Scottish Friendly Assurance Society Limited
Remuneration Policy

Contents

Version Control

Version	Design changes incorporated	Date
1.0	Solvency II version	28 September 2015
1.1	Changes after PRA clarification of Solvency II requirements and after the Remuneration Committee review.	22 February 2017
1.2	Change to give more explicit role for the Head of Risk and general review.	27 February 2019
1.3	Annual Review	26 February 2020
1.4	Annual Review	16 February 2021
2.0	Incorporation of IFPR requirements	16 February 2022

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1 Introduction

1.1. The Remuneration Policy (the Policy) applies to all Scottish Friendly Assurance Society Limited (Scottish Friendly) employees; it also covers fees for non-executive directors.

1.2. Scottish Friendly Assurance Society Limited is authorised and regulated by the Prudential Regulation Authority and is subject to the remuneration requirements of Solvency II. Scottish Friendly Asset Managers Limited (SFAM) is authorised and regulated by the Financial Conduct Authority, and is a full-scope MiFID firm, regulated under the Investment Firms Prudential Regime (IFPR).

1.3. This Policy has been developed in line with all relevant remuneration regulatory requirements. In the event of any inconsistency, local regulations or statutory requirements will override this Policy where applicable and necessary.

1.4. The Board has adopted the Policy on the recommendation of the Remuneration Committee (the Committee). The Policy is subject to annual review by the Committee.

2 Principles

2.1. The Policy forms part of Scottish Friendly's risk management strategy, and reflects the strategy's objectives for good corporate governance in supporting the long-term interests and performance of the business for the benefits of its policyholders. It is intended to ensure that Scottish Friendly attracts and retains competent, experienced and skilled resources.

2.2. The Policy is based on the following principles:

2.1.1. the Policy and remuneration practices are established, implemented and maintained in line with Scottish Friendly's business and risk management strategy, its risk profile, objectives, risk management practices and its long-term interests and performance as a whole, whilst avoiding conflicts of interest;

2.1.2. the Policy:

- promotes sound and effective risk management;
- avoids encouraging risk-taking that exceeds Scottish Friendly's risk appetite;
- ensures remuneration awards do not threaten Scottish Friendly's ability to maintain an adequate capital base;

2.1.3. the Policy and remuneration outcomes reflect the risk profile of Scottish Friendly, taking into account all material risks,

2.1.4. there is clear, transparent and effective governance with regard to remuneration, including the oversight of the Policy; while ultimately the Board is responsible for the oversight of its implementation, the Committee oversees the Policy design and remuneration practices, implementation and operation; and

2.1.5. employees are rewarded based on their role and responsibilities, regardless of gender, ethnicity, age, sexual orientation or any other characteristic. We also periodically require that equal pay analysis is undertaken to ensure we are operating equal pay for equal work in practice. The Policy applies to Scottish Friendly as a whole.

3 Proportionality

3.1. The remuneration rules under Solvency II and IFPR can be applied in a proportionate way, depending on a firm's size, nature and complexity. The application of proportionality will be monitored on an ongoing basis and the Remuneration Committee approves the application of proportionality as part of approving the Policy on an annual basis, following recommendation by management.

3.2. **Solvency II:** Scottish Friendly Assurance Society Limited has been designated a Category 3 Solvency II firm by the Prudential Regulation Authority.

3.3. **IFPR:** Given the AuM of SFAM is greater than £1.2bn, SFAM will be treated as Non-SNI (Small and non-interconnected) and will therefore be subject to the basic and standard remuneration requirements. Currently SFAM's 4-year average on-and-off balance sheet assets are below the FCA's threshold of £300 million and SFAM does not have a trading book business or derivatives business so it will not be subject to the extended rules for Significant institutions.

4 Remuneration Components

4.1. Scottish Friendly operates a fully flexible approach to remuneration. For all employees and directors this means that fixed pay represents a sufficiently high proportion of overall remuneration such that they are not dependent on variable remuneration (which may be nil).

Fixed Components

4.2. Basic Salary: salaries are reviewed annually and a benchmark percentage for salary increases is set after taking into account external and internal economic factors and market trends. Salary increases may include reference to external consultants' review of comparable rates of pay for equivalent roles. Individual increases are then set for each employee depending on performance.

4.3. Any change to salary is effective from 1 January. The Remuneration Committee ensures that it remains appraised of these factors and of best practice, taking external advice where appropriate.

4.4. Pension: all employees are entitled to participate in the defined contribution scheme, whereby The Group Personal Pension (GPP) Scheme is a collection of individual Personal Pension Plans (PPPs) to which Scottish Friendly makes contributions on behalf of each member of staff who is a member of the Scheme. Scottish Friendly will contribute 10% of gross earnings (including overtime). And the employee is required to contribute 3% of gross earnings (including overtime). Employees can opt to contribute more than 3% as long as the total contributions remain within the limits prescribed by HM Revenue & Customs. Contributions will be deducted directly from salary.

4.4.1. Scottish Friendly also operates by exception a cash in lieu of the pension contribution that would otherwise have been made by Scottish Friendly on an employees behalf, provided that this arrangement complies with relevant legislation and HMRC requirements (the “Cash Payment”). The Cash Payment shall be equivalent to 10% of salary. Entitlement to the Cash Payment shall cease should the employee start to receive pension contributions from Scottish Friendly.

4.4.2. Scottish Friendly reserves the right at its discretion to change any aspect of its pension arrangements, including but not limited to: (i) its pension provision; (ii) its pension provider; (iii) the level of contributions payable to the pension scheme Scottish Friendly has in place at the applicable time; or (iv) the type of scheme Scottish Friendly uses to comply with auto-enrolment

4.4.3. Scottish Friendly do not operate discretionary pensions.

4.4.4. Benefits: employees are entitled to other employment benefits including Private Healthcare and death in service life cover if they are a contributing member of the defined contribution pension scheme.

Variable components

4.5. A limited number of employees participate in our discretionary bonus plan, with eligibility linked to seniority.

4.6. For those few employees, variable remuneration is performance-related and the total amount of the variable remuneration is based on a combination of the assessment of the performance of the individual in relation to his or her business responsibilities and Scottish Friendly’s overall results.

4.7. Financial and non-financial criteria shall be taken into account when assessing an individual’s performance, for example profit, sales, operations, strategy, customer, risk, people and culture.

4.8. Performance is assessed using a balance scorecard approach. The variable pay output amount is agreed annually by the Remuneration Committee based on individual and business performance.

4.9. The measurement of performance, as a basis for variable remuneration, shall include an appropriate adjustment for changes to the exposure to current and future risks, taking into account Scottish Friendly’s risk profile and any impact on capital and liquidity. The CRO provides input into the variable outcomes for the (small number of) individuals in receipt of variable pay to ensure it reflects the regulated entity's performance against risk appetite and any events that crystallised during the year. Any such adjustments may reduce any variable pay to nil.

4.10. The variable part of remuneration (if any) of the staff engaged in the control functions of Risk Management, Compliance, Internal Audit, and Actuarial shall be independent from the performance of the operational functions assessed by them in the course of exercising those control functions and performance will be assessed based on the performance of the relevant control function.

4.11. Where total potential remuneration exceeds £500,000, the total potential variable remuneration shall contain a flexible, deferred component of 40% that takes into account the nature and time horizon of the business; that deferral period shall not be less than three years and correctly aligned with the nature of the business, its risks, and the activities of the directors or employees in question.

4.12. Any awards to Solvency II Staff or Material Risk Takers (see section 5) will be approved by the Remuneration Committee.

5 Solvency II Staff and Material Risk Takers

Identification

5.1. Under each of the Solvency II and IFPR rules, there is a requirement to identify those individuals who are considered to have, or could have, a material impact on the risk profile of the relevant regulated entities.

5.2. Scottish Friendly Assurance Society Limited is subject to the Solvency II rules, with identified individuals known as Solvency II Staff. Scottish Friendly Asset Managers Limited is subject to the IFPR rules, with identified individuals known as Material Risk Takers.

5.3. Scottish Friendly (HR, Risk and Compliance) has developed frameworks for the identification of Solvency II Staff and Material Risk Takers, with these frameworks being developed in line with the criteria published the relevant regulatory bodies. The frameworks are approved by the Remuneration Committee.

5.4. Individuals are identified on an annual basis and include the Board, members of the Executive Team and other individuals who could have a material impact on the risk profile of the relevant regulated entity.

5.5. The lists are updated throughout the year where required and the Remuneration Committee notified of any changes. The Remuneration Committee approves the lists of individuals at least annually.

5.6. Individuals identified will be notified of their status through an annual letter that also sets out any implications of this on their pay.

5.7. Individuals identified shall commit to not using any personal hedging strategies or remuneration and liability-related insurance which would undermine the risk alignment effects embedded in their remuneration arrangement; this commitment will be evidenced annually in a signed statement to be sent to the Company Secretary.

Specific requirements that apply to Solvency II Staff and Material Risk Takers

5.8. Specific requirements apply to the remuneration of any Solvency II Staff and Material Risk Takers.

5.9. **Remuneration Committee:** the remuneration (including salary, variable pay and any exceptional payments) of all Solvency II Staff and Material Risk Takers will be overseen by the Remuneration Committee.

5.10. **Malus:** Malus, the ability to not pay some or all of any deferred remuneration that has not yet vested, will apply for the duration of any deferral period, and will be applied at the discretion of the Remuneration Committee in circumstances where:

5.10.1 there is reasonable evidence of staff member misbehaviour or material error;

5.10.2 firm or the relevant business unit suffers a material downturn in its financial performance;

5.10.3 the firm or the relevant business unit suffers a material failure of risk management;

5.10.4 situations where a staff member participated in or was responsible for conduct which resulted in significant losses to the firm; and / or

5.10.5 situations where a staff member failed to meet appropriate standards of fitness and propriety.

Specific requirements that apply to Material Risk Takers under IFPR rules only

5.11. Further specific requirements apply to the remuneration of any Material Risk Takers.

5.12. **Clawback:** clawback, the ability to require an individual to repay some or all variable remuneration that has previously vested, will apply for a period of 3 years from grant. Clawback can be applied at the discretion of the Remuneration Committee, in the circumstances where:

5.12.1 A staff member participated in or was responsible for conduct which resulted in significant losses to the firm; and / or

5.12.2 A staff member failed to meet appropriate standards of fitness and propriety.

5.13. **Ratio:** Under IFPR, it is a requirement to set a maximum ratio of fixed to overall variable remuneration at the start of each performance year, e.g. bonus, severance pay, signing on fees. This will be complied with at the end of the performance year and is approved by the Remuneration Committee.

Exceptional payments

5.14. Scottish Friendly does not have a standard approach with regards to exceptional payments. They will be considered on a case-by-case basis and structured in line with any regulatory requirements that may apply (including malus and clawback, see section 5.10 and 5.12). Exceptional payments may include the following and will be approved by the Remuneration Committee:

5.14.1 **Guaranteed bonuses**: in exceptional circumstances, it may be necessary to guarantee variable remuneration for a new hire (in their first year or service) to compensate for variable remuneration forfeited at their previous employer (e.g. bonus in the year of leaving). Any such payment will mirror the terms of the forfeited award as closely as possible (e.g. deferral, malus and clawback period) and will only be made where Scottish Friendly has a strong capital base.

5.14.2 **Buyout awards**: in exceptional circumstances there may be a need to offer a buyout award for a new hire to compensate for remuneration forfeited at their previous employer (e.g. unvested deferred bonus). Any such buyout award will reflect the terms of the original award (e.g. deferral, malus and clawback period).

5.14.3 **Retention awards**: in exceptional circumstances where there is a need to retain certain key employees, Scottish Friendly may offer retention payments. Wherever possible such awards will include performance conditions.

5.15. **Severance payments**

5.15.1 severance payments that go beyond contractual and statutory amounts may be awarded to employees;

5.15.2 such payments will not be excessive in nature and set in line with Scottish Friendly's policy;

5.15.3 such payments will be determined with reference to tenure, seniority, exceptional circumstances, e.g. legal requirements and business impact;

5.15.4 the maximum amount of any such payment is twice annual salary,

5.15.5 any such payments shall be related to performance achieved over the whole period of service in that role and be designed in a way that does not reward failure or misconduct;

5.15.6 any such payments to Solvency II Staff or Material Risk Takers will be approved by the Remuneration Committee.

6 Corporate Governance

6.1. The Board sets guidelines for the review and control of compliance by the business with the Policy.

6.2. The Committee is a subcommittee of the Board and as such makes recommendation and provides other relevant information to the Board.

6.3. Additionally, the Committee also:

6.3.1 Approves both Solvency II Staff and Material Risk Takers, including the final lists;

6.3.2 Approves variable remuneration proposals and outcomes for Solvency II Staff and Material Risk Takers;

6.3.3 Oversees the remuneration of the heads of the control functions;

6.3.4 Assesses where relevant whether the incentive element in any remuneration is commensurate with the Board's approach to risk.

6.3.5 In addition, the Chief Risk Officer will provide advice to the Committee on risk weightings to be applied to performance objectives incorporated in any incentive structure for the directors, members of the Executive and any other Solvency II Staff and Material Risk Takers.

6.3.6 The policy will be reviewed by the Remuneration Committee annually, Internal Audit will conduct a central and independent review of the remuneration policy as per the internal audit schedule.

6.3.7 Each year in the Annual Report and Accounts the Board provides a report on Remuneration. In addition, the Directors' remuneration report is submitted for approval at the Annual General Meeting.

6.4. The Policy is available to each member of Scottish Friendly's staff via the **intranet**.

7 Remuneration Processes

Board Members

7.1. Fees for the Chairman are set by the Committee in his absence. Fees for non-executive directors are monitored and reviewed annually through approval by the Board in the absence of the non-executive directors, that is by the Board Chair and Executive Directors. The fees are structured to recognise the responsibilities of non-executive directors and to attract individuals with the necessary skills and experience to contribute to the future of the business. The fees are made up of an annual fee covering Board and Committee membership with additional fees payable to the Vice-Chairman and to the Chairs of the Audit, Risk, Remuneration and Investment Committees in respect of the additional responsibilities arising from those roles as well as an additional fee payable to members of the With-Profits Committee. Non-executive directors' fees are neither performance related nor pensionable and non-executive directors do not receive any additional benefits. There will be an independent review every three years.

7.2. Executive director salaries are reviewed annually. A range of data is taken into account to inform the review including comparable positions in other organisations, remuneration trends in financial services as well as wider economic influences and the performance of the business. The remuneration package for executive directors incorporates a performance element, set in accordance with 2.3 above, which is targeted at increasing growth and cost effectiveness so as to generate longer term value for members. Payments of this element are capped at no more than 100% of base salary.

7.3. Ad hoc discretionary bonuses e.g. as a result of acquisitions or to award for an exceptional reason can be awarded in addition to any performance related bonus.

7.4. As per Solvency ii requirements. 40% of bonus payments may be deferred for three years, if applicable.

7.5. No Board member is involved in the review of, or decision in relation to, his or her own salary or fees.

Executive and Staff

7.6. Salary levels for members of the Executive who are not directors are approved by the Committee on the recommendation of the Chief Executive.

7.7. **Remuneration** for other managers and staff are approved by the Executive and advised to the Remuneration Committee, who recommend the benchmark increase and the overall impact on costs as part of the budget process to the Board for approval.

External Advice

7.8. Where it considers it is appropriate the Committee will seek external advice, from specialist consultants on remuneration and benefits for specific or general matters.