- increasing our scale and brand awareness, including launching our first television advertising campaign;
- attracting more core customers while reaching new, underserved segments;
- investing in efficient operations with embedded controls;
- developing payment-in solutions to make investing simpler for own-brand customers; and
- successfully transitioning Fidelity Section 32 pension customers through the Part VII process.

### Our customers as advocates

We believe that customers will advocate for our products and services when we offer simple, value-for-money solutions and deliver a consistent experience through their channel of choice.

In 2025, we introduced further enhancements to our ISA and Junior ISA offerings, improved digital interaction through our website, streamlined several customer journeys, and made it easier for customers to transfer electronically.

Our Junior ISA proposition continues to receive external recognition, having been named Best Junior ISA Provider for seven consecutive years Investment Life & Pensions Moneyfacts Awards. This consistency reflects our focus on delivering value-for-money products and positive long-term outcomes for families.

As part of our ongoing commitment to younger savers, we continue to champion reform of Junior ISA rules to allow grandparents and other family members to open accounts directly, helping families play a more active role in supporting children's financial futures.

From 2026 onwards, we will progress several initiatives to further improve the customer experience, including:

- further enhancing the digital transfer-in journey to make consolidating investments simpler and more efficient;

- expanding digital servicing, with appropriate alternatives available;
- investing in systems and infrastructure to drive continuous improvement;
- enhancing payment capabilities across all channels; and
- enhancing our guides and digital tools to help customers make informed decisions with confidence.

### Our colleagues as advocates for Scottish Friendly

Our people are fundamental to our success and, as we prepare for our proposed merger with OneFamily, we remain committed to maintaining and investing in our base in Glasgow.

In 2025, we continued to invest in colleague development, recognising that confident, capable teams supported by the right tools are essential to delivering value for members. A key focus was the introduction of on-demand learning through a new Learning Management System, providing greater flexibility and access to development opportunities.

We actively celebrate the success and achievements of our colleagues and a particular highlight this year was our inaugural award of a Colleague of the Year. Judging the award provided me with a reminder of the dedication, capability and attitude of our colleagues.

We were proud to be recognised as one of The Sunday Times Best Big Places to Work in 2025. Following a review of how we gather colleague feedback, we transitioned to the WorkL<sup>1</sup> survey, enabling meaningful benchmarking across our sector and the wider UK market.

Insights from WorkL have informed targeted action plans, developed in collaboration with colleagues, People Ambassadors, and Diversity, Equity and Inclusion (DEI) Champions, ensuring our approach is inclusive, practical and grounded in real experience.

Supporting our communities remains integral to our purpose. In 2025, colleagues raised over

£14,800 for Action for Children and continued to give their time to community initiatives. Alongside this, we strengthened our support for financial education through our partnership with Just Finance Foundation, helping to extend financial literacy programmes into primary schools across Scotland.

### Looking ahead

Looking ahead, it is encouraging to see progress towards simplifying the ISA landscape, including proposals to support long-term investment. While this represents a positive step, we believe there remains further opportunity to simplify financial services more broadly to help customers make informed decisions with confidence.

Our focus remains firmly on delivering meaningful long-term value for our members, and this is reflected in our proposed merger with OneFamily. As a mutual, being on our members' side continues to guide our decisions and shape our ambition to build a secure and sustainable future for the people and communities we serve.

None of this would be possible without the dedication of our colleagues. I would like to thank everyone across the organisation, our executive team, the Board and our delegates for their continued commitment and support.

**Stephen McGee**  
Chief Executive Officer  
25 March 2026

<sup>1</sup> WorkL is an employee engagement survey platform that provides independent benchmarking across organisations and sectors, including data for the Sunday Times Best Places to Work Awards.

# Member Relations

As a member-owned organisation, we aim to deliver good outcomes for all members through good value products and our customer service.

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

Scottish Friendly's delegate system has proven to be an effective model for communication with our members. There are a maximum of 30 delegate positions (25 currently filled), elected by our members to represent geographic constituencies and delegate positions are advertised annually for the one third retiring by rotation. Following updates to our delegate criteria during 2024, which widened eligibility, three Scottish Friendly colleagues were appointed as delegates following nomination. These individuals were selected based on their ability to represent Scottish Friendly's Values and to act in the best interests of its members and customers.

The Annual General Meeting provides an opportunity to inform delegates on business performance and future strategy. This is supplemented by additional delegates'

meetings held at least annually and we are always encouraged by both the participation and attendance of delegates, with 23 out of 28 (82%) voting at the AGM in April 2025. A Special General Meeting was held in February 2025 for delegates to review and approve minor changes to Scottish Friendly's Memorandum and Rules, to bring these in line with current practice.

During 2025 enhancements were made to ensure appropriate support continued to be available to delegates to enable them to discharge their duties in representing Scottish Friendly members. This included a robust induction plan for new delegates, circulation of the key financial highlights section of the Annual Report and Financial Statements and additional time at the start of face-to-face meetings, to allow delegates the opportunity to interact with the Board and Executive team. In addition, regular business updates are provided to our delegates through our colleague newsletter and annual Delegates Dinner.

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

***“We continue to invest significantly in our people and in transforming our customer experience; we continue to target growth and to drive efficiencies that add more value to our members.”***

Stephen McGee,  
CEO

# Creating a great place to work

## WorkL Engagement (formerly Best Companies)

In 2025, Scottish Friendly continued to make significant progress in fostering a positive and engaging workplace culture. As part of our commitment to measuring and improving the colleague experience, we participated in the externally accredited WorkL survey (formerly Best Companies).

We are proud to report that Scottish Friendly has been recognised as one of the Sunday Times Top Best Big Companies to Work For, reflecting our strong performance in employee engagement and workplace satisfaction. In addition, we achieved a 2 Star accreditation from the WorkL Survey, which recognises organisations that deliver a strong and positive employee experience, reflecting above-average engagement and strong performance across key areas such as wellbeing, empowerment, recognition and confidence in management.

These achievements underscore our ongoing efforts to build a workplace where colleagues feel valued, empowered and inspired. We remain committed to continuous improvement and will continue to invest in initiatives that enhance the colleague experience and strengthen our organisational culture.

## Investment in Roles and Careers

Throughout 2025, Scottish Friendly remained committed to enhancing colleague performance and development. We introduced a leadership training programme 'Learn, Lead, Succeed', designed to support our leaders to have the right conversations with their teams and providing them with a Scottish Friendly coaching accreditation, reinforcing our dedication to cultivating strong, effective leadership across the organisation and supporting ongoing professional growth.

A significant milestone was the launch of our Learning Management System (LMS) - a centralised platform designed to provide colleagues with greater access to development tools and resources. This initiative aligns with our long-term strategy to empower individuals in shaping their career paths and unlocking their full potential and enables us to develop and deliver more repeatable, cost effective and scalable learning.

Of the 72 vacancies we had in 2025, we are proud to report that 10 of these were successfully filled by colleagues from Scottish Friendly. This reflects our ongoing commitment to fostering internal mobility and supporting colleagues in their career development.

In 2025, we welcomed 65 new colleagues to Scottish Friendly, reflecting our continued focus on strengthening operational capacity and future readiness. Absence levels have remained generally stable with some predictable seasonal increases, while turnover has trended upward across the year, peaking in late summer before showing signs of stabilisation toward year end.

## Early Careers and Social Investment

We continue to demonstrate our commitment to the Developing Young Workforce initiative. Our current cohort includes four apprentices: one in IT Infrastructure, one in Claims within Customer Service, one in our Customer Contact Centre, and a Graduate Apprentice in Actuarial, all of whom are progressing through their programmes.



We remain actively engaged with Bannerman High School and are excited to broaden our outreach to include a wider network of schools across Glasgow and the surrounding areas.

Scottish Friendly continued to demonstrate its commitment to community engagement in 2025, supporting Action for Children through a series of colleague-led initiatives. A fundraising weekend generated over £14k, supported by additional sponsorship raised through participation in the Great Scottish Run 10K. Employees also volunteered with the Renfrewshire Short Breaks service and contributed to the successful delivery of the Never Mind the Business fundraising event. The two wellbeing practitioners sponsored by Scottish Friendly continue to work with children at schools in Glasgow, providing vital support to young people and their families.

### Pay and Recognition

In 2024, Scottish Friendly launched its enhanced recognition scheme and digital platform, designed to celebrate colleagues who consistently demonstrate our organisational values. This initiative supports both local and organisation-wide recognition and informs our quarterly and annual celebration events.

We are pleased to report that in the first full year of the scheme, 45 colleagues were formally recognised for their contributions. Among them, one colleague was selected as our Annual Recognition Winner, reflecting outstanding embodiment of our values and impact across the organisation.

This new approach to recognition reinforces our commitment to fostering a positive, inclusive, and values-led culture, where individual contributions are acknowledged and celebrated.

### Wellbeing and DEI

In 2025, Scottish Friendly continued to prioritise employee wellbeing through a broad range of initiatives designed to support physical, mental, and emotional health, as well as foster an inclusive and supportive workplace culture.

Monthly webinars were delivered via our Employee Assistance Programme and other sources, covering key topics such as menopause, mental health, and stress management. Our fourth annual Wellbeing Week took place in October, offering colleagues access to flu vaccinations, health checks, and a steps challenge, alongside information sessions on how our benefits support holistic wellbeing.

We also provided tailored support for individuals experiencing menopause, and participated in 'Movember', raising awareness of men's mental health. Our DEI & wellbeing programme was further enhanced by celebrating key cultural and awareness events including Pride, International Women's Day, Diwali, Eid, and International Sign Language Day, reinforcing our commitment to diversity and inclusion.

In addition, we undertook a review of our recruitment processes to ensure they remain inclusive, fair and aligned with our values. An assessment of our physical workplace environment was also conducted to ensure it continues to meet the needs of our colleagues and supports their wellbeing effectively.

These initiatives reflect our ongoing commitment to creating a workplace where all colleagues feel valued, supported and empowered to thrive.

# Colleague Success Stories

## A Career Grounded in Care: Linda's 35 Years at Scottish Friendly

With over 35 years of service, Linda's career at Scottish Friendly reflects our long standing commitment to customers, colleagues and continuous improvement.

Joining straight from school, she began in data entry when everything was manual and paper-based. Accuracy, care and responsibility quickly became the foundations of her work qualities that have shaped her entire career.

As Scottish Friendly evolved, Linda progressed through Customer Services and Policy Administration, developing a deep understanding of our systems and the customer journey. Her adaptability and willingness to learn eventually led her into claims, an area where technical expertise must be balanced with empathy and sound judgement.

Now a Claims Manager, Linda oversees the timely and accurate processing of death, maturity and surrender claims, working closely with partners and reinsurers. Her approach is rooted in a strong customer first mindset, ensuring claims are handled correctly, sensitively and with an awareness of customer vulnerability.

Linda has also helped navigate major organisational change, including multiple acquisitions and portfolio transfers. A significant milestone was her role in integrating a large book of business in 2019, collaborating across actuarial, risk and conduct teams to ensure fair outcomes.

Among her proudest achievements is helping increase probate limits, reducing delays and improving customer experience.

Beyond her technical work, Linda is committed to developing others, supporting apprentices and early-career colleagues and living our value of "we're in this together".

After more than three decades, Linda's integrity, collaboration and care continue to embody the best of Scottish Friendly.



## Building Better Outcomes: Hannah's Career Journey at Scottish Friendly

When Hannah joined Scottish Friendly in 2018, she couldn't have predicted where her career would lead. Nearly seven years on, her journey reflects our commitment to learning, collaboration and doing what's right for customers earning her the organisation's first Annual Recognition Award.

After joining the Pensions team following redundancy, Hannah embraced a role outside her previous experience. She quickly developed strong technical expertise, especially on the Flexible Income Annuity (FIA) product, working closely with Actuarial and IT colleagues to redesign processes, support fund closures and handle complex queries.

In 2020, she moved to the newly acquired Annuity Growth Account (AGA) product—taking on limited documentation and the challenges of remote working. Through strong collaboration, she helped create robust processes, train colleagues and carry out quality assurance to maintain a consistent customer experience.

Following a period in quality assurance, Hannah joined the Treasury Team in 2022. Her background across operational and customer-facing teams gives her a valuable perspective on how financial processes impact customers.

Hannah received Scottish Friendly's first Annual Recognition Award for her work on process improvements and customer outcomes, including a major remediation payment exercise where she developed a bulk payment solution that sped up delivery and improved accuracy. She has also enhanced payment visibility across teams, introduced urgent routes for vulnerable customers and helped reduce delays from uncashed cheques.

Naturally quiet and thoughtful, Hannah says Scottish Friendly has helped her grow in confidence. As a People Ambassador, she continues to support our culture and values.

Her story is one of steady growth, collaboration and consistently doing the right thing.



# Sustainability Report

There has been continued focus on sustainability within Scottish Friendly in 2025.








## Our vision for sustainability

As a mutual insurer, our purpose extends beyond the provision of insurance benefits. We have been committed to helping people for over 160 years and this dedication has not only fortified our business, but has enriched the communities we serve. By continuing Scottish Friendly's legacy of shared success, we are not only safeguarding our members but also contributing to a more equitable world. We recognise that sustainable practices play an important role in helping our customers, communities, business partners and suppliers feel more secure today and more optimistic about the future. It is therefore vital that we maintain our awareness and are conscious of our impact on the environment and communities in which we operate.

This section provides a summary of Scottish Friendly's approach to sustainability and what we have delivered for the year ended 31 December 2025.

We aim to be in line with industry standards for our own operations and governance practices and, in keeping with our heritage and purpose, we will look to maximise the impact we can make for our customers, members, communities and colleagues. Our seven goals that will help us do this are:

## Sustainability goals

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

We are dedicated to integrating sustainability into our core business practices and with these goals we also reviewed and set an operational plan for 2026 to support the delivery of these goals.

**Notes:** Scope 1 covers direct emissions generated from within our operations. Scope 2 covers emissions from purchased energy to power our operations. Scope 3 includes all other indirect emissions that occur within our value chain.

## Environment

### Own operations

Our organisation's carbon emissions for 2025 reflect emissions from our Glasgow office for which we are directly responsible.

In March 2025, and following a recommendation in the Energy Savings Opportunity Scheme (ESOS)<sup>1</sup> report published in May 2024, we installed a Green Energy Advice Bureau (GEAB) approved smart electricity meter console and electricity-usage monitoring software, that allows us to look in detail at electricity usage in specific times and in specific areas of the premises. This identified opportunities for reduced electricity consumption. In addition, it provides actual real-time reporting of consumption directly to Scottish Friendly, whereas previously we were reliant on electricity suppliers providing data to a building management agent, who then reported data to us. Consequently, the figures reported are a more accurate representation of electricity usage in 2025.

Furthermore, gas supply was also commissioned directly with the supplier, as opposed to through building management agents, allowing us to collate gas usage directly from invoices, again providing a more accurate representation of actual gas consumption in 2025.

We reported our total emissions against our 2021 baseline year using the financial control boundary. Our methodology aligns with HM Government's Environmental Reporting Guidelines (March 2019)<sup>2</sup> and uses the UK Government's Greenhouse Gas Reporting Conversion Factors (2024)<sup>3</sup> to quantify emissions. For the purposes of evaluating performance to date, using actual gas and electricity consumption from the sources as outlined above, an overall reduction in gas and electricity consumption of 51.6% reduced our annual Carbon emissions to 31.3 tCO<sub>2</sub>e<sup>4</sup>, which shows significant reduction of 73.1% from the 2021 baseline of 116.4 tCO<sub>2</sub>e

For the 2024 Annual Report we reported the Location Based Total Scope 1 & 2 of 105.7 tCO<sub>2</sub>e. In 2025 we are reporting the Market Based Total Scope 1 & 2 (31.3 tCO<sub>2</sub>e), as this allows for energy procured from renewable sources. Since 2024, Scottish Friendly has sourced all electricity from renewable sources.

Further information can be found below.

Emissions Source	2021 (baseline)	2022	2023	2024	2025	Change 2021-2025	% Change 2021-2025
<b>Direct Emissions from Stationary Combustion - Natural Gas Consumption (tCO<sub>2</sub>e)</b>							
Total Scope 1 (tCO <sub>2</sub> e)	107.8	93.6	63.6	65.2	31.3	(76.5)	(71.0%)
<b>Indirect Emissions from Purchased Electricity</b>							
Total Scope 2 (tCO <sub>2</sub> e) Location Based	54.1	43.4	49.1	40.5	50.2	(3.9)	(7.2%)
Total Scope 2 (tCO <sub>2</sub> e) Market Based	8.6	1.9	2.0	0.0	0.0	(8.6)	(100.0%)
Total Scope 1 & 2 (tCO <sub>2</sub> e) Location Based	161.9	137.0	112.7	105.7	81.5	(80.4)	(49.7%)
Total Scope 1 & 2 (tCO <sub>2</sub> e) Market Based	116.4	95.5	65.6	65.2	31.3	(85.1)	(73.1%)
<b>Energy Consumption by source (kWh)</b>							
Electricity	253,650	221,258	234,611	202,846	236,740	(16,910)	(6.7%)
Gas	588,580	512,638	347,554	326,654	170,962	(417,618)	(71.0%)
<b>Total</b>	<b>842,230</b>	<b>733,896</b>	<b>582,165</b>	<b>529,500</b>	<b>407,702</b>	<b>(434,528)</b>	<b>(51.6%)</b>

<sup>1</sup> Energy Savings Opportunity Scheme (ESOS) <https://www.data.gov.uk/dataset/15eb8228-32e4-40e1-b722-b2efe571edd3/energy-savings-opportunity-scheme>  
<sup>2</sup> HM Government Environmental Reporting Guidelines <https://assets.publishing.service.gov.uk/media/67161e8696def6d27a4c9ab3/environmental-reporting-guidance-secr-march-2019.pdf>  
<sup>3</sup> Greenhouse Gas Reporting Conversion Factors <https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2024>  
<sup>4</sup> Tonnes of carbon dioxide equivalent.

# Risk Management Report

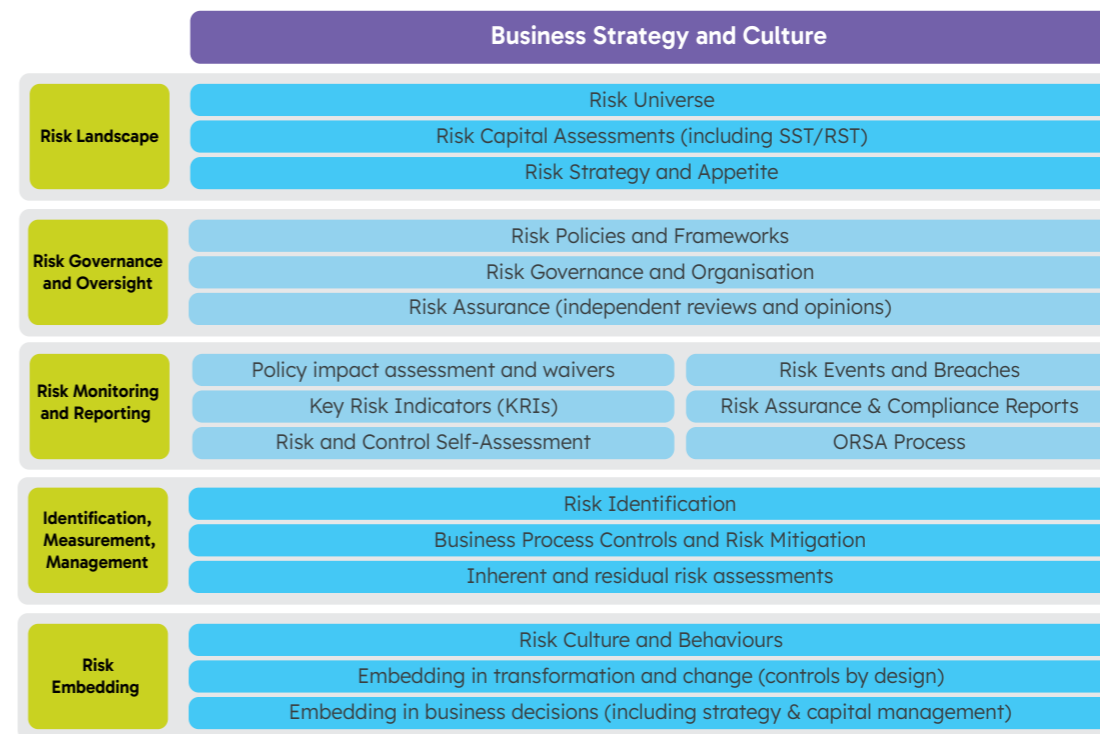
Scottish Friendly maintains a robust Risk Management Framework (RMF) that underpins strategic, financial and operational decision making.

## Developments in 2025:

The RMF is continuously reviewed and updated. In recent years there has been a significant amount of development work undertaken by the Risk Function to strengthen the RMF, as well as to enhance the approach to risk measurement and risk management across the business. In 2025 these included:

- Improvements in change-risk management information and improved integration between the RMF and the Change Management Framework to support the successful delivery of transformation and associated benefits across the organisation;
- Enhanced challenge and alignment of our risk appetite statements and risk management policy requirements with our management frameworks for cyber risk, outsourcing risk and operational resilience;
- We continue to embed effective incident management across Operations, with significant focus on the impact of incidents on our customers.

## Risk Management Framework



SST = Stress and Scenario Testing RST = Reverse Stress Testing

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

We are aiming for scope 1 and 2 emissions from our own operations to be net zero carbon by 2030 and have worked with several specialist partners, such as GEAB, to help identify possible pathways to achieve this outcome and to monitor progress. We are currently tracking positively towards these targets.

This year, our total energy consumption has reduced by 51.6% against the 2021 baseline year. The reduction has mainly been driven by a significant reduction in gas usage resulting from the heating system installed in the second half of the 2023 and measures undertaken from electricity usage profiling provided by the Smart meter.

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

### Investments

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

Quantifying the impact of climate change is an emerging practice, with inherent uncertainty in the quality of available data. It is challenging to obtain consistent asset data from our investment managers and quantify the impact of carbon emissions from our scope 3 category financial investments. As

such, we, like many financial services organisations, are continuing to gather information in support of scoping a plan that has clear and measurable objectives and timescales, in order that we can meet our 2050 net zero ambition.

As part of our climate change commitments we:

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

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

For further information on our approach to stewardship and shareholder engagement, please see our engagement policy at [<https://www.datocms-assets.com/95801/1747127982-investment-engagement-policy.pdf>].

### Suppliers

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

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



## Risk 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

To ensure clarity of roles and responsibilities, Scottish Friendly adopts a ‘three-lines-of-defence’ model as part of its overall Risk Management Framework. Both first and second line operate a number of risk processes that support ongoing risk monitoring through management and risk committees.

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

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

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

## Risk Identification, Measurement and Management

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

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

Risk management and mitigation measures are identified and implemented (e.g. reinsurance, capital management plans, control environments) by EROs to maintain risk exposure within appetite. Stress and scenario testing, including reverse stress testing, is used to test the impact of adverse scenarios on the capital coverage and business viability.

## Risk Embedding

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

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

## Risk Governance

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

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

On behalf of the Board, the Risk Committee also conducts an annual assessment of the effectiveness of the Risk Function. In addition, the Executive Risk Committee is the primary forum for Executive oversight and challenge of the risk and control environment across the business and is chaired by the Chief Risk Officer.

## Three lines of defence model

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

1. The First Line of Defence consists of the business areas across Scottish Friendly that are responsible for the identification and management of day-to-day risks and controls within their remit. The management of risk, monitoring of risk and the reporting of breaches of risk appetite are the responsibility of each Executive Risk Owner.
2. The Second Line of Defence consists of the Risk and Compliance Functions. The responsibilities of the Risk Function include the design and oversight of the Risk Management Framework, oversight of the identification and management of risk by the business, independent risk reviews, ownership of the quarterly RCSA, the ORSA methodology and processes, and promotion of a risk-aware culture. Responsibilities of the Compliance Function include preparing and delivering the annual compliance monitoring plan, assessing the systems and controls in place to prevent non-compliance with the regulatory requirements, including financial crime, monitoring and tracking regulatory developments, and to provide policy guidance and support to the First Line.
3. The Third Line of Defence is the Internal Audit Function, which provides independent assurance of the adequacy and effectiveness of our risk and control environment. This is delivered via a cyclical and prioritised programme of risk-based audits covering all aspects of work undertaken in the First and Second Line business areas over a period of years.

## Principal risks

The seven core risk categories illustrated are monitored within our risk management and ORSA processes. A summary of the principal risks to strategy and business plan, with developments in 2025 and outlook for 2026, are set out in the table below.



Risk	Key strategic risks	Developments in 2025 and outlook for 2026
<b>Strategic, Business Environment and Reputation ('SBER')</b> The risk of reputational damage, long term financial instability and / or inhibition of Scottish Friendly's ability to deliver its business strategy and business plans as a result of failure to build plans, build market share and manage resources, in a manner appropriate to the business and external environment.	<b>Strategic misalignment and market adaptability</b> Proposition offering and customer experience do not keep pace with market opportunities and evolving customer expectations.  External developments, such as competitor activity, legislative or regulatory change, impacts ability to succeed in the market.  Continued growth and shift in business mix requires unsustainable levels of customer acquisition costs.	No material external changes were identified during the year that required a strategic re plan. At present, we continue to monitor market, regulatory and competitive developments to ensure our strategy remains aligned to customer needs and opportunities. This position will be kept under review throughout the year as the proposed merger proceeds.
	<b>Financially sustainable business</b> Failing to build a business of suitable scale that is capable of being managed efficiently will threaten the long-term sustainability of the business.	We continued to strengthen our approach to assessing long term sustainability, with further development of forward looking measures and enhanced monitoring to support the delivery of a resilient and efficient business model. The proposed merger with OneFamily will support our management of this risk.
	<b>Delivery of Business Plan</b> Higher risk of increased short-term spending due to delays and subsequent additional time and resource requirements impacting achievement of profitability or growth targets.  Failing to deliver underlying business growth drivers of profitability and growth targets.	Underlying strategic assumptions remained broadly valid during the year. As part of our planning process, we refined key measures linked to customer behaviour and growth drivers. We will continue to monitor these closely in 2026 to support delivery of our financial and strategic objectives.

Risk	Key strategic risks	Developments in 2025 and outlook for 2026
	<b>Transformation risk</b> Increase in number of and complexity of projects increases the risk of delays and/or risk that projects do not deliver benefits.  Potential for conflicting priorities and required prioritisation, including for unplanned events, does not happen effectively.	Strategic change initiatives progressed well during 2025. We continued to mature our change governance and will further embed enhanced portfolio prioritisation and delivery oversight in 2026 to ensure benefits realisation and alignment with strategic milestones. This is being closely managed in the context of the activity required to support the proposed merger with OneFamily.
	<b>Culture &amp; leadership</b> Increased demand on leadership to deliver the volume of change and BAU whilst driving a high performing and engaged workforce.	A senior management leadership development programme is in place, supported by regular monitoring of engagement, BAU performance and change delivery. Leadership capacity was strengthened where needed.
<b>Market</b> The risk of adverse impacts to the value of assets and/ or liabilities, leading to financial loss to Scottish Friendly, as a result of market movements or fluctuations.	<b>Equity</b> Increases in the size of the unit-linked portfolio give increased exposure to equity risk through potential impact of adverse market movements on future charge income.	Market movements over the year, increases in ISA/JISA business volumes and the planned acquisition of a book of unit-linked Section 32 pensions from FIL Life Insurance Limited, all increase the exposure to equity risk. The evolving equity risk profile was monitored during the year, and additional options have been considered to further enhance our flexibility in managing equity risk.
<b>Insurance</b> The risk of loss or adverse consequence for the business as a result of failure to predict or respond to changes in the level, trend, or volatility of demographic, policyholder action and expense experience.	<b>Persistency</b> Expected improvements in ISA/JISA persistency rates following pricing changes and planned customer / digital experience improvement initiatives do not eventuate, and anticipated benefits not realised.	Persistency trends remained challenging, reflecting broader market conditions and observed customer behaviour. We continue to monitor customer behaviour, and a series of initiatives to improve persistency have been identified. These will progress over 2026 to support sustainable and profitable growth.
	<b>Administration expense</b> Risk of spending exceeding revenue over a prolonged period resulting in poor return for members and a lack of sustainability of the business.	Cost management remained an area of focus. Opportunities to improve efficiency were identified alongside continued discipline in managing the cost base. This will remain important for future sustainability.
<b>Operational</b> The risk of financial loss or non-financial impact, including reduced operational resilience, customer and reputational impacts as a result of inadequate or failed internal processes, systems or people, or as a result of external events.	<b>Cyber risk and operational resilience</b> Increasing and changing external threats and risks within supply chain could impact the resilience of the business and could change priorities or cause strategic disruption.	We maintain established cyber and operational resilience frameworks and undertake ongoing assessment of emerging threats. These risks are subject to continuous review with regular reporting through governance.  Over 2025, operational resilience plans were executed successfully in response to external third-party incidents.
	<b>People</b> Need for analytical capability and other specific specialist skills to support growth activities.	We continued to focus on developing organisational capability, including leadership and specialist skills required to support our strategic ambitions.

Risk	Key strategic risks	Developments in 2025 and outlook for 2026
	<p><b>Outsourcing and key supplier</b></p> <p>Dependencies on key technology suppliers in our supply chain to support service levels and strategic initiatives.</p>	<p>We have an established framework for managing key supplier relationships. Dependencies in our supply chain remain an important area of focus and are monitored on an ongoing basis.</p>
	<p><b>IT service delivery</b></p> <p>Legacy IT issues may slow pace of change delivery, due to complexity of required solution design.</p>	<p>Work continued during the year to improve the stability and resilience of core IT platforms and infrastructure, though replacement and upgrade of older systems. This is a multi-year initiative.</p>
<p><b>Conduct</b></p> <p>The risk of failure to provide good outcomes for customers as a result of ineffective behaviours, products or services of Scottish Friendly, third-party service providers or individuals within the firm.</p>	<p>Risk that poor design or delays to delivery of improvement initiatives and projects (business processes, systems, people) fails to improve customer outcomes.</p>	<p>We made progress during the year on initiatives designed to enhance customer outcomes. We delivered major improvements for members, including the successful fund rationalisation programme reducing charges for members, the closure of the LANMAS (London Aberdeen &amp; Northern Mutual Assurance Society) and Rational Shelley funds, enabling the distribution of surplus amounts to existing members, and providing clearer annual pension statements to support better investment decisions. Improvements will continue to be delivered in stages as these longer term programmes mature.</p>

Scottish Friendly also monitors credit and liquidity risks within the core assessment and reporting processes. No material impacts to strategy are expected from these risks.

## Key Emerging Risks

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

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

The key emerging risks, identified as part of the 2025 process, are described below:

Emerging Risk	Description
<b>Continuing evolution of AI and data analytics</b>	Advances in artificial intelligence and data analytics give the opportunity to enhance customer engagement and allow operational efficiency. At the same time, they present a strategic risk. AI-powered tools, such as conversational assistants and recommendation engines, are reshaping how customers access information and make decisions. There is a risk of lost commercial and customer experience opportunities if businesses do not understand how algorithms influence behaviour and reflect this in strategic and business plans. Ethical data use, algorithmic fairness, and strong governance remain critical to avoid reputational and regulatory challenges.
<b>Evolution of cyber risk</b>	Cyber risk has intensified as increasing digitalisation and reliance on third party technology expands attack surfaces. The weaponisation of AI is accelerating this trend alongside a rise in state-aligned groups and an increase in aggressive cyber activity targeting UK critical sectors further elevate the threat landscape. For small companies, limited resources heighten vulnerability, making proactive investment in resilience, detection, training, and third party oversight essential.
<b>Evolution of the regulatory and political landscape</b>	Regulatory and policy reforms can reshape business models and customer propositions. Changes to ISA rules, pension regulations or tax policy, or the introduction of initiatives such as 'targeted support', may affect product attractiveness and affordability, with potentially broader implications for financial inclusion and intergenerational wealth transfer - potentially increasing social and political pressures.
<b>Geopolitical turmoil and instability</b>	The ongoing war in the Ukraine and escalation of conflict in the Middle East presents a heightened risk of broader regional destabilisation and potential for prolonged pressure on global supply chains and financial markets.

The emerging risk assessments are used to inform the set of stress scenarios for testing in the ORSA process and, where required, risks and mitigating actions are flowed into the definition and scope of our corporate risks (see principal risk section) and mitigating actions are taken.

## Managing the Financial Risks of Climate Change

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

The climate change scenario analysis within the 2025 ORSA report is supported by information from JP Morgan and Aberdeen, Scottish Friendly's two main asset managers, who provide an assessment of the Value-at-Risk ('VaR') from climate change for the portfolios they manage. This analysis indicates that a transition to a net-zero economy will, absent any mitigating actions, reduce the value of Scottish Friendly's asset portfolio, although the impact is not expected to be realised for many years, nor to be very significant from a financial risk perspective. The financial risks will be mitigated by working increasingly closely with Scottish Friendly's asset managers, to ensure that a transition to a net-zero portfolio takes place in a timely manner.

More generally, Scottish Friendly considers climate change risk to be a cross-cutting risk, which makes other financial risks more likely to crystallise, rather than a standalone financial risk. Climate change is considered as a key component of our long term 'financially sustainable business risk'. Work on the management, mitigation and reporting of this risk will continue to be developed in the coming years. In 2026, we will review our approach to managing climate-related financial risks and take proportionate action in line with the PRA's latest supervisory updates.

# Corporate Governance

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

## Directors

In addition to the Chair and Vice-Chair (who also acts as Senior Independent Director), as at 31 December 2025, the Board comprised of four other non-executive directors, the CEO and the CFO.

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

Kerr Luscombe retired as a director in April 2025, having reached the end of his nine years tenure.

Following Kerr Luscombe's retirement, Anja Balfour was appointed to act as both Vice-Chair and Senior Independent Director, following regulatory approval; as such, she may, as necessary, lead meetings of the independent non-executive directors (with/without the Chair being present), be available to members through the Member

Relations function to understand their concerns (in the event that other contacts within Scottish Friendly are inappropriate or have failed) and to present these views to the Board as a whole, and to lead the performance evaluation of the Chair. She is also the whistleblowing champion.

Following Kerr Luscombe's retirement in 2025, Mai Fenton received regulatory approval and assumed the role of Chair of the Remuneration Committee and Olive Gaughan became a member of the Risk Committee, Audit Committee, With-Profits Committee and With-Profits Approval Committee.

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

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

## Directors



**John McGuigan**  
Chair

**Skills and Experience:** John McGuigan has over 35 years' experience operating at senior executive levels across Financial Services, Healthcare and Technology, Media and Telecommunications. As an experienced international customer director, he draws on a profound understanding of the changing needs of customer behaviours to improve business performance and to steer organisations towards sustainable outcomes. John has held senior executive roles within Financial Services, including Managing Director of Customer Operations at Standard Life where he led the customer work as part of the purchase of Standard Life by Phoenix Group. At the point of completion of the takeover, John was subsequently invited to join Phoenix as Group Customer Director, leading a large-scale transformation programme to improve the overall customer journey.

He has previously held a non-executive director role with Scottish Ambulance Service and Chair of Scottish Financial Enterprise.

**External Appointments:** John is currently the Chair of Scottish Rugby Ltd and Faculty Chair and Mentor with Merryck & Co.



**Anja Balfour**  
Vice-Chair and Senior Independent Director

**Skills and Experience:** Anja Balfour has extensive experience managing Japanese, Asian ex-Japan and International equity portfolios for Stewart Ivory, Baillie Gifford and Axa Framlington. Formerly, she has served as Chair of Schroder Japan Growth Fund plc, a non-executive director of Martin Currie Asia Unconstrained Trust plc and as Chair of The Global Smaller Companies Trust plc. She was also a trustee of Venture Scotland, a charity specialising in personal development for young people. She is a member of the CFA Society of the UK and Archangel Informal Investment, a business angel syndicate.

**External Appointments:** Anja is a non-executive director of AVI Global Trust plc.



**Susan Beckett**  
Independent Non-Executive Director

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

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

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

# Directors continued



**Mai Fenton<sup>1</sup>**

Independent Non-Executive Director

**Skills and Experience:** Mai Fenton is a portfolio Non-Executive Director and consultant with executive experience scaling brands across the UK and Europe. She has worked with both multinationals and challenger brands, particularly in insurance and financial services, with a focus on digital propositions. A former Chief Marketing Officer, Mai brings over two decades of experience in strategic positioning and in shaping strategies that drive brand adoption, sustainable business growth and marketing effectiveness. She has also served on the board of Henderson International Income Trust plc until its successful merger.

**External Appointments:** Mai is a Trustee and Chair of the Nomination, Remuneration and HR Committee at Dallaglio RugbyWorks, a charity supporting vulnerable young people excluded from mainstream education.



**Olive Gaughan**

Independent Non-Executive Director

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

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



**Mark Laidlaw**

Independent Non-Executive Director

**Skills and Experience:** Mark Laidlaw is a Fellow of the Institute and Faculty of Actuaries, with a career spanning more than 30 years within the insurance sector across: Life Insurance, General Insurance, Pensions and Asset Management. He has previously acted as CFO role at Aegon UK, Global Head of Solvency II for Aegon nv and as Corporate Strategy Director of LV=.

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



**Stephen McGee**

CEO

**Skills and Experience:** Stephen McGee has worked his whole career in UK Financial Services and previously held CFO, Chief Actuary and Board roles at a number of UK companies.

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



**Alan Rankine**

CFO

**Skills and Experience:** Alan Rankine is a Fellow of the Institute and Faculty of Actuaries, with over 18 years' experience in the life insurance industry across both life companies and consultancy.

**External Appointments:** None

<sup>1</sup> Remuneration Chair role from 30 April 2025.

# Executive

**Stephen McGee**  
Chief Executive Officer

**Alan Rankine**  
Chief Financial Officer

**Stephen Campbell**  
Chief Operating Officer

**Gen Humphreys**  
Chief Risk Officer

**Alexander Manas**  
Chief Commercial Officer

**Scott McNeill**  
Chief Actuary

**Pam Simmons**  
Chief People Officer and  
Company Secretary

# Report on Corporate Governance

## Compliance with the AFM Governance Code

As a friendly society, Scottish Friendly is a member of the Association of Financial Mutuals (AFM) and reports under the Friendly Societies Act. This membership provides additional layers of support, guidance and best practice in corporate governance. We report annually on the principles of the AFM Corporate Governance Code for Mutual Insurers (“the Code”), whilst also continuing to adopt relevant best practice from the 2024 UK Corporate Governance Code. The AFM asks members to demonstrate in their annual reports how they applied the Code’s six high level principles and how that has contributed to better corporate governance. Details of how the Directors believe Scottish Friendly have applied, complied and delivered on the Code during 2025 are detailed below:

### 1. Purpose and Leadership

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

#### How Scottish Friendly applies the principle

- The Board is responsible for setting the strategy and objectives by which we deliver our purpose and vision. The Executive is responsible for the execution and delivery against the agreed strategy.
- Throughout 2025 we have reported progress against our current three-year strategy and, as we look forward into 2026 and 2027, the Board will formally review and be provided with updates throughout the year on progress against the approved strategy and areas of opportunity within the market. This activity will be undertaken in the context of the proposed merger with OneFamily.
- Our purpose (“dedicated to helping you and your family achieve financial wellbeing through friendly products and customer care”), values and strategic objectives are communicated to all employees and feature prominently in both internal and external communications.
- The Board regularly tests whether we are living up to our purpose, culture and values via the Chief Risk Officer (CRO) and Chief People Officer (CPO) either one to one, at the Risk Committee or the Board, and also undertakes an annual review session on people. In addition, the review of people metrics, such as turnover and absence in the monthly management information and anonymous colleague surveys provide evidence of whether these values are being delivered within the business. We have been recognised as one of the Sunday Times Top 115 Best Big Companies to Work For, reflecting our strong performance in employee engagement and workplace satisfaction. In addition, we achieved a 2 Star accreditation from the WorkL Survey.
- The Remuneration Committee approves all Executive reward objectives by way of a balanced scorecard. Variable pay is awarded based on delivery of this and is set at a ratio to fixed pay to ensure excessive risk-taking is avoided and that a balance is struck across all key metrics of the business.

## 2. Board Composition

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

### How Scottish Friendly applies the principle

- The Nomination Committee oversees Board composition and succession planning for the Board and senior executive team. During 2025, the Nomination Committee oversaw the succession planning process for Kerr Luscombe's retirement, considering the suitability of the directors and appointing successors to the vacant roles. As part of the consideration of composition, we look to ensure that the Board brings an appropriately diverse range of backgrounds, experiences and viewpoints. Of the current NED composition, four out of the six are female.
- The CEO and the non-executive directors have an annual review of individual performance, effectiveness, capacity and independence conducted by the Chair. The Chair's performance is reviewed by the SID with contribution sought from the non-executive directors. The CFO's performance is reviewed separately by both the Chair and the CEO given his role as a director and as part of the Executive team.
- The Chair, supported by the Company Secretary, leads an annual review of committee effectiveness for all committees, alongside reporting on the fulfilment of the Terms of Reference (TOR) by the Committee Chairs. In 2025, the Executive were given the opportunity to provide feedback as part of the annual review of Committee effectiveness which was shared with the Board to take forward as learnings for 2026.
- A succession, skills and capacity review of the Board takes place on an annual basis via the Nomination Committee and recruitment of any new members prioritises any gaps in skills as well as diversity. Each board member has a learning and development plan to complete, and induction plans are in place for new members. There is an annual calendar of board training agreed at the start of the year for all to undertake which is supported by any individual elements identified to the Chair or the Company Secretary.
- The maximum size of the Board is determined within the Memorandum and Rules and the application of this and determination of how many members are required and what skills are needed are assessed and determined within the Nomination Committee.
- Directors are required to disclose details of anything that could be a perceived or actual conflict at each meeting, throughout their tenure or prior to being appointed and any such disclosures are logged in the conflicts of interest register, which is maintained by Company Secretariat. This requirement is laid down in the terms of the appointment letters issued. The annual review of each of the director's independence provides additional governance and the opportunity to ensure independence of decision making is retained and reduce the risk that the firm's best interests are being influenced by other interests.

## 3. Director Responsibilities

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

### How Scottish Friendly applies the principle

- The individual statements of responsibilities as well as performance as a director are clearly laid out in the Statement of Responsibilities document, which is reviewed on an annual basis by the Executive and Board. This includes detailed statements of responsibility for each of the Senior Management Function Holders (SMFs) on the Board. There is clear demarcation between the Chair and CEO accountabilities as well as it being clearly documented what is delegated to the CEO by the Board. Individual performance against responsibilities is assessed by the Chair each year. As part of the Senior Manager Certification Regime annual review, for any new appointments, a comprehensive induction is undertaken, with a review of completion, at the end of this, by the Chair or the Senior Independent Director (SID).
- The Memorandum and Rules set out the policies and practices which apply to Scottish Friendly, in accordance with the Friendly Societies Act 1992. An exercise to update the Memorandum and Rules to bring this in line with current practices was completed in February 2025, and updated rules were shared with the Board and Delegates, with FCA approval received on 30 April 2025. Additionally, an annual review is undertaken with external advisors on the responsibilities and accountabilities of the Board and any relevant changes from a corporate governance perspective.
- Conflicts of interest are recorded at each meeting and a record of conflicts and interests are retained by Company Secretariat.
- The Board has its own Terms of Reference and Schedule of Matters Reserved to the Board. These documents are kept under regular review and mapped against the annual calendar of Board meetings to ensure all duties are considered during the year. This exercise was completed in September 2025, resulting in a small number of matters reserved being delegated to the appropriate Board Committee.
- Terms of reference are also in place for each of the Board's sub-committees, as well as for the SFAM (Scottish Friendly Asset Managers) Board, and these are reviewed annually with any changes approved via the relevant Board. A review of the activities and responsibilities of each of Scottish Friendly's subsidiaries was undertaken in 2024 and 2025. This confirmed that, whilst governance for the majority of the entities was appropriate, enhancements were required in respect of SF Pension Managers and Trustees Limited, with the development of terms of reference and Articles of Association.

## 4. Opportunity and Risk

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

### How Scottish Friendly applies the principle

- Scottish Friendly has established a framework of internal controls for the management of risk within its business and to safeguard the interests of its members. The system is designed to manage the risk of failure to achieve business objectives, and to provide reasonable assurance against material misstatement or loss. The Risk Committee has been delegated responsibility to review and consider the risk framework including a suite of appropriate internal controls in detail and bring to the Board, at quarterly updates or as required, any issues on which the Board needs to have oversight.
- A strategic plan detailing how the organisation creates and preserves value over the next three years is prepared annually and approved by the Board. This, along with the Business Plan and Own Risk Solvency Assessment (ORSA), details how opportunities are assessed in line with our long-term strategy and risk appetite. The risk management focus and the ongoing Own Risk and Solvency Assessment process helps highlight any risk across the firm that the Board need to take account of or review. The capital position continued to be strong in 2025.
- The Board reviews progress against the strategic plan at each Board cycle to ensure progress is being made and to determine whether changes may be needed, assessing external and internal factors.
- ESG and sustainability was an area of continued focus during 2025, with a review of ESG arrangements in December 2025. Our aims and operational plan on ESG were refreshed as a result of this exercise, with key actions identified for 2026. Further details are included in the Sustainability Report on page 16.

## 5. Remuneration

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

### How Scottish Friendly applies the principle

- Information on how we apply this principle is included in the Directors' remuneration report on page 46, and the overview of the Remuneration Committee on page 47.

## 6. Stakeholder Relationships and Engagement

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

### How Scottish Friendly applies the principle

- Engagement with stakeholders is undertaken through a variety of mechanisms for example, colleague views are examined in the twice annual externally benchmarked WorkL engagement survey. Feedback from the monthly people ambassador forums is fed into the Board discussions through our regular Board reporting and indicators such as turnover and absence are monitored on a monthly basis.
- The NEDs met privately on 4 occasions in 2025, and any issues raised were discussed with the Company Secretary and CEO. Additional time is available at the end of every Board meeting to allow for directors to reflect on the effectiveness of the meeting, the key topics and future actions.
- A new customer relation management (CRM) system was launched in October 2024, with the aim of improving our customer and colleague experience and produce MI by which Scottish Friendly can identify any areas of improvement in our policies and processes in order to best meet the needs of our customers. 2025 saw continued enhancement of this system, with dedicated resource.
- The Board received regular updates via the monthly reporting on our work in respect of wellbeing and DEI. Scottish Friendly, also, celebrated key cultural and awareness events including Pride, International Women's Day, Diwali, Eid, and International Sign Language Day, reinforcing our commitment to diversity and inclusion. A review of recruitment processes was undertaken to ensure these remain inclusive, fair, and aligned with our values. An assessment of our physical workplace environment was also conducted to ensure it continues to meet the needs of colleagues and supports their wellbeing.
- The Board meet with delegates who represent our members twice per year, once more informally in September to discuss and review some evolving themes and topics and again more formally at the AGM in April. An SGM was held in February 2025, which allowed a further opportunity for the Board to connect with our delegates and consider their views in respect of the Memorandum and Rules and future enhancements. Work continued on the suggested enhancements detailed within our Member Relations section including more time at meetings for the delegates to network with the Board and Executive, the appointment of colleague delegates and the sharing of delegate photographs and bios.
- The Board recognises that the business operates within a wider environment, with a potential impact on a huge range of stakeholders.

# The Board and Board Committees

The terms of reference of the Scottish Friendly Board and its Committees – Audit, Risk, Remuneration, Nomination, Investment, With-Profits Committee and With-Profits Approval Committee – as well as the SFAM Board terms of reference are available on the Scottish Friendly website at [www.scottishfriendly.co.uk/about-us/board-committee-terms-reference](http://www.scottishfriendly.co.uk/about-us/board-committee-terms-reference).

Membership of the committees of the Board is intended to make best use of the skills and experience of the directors. The work carried out during 2025 by the Audit, Risk, Nomination, Investment, With-Profits Committees and With-Profits Approval Committee in discharging their responsibilities is summarised below. The work carried out by the Remuneration Committee is described within the Directors' Remuneration Report on pages 46 to 48.

	Board Appointment	Board Retirement	Board Meetings	Audit Committee	Risk Committee	Remuneration Committee	Investment Committee	Nomination Committee	With-Profits Committee	With-Profits Approval Committee
John McGuigan	September 2023		6 (6)	-	-	2 (2)	-	3 (3)	-	-
Kerr Luscombe	June 2015	April 2025	3 (3)	2 (2)	1 (1)	1 (1)	-	2 (2)	1 (1)	1 (1)
Anja Balfour	April 2018		6 (6)	-	-	2 (2)	4 (4)	3 (3)	4 (4)	4 (4)
Susan Beckett	September 2020		6 (6)	4 (4)	5 (5)	-	-	-	-	-
Mark Laidlaw	September 2021		5 (6)	4 (4)	5 (5)	-	-	-	4 (4)	4 (4)
Mai Fenton	April 2024		6 (6)	-	-	2 (2)	4 (4)	-	-	-
Olive Gaughan	April 2024		6 (6)	4 (4)	5 (5)	-	-	-	4 (4)	4 (4)
Stephen McGee	September 2021		6 (6)	-	-	-	4 (4)	3 (3)	-	4 (4)
Alan Rankine	January 2023		6 (6)	-	-	-	4 (4)	-	-	-

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



### The Board and its responsibilities:

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

- financial performance against budget, data and analysis relating to business volumes, and reports on investment strategy and performance;
- risk management, through the Risk Management Framework (refer to page 19);
- actuarial matters including solvency and capital requirements;
- operational reports on customer service and colleague matters; and
- business conduct information.

The Board received regular updates on Consumer Duty, with annual reporting sent to the regulator in July 2025. The Board is overall content that Scottish Friendly is acting to deliver good outcomes for retail customers in compliance with Principle 12 of the FCA Principles for businesses.

During 2025, the Board also considered a number of strategic proposals and provided oversight in conjunction with the Risk Committee on the implementation activity required to support the acquisition of pension and annuity in-payment books of business from FIL Life Insurance Limited, part of the Fidelity International Group.

The Board played a key and active role in considering the potential merger with OneFamily, including considering the impact on different groups of members/policyholders, the outcome of diligence activity and selecting the proposed leadership team for the merged business.

The Board also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness.

There is a formal schedule of matters reserved to the Board for approval which includes specific aspects of the authorisation regime for bank accounts, changes to investment parameters and deals outside those parameters, transfers of engagement, the budget, the distribution of surpluses and bonuses as well as a number of governance matters such as conflicts of interest, offices of profits and Delegate re-election. The formal schedule of Board duties was reviewed during 2025, and it was agreed by the Board in September 2025 to delegate certain responsibilities to relevant Board Committees, with changes made to terms of reference to reflect this. This approach ensures that matters requiring specialist expertise are considered at the appropriate level, and that agreed governance principles are applied effectively.

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

### The Audit Committee and its responsibilities:

During 2025 the Audit Committee:

- reviewed the internal control systems, including internal financial controls and ensured that these continued to be effective; advised the Risk Committee as appropriate of any concerns regarding the effectiveness of the current control framework;
- considered the External Audit Plan which highlighted key judgement areas and recommended the level of materiality;
- reviewed the annual financial statements and annual regulatory returns including the Solvency and Financial Condition Report (SFCR) and approved them for submission to the Board. The Committee focused particularly on major judgemental areas and compliance with accounting standards and legal requirements, including the regulations and guidance of the PRA and FCA. The Committee reviewed thoroughly the external auditors' detailed report on the draft documents and obtained satisfactory explanations where necessary;
- approved the internal audit programmes and received regular progress reports from internal

audit and ensured that recommendations made were followed up by management. Individual internal audit reviews are scheduled both according to regular assessments of key risk areas on a cyclical approach supplemented with matters of a topical nature. The Committee also monitored co-ordination between the internal and external auditors and ensured that the internal audit function was adequately resourced and had appropriate standing within the organisation; and

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

During 2025 the Committee also considered the accounting and disclosure implications of the acquisition of pension and annuity in payment books from FIL Life Insurance Limited, and the Internal Audit post-implementation review of the pension payment system migration.

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

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

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

Both the Board and the external auditor have safeguards in place to prevent the auditor's independence and objectivity being compromised. The external auditor reports regularly to the Committee on the actions that it has taken to maintain its independence.

PricewaterhouseCoopers LLP (PwC) was re-appointed as auditor from April 2025. No issues with the independence of PwC were identified.

### The Investment Committee and its responsibilities:

The Investment Committee oversees Scottish Friendly's investment holdings and performance on behalf of the Board. Duties include:

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

There was significant focus on the Unit-Linked Funds (ULF) Rationalisation project, with regular updates from the ULF Project Lead on key milestones and the appointment of Schroders as fund manager. The Committee also reviewed updates in respect of the Open Ended Investment Company and the merger of the Scottish Friendly UK Growth Fund and Scottish Friendly Managed Growth Fund which was approved on 28 August 2025.

External fund managers were invited to present to the Committee at an investment away day in September 2025 and investment advisors are invited to provide regular updates on an ongoing basis.

During 2025, the Committee also reviewed and ensured the fulfilment of the terms of reference and examined Committee effectiveness, which included a review of the effectiveness of our fund managers. 360° feedback was also received from the fund managers by the Committee.

### The Nomination Committee and its responsibilities:

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

Following the retirement of Mr Luscombe, the Committee undertook a detailed skills and competency assessment to inform succession planning for current and upcoming retirements and to identify the capabilities needed to support evolving strategic priorities. Based on this assessment, the Committee agreed the appointments to the vacated roles of Vice-Chair and Senior Independent Director (SID), and Chair of the Remuneration Committee.

### The Remuneration Committee and its responsibilities:

Please refer the Directors' Remuneration report on page 46, which includes the annual statement from the Remuneration Committee Chair and details of the work carried out by the Committee during 2025.

### The Risk Committee and its responsibilities:

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

The Committee:

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

In line with the TOR, the Committee reviews any proposed acquisitions and significant change programmes including IT. During the year, the Committee considered the implications of the proposed merger with OneFamily, as well as reporting from the Chief Operating Officer, in respect of operational resilience, IT security and data protection.

### The With-Profits Committee and its responsibilities:

During 2025, the Committee assessed, reported on and provided clear advice and, where appropriate, recommendations to the With-Profits Approval Committee and Board on:

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

In addition, it also requested and received reports on various strategic and corporate initiatives, most notably providing advice in relation to the proposed merger with OneFamily.

The Committee also reviewed routine reports on profitability, capital and surplus, policyholder communications and administration standards, investment performance and strategic asset allocation.

### The With-Profits Approval Committee and its responsibilities:

The With-Profits Approval Committee (WPAC) supports the Board in the consideration of certain delegated matters relating to the management of With-Profits business and to discharge certain aspects of the board's responsibilities as set out in COBS<sup>1</sup> 20. For matters which are financially or strategically significant the WPAC refers these to the full Board.

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

The Committee undertook an annual review of the fulfilment of terms of reference and examined the Committee's effectiveness.

# Directors' Report

## The Directors have pleasure in submitting their Annual Report and Financial Statements for the year ended 31 December 2025.

### Business objectives and activities

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

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

Scottish Friendly Asset Managers Limited is authorised and regulated by the Financial Conduct Authority and conducts the business of managers for transactions in Scottish Friendly ISAs, Junior ISAs and Child Trust Funds. The principal activity of Scottish Friendly Insurance Services Limited is the provision of administration services. SFIS (Nominees) Limited is currently dormant.

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

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

### Directors and Chief Executive Officer

The current Directors of Scottish Friendly, including the CEO, are listed on pages 27 to 29. Further information on the Board is set out in the Report on Corporate Governance on pages 31 to 41.

### Statement of solvency

In the opinion of Scottish Friendly's Chief Actuary and the Board, Scottish Friendly had the required margin of solvency, as prescribed in the Solvency II regulatory requirements as at 31 December 2025 and throughout the year.

### Going concern basis

The Board is required to state whether the business is a going concern and consider the appropriateness of the going concern basis in preparing the financial statements as detailed in note 2 to the financial statements.

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

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

Additionally, the Board has considered the impact of the proposed transfer of engagements under Part VIII of the Friendly Societies Act 1992 to OneFamily. If the transfer proceeds, all assets, rights and liabilities of the Society, including control of subsidiary companies will transfer to OneFamily, and the Society will be dissolved on the transfer date. The subsidiaries will then be part of the OneFamily group.

Completion of the transaction remains conditional and is dependent upon receiving both, Member and Regulatory Approval from the PRA. While the Board currently expects the transaction to complete in early 2027, there remains uncertainty over the timing and fulfilment of the conditions needed for the proposed transfer. The timeline and requirements for the approvals are at an initial planning stage, and therefore more certainty will be achieved as that process progresses.

If the transaction does not proceed or is delayed, the Group and Society is considered to have adequate resources to continue in business for at least the 12 months from the date of approval of these financial statements.

These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Society's ability to continue as a going concern. Nevertheless, as there is no guarantee that the proposed transaction will complete within the going concern period, the Board has still considered the going concern basis

of preparation to be appropriate. The financial statements do not include the adjustments that would result if the entity were unable to continue as a going concern.

### Longer term viability statement

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

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

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

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

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

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

The Board have also considered the future viability when overlaying the likely scenario of the merger with OneFamily in early 2027, which has been assessed as delivering long term value on a combined basis, as well as the unlikely scenario that the merger does not proceed.

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

### Tax strategy

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

### Modern Slavery Act

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

### Policy on complaints by customers

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

## Disclosure of information to auditors

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

## Statement of Directors' responsibilities in respect of the financial statements

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

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

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

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

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

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and society's transactions and disclose with reasonable accuracy at any time the financial position of the group and society and enable them to ensure that the financial statements comply with the Friendly Societies Act 1992.

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

## Independent auditors

In accordance with Scottish Friendly's Rules, a resolution to re-appoint PricewaterhouseCoopers (PwC) LLP is planned to be proposed at the 2026 Annual General Meeting.

## Pam Simmons

Company Secretary  
25 March 2026



# Directors' Remuneration Report

## Annual statement from the Remuneration Committee Chair

### Dear Members

On behalf of the Board, and in my capacity as Chair of the Remuneration Committee, I am pleased to present the Directors' Remuneration Report and the Directors' Emoluments for the year ended 31 December 2025.

This has been a stable year from a remuneration perspective, with minimal changes to our policy or practices. The remuneration principles introduced in 2022 are now well embedded across the organisation and continue to guide our approach.

Throughout 2025, our colleagues demonstrated exceptional dedication to our customers and to the Society. Their commitment supported the successful delivery of our strategic initiatives and organisational change programmes, helping us continue to strengthen our infrastructure and build a sustainable future.

Our annual salary award is informed by a range of external economic factors including inflation, sector pay trends and market benchmarking of our pay grades. For 2025, the total salary budget was set at 4%, with the average individual award being 3.64%.

Like many organisations across the UK, we experienced rising costs, both through increases in employer expenses, such as the uplift in National Insurance contributions, and the wider cost of operating. Our colleagues have, also, continued to feel the effects of cost of living pressures. In response, and to ensure meaningful support, particularly for those lower in their pay ranges, we adopted a matrix approach to annual pay increases for the second consecutive year. This resulted in higher increases for colleagues positioned lower relative to their pay midpoints.

In addition, we increased the salaries of 44 colleagues to a minimum of £24,500, aligning with increases to both the Real Living Wage and the Glasgow Living Wage, and ensuring that all colleagues reach that level. Overall, 208 colleagues received a pay increase of 3% or more.

During the year, we supported managers to hold transparent, informed conversations with their teams regarding pay decisions. This included sharing external market data relevant to each role and providing personalised information outlining each individual's position within their job family pay scale. We also refreshed and republished our pay principles to reinforce our commitment to fair and consistent application across the organisation.

All colleagues continued to benefit from our broader reward package, including a pension scheme with 10% employer contributions, life assurance at four times annual salary, private healthcare, and a comprehensive suite of wellbeing initiatives such as access to an Employee Assistance Programme, wellbeing support, free fruit and enhanced leave entitlements that increase with service.

Our Gender Pay Gap report as at 5 April 2024, published in April 2025, confirmed no significant differences in pay between men and women across the lower to uppermiddle quartiles. The data as at April 2025 shows a consistent position. The full report will be available on our website from 5 April 2026 at: <https://www.scottishfriendly.co.uk/gender-pay-report>.

The Remuneration Committee met in February 2025 to complete its annual review of director and executive remuneration. A summary of Board compensation is presented in the table on page 48.

### Mai Fenton

#### Chair of Remuneration Committee

## The Remuneration Committee and its responsibilities:

The Committee consists of the Chair, Mai Fenton (from April 2025) and two additional independent Non-Executive Directors, as well as the CEO and CPO.

The purpose of the committee is to oversee:

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

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

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

The February 2025 Remuneration Committee assessed performance against the Executive balanced scorecard and objectives, which had been introduced during 2023, with variable pay applied to drive a focus on performance outcomes. The Committee also reviewed the remuneration of the non-executive directors, including the Chair, future reward considerations for colleagues and the fees

payable to delegates and external appointees. The October 2025 Committee also considered the future competitive landscape and any changes needed to our pay principles, to ensure the business continued to attract and retain talented individuals.

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

Fees are designed to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future development of Scottish Friendly. Fees are made up of an annual fee covering board and committee membership. Additional fees are payable to the Vice-Chair and to the Chairs of the Audit, Risk, Remuneration, and Investment Committees, as well as With-Profits Committee members, in respect of the additional responsibilities relating to those roles. Fees are neither performance-related nor pensionable and non-executive directors do not receive any additional benefits.

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

# Directors' Emoluments

This table shows details of remuneration paid to executive and non-executive directors who served during 2025.

	Salary and Fees £000	Performance pay £000	Benefits <sup>1</sup> £000 (Expenses, Pilop and Healthcare)	Total Compensation Year ended 31 Dec 2025 £000	Total Compensation Year ended 31 Dec 2024 £000
<b>Chair</b>					
John McGuigan	132	-	6	138	95
<b>Executive Directors</b>					
Stephen McGee	491	245	72	808	840
Alan Rankine	240	77	25	342	344
<b>Non-Executive Directors</b>					
Anja Balfour	98	-	4	102	84
Kerr Luscombe <sup>2</sup>	29	-	-	29	84
Susan Beckett	72	-	8	80	76
Mark Laidlaw	88	-	1	89	81
Mai Fenton <sup>3</sup>	63	-	8	71	43
Olive Gaughan <sup>3</sup>	74	-	4	78	47

<sup>1</sup> For Executive Directors, benefits comprise of pay in lieu of pension contributions and healthcare insurance. For the Non-Executive Directors, figures in the benefits column comprise travel and accommodation cost reimbursements as well as a grossed-up payment of the associated tax due on these taxable expenses claimed.

<sup>2</sup> Kerr Luscombe retired as a Director in April 2025.

<sup>3</sup> Mai Fenton and Olive Gaughan joined the Board in April 2024.



# Financial Statements

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

## Report on the audit of the financial statements

### Opinion

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

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2025 and of the Group's and Society's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise:

- the Balance Sheet of the Group and the Society as at 31 December 2025;
- the Income and Expenditure Account of the Group and the Society for the year then ended; and
- the notes to the financial statements, which include a description of the significant accounting policies.

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

### Basis for opinion

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

### Independence

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

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

Other than those disclosed in Note 8, we have provided no non-audit services to the Society in the period under audit.

### Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the Group's and the Society's ability to continue as a going concern. As described in note 2 and note 39, the proposed transfer of engagements under Part VIII of the Friendly Societies Act 1992 to OneFamily will result in all assets, rights and liabilities of the Society transferring to OneFamily, and the Society will be dissolved on the transfer date. Completion of the transaction remains conditional and is dependent upon receiving both Member and Regulatory Approval from the PRA. While the Board currently expects the transaction to complete in early 2027, there remains uncertainty over the timing and fulfilment of the conditions needed for the proposed transfer. If the transaction does not proceed or is delayed, the Group and Society is considered to have adequate resources to continue in business for at least 12 months from the date of approval of these financial statements. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Society's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Society were unable to continue as a going concern.

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

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

- Obtained management's going concern assessment and challenged the rationale for downside scenarios adopted and material assumptions made using our knowledge of the Group's business performance, review of regulatory correspondence and obtaining further corroborating evidence;
- Considered management's assessment of the regulatory solvency coverage and liquidity in management's future forecast;
- Obtained information surrounding the intentions for the Scottish Friendly and OneFamily merger to corroborate the facts and circumstances used by management in determining the expected likelihood of completion in the going concern period; 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.

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

## Our audit approach

### Context

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

### Overview

#### Audit scope

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

#### Key audit matters

- Material uncertainty related to going concern
- Valuation of technical provisions - Persistency assumptions for the protection business (Group and Society)
- Valuation of technical provisions - Non annuitant mortality assumptions for the protection business (Group and Society)

#### Materiality

- Overall Group materiality: £10.79 million (2024: £11.8 million) based on 5.5% of Funds for Future Appropriations (2024: 5.5% of Funds for Future Appropriations).
- Overall Society materiality: £10.68 million (2024: £11.2 million) based on 5.5% of Funds for Future Appropriations (2024: 5.2% of Funds for Future Appropriations).
- Performance materiality: £8.09 million (2024: £8.8 million) (Group) and £8.01 million (2024: £8.4 million) (Society).

- Specific overall materiality: £27.3million ( 2024: £23.6 million) based on 1% of Assets held to Cover Linked Liabilities applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (2024: 1% of Assets held to Cover Linked Liabilities) (Group and Society).
- Specific performance materiality: £20.5million ( 2024: £17.7 million) applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities (2024: applied to Assets Held to Cover Linked Liabilities and Technical Provision for Linked Liabilities) (Group and Society).

## The scope of our audit

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

## Key audit matters

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

In addition to going concern, described in the Material uncertainty related to going concern section above, we determined the matters described below to be the key audit matters to be communicated in our report. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of technical provisions - Persistency assumptions for the protection business (Group and Society)</i></p> <p>Refer to Note 2 Accounting policies and Note 26 Technical Provisions:</p> <p>Persistency assumptions are subjective and complex due to their nature. Given that the Society's liabilities are significantly made up of protection business, including term assurance and whole of life contracts, persistency is a key risk to which the business is exposed and, given the size of the protection book, is a material assumption for the Society.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Assessed the appropriateness of and evidence supporting the judgements made in the setting of the persistency basis, including the choice of assumptions for which there is limited or no credible experience data and the consideration of external factors such as the cost-of-living crisis;</li> <li>• Understood the relevant controls within the persistency experience analysis and assumption-setting process and assessed the design effectiveness and implementation of these controls;</li> <li>• Tested the production of the persistency experience analysis;</li> <li>• Reviewed management's analysis of change and checked consistency of persistency-related impacts with the proposed changes to the persistency basis; and</li> <li>• Reviewed the persistency experience analysis and assumption-setting methodology selected by management against that used by peers, based on our industry knowledge and experience and our actuarial assumptions benchmarking survey.</li> </ul> <p>Based on the work performed and evidence obtained, we consider the proposed persistency assumptions to be appropriate.</p>

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of technical provisions - Non annuitant mortality assumptions for the protection business (Group and Society)</i></p> <p>Refer to Note 2 Accounting Policies and Note 26 Technical Provisions:</p> <p>The valuation of gross technical provisions for protection business is highly sensitive to mortality assumptions. Setting mortality assumptions, both base mortality and the rate of future improvements, is subjective and complex due to their nature. Given that the Society's liabilities are significantly made up of protection business, including term assurance and whole of life contracts, mortality risk is a key risk to which the business is exposed and, given the size of the protection book, this is considered to be a significant assumption.</p>	<p>We have performed the following procedures:</p> <ul style="list-style-type: none"> <li>Assessed the appropriateness of and evidence supporting the judgements made in the setting of the mortality basis, both base mortality rates and the rate of future mortality improvements. This includes the choice of base tables, approach to setting scalars applied to those tables and allowance for future mortality improvements;</li> <li>Understood the relevant controls within the mortality experience analysis and assumption-setting process and assessed the design effectiveness and implementation of these controls;</li> <li>Tested the production of the mortality experience analysis;</li> <li>Reviewed management's analysis of change and checked consistency of non-annuitant mortality-related impacts with the proposed changes to the mortality basis; and</li> <li>Reviewed the mortality assumptions selected by management against those used by peers, separately for base mortality and for future improvements, using our independent actuarial assumptions benchmarking survey.</li> </ul> <p>Based on the work performed and evidence obtained, we consider the proposed mortality assumptions to be appropriate</p>

### How we tailored the audit scope

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

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

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

### The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's and Society's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Society's financial statements.

### Materiality

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

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

	Financial statements - Group	Financial statements - Society
<b>Overall materiality</b>	£10.79 million (2024: £11.8 million).	£10.68 million (2024: £11.2 million).
<b>How we determined it</b>	5.5% of Funds for Future Appropriations (2024: 5.5% of Funds for Future Appropriations)	5.5% of Funds for Future Appropriations (2024: 5.2% of Funds for Future Appropriations)
<b>Rationale for benchmark applied</b>	The engagement team concluded that £10.79 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £10.79 million was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for future appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed.	The engagement team concluded that £10.68 million is the most appropriate amount when setting an overall materiality on the engagement. The quantum of £10.68 million was determined by considering the various benchmarks available to us as auditors. Fund for Future Appropriations is the most applicable measure because we regard Fund for Future Appropriations as the primary measure used by the members of the Society, since it represents the amount of surplus yet to be allocated to those members of the Society and to whom our opinion is addressed. The benchmark for the Society is consistent with the Group, however, an allocation of the overall Group materiality was determined for the Society as detailed below.

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

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The benchmark for the Society was restricted to an amount that is lower than the overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2024: 75%) of overall materiality, amounting to £8.09 million (2024: £8.8 million) for the Group financial statements and £8.01 million (2024: £8.4 million) for the Society financial statements.

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

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £537,500 (Group audit) (2024: £590,000) and £537,500 (Society audit) (2024: £560,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

## Reporting on other information

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

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

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Friendly Societies Act 1992 have been included.

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

## Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

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

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

### Auditors' responsibilities for the audit of the financial statements

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

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

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

- Discussions with the Board, management, Internal Audit and senior management involved in the Risk and Compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with, and reports to, the PRA and the FCA in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit Committee, the Risk Committee and the Technical Provisions Committee;
- Reviewing data regarding policyholder complaints, the Society's register of litigation and claims, Internal Audit reports and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;

- Procedures relating to the valuation of the technical provisions described in the related key audit matters;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

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

## Use of this report

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

## Other required reporting

### **Friendly Societies Act 1992 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.

### **Appointment**

We were first appointed by the Society for the financial year ended 31 December 2022. Our uninterrupted engagement covers 4 financial years.

**Thomas Ferguson (Senior Statutory Auditor)**  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
25 March 2026



# Income and Expenditure Account



## Technical Account – Long Term Business

For year ended 31 December

	Note	Group 2025 £000	Group 2024 £000 (restated)	Scottish Friendly 2025 £000	Scottish Friendly 2024 £000 (restated)
Gross Earned Premiums		248,578	219,722	248,578	219,722
Reinsurance Premiums		(105,382)	(97,754)	(105,382)	(97,754)
<b>Earned Premiums, Net of Reinsurance</b>	<b>3</b>	<b>143,196</b>	<b>121,968</b>	<b>143,196</b>	<b>121,968</b>
Investment Income	4	454,144	61,936	454,144	61,936
Unrealised (Losses)/Gains on Investments	5	(101,914)	181,383	(101,812)	181,571
Other Technical Income	6	31,651	32,040	30,655	30,940
Amortisation of Negative Goodwill	13	6,060	6,060	6,060	6,060
		<b>533,137</b>	<b>403,387</b>	<b>532,243</b>	<b>402,475</b>
Claims Incurred		256,751	254,140	256,751	254,140
Reinsurance Claims		(132,889)	(131,254)	(132,889)	(131,254)
<b>Net Claims Incurred</b>	<b>7</b>	<b>123,862</b>	<b>122,886</b>	<b>123,862</b>	<b>122,886</b>
Change in Long-term Business Provision	26a	22,570	(68,652) <sup>1</sup>	22,570	(68,652) <sup>1</sup>
Change in Technical Provisions for Linked Liabilities	26b	250,978	220,476	250,978	220,476
Operating Expenses	8	141,251	125,909	141,251	125,909
Investment Expenses & Charges	10	2,564	3,343	2,564	3,343
Other Technical Charges	11	1,281	1,953	427	1,108
Tax Charge Attributable to Long Term Business	12	10,003	7,031	9,963	6,964
Actuarial Losses/(Gains) re Pension Scheme	24	449	(182)	449	(182)
Transfer from the Fund for Future Appropriations	25	(19,821)	(9,377) <sup>1</sup>	(19,821)	(9,377) <sup>1</sup>
		<b>533,137</b>	<b>403,387</b>	<b>532,243</b>	<b>402,475</b>

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

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

The notes on pages 66 to 108 form an integral part of these financial statements.

<sup>1</sup> Details on the restatement are included in note 38.

## Balance Sheet

Assets as at 31 December	Note	Group 2025 £000	Group 2024 £000 (restated)	Scottish Friendly 2025 £000	Scottish Friendly 2024 £000 (restated)
<b>Intangible Assets</b>					
Negative Goodwill	13	(23,235)	(29,295)	(23,235)	(29,295)
<b>Investments</b>					
Land and Buildings	14	3,100	3,100	3,100	3,100
Investment in Group Undertakings	15,17	-	-	5,071	4,946
Derivative Financial Instruments	16	4,519	2,692	4,519	2,692
Other Financial Investments	17	854,666	863,372	854,666	863,372
<b>Total Non-Linked Financial Investments</b>		<b>862,285</b>	<b>869,164</b>	<b>867,356</b>	<b>874,110</b>
Assets Held to Cover Linked Liabilities	17	2,737,178	2,363,629	2,736,981	2,363,534
<b>Total Financial Investments</b>		<b>3,599,463</b>	<b>3,232,793</b>	<b>3,604,337</b>	<b>3,237,644</b>
<b>Reinsurers' Share of Technical Provisions</b>					
Long-term Business Provision	26a	569,859	847,740 <sup>1</sup>	569,859	847,740 <sup>1</sup>
<b>Debtors</b>					
Deposits Held for Reinsurers	19	13,293	12,501	13,293	12,501
Debtors Arising Out of Direct Insurance Operations	20	15,405	18,695	15,405	18,695
Other Debtors	21	15,116	7,574	16,146	8,039
		<b>43,814</b>	<b>38,770</b>	<b>44,844</b>	<b>39,235</b>
<b>Other Assets</b>					
Tangible Assets	22	1,515	843	1,515	843
Cash at Bank and In Hand	23	104,713	78,220	98,541	72,651
		<b>106,228</b>	<b>79,063</b>	<b>100,056</b>	<b>73,494</b>
Prepayments and Accrued Income		1,073	457	1,073	457
Pension Scheme Surplus	24	11,236	11,685	11,236	11,685
		<b>4,308,438</b>	<b>4,181,213</b>	<b>4,308,170</b>	<b>4,180,960</b>

The notes on pages 66 to 108 form an integral part of these financial statements.

<sup>1</sup> Details on the restatement are included in note 38.

## Balance Sheet Continued

Liabilities as at 31 December	Note	Group 2025 £000	Group 2024 £000 (restated)	Scottish Friendly 2025 £000	Scottish Friendly 2024 £000 (restated)
Fund for Future Appropriations	25	194,899	214,720 <sup>1</sup>	194,899	214,720 <sup>1</sup>
<b>Technical Provisions</b>					
Long-term Business Provision	26a	1,818,238	1,707,284 <sup>1</sup>	1,818,238	1,707,284 <sup>1</sup>
Claims Outstanding	28	32,814	39,886	32,814	39,886
		<b>1,851,052</b>	<b>1,747,170</b>	<b>1,851,052</b>	<b>1,747,170</b>
<b>Technical Provision for Linked Liabilities</b>	<b>26b</b>	<b>2,199,223</b>	<b>2,171,058</b>	<b>2,199,223</b>	<b>2,171,058</b>
<b>Creditors</b>					
Derivative Financial Instruments	16	3,090	2,074	3,090	2,074
Deposits Received from Reinsurers	31	5,235	5,164	5,235	5,164
Creditors Arising Out of Direct Insurance Operations	32	13,972	13,944	13,460	13,730
Other Creditors	33	6,736	5,331	7,244	5,584
		<b>29,033</b>	<b>26,513</b>	<b>29,029</b>	<b>26,552</b>
<b>Accruals and Deferred Income</b>		<b>20,804</b>	<b>18,099</b>	<b>20,540</b>	<b>17,807</b>
<b>Provisions for Other Risks</b>					
Deferred Taxation	34	12,367	2,921	12,367	2,921
Other Provisions	35	1,060	732	1,060	732
		<b>4,308,438</b>	<b>4,181,213</b>	<b>4,308,170</b>	<b>4,180,960</b>

The financial statements on pages 62 to 108 were approved by the Board of Directors on 25 March and signed on its behalf by:

**S McGee**                      **A Rankine**  
Chief Executive                      Director

The notes on pages 66 to 108 form an integral part of these financial statements.

<sup>1</sup> Details on the restatement are included in note 38.

# Notes to the Financial Statements

Group and Scottish Friendly



## 1. General Information

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

## 2. Accounting Policies

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

### Basis of preparation

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

The Financial Statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with FRS 102.

The Financial Statements have also been prepared on a going concern basis, as confirmed in the Directors’ Report.

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

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

Additionally, the Board has considered the impact of the proposed transfer of engagements under Part VIII of the Friendly Societies Act 1992 to OneFamily. If the transfer proceeds, all assets, rights and liabilities of the Society, including control of subsidiary companies will transfer to OneFamily, and the Group and Society will be dissolved on the transfer date. The subsidiaries will then be part of the OneFamily group.

Completion of the transaction remains conditional and is dependent upon receiving both, Member and Regulatory Approval from the PRA. While the Board currently expects the transaction to complete in early 2027, there remains uncertainty over the timing and fulfilment of the conditions needed for the proposed transfer. The timeline and requirements for the approvals are at an initial planning stage, and therefore more certainty will be achieved as that process progresses.

If the transaction does not proceed or is delayed, the Group and Society is considered to have adequate resources to continue in business for at least the 12 months from the date of approval of these financial statements.

These circumstances indicate the existence of a material uncertainty which may cast significant doubt on the Group’s and Society’s ability to continue as a going concern. Nevertheless, as there is no guarantee that the proposed transaction will complete within the going concern period, the Board has still considered the going concern basis of preparation to be appropriate. The financial statements do not include the adjustments that would result if the entity were unable to continue as a going concern.

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

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

## 2. Accounting Policies Continued

### Basis of consolidation

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

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

### Business combinations and goodwill

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

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

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

### Contract classification

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

Insurance contracts are defined as those containing significant insurance risk if, and only if, the value of benefits payable under the contract varies significantly as the result of the occurrence of an

insured event. This assessment is undertaken at the inception of the contract and excludes consideration of scenarios that lack commercial substance. Such contracts, which may also transfer financial risk, remain insurance contracts until all rights and obligations are extinguished or expire.

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

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

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

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

### Foreign currencies

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

### Significant judgements and estimates

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

## 2. Accounting Policies Continued

### Critical accounting judgements

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

### Classification of long-term contracts

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

### Deferred acquisition costs

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

### Key sources of estimation and uncertainty

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

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

### Investments

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

### Valuation of insurance and investment contract liabilities

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

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

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

### Valuation of pension benefit obligations and associate plan asset

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

### Outstanding claims

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

### 3. Earned Premiums

#### Accounting for premiums

##### Insurance contracts

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

##### Investment contracts

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

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

	2025 £000	2024 £000
Annual	245,989	217,541
Single	2,589	2,181
	<b>248,578</b>	<b>219,722</b>

##### Comprising:

Premiums for investment contracts with participating features	34,237	22,356
Premiums for participating insurance contracts	9,941	11,350
Premiums for non-participating insurance contracts	199,464	179,916
Premiums from linked contracts	4,936	6,100
<b>Gross earned premiums</b>	<b>248,578</b>	<b>219,722</b>

Reinsurance premiums on insurance contracts	(105,382)	(97,754)
<b>Earned premiums, net of reinsurance</b>	<b>143,196</b>	<b>121,968</b>

Consideration received in respect of investment contracts of £49,985k (2024: £43,701k) is treated as customer deposits and taken directly to the technical provisions for linked liabilities, see note 26b.

### 4. Investment Income

#### Accounting for investment income

Investment income includes dividends, interest, rents, gains and losses on the realisation of investments and foreign exchange gains and losses. Dividends are included as investment income on the date on which the shares are quoted "ex-dividend interests". Realised gains and losses on investments are calculated as the difference between net sales proceeds and the original cost. Foreign exchange gains and losses result from the settlement of transactions and from the translation of monetary assets and liabilities denominated in foreign currencies.

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Income from land and buildings	78	126	78	126
Income from financial investments held at fair value through profit and loss	66,983	82,324	66,983	82,324
Net realised gains/(losses) on financial investments held at fair value through profit and loss	387,341	(20,514)	387,341	(20,514)
Foreign exchange losses	(258)	-	(258)	-
<b>Investment Income</b>	<b>454,144</b>	<b>61,936</b>	<b>454,144</b>	<b>61,936</b>

The net realised gains primarily arose in 2025 from the disposal of a substantial volume of assets as part of a project to rationalise the range of unit-linked funds offered on our contracts, crystallising gains that had accumulated over several years.

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

### 5. Unrealised (Losses)/Gains on Investments

#### Accounting for unrealised gains and losses on investments

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Unrealised (losses)/gains on investments	(101,914)	181,383	(101,812)	181,571

## 6. Other Technical Income

### Accounting for other technical income

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

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Annual management charges	24,729	25,915	24,729	25,915
Policy charges	4,545	4,806	4,545	4,806
Income from subsidiaries	-	-	1,294	1,380
Foreign exchange losses	-	(1,337)	-	(1,337)
Other income	2,377	2,656	87	176
	<b>31,651</b>	<b>32,040</b>	<b>30,655</b>	<b>30,940</b>

## 7. Claims Incurred

### Accounting for claims

#### Insurance contracts

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

#### Investment contracts

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

#### Outstanding Claims

Please refer to note 28 for accounting treatment.

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Gross claims paid	263,823	262,930	263,823	262,930
Change in provision for claims outstanding at the year-end	(7,072)	(8,790)	(7,072)	(8,790)
	<b>256,751</b>	<b>254,140</b>	<b>256,751</b>	<b>254,140</b>
Aggregate recoveries received from reinsurers	(132,889)	(131,254)	(132,889)	(131,254)
Net claims paid on insurance contracts	123,862	122,886	123,862	122,886

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

The claims analysis above excludes £256,792k (2024: £281,630k) of payments made in relation to investment contracts, see note 26b.

## 8. Operating Expenses

### Accounting for acquisition costs

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

Renewal commission is recognised when the policy is paid.

	2025 £000	2024 £000
Acquisition costs	16,105	15,997
Administration costs	39,280	35,603
Renewal commission	85,866	74,309
<b>Operating Expenses</b>	<b>141,251</b>	<b>125,909</b>

### Remuneration of Auditors (exclusive of VAT)

Group	2025 £000	2024 £000
Fees payable to the auditors for audit of financial statements	653	622
<b>Fees payable to the auditors for other services:</b>		
The audit of subsidiary companies pursuant to legislation	19	42
Other assurance fees	223	225
	<b>895</b>	<b>889</b>

Fee payable by Scottish Friendly to the auditors for the audit of annual financial statements and other services was £726k (2024: £692k)

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

## 9. Staff Costs

### Staff numbers and costs

The average number of persons, including executive directors, employed by Scottish Friendly during the year was 342 (2024: 317). The aggregate payroll costs of these persons were as follows:

	2025 £000	2024 £000
Wages and salaries	17,368	15,935
Social security costs	2,055	1,652
Other pension costs	1,560	1,404
	<b>20,983</b>	<b>18,991</b>

### Remuneration of Directors

During the year there was £1,150k (2024: £1,184k) remuneration incurred for executive directors (included above). Details of directors' remuneration are included in the Directors' Remuneration Report on pages 46 to 48.

During the year there were £587k (2024: £571k) of fees incurred for non-executive directors.

Compensation to key management personnel (including executive directors) in the year was £2,460k (2024: £2,709k).

## 10. Investment Expenses and Charges

### Accounting for investment expenses and charges

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

	2025 £000	2024 £000
External fund manager fees	1,237	1,299
Custody fees	230	241
Other investment fees and charges	1,097	1,803
	<b>2,564</b>	<b>3,343</b>

Net realised losses of £nil (2024: £20,514k) are presented within investment income (note 4), rather than investment expenses and charges in order to present a consistent and complete view of the investment return.

## 11. Other Technical Charges

### Accounting for other technical charges

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Other technical charges	1,281	1,953	427	1,108

## 12. Tax Charge Attributable to Long Term Business

### Accounting for taxation

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Current tax charge	40	67	-	-
Deferred tax charge	9,855	1,019	9,855	1,019
(Over)/under provided in earlier years	(12)	5,948	(12)	5,948
Other	120	(3)	120	(3)
<b>Total tax charge</b>	<b>10,003</b>	<b>7,031</b>	<b>9,963</b>	<b>6,964</b>

UK corporation tax in the technical account has been calculated at a rate of 20% (2024: 20%) in accordance with rates applicable to the long-term business of a friendly society.

Scottish Friendly	2025 £000	2024 £000 (restated)
Transfer from fund for future appropriations	(19,821)	(9,377) <sup>1</sup>
Tax using the policyholder tax rate of 20% (2024: 20%)	(3,964)	(1,875) <sup>1</sup>
Tax effect of accounting profit not subject to tax	3,964	1,875 <sup>1</sup>
Movement in deferred tax on BLAGAB (note 34)	9,967	2,124
Tax applied to pension surplus (note 34)	(112)	(1,105)
Differences due to policyholder tax items	120	(3)
(Over)/under provided in earlier years	(12)	5,948
<b>Total tax charge</b>	<b>9,963</b>	<b>6,964</b>

Corporation tax is charged at the standard rate of 25% (2024: 25%) on the profit on ordinary activities of the subsidiary SFAM £37k (2024: £64k) with adjustments in respect of prior years being £nil (2024: £nil).

Details on deferred tax movements are shown in note 34.

<sup>1</sup> Details on the restatement are included in note 38.

## 13. Negative Goodwill

### Accounting for negative goodwill

Negative goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the identifiable assets and liabilities acquired over the fair value of the consideration given, is capitalised and amortised on a straight-line basis over the periods in which the acquired non-monetary assets are recovered through depreciation or sale, which is 10 years. The amortisation is recognised as a credit to the technical account.

	2025 £000	2024 £000
Carrying amount at 1 January	(29,295)	(35,355)
Amortisation	6,060	6,060
<b>Carrying amount at 31 December</b>	<b>(23,235)</b>	<b>(29,295)</b>

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

## 14. Land and Buildings

### Accounting for land and buildings

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

<b>Owner Occupied Land and Buildings:</b>	2025 £000	2024 £000
Fair value at 31 December	3,100	3,100

Land and buildings relate to freehold property at 15-17 Blythswood Square. The most recent independent valuation was completed by a RICS Registered Valuers at 31 December 2024 and there has been no indicator that would require a change to that valuation. The valuation was carried out in accordance with RICS Valuation – Global Standards.

## 15. Investment in Group Undertakings

### Accounting for investments in Group undertakings

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

Scottish Friendly's investments in subsidiary undertakings as at 31 December 2025 are set out on page 77, all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All subsidiaries are wholly owned by the Group.

## 15. Investment in Group Undertakings Continued

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

The following subsidiary undertakings are exempt from the requirement to have an audit under Section 479A of the Companies Act 2006 by virtue of a guarantee provided by the parent company:

Scottish Friendly Insurance Services Limited (company number: SC113007)

SF Pension Managers and Trustees Limited (company number: 01488962)

The parent company has guaranteed all outstanding liabilities to which these subsidiaries are subject at the end of the financial year.

Scottish Friendly previously held a majority of the shares in issuance of the Scottish Friendly UK Growth Fund (a sub-fund of the ICVC). The Scottish Friendly UK Growth Fund was terminated during 2025 and Scottish Friendly no longer holds any shares. The shares were held as part of the investment portfolio assets backing unit-linked liabilities and, as such, would be sold when the underlying policyholders claim on their policies. Scottish Friendly did not consolidate the Scottish Friendly UK Growth Fund within these wider financial statements, under the exemption set out in FRS 102 Guidance 9.9(b) as the investment was held exclusively with a view to a subsequent resale and had not previously been consolidated within the financial statements. The interest in the Fund was held at fair value on the balance sheet and is disclosed in note 17 (£nil; 2024: £18,600k) following the disposal of the assets as part of the project to rationalise the unit-linked funds offered to customers.

## 16. Derivative Financial Instruments

### Accounting for derivatives

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

	2025			2024		
	Contract Amount £000	Fair Value Assets £000	Fair Value Liabilities £000	Contract Amount £000	Fair Value Assets £000	Fair Value Liabilities £000
Futures	361	502	618	(13,683)	1,086	1,454
Forwards	2,917	3,269	2,472	(549)	173	620
Swaptions	8,350	748	-	12,700	1,433	-
	<b>11,628</b>	<b>4,519</b>	<b>3,090</b>	<b>(1,532)</b>	<b>2,692</b>	<b>2,074</b>

At 31 December 2025, the outstanding contracts all mature within 2 years of the year end (2024: 3 years).

## 17. Financial Investments

### Accounting for financial investments

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

#### Financial assets at fair value through profit or loss

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

#### Loans and Receivables

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

#### Derecognition of financial assets

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

#### Impairment of assets

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

## 17. Financial Investments Continued

### Other non-linked financial investments

	Group				Scottish Friendly			
	Carrying Value		Cost		Carrying Value		Cost	
	2025 £000	2024 £000	2025 £000	2024 £000	2025 £000	2024 £000	2025 £000	2024 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	433,774	424,210	368,263	416,893	433,774	424,210	368,263	416,893
Debt securities and other fixed income securities	420,892	439,162	488,575	578,911	420,892	439,162	488,575	578,911
Private equity investments	-	-	658	658	-	-	658	658
Investments in group undertakings	-	-	-	-	5,071	4,946	3,115	3,115
<b>Total non-linked financial investments</b>	<b>854,666</b>	<b>863,372</b>	<b>857,496</b>	<b>996,462</b>	<b>859,737</b>	<b>868,318</b>	<b>860,611</b>	<b>999,577</b>

### Assets held to cover linked liabilities

	Group				Scottish Friendly			
	Carrying Value		Cost		Carrying Value		Cost	
	2025 £000	2024 £000	2025 £000	2024 £000	2025 £000	2024 £000	2025 £000	2024 £000
Financial investments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	2,736,930	2,363,393	2,233,793	1,698,746	2,736,733	2,363,298	2,233,793	1,698,651
Debt securities and other fixed income securities	248	236	251	389	248	236	251	389
<b>Total linked financial investments</b>	<b>2,737,178</b>	<b>2,363,629</b>	<b>2,234,044</b>	<b>1,699,135</b>	<b>2,736,981</b>	<b>2,363,534</b>	<b>2,234,044</b>	<b>1,699,040</b>

Assets held to back linked liabilities contains £380,425k which are matched against the liabilities of our Flexible Income Annuity product, which while classified as with-profits insurance contracts, also have characteristics commonly associated with unit-linked insurance contracts. The assets backing these liabilities were previously accounted for under reinsurers share of technical provisions. However, in November 2025 the reinsurance arrangement under which the assets were administered was terminated as part of a project to rationalise the range of unit-linked funds offered on our contracts, giving rise to the reclassification to assets held to back linked liabilities.

## 18. Fair Value Measurement

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

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

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

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

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

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

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

## 18. Fair Value Measurement Continued

### Fair Value Hierarchy

	Group				Scottish Friendly			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial instrument assets 2025</b>								
Financial instruments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	1,562	3,066,926	102,216	3,170,704	1,562	3,066,729	102,216	3,170,507
Debt securities and other fixed income securities	345,517	73,328	2,295	421,140	345,517	73,328	2,295	421,140
Investments in group undertakings	-	-	-	-	-	-	5,071	5,071
Land and buildings	-	-	3,100	3,100	-	-	3,100	3,100
	<b>347,079</b>	<b>3,140,254</b>	<b>107,611</b>	<b>3,594,944</b>	<b>347,079</b>	<b>3,140,057</b>	<b>112,682</b>	<b>3,599,818</b>
Derivative financial instruments	502	4,017	-	4,519	502	4,017	-	4,519
Financial assets measured at fair value through profit and loss	347,581	3,144,271	107,611	3,599,463	347,581	3,144,074	112,682	3,604,337
<b>Total financial assets</b>	<b>347,581</b>	<b>3,144,271</b>	<b>107,611</b>	<b>3,599,463</b>	<b>347,581</b>	<b>3,144,074</b>	<b>112,682</b>	<b>3,604,337</b>
<b>Financial instrument liabilities 2025</b>								
Derivative financial instruments	(618)	(2,472)	-	(3,090)	(618)	(2,472)	-	(3,090)
Investment contract liabilities (see note 26b)	-	-	(2,199,223)	(2,199,223)	-	-	(2,199,223)	(2,199,223)
<b>Total financial liabilities</b>	<b>(618)</b>	<b>(2,472)</b>	<b>(2,199,223)</b>	<b>(2,202,313)</b>	<b>(618)</b>	<b>(2,472)</b>	<b>(2,199,223)</b>	<b>(2,202,313)</b>

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

## 18. Fair Value Measurement Continued

### Fair Value Hierarchy

	Group				Scottish Friendly			
	Level 1 £000	Level 2 £000	Level 3 £000	Total £000	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial instrument assets 2024</b>								
Financial instruments designated at fair value; Shares, other variable yield securities and units in OEICs and unit trusts	1,546	2,656,956	129,101	2,787,603	1,546	2,656,861	129,101	2,787,508
Debt securities and other fixed income securities	367,211	69,712	2,475	439,398	367,211	69,712	2,475	439,398
Investments in group undertakings	-	-	-	-	-	-	4,946	4,946
Land and buildings	-	-	3,100	3,100	-	-	3,100	3,100
	<b>368,757</b>	<b>2,726,668</b>	<b>134,676</b>	<b>3,230,101</b>	<b>368,757</b>	<b>2,726,573</b>	<b>139,622</b>	<b>3,234,952</b>
Derivative financial instruments	1,086	1,606	-	2,692	1,086	1,606	-	2,692
Financial assets measured at fair value through profit and loss	369,843	2,728,274	134,676	3,232,793	369,843	2,728,179	139,622	3,237,644
<b>Total financial assets</b>	<b>369,843</b>	<b>2,728,274</b>	<b>134,676</b>	<b>3,232,793</b>	<b>369,843</b>	<b>2,728,179</b>	<b>139,622</b>	<b>3,237,644</b>
<b>Financial instrument liabilities 2024</b>								
Derivative financial instruments	(1,454)	(620)	-	(2,074)	(1,454)	(620)	-	(2,074)
Investment contract liabilities (see note 26b)	-	-	(2,171,058)	(2,171,058)	-	-	(2,171,058)	(2,171,058)
<b>Total financial liabilities</b>	<b>(1,454)</b>	<b>(620)</b>	<b>(2,171,058)</b>	<b>(2,173,132)</b>	<b>(1,454)</b>	<b>(620)</b>	<b>(2,171,058)</b>	<b>(2,173,132)</b>

### Derivative financial instruments

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

## 19. Deposits Held For Reinsurers

### Accounting for deposits held for reinsurers

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

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

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

	2025 £000	2024 £000
Collateral deposits for: Longevity swap (Pacific Life Re)	13,293	12,501
	<b>13,293</b>	<b>12,501</b>

## 20. Debtors Arising Out Of Direct Insurance Operations

### Accounting for debtors arising out of direct insurance operations

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

	2025 £000	2024 £000
Amounts due from policyholders/intermediaries	7,201	6,849
Amounts due from reinsurance operations	8,204	11,846
	<b>15,405</b>	<b>18,695</b>

There are debtors due after more than one year of £1,188k (2024: £1,395k) included within amounts due from policyholder/intermediaries.

## 21. Other Debtors

### Accounting for other debtors

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Amounts due from brokers	6,051	6,609	6,051	6,609
Amounts due from group entities	-	-	1,213	721
Other receivables	9,065	568	8,882	312
Deferred corporation tax asset (note 34)	-	397	-	397
	<b>15,116</b>	<b>7,574</b>	<b>16,146</b>	<b>8,039</b>

On 17 March 2025, Scottish Friendly executed an agreement with FIL Life Insurance Limited, part of Fidelity International Group to acquire a book of unit-linked Section 32 pensions. 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. An initial consideration of £8,100k was paid following the signing of the agreement. This is included within other debtors.

## 22. Tangible Assets

### Accounting for tangible assets

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

Computer Equipment	4 years
Fixtures & Fittings	10 years

### Group and Scottish Friendly

Cost	Computer equipment £000	Fixtures & fittings £000	Total £000
At 1 January 2025	1,398	753	2,151
Additions	817	63	880
<b>At 31 December 2025</b>	<b>2,215</b>	<b>816</b>	<b>3,031</b>
<b>Accumulated depreciation</b>			
At 1 January 2025	1,043	265	1,308
Charge for the year	133	75	208
<b>At 31 December 2025</b>	<b>1,176</b>	<b>340</b>	<b>1,516</b>
<b>Net Book Value at 31 December 2025</b>	<b>1,039</b>	<b>476</b>	<b>1,515</b>
<b>Net Book Value at 31 December 2024</b>	<b>355</b>	<b>488</b>	<b>843</b>

## 23. Cash At Bank And In Hand

### Accounting for cash and cash equivalents

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Cash and cash equivalents	104,713	78,220	98,541	72,651

Included in the above is £20,122k (2024: £7,222k) of cash held in relation to the unit linked business.

## 24. Pension Scheme Surplus

### Accounting for pension schemes

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

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

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

All numbers apply to both the Group and Scottish Friendly.

## 24. Pension Scheme Surplus Continued

### Money purchase Group personal pension scheme

Scottish Friendly operates a money purchase group personal pension scheme. For the year ended 31 December 2025, the charge included in the technical account relating to the employer's contributions to this scheme was £1,499k (2024: £1,351k). There were outstanding contributions of £2k (2024: £5k) at the date of the balance sheet.

### MGM Assurance Staff Pension Plan

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

The Plan has a buy-in policy with Standard Life which has significantly reduced the exposure to actuarial risks such as; market (investment) risk, interest rate risk, inflation risk, currency risk and longevity risk. The Society will be exposed to counter-party risk if Standard Life were to fail on its commitments. The Plan does not expose the Society to any unusual Plan-specific or Society-specific risks.

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

The latest Schedule of Contributions, dated 23 March 2023, requires no contributions from the employer with all items of administration expenditure, including all Plan levies, are to be borne by the Plan.

A formal actuarial valuation as at 31 December 2021 has been carried out. The liabilities at the reporting date have been calculated by using the same membership data as that used for the results of the 2021 actuarial valuation, but adjusted to allow for the passage of time, benefits paid out of the Plan and changes in actuarial assumptions over the period from 31 December 2021 to 31 December 2025.

In relation to the High Court ruling in 2024 in the case between Virgin Media and the NTL Pension Trustees II Limited (and others), and subsequent proposed amendment to the Pension Scheme Bill during 2025, the Trustees have obtained legal advice and undertaken appropriate due diligence to assess the documentation held in relation to scheme amendments made between 1997 and 2013 and have confirmed that no adjustment is required in relation to any potential liabilities arising from the scheme amendments.

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

The amounts recognised in the Balance Sheet are as follows:	2025 £000	2024 £000
Present value of Plan liabilities	(56,431)	(57,075)
Fair value of Plan assets	67,667	68,760
<b>Net defined benefit asset</b>	<b>11,236</b>	<b>11,685</b>

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

## 24. Pension Scheme Surplus Continued

	2025 £000	2024 £000
<b>Service cost:</b>		
Administration expenses	758	567
Net interest credit	(621)	(511)
<b>Charge recognised in Technical Account</b>	<b>137</b>	<b>56</b>
<b>Remeasurements of the net liability:</b>		
Return on Plan assets (excluding amount included in net interest expense)	1,234	5,648
Actuarial gains	(922)	(5,886)
<b>Charge/(credit) recorded in Technical Account</b>	<b>312</b>	<b>(238)</b>
<b>Total defined benefit cost/(credit)</b>	<b>449</b>	<b>(182)</b>

Scheme administration expenses of £57k (2024: £26k) has been included in the operating expenses of Scottish Friendly.

The principle actuarial assumptions used were:	2025	2024
Liability discount rate	5.55%	5.50%
Inflation assumption – RPI	3.15%	3.40%
Inflation assumption – CPI	2.65%	2.85%
<b>Revaluation of deferred pensions:</b>		
GMP	Fixed rate	Fixed rate
Excess over GMP	2.65%	2.85%
<b>Increases for pensions in payment:</b>		
Pre 88 GMP	0.00%	0.00%
Post 88 GMP	3.00%	3.00%
Excess over GMP (RPI capped at 5%)	3.05%	3.30%
Proportion of employees commuting pension for cash	20% of max on current terms	20% of max on current terms
<b>Expected age at death of current pensioner at age 65:</b>		
Male aged 65 at year end	87.2	86.8
Female aged 65 at year end	88.7	88.6
<b>Expected age at death of future pensioner at age 65:</b>		
Male aged 45 at year end	88.8	88.4
Female aged 45 at year end	89.9	89.7

## 24. Pension Scheme Surplus Continued

Reconciliation of Plan assets and liabilities	Assets £000	Liabilities £000	Total £000
At start of year	68,760	(57,075)	11,685
Benefits paid	(2,785)	2,785	-
Administration expenses	(758)	-	(758)
Interest income/(expense)	3,684	(3,063)	621
Return on assets (excluding amount included in net interest expense)	(1,234)	-	(1,234)
Actuarial gains	-	922	922
<b>At end of year</b>	<b>67,667</b>	<b>(56,431)</b>	<b>11,236</b>

The return on Plan assets was:	2025 £000	2024 £000
Interest income	3,684	3,326
Return on Plan assets (excluding amount included in net interest expense)	(1,234)	(5,648)
<b>Total return on Plan assets</b>	<b>2,450</b>	<b>(2,322)</b>

The major categories of Plan assets are as follows:	2025 £000	2024 £000
Insured asset	56,127	56,905
Cash	11,540	11,855
<b>Total fair value of assets</b>	<b>67,667</b>	<b>68,760</b>

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

Projected Technical Account cost items for year ending:	2026 £000
Service cost – administrative cost	782
Net interest on the net defined benefit asset	(602)
<b>Net charge</b>	<b>180</b>

If the discount rate was 0.5 percent higher (lower), the Plan liabilities would decrease by £3,274k (2024: £3,452k) (increase by £3,627k (2024: £3,836k)) if all the other assumptions remained unchanged.

If the inflation assumption was 0.5 percent higher (lower), the Fund liabilities would increase by £2,851k (2024: £2,775k) (decrease by £2,405k (2024: £2,756k)). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is the deferred pension increases and pension in payment increases, if all the other assumptions remain unchanged.

If life expectancies were to increase by 1 year, the Fund liabilities would increase by £2,294k (2024: £2,246k) if all the other assumptions remained unchanged.

## 25. Fund For Future Appropriations

### Accounting for fund for future appropriations

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

Group and Scottish Friendly	2025 £000	2024 £000 (restated)
Value at 1 January	214,720	224,097
Transfer from the fund for future appropriations in the year	(19,821)	(9,377) <sup>1</sup>
<b>Value at 31 December</b>	<b>194,899</b>	<b>214,720</b>

## 26. Technical Provisions

### (a) Long-term Business Provision

#### Accounting for long-term business provisions

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

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

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

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

<sup>1</sup> Details on the restatement are included in note 38.

## 26. Technical Provisions Continued

### Guarantees

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

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

### Reinsurance

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

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

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

	2025			2024		
	Gross £000	Reinsured £000	Net £000	Gross £000 (restated)	Reinsured £000 (restated)	Net £000 (restated)
With-profits insurance	642,526	-	642,526	618,932	(352,430)	266,502
Non-profit insurance	753,225	(569,859)	183,366	677,216 <sup>1</sup>	(495,310) <sup>1</sup>	181,906 <sup>1</sup>
Unit-linked insurance	196,657	-	196,657	209,823	-	209,823
Participating investment contracts	225,830	-	225,830	201,313	-	201,313
	<b>1,818,238</b>	<b>(569,859)</b>	<b>1,248,379</b>	<b>1,707,284</b>	<b>(847,740)</b>	<b>859,544</b>

<sup>1</sup> Details on the restatement are included in note 38.

## 26. Technical Provisions Continued

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

With-profits insurance contracts	Gross 2025 £000	Reinsured 2025 £000	Gross 2024 £000	Reinsured 2024 £000
1 January	618,932	(352,430)	635,910	(344,545)
Premiums received	9,941	(12,045)	11,350	(10,713)
Liabilities paid by claims	(64,028)	29,941	(59,101)	30,416
New business	2,753	-	2,158	-
Fees deducted	(3,703)	-	(3,607)	-
Experience variance and assumption changes	78,631	(39,810)	32,222	(27,588)
Reinsurance recapture	-	374,344	-	-
<b>31 December</b>	<b>642,526</b>	<b>-</b>	<b>618,932</b>	<b>(352,430)</b>

Non-profit insurance contracts	Gross 2025 £000	Reinsured 2025 £000	Gross 2024 £000 (restated)	Reinsured 2024 £000 (restated)
1 January	677,216	(495,310)	734,949	(547,316)
Premiums received	199,464	(93,337)	179,916	(87,041)
Liabilities paid by claims	(134,310)	102,948	(130,730)	100,838 <sup>1</sup>
New business	27,186	(28,319)	7,997	(9,226)
Fees deducted	(1,015)	-	(1,083)	-
Experience variance and assumption changes	(15,316)	(55,841)	(113,833) <sup>2</sup>	47,435 <sup>2</sup>
<b>31 December</b>	<b>753,225</b>	<b>(569,859)</b>	<b>677,216</b>	<b>(495,310)</b>

Unit-linked insurance contracts	Gross 2025 £000	Gross 2024 £000
1 January	209,823	240,278
Premiums received	4,936	6,100
Liabilities paid by claims	(26,958)	(36,979)
Fees deducted	(1,394)	(1,574)
Experience variance and assumption changes	10,250	1,998
<b>31 December</b>	<b>196,657</b>	<b>209,823</b>

<sup>1</sup> To enhance the clarity and relevance of our financial reporting, in the current year, the reinsured element of Liabilities paid by claims for a class of annuities product, which were previously presented within With-profits insurance contracts have been reclassified to within Non-profit insurance contracts, to align with the presentation of the claims. This change reflects the nature of these contracts and ensures consistency of the presentation within the disclosure note. The reclassification is presentational only in this disclosure note and does not affect the reported results for either the current or prior period. The presentation of the comparative figures has been adjusted by £17,230k for comparability.

<sup>2</sup> Details on the restatement are included in note 38.

## 26. Technical Provisions Continued

Participating investment contracts	Gross 2025 £000	Gross 2024 £000
1 January	201,313	193,376
Premiums received	34,237	22,356
Liabilities paid by claims	(31,455)	(27,330)
New business	10,249	2,291
Fees deducted	(2,611)	(2,566)
Experience variance and assumption changes	14,097	13,186
<b>31 December</b>	<b>225,830</b>	<b>201,313</b>

### (b) Technical Provision for Linked Liabilities

#### Non-Participating Investment Contracts

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

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

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

	2025 £000	2024 £000
Non-participating investment contracts	2,199,223	2,171,058
	<b>2,199,223</b>	<b>2,171,058</b>

Reconciliation of movement in technical provision for linked liabilities:	2025 £000	2024 £000
Movement in net technical provisions	(28,165)	34,579
Investment contract fees deducted	(16,006)	(17,126)
Amounts received in respect of investment contracts	49,985	43,701
Payments made on non-participating investment contracts	(256,792)	(281,630)
<b>Change in technical provision for linked liabilities per technical account</b>	<b>(250,978)</b>	<b>(220,476)</b>

## 26. Technical Provisions Continued

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

Non-participating investment contracts	2025 £000	2024 £000
1 January	2,171,058	2,205,637
Premiums received	49,985	43,701
Liabilities paid by claims	(256,792)	(281,630)
New business	14,894	8,840
Fees deducted	(16,006)	(17,126)
Experience variance and assumption changes	236,084	211,636
<b>31 December</b>	<b>2,199,223</b>	<b>2,171,058</b>

## 27. Costs Of Bonuses

#### Accounting for bonuses

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

Total bonuses attributable to the year are as follows:	2025 £000	2024 £000
Year-end reversionary bonus declared (included in change in other technical provisions)	3,981	2,892
Reversionary and terminal bonuses paid (included in claims)	4,297	4,639
	<b>8,278</b>	<b>7,531</b>

## 28. Claims Outstanding

#### Accounting for claims outstanding

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Claims outstanding	32,814	39,886	32,814	39,886

## 29. With-Profits Actuary

Mr C Stuart served as the With-Profits Actuary for the year between 1 January 2025 and 31 December 2025. The following information has been provided in response to a request made by Scottish Friendly as required by section 77 of the Friendly Societies Act 1992. Mr Stuart has confirmed that neither he nor his family were members of Scottish Friendly, nor had they any financial or pecuniary interest in Scottish Friendly, with the exception of salary and employers pension contributions which amounted to £169,646 (2024: £193,985) during the year.

## 30. Capital Management

### (a) Capital management policies and objectives

Scottish Friendly's capital management objectives are:

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

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

### (b) Solvency II balance sheet

A Solvency II available capital balance sheet is shown below, split between the Main Fund, which is open to new business, and its sub-funds that are closed. The closed sub-funds are the Scottish Legal sub-fund, the M&GM sub-fund and the Manulife sub-fund.

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

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

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

## 30. Capital Management Continued

### (c) Capital Statement

Available capital resources

	2025			2024		
	Main Fund £000	Closed Sub-funds £000	Total £000	Main Fund £000 (restated)	Closed Sub-funds £000	Total £000 (restated)
Total available capital resources	122,896	3,753	126,649	130,187 <sup>1</sup>	4,378	134,565

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

### (d) Movement in available capital resources

	2025 £000	2024 £000 (restated)
Opening capital resources	134,565	147,469
Increase/(decrease) in assets	377,535	(125,142)
(Increase)/decrease in technical provisions	(398,274)	77,823 <sup>1</sup>
(Increase)/decrease in current liabilities	(4,521)	30,408
<b>Total</b>	<b>109,305</b>	<b>130,558</b>
<b>Increase in ring-fencing of available capital</b>	<b>17,344</b>	<b>4,007</b>
<b>Closing capital resources</b>	<b>126,649</b>	<b>134,565</b>

### (e) Solvency position

	2025 £000	2024 £000 (restated)
Own funds	126,649	134,565 <sup>1</sup>
SCR	64,366	62,250
Solvency ratio	197%	216%

### (f) Capital resource sensitivities

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

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

<sup>1</sup> Details on the restatement are included in note 38.

## 30. Capital Management Continued

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

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

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

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

	2025 £000	2024 £000 (restated)
UK GAAP fund for future appropriations	194,899	214,720 <sup>1</sup>
Adjustment to the value of technical provisions	(3,471)	5,960 <sup>1</sup>
Intangible assets	23,235	29,295
Pension valuation differences	(11,236)	(11,685)
Deferred tax	12,367	2,921
<b>Solvency II excess of assets over liabilities</b>	<b>215,794</b>	<b>241,211</b>

## 31. Deposits Received From Reinsurers

### Accounting for deposits received from reinsurers

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

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

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

	2025 £000	2024 £000
<b>Collateral deposits for:</b>		
"Standard" annuity (RGA)	5,235	5,164
	<b>5,235</b>	<b>5,164</b>

<sup>1</sup> Details on the restatement are included in note 38.

## 32. Creditors Arising Out Of Direct Insurance Operations

### Accounting for creditors arising out of direct insurance operations

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Due to reinsurers	1,667	1,980	1,667	1,980
Due to intermediaries	12,305	11,964	11,793	11,750
	<b>13,972</b>	<b>13,944</b>	<b>13,460</b>	<b>13,730</b>

## 33. Other Creditors

### Accounting for other creditors

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Trade creditors	1,254	536	1,254	536
Investment creditors	845	22	845	22
Other payables	2,088	2,609	2,596	2,862
Other taxes and social security costs	2,549	2,164	2,549	2,164
	<b>6,736</b>	<b>5,331</b>	<b>7,244</b>	<b>5,584</b>

## 34. Deferred Taxation

### Accounting for deferred taxation

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

## 34. Deferred Taxation Continued

The tables below show the movement in deferred tax:

	At 1 January 2025 £000	Over provision from prior year £000	Movement in the year £000	Total recognised in the technical account £000	At 31 December 2025 £000
Excess carried forward BLAGAB excess management expenses	13,955	12	(7,904)	(7,892)	6,063
Excess carried forward BLAGAB s212 gains	(13,558)	-	(2,063)	(2,063)	(15,621)
<b>Deferred tax (liability)/asset on BLAGAB</b>	<b>397</b>	<b>12</b>	<b>(9,967)</b>	<b>(9,955)</b>	<b>(9,558)</b>

<b>Deferred tax liability on defined benefit pension scheme</b>	<b>(2,921)</b>	<b>-</b>	<b>112</b>	<b>112</b>	<b>(2,809)</b>
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	At 1 January 2024 £000	Under provision from prior year £000	Movement in the year £000	Total recognised in the technical account £000	At 31 December 2024 £000
Excess carried forward BLAGAB excess management expenses	20,754	(6,132)	(667)	(6,799)	13,955
Excess carried forward BLAGAB s212 gains	(12,101)	-	(1,457)	(1,457)	(13,558)
<b>Deferred tax asset on BLAGAB</b>	<b>8,653</b>	<b>(6,132)</b>	<b>(2,124)</b>	<b>(8,256)</b>	<b>397</b>

<b>Deferred tax liability on defined benefit pension scheme</b>	<b>(4,026)</b>	<b>-</b>	<b>1,105</b>	<b>1,105</b>	<b>(2,921)</b>
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The deferred tax asset of £nil (2024: £397k) is recognised in note 21. The recognised deferred tax asset has decreased from the prior year position due to a reduction in unused management expenses carried forward, the use of which has been primarily driven by investment gains recorded during the year. As a result, this element of the deferred tax asset has been derecognised. This has not been offset on the balance sheet with the deferred tax liability on the pension scheme due to the nature in the underlying timing differences.

The deferred tax on the pension scheme surplus impacts the with-profits fund, whereas the deferred corporation tax on s212 deemed disposals impacts unit-linked policyholders. The rate of the authorised surplus payments charge was changed from 35 percent to 25 percent following the substantive enactment of The Authorised Surplus Payments Charge (Variation of Rate) Order 2024 on 11 March 2024. The deferred tax liability is expected to be settled after 12 months.

## 35. Other Provisions

### Accounting for other provisions

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Other provisions	1,060	732	1,060	732
	<b>1,060</b>	<b>732</b>	<b>1,060</b>	<b>732</b>

Other provisions of £1,060k (2024: £732k) comprise the expected cost of remediating past identified issues. The provision is estimated by multiplying the population of the issues by the forecast cost to resolve. Discounting is not applied on the basis of materiality. The provision is expected to be utilised across 2026 and 2027.

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
At 1 January	732	899	732	899
Additions in the year	328	732	328	732
Utilised in the year	-	(899)	-	(899)
<b>At 31 December</b>	<b>1,060</b>	<b>732</b>	<b>1,060</b>	<b>732</b>

## 36. Risk Management

The principal risks to which Scottish Friendly is exposed are strategic (business environment), market, credit, insurance, solvency, liquidity, operational, and conduct risks. Scottish Friendly's approach to risk management is detailed in the Strategic Report on pages 19 to 25 and this includes a description of the key controls and risk mitigants operated in relation to the principal risks to which Scottish Friendly is exposed.

A key tool used in the identification and management of risks is completion of the Own Risks and Solvency Assessment ('ORSA') process. The ORSA report is approved annually by the Board. As part of Scottish Friendly's 2025 ORSA process, a range of different future scenarios have been considered, including consideration of the potential impact on the business from three different climate change temperature transition scenarios. Consideration was also given within the 2025 ORSA process to a number of market and credit risk events occurring concurrently, as well as the impact of a significant change in interest rates.

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

### Insurance risk

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

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

## 36. Risk Management Continued

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

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

### With-profits contracts

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

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

The key risk factors of with-profits contracts are:

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

### Protection contracts

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

## 36. Risk Management Continued

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

The key insurance risk factors of protection contracts are:

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

### Non-profit insurance contracts – non-profit annuities

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

The key insurance risk factor of annuity contracts is:

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

### Investment contracts

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

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

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

## 36. Risk Management Continued

### Insurance risk sensitivity analysis

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

Impact on the FFA:	2025 £000	2024 £000
Increase in expenses by 10%	(24,101)	(19,700)
Increase in assurance mortality rates by 15%	(10,790)	(11,100)
Reduction in persistency by 50%	(20,227)	(17,500)

### Credit risk

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

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

Group 2025	AAA £000	AA £000	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
Non-linked investments – debt and fixed income securities	13,826	345,061	36,182	25,823	-	-	420,892
Cash and cash equivalents	-	-	104,713	-	-	-	104,713
Derivatives	-	-	-	-	1,250	3,269	4,519
<b>Reinsurers' share of technical provisions:</b>							
With-profits insurance contracts	-	-	-	-	-	-	-
Non-profit insurance contracts	-	541,165	29,426	-	(732)	-	569,859
Other assets	-	13,293	-	-	-	30,521	43,814
<b>Total</b>	<b>13,826</b>	<b>899,519</b>	<b>170,321</b>	<b>25,823</b>	<b>518</b>	<b>33,790</b>	<b>1,143,797</b>

## 36. Risk Management Continued

Group 2024 (restated)	AAA £000	AA £000	A £000	BBB and below £000	Not rated £000	Not subject to credit risk £000	Value in the balance sheet £000
Non-linked investments – debt and fixed income securities	12,976	358,444	49,452	18,290	-	-	439,162
Cash and cash equivalents	-	-	78,220	-	-	-	78,220
Derivatives	-	-	-	-	2,519	173	2,692
<b>Reinsurers' share of technical provisions:</b>							
With-profits insurance contracts	-	352,430	-	-	-	-	352,430
Non-profit insurance contracts	-	473,386 <sup>1</sup>	22,436	-	(512)	-	495,310
Other assets	-	12,501	-	-	-	25,872	38,373
<b>Total</b>	<b>12,976</b>	<b>1,196,761</b>	<b>150,108</b>	<b>18,290</b>	<b>2,007</b>	<b>26,045</b>	<b>1,406,187</b>

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

Collateral pledged by Scottish Friendly in respect of exchange traded derivatives amounted to £4,650k (2024: £4,849k), and collateral received in respect of exchange traded derivatives amounted to £206k (2024: £133k). The net fair value of derivatives in respect of which cash margin is held for both group and Scottish Friendly at the year-end is £116k (2024: £368k).

Scottish Friendly also holds a portfolio of swaptions, held as an asset on the balance sheet, with a year-end fair value of £748k (2024: £1,433k). These positions are held to mitigate the interest rate risk associated with certain contractual options on Scottish Friendly's unit-linked business.

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

Other assets include amounts due from policyholders and intermediaries all of which are less than three months old. Scottish Friendly has never experienced a significant loss arising from these parties because it maintains the right to cancel a policy if premiums are not paid when due. No provision is made for impairment of these assets (2024: £nil).

### Liquidity risk

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

<sup>1</sup> Details on the restatement are included in note 38.

## 36. Risk Management Continued

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

The analysis below summarises the exposures the Group and Scottish Friendly carry in respect of liquidity risks. The earliest contractual repayment date of investment contracts with discretionary participation features and unit-linked investment contracts is repayment on demand and therefore the undiscounted cash flows subject to liquidity risk are £221,097k (2024: £193,258k) and £1,917,401k (2024: £1,907,604k) respectively.

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

	Group		Scottish Friendly	
	2025 £000	2024 £000	2025 £000	2024 £000
Other financial liabilities	92,988	86,077	92,720	91,925

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

Group 2025	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
Non-profit (insurance)	157,136	231,677	266,676	258,988	488,383	<b>1,402,860</b>
With-profits (insurance)	348,275	198,810	154,635	104,885	81,486	<b>888,091</b>
Unit Linked	195,421	-	-	-	-	<b>195,421</b>
Participating investment	225,830	-	-	-	-	<b>225,830</b>
Non-participating investment	2,199,223	-	-	-	-	<b>2,199,223</b>
Derivative financial instruments	3,090	-	-	-	-	<b>3,090</b>
Other liabilities	92,988	-	-	-	-	<b>92,988</b>
<b>Total</b>	<b>3,221,963</b>	<b>430,487</b>	<b>421,311</b>	<b>363,873</b>	<b>569,869</b>	<b>5,007,503</b>

Group 2024 (restated)	0-5 years £000	5-10 years £000	10-15 years £000	15-20 years £000	Over 20 years £000	Total £000
Non-profit (insurance)	132,361 <sup>1</sup>	200,435 <sup>1</sup>	237,884 <sup>1</sup>	233,373 <sup>1</sup>	445,593 <sup>1</sup>	<b>1,249,646</b>
With-profits (insurance)	249,422	206,224	168,176	135,772	215,692	<b>975,286</b>
Unit Linked	208,416	-	-	-	-	<b>208,416</b>
Participating investment	201,313	-	-	-	-	<b>201,313</b>
Non-participating investment	2,171,058	-	-	-	-	<b>2,171,058</b>
Derivative financial instruments	2,074	-	-	-	-	<b>2,074</b>
Other liabilities	86,077	-	-	-	-	<b>86,077</b>
<b>Total</b>	<b>3,050,721</b>	<b>406,659</b>	<b>406,060</b>	<b>369,145</b>	<b>661,285</b>	<b>4,893,870</b>

<sup>1</sup> Details on the restatement are included in note 38.

## 36. Risk Management Continued

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

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

### Fair value estimation

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

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

## 36. Risk Management Continued

### Market risk sensitivity analysis

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

- The equity price sensitivity considers the changes in prices of UK and other type 1 equities as defined under Solvency II. This is a change in equity prices of -39% plus the symmetric adjustment of the equity capital charge as published by the PRA. (The symmetric adjustment as at 31 December 2025 is -7.81% (31 December 2024: -3.06%)).
- The property value sensitivity considers a 25% reduction in property values.
- The interest rate sensitivities are based on the Solvency II Standard Formula interest rate stresses, which are expressed as a duration dependent multiplicative factor applied to the base curve.

	2025 Impact £000	2024 Impact £000
Equity fall	(28,926)	(27,400)
Property fall	(1,566)	(1,300)
Interest rate fall	(5,805)	2,300
Interest rate rise	4,662	(1,800)

### Outstanding claims

Increasing the tapering rate, linked to experience of making payments to customers, by 10% would increase outstanding claims by approximately £932k and a decrease in the experience of making payments to customers would reduce outstanding claims by approximately £999k.

### Derivative financial instruments

The company holds interest rate swaptions to mitigate the interest rate risk associated with its non-linked business. At 31 December 2025, the outstanding contracts all mature within 2 years of the year end.

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

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

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

### Climate Risk

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

## 37. Transactions With Related Parties

The aggregate premiums payable for the year by directors (executive and non-executive) and key management personnel in respect of Scottish Friendly's products amounted to £820,374 (2024: £57,758).

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

## 38. Prior Year Adjustment

During the finalisation of the 2025 Financial Statements there has been an adjustment identified in relation to errors which require the restatement of the 2024 Balance Sheet and Technical Account. The following table sets out the adjustment to Scottish Friendly's balance sheet for the year ended 31 December 2024:

Impact on the 2024 Balance Sheet	2024 as previously reported £000	Adjustment £000	2024 £000 (restated)
<b>Reinsurers' Share of Technical Provisions</b>			
Long-term Business Provision	771,993	75,747	847,740
<b>Total Assets</b>	<b>4,105,466</b>	<b>75,747</b>	<b>4,181,213</b>
Fund for Future Appropriations	214,878	(158)	214,720
<b>Technical Provisions</b>			
Long-term Business Provision	1,631,379	75,905	1,707,284
<b>Total Liabilities</b>	<b>4,105,466</b>	<b>75,747</b>	<b>4,181,213</b>

Explanation of adjustment to the Technical Account for the year ended 31 December 2024:

Impact on the 2024 Technical Account	2024 as previously reported £000	Adjustment £000	2024 £000 (restated)
Change in Long-term Business Provision	(68,810)	158	(68,652)
Transfer from the Fund for Future Appropriations	(9,219)	(158)	(9,377)

An error was identified that the mortality and persistency assumptions used to value a specific line of business had not been updated correctly within an actuarial model. A new actuarial model had been introduced for a specific line of business, which replaced a manual reserve. Concurrent to this, a material change was recommended to actuarial assumptions used for the line of business. Due to the timing of both events the new actuarial model was deployed for use without implementing the revised assumptions. This error resulted in a material misstatement of both the technical provisions and the reinsurance asset. The net impact is not material and would not influence the economic decisions of users, however this is classed as an error requiring a prior year restatement in accordance with FRS102.10.

### 39. Post Balance Sheet Events

In early February 2026, Scottish Friendly and Family Assurance Friendly Society Limited (“OneFamily”) announced proposals to merge. As at 31 December 2024 OneFamily had over 1.5 million members across the UK and £5.7 billion in assets under management. The proposed merger is subject to member and regulatory approval under Part VIII of the Friendly Societies Act 1992 and is expected to be effective in early 2027. The combined mutual will operate under the group name of OneFamily whilst maintaining the Scottish Friendly brand alongside the OneFamily and Beagle Street brands. No adjustment is required to the financial statements for the year ended 31 December 2025 from this proposed transaction.





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