PIC

Generating social value across the UK.

Pension Insurance Corporation Group Limited
Solvency and Financial Condition Report 2022

About PIC

PIC is a specialist insurer which has become a leader in the UK pension risk transfer market by focusing on our purpose: to pay the pensions of our current and future policyholders.

For over a decade, PIC has been a significant investor in areas like social housing, renewable energy and the UK's universities. These investments, which are typically sourced privately, provide the cash flows we need to match our liabilities at maturities when publicly available debt is simply not available.

Pension Insurance Corporation Group Limited is the ultimate parent company of Pension Insurance Corporation plc. Pension Insurance Corporation plc is registered in England and Wales under company number 05706720. It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). Its registered office is at 14 Cornhill, London EC3V 3ND

Directors' Responsibility Statement

We acknowledge our responsibility for preparing the Pension Insurance Corporation plc ("the Company" or "the insurer") and Pension Insurance Corporation Group Limited ("the Group") Solvency and Financial Condition Report ("SFCR") in all material respects in accordance with the PRA Rules and the Solvency II Regulations.

We are satisfied that:

a) throughout the financial year in question, the insurer and Group has complied in all material respects with the requirements of the PRA Rules and the Solvency II Regulations as applicable at the level of the insurer and Group; and

b) it is reasonable to believe that the insurer and Group has continued so to comply subsequently and will continue so to comply in future.

Signed on behalf of the Board of Directors

5 April 2023

Report of the Independent External Auditor

Report of the external independent auditor to the Directors of Pension Insurance Corporation Group Limited ('Parent Company') and Pension Insurance Corporation ('the Company') pursuant to Rule 4.1 (2) of the External Audit Part of the PRA Rulebook applicable to Solvency II firms

Report on the Audit of the Relevant Elements of the Solvency and Financial Condition Report

Opinion

Except as stated below, we have audited the following documents prepared by the **Pension Insurance Corporation Group Limited** ('the Parent Company') and **Pension Insurance Corporation** ('the Company') as at 31 December 2022:

- the 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Entities as at 31 December 2022, ('**the Narrative Disclosures subject to audit**'); and
- group templates S02.01.02, S22.01.22, S23.01.22, S32.01.22 and Company templates S02.01.02, S12.01.02, S22.01.21, S23.01.01, S28.01.01 ('**the Templates subject to audit**').

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

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

- information contained within the Relevant Elements of the Solvency and Financial Condition Report set out about above which derive from the Solvency Capital Requirement, as identified in the Appendix to this report;
- the 'Business and performance', 'System of governance' and 'Risk profile' sections of the Solvency and Financial Condition Report;
- group templates S05.01.02, S05.02.01, S.25.02.22, S.25.03.22;
- company templates S05.01.02, S05.02.01, S.25.02.21, S.25.03.21;
- information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;
- the written acknowledgement by the Directors of the Entities of their responsibilities, including for the preparation of the relevant content of the Solvency and Financial Condition Report ('**the Responsibility Statement**'); and
- information which pertains to an undertaking that is not a Solvency II undertaking and has been prepared in accordance with PRA rules other than those implementing the Solvency II Directive or in accordance with an EU instrument other than the Solvency II regulations '**the sectoral information**'.

To the extent the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report includes amounts that are totals, sub-totals or calculations derived from the Other Information, we have relied without verification on the Other Information.

In our opinion, the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report of the Entities as at 31 December 2022 is prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which it is based as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations in effect as at the date of approval of the Solvency and Financial Condition Report.

Basis for opinion

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

Emphasis of Matter – special purpose basis of accounting

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

Report of the Independent External Auditor continued

Going concern

The Directors of the Parent Company have prepared the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report for the Group on the going concern basis as they do not intend to liquidate the Group or the Parent Company or to cease their operations, and as they have concluded that the Group and the Parent Company's financial positions mean that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for the going concern period. The Directors of Pension Insurance Corporation have prepared the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report for their respective entity on the going concern basis as they do not intend to liquidate their respective entity or to cease its operations, and as they have concluded that their respective entity's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over the ability of their respective entity to continue as a going concern for at least a year from the date of approval of the Solvency and Financial Condition Report ("the going concern period").

We used our knowledge of the Group and Company, its industry, and the general economic environment to identify the inherent risks to its business model and analyzed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- a significant deterioration in longevity experience, potentially caused by market wide event(s);
- a deterioration in the valuation of the Group's and Company's investments arising from fluctuation or negative trends in the economic environment; and
- the impact on regulatory capital solvency margins and liquidity of changes in inflation and movements in foreign exchange or interest rates.

We also considered less predictable but realistic second order impacts such as failure of counterparties who have transactions with the Group (such as reinsurers) to meet commitments and a sudden significant increase in policyholders seeking to transfer their policies to other providers that could give rise to a negative impact on the Group's financial position and increased illiquidity.

We considered whether these risks could plausibly affect the liquidity or Solvency in the going concern period by assessing the Directors' sensitivities over the level of available financial resources indicated by the Group's and Company's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our conclusions based on this work:

- we consider that the directors of the Entities use of the going concern basis of accounting in the preparation of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report for their respective entity and the Group is appropriate; and
- we have not identified and concur with the directors of the Entity's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Entity or the Group's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Entity or the Group will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

- Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the companies' high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected, or alleged fraud;
- reading Board, and Audit Committee minutes, Risk Committee and Credit Rating Committee minutes;
- considering remuneration incentive schemes and performance targets for management/directors.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. Accordingly, we identified a fraud risk related to accounting estimates and judgements related to Best Estimate Liabilities 'BEL' in the valuation of technical provisions in response to the potential for management bias.

In order to address the risk of fraud specifically as it relates to the technical provisions within the Solvency and Financial Condition Report, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the appropriateness of Best Estimate Liabilities and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and in comparison, to our understanding of various business areas.

Report of the Independent External Auditor continued

To address the pervasive risk as it relates to management override, we performed procedures including:

- identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorized users, approved by unauthorized approvers, those posted and approved by the same user, those including specific words based on our risk criteria, those journals which were unbalanced, those with no descriptions or user IDs, those posted to seldom used accounts, unusual journal entries posted to cash accounts. Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised users, approved by unauthorised approvers, those posted and approved by the same user, those including specific words based on our risk criteria, those journals which were unbalanced, those with no descriptions or user IDs, those posted to seldom used accounts, unusual journal entries posted to cash accounts; and
- assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the Solvency and Financial Condition Report from our general commercial and sector experience, and through discussion with management, and from inspection of the Group's and Company's regulatory and legal correspondence and we discussed with management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the Solvency and Financial Condition Report varies considerably.

Firstly, the Group and Company are subject to laws and regulations that directly affect the Solvency and Financial Condition Report including financial reporting legislation (related to PRA and Solvency II regulations) , and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group and Company are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the Solvency and Financial Condition Report, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such as effect: regulatory capital and liquidity requirements, GDPR compliance, Health and Safety legislation, Employment and Social Security legislation, Fraud, corruption and bribery legislation, Misrepresentation Act, Environmental protection legislation, including emissions trading & Climate Change Act 2008 and certain aspects of company legislation recognizing the financial nature of the Group's and Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operation regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect a breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation:

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the Solvency and Financial Condition Report, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the Solvency and Financial Condition Report, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non- compliance with all laws and regulations.

Other Information

The Directors of the Entities are responsible for their relevant content of the Other Information.

Our opinion on the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report or a material misstatement of the Other Information. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors of the Entities for the Solvency and Financial Condition Report

The Directors of the Entities are responsible for the preparation of their relevant content of the Solvency and Financial Condition Report in accordance with the financial reporting provisions of the PRA rules and Solvency II regulations which have been modified by the modifications and supplemented by the approvals and determinations made by the PRA under section 138A of FSMA, the PRA Rules and Solvency II regulations on which they are based.

Report of the Independent External Auditor continued

The Directors of the Entities are also responsible for such internal control as they determine is necessary to enable the preparation of their relevant content of the Solvency and Financial Condition Report that is free from material misstatement, whether due to fraud or error. The Directors are responsible for assessing their respective entity's ability to continue as going concerns, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate their respective entity or to cease operations, or have no realistic alternative but to do so.

The Directors of the Parent Company are responsible for assessing the Group's and Parent Company's ability to continue as going concerns, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease their operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Relevant Elements of the Solvency and Financial Condition Report

It is our responsibility to form an independent opinion as to whether the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report is prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it is based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

Our objectives are to obtain reasonable assurance about whether the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decision making or the judgement of the users taken on the basis of the information subject to audit in the Relevant Elements of the Solvency and Financial Condition Report.

A fuller description of our responsibilities is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities.

Other Matter

The Company has authority to calculate the Group Solvency Capital Requirement, and the Entities have authority to calculate their respective entity's Solo Solvency Capital Requirement, using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of, or outputs from the Model, or whether the Model is being applied in accordance with the Entities' application or approval order.

Report on Other Legal and Regulatory requirements

Sectoral Information

In our opinion, in accordance with Rule 4.2 of the External Audit Part of the PRA Rulebook for Solvency II firms, the **sectoral information** has been properly compiled in accordance with the PRA rules and EU instruments relating to that undertaking from information provided by members of the Group and the relevant insurance group undertaking.

Other Information

In accordance with Rule 4.1 (3) of the External Audit Part of the PRA Rulebook for Solvency II firms we are also required to consider whether the Other Information is materially inconsistent with our knowledge obtained in the audit of the Entities' statutory financial statements for the year ended 31 December 2022. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

This engagement is separate from the audits of the annual financial statements of the Entities and the report here relates only to the matters specified and does not extend to the Entities' annual financial statements taken as a whole.

As set out in our audit reports on those financial statements, those audit reports are made solely to the members of the respective Entities, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. The audit work has been undertaken so that we might state to the members of the respective Entities those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Entities and the members, as a body, of each of the respective Entities for the audit work, for the audit report, or for the opinions we have formed in respect of those audits.

The purpose of our audit work and to whom we owe our responsibilities

This report of the external auditor is made solely to the directors of the Entities, as their governing bodies, in accordance with the requirement in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and the terms of our engagement. We acknowledge that the directors are required to submit the report to the PRA, to enable the PRA to verify that an auditor's report has been commissioned by the Entities' directors and issued in accordance with the requirement set out in Rule 4.1 (2) of the External Audit Part of the PRA Rulebook for Solvency II firms and to facilitate the discharge by the PRA of its regulatory functions in respect of the Entities, conferred on the PRA by or under the Financial Services and Markets Act 2000.

Our audit has been undertaken so that we might state to the directors those matters we are required to state to them in an auditor's report issued pursuant to Rule 4.1 (2) and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Entities through their governing bodies, for our audit, for this report, or for the opinions we have formed.

James Anderson

James Anderson
for and on behalf of KPMG LLP
15 Canada Square
London
E14 5GL

5 April 2023

Report of the Independent External Auditor continued

Relevant Elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

Group

- The following elements of Group template S.02.01.02:
  - Row R0550: Technical provisions–non-life (excluding health) – risk margin
  - Row R0590: Technical provisions–health (similar to non-life) – risk margin
  - Row R0640: Technical provisions–health (similar to life) – risk margin
  - Row R0680: Technical provisions–life (excluding health and index-linked and unit- linked) – risk margin
  - Row R0720: Technical provisions–Index-linked and unit-linked – risk margin
- The following elements of Group template S.22.01.22
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of Group template S.23.01.22
  - Row R0020: Non-available called but not paid in ordinary share capital at group level
  - Row R0060: Non-available subordinated mutual member accounts at group level
  - Row R0080: Non-available surplus at group level
  - Row R0100: Non-available preference shares at group level
  - Row R0120: Non-available share premium account related to preference shares at group level
  - Row R0150: Non-available subordinated liabilities at group level
  - Row R0170: The amount equal to the value of net deferred tax assets not available at the group level
  - Row R0190: Non-available own funds related to other own funds items approved by supervisory authority
  - Row R0210: Non-available minority interests at group level
  - Row R0380: Non-available ancillary own funds at group level
  - Rows R0410 to R0440 – Own funds of other financial sectors
  - Row R0680: Group SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
  - Row R0750: Other non-available own funds
  - Elements of the Narrative Disclosures subject to audit identified as 'unaudited'

Solo

The relevant elements of the Solvency and Financial Condition Report that are not subject to audit comprise:

- The following elements of Solo template S.02.01.02:
  - Row R0550: Technical provisions–non-life (excluding health) – risk margin
  - Row R0590: Technical provisions–health (similar to non-life) – risk margin
  - Row R0640: Technical provisions–health (similar to life) – risk margin
  - Row R0680: Technical provisions–life (excluding health and index-linked and unit-linked) – risk margin
  - Row R0720: Technical provisions – Index-linked and unit-linked – risk margin
- The following elements of template S.12.01.02
  - Row R0100: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0110 to R0130 – Amount of transitional measure on technical provisions
- The following elements of template S.17.01.02
  - Row R0280: Technical provisions calculated as a sum of BE and RM – Risk margin
  - Rows R0290 to R0310 – Amount of transitional measure on technical provisions
- The following elements of template S.22.01.21
  - Column C0030 – Impact of transitional measures on technical provisions
  - Row R0010 – Technical provisions
  - Row R0090 – Solvency Capital Requirement
- The following elements of template S.23.01.01
  - Row R0580: SCR
  - Row R0740: Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds
- The following elements of template S.28.01.01
  - Row R0310: SCR Elements of the Narrative Disclosures subject to audit identified as 'unaudited

Summary (unaudited)

The Solvency and Financial Condition Report ("SFCR") is an annual report that is required to be produced under UK law, as part of the Solvency II regime. Any reference to SII Directive in this document is a reference to the UK version of that regulation, unless otherwise stated.

This requirement to prepare the SFCR is set out in a direction made by the Prudential Regulatory Authority ("PRA") on 6 November 2019. In April 2022, HM Treasury published a consultation on proposed changes to Solvency II regulation in the UK. Proposed changes being consulted on include a reduction in the risk margin of around 60%-70% for long-term life insurers, changes to the calibration of retained credit risk used to calculate the matching adjustment; an increase in flexibility to allow insurers to invest in long-term assets such as infrastructure; and a reduction in the current reporting and administrative burden on firms. Whilst the outcome remains uncertain, these changes could materially impact the future capital position of the Company.

The Group has permission to produce a single SFCR, covering both Pension Insurance Corporation plc ("PIC", or "the Company") and Pension Insurance Corporation Group Limited ("PICG", or "the Group").

The SFCR is a public document and is published on the Company's website. It is also provided to the Company's prudential regulator, the PRA.

The content of the SFCR is prescribed by PRA regulation, and must contain the following sections:

SECTION	DESCRIPTION OF CONTENT
Business and Performance	Provides the basic information on the Group and Company, and gives a summary of the business performance during the year in question.
System of Governance	Provides governance information on the Group and Company including Board and Committee structure, responsibilities, and details of the principal process.
Risk Profile	Provides qualitative and quantitative information regarding the risks that face the Group and Company, and how they are managed.
Valuation for Solvency Purposes	Provides values for the Group and Company's assets and liabilities in accordance with International Financial Reporting Standards ("IFRS") and Solvency II rules, gives details on the assumptions used in the valuations, and provides explanations on valuation differences between IFRS and Solvency II.
Capital Management	Provides detail on the regulatory capital (own funds) which the Group and Company must hold in line with Solvency II rules, and on the composition of such own funds.

PIC is authorised to write long-term insurance business by the PRA and regulated by the PRA and the Financial Conduct Authority (the "FCA").

Pension risk transfer products are used by pension funds to transfer to an insurance company the risks and liabilities arising from the benefit promises made to pension fund members. Insurance is also used as a means by which the ultimate responsibility to pay the benefit promises is transferred to the insurance company through the issuance of an individual annuity insurance policy to the pension fund member.

The Company originates new business through active engagement with, and marketing to, pension fund trustees and their advisors, as well as to corporate sponsors of such funds.

PIC is the primary operating subsidiary of the Group.

Summary (unaudited) continued

A summary of the content of each SFCR section is provided below:

Business and performance

2022 was a year of extreme market volatility, characterised by rising interest rates and inflation and the prospect of recession. Despite this, both the Group and Company have delivered strong results, increasing their Solvency II ratio, PICG to 226% and PIC to 225% (2021: 169% in PICG and 168% PIC). The Group profit before tax was £1,240 million for the year (2021: £393 million) and PIC's profit before tax was £1,241 million (2021: £394 million).

Statement of comprehensive income highlights – PICG

	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Net premium revenue earned	**4,021**	3,856
Investment return (including commissions earned)	**(12,396)**	210
Total net revenue	**(8,375)**	4,066
Net claims paid	**(1,881)**	(1,785)
Change in net insurance liabilities	**11,833**	(1,601)
Operating expenses	**(247)**	(198)
Finance costs	**(90)**	(89)
Total net expenses	**9,615**	(3,673)
Profit before tax	**1,240**	393

Statement of comprehensive income highlights – PIC

	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Net premium revenue earned	**4,021**	3,856
Investment return (including commissions earned)	**(12,396)**	210
Total net revenue	**(8,375)**	4,066
Net claims paid	**(1,881)**	(1,785)
Change in net insurance liabilities	**11,833**	(1,601)
Operating expenses	**(246)**	(198)
Finance costs	**(90)**	(88)
Total net expenses	**9,616**	(3,672)
Profit before tax	**1,241**	394

Premiums

Gross premiums were £4,095 million in the year across 21 transactions (2021: £4,702 million across 14 transactions). 2022 was another strong year for new business, with the reduction in gross premium levels reflecting the impact of higher interest rates.

Net premiums earned represent the gross premiums written less premiums ceded to reinsurers. Premiums ceded to reinsurers decreased mainly due to the comparative including the impact of asset backed reinsurance transactions, which did not reoccur in the current year. In total, eight (2021: seven) new reinsurance contracts were concluded in 2022.

Investment return

Investment return comprises income received on fixed income securities, derivatives and investment property, and unrealised and realised gains and losses on these investments.

The net movement in the fair value of assets, including realised and unrealised items, was a loss of £13,813 million compared with a loss of £1,029 million in 2021. Total investment income increased to £1,416 million in 2022 (2021: £1,238 million). The 2022 net investment loss was largely driven by significant increases in interest rates during the year. Commission earned in the year amounted £1 million (2021: £1 million).

It is important to note that because our assets and liabilities are broadly matched, the rise in interest rates has also materially reduced our insurance liabilities, a change also reflected in the income statement.

Claims paid

Net claims paid comprises of gross claims paid, which are pension payments to our policyholders, less any payments received from reinsurers. Net claims paid increased to £1,881 million (2021: £1,785 million), mainly reflecting the increase in pensioner numbers due to new business.

Summary (unaudited) continued

Change in net insurance liabilities

Change in net insurance liabilities represents the change in the gross insurance liabilities less the movement in reinsurance assets.

The change in net insurance liabilities mainly reflects the impact of market movements, principally the increase in interest rates, partially offset by the net increase in the number of policies by 20,600 to 310,200 (2021: 289,600).

Operating expenses

The operating expenses in 2022 were £247 million for Group, and £246 million for PIC (2021: PICG £198 million, PIC £198 million). This includes project spend of £58 million (2021: £38 million) reflecting a higher spend on business-wide initiatives. Excluding these project costs, the remaining increase in spend mainly reflects higher maintenance and investment management costs to support growth of the business.

Finance costs

Finance costs represent the interest payable on borrowings. Finance costs for PIC and PICG of £90 million (2021: PICG £89 million, PIC £88 million) reflect the interest payable on the five (2021: five) subordinated debt securities issued.

The Restricted Tier 1 ("RT1") debt issued in July 2019 has been accounted for as equity under IFRS and as such interest on these notes is not included in finance costs and is instead recognised as dividends when paid. These dividends amount to £33 million in 2022 (2021: £33 million).

Statement of financial position review – PICG

Statement of financial position extract	2022 £m	2021 £m
Financial investments	**40,951**	51,143
Derivative assets	**22,451**	15,018
Reinsurance assets	**1,199**	3,350
Gross insurance liabilities	**(33,029)**	(47,013)
Derivative liabilities	**(25,348)**	(16,997)
Borrowings	**(1,592)**	(1,590)
Other net assets	**807**	554
Total equity	**5,439**	4,465

Statement of financial position review – PIC

Statement of financial position extract	2022 £m	2021 £m
Financial investments	**41,108**	51,316
Derivative assets	**22,451**	15,018
Reinsurance assets	**1,199**	3,350
Gross insurance liabilities	**(33,029)**	(47,013)
Derivative liabilities	**(25,348)**	(16,997)
Borrowings	**(1,592)**	(1,590)
Other net assets	**619**	345
Total equity	**5,408**	4,429

At the end of 2022, the Group had total financial investments of £41.0 billion (PIC: £41.1 billion), compared with £51.1 billion (PIC: £51.3 billion) at the end of 2021. Our investment strategy is to select assets that generate cash flows to match our future claims payments in both timing and amount. Therefore, although the size of the portfolio has decreased primarily due to the impact of rising interest rates, the value of our insurance liabilities has also fallen, and they now stand at £33.0 billion for PICG and PIC (2021: PICG and PIC £47.0 billion). Note that our hedging strategy is primarily designed to stabilise our solvency position and consequently there may be some short-term volatility in the IFRS result, particularly given recent volatile economic conditions.

The credit quality of our investment portfolio is actively managed and remains strong, ensuring that the Group did not experience any defaults for the tenth consecutive year. This demonstrates the resilience of our investment strategy, which continues to prioritise the management of key risks to protect the pensions of our policyholders over the coming decades.

The decrease in the reinsurance assets during the year primarily reflects the lower levels of insurance liabilities due to interest rate rises. In 2022, the Group reinsured longevity exposure on £2.8 billion of reserves (2021: £4.0 billion), and at 31 December 2022, 87% of the Group's gross longevity related reserves had been reinsured (2021: 85%). The Group has 14 reinsurance counterparties (2021: 14), all of which have a credit rating of A- or above.

The Group uses derivatives to hedge certain market risks associated with both new and existing business. Gross derivative assets and derivative liabilities have both increased during the year, leading to an increase in the net liability position of £918 million (2021: movement of £425 million). The net increase is a result of market movements, in particular rising interest rates. It should be noted that a significant proportion of our derivative asset contracts are collateralised through the use of a custodian, and as such present little credit risk in the event of a derivative counterparty default.

As a result of the above movements, total equity has increased by £974 million (PIC: £979 million) (2021: PICG: £298 million; PIC £286 million).

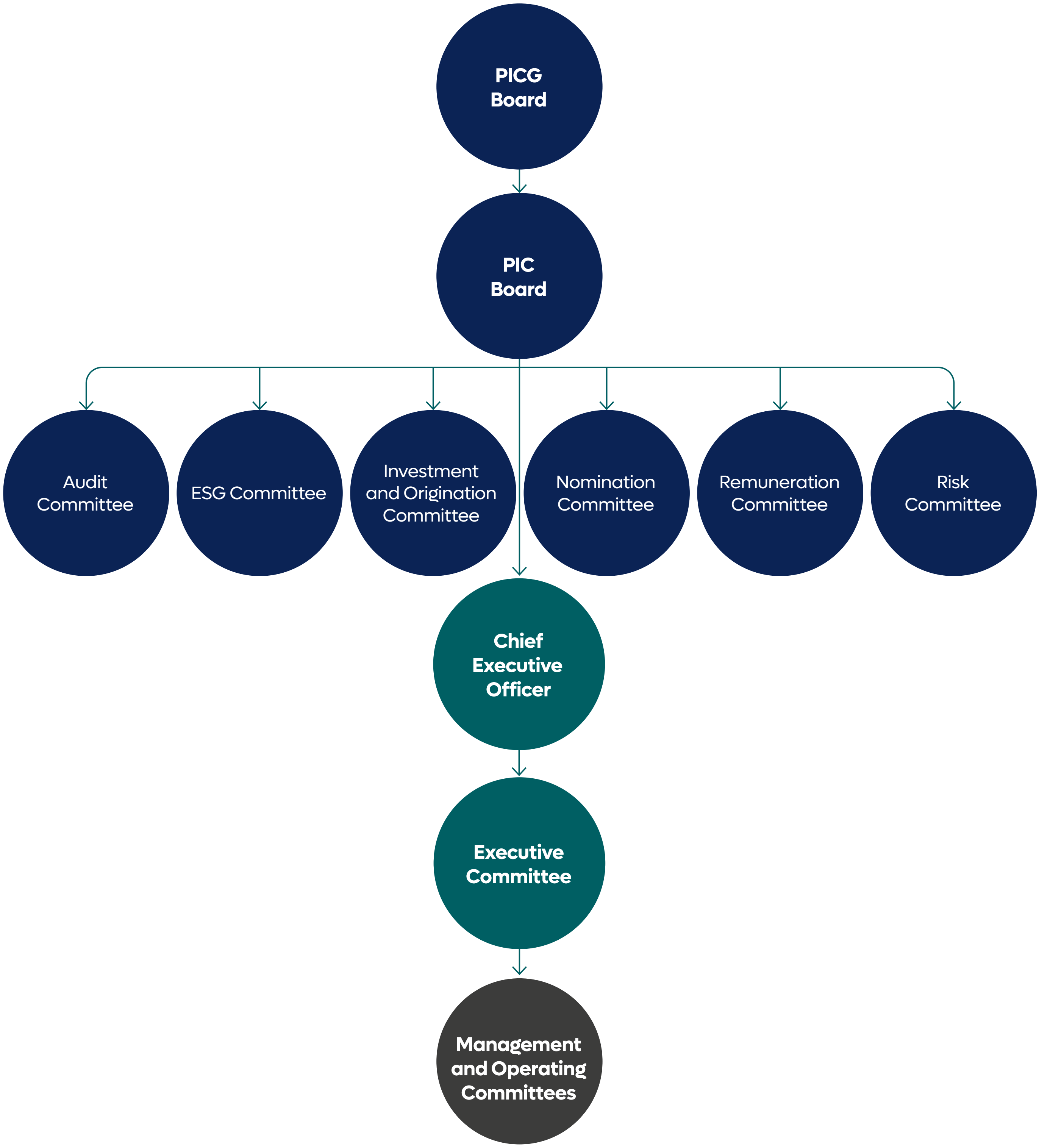
Summary (unaudited) continued

Dividend

In recognition of the continued financial strength of the business, the Board has decided, for the first time, to propose a dividend to the Group's shareholders £100m (2021: nil). The dividend is driven by financial performance in 2022 but will be reflected in the Group's results in 2023.

The Group's dividend policy is to retain sufficient capital to invest in future growth opportunities of the UK PRT market, whilst paying regular dividends to shareholders, based on the current and future projected capital position of the business. The implications for solvency, leverage and liquidity are all considered when considering the appropriateness of dividend payments.

System of Governance



Summary (unaudited) continued

System of Governance continued

PIC's governance structure is in line with the "three lines of defence" model which is operated by the Group. The "First Line" represents the business operating which have prime day-to-day responsibility for the management of risks within the agreed risk management framework. The "Second Line" consists of independent risk and compliance functions, who have responsibility for setting, monitoring and oversight of the risk framework within which the First Line operates, and the Head of The Actuarial Function. The "Third Line" comprises Internal Audit and External Audit which have responsibility for assessing the operation of the risk and control environment.

The Board delegates specific responsibilities to the Board committees, which assist the Board in its oversight and control of the business. There are currently six Board committees: Audit, Environmental, Social and Governance ("ESG"), Investment and Origination, Nomination, Remuneration and Risk. The Investment and Origination Committee considers matters specific to PIC. The five remaining committees consider matters specific to PIC and the Group, as per the delegations in their terms of reference (further details are provided below). Members of the committees are appointed by the Board on recommendation of the Nomination Committee in consultation with the committees' chairs.

Audit Committee

The Committee works closely with the Risk Committee and has responsibility for ensuring the company fulfills its responsibilities regarding financial reporting, the effectiveness of internal controls, the risk management systems and processes, compliance matters, and the internal audit function and external audit process.

ESG Committee

In December 2021 the Group established an ESG Committee which meets quarterly to consider and oversee all ESG related matters. The purpose of the Committee is to ensure that the Board and its Committees provide oversight of the Group's ESG strategy and activities, and that the Group complies with legal and regulatory requirements in respect of ESG, enabling the Group to make the right decisions for the long-term benefits of our policyholders.

Investment and Origination Committee

The Committee oversees the investment policy and investment strategy for PIC, ensuring that ESG is integrated into decision making and provides oversight of the operation of PIC's investment portfolios. It also oversees PIC's new business and reinsurance origination.

Nomination Committee

The Committee is responsible for reviewing the structure, size and composition of the Board and its committees and for recommending changes to the Board and setting succession plans for executive and non-executive directors and senior management within the Group.

Remuneration Committee

The Committee oversees the establishment and implementation of a remuneration policy for employees and directors, designed to support the long-term business strategy and values of the Group as a whole, as well as promoting effective risk management and complying with applicable legal and regulatory requirements.

Risk Committee

The Committee provides oversight and advice to the Board on the current and future risk exposure of the Group including oversight of the future risk strategy; determination of risk appetite and tolerance; and internal controls required to manage risk and the effectiveness of the risk management framework, in conjunction with the Audit Committee.

Risk Profile

The Group and Company quantify their exposure to different types of risk using their Internal Model, which was approved for use by the PRA in December 2015. Major Model Changes were approved by the PRA in December 2017 relating to longevity and inflation and in December 2020 relating to Equity Release Mortgages.

The Group's total Solvency Capital Requirement ("SCR") represents the amount of capital the firm must hold to protect it from extreme risk events and comply with regulatory requirements. The component risks which make up the SCR are detailed in Section C.

The Group's risk profile has remained stable over the reporting period.

Summary (unaudited) continued

Valuation for Solvency Purposes

The table below summarises the Group and Company's assets and liabilities valued in accordance with its statutory accounting basis (IFRS), and the Solvency II regulatory basis at 31 December:

	Group		Company	
2022	**Solvency £m**	**IFRS £m**	**Solvency £m**	**IFRS £m**
Total Assets	**65,461**	**65,642**	**65,429**	**65,607**
Total Liabilities	**59,582**	**60,203**	**59,596**	**60,199**
Excess of Assets over Liabilities/Equity	**5,879**	**5,439**	**5,833**	**5,408**

	Group		Company	
2021	Solvency £m	IFRS £m	Solvency £m	IFRS £m
Total Assets	69,676	70,293	69,626	70,242
Total Liabilities	64,555	65,828	64,555	65,813
Excess of Assets over Liabilities/Equity	5,121	4,465	5,071	4,429

Differences in the valuation of assets and liabilities between the two bases are driven by the following:

- the Solvency II Risk Margin (net of transitional measures for technical provisions ("TMTP")) which is an addition to the Solvency II best estimate liabilities but is not required under IFRS;
- IFRS prudent margins in the projected liability cashflows (for example, via the expense and demographic assumptions) which increase IFRS liabilities relative to the Solvency II best estimate liabilities;
- differences in the valuation discount rate, used to discount the liability cashflows, which is prescribed for Solvency II but determined by PIC for IFRS (and includes prudent margins);
- valuation of subordinated debt liabilities, which are at amortised cost for IFRS purposes and are at fair value under Solvency II; and
- differences related to deferred tax assets and liabilities.

The valuation differences above are explained in greater detail in section D.

Capital Management

At 31 December 2022, PICG's Solvency II ratio was 226% (PIC: 225%) (2021: PICG 169% and PIC: 168%) and it had surplus funds of £4,037 million (PIC: £4,011 million) (31 December 2021: PICG: £2,731 million; PIC: £2,701 million) in excess of its SCR as calculated by the internal model. The increase in the year was largely driven by favourable market movements and returns from the in-force book, partly offset by the impact of writing new business. The result is net of a recalculation of the TMTP performed at 30 June 2022.

The table below summarises the Group and Company's capital and solvency position as at 31 December:

2022	**Group**	**Company**
Own Funds (£m)	**7,236**	**7,210**
SCR (£m)	**3,199**	**3,199**
Solvency II surplus (£m)	**4,037**	**4,011**
Solvency II ratio %	**226%**	**225%**

2021	Group	Company
Own Funds (£m)	6,699	6,669
SCR (£m)	3,968	3,968
Solvency II surplus (£m)	2,731	2,701
Solvency II ratio %	169%	168%

A. Business and Performance (unaudited)

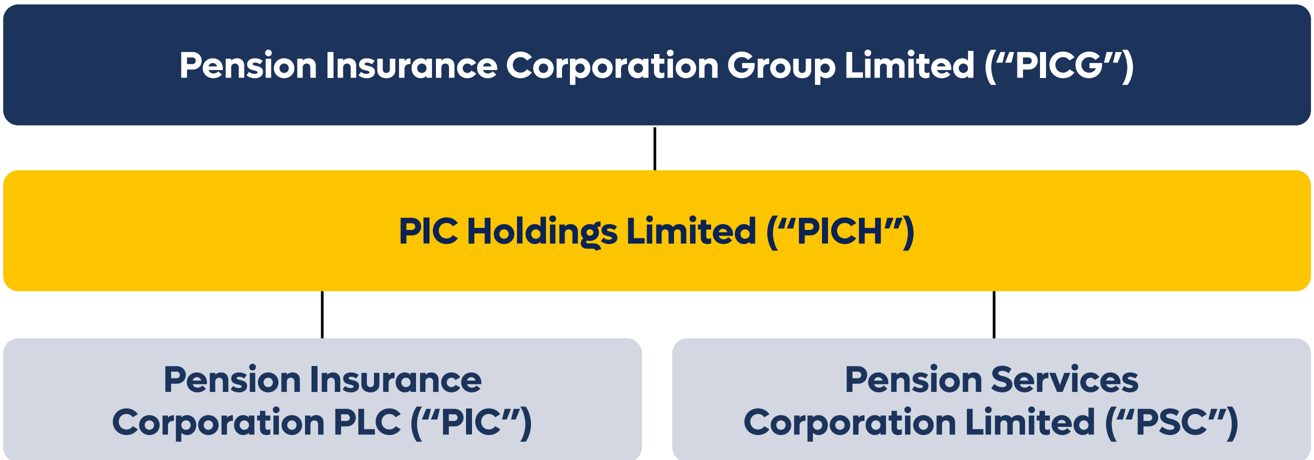
A.1 Business

The full legal name of the undertaking is Pension Insurance Corporation plc. It is a Public Limited Company, registered in England and Wales with the company registration number 05706720.

PIC is authorised by the Prudential Regulation Authority, 20 Moorgate, London EC2R 6DA and regulated by the Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN and the Prudential Regulation Authority (FRN 454345).

The principal activity of PIC is the provision of pension risk transfer contracts to corporate pension schemes (also known as "pension insurance" or "bulk annuities"). Pension risk transfer products are used by pension funds to transfer to an insurance company the risks and liabilities arising from the benefit promises made to pension fund members. Insurance is also used as a means by which the ultimate responsibility to pay the benefits promised is transferred to the insurance company through the issuance of an individual annuity insurance policy to the pension fund member.

A simplified group structure chart, and a description of the Group as at 31 December 2022 is set out below:



Group Undertakings	Country of Incorporation	Principal Activity
Pension Insurance Corporation Group Limited	England	Holding company for the other companies within the Group, owning 100% of the equity. It has no employees, and incurs minimal administrative expenses. It also operates share incentive plans for the benefit of the employees of the Group.
PIC Holdings Limited	England	An intermediate holding company, and has no material assets or liabilities in the context of the Group.
Pension Insurance Corporation plc (Regulated entity)	England	Provision of insurance annuity products to corporate pension schemes and their members.
Pension Services Corporation Limited	England	Service company of the Group, and employs all the staff which are responsible for the performance of the Group's activities. It also enters into the majority of material contracts (with the exception of pension insurance contracts) on behalf of the Group.

The Group and Company prepare their financial statements in accordance with IFRS in conformity with the requirements of the Companies Act 2006. The Group is required to adopt IFRS 17 for its financial year beginning on 1 January 2023. The standard provides a comprehensive approach for accounting for insurance contacts, including measurement, income statement presentation and disclosure. It is expected to have a significant impact on the Group's IFRS based metrics.

There are no differences between the scope of the Group for the consolidated financial statements and the scope under the default accounting consolidation method for Solvency purposes. The External Auditor to the Group is KPMG LLP, 15 Canada Square, London E14 5GL.

As presented in the Summary, the Group made an IFRS profit before tax of £1,240 million in 2022 (2021: £393 million), and the Company made an IFRS profit before tax of £1,241 million in 2022 (2021: £394 million).

The tables in sections A.2 to A.4 below present extracts from the Group's and Company's IFRS Statements of Comprehensive Income, splitting the IFRS income and expense items between underwriting activity (section A.2), investment activity (section A.3) and other activity (section A.4). Comparative information has been presented where available.

A. Business and Performance (unaudited) continued

A.2 Performance of underwriting activity

In addition to the statutory results presentation as outlined above, the Group also chooses to analyse its IFRS results on an alternative performance metric, 'adjusted operating profit before tax', which is a non-GAAP measure of long-term value creation, a key outcome of the Group's business model. It reflects the Group's activities which are core to our business and the management choices and decisions around those activities. These activities include the writing and management of pension insurance contracts (buyouts and buy-ins), the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities. In essence, it gives stakeholders a more accurate view of the expected long-term investment returns on the assets backing policyholder and shareholder funds, with an allowance for the corresponding expected movements in liabilities. This basis reflects the long-term trading activities of the Group better than the IFRS reported profit before taxation.

Information on premiums, claims and changes in technical provisions, which can be considered as key elements of underwriting performance, is presented by Solvency II line of business in Quantitative Reporting Template ("QRT") S.05.01.02 in Appendix B of this report.

Adjusted operating profit before tax

	2022		2021	
	PICG £m	**PIC £m**	PICG £m	PIC £m
Expected return from operations	**426**	**426**	288	288
New business and reinsurance profit	**228**	**228**	167	167
Underlying profit	**654**	**654**	455	455
Change in valuation assumptions	**(6)**	**(6)**	315	315
Experience and other variances	**(79)**	**(78)**	(77)	(77)
Finance and project costs	**(181)**	**(181)**	(160)	(159)
Adjusted operating profit before tax	**388**	**389**	533	534
Investment related variances	**819**	**819**	(173)	(173)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	**33**	33	33
Profit before taxation	**1,240**	**1,241**	393	394

The Group's adjusted operating profit before tax ("AOPBT") was £388 million (PIC: £389 million), a decrease of 27% from 2021 (PIC: 27%).

Underlying profit

This item comprises the expected returns arising from the management of the Group's assets and liabilities. This is derived by using assumptions about long-term returns on the underlying investment portfolio backing liabilities, and on the surplus assets of the Group.

It also includes the impact on profit of writing new pension risk transfer contracts based on target asset mix assumptions and the impact of entering into new contracts of reinsurance.

Underlying profits have increased to £654 million (2021: £455 million). Included within this:

- Expected return from operations reflects the expected returns arising from the management of the Group's assets and liabilities. This is derived by using assumptions about returns on the underlying investment portfolio backing liabilities, and on the surplus assets of the Group. Expected returns of £426 million were above the prior year (2021: £288 million), mainly driven by the increase in interest rates and higher levels of surplus assets.
- New business and reinsurance profit represents the impact on profit of writing new pension risk transfer contracts based on target asset mix assumptions, and the impact of entering into new contracts of reinsurance. New business and reinsurance profit of £228 million was higher than 2021 (£167 million), resulting from the £4.1 billion of new business premiums written.

A. Business and Performance (unaudited) continued

Changes in valuation assumptions

The Group's focus remains on long-term profitability, which is achieved by setting prudent assumptions in respect of the in-force liabilities and new business acquired during the year. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

As part of management's regular review of assumptions in 2022, several assumptions were updated that were broadly neutral in aggregate (2021: £315 million profit).

In the year we have made changes to the way we model pension revaluation increases, which contributed to a release of reserves of £62 million.

For longevity, we adopted CMI_2021, which is the latest version of the Continuous Mortality Investigation's ("CMI") projections model, to generate future mortality improvements. The impact of Covid-19 has also been removed from the derivation of current mortality rates. These changes lowered management's view of future average life expectancies, and consequently generated a reduction in reserves of £60 million.

We increased our cash commutation take-up rate to reflect more recent economic conditions and PIC's new longevity assumptions. This generated a reserve release of £30 million.

Following an in-depth review in the year, we increased our reserves by £106 million to reflect Management's latest view of maintaining the cost of our Limited Price Index ("LPI") inflation linked obligations.

Finally, we have updated our maintenance expense assumptions to reflect the latest expense budget and policy count information. This increased reserves by £52 million. In addition, there were several other smaller assumption changes made in the year, including an update to our ERM valuation, reinsurance, investment expense and project costs assumptions.

In 2021, several assumptions were updated including those in respect of credit defaults, maintenance expenses, investment management fees, inflation and the IFRS liquidity premium rate, which together resulted in a total reserve release of £315 million.

Experience and other variances

Experience variances gave rise to a loss in the year of £79 million for PICG and £78 million for PIC (2021: PICG loss of £77 million; PIC loss of £77 million). The loss in the current period largely reflects differences between assumptions used for pricing and reserving on new business. In 2021, the loss largely related to experience variances on new business, actual claims experience compared to expectation and the impacts of data updates from underlying policyholder information.

Finance and project costs

The interest costs of the subordinated Tier 2 debt capital issued by PIC and transaction costs increased slightly to £90 million in 2022 (PICG: £90 million) from £88 million the previous year (PICG: £89 million).

Interest coupons paid on the RT1 Debt issued by PIC were £33 million (PICG: £33 million) and were unchanged from 2021 (PIC: £33 million, PICG: £33 million).

Project costs in 2022 were £58 million (PICG: £58 million) compared to 2021 costs of £38 million (PICG: £38 million) due to higher spend on business-wide initiatives.

Investment related variances

Investment related variances include the differences between the expected long-term investment return and the actual investment return earned in the period; changes in economic assumptions on liabilities and the differences between the short-term actual asset mix against the expected long-term asset mix on new business transactions.

We carefully manage our risk to market and other economic factors and enter into derivative hedging contracts to manage these exposures in accordance with our risk appetite. Our hedging strategy is primarily designed to actively manage risk over the long-term in the solvency balance sheet, and there exists a mismatch between this hedging strategy and the IFRS balance sheet. This mismatch, and the resulting volatility, is included within the investment related variance line. The impact of changes in credit ratings and timing variances for asset purchases backing new business are also included here.

Investment related variances resulted in a gain of £819 million (2021: loss of £173 million), largely from favourable market movements and management actions to optimise the risk profile of our portfolio. The year-on-year improvement was mainly driven by higher interest rates, rising inflation and wider credit spreads.

Other operational highlights

In total, in 2022, PIC was responsible for the current and future pension payments of 302,200 (2021: 282,900) policyholders, including those with individual policies, and those for whom the trustees of the underlying pension schemes retain ultimate responsibility.

At 31 December 2022, 87% of the Group's gross longevity related reserves had been reinsured (2021: 85%). The Group has 14 reinsurance counterparties, all of which have a credit rating of A- or above.

A. Business and Performance (unaudited) continued

A.3 Performance of investment activity

The investment performance (including commissions earned), as presented in the table below, is a reflection of income, gains (realised and unrealised), losses and expenses arising from the investment portfolio owned by the Group.

	Group and Company	
Investment return: by Solvency II Asset Class	**2022 £m**	2021 £m
Government bonds	**(5,763)**	59
Corporate bonds	**(3,914)**	(188)
Collective Investment undertakings	**293**	119
Cash and deposits	**12**	(2)
Collateralised securities	**(52)**	1
Mortgages and loans	**(3,197)**	(220)
Derivative based instruments	**224**	440
Commissions earned	**1**	1
Investment Return	**(12,396)**	210
Investment management expenses	**(57)**	(42)
Total	**(12,453)**	168

Investment return comprises income received on fixed income securities, derivatives and investment property, and unrealised and realised gains and losses on these investments. The above table allocates investment return across the SII asset classes.

It is important to note that because our assets and liabilities are broadly matched, the rise in interest rates has also materially reduced our insurance liabilities, a change also reflected in the income statement.

A.4 Performance of other activities

Pension Insurance Corporation Group Limited

Group corporation tax charges, including those incurred by PIC, were £229 million during the year (2021: £82 million).

Pension Insurance Corporation plc

The Company incurred corporation tax charges of £229 million for the year ended 31 December 2022 (2021: £81 million).

A.5 Any other information

Economic uncertainty and market volatility

The global economic outlook has weakened further through 2022 due to high inflation and low growth rates. Central banks globally are increasing interest rates to combat inflation, which is exacerbated by energy and food price shocks. Geopolitical risks are high across the globe, and in particular the Russian invasion of Ukraine continues which has worsened Europe's energy security.

The financial impacts on PIC of these conditions can be both positive and negative. On the negative side, the current market conditions have resulted in higher risk of credit downgrades and defaults, and heightened risk overall. We constantly monitor market conditions and have risk appetite limits set for PIC's exposure to market risks. PIC also holds capital to protect the business against market movements, downgrades and defaults, and we continue to refine our methodology for calculating the amount of capital to hold. On the positive side, rising yields improve the funding position of pension schemes, which accelerates their ability to move to buyout, which in turn increases new business opportunities. Higher yields also improve PIC's solvency position.

Whilst the Liability Driven Investment ("LDI") crisis in the pension market did impact PIC's liquidity as a result of rapidly increasing gilt yields and the decreasing value of GBP against USD, PIC remained within its liquidity and capital risk appetite limits.

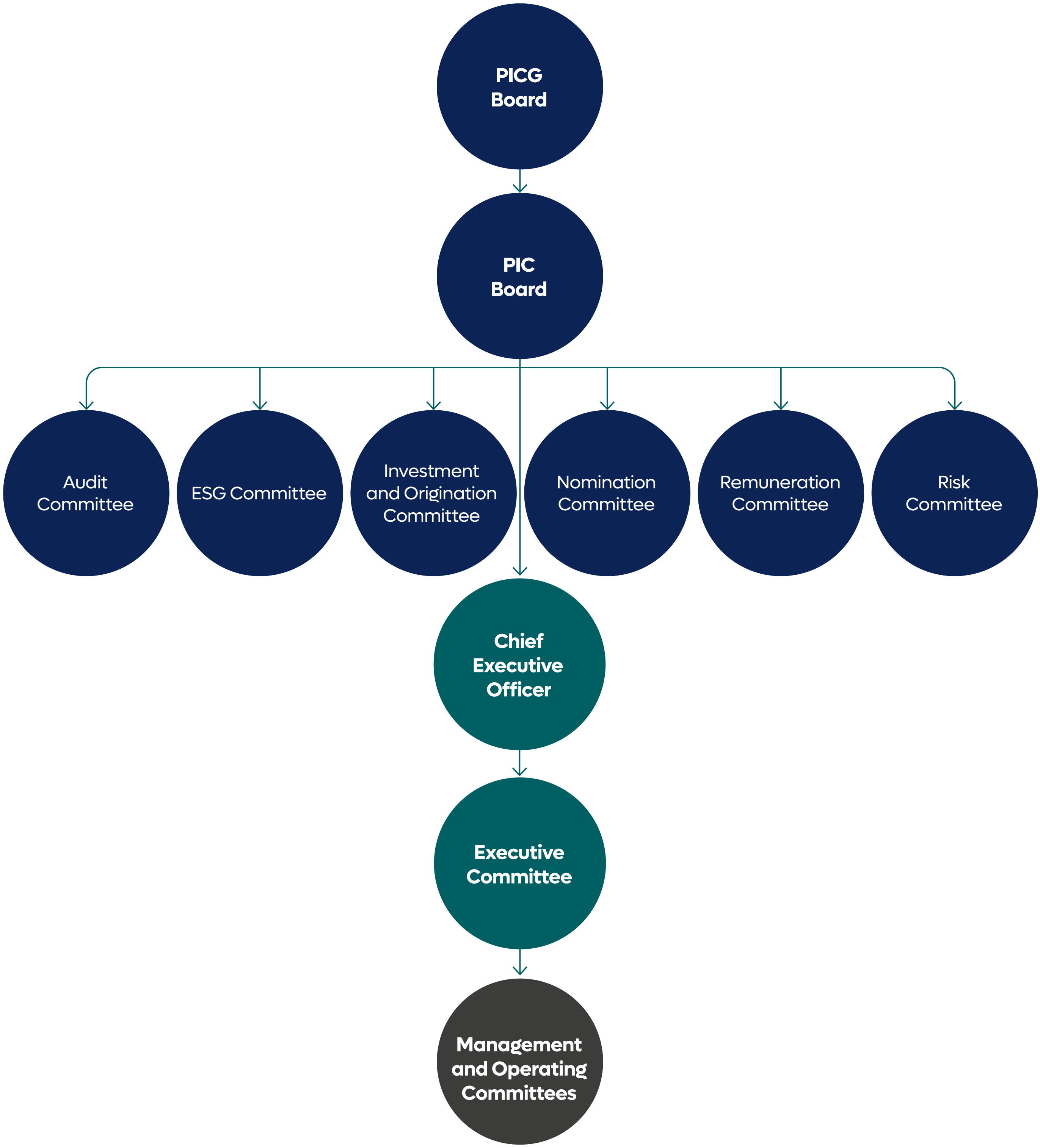
Alongside managing the day-to-day market volatility, the risk management capabilities of the Group have been enhanced. This includes significantly improving asset stress and scenario testing capabilities with the implementation of a new asset stressing model and development to our Risk Appetite Framework.

Rounding convention

The SFCR is presented in pound sterling rounded to the nearest million which is consistent with the presentation in the IFRS financial statements. The QRTs are presented in pound sterling rounded to the pound. Rounding differences of +/- one unit can occur.

B. System of Governance (unaudited)

The below chart shows the Group's governance structure. Along with other annual reviews of our governance processes, the structure is reviewed to make sure that it is fit for purpose and remains as such in the context of the Group's growth prospects.



B. System of Governance (unaudited) continued

B.1 Governance Function

Board of Directors

Pension Insurance Corporation Group Limited

PICG is governed by its Board consisting of 13 directors, 12 of whom are non-executive.

Of the non-executive Board members, two are nominated by Reinet PC Investments (Jersey) Limited which as at 31 December 2022, holds a 49.49% interest in PICG, one is nominated by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which holds a 18.42% interest in PICG, one is nominated by Blue Grass Holdings Limited, a CVC entity, which holds a 17.37% interest in PICG, and one is nominated by MP 2019 K2 Aggregator, L.P., an HPS Investment Partners entity, which holds a 10.23% interest in PICG.

The Board maintains overall responsibility for PICG Limited as an entity and an oversight responsibility for the Group to ensure the Group operates in the best interests of its policyholders, shareholders, employees and other stakeholders. The Board is also responsible for setting the Group's long-term objectives and commercial strategy.

The main activities of the Group are conducted through its principal operating subsidiary, PIC.

The Board has delegated the day to day management and administration of the Company to the Chief Executive Officer ("CEO") who has established the Executive Committee at the operating entity level, PIC, to assist the CEO in day to day running of PIC.

PICG Board

Director	Approved Function	
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function SMF 9 Chairman SMF13 Chair of the Nomination Committee	Stepped down as SMF 7,9 and 13 and retired from the Board on 1 October 2022
David Weymouth	SMF 7 Group Entity Senior Insurance Manager Function SMF 9 Chairman SMF 13 Chairman of the Nomination Committee	Board member from 1 October 2022 and approved by the PRA on 19 December 2022
Tracy Blackwell	SMF 1 Chief Executive Function SMF 7 Group Entity Senior Insurance Manager Function	
Jake Blair	SMF 7 Group Entity Senior Insurance Manager Function	
Judith Eden	SMF 12 Chair of Remuneration Committee	
Tim Gallico	SMF 7 Group Entity Senior Insurance Manager Function	
Julia Goh	Non-executive Director	
Stuart King	Non-executive Director	
Arno Kitts	Non-executive Director	
Josua Malherbe	SMF 7 Group Entity Senior Insurance Manager Function	
Roger Marshall	SMF 11 Chair of the Audit Committee SMF 14 Senior Independent Director	
Jérôme Mourgue D'Algue	SMF 7 Group Entity Senior Insurance Manager Function	
Mark Stephen	Non-executive Director	
Wilhelm Van Zyl	SMF 7 Group Entity Senior Insurance Manager Function	

Pension Insurance Corporation plc

PIC is governed by its Board consisting of 14 directors, 12 of whom are non-executive. Eight of PIC's directors are independent, including the Chairman.

Of the non-executive Board members, one is appointed by Reinet PC Investments (Jersey) Limited, one is appointed by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, one is appointed by Blue Grass Holdings Limited, a CVC entity, and one is nominated by MP 2019 K2 Aggregator, L.P., an HPS Investment Partners entity.

Pension Insurance Corporation plc is a wholly owned subsidiary of Pension Insurance Corporation Group Limited.

The Board has overall responsibility for the operations of PIC and oversees the management of the Company in the best interests of its policyholders, shareholders, employees and other stakeholders, and to set the Company's long-term objectives and commercial strategy.

The Board has delegated responsibility for a number of functions to Board Committees as set out below. The Committees all have Terms of Reference setting out in more detail their responsibilities.

B. System of Governance (unaudited) continued

PIC Board

Director	Approved Function	
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function SMF 9 Chairman SMF13 Chair of the Nomination Committee	Stepped down as SMF 7,9 and 13 and retired from the Board on 31 October 2022
David Weymouth	SMF 7 Group Entity Senior Insurance Manager Function SMF 9 Chairman SMF 13 Chair of the Nomination Committee	Board member from 1 October 2022 and approved by the PRA on 19 December 2022
Tracy Blackwell	SMF 1 Chief Executive Function SMF 7 Group Entity Senior Insurance Manager Function	
Sally Bridgeland	SMF 10 Chair of the Risk Committee	
Jake Blair	SMF 7 Group Entity Senior Insurance Manager Function	
Judith Eden	SMF 12 Chair of the Remuneration Committee	
Julia Goh	Non-executive Director	
Stuart King	Non-executive Director	
Arno Kitts	Non-executive Director	
Roger Marshall	SMF 11 Chair of the Audit Committee SMF 14 Senior Independent Director	
Jérôme Mourgue D'Algue	SMF 7 Group Entity Senior Insurance Manager Function	
Peter Rutland	SMF 7 Group Entity Senior Insurance Manager Function	
Mark Stephen	Non-executive Director	
Wilhelm Van Zyl	SMF 7 Group Entity Senior Insurance Manager Function	
Dom Veney	SMF 2 Chief Finance Function	

Audit Committee

The Board has established the Committee in fulfilling its responsibilities regarding financial reporting, the effectiveness of internal controls and risk management systems, processes and compliance matters.

The Audit Committee comprises four independent non-executive directors. The Board is satisfied that members of the Audit Committee have relevant accounting and financial reporting experience.

The Board has delegated to the Committee the responsibility for overseeing the following key areas:

Financial reporting

Monitoring and, where necessary, challenging the Group's financial reporting processes including key accounting issues and judgements as well as methods and assumptions used in the valuation of the technical provisions under Solvency II and suggested basis including prudential margins for the technical provisions under IFRS.

Reviewing and, where necessary, challenging all material information presented in the Annual Report and Accounts before these are approved by the Board.

Providing oversight of progress towards implementation of IFRS 17 and the financial impact on the Group's reporting.

Reviewing the Group's assessments of going concern, longer-term prospects and viability of the business and reviews of any applicable material which the Committee is required to review under the Group's and the Company's Reporting and Disclosure Policy.

Internal controls and risk management

Overseeing and assessing the framework, effectiveness and adequacy of the Group's systems of internal control, including key financial, operational and compliance controls. The Committee meets regularly with management, the Chief Risk Officer, the General Counsel and the Head of Internal Audit to ensure management take action to address any issues arising from this review.

Overseeing the validation process of the regulatory balance sheet and jointly with the Risk Committee making appropriate recommendations to the Board.

Liaising closely with the Risk Committee, ensuring that there are steps to identify and mitigate any significant risk to the Group.

B. System of Governance (unaudited) continued

Compliance, Financial Crime and Whistleblowing
Reviewing the Group's compliance policies and procedures as part of oversight of the Group's compliance with relevant regulatory and legal requirements, including the arrangements in place for the reporting and investigation of concerns and for ensuring fair customer outcomes.

Reviewing the adequacy of the Group's whistleblowing policies and procedures ensuring that such arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

Reviewing the Group's procedures for detecting fraud, systems and controls for prevention of bribery and market abuse.

Internal and External Audit
Overseeing and monitoring the role and effectiveness of the Group's Internal Audit function including approving the annual internal audit plan, monitoring the reports arising from internal audits and the status of actions resulting therefrom.

The appointment or removal of the Head of Internal Audit.

Managing the relationship with the External Auditor, monitoring and reviewing its independence, objectivity and performance, and leading the tender process or Senior Statutory Auditor change.

Considering and making recommendations to the Board on the appointment of the External Auditor (including approving the remuneration and terms of appointment) as well as reviewing the External Auditor's annual audit programme and the results therefrom.

Reviewing the policy on non-audit services carried out by the External Auditor.

Risk Committee
The Risk Committee provides oversight and advice to the Board on the current and future risk exposure of the Group including oversight of the future risk strategy; determination of risk appetite and tolerance; and internal controls required to manage risk and the effectiveness of the risk management framework, in conjunction with the Audit Committee.

The Board has delegated to the Committee the responsibility for overseeing the following key areas:

Risk Strategy, Appetite and Policy
The Risk Committee advises the Board on the Company's overall risk exposures, and the current and future risk strategy. The Committee reviews and recommends to the Board the design and implementation of Risk Management Frameworks and measurement strategies for the Company. It also reviews the risk appetite and tolerances and recommends these to the Board for approval.

Risk Oversight and Monitoring
The Risk Committee keeps under review the Company's overall risk identification, assessment and management process that inform the Board's decision making. The Committee is responsible for oversight of the Internal Model and for reporting to the Board on any areas needing improvement, as well as updating the Board on the status of efforts to improve previously identified weaknesses.

The Committee advises the Board on the risks to the business plan and capital implications making sure that these are adequately identified and assessed as part of the business planning process through stress testing and scenario analysis. The Committee also works with the Nomination and Remuneration Committee to ensure that risk management is taken into consideration in objective setting and the design of overall remuneration. It further provides advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the Company.

The Risk Committee also reviews reports on any material breaches of risk and compliance limits and material incidents. The committee monitors the adequacy of proposed actions and management's responsiveness to remedial actions.

Risk Function and the Chief Risk Officer
The Risk Committee considers and approves the Risk Function and Acturial Function Mandate and reviews and assesses performance of the Chief Risk Officer. It works with the Nomination Committee on making recommendations to the Board with regard to the appointment and removal of the Chief Risk Officer.

Investment and Origination Committee
The Investment and Origination Committee oversees the management of all aspects of investment policy and strategy for PIC and provides oversight of the operation of PIC's investment portfolios within established strategy and risks frameworks. The Committee plays a key role in PIC's governance of pricing by providing oversight of portfolio pricing for large deals.

The Committee also oversees all aspects of PIC's new business and reinsurance origination within established strategy, business plan and risk frameworks including conduct risk.

The Committee approves at least annually the pricing assumptions and approves the pricing authority for management.

B. System of Governance (unaudited) continued

Nomination Committee
The role of the Nomination Committee is to regularly review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and of the Executive Committee, and make recommendations to the Board with regard to any changes.

Remuneration Committee
The role of the Remuneration Committee is to determine and agree with the Board the framework or broad policy for the remuneration of all employees and the specific compensation in respect of the Company's Chairman, Non-Executive Directors, Chief Executive, the Executive Directors, Executive Committee and other material risk takers.

Environmental, Social and Governance Committee
The role of the Environmental, Social and Governance Committee is to provide oversight in respect to the Group's ESG strategy and activities, to embed the monitoring of ESG activities, ensuring compliance with legal and regulatory requirements and industry standards, and ensuring all stakeholders receive appropriate information about the Group's ESG activities.

Executive Committee
The Executive Committee consists of the CEO, CFO and senior management of the Company. Its role is to propose strategy to the Board and, once approved, implement it together with operational plans, policies, procedures and budgets. The Committee's purpose is also to shape, embed and maintain a culture which safeguards PIC's values by promoting attitudes and behaviours of high ethical standards and integrity in everyday conduct of PIC's business. The Committee further ensures that appropriate systems and controls are in place, monitors operating and financial performance and assesses and controls risks. The Committee also reviews resources and prioritises their use and allocation.

Executive Committee
Chief Executive Officer ("CEO")
Chief Financial Officer ("CFO")
Chief Risk Officer ("CRO")
Chief Operating Officer
General Counsel
Chief Origination Officer
Interim Chief People Officer
Chief Investment Officer
Head of Internal Audit*
Chief Technology Officer
Chief Strategy Officer

* From 1 February 2023, the Head of Internal Audit role ceased to be a formal ExCo member. Also from 1 February 2023, the Chief Internal Audit Officer, a new role, became a standing attendee.

Material changes to the governance structure over the reporting period
Pension Insurance Corporation Group Limited
The following changes were made to the Board of Directors of PICG between 1 January 2022 and the date of this report:

- David Weymouth appointed on 1 October 2022
- Jon Aisbitt retired on 1 October 2022

Pension Insurance Corporation plc
The following changes were made to the Board of Directors of PIC between 1 January 2022 and the date of this report:

- David Weymouth appointed on 1 October 2022
- Jon Aisbitt retired on 31 October 2022

Remuneration Policies and Practices
Governance of remuneration
The PIC Remuneration Committee ("RemCo") is a Board level committee. The RemCo consists of four non-executive directors and two shareholder nominated directors. The RemCo is governed by its Terms of Reference, which sets out its duties and, which are reviewed regularly.

The RemCo has responsibility for setting the remuneration policy of the Company and for its implementation and regular review. Reports on Committee activity are provided to the Board as appropriate.

The RemCo is also responsible for individual remuneration arrangements and outcomes for the Company's Chairman, Chief Executive, Executive Directors, Executive Management and material risk takers. To minimise the risk of any conflicts of interest, no individual is involved in decisions regarding their own remuneration.

B. System of Governance (unaudited) continued

In its oversight of the remuneration structures, the RemCo takes full account of strategic objectives and stakeholder views, as well as the interests of the customer/policyholder. The alignment of risk and reward is a prominent consideration, and the RemCo seeks input from the CRO, Chair of the Board Risk Committee ("BRC"), and the Chair of the Audit Committee in the design of remuneration policies and in determining collective and individual reward outcomes.

The RemCo also has responsibility for compliance with all relevant legal and regulatory requirements on remuneration, including Solvency II which came into force on 1 January 2016. The RemCo ensures that its remuneration policies and practices are suitably aligned with the requirements of Solvency II, and is responsible for the oversight of individual remuneration arrangements and outcomes in respect of all Solvency II Identified Staff. The remuneration for the CEO and CFO is also approved by the Board.

Remuneration policy
The Company's remuneration policy is designed to enable the Company to recruit, retain and motivate employees of the appropriate calibre to deliver its strategy over the long-term. The policy is intended to be consistent with and to promote sound and effective risk management and to ensure that it does not encourage risk taking that exceeds the tolerated risk appetite of the Company.

A description of the different remuneration elements for 2022 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive taking into account the individual's skills, the size and scope of their role. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Company to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all eligible employees: Private health cover; annual travel insurance; interest free loans (up to £10,000) for season tickets; death in service life assurance; participation in the Save As You Earn Plan, Cycle to work scheme and 28 days annual leave.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Company's contribution that otherwise would have been made under the Stakeholder Pension arrangement. No member of the administrative and management bodies or members of committees and key function holders benefit from any additional pension arrangement to those listed above including supplementary pension or early retirement schemes.

Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All eligible employees may be invited to participate in the plan. Awards are based on the achievement of annual objectives. At all levels within the Group, individual performance metrics include compliance with standards relating to risk and compliance set by the Board. Other performance metrics assess alignment with the Group's values, which include good conduct both within the firm and in dealings with customers. For Solvency II Identified Staff, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. Performance is assessed against both financial and non-financial criteria. Financial performance is reviewed against a basket of financial metrics agreed at the beginning of the year. Non-financial criteria could consider metrics such as compliance with risk appetite, compliance breaches, customer service measures and conduct, and findings of Risk, Compliance and Internal Audit reviews. The RemCo, in formulating its recommendation on aggregate variable pay to the Board for approval, will review progress against strategic goals and financial targets; and seek input from the Risk Committee and the CRO on company-wide risk management performance over year, including an assessment of whether the business has acted within risk appetite in pursuing the strategic goals and financial targets. The variable incentive pool and/or individual awards may be adjusted downwards to reflect poor risk management performance. For Solvency II staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil-cost options. While the cash element of the bonus is paid upfront, for Solvency II Identified Staff at least 40% of variable pay is in the form of nil-cost options which are subject to deferral over a three-year period predominantly using the Deferred Bonus Share Plan ("DBSP"), as detailed below.

Deferred Bonus Share Plan	The DBSP seeks to align the long-term interests of the Company for all senior management and other key individuals through bonus deferral. Under DBSP, bonuses comprise of a cash element awarded annually at the end of the financial year and paid in March of the next year. The deferred element is awarded in the form of nil cost options which vest after three years.
	
	For Solvency II Identified Staff a minimum of 40% of any variable award is deferred. Prior to vesting, the RemCo can make adjustments to awards under the malus and clawback provisions.
	
	The RemCo has the ability to reduce or extinguish the level of any award, or require amounts to be reclaimed from individuals. This may be the case in the event of:
	• significant financial losses or material misstatement of the accounts for the Company or any group company;
	• material failure of risk management for any period that the Committee reasonably considers is relevant;
	• discovery of a material error in relation to the assessment of annual performance on which an award was based; and/or
	• reasonable evidence of any act or omission by the participant which in the opinion of the Committee:
	    • has contributed to material losses or serious reputational damage to the Company or any business area; or
	    • has amounted to serious misconduct, fraud or misstatement (whether by exaggeration of financial performance or mismarking the valuation of any asset or otherwise).
	• for any period that the Remuneration Committee determines is relevant; and/or in relation to an Award granted on or after 1 January 2022, and to the extent not already covered by the above provisions:
	    • a material corporate failure in any Group Member or a relevant business unit; or
	    • the discovery of a material error in relation to the information or assumptions on which the Award was granted or vests.

B. System of Governance (unaudited) continued

Long-term Incentive Plan	Selected senior individuals are invited, at the discretion of the RemCo, to receive LTIP share awards. These individuals are those tasked with delivering PIC's long-term strategic goals and generating long-term shareholder value. LTIP awards vest over a three-year period, subject to the achievement of performance conditions. Awards to ExCo members become exercisable after a further retention period of up to two years. The RemCo can make adjustments to LTIP awards by applying malus and clawback up to the fifth anniversary of the date of grant (or longer if an investigation is ongoing at that point).

Link between pay and risk management
The Company's Remuneration Policy includes the following elements which are intended to align employees' reward to the Company's risk management:

- Maintaining an appropriate ratio between fixed and variable pay.
- Performance measures – Variable remuneration is subject to an assessment of financial and non-financial performance. Financial targets are set at a level consistent with the Company's risk appetite. For all employees, there is consideration of performance against risk and compliance criteria, thereby ensuring that there is risk adjustment at an individual and company level.
- Long-term incentives – Alignment with the long-term interests of the company for senior management is achieved by the award of variable remuneration in shares for a three year vesting period, followed by a post-vesting holding period of up to three years before liquidity can be obtained subject to the terms of the relevant plan rules
- Risk adjustment process – The RemCo, in formulating its recommendation on aggregate variable pay to the Board for approval, will review progress against strategic goals and financial targets, and seek input from the CRO and Chair of the BRC and Chair of the Audit Committee for an assessment of risk and compliance within established risk appetite limits as stated and approved by the BRC.
- If the performance has been achieved out of line with risk appetite, the variable incentive pool may be adjusted downwards, including to zero.
- Malus and clawback provisions apply to all share-based variable remuneration paid to employees whereby awards may be reduced, withheld or reclaimed in certain circumstances, as outlined in the table above.
- For staff engaged in assurance functions, variable remuneration is mainly determined by reference to performance against functional/individual performance. The RemCo signs off on all remuneration for senior assurance staff, ensuring independent review of achievements.

Material transactions during the reporting period
Transactions with directors and key management personnel
Key management personnel comprise directors of the Group and members of the Executive Committee.

	2022 £m	2021 £m
Short-term employee benefits	**9**	9
Share-based payments	**4**	5
Total	**13**	14

Other related party transactions
On 8 June 2021, PIC subscribed to €150 million 1.48% senior notes in Capital Investors Europe PBI Limited, a company within the CVC Group. Another member of the CVC Group is a significant shareholder of PICG. Investment income during the period amounted to £2 million (2021: £1 million) and the carrying value of the investment at 31 December 2022 was £97 million (2021: £126 million).

PIC holds investments in funds managed by HPS which is a member of a group that is a significant shareholder of PICG. During the year there were net capital distributions of £33 million (2021: net capital contributions of £12 million) and investment income amounted to £14 million (2021: £7 million). As at 31 December 2022 the carrying value of the investments was £166 million (2021: £176 million).

During the year, the Group invested £22 million into joint ventures. The Group has a majority stake in the joint venture and is required to provide its unanimous consent with other joint partners on all key relevant activities that influence returns.

Transactions with shareholders
Pension Insurance Corporation plc
There were no transactions with its shareholder during 2022 (2021: £nil).

Pension Insurance Corporation Group Limited
There were no transactions with shareholders during 2022 (2021: £nil).

B. System of Governance (unaudited) continued

B.2 Fit and proper requirements

PIC has in place procedures to ensure its staff are:

(a) Fit – Their professional qualifications, knowledge and experience are adequate to enable sound and prudent management; and

(b) Proper – They are of good repute and integrity.

In respect of each role, PIC compiles a detailed job description including the role's competencies and required qualifications. Potential recruits are interviewed by people experienced in these areas and confirmation is obtained from external agencies that they have the qualifications claimed. References from previous employers are taken up if available.

PIC carries out DBS and credit checks on all staff who are involved in finance, investments, or administration of policies or who hold senior positions.

PIC also monitors staff throughout the year and reviews their performance by way of an appraisal. Staff are expected to keep up to date with relevant changes in applicable technical competencies and their CPD hours are recorded.

PIC has implemented the requirements of the Senior Managers and Certification Regime which was extended to insurance companies on 10 December 2018. Staff were certified on 1 April 2022.

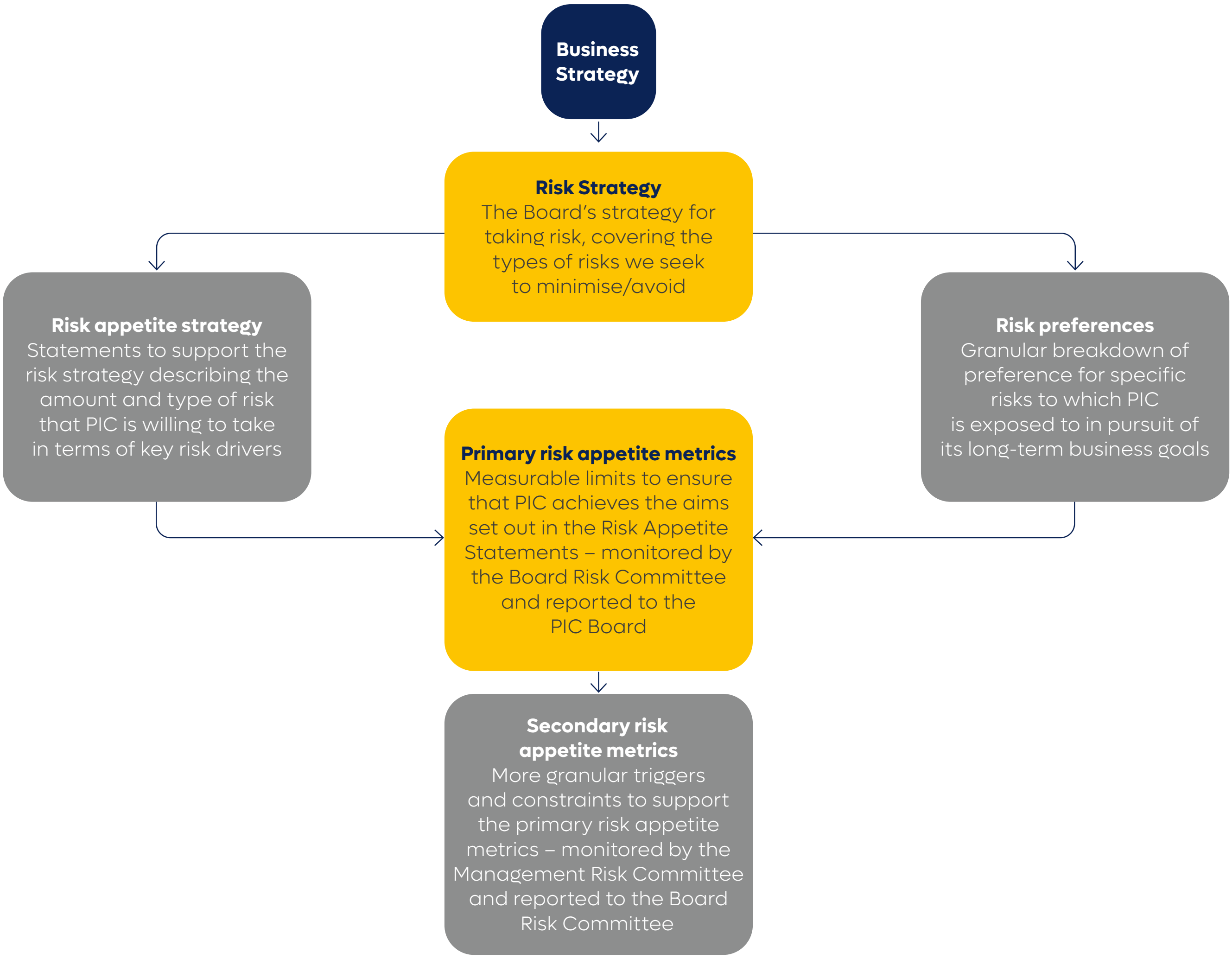
A list of the approved persons of the Company is held on the Financial Services Register website, maintained by the Financial Conduct Authority, and is available from the following link.

https://register.fca.org.uk/s/firm?id=001b000000MfdHKAAZ

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

B.3.1 Risk Appetite Framework

The Risk Appetite Framework is a key aspect of managing the material risks to the business operations, its strategy and to PIC's reputation with key stakeholders (including policyholders, trustees, regulators and investors). It is approved by the Board and includes risk metrics (limits and triggers) within which the business must operate and it outlines the roles and responsibilities of those who implement and monitor the Company's risk appetite.



B. System of Governance (unaudited) continued

B.3.2 Risk strategy and preferences

PIC's risk preferences define the Board's appetite towards taking different types of risks which the Company may be exposed to in pursuit of its strategic objectives. Risks are categorised as those the Company actively seeks, those the Company accepts and those the Company seeks to minimise.

Risk preferences are set for each Level 1 and Level 2 risk category by referring to the Risk Preference Principles articulated by the Board as part of the Company's risk strategy.

These principles are:

We should actively seek risks that:

- are aligned with our business strategy and with stakeholder expectations;
- we believe are adequately rewarded; and
- are within the capabilities and capacity of our people, processes and technology to manage.

We should accept and take measured amounts of risks that:

- are an acceptable consequence of pursuing our business strategy; and
- are within the capabilities and capacity of our people, processes and technology to manage.

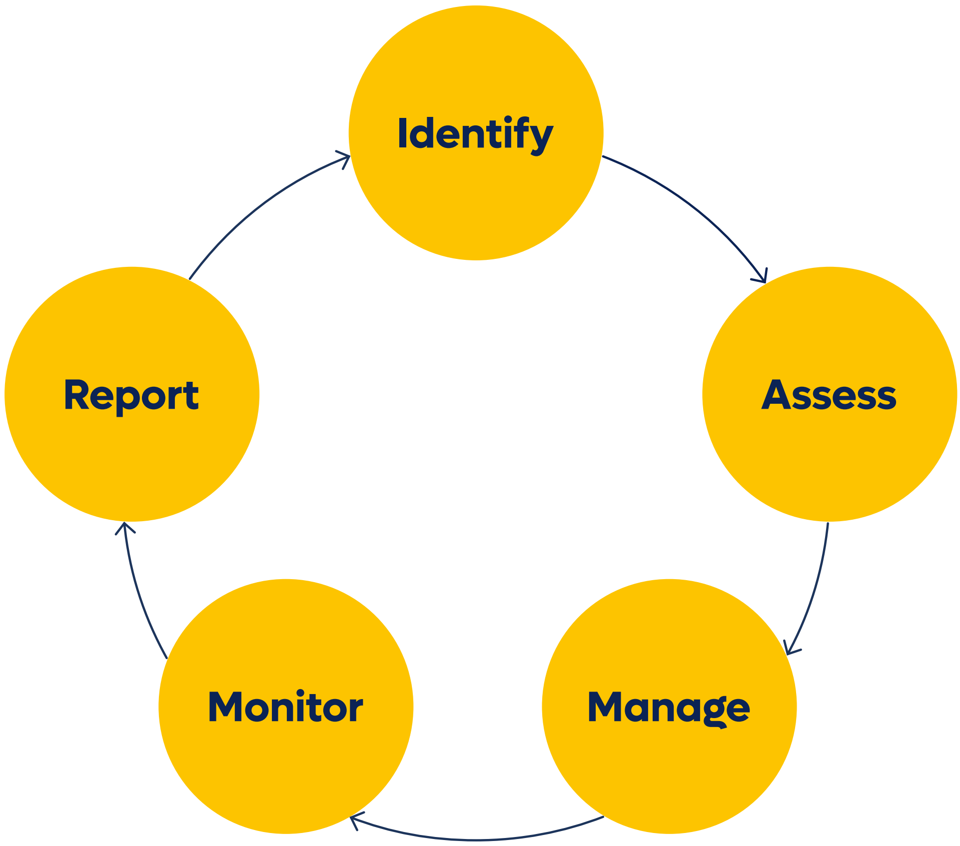
We should minimise risks which:

- are not aligned with our business strategy or to stakeholder expectations; or
- are beyond the capabilities and capacity of our people, processes and technology to manage.

B.3.3 Risk Management System

PIC's Risk Management System outlines how risks are identified, assessed, controlled and managed. Risk assessment is a continuous process, incorporating regular monitoring, stress and scenario testing and deep dive reviews which are reported through relevant committees to support the decision-making processes of the business.

PIC also tracks and monitors a range of emerging and developing risks that may impact its business model and strategy to assess whether any new risks need to be more extensively assessed and formally managed, including additional controls and monitoring.



B. System of Governance (unaudited) continued

B.3.4 Risk appetite

PIC's Risk Appetite Framework is closely aligned with its business strategy. This is defined for the medium-term (typically three to five years) and reviewed annually. The Company has developed primary and secondary risk appetite metrics which are designed to align with supporting the safe delivery of the business strategy objectives. Where it is considered an appropriate control of a risk, target, threshold triggers and/or limits are set for each of the risks within PIC's taxonomy appetite metrics. If one of the risk appetite metrics passes through a trigger or limit, it necessitates escalation and appropriate action.

B.3.5 Own Risk and Solvency Assessment

Quantifiable and material risks over the coming year which are mitigated through holding capital are measured using PIC's internal model, which is used to determine the appropriate Solvency Capital Requirement for the business to manage the impact of these risks. Those quantifiable and material risks for which capital is not held as part of their risk mitigation treatment or which are expected to occur at a future date over the planning horizon, beyond the 12-month horizon of the SCR calculation, are not included within PIC's internal model. Instead, these are measured by considering their impact as part of the stress and scenario testing programme and discussed in risk and solvency reports such as the Own Risk and Solvency Assessment ("ORSA").

The ORSA assessment provides an ongoing process to identify, assess, monitor and manage the risks to PIC's business plan and solvency over both the near term and the five-year business planning horizon.

The ORSA activities include:

- assessment of the Company's current and projected risks;
- assessment of risk mitigation, including capital and liquidity buffers;
- stress and scenario testing, including reverse stress testing; and
- strategic planning and financial projections.

These are summarised in the annual ORSA report which is reviewed and approved annually by the Board.

The ORSA is a forward-looking assessment of the business' capital requirements considering the specific risk profile from targeting the strategy. The ORSA alongside PIC's approved Internal Model are the key tools in the business determining its own solvency needs. They both take account of PIC's risk profile with the final ORSA report documenting the interaction between capital management activities and the risk management system.

B.3.6 Capital Buffer

In addition to managing the profile of its assets to meet the Company's objectives to ensure it can meet its obligations to policyholders and providers of capital in a timely manner, the Board determines its own view of the amount of capital it believes the business needs to hold.

The Board's assessment of the capital buffer held over the regulatory capital requirement serves to:

- provide an extra layer of security to policyholder benefits;
- provide an extra layer of security to debt investors;
- safeguard the franchise value for equity investors;
- act as a buffer against quantitative risks and absorb short-term balance sheet volatility, such as from credit spreads, interest inflation or exchange rate movements
- act as a buffer against qualitative risks that do not readily lend themselves to statistical quantification but for which capital is an appropriate risk mitigant; and
- ensure financial flexibility by maintaining strong liquidity and access to a range of capital markets.

B.3.7 Internal Model governance

The BRC is responsible for the oversight of the Internal Model and providing recommendations to the Board with respect to its calibration and any proposed changes. These duties are supported by the Management Risk Committee which is chaired by the CRO.

To ensure that the Internal Model is, and continues to be, suitable for the assessment of risk and capital, the Company has implemented a governance framework through its Internal Model Policy and supporting policies and procedures. These cover:

- model use: to provide assurance that the model is widely used in the business and plays an important role in the system of governance and decision-making processes;
- model change: where changes to the Internal Model are required, these are implemented in a controlled manner with appropriate oversight and governance;
- model data: controls are applied to ensure the data used by the Internal Model is accurate, complete and appropriate;

B. System of Governance (unaudited) continued

- expert judgements: where judgements are required in the model, then these are informed by relevant internal and/or external experts and supported with robust justification, considering the range of plausible assumptions and their impacts and limitations;

- model documentation: the Internal Model documentation outlines the data, methodology, assumptions and judgements within the model, including highlighting the circumstances where the model does not work effectively. This allows management to determine whether the output is reasonable and reliable for its different uses; and

- model validation: the Model Risk and Validation team within the Risk function provides independent assurance that the Internal Model remains fit for purpose and compliant with all applicable rules through a risk-based cycle of reviews. These reviews use a range of quantitative and qualitative validation tools documented in the Internal Model Validation Procedure such as profit and loss attribution and back-testing against experience.

There have been no material changes to the Company's Internal Model governance over 2022.

B.4 Internal control system

In line with the Internal Controls system, the Board takes responsibility for ensuring the implementation of a comprehensive framework of controls across the Company, supported by relevant and regular monitoring processes to confirm that key policy objectives are met. Each committee works with management to establish procedures and controls to provide an appropriate control environment that supports the key processes for which the committee is responsible for oversight.

These processes and procedures encapsulate specific principles of the Internal Control Framework which are exercised in the operation of the Company's day to day activities:

- Staff recruitment, appraisal and training
- Segregation of duties
- Authorisation of transactions
- Retention of records
- Physical safeguards
- Performance reviews
- Information Security
- Fraud detection
- Reporting
- Re-performance
- Incident management

PIC's internal control framework is designed to provide reasonable assurance that the Company's activities are focused on ensuring the Company's objectives are achieved in an effective and efficient manner and with due regard to managing risk including conduct risk. The daily control activities include approvals, reconciliations, management reviews, appropriate measurements applicable to each business area, physical access controls, compliance with agreed limits, and compliance with operating principles/instructions and procedures. The control activities should be proportionate to the risks stemming from the controlled activities and processes. They consist of a number of control activities which are deemed appropriate to the business and the principles of these are documented below:

CONTROL ACTIVITY	PRINCIPLES
Existence:	Only valid or authorised transactions are processed and appropriate assets and liabilities recorded. This includes appropriate reconciliation of records held by external parties to expected outcomes.
Occurrence:	Transactions are correctly processed and recorded in the period to which they relate on a timely basis. This includes controls over outsourcing arrangements such as confirmation that controls have occurred and suitable records have been maintained.
Completeness:	All valid transactions are processed without omissions. Checks are made to confirm completeness of transactions, including payments to pensioners each month. Monitoring is undertaken to confirm agreed service standards are met. Records for assets maintained by outsourced custodians are checked to ensure completeness and accuracy. Control attestations are completed by Executive Management at least annually to confirm conformance with key policies.

B. System of Governance (unaudited) continued

CONTROL ACTIVITY	PRINCIPLES
Valuation:	The value of each transaction and balance in the Company's accounts is calculated using an appropriate methodology and is computationally accurate. Policies and procedures are documented and approved including the Investment valuation policy, which is reviewed by external auditors. Reviews are undertaken of the application of relevant policies. Models are subject to appropriate change control, assumptions are documented and appropriate approvals are undertaken prior to new business commitments.
Security:	The Company's assets and data are held in a secure environment with adequate safeguards over misuse and misappropriation. Relevant policies are documented and communicated to all staff, with clear record of their obligations to protect assets. Security of information, and in particular data relating to policy-holders, is subject to scrutiny and review, with information security matters highlighted and communicated to executive management, the Board and relevant committees. Physical assets are recorded and subject to regular checks. Physical access to the Company's premises and assets is restricted, with regular testing of access controls, monitoring and exceptions reporting.
Rights and Obligations:	Assets and liabilities are properly recorded and valued. Assets represent the rights of the company, and liabilities its obligations, at a given date.
Presentation & Disclosure:	Components of financial statements (or other reporting) shall be properly classified (by type or account) and described appropriately. An audit trail is kept from financial statements to internal management reports.
Competence:	Staff employed by the Company have the skills appropriate to their role and responsibilities, and are supported by a suitable training programme to augment their skills as necessary; this includes documented job descriptions, agreed development plans and support for continuing professional development. Monitoring and assessment of "fit and proper" requirements, including critical finance functions, undertaken in line with the Company's Fit and Proper Persons policy.
Regulation:	The Company's affairs are conducted at all times in compliance with the rules of its regulatory bodies. Established Compliance function supported by staff training and regular monitoring of key parameters by which compliance is measured (e.g. treating customers fairly, breach reporting etc).
Risk:	The Company identifies and considers the operational and financial risks it runs in the course of managing its business and identifies and implements appropriate mitigating procedures. The Board sets a Risk Framework for the Company, which includes Risk Appetite and tolerance limits. Board Risk, Risk Management and Operational Risk Committees meet on a regular basis. Oversight is provided by the relevant Board and Management Risk Committees to assess how risks are being managed and any areas that internal controls are not operating as expected. Meetings are minuted and action points followed up by Chief Risk Officer and Operational Risk Manager.
Operational resilience:	Operational resilience defines PIC's ability to prevent, adapt, respond to, recover and learn from operational disruptions. PIC's business continuity and disaster recovery plans are key elements of PIC's approach to achieve operational resilience. The plans are produced, maintained and regularly tested, with periodic update and review, including monitoring by the Business Continuity Review Group.

B. System of Governance (unaudited) continued

B.4.1 Compliance
The operation of the Company's internal control framework is supported by the Company's Compliance Function. The Compliance Function sits with the General Counsel of the Company, who reports to the CEO.

The role of the Compliance Function within the Three Lines of Defence model is to provide regulatory oversight and advice to the First Line business units and the Board in respect of regulatory and/or control risks that may be inherent in PIC's business decisions/activities.

Together with the other assurance functions, the Compliance Function is responsible for monitoring and regularly assessing the adequacy and effectiveness of the systems, controls and procedures at PIC, and for advising and assisting the business in carrying out regulated activities to ensure compliance with its obligations under the regulatory system.

The Compliance Monitoring programme forms part of the annual Integrated Assurance programme.

B.5 Internal audit function
The primary role of Internal Audit is to support the Board and Executive Management to protect the assets, reputation and sustainability of PIC, by providing independent and objective assurance, advice and insight, designed to add value and improve PIC's operations.

Internal Audit helps PIC achieve its purpose of paying the pensions of our policyholders by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately managed; and by challenging the Executive Management to improve the effectiveness of governance, risk management, internal controls and the control culture.

Internal Audit is responsible for reviewing and reporting on:

- audits of the controls mitigating the key risks in all areas of the business, prioritised according to risk;
- major business change initiatives; and
- risk management and internal control processes.

Internal Audit submit, at least annually, a risk-based internal audit plan to Senior Management and the Audit Committee for review and approval. The annual planning process consists of review and update of the audit universe, review of current and emerging risks, discussions with senior management, risk-based prioritisation and agreeing the approach, timing and resource to be allocated to the audits. The impact of resource limitations and significant interim changes are communicated promptly to Senior Management and the Audit Committee and the Board, through periodic activity reports.

Internal Audit's activities encompass, but are not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management and internal control processes in relation to the organisation's defined goals and objectives. The scope includes:

- internal governance – design and operating effectiveness of the internal governance, structures and processes, to confirm they are in line with the objectives, risk appetite and values of the organisation. This includes:
  - review of policies and of the design and operating effectiveness of processes;
  - the risk and control culture, including:
    – the design and operation of the Risk Management, Compliance and Finance functions;
    – effectiveness and efficiency:
      – of operations and employment of resources, and
      – management of risks relating to capital and liquidity, IT, assets, operations, people, finance and actuarial; and
  - management and oversight of third parties and outsourcers;
- management Information – Reliability, integrity and effectiveness of management information and reporting, used by the Board and Executive Management for strategic and operational decision making;
- risks of poor customer treatment, giving rise to conduct or reputational risk; and
- key corporate events including significant business process changes, new products, services, outsourcing decisions and acquisitions/divestments, as well as review and reporting on significant control failures and assisting investigation of significant suspected fraudulent activities.

Internal Audit aims to comply with the Institute of Internal Auditors ("IIA") International Standards for the Professional Practice of Internal Auditing, their Code of Ethics and their guidance for Effective Internal Audit in the Financial Services Sector. Internal Audit is also required to comply with the PIC's Employee Handbook, the PIC policies and its core values at all times. Internal Audit maintains a quality assurance and improvement programme that covers all aspects of the internal audit activity.

To provide for independence, Internal Audit reports functionally to the Chair of the Audit Committee and administratively to the Chief Executive Officer. Financial independence, essential to the effectiveness of internal auditing, is provided by the Audit Committee approving the annual budget to allow Internal Audit to meet the requirements of the Internal Audit Policy and Charter.

B. System of Governance (unaudited) continued

The scope of Internal Audit is unrestricted. Internal Audit is functionally independent and objective from the activities audited and the day-to-day internal control processes of the organisation. They are able to conduct an assignment on their own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the actions of outsourced activities.

Internal Audit is represented on, or has full access to minutes and presentations to, all of the major committees, so as to keep abreast of the Company's strategic direction, developments and risk/control breakdowns.

In addition to internal audit reports of activity and regular updates to committees and the Board, Internal Audit provides an annual written assessment of the adequacy and effectiveness of PIC's risk management, internal control, culture and governance processes and systems.

Internal Audit co-ordinates activity with other assurance functions as part of an "Integrated Assurance Approach", to align audit and assurance work where relevant to optimise assurance provided across the business and minimise duplication of work. This includes co-ordinating assurance plans, providing input to integrated assurance and being informed by the work and results of the other assurance functions, external assurance and consulting service providers.

B.6 Actuarial function

The Company's Actuarial Function is led by the Actuarial Function Holder ("AFH"). The current AFH is a senior qualified actuary who is employed by the Company and supported by other actuaries. The AFH reports to the Company's Chief Risk Officer and has direct access to the Board, Audit and Risk Committees.

The AFH and his actuarial team are not directly involved in the production of Technical Provisions and have no direct involvement in decisions relating to underwriting or reinsurance. The AFH team operates independently from the teams responsible for the development of the underlying models, methodologies and assumptions and the operation of these on a day-to-day basis to produce Technical Provisions, capital requirements, new business pricing and associated management information.

The AFH maintains regular close oversight of these activities through regular and ad hoc interactions with these teams, as necessary. In particular, the AFH and the Company's Chief Actuary hold monthly meetings at which each month end's valuation results and profit/loss analysis are discussed along with the projected short-term financial position of the Company, as well as other regular information received from other areas of the business.

In this way, the AFH is able to discharge the Actuarial Function's responsibilities relating to the co-ordination of the calculation of technical provisions, providing an opinion on underwriting policy and adequacy of reinsurance arrangements, and contributing to the effective implementation of the risk management systems, in particular to modelling risk in respect of the SCR, MCR and ORSA calculations.

B.7 Outsourcing

PIC has a number of outsource providers, noting always that it maintains responsibility for the services they provide. The material functions which are outsourced are administration of policies, investment management, custodian services, and certain IT related services.

When choosing a material outsource provider, PIC's policy requires it to ensure the following issues are considered and documented in the legal arrangements between it and its chosen outsourcer:

- Ability, capacity, and authorisation
- Financial Resources
- Staff
- Change management and future proofing
- Control Framework
- Conflicts
- Rights and Obligations
- Sub Outsourcers
- Data Protection
- Operational Risks
- Authorisation
- Contingency Plans
- Exit plans
- Cost

B. System of Governance (unaudited) continued

PIC also maintains sufficiently qualified staff to monitor the provision of these services and to carry out checks against the above areas and provide reports on their performance to the relevant Board Committee.

Depending on the function outsourced, the relevant Board Committee must approve the outsourcing or any material change to the outsourcing, of critical, important, or material functions or activities.

In addition to that, all proposals for outsourcing and material changes to the outsourcing, of critical, important or material functions or activities are reviewed by the Board Risk Committee who will recommend approval or otherwise to the Board.

PIC's Compliance, Risk and Internal Audit functions also carry out reviews throughout the year both of the outsource providers and also of the internal department that monitors the providers.

The Group's service company, PSC, provides all staff and certain services to PIC under the terms of a services agreement. The provision of these services is overseen by the Board. PSC charges to PIC during 2022 totalled £210 million (2021: £176 million).

The following key functions and activities have been outsourced:

- Policyholder, payroll and administration services to Capita Employee Benefits Limited
- Custodian and investment accounting to JP Morgan
- Custodian and Trade Management to Northern Trust
- Asset management to JP Morgan, Schroders, Wellington Management International, TwentyFour Asset Management and Macquarie
- IT support to Content+Cloud
- Actuarial support services to Barnett Waddingham LLP and XPS Pensions Consulting Limited.

B.8 Any other information

Adequacy of systems of governance

The Board continues to believe that the systems of governance operated by the Group and Company remain appropriate given the nature, scale and complexity of the risks inherent in the business.

C. Risk Profile (unaudited)

The Solvency Capital Requirement for both PICG and PIC was £3,199 million as at 31 December 2022 (31 December 2021: £3,968 million), as measured by the Group's Internal Model.

In order of relative size of contribution to the Solvency Capital Requirement, the most important risks to the Company are:

- Market risk (including credit risk) (see C.1 and C.5)
- Insurance risk (see C.2)
- Operational risk (see C.3)
- Expense risk (see C.4)
- Counterparty default risk (see C.5)

This can be expressed graphically, as shown below (pre-diversification):

2022

Market risk (including credit risk)	**74%**
Counterparty default risk	**2%**
Insurance risk	**11%**
Expense risk	**6%**
Operational risk	**7%**

2021

Market risk (including credit risk)	**64%**
Counterparty default risk	**3%**
Insurance risk	**21%**
Expense risk	**6%**
Operational risk	**6%**

The various components of the Risk profile are discussed in further detail in sections C.1 to C.6.

The prudent person principle is embedded within the Company's investment strategy. In accordance with the principle, the Company only invests in assets and instruments:

- where the risks can be properly identified, measured, monitored, managed, controlled and reported;
- that ensure the security, quality, liquidity and profitability of the portfolio as a whole;
- that are appropriate to the nature and duration of insurance liabilities; and
- that are in the best interest of policyholders and beneficiaries.

Compliance with the Company's policies is managed through the risk framework described in Section B. (System of Governance).

C.1 Market risk

Market risk is the risk of changes in the value of assets and liabilities caused by market movements, downgrades and defaults.

C.1.1 Market risk exposure

The Company is exposed to market risk as a consequence of fluctuations in values or returns on assets and liabilities which are influenced by one or more external factors. These include changes and volatility in interest rates, credit spreads, inflation expectations, currency exchange rates, property prices, fund values, and the market risk implications of climate change. Credit risk is a material risk to the Company and is described separately in section C.5.

C.1.2 Market risk management and mitigation

The Company uses derivative financial instruments to reduce market risk. Interest rate and inflation swaps are entered into to improve the matching of asset and liability cashflows and to ensure that risk driver sensitivities are aligned across the maturity spectrum. Currency forwards and swaps are entered into to reduce currency risk on financial assets invested in non-sterling-based debt securities. The Hedging Strategy is set by the Board and a management committee meets weekly to oversee and manage interest rate, inflation and foreign exchange risks in line with the Hedging Strategy and within clearly defined limits.

C. Risk Profile (unaudited) continued

The Company accepts property risks directly through investment in equity release mortgages and real estate assets. In addition, the Company has indirect exposure to the property market within the corporate bond portfolio; for example through investments in social housing and student accommodation. The credit rating (and therefore value) of these bonds may be impacted by property risk events. Significant due diligence is undertaken for property construction projects, including an assessment of third parties (e.g. construction contractors). Property risk inherent in equity release mortgages is mitigated through underwriting criteria, maximum loan to value ratios, and legal requirements such as for properties to be insured.

Capital is held to further protect the Company against crystallisation of market risks. Stress testing of the Solvency II solvency position is conducted to ensure a suitable solvency buffer is maintained. The impact of certain scenarios on the reported Solvency II ratio is shown below for a range of market and non-market risks. The sensitivities are shown on a non-cumulative basis, i.e. only the indicated item is varied relative to the base Solvency II ratio shown.

	2022	2021
As Reported	**225%**	168%
100 bps increase in interest rates[1]	**16.1%**	12.9%
100 bps reduction in interest rates[1]	**(12.3)%**	(23.1)%
100 bps increase in credit spreads[1]	**20.1%**	9.4%
100 bps reduction in credit spreads[1]	**(5.5)%**	(19.1)%
10% increase in house price index	**0.0%**	n/a
10% decrease in house price index	**0.0%**	n/a
20% credit downgrade[2]	**(14.2)%**	(7.9)%
5% reduction in base mortality[3]	**(4.0)%**	(7.1)%

All sensitivities reflect the impact of the TMTP being notionally recalculated in both the base and stress positions.

Notes:
1 For the interest rate and credit spread sensitivities, due to the nature and size of the impacts the notional recalculation of the TMTP contributes significantly to the asymmetry of the results.
2 Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be immediately traded back to the original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity depends upon the market levels of spreads and the asset mix of the portfolio at the balance sheet date.
3 Equivalent to a 0.4-year increase in life expectancy from 22.7 years to 23.1 years for a typical male aged 65.

C.1.3 Market risk concentration
The Company manages market risk through concentration limits for asset classes including property, equities, funds, as well as particular aspects of property risks (e.g. construction risk). Concentration of the equity release mortgage portfolio by geography is monitored to manage exposure to location-specific property market shocks and environmental risks.

C.2 Underwriting risk
Underwriting risk, classified internally as insurance risk, is the risk that mortality experience of the Company’s policyholders is lighter than assumed, thus requiring pensions to be paid for a longer period than anticipated, resulting in a higher than expected cost to the Company.

In order to help minimise this risk and also uncertainty arising through future longevity experience, PIC adopts an active approach to reinsuring these risks where it is economic to do so. This reinsurance can be classified into two broad categories – longevity-only reinsurance, and quota-share reinsurance, which are discussed below. PIC also chooses to retain a small amount of longevity risk. The approach to setting assumptions for this portion of the book is also described below.

C.2.1 Longevity only reinsurance
This provides longevity cover in respect of certain policyholders. Under these contracts, the Company has committed to pay the reinsurer a fixed line of cash flows for specified sets of liabilities relating to members/former members of particular pension schemes. The reinsurer undertakes to reimburse the actual cost of claims to the Company. Separately, there is also a reinsurance fee for which the Company is liable. Settlement of the contract is on a net basis. These contracts also transfer the contingent longevity risk relating to any eligible dependants of relevant policyholders.

C.2.2 Quota share reinsurance – longevity reinsurance via the transfer of assets
Under such contracts, in return for an initial single premium, the reinsurer agrees to reimburse the actual cost of future claims to the Company in respect of an agreed set of policyholders. These contracts also transfer the contingent risks relating to eligible dependants of relevant policyholders.

The Company monitors the levels of its counterparty risk and actively seeks to reinsure with a range of providers to help mitigate its exposure to any one such entity.

C.2.3 Unreinsured longevity
One aspect of deriving overall best estimate longevity assumptions is to establish the “current” or “initial” rates of mortality. These assumptions are set by applying appropriate mortality factors to each individual member/policyholder. Individual variations are subject to a number of factors including, but not limited to, an individual’s gender, age, pension amount, occupation and place of residence.

C. Risk Profile (unaudited) continued

The other aspect is the allowance for future improvements in mortality. The pattern in which mortality is expected to improve over time is an important but complex assumption for cash flow and liability calculations. This is regularly reviewed in the light of a number of factors including evolving methodologies for these projections together with views from industry and professional bodies on the factors driving mortality change.

Whilst longevity risk is the fundamental risk relating to its insurance liability portfolio, the Company also considers the following risks:

C.2.4 Risk arising from a specific insurance contract

The Company considers, as part of its risk management process, the risk attached to each new contract accepted and the mitigation of such risk.

C.2.5 Exposure to changes in financial market conditions

The Company prepares information based upon a range of possible market conditions in order to assess the potential impacts on the balance sheet and the management actions available to help mitigate this. During 2022, this has included scenarios assessing the potential macro-economic impacts on PIC's solvency and liquidity position arising from the cost of living crisis to ensure adequate controls are in place to mitigate the potential balance sheet impacts of market movements under a range of adverse scenarios.

C.3 Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Company's internal control processes are supported by an operational risk committee, the maintenance of a central risk register, the Risk and Control Self-Assessment process, and an independent internal audit review. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, regular compliance training, segregation of duties and whistle-blowing policies.

The Company has significant outsourcing arrangements in respect of pension administration and other functions. These arrangements are subject to agreements with formal service levels, operate within agreed authority limits and are subject to regular review by senior management.

Emergency and business continuity plans have also been established to counter adverse occurrences.

There is an annual operational risk scenario review process in place to examine potential risk impacts caused by both internal and external events. Management mitigation actions that are identified as part of this activity are approved through the risk governance process.

C.4 Expense risk

This is the risk that the Company's expenses are higher than expected. This includes investment management expenses and policy maintenance expenses. Expenses are managed through an internal budgeting and monitoring process and through careful oversight of external investment managers and other outsourced service providers.

C.5 Credit risk

Counterparty default risk, classified internally as credit risk, is the risk of changes in the value of credit risk sensitive instruments due to movements in mark-to-market value, downgrades or defaults.

C.5.1 Credit risk exposure

The Company is primarily exposed to credit risk through its investment in debt securities. A significant proportion of the asset portfolio is comprised of corporate and government bonds and private debt held to back annuity liabilities. Credit risk also arises in respect of derivative contracts and reinsurance arrangements to the extent that there is the potential for the counterparties to default on their obligations.

C.5.2 Credit risk management and mitigation

The Company manages exposure to credit risk by maintaining a comprehensive due diligence and governance process for assessing and selecting appropriate credit risks to acquire. Counterparty risk is controlled through establishment of collateral agreements and master netting agreements on interest rate and currency swaps. Minimum credit quality requirements are applied when selecting derivative and reinsurance partners to transact with and exposure limits are determined based on credit ratings and projected exposure to losses on default. To manage the credit risk the Company maintains, the credit portfolio and exposure to counterparties are monitored on a regular basis, and capital is held to further protect against crystallisation of credit risk.

C.5.3 Credit risk concentration

The Company manages credit concentration risk by placing concentration limits for various characteristics (e.g. sectors, credit rating, geographical) and on exposures to individual counterparties. Capital is held to protect against the additional potential impact of concentrations within the portfolio in an adverse credit scenario.

C. Risk Profile (unaudited) continued

C.6 Liquidity risk
Liquidity risk is the risk that the Company may not have cash or liquid assets available at the right times to be able to pay its obligations in a timely manner, without incurring excessive cost.

C.6.1 Liquidity risk exposure
Liquidity risk may arise if derivative contracts to manage foreign exchange, inflation and interest rates require liquid assets to be posted as collateral at short notice, or a large proportion of deferred policyholders opt to take transfer values. Liquidity risk also arises if there is a lack of marketability for investments resulting in an inability to sell certain assets should the Company desire to exit holdings for any reason.

C.6.2 Liquidity risk management and mitigation
The Company manages exposure to liquidity risk by modelling and monitoring projected future cashflows for the portfolio. Projected cashflows are assessed for all new policy liabilities taken on as part of the new business origination process to identify the expected profile of future payments, and appropriate assets are then identified which provide matching cashflows at an acceptable price. The Company accepts some liquidity risk in relation to the lack of marketability of assets as a buy-and-hold strategy is applied for assets that are cashflow matched to annuity liabilities.

The Company places minimum requirements for the level of cash held relative to upcoming planned liability payments (Cash Coverage Ratio) and the level of high-quality liquid assets held relative to collateral requirements in certain adverse market shocks (Liquidity Coverage Ratio). Within the Liquidity framework, stress testing is conducted to ensure there are sufficient liquid assets at all times to meet potential demands from market movements under extreme scenarios.

Unlike other risks in this section, holding capital is not an effective mitigant against liquidity risk and instead the Company holds a stressed amount of liquidity, as explained above.

C.6.3 Liquidity risk concentration
The Company manages liquidity concentration risk by placing concentration limits on the amount of cash on deposit with individual counterparties, and on the holdings in individual liquidity funds.

C.7 Any other information
Other than climate change risk detailed below, PIC does not believe there are any other additional risks to which it is exposed which need to be reported within the SFCR.

C.7.1 Climate change risk
Climate change presents a number of significant risks across our stakeholder group, including loss of value due to asset impairment or shifts in supply and demand as climate related risks and opportunities are increasingly taken into account. The negative impacts could also include operational disruption and reputational consequences arising from any failure in evidencing our long-term climate actions. These could lead to reduced asset values, increased cost of capital and reduced new business volumes.

We are continually assessing how our business may be impacted by climate change risk. Importantly, we have developed our risk management approach to identify, manage and report climate related risks to our ESG Committee (Board level), and ultimately our Board. For our systems and processes, we include adaptation or operational disruption caused by physical and transition risk associated with climate change in our risk analysis and have actively started engaging with our external providers. For the assets we invest in, we accept that some transition risk is inherent in doing business and aim to minimise the physical risk in our portfolio.

PIC produces a Taskforce for Climate-related Financial Disclosures report, which outlines our approach to managing climate change across four key areas: strategy, metrics and targets, risk management and governance.

D. Valuation for Solvency Purposes

Balance Sheet: PICG

2022

31 December 2022	Section reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Property, plant and equipment	D.1.2.1	4	1	5
Investment property	D.1.2.2	–	244	244
Holdings in related undertakings	D.1.2.2	308	(308)	–
Bonds	D.1.2.3	30,864	–	30,864
Collective Investments undertakings	D.1.2.4	4,017	16	4,033
Derivative assets	D.1.2.5	22,451	–	22,451
Total Investments		57,644	(47)	57,597
Loans and mortgages	D.1.2.6	5,627	(200)	5,427
Reinsurance recoverables	D.1.2.7	1,140	59	1,199
Other assets	D.1.2.8	105	5	110
Deferred tax asset	D.1.2.8	6	(1)	5
Receivables	D.1.2.9	14	193	207
Cash and cash equivalents	D.1.2.10	905	192	1,097
Own shares held directly	D.1.2.11	20	(20)	–
Total Assets S.02.01		65,461	181	65,642
Technical provisions	D.2.1	32,516	513	33,029
Derivative liabilities	D.3.1	25,348	–	25,348
Insurance and other payables	D.3.2	188	16	204
Deferred tax liability	D.3.3	142	(142)	–
Subordinated debt instruments	D.3.4	1,388	234	1,622
Total Liabilities S.02.01		59,582	621	60,203
Excess of Assets over Liabilities/Equity		5,879	(440)	5,439

2021

31 December 2021	Section reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Property, plant and equipment	D.1.2.1	17	1	18
Investment property	D.1.2.2	–	173	173
Holdings in related undertakings	D.1.2.2	162	(162)	–
Bonds	D.1.2.3	40,045	–	40,045
Collective Investments undertakings	D.1.2.4	3,296	–	3,296
Derivative assets	D.1.2.5	15,018	–	15,018
Total Investments		58,538	12	58,550
Loans and mortgages	D.1.2.6	7,451	(216)	7,235
Reinsurance recoverables	D.1.2.7	2,735	615	3,350
Other assets	D.1.2.8	98	6	104
Deferred tax asset	D.1.2.8	5	(1)	4
Receivables	D.1.2.9	18	10	28
Cash and cash equivalents	D.1.2.10	812	210	1,022
Own shares held directly	D.1.2.11	19	(19)	–
Total Assets S.02.01		69,676	617	70,293
Technical provisions	D.2.1	45,552	1,461	47,013
Derivative liabilities	D.3.1	16,997	–	16,997
Insurance and other payables	D.3.2	183	15	198
Deferred tax liability	D.3.3	215	(214)	1
Subordinated debt instruments	D.3.4	1,608	11	1,619
Total Liabilities S.02.01		64,555	1,273	65,828
Excess of Assets over Liabilities/Equity		5,121	(656)	4,465

D. Valuation for Solvency Purposes continued

Balance Sheet: PIC

2022

31 December 2022	Section Reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Holdings in related undertakings	D.1.2.2	**308**	**(4)**	**304**
Bonds	D.1.2.3	**30,864**	**–**	**30,864**
Collective Investments undertakings	D.1.2.4	**4,017**	**–**	**4,017**
Derivative assets	D.1.2.5	**22,451**	**–**	**22,451**
Total Investments		**57,640**	**(4)**	**57,636**
Loans and mortgages	D.1.2.6	**5,627**	**–**	**5,627**
Reinsurance recoverables	D.1.2.7	**1,140**	**59**	**1,199**
Other assets	D.1.2.8	**105**	**–**	**105**
Deferred tax asset	D.1.2.8	**–**	**–**	**–**
Receivables	D.1.2.9	**15**	**123**	**138**
Cash and cash equivalents	D.1.2.10	**902**	**–**	**902**
Total Assets S.02.01		**65,429**	**178**	**65,607**
Technical provisions	D.2.1	**32,516**	**513**	**33,029**
Derivative liabilities	D.3.1	**25,348**	**–**	**25,348**
Insurance and other payables	D.3.2	**202**	**(2)**	**200**
Deferred tax liability	D.3.3	**142**	**(142)**	**–**
Subordinated debt instruments	D.3.4	**1,388**	**234**	**1,622**
Total Liabilities S.02.01		**59,596**	**603**	**60,199**
Excess of Assets over Liabilities/Equity		**5,833**	**(425)**	**5,408**

2021

31 December 2021	Section Reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Holdings in related undertakings	D.1.2.2	162	–	162
Bonds	D.1.2.3	40,045	–	40,045
Collective Investments undertakings	D.1.2.4	3,296	–	3,296
Derivative assets	D.1.2.5	15,018	–	15,018
Total Investments		58,521	–	58,521
Loans and mortgages	D.1.2.6	7,451	–	7,451
Reinsurance recoverables	D.1.2.7	2,735	615	3,350
Other assets	D.1.2.8	98	–	98
Deferred tax asset	D.1.2.8	–	–	–
Receivables	D.1.2.9	16	1	17
Cash and cash equivalents	D.1.2.10	805	–	805
Total Assets S.02.01		69,626	616	70,242
Technical provisions	D.2.1	45,552	1,461	47,013
Derivative liabilities	D.3.1	16,997	–	16,997
Insurance and other payables	D.3.2	183	–	183
Deferred tax liability	D.3.3	215	(214)	1
Subordinated debt instruments	D.3.4	1,608	11	1,619
Total Liabilities S.02.01		64,555	1,258	65,813
Excess of Assets over Liabilities/Equity		5,071	(642)	4,429

D. Valuation for Solvency Purposes continued

D.1. Assets:

Consolidation approach

The PICG consolidated balance sheet has been prepared under the default accounting consolidation method. This differs to the IFRS consolidation method as follows:

Type of subsidiary	Solvency II method	IFRS method
Insurance undertakings, Insurance holding companies and ancillary service companies	Full consolidation under Solvency II valuation rules	Full consolidation under IFRS valuation rules
Other undertakings (primarily investment property vehicles)	Included within a single line 'Holdings in related undertakings' under Solvency II valuation rules	Full consolidation under IFRS valuation rules if entity is controlled by PIC or PICG or equity accounted in a single line in the IFRS balance sheet

Where undertakings are fully consolidated, all of the consolidated entities' intra-group balances and transactions are eliminated in full.

Under IFRS, Investments in joint ventures that are managed at fair value as part of a portfolio of financial investments, and are unrelated to the Group's core insurance business, are classified as collective investment scheme financial investments. Under Solvency II, they are classified as 'Holdings in related undertakings'.

The presentational and valuation differences between the Solvency II and IFRS balance sheets are analysed below.

D.1.1 Asset recognition and derecognition (PIC and PICG)

The basis for recognition and derecognition of financial instruments is as follows:

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire, or if either the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset are transferred to another party. Regular purchases and sales of financial assets are accounted for at the trade date. Financial liabilities are derecognised when the Company's obligations specified in the contract expire or are discharged or cancelled.

D.1.2 Asset valuation basis

The general valuation basis applied to each material class of investments is as follows:

The fair values of investments quoted in an active market are based on their bid market prices. For unlisted securities and all other financial assets for which there is no active market, the Company establishes fair value using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, counterparty and broker valuations and option pricing models.

These assessments are based largely on observable market data.

If material differences in valuation arise these are described in the relevant sections below.

D.1.2.1 Property plant and equipment

Property, plant and equipment on the Solvency II balance sheet are in relation to right of use assets arising from leases entered into by PSC. The Group's leases consist of office buildings and office equipment required to enable it to carry out its operations. Right of use assets are valued for Solvency II purposes on the same basis as IFRS, on the grounds of materiality.

Right of use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received. A right of use asset is depreciated on a straight-line basis over the lease term.

In addition to right of use assets, the Group recognises £1 million on a statutory basis in relation to intangible assets (2021: £1 million). Intangible assets are not permissible assets under Solvency II, giving rise to a valuation difference between the SII basis and the IFRS statutory accounts.

Non-financial assets that are measured at amortised cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**4**	**–**	17	–
Valuation differences	**1**	**–**	1	–
Statutory Accounts value	**5**	**–**	18	–

D.1.2.2 Investment Property / Holdings in related undertakings

The Group's holdings in investment properties relate primarily to retail and residential properties. All properties are located in the United Kingdom and are held via Group investment entities. Both PIC and PICG recognise these entities as holdings in related undertakings on the SII Balance Sheet. PIC also recognises these entities as holdings in related undertakings on its IFRS balance sheet, whereas PICG consolidates the entities' assets and liabilities into the IFRS balance sheet.

Investments in properties not for occupation by the Group are carried at fair value. In the early period of construction of an investment property, where fair value is not reliably measurable, the investment property is measured at construction cost until fair value becomes reliably measurable.

Refer to D.4 for more details.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value of holdings in related undertakings	**308**	**308**	162	162
Consolidation differences	**(60)**	**–**	11	–
Valuation differences	**(4)**	**(4)**	–	–
Statutory Accounts value of Investment properties (PICG)/Holdings in related undertakings (PIC)	**244**	**304**	173	162

The consolidation difference of £(60) million (2021: £11 million) relates to the other net assets of the investment property entities that are presented under other lines in the statutory accounts.

A valuation difference of £(4) million (2021: £nil) arises due to intragroup liabilities of investment entities being valued excluding changes in own credit risk under Solvency II.

D.1.2.3 Bonds

Bonds on the SII Balance sheet includes the Group's and the Company's investments in: government and corporate bonds; private investments; and collateralised securities. These are valued for Solvency II purposes on the same basis as the IFRS financial statements.

The fair value of government and corporate bonds is determined by reference to their quoted bid price at the reporting date.

The fair values of the Group's and the Company's private debt are determined as the present value of future cash flows, discounted at a rate based on yields for comparable quoted bonds. Further details of the valuation method are provided in D.4.

The Group's and the Company's investments in collateralised securities are measured at fair value, determined by reference to their listed market price.

D.1.2.4 Collective Investment Undertakings

The fair value of collective investment undertakings is determined by reference to their quoted bid price at the reporting date where available.

Fair values of unlisted collective investments are based on fund net asset valuations.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value of collective investment undertakings	**4,017**	**4,017**	3,296	3,296
Consolidation differences	**16**	**–**	–	–
Statutory Accounts value	**4,033**	**4,017**	3,296	3,296

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings give rise to the consolidation difference within the Group of £16 million (2021: £nil) in the above table.

D.1.2.5 Derivatives

Derivative financial instruments are measured at fair value on both the SII balance sheet and the IFRS statutory balance sheet.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of foreign exchange forward contracts, futures and swaps is based on market prices, where available. For swaps, market prices are calculated using discounted cash flow techniques based on adjusted market data such as composite curves derived from a number of market counterparties.

D. Valuation for Solvency Purposes continued

D.1.2.6 Loans and mortgages

This asset class contains mortgage backed securities and private investments.

The fair value of mortgage backed assets is determined by reference to their listed market price.

The fair value of private investments is determined as the present value of future cash flows, discounted at a rate based on yields for comparable quoted bonds. Further details of the valuation method are provided in D.4.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**5,627**	**5,627**	7,451	7,451
Consolidation differences	**(200)**	**–**	(216)	–
Statutory Accounts value	**5,427**	**5,627**	7,235	7,451

The consolidation differences within the Group of £(200) million (2021: £(216) million) in the above table relate to loans to holdings in related undertakings that are eliminated under IFRS consolidation methodology.

D.1.2.7 Reinsurance recoverables

As this asset is directly related to the regulatory technical provisions, the valuation is discussed in the technical provisions section D.2.

	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Solvency II value	**1,140**	2,735
Valuation differences	**59**	615
Statutory Accounts value	**1,199**	3,350

There are a number of differences in the approaches used between IFRS and Solvency II in calculating technical provisions/liabilities and the associated reinsurance recoverables/assets. The primary differences relate to the use of best estimate assumptions under SII compared to a prudent margin approach under IFRS, the inclusion of a Risk Margin under Solvency II regulations and differences in the valuation rate of interest applied.

D.1.2.8 Other assets and Deferred tax asset

Deferred tax is provided on temporary differences between the carrying amount of asset and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**111**	**105**	103	98
Valuation differences	**4**	**–**	5	–
Statutory Accounts value	**115**	**105**	108	98

The valuation differences in the above table are in relation to prepayments and deferred tax.

This includes a valuation difference of £5 million (2021: £6 million) in relation to the removal of Group service company prepayments which are reported in IFRS but not included under Solvency II.

Deferred tax valuation differences for Group were £(1) million and £nil for PIC (2021: (£1) million for PICG and £nil PIC). They are related to the prepayments in PSC which are not permissible for Solvency II.

D. Valuation for Solvency Purposes continued

D.1.2.9 Receivables

Receivable assets are measured on a Solvency II basis at the values for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. This is equivalent to the value for IFRS accounting purposes, with the exception of future premium balances, which are recognised within the best estimate liabilities as detailed below.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**14**	**15**	18	16
Consolidation differences	**70**	**–**	9	–
Valuation differences	**123**	**123**	1	1
Statutory Accounts value	**207**	**138**	28	17

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings, give rise to the consolidation difference within the Group of £70 million (2021: £9 million) in the above table.

A valuation difference of £123 million (2021: £1 million) arises in the Group and the Company with regard to regulatory adjustments to future premium balances, which are excluded from the SII receivables figure because they are already allowed for within the best estimate liabilities.

D.1.2.10 Cash and cash equivalents

The fair value of Cash and cash equivalents represents their cash value in current terms. All deposits are redeemable within three months and consequently no discounting adjustment is made at period end.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**905**	**902**	812	805
Consolidation differences	**192**	**–**	210	–
Statutory Accounts value	**1,097**	**902**	1,022	805

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings give rise to the consolidation difference within the Group of £192 million (2021: £210 million) in the above table.

D.1.2.11 Own shares directly held

These assets are treated as a deduction from equity in the IFRS financial statements of PICG. For regulatory purposes, they are held as an asset and are marked to model in accordance with Solvency II regulations, using an estimate of the valuation of PICG as a whole. Also, in accordance with Solvency II regulations, the amounts are deducted from the available Own Funds figure.

	PICG (£m) 2022	**PIC (£m) 2022**	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**20**	**–**	19	–
Valuation differences	**(20)**	**–**	(19)	–
Statutory Accounts value	**–**	**–**	–	–

D.2 Technical provisions

PIC writes only one line of business, i.e. bulk annuities in relation to UK defined benefit pension schemes. The Company's insurance contracts are a mixture of "buy-in" policies, where the policyholder is the pension scheme and the insured liabilities cover defined benefits within the scheme, and "buy-out" policies, where the policyholder is an individual.

All the Company's insurance liabilities represent contracts that provide immediate annuities for current pensioners and deferred annuities for members who have not yet reached pensionable age. Annuities are payable for the life of the policyholder, with in some cases a reversionary annuity paid to spouses or other dependants on the death of the main member.

Annuities in deferment and in payment can be level, subject to fixed increases or increases linked to inflation, or a mixture of the three. In many cases, the increases applied are also subject to defined caps and floors, so-called limited price indexation or LPI. The insurance liabilities also include a limited number of member options, such as the option to commute part of the pension for a tax-free cash lump sum on vesting, the option to transfer deferred benefits to another pension scheme and the option to take early or late retirement. In these cases, the bulk of the options are set on a basis which is broadly financially neutral to the Company. There are no other material options and guarantees such as guaranteed annuity options.

Further detail is provided on S.12.01.

D.2.1 Technical provisions on regulatory solvency basis

The following table summarises the technical provisions of the Group and the Company as at 31 December 2022 on the regulatory solvency basis. The equivalent figures for 31 December 2021 are also shown.

Technical provisions, Solvency II basis	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Best estimate liabilities		
• Liabilities gross of reinsurance	31,824	44,283
• Value of reinsurance recoverables	(1,140)	(2,735)
• Net-of-reinsurance liabilities	30,684	41,548
Risk margin (RM)	900	2,026
Transitional measures deduction ("TMTP")	(208)	(757)
Total net technical provisions	**31,376**	**42,817**
Add back value of reinsurance recoverables	1,140	2,735
Total gross technical provisions	**32,516**	**45,552**

Technical provisions (before reduction due to the TMTP) represent the value of policyholder obligations if these were to be transferred to a third party in an arm's length transaction at the valuation date. The technical provisions comprise a best estimate liability (determined using a Matching Adjustment or Volatility Adjustment where appropriate) and a risk margin, reduced by the transitional measures deduction.

The total technical provisions, gross of reinsurance, as at 31 December 2022 were £32,516 million (2021: £45,552 million).

There are no additional technical provisions maintained by the Group outside PIC.

	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Solvency II value	32,516	45,552
Valuation differences	513	1,461
Statutory Accounts value	**33,029**	**47,013**

There are a number of differences in the approaches used in calculating the IFRS 4 and Solvency II technical provisions/ liabilities. The primary differences relate to the use of best estimate assumptions under SII compared to a prudent margin approach under IFRS 4, the inclusion of a risk margin (net of TMTP) under Solvency II regulations and differences in the valuation rate of interest applied.

These items are covered in more depth in the section D.2.8 below.

D.2.2 Valuation methods and assumptions for the solvency valuation

The principal methods and assumptions used in the valuation of the technical provisions for solvency purposes are as follows:

Valuation methodology for Best Estimate Liabilities ("BEL"):

For the vast majority of the business, the best estimate liability is calculated as the present value of future annuity and other benefit payments plus an allowance for future expenses. This calculation involves projecting each individual policy for its expected natural lifetime and discounting the resultant cashflows to the valuation date at the valuation discount rate.

For a very small proportion of the best estimate liabilities, approximate methods are used which are appropriate to the nature of the liabilities in question.

Valuation discount rate:

The discount rate used is derived from the basic risk-free rate, which is based on the prescribed Solvency II swaps rates. For the majority of the business in force, this is increased by use of a matching adjustment as described in section D.2.3.

D. Valuation for Solvency Purposes continued

Mortality and demographic assumptions:
The base mortality assumptions as at 31 December 2022 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S3 series of mortality tables published by the Continuous Mortality Investigation ("CMI"), a research body with strong links to the Institute and Faculty of Actuaries in the UK.

Adjustments are applied to the S3 mortality rates according to a number of factors including, but not limited to, an individual's gender, age, pension amount, occupation and postcode. In addition, an adjustment is made to allow for the risk of anti-selection.

The assumption for future improvements to mortality is modelled using the CMI 2021 model, with adjustments. The model is parameterised with a long-term improvement rate of 1.75% for both males and females.

Adjustments are applied according to a number of factors including, but not limited to, an individual's gender, age, pension amount, occupation and postcode. In addition, an adjustment is made to allow for the risk of anti-selection.

Assumptions are also made in respect of the take-up rates on policyholder options, such as the option to take a pension contribution lump sum payment on vesting and certain early retirement options. For policyholder options where the observed take-up rates are low and/or the financial impact is broadly neutral, no assumptions are applied in the actuarial valuation.

In addition, other less material assumptions are required for items such as the age difference between main members and spouses and proportions married, in cases where the relevant information is not available from the valuation data.

Inflation assumptions:
Assumptions for expected future Retail Price Index ("RPI") inflation are based on a curve derived from market prices of inflation-linked swap contracts. Assumptions for expected Consumer Price Index ("CPI") inflation are based on the RPI curve less a stepped deduction. The projected liabilities for annuities linked to RPI or CPI use these curves.

The most common type of LPI-linked benefit is LPI(0,5), under which increases are capped at 5.0% and floored at zero, but a range of other types of LPI exist. These are not regarded as "options" in the sense that neither the policyholder nor the Company can elect to change the benefit, but are simply a special form of indexation. However, an option-based methodology is required to allow for the reserving and capital impacts of the caps and floors. PIC uses a mark-to-model approach to derive appropriate inflation curves for each LPI type to allow for the inherent optionality, as there is currently no deep and liquid market in appropriate swap contracts.

Expense assumptions:
The following items are factored into the calculation of the liabilities:

- internal costs of maintaining the existing insurance contracts,
- fees payable to third-party administrators engaged to manage payments due under the in-force policies,
- fees due to reinsurers,
- investment management expenses, and
- certain specific project costs.

These include an estimate of the impact of future inflation where this is applicable. No allowances are included for expected expenses incurred by the Company in relation to the generation of new business.

Risk margin (unaudited):
The risk margin is determined as the amount in addition to best estimate liabilities that would be required by a hypothetical third party (the "reference undertaking") to take on the Company's insurance obligations. This would provide an amount of eligible own funds equal to the capital necessary to support those obligations over their future lifetime assuming that all hedgeable risks had been eliminated.

The risk margin is calculated by estimating the solvency capital requirement in respect of non-hedgeable risks (the "reference SCR") of the reference undertaking in each future year over the period in which the in-force business runs off. A cost-of-capital calculation is then performed using the prescribed rate of 6.0% per annum on each future year's estimated reference SCR, with the results discounted at the basic risk-free rate.

The principal drivers underlying the estimate of the undertaking's reference SCR are insurance risk, counterparty credit risk (with respect to reinsurance contracts and other material exposures), expense risk, and residual economic risk relating to inflation volatility, in particular LPI and the basis risk between RPI and CPI, and operational risk. Insurance risk is assessed by considering separately the risk of mis-estimation of base mortality rates, future mortality improvement rates and other, less material influences on future demographic experience, and allowing for the mitigation afforded by existing reinsurance arrangements.

The projection of the reference SCR over the lifetime of the business is carried out by approximate means allowing for the expected changes in the size and relative impacts of the respective risk drivers as the in-force business continues to mature.

Transitional measures deduction on technical provisions (unaudited):
PIC uses a transitional measures deduction on technical provisions in its Solvency II balance sheet. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example in having to set up the risk margin. PIC applies a TMTP deduction which is consistent with the requirements of Article 308d of the Solvency II Directive, is expected to amortise linearly to zero over a 16-year period starting from 1 January 2016. Since the start of Solvency II, there have been five recalculations of the TMTP, three due to the biennial recalculation requirement (as at 31 December 2017, 31 December 2019, and 31 December 2021), and two (as at 31 December 2020 and 30 June 2022) reflecting particular economic circumstances and the impact on PIC's risk profile.

Uncertainty in the valuation of technical provisions:
The best estimate liabilities are calculated using data and assumptions which reflect the Company's best estimate of the position as at the valuation date. However, there are a number of uncertainties in the valuation. In particular:

- A key assumption is the rate of future policyholder mortality, which is expressed as a combination of a base mortality rate (reflecting the current observed experience) and a rate of future mortality improvements. Changes in these assumptions could have a material impact on the BEL calculation.
- For deferred annuity policyholders, there is uncertainty about the extent to which certain options will be taken up prior to or at retirement. The most important option is the commutation of part of the pension benefit for a lump sum. While this take up has been reasonably stable in the past, there remains uncertainty as to whether future take-up rates will be as expected.
- The discount rate used in the valuation is determined allowing implicitly for an assumed level of future defaults arising in relation to the supporting assets. The allowance, which is set having regard to factors stipulated by the PRA, may not be a good representation of the actual level of defaults arising in practice, and variations in experience (positive or negative) will arise as a result.
- A significant proportion of the annuity benefits escalate in line with defined inflation indices. A range of indices applies, including CPI and LPI linkages, and assumptions have to be made as to how these indices will evolve going forward.
- The expenses allowed for in the valuation are based on the Company's view of its likely expense outgo required to manage the business in force. Variations in these expense levels and in the impact of inflation of these expense levels also introduce uncertainty.

In addition, projection of the run-off over time of the reference SCR used in the risk margin calculation requires a significant degree of judgement, given the length and nature of PIC's annuity liability cashflows.

D.2.3 Use of matching adjustment

In December 2015, PIC was granted permission by the PRA to apply a matching adjustment in relation to the value of its insurance liabilities. Following an update to the matching adjustment application in 2020, PIC made another application in June 2022, which was approved by the PRA in October 2022.

As at 31 December 2022, all of the business in force (aside from an immaterial amount of Euro-denominated liabilities and one small scheme awaiting transfer to the matching adjustment fund) was eligible for use of the matching adjustment, with 99.9% of the modelled business held within the matching adjustment fund and valued using the matching adjustment. A small percentage of the liabilities, amounting to 0.1% of the total net modelled liabilities was held outside the matching adjustment fund. No business was valued using the volatility adjustment.

The assets used comprise a mixture of UK government bonds and UK and overseas corporate bonds, together with a relatively small amount of cash and cash equivalents, loans and mortgages (including structured equity release mortgages) and property assets. In addition, the assets include derivatives designed to transform overseas cashflows to sterling, and to transform floating rate cashflows to fixed rates. All of the assets, once transformed through the use of appropriate derivatives, meet the requirements of Article 77b(1) of the Solvency II Directive.

PIC holds all assets and liabilities for which the matching adjustment applies in a clearly ring-fenced fund, the matching adjustment fund ("MA Fund"). The matching adjustment calculation relies on close matching of the asset cash flows and the liability cash flows in this fund. In making this assessment, the liability cash flows are the gross-of-reinsurance best estimate liability cash flows for the business taken from the Company's liability projection model. The matching asset cash flows are the aggregate of the cash flows on each individual asset adjusted for the default component of the "fundamental spread" to allow for the credit risks retained by the Company plus the projected cash flows in respect of reinsurance recoverables calculated using the Company's liability projection model.

The initial matching adjustment is calculated as the difference between two annual effective internal rates of return, i.e. (a) the flat discount rate which, if applied to the gross liability cash flows, would equate these to the aggregate value of the matching assets; and (b) the flat rate which, if applied to the gross liability cash flows, would equate these to the value of those liability cash flows calculated using the basic risk-free rate curve. In making this assessment, the value of non-market assets is determined using models developed by the Company and the value of reinsurance recoverables is determined at the basic risk-free rate.

The matching adjustment is then further adjusted for the cost-of-downgrade component of the fundamental spread.

D. Valuation for Solvency Purposes continued

The assets in the MA Fund used in the matching adjustment calculation can be summarised as follows:

MA Fund assets	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Investments in related undertakings	–	70
Government bonds	11,515	16,842
Corporate bonds	16,809	20,998
Derivative assets	5,099	6,044
Loans and mortgages	5,289	7,030
Collateralised securities	219	273
Collective investment undertakings	929	685
Cash and cash equivalents	571	464
Total assets	40,431	52,406
Less Derivative liabilities	(8,316)	(9,914)
Net value of assets	32,115	42,492

PIC maintains close control of the asset and liability cash flow matching in order to ensure that at all times it can meet the requirements of Article 77(b)(1)(c) of the Solvency II Directive. In addition, PIC monitors the asset and liability matching of the MA Fund against the three specific tests identified in regulatory requirements. As at 31 December 2022, all of the test results were within the required limits.

The impact of not applying the matching adjustment but instead valuing the liabilities using the basic risk-free curve would have been as follows. Note that under this scenario the volatility adjustment ("VA") is assumed not to apply to any liabilities (as was the case as at 31 December 2022) and it is assumed that there is no change to the TMTP. The figures presented include the effect of removing the matching adjustment on the credit taken for the Loss Absorbing Capacity of Deferred Taxes in the SCR.

31 December 2022

Impact of matching adjustment (£m)	Including matching adjustment	Excluding matching adjustment	Impact of not applying matching adjustment
Technical Provisions (gross of reinsurance)	32,516	38,760	6,244
Basic Own Funds	7,210	2,527	(4,683)
Eligible Own Funds to meet SCR	7,210	2,218	(4,992)
SCR	3,199	7,423	4,224
Excess assets over SCR	4,011	(5,205)	(9,216)
Eligible Own Funds to meet MCR	5,982	89	(5,893)
MCR	800	1,856	1,056
Excess assets over MCR	5,182	(1,767)	(6,949)

31 December 2021

Impact of matching adjustment (£m)	Including matching adjustment	Excluding matching adjustment	Impact of not applying matching adjustment
Technical Provisions (gross of reinsurance)	45,552	52,224	6,672
Basic Own Funds	6,669	1,666	(5,003)
Eligible Own Funds to meet SCR	6,669	1,666	(5,003)
SCR	3,968	10,274	6,306
Excess assets over SCR	2,701	(8,608)	(11,309)
Eligible Own Funds to meet MCR	5,259	(885)	(6,144)
MCR	992	2,568	1,576
Excess assets over MCR	4,267	(3,453)	(7,720)

D. Valuation for Solvency Purposes continued

D.2.4 Use of volatility adjustment

In December 2015, PIC was granted permission by the PRA to apply a volatility adjustment ("VA") in relation to the value of its insurance liabilities.

As detailed in section D.2.3 above, as at 31 December 2022, less than 0.1% (2021: 0.01%) of the total net modelled liabilities were held outside the MA Fund. These were not eligible for valuation using the volatility adjustment.

The impact of not applying the volatility adjustment to the liabilities is therefore nil as at 31 December 2022 (nil as at 31 December 2021).

31 December 2022

Impact of volatility adjustment (£m)	Including volatility adjustment	Excluding volatility adjustment	Impact of not applying VA
Technical Provisions (gross of reinsurance)	**32,516**	**32,516**	**–**
Basic Own Funds	**7,210**	**7,210**	**–**
Eligible Own Funds to meet SCR	**7,210**	**7,210**	**–**
SCR	**3,199**	**3,199**	**–**
Excess assets over SCR	**4,011**	**4,011**	**–**
Eligible Own Funds to meet MCR	**5,982**	**5,982**	**–**
MCR	**800**	**800**	**–**
Excess assets over MCR	**5,182**	**5,182**	**–**

31 December 2021

Impact of volatility adjustment (£m)	Including volatility adjustment	Excluding volatility adjustment	Impact of not applying VA
Technical Provisions (gross of reinsurance)	45,552	45,552	–
Basic Own Funds	6,669	6,669	–
Eligible Own Funds to meet SCR	6,669	6,669	–
SCR	3,968	3,968	–
Excess assets over SCR	2,701	2,701	–
Eligible Own Funds to meet MCR	5,259	5,259	–
MCR	992	992	–
Excess assets over MCR	4,267	4,267	–

D. Valuation for Solvency Purposes continued

D.2.5 Use of transitional measures adjustment (unaudited)

PIC does not apply any adjustment to the risk-free interest rate term structure referred to in Article 308c of Directive 2009/138/EC.

In December 2015, PIC was granted permission to apply a Transitional Measure on Technical Provisions (TMTP). PIC calculated the TMTP as at 31 December 2015 as £1,355 million. As noted in Section D.2.2, PIC has been granted permission to recalculate the TMTP on five occasions, most recently as at 30 June 2022. Allowing for both amortisation and re-calculation, the TMTP as at 31 December 2022 is £208 million (2021: £757 million).

The impact of not applying the TMTP would have been as follows. Under this scenario, the MA is assumed to continue to apply.

31 December 2022

Impact of TMTP (£m)	Including TMTP	Excluding TMTP	Impact of excluding TMTP
Technical Provisions (gross of reinsurance)	**32,516**	**32,724**	**208**
Basic Own Funds	**7,210**	**7,054**	**(156)**
Eligible Own Funds available to meet SCR	**7,210**	**7,054**	**(156)**
SCR	**3,199**	**3,251**	**52**
Excess assets	**4,011**	**3,803**	**(208)**
Solvency II ratio based on SCR	**225%**	**217%**	**(8%)**
Eligible Own Funds available to meet MCR	**5,982**	**5,830**	**(152)**
MCR	**800**	**813**	**13**
Excess assets	**5,182**	**5,017**	**(165)**
Solvency II ratio based on MCR	**748%**	**717%**	**(31%)**

31 December 2021

Impact of TMTP (£m)	Including TMTP	Excluding TMTP	Impact of excluding TMTP
Technical Provisions (gross of reinsurance)	45,552	46,309	757
Basic Own Funds	6,669	6,101	(568)
Eligible Own Funds available to meet SCR	6,669	6,101	(568)
SCR	3,968	4,157	189
Excess assets	2,701	1,944	(757)
Solvency II ratio based on SCR	168%	147%	(21%)
Eligible Own Funds available to meet MCR	5,259	4,701	(558)
MCR	992	1,039	47
Excess assets	4,267	3,662	(605)
Solvency II ratio based on MCR	530%	452%	(78%)

D.2.6 Reinsurance

PIC seeks to limit its exposure to longevity risk by entering into reinsurance arrangements with third party reinsurers. As at 31 December 2022, approximately 87% (as measured by best estimate liabilities) of the longevity risk was reinsured (2021: 85%).

PIC has entered into two types of reinsurance arrangements:

- Longevity swap arrangements, whereby PIC pays to the reinsurer a fixed, agreed stream of annuity benefit cashflows, together with a defined reinsurance fee, and the reinsurer pays PIC annuity benefits based on the actual mortality experience of the lives in question. All of the longevity swap arrangements are similar in nature. PIC has entered into these arrangements with 11 reinsurers. The total net value of the longevity swap asset, excluding the fees payable to the reinsurers, was £(756) million as at 31 December 2022 (2021: £(647) million).
- Quota share reinsurance arrangements, whereby in return for an up-front single premium PIC will receive from the reinsurer a percentage share of a defined sub-set of the annuity liabilities paid out in future. PIC has entered into these arrangements with three reinsurers. The total value of the quota share reinsurance asset was £1,908 million as at 31 December 2022 (2021: £3,415 million).

D. Valuation for Solvency Purposes continued

The value of the amounts recoverable from reinsurance is calculated using the same projection model and assumptions (other than the discount rate) as are used for the gross best estimate liabilities, by projecting forward both the payments due to reinsurers and the payments expected from reinsurers, in each case calculated on a policy-by-policy basis. The value of reinsurance recoverables is calculated by discounting the projected payments at the basic risk-free rate.

The value of the reinsurance recoverables is reduced by a counterparty default adjustment of £21 million (2021: £47 million), which is calculated by applying (for each reinsurer) an assumed probability of default to an estimated loss given default, allowing for an assumed rate of recovery, measured over the lifetime of the reinsurance contracts in question.

In addition, there is a recoverable amount of £10 million (2021: £14 million) in respect of a small tranche of annuities where PIC has undertaken inwards reinsurance.

Therefore, the total value of the reinsurance recoverables asset is £1,140 million (2021: £2,735 million). PIC does not have any arrangements with special purpose vehicles in respect of its gross or net liabilities.

D.2.7 Review of valuation methods and assumptions

PIC regularly reviews its valuation assumptions and methodology for its technical provisions to ensure that they are fit for purpose and meet the requirements of Section 3.1 of Chapter III of the Solvency II Delegated Acts.

During 2022, alongside other minor updates, PIC revised its assumptions for base mortality and future mortality improvement assumptions, expenses and cash commutation take-up rates. It also updated the modelling of LPI inflation and implemented other modelling enhancements.

In addition, the valuation assumptions were updated to reflect current expectations of future interest rates and inflation rates, and to reflect the changes to the prescribed fundamental spread assumptions underlying the derivation of the matching adjustment.

D.2.8 Valuation methods and assumptions for the financial statements

Apart from the valuation discount rate, the methods and assumptions used to value the technical provisions for the purposes of the financial statements are derived from the same best estimate assumptions as are used in the valuation for solvency purposes. Prudential margins are added to these assumptions and these margins are broadly consistent with those applied under the regulatory regime which preceded the introduction of Solvency II. PIC's practice at the time was to use the same margins in the calculation of its technical provisions for the purposes of the financial statements as in regulatory reporting. PIC is satisfied that the basis used continues to meet the relevant requirements of IFRS and that the margins used remain appropriate.

As the impact of applying these prudential margins is to change the cashflow profile of the liabilities, it is not possible simply to use the same matching asset profile as is used for the best estimate liabilities. Instead, PIC notionally hypothecates a basket of assets for backing the liabilities based on the assets in the MA Fund and a selection of other assets held by the Company, and calculates the valuation rate of interest using a "portfolio IRR" approach which considers the yield for the whole basket. Using this approach, PIC is able to take into account both the level of the risk-adjusted yields on the assets and the terms over which the returns would be received.

PIC's approach to determining the credit default adjustment for the IFRS valuation rate of interest is to use a fixed basis points default allowance by asset, based on historic levels of default and downgrade with prudent margins.

D. Valuation for Solvency Purposes continued

The impact of applying the prudential margins is summarised in the following table, which shows the transition from the Own Funds under Solvency II to the IFRS net assets presented in the Company's financial statements. The equivalent figures as at 31 December 2021 are shown for comparison.

Reconciliation between Solvency II and IFRS technical provisions	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Solvency II technical provisions (gross of reinsurance)	**32,516**	45,552
Less:		
– Value of reinsurance recoverables on SII basis	**(1,140)**	(2,735)
Solvency II technical provisions (net of reinsurance)	**31,376**	42,817
Less:		
– Risk margin	**(900)**	(2,026)
– Transitional measures deduction	**208**	757
Solvency II best estimate liability (net of reinsurance)	**30,684**	41,548
Add:		
– Classification difference of deferred premiums	**124**	–
– Impact of valuation discount rate margins	**449**	836
– Impact of other IFRS valuation margins	**573**	1,279
IFRS technical provisions (net of reinsurance)	**31,830**	43,663
Add:		
– Value of reinsurance recoverables on IFRS basis	**1,199**	3,350
IFRS technical provisions (gross of reinsurance)	**33,029**	47,013

D.3 Other liabilities

Other liabilities at 31 December reflect derivative liabilities, deferred tax and accounting accruals and creditors.

Other than as noted below, other liabilities are valued at fair value for the purposes of solvency rules, which is equivalent to the IFRS values in the Group's and Company's financial statements. There are no significant estimates or judgements in the valuation of these liabilities.

D.3.1 Derivative liabilities

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair value of foreign exchange forward contracts, futures and swaps are based on market prices, where available. For swaps, market prices are calculated using discounted cash flow techniques based on adjusted market data such as composite curves derived from a number of market counterparties. Whilst derivative contracts may not be readily tradeable, the valuations are based on market observable inputs and have consequently been classified as Level 2 assets within the fair value hierarchy.

The value of overall derivative assets and liabilities is the same under IFRS as under Solvency II.

D.3.2 Insurance and other payables

This represents amounts payable, at fair value, relating to sundry business creditors and accruals, current taxation payments due and reinsurance fees payable. These items are payable within the next year. Given the short timescales, no discounting has been applied. Obligations under funding agreements are removed from regulatory values as the full value of the funding amount is subject to SII regulations.

Also included within Insurance and other payables is the Group's lease liability. Under IFRS, a lease liability is initially measured as the value of expected future lease payments, discounted using the Group's incremental borrowing rate, and subsequently is measured at amortised cost using the effective interest method. Lease liabilities for Solvency II are valued in line with IFRS on the grounds of materiality.

	PICG (£m) 2022	PIC (£m) 2022	PICG (£m) 2021	PIC (£m) 2021
Solvency II value	**188**	**202**	183	183
Consolidation differences	**18**	**–**	15	–
Valuation differences	**(2)**	**(2)**	–	–
Statutory Accounts value	**204**	**200**	198	183

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings, give rise to the consolidation difference within the Group of £18 million (2021: £15 million) in the above table.

D. Valuation for Solvency Purposes continued

D.3.3 Deferred tax liability

A deferred tax asset or liability is recognised to the extent that there is a temporary difference between the Company's tax base balance sheet (which is IFRS) and the balance sheet for Solvency II purposes. At 31 December 2022, this resulted in a deferred tax liability of £142 million (2021: £215 million), primarily arising from adjustments to Technical Provisions and Risk Margin arising from the application of Solvency II regulations.

The remaining deferred tax liability relates to the January 2013 change in the taxation regime for insurance companies, the benefit of the differences between IFRS retained earnings and taxable profits as at 31 December 2012 reversed over a period of ten years. Consequently, ten years later, the Group no longer has a deferred tax liability at 31 December 2022 (2021: £1 million) as there is no longer a timing difference (2021: £4 million).

	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Solvency II value	**142**	215
Valuation differences	**(142)**	(214)
Statutory Accounts value	**–**	1

D.3.4 Subordinated debt instruments

For regulatory purposes, the subordinated debt instruments issued by the Company are valued in accordance with Article 75 of Directive 2009/138/EC, making no adjustment to take account of the own credit standing of the Company. This differs from the valuation used for IFRS accounting purposes, where the subordinated debt instruments are valued at amortised cost.

In addition, the subordinated debt instruments are treated as liabilities for the purposes of IFRS accounting: for the purposes of regulatory accounting, whilst they are shown on the balance sheet (S.02.01) within liabilities, they form a part of the Own Funds of the Company (S.23.01) and the Group (S.23.01).

Further detail on the subordinated debt instruments, including the issue amounts and the maturity dates, is provided in section E.1.4.

	PICG & PIC (£m) 2022	PICG & PIC (£m) 2021
Solvency II value	**1,388**	1,608
Valuation differences	**234**	11
Statutory Accounts value	**1,622**	1,619

The valuation differences arise because the subordinated debt is measured at amortised cost for IFRS purposes and at fair value under Solvency II. Fair value is calculated by discounting projected cashflow at the prevailing risk-free rate, increased by the Company's credit spread at inception.

Restricted Tier 1 notes (included in Own Funds)

In 2019, PIC issued £450 million of new RT1 loan notes with a fixed coupon of 7.375% paid semi-annually in arrears beginning on 25 January 2020. The notes are perpetual with the first call date in 2029 at the option of the issuer. The interest rate is reset on 25 July 2029 and every five years thereafter. The RT1 notes are treated as equity capital and interest payments arising are recognised in equity upon payment under IFRS, and as Restricted Tier 1 Own Funds for Solvency II purposes. A deduction is made in the valuation of Own Funds available to take account of projected foreseeable dividends in respect of the RT1 notes. At 31 December 2022 this value was £11 million (2021: £11 million).

D.3.5 Leases and contingent liabilities

PIC does not have any material liabilities in respect of leases, or contingent liabilities.

At 31 December 2022, the Group recognised a right-of-use asset of £4 million (2021: £17 million) and a corresponding lease liability of £9 million (2021: £20 million).

PICG does not have any material contingent liabilities.

D.3.6 Employee benefits

The Company pays expenses to a service company owned by the Group holding company, which funds employee benefits.

There are no defined benefit obligations in connection with any past or present employees.

D. Valuation for Solvency Purposes continued

D.4. Alternative methods for valuation

The Group and the Company use alternative valuation methods, as defined in the Solvency II regulations, to determine the fair values of certain investments as explained in section D.1. Given the methodology used below is the same as the one used to value the investments for IFRS purposes, no differences arise between IFRS and Solvency II values, except for the accrued interest, which is allocated to the individual security under Solvency II, but shown as its own separate category under IFRS.

The details of these alternative valuation methods are provided below; the values shown represent the fair value for the assets where alternative methods for valuation have been used.

Property (other than for own use) – PICG £244 million; PIC £244 million (2021: PICG £173 million, PIC £173 million)

Investment properties are held indirectly through investment entities and included in the Solvency II balance sheet within Holdings in related undertakings QRT on an adjusted equity basis. The investment entities are fully consolidated in the PICG statutory balance sheet, with Investment properties presented as a separate line item. In the PIC plc individual statutory balance sheet, Investment properties are included within Holdings in related undertakings.

Fair value of the properties is determined annually by professional external valuers using the Royal Institution of Chartered Surveyors guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property.

Fair values are determined based on a valuation approach which applies investment yield to the rental income. The investment yield is derived from available transactional evidence of similar rental units considering the property specific factors such as its location, the unexpired term, current rent, size of the unit and other factors.

The external valuers also consider changes in market conditions and the status of the tenants in determining whether a full physical inspection is required each year. Irrespective of such considerations, each property is fully inspected periodically as part of the valuation process. The cost of additions and renovations is capitalised and considered when estimating fair value.

Unlisted bonds (direct investment) – £6,557 million PIC and PICG (2021: £9,021 million PIC and PICG)

Under both IFRS and Solvency II, unlisted bonds are valued using discounted cash flow techniques on a mark to model basis. The models consider the anticipated future cash flows expected to be derived from the assets and discount them to reflect the timing of payments and the likelihood of default given the relative seniority of the holding in order of repayment. The discount rate is derived from yields for comparable quoted bonds, adjusted, where applicable, for illiquidity and idiosyncratic risk.

Equity release mortgages – £1,055 million PIC and PICG (2021: £1,125 million PIC and PICG)

The fair value of equity release mortgages is determined on a mark to model basis. The fair value of each individual mortgage is calculated using a discounted cash flow model, in which the future cash flows are projected using a number of unobservable inputs including mortality, morbidity, interest rates and property prices. These cash flows are discounted at a rate equivalent to the risk-free rate based on the swap curve plus an equivalent spread. The equivalent spread is calculated separately for each mortgage at the date of the initial advance for that mortgage.

Under the terms of the equity release mortgages, a guarantee is provided that when a property is sold on the event of death or move into long-term care and the mortgage repaid, the amount repayable will be capped at the sale value of the underlying property after deducting reasonable costs of selling the property. The value of the 'No Negative Equity Guarantee' has been calculated using option pricing techniques in which an explicit house price growth assumption is used.

These assets are included in the loans and mortgages section of the S.02.01 Balance Sheet presented in appendix B.

Own shares held directly – PICG £20 million (2021: £19 million)

This is determined using a modelled valuation of the PICG Group, determined with the assistance of third party valuation specialists.

D.5 Any other information

There is no other material information to disclose regarding the valuation of assets and liabilities for solvency purposes.

E. Capital Management

E.1 Own Funds

E.1.1 Objectives, policies and processes

The objectives, policies and processes employed by the Group and Company to manage its Own Funds are set out in its Capital Management Policy, which is approved by the Company's Board.

As a part of this, the Board ensures that a Medium-Term Capital Plan is prepared on an annual basis for approval as part of the overall Business Planning cycle. The Medium-Term Capital Plan covers at least a five year period, and includes consideration of the need for further Own Funds, the type of Own Funds, repayment of any Own Funds and Dividend/ Distribution Policy.

The Company's regulatory Solvency II ratio (measured as its eligible Own Funds divided by its Solvency Capital Requirement) is a key metric in the management of the financial position of the Company and Group.

The Board has a risk appetite limit and tolerance for the Company's solvency level, and monitors this regularly. During times of market volatility, or stress, the regularity of these meetings is increased. Whilst above our risk appetite and within our solvency tolerances no formal action is required. However, if our ratio moves out of our approved tolerances then the Board is notified and a range of actions is available to return the business to within tolerances; these actions will vary depending on the circumstances. As our Solvency II ratio gets closer to our minimum risk appetite we would expect the significance of the management actions taken to increase.

As a part of its day-to-day management of the Company's solvency position, management employs solvency monitoring techniques and measurements which are run at a minimum weekly, or more often where required. Management is also able to employ various techniques to manage its capital and solvency, including (but not limited to):

- managing the type and volume of new business written;
- reinsurance of existing business;
- risk mitigation techniques;
- hedging strategies to manage key exposures such as credit risk, interest rate risk or inflation risk;
- asset management strategy; and
- seeking further external debt or equity capital.

E.1.2 Amount of basic own funds at the reporting date

Further information available at S.23.01.

The amount of Own Funds of the Group and Company at the end of the reporting period was:

	Group				Company			
2022 (£m)	**Tier 1**	**Tier 2**	**Tier 3**	**Total**	**Tier 1**	**Tier 2**	**Tier 3**	**Total**
Ordinary share capital	**2**	**–**	**–**	**2**	**1,226**	**–**	**–**	**1,226**
Share premium account	**873**	**–**	**–**	**873**	**524**	**–**	**–**	**524**
Reconciliation reserve	**4,529**	**–**	**–**	**4,529**	**3,628**	**–**	**–**	**3,628**
Restricted Tier 1 debt	**444**	**–**	**–**	**444**	**444**	**–**	**–**	**444**
Subordinated liabilities	**–**	**1,388**	**–**	**1,388**	**–**	**1,388**	**–**	**1,388**
Amount of basic own funds available and eligible to cover SCR	**5,848**	**1,388**	**–**	**7,236**	**5,822**	**1,388**	**–**	**7,210**
Eligibility deduction in Tier 2 own funds	**–**	**(1,228)**	**–**	**(1,228)**	**–**	**(1,228)**	**–**	**(1,228)**
Amount of basic own funds eligible to cover MCR	**5,848**	**160**	**–**	**6,008**	**5,822**	**160**	**–**	**5,982**

	Group				Company			
2021 (£m)	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total
Ordinary share capital	2	–	–	2	1,226	–	–	1,226
Share premium account	873	–	–	873	524	–	–	524
Reconciliation reserve	3,772	–	–	3,772	2,867	–	–	2,867
Restricted Tier 1 debt	444	–	–	444	444	–	–	444
Subordinated liabilities	–	1,608	–	1,608	–	1,608	–	1,608
Amount of basic own funds available and eligible to cover SCR	5,091	1,608	–	6,699	5,061	1,608	–	6,669
Eligibility deduction in Tier 2 own funds	–	(1,410)	–	(1,410)	–	(1,410)	–	(1,410)
Amount of basic own funds eligible to cover MCR	5,091	198	–	5,289	5,061	198	–	5,259

As at 31 December 2022, the ratio of eligible Own Funds to Solvency Capital Requirement of PICG was 226% (2021: 169%) and of PIC was 225% (2021: 168%).

E. Capital Management continued

There are no items of ancillary Own Funds at 31 December 2022 (2021: nil).

No restrictions have been made to the amounts of basic own funds which can be used to cover the Company's SCR requirement.

In 2019, PIC issued £450m of 7.375% Reset Perpetual Restricted Tier 1 Contingent Convertible Notes. The notes are callable on 25 July 2029 (the first call date) and every 5 years after the first call date. If not called, the coupon is reset at a fixed rate of the prevailing five-year benchmark gilt yield plus 6.658% on the first call date and on each fifth anniversary of the first call date thereafter. The notes are perpetual securities with no fixed maturity date. Optional cancellation of coupon payments is at the discretion of PIC and mandatory cancellation is upon the occurrence of certain conditions. Upon the occurrence of certain trigger events, the notes are irrevocably converted into ordinary shares at the prevailing conversion price.

For the purposes of MCR coverage, the amount of Tier 2 basic own funds which can be used to cover MCR has been restricted to £160 million (2021: £198 million) or 20% of the MCR amount. In the event that any Tier 3 basic own funds items were held by the Group, no Tier 3 basic own funds could be used to provide MCR coverage.

E.1.3 Reconciliation of opening and closing own funds

E.1.3.1 Reconciliation of opening and closing own funds: PICG

	Tier 1				**Tier 2**	
2022 £m	**Share Capital**	**Share Premium**	**Reconciliation Reserve**	**Tier 1 Restricted Capital**	**Subordinated Debt**	**Total**
At start of year	**2**	**873**	**3,772**	**444**	**1,608**	**6,699**
Movements in year	**–**	**–**	**757**	**–**	**(220)**	**537**
At end of year	**2**	**873**	**4,529**	**444**	**1,388**	**7,236**

	Tier 1				Tier 2	
2021 £m	Share Capital	Share Premium	Reconciliation Reserve	Tier 1 Restricted Capital	Subordinated Debt	Total
At start of year	2	870	3,706	444	1,704	6,726
Movements in year	–	3	66	–	(96)	(27)
At end of year	2	873	3,772	444	1,608	6,699

There was no additional share capital raised during the year (2021: no additional share capital raised during the year).

There was no subordinated debt raised during the year (2021: no subordinated debt raised during the year).

Further analysis of the reconciliation reserve is set out in E1.6.

E.1.3.2 Reconciliation of opening and closing own funds: PIC

	Tier 1				**Tier 2**	
2022 £m	**Share Capital**	**Share Premium**	**Reconciliation Reserve**	**Tier 1 Restricted Capital**	**Subordinated Debt**	**Total**
At start of year	**1,226**	**524**	**2,867**	**444**	**1,608**	**6,669**
Movements in year	**–**	**–**	**761**	**–**	**(220)**	**541**
At end of year	**1,226**	**524**	**3,628**	**444**	**1,388**	**7,210**

	Tier 1				Tier 2	
2021 £m	Share Capital	Share Premium	Reconciliation Reserve	Tier 1 Restricted Capital	Subordinated Debt	Total
At start of year	1,226	524	2,812	444	1,704	6,710
Movements in year	–	–	55	–	(96)	(41)
At end of year	1,226	524	2,867	444	1,608	6,669

E. Capital Management continued

E.1.4 Restrictions to own funds and capital tiering

As noted above in E.1.2, no restrictions have been made to the amount of basic own funds available to cover the Company's SCR as a result of the limits on eligible Tier 2 and Tier 3 capital, and on restricted Tier 1 capital.

The Company's and the Group's RT1 capital consists of £450 million debt issued by PIC on 25 July 2019. The notes are perpetual with a fixed coupon of 7.375% paid semi-annually in arrears, beginning on 25 January 2020. The interest rate is reset on 25 July 2029 and every five years thereafter.

The issue is treated as equity capital under IFRS reporting. The interest payments are only recognised in equity upon payment as dividends. Under Solvency II, the notes are classified as Restricted Tier 1 own funds. Foreseeable coupon payments are deducted in calculating the eligible Own Funds amount.

The Company's and the Group's Tier 2 capital consists of:

	Issue Amount £m	% of Par Value	Coupon %	Redemption date	Solvency II Value	
Issue Date					**2022 £m**	2021 £m
03/07/14	300	99.107	6.5	03/07/24	**302**	320
23/11/16	250	98.916	8.0	23/11/26	**228**	253
20/09/18	350	99.693	5.625	20/09/30	**308**	367
07/05/20	300	99.554	4.625	07/05/31	**246**	293
21/10/20	400	99.129	3.625	21/10/32	**304**	375
Total Tier 2 capital					**1,388**	1,608

The notes represent direct, unsecured and subordinated obligations of the Company, and are classified as qualifying dated Tier 2 securities for the purposes of regulatory capital requirements.

The Tier 2 instruments are valued in accordance with Article 75 of the Solvency II Directive, being fair value, excluding changes in own credit risk, and therefore at a different value than that used in the Company's IFRS financial statements. Changes arising from a decrease in the risk-free rate have led to a decrease in the value of the subordinated debt of £220 million (2021: £18 million).

E.1.5 Reconciliation of Own Funds to IFRS Equity

The following differences exist between Equity as shown in the Company's IFRS financial statements at the reporting date, and Own Funds under regulatory classifications:

	Group		Company	
(£m)	**2022**	2021	**2022**	2021
Equity per IFRS financial statements	**5,439**	4,465	**5,408**	4,429
Add: Reclassification of Subordinated debt as Tier 2 capital for regulatory purposes, included at regulatory value	**1,388**	1,608	**1,388**	1,608
* Deferred Tax (liability)/asset arising from Subordinated debt revaluation	**(59)**	(3)	**(59)**	(3)
* Adjustment of subordinated debt value between IFRS and regulatory value	**234**	11	**234**	11
* Adjustment for RT1 accrued interest	**(11)**	(11)	**(11)**	(11)
* Decrease in technical provisions under regulatory rules	**513**	1,461	**513**	1,461
* Increase in deferred tax liability under regulatory rules	**(83)**	(211)	**(83)**	(211)
* Decrease in reinsurance recoverable and other assets under regulatory rules	**(185)**	(621)	**(180)**	(615)
Own Funds per regulatory requirements	**7,236**	6,699	**7,210**	6,669

Items marked with a '*' above form part of the regulatory Reconciliation Reserve (see E.1.6 below), which totals £4,529 million for PICG (2021: £3,772 million) and 3,628 million for PIC (2021: £2,867 million) at 31 December 2022.

There are no restrictions on the availability and transferability of Own Funds within the Company or Group.

E. Capital Management continued

E.1.6 Constituents of reconciliation reserve

The reconciliation reserve at 31 December is formed of the following elements:

2022 £m	Group	Company
IFRS retained earnings per financial statements	**3,031**	**3,154**
Capital contribution reserve per financial statements	**–**	**60**
Capital Reduction reserve per financial statements	**1,055**	**–**
Other reserves per financial statements	**54**	**–**
Differences between IFRS rules and Solvency II rules (marked with '*' above)	**409**	**414**
Treasury Shares per financial statements	**(20)**	**–**
Reconciliation reserve at 31 December 2022	**4,529**	**3,628**

2021 £m	Group	Company
IFRS retained earnings per financial statements	2,055	2,175
Capital contribution reserve per financial statements	–	60
Capital Reduction reserve per financial statements	1,055	–
Other reserves per financial statements	55	–
Differences between IFRS rules and Solvency II rules (marked with '*' above)	626	632
Treasury Shares per financial statements	(19)	–
Reconciliation reserve at 31 December 2021	3,772	2,867

E.2 SCR and MCR (unaudited)

E.2.1 Components of SCR

The Group and Company quantify their exposure to different types of risk using their Internal Model, which was approved for use by the PRA in December 2015. A Major Model Change was approved by the PRA in December 2017 relating to the treatment of longevity and inflation risk and in December 2020 relating to Equity Release Mortgages.

No adjustment to the Solvency Capital Requirement has been made by the PRA, in respect of the third subparagraph of Article 51(2) of Directive 2009/138/EC.

As at 31 December 2022, PICG's and PIC's Solvency Capital Requirement amounted to £3,199 million (2021: £3,968 million), and its Minimum Capital Requirement amounted to £800 million (2021: £992 million), being 25% of SCR.

The principal movements in these items arise from:

- a run-off of required capital for the in-force insurance business;
- a general increase in the volume of business in force, due to new insurance contracts written during 2022;
- the impact of changes in economic conditions over the year, in particular an increase in interest rates which materially reduced capital requirements (particularly insurance risk capital) and a widening of credit spreads;
- the impact of changes in the investment mix used by the Company to support its insurance liabilities; and
- the impact of assumption changes in relation to correlations between risks and other smaller items.

PIC uses an internal model agreed with the PRA to calculate its Solvency Capital Requirement. It does not apply the standard formula in the business.

The split of the Solvency Capital Requirement by risk category as at 31 December 2022 is as follows:

Summary of SCR (£m)	**2022**	2021
Risk capital before diversification:		
• Market risk	**3,340**	3,821
• Counterparty credit risk	**93**	172
• Insurance risk	**484**	1,280
• Expense risk	**272**	349
• Operational risk	**313**	378
Total before diversification	**4,502**	6,000
Diversification benefit	**(935)**	(1,746)
Loss absorbing capacity of deferred tax ("LACDT")	**(368)**	(286)
Total diversified SCR after LACDT	**3,199**	3,968

E.2.1.1 Loss absorbing capacity of deferred tax

The total SCR for the Company has been adjusted for LACDT. At 31 December 2022 the amount of the adjustment was £368 million (2021: £286 million). LACDT is a deferred tax benefit, reflecting the tax relief that would be available following a loss equal to the SCR.

LACDT support arises from the following sources:

- deferred tax liabilities included in the Solvency II Own Funds of the Company, largely arising from differences between Solvency II Own Funds and IFRS equity; and
- carry back, as the UK tax regime permits carry back of trading losses against profits made in the current and previous tax years.

E.2.2 Key inputs for the calculation of the MCR

The Minimum Capital Requirement has been calculated as follows:

Step 1. The higher amount of 2.1% of the value of best-estimate liabilities net of reinsurance recoverables or 25% of the Solvency Capital Requirement.

Step 2. The lower amount of the result from Step 1 and 45% of the Solvency Capital Requirement.

The result of this calculation at end 2021 and 2022 was that the MCR equals 25% of the SCR.

E.3 Use of the duration-based equity risk sub module in the calculation of the SCR (unaudited)

This section is not applicable to PIC and PICG. PIC and PICG do not use the duration-based equity risk sub-module.

E.4 Difference between the Standard Formula and any Internal Model used (unaudited)

E.4.1 Use of the Internal Model

The Internal Model is widely used in, and plays an important role in, PIC's systems of governance. PIC expects to use the Internal Model in all decision-making where capital is a relevant factor. If decisions are made without the use of the Internal Model, and capital is a relevant factor, then each decision is logged along with a justification for why the Internal Model was not used.

Each executive is required to provide an annual attestation either confirming that, in their area, the Internal Model, or suitable approximation, has been used in all relevant decision-making or else justifying why the Internal Model was not used. The attestations are subject to oversight by Risk. PIC uses its Internal Model within the key business processes outlined below:

Key business processes	Responsible oversight committee
Strategy and business planning (including ORSA)	Board
Origination of new business and ceding of reinsurance	Investment and Origination Committee
Risk management	Board Risk Committee
Asset Liability management	Investment and Origination Committee
Performance management	Remuneration Committee
Financial reporting	Audit Committee

E.4.2 Internal Model calculation methodology

PIC uses the same risk measure and time period as set out in Article 101(3) of the Solvency II, namely the Value-at-Risk of basic own funds subject to a confidence level of 99.5% over a one-year period.

Similar to the Standard Formula, PIC's Internal Model uses a modular approach covering the following risks:

- Market
- Insurance
- Counterparty
- Expense
- Operational

Each risk module is further divided into sub-risks relevant to PIC's exposures and a variety of methods are used to calculate the associated capital requirement, ranging from statistical analysis of historic data (e.g. market risk) to expert judgements determined by panels of experts (e.g. insurance risk). Each method is appropriate to the risk in question. The sub-risks and risk modules are then aggregated allowing for diversification and non-linearity between the risks, with an overall adjustment for the LACDT.

E. Capital Management continued

E.4.3 Nature and appropriateness of data used within the Internal Model
PIC uses a variety of data sources in its Internal Model, both internal and external. Internal data includes policyholder data and PIC's own historic company experience. External data is used to support the calibration of market, insurance and counterparty default risk. For market risk the main external providers of data are organisations such as Moody's, Merrill Lynch and Bloomberg who provide the majority of historical market data to support the calibration of the Solvency Capital Requirement. The counterparty default risk module also uses Moody's historical data. For insurance risk the primary external data source is the Office for National Statistics which provides national population data and data on the number of deaths.

All data sources are reviewed internally for completeness, appropriateness and accuracy prior to use in the Internal Model.

E.4.4 Comparison of the Company's Internal Model with the Standard Formula (unaudited)
The following table compares the Solvency Capital Requirement calculated on the Standard Formula basis and using the Company's Internal Model.

	Internal Model with matching adjustment FY2022 £m	**Standard Formula with matching adjustment FY2022 £m**
Market risk	**3,340**	**3,979**
Insurance Risk	**484**	**276**
Operational Risk	**313**	**164**
Expense Risk	**272**	**204**
Counterparty credit Risk	**93**	**75**
Benefit of diversification	**(935)**	**(414)**
Loss absorbing capacity of deferred tax	**(368)**	**(388)**
Solvency Capital Requirement	**3,199**	**3,896**

	Internal Model with matching adjustment FY2021 £m	Standard Formula with matching adjustment FY2021 £m
Market risk	3,821	4,525
Insurance Risk	1,280	639
Operational Risk	378	197
Expense Risk	349	310
Counterparty credit Risk	172	75
Benefit of diversification	(1,746)	(730)
Loss absorbing capacity of deferred tax	(286)	(341)
Solvency Capital Requirement	3,968	4,675

Of note, the Standard Formula was originally calibrated with respect to an average European insurance entity. As PIC is a UK specialist insurance provider, the Company's business is not well represented by the Standard Formula. Using a risk capital model that does not represent the risks to the business does not incentivise good risk management, with actions being taken to optimise a position under a formula rather than aligned to the risks.

In particular, the design and calibration of the Standard Formula is not deemed appropriate to reflect PIC's internal view of its main risk drivers – market risk, including inflation risk and basis risk, and insurance risk, particularly the allowance for the risks associated with mortality improvements. PIC's Internal Model adopts a more granular approach to determining the capital requirements for both of these major risks as well as incorporating additional risks such as those associated with taking on liabilities with inflation-linked benefits.

For PIC's less important risks, the Internal Model calibration is also more bespoke than the Standard Formula. For operational risk, the capital is based on an assessment of the actual operational risks compared to the Standard Formula which is a function of premium income received in the previous year, which can bear little relationship to where operational risks may arise. For counterparty credit risk, PIC uses a bespoke stochastic model allowing for all risk mitigants it deploys to manage such risks. For expense risk, PIC again has a bespoke calibration reflecting the key source of expense risk such as investment management fees and policy maintenance costs.

E.5 Non-compliance with the MCR and significant non-compliance with the SCR
Both PIC and PICG have been fully compliant with both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2022 and up to the date of approval of this report.

E.6 Any other information (unaudited)
There is no other material information to disclose regarding Capital Management.

Appendix A – Glossary of terms

BEL
The best estimate liability ("BEL") represents the value of future liability and expense cash flows. It is based on realistic assumptions with no prudent margins (other than in the default and downgrade assumptions stipulated for the calculation of the valuation discount rate) and is calculated using well-established actuarial and statistical methods.

CPI
The Consumer Price Index (CPI) is published by the Office for National Statistics. It measures the average change from month to month in the prices of goods and services purchased by most households in the UK.

CPIH
The CPIH is identical to the CPI, with the exception of inclusion of owner occupiers' housing costs and Council Tax.

IFRS
International Financial Reporting Standards, also known as International Accounting Standards. The accounting framework used by the Group and Company in their statutory accounts.

LACDT
Loss absorbing capacity of deferred tax. A reduction to the capital requirements to allow for tax losses that may arise as a result of a shock event.

LPI
The Limited Price Index (LPI) is a pricing index used to calculate increases in components of scheme pension payments in the UK. Usually the lesser of the annual increase in the Retail Prices Index (or Consumer Prices Index) and 5%, although the percentage limit can vary.

Matching Adjustment
The matching adjustment is an upward adjustment to the risk-free rate where insurers hold certain long-term assets with cashflows that match the liabilities. It reflects the fact that long-term buy-and-hold investors are not exposed to spread movements in the same way that short-term traders of such assets are.

ORSA
Own Risk and Solvency Assessment. The name given to the entirety of the processes and procedures employed by an insurer to identify, assess, monitor, manage and report the short and long-term risks it faces or may face and to determine the capital necessary to ensure that the insurers overall solvency needs are met at all times.

Own funds
Own funds represent the Equity base of the Company under the Solvency II regime. Own funds can be classified as "basic own funds" and "ancillary own funds", and are structured into Tiers (Tier 1, Tier 2, and Tier 3) which broadly represent the quality and permanency of the Capital.

QRT
Quantitative Reporting Templates. Quarterly and Annual solvency returns submitted to the national regulator.

RPI
The Retail Price Index (RPI) is an older measurement of inflation that is still published because it is used to calculate cost of living and wage escalation.

Risk Margin
Life insurance companies hold technical provisions (reserves) calculated on actuarial bases to ensure they have sufficient funds available to pay their technical liabilities when they fall due. The technical provisions comprise a BEL and a RM. The RM calculation, which is prescribed under the Solvency II regulations, is intended to represent the amount that a notional third party, a reference undertaking, would require in order to take over the liabilities and have sufficient capital to support them over their future lifetime.

SCR
Solvency Capital Requirement represents the capital that the Company needs to hold in order to be able to survive a 1-in-200 year risk event over the 12 months following the balance sheet date. PIC calculates its SCR using a Company-specific model (the internal model) which has been approved by the PRA. The main components of the SCR for PIC are market risk and insurance risk, but the internal model also covers counterparty default risk, expense risk and operational risk.

Appendix A – Glossary of terms continued

SFCR
A public disclosure report which is required to be published annually by all insurers and will contain detailed quantitative and qualitative elements.

SONIA
The Sterling Overnight Index Average (SONIA), is the effective overnight interest rate paid by banks for unsecured transactions in the British sterling market. It is used for overnight funding for trades that occur in off-hours and represents the depth of overnight business in the marketplace.

Technical Provisions
Life insurance companies hold technical provisions (reserves) calculated on actuarial bases to ensure they have sufficient funds available to pay their technical liabilities when they fall due. Under the Solvency II framework, these represent the sum of best estimate liability, risk margin and the TMTP.

TMTP
Transitional Measures on Technical Provisions. PIC uses a transitional measures deduction on technical provisions in its Solvency II balance sheet. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example in having to set up the risk margin. The TMTP only applies in respect of business that was in force at 31 December 2015. This will decrease linearly to zero over 16 years, but may be recalculated to allow for material changes in the risk profile for the company, subject to regulatory approval.

Valuation adjustments
Valuation adjustment is the umbrella name for adjustments made to the fair value of a derivatives contract to take into account funding, credit risk and regulatory capital costs.

Volatility adjustment
The volatility adjustment is a measure to ensure the appropriate treatment of insurance products with long-term guarantees under Solvency II.

Appendix B – Index of QRTs attached

The following QRTs are required to be included in the SFCR:

Pension Insurance Corporation plc

QRT REF	QRT NAME
S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses by line of business
S.05.02	Premiums, claims and expenses by country
S.12.01	Life and Health SLT Technical Provisions
S.22.01	Impact of long-term guarantees measures and transitionals
S.23.01	Own Funds
S.25.03	SCR – for undertakings on Full Internal Models
S.28.01	MCR – Only life or only non-life insurance or reinsurance activity

Pension Insurance Corporation Group Limited

QRT REF	QRT NAME
S.02.01	Balance Sheet
S.05.01	Premiums, claims and expenses
S.05.02	Premiums, claims and expenses by country
S.22.01	Impact of long-term guarantees measures and TMTP's
S.23.01	Own Funds
S.25.03	SCR – for undertakings on Full Internal Models
S.32.01	Undertakings in the scope of the group

The appendices to the SFCR are presented in GBP sterling.

Rounding convention

The SFCR is presented in pound sterling rounded to the nearest million which is consistent with the presentation in the IFRS financial statements. The QRTs are presented in pound sterling rounded to the pound. Rounding differences of +/- one unit can occur.

Appendix B continued

S.02.01
Pension Insurance Corporation plc
Balance sheet

		2022 Solvency II value C0010
	Assets	
R0010	Goodwill	0
R0020	Deferred acquisition costs	0
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	**Investments (other than assets held for index-linked and unit-linked contracts)**	**57,640,369,658**
R0080	*Property (other than for own use)*	-0
R0090	*Holdings in related undertakings, including participations*	308,307,217
R0100	*Equities*	0
R0110	Equities – listed	0
R0120	Equities – unlisted	0
R0130	*Bonds*	**30,864,000,928**
R0140	*Government Bonds*	*13,391,169,906*
R0150	*Corporate Bonds*	*17,210,087,670*
R0160	*Structured notes*	*0*
R0170	*Collateralised securities*	*262,743,352*
R0180	*Collective Investments Undertakings*	4,016,588,887
R0190	*Derivatives*	22,451,472,626
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	**Loans and mortgages**	**5,627,210,302**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	5,627,210,302
R0270	**Reinsurance recoverables from:**	**1,139,767,733**
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding health and index-linked and unit-linked*	1,139,767,733
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	1,139,767,733
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	2,834,705
R0380	Receivables (trade, not insurance)	10,749,870
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	902,296,175
R0420	Any other assets, not elsewhere shown	105,390,768
R0500	**Total assets**	**65,428,619,210**

Appendix B continued

S.02.01 (continued)
Pension Insurance Corporation plc
Balance sheet

		2022 Solvency II value C0010
	Liabilities	
R0510	**Technical provisions – non-life**	**0**
R0520	**Technical provisions – non-life (excluding health)**	**0**
R0530	*Technical provisions calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	**Technical provisions – health (similar to non-life)**	**0**
R0570	*Technical provisions calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	**Technical provisions – life (excluding index-linked and unit-linked)**	**32,515,626,223**
R0610	**Technical provisions – health (similar to life)**	**0**
R0620	*Technical provisions calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	**Technical provisions – life (excluding health and index-linked and unit-linked)**	**32,515,626,223**
R0660	*Technical provisions calculated as a whole*	0
R0670	*Best Estimate*	31,824,402,475
R0680	*Risk margin*	691,223,748
R0690	**Technical provisions – index-linked and unit-linked**	**0**
R0700	*Technical provisions calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0730	Other technical provisions	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	142,147,344
R0790	Derivatives	25,347,799,800
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	890,656
R0830	Reinsurance payables	24,738,642
R0840	Payables (trade, not insurance)	176,517,379
R0850	**Subordinated liabilities**	**1,387,849,884**
R0860	*Subordinated liabilities not in Basic Own Funds*	0
R0870	*Subordinated liabilities in Basic Own Funds*	1,387,849,884
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	**59,595,569,928**
R1000	**Excess of assets over liabilities**	**5,833,049,282**

Appendix B continued

S.05.01
Pension Insurance Corporation plc
Premiums, claims and expenses by line of business

	Life	Line of Business for: life insurance obligations Other life insurance C0240	**Total** **C0300**
	Premiums written		
R1410	Gross	4,095,214,212	**4,095,214,212**
R1420	Reinsurers' share	74,476,706	**74,476,706**
R1500	**Net**	**4,020,737,506**	**4,020,737,506**
	Premiums earned		
R1510	Gross	4,095,214,212	**4,095,214,212**
R1520	Reinsurers' share	74,476,706	**74,476,706**
R1600	**Net**	**4,020,737,506**	**4,020,737,506**
	Claims incurred		
R1610	Gross	1,918,639,305	**1,918,639,305**
R1620	Reinsurers' share	38,479,217	**38,479,217**
R1700	**Net**	**1,880,160,088**	**1,880,160,088**
	Changes in other technical provisions		
R1710	Gross	-13,984,173,625	**-13,984,173,625**
R1720	Reinsurers' share	-2,150,697,687	**-2,150,697,687**
R1800	**Net**	**-11,833,475,938**	**-11,833,475,938**
R1900	**Expenses incurred**	**246,384,197**	**246,384,197**
R2500	**Other expenses**		
R2600	**Total expenses**		**246,384,197**

Appendix B continued

S.05.02
Pension Insurance Corporation plc
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations					
R1400		Home Country						Total Top 5 and home country
	Life	**C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**
	Premiums written							
R1410	Gross	4,095,214,212						**4,095,214,212**
R1420	Reinsurers' share	74,476,706						**74,476,706**
R1500	**Net**	**4,020,737,506**						**4,020,737,506**
	Premiums earned							**0**
R1510	Gross	4,095,214,212						**4,095,214,212**
R1520	Reinsurers' share	74,476,706						**74,476,706**
R1600	**Net**	**4,020,737,506**						**4,020,737,506**
	Claims incurred							**0**
R1610	Gross	1,918,639,305						**1,918,639,305**
R1620	Reinsurers' share	38,479,217						**38,479,217**
R1700	**Net**	**1,880,160,088**						**1,880,160,088**
	Changes in other technical provisions							**0**
R1710	Gross	-13,984,173,625						**-13,984,173,625**
R1720	Reinsurers' share	-2,150,697,687						**-2,150,697,687**
R1800	**Net**	**-11,833,475,938**						**-11,833,475,938**
R1900	**Expenses incurred**	246,384,197						**246,384,197**
R2500	**Other expenses**							
R2600	**Total expenses**							**246,384,197**

Appendix B continued

S.12.01
Pension Insurance Corporation plc
Life and Health SLT Technical Provisions

			Other life insurance		
		C0060	Contracts without options and guarantees C0070	Contracts with options or guarantees C0080	Total (Life other than health insurance, incl Unit-linked) C0150
R0010	**Technical provisions calculated as a whole**				**0**
R0020	Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP as a whole				**0**
	Technical provisions calculated as a sum of BE and RM				
	Best Estimate				
R0030	**Gross Best Estimate**		31,824,402,475		**31,824,402,475**
R0080	Total Recoverables from reinsurance/ SPV and Finite Re after the adjustment for expected losses due to counterparty default		1,139,767,733		**1,139,767,733**
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re – total		**30,684,634,743**	**0**	**30,684,634,743**
R0100	**Risk Margin**	898,628,431			**898,628,431**
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole				**0**
R0120	*Best estimate*				**0**
R0130	*Risk margin*	-207,404,683			**-207,404,683**
R0200	**Technical provisions – total**	**32,515,626,223**			**32,515,626,223**

Appendix B continued

S.22.01
Pension Insurance Corporation plc
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	**Technical provisions**	32,515,626,223	207,404,683	0	0	6,244,663,125
R0020	**Basic own funds**	7,209,783,626	-155,553,512	0	0	-4,682,614,776
R0050	**Eligible own funds to meet Solvency Capital Requirement**	7,209,783,626	-155,553,512	0	0	-5,043,493,531
R0090	**Solvency Capital Requirement**	3,199,060,996	51,851,171	0	0	4,171,766,780
R0100	**Eligible own funds to meet Minimum Capital Requirement**	5,981,886,792	-152,960,954	0	0	-5,948,307,034
R0110	**Minimum Capital Requirement**	799,765,249	12,962,793	0	0	1,042,941,695

S.23.01
Pension Insurance Corporation plc
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0010	**Ordinary share capital (gross of own shares)**	**1,226,384,310**	1,226,384,310		0	
R0030	Share premium account related to ordinary share capital	**523,426,034**	523,426,034		0	
R0040	Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0070	Surplus funds	**0**	0			
R0090	Preference shares	**0**		0	0	0
R0110	Share premium account related to preference shares	**0**		0	0	0
R0130	Reconciliation reserve	**3,627,722,194**	3,627,722,194			
R0140	Subordinated liabilities	**1,387,849,884**		0	1,387,849,884	0
R0160	An amount equal to the value of net deferred tax assets	**0**				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	**444,401,204**	0	444,401,204	0	0
	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds	**0**				
	Deductions					
R0230	Deductions for participations in financial and credit institutions	**0**	0	0	0	
R0290	**Total basic own funds after deductions**	**7,209,783,626**	5,377,532,538	444,401,204	1,387,849,884	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	**0**				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	**0**				
R0320	Unpaid and uncalled preference shares callable on demand	**0**				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**0**				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**0**				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**0**				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0390	Other ancillary own funds	**0**				
R0400	**Total ancillary own funds**	**0**			0	0
	Available and eligible own funds					
R0500	**Total available own funds to meet the SCR**	**7,209,783,626**	5,377,532,538	444,401,204	1,387,849,884	0
R0510	**Total available own funds to meet the MCR**	**7,209,783,626**	5,377,532,538	444,401,204	1,387,849,884	
R0540	**Total eligible own funds to meet the SCR**	**7,209,783,626**	5,377,532,538	444,401,204	1,387,849,884	0
R0550	**Total eligible own funds to meet the MCR**	**5,981,886,792**	5,377,532,538	444,401,204	159,953,050	
R0580	**SCR**	**3,199,060,996**				
R0600	**MCR**	**799,765,249**				
R0620	**Ratio of Eligible own funds to SCR**	**225.37%**				
R0640	**Ratio of Eligible own funds to MCR**	**747.96%**				
	Reconciliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,833,049,282**				
R0710	Own shares (held directly and indirectly)	**0**				
R0720	Foreseeable dividends, distributions and charges	**11,115,539**				
R0730	Other basic own fund items	**2,194,211,548**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0760	**Reconciliation reserve**	**3,627,722,194**				

Appendix B continued

S.25.03
Pension Insurance Corporation plc
Solvency Capital Requirement – for undertakings on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	C0010	C0020	C0030
1	10310I	Interest rate risk – interest rate down more onerous	0
2	10320I	Interest rate risk – interest rate up more onerous	427,784,464
3	10600I	Property Risk	17,492
4	10700I	Spread risk – if matching adjustment impact not identified	3,207,295,728
5	10900I	Currency risk	38,865,435
6	11010I	Other market risk – inflation risk	91,704,884
7	11020I	Other market risk – implied volatility risk	239,998,299
8	11030I	Other market risk – RPI/CPI basis risk	46,174,371
9	11090I	Other market risk – funds risk	876,431,191
10	19900I	Diversification within market risk	-1,588,209,668
11	20120I	Type 1 counterparty risk – external reinsurance	62,594,652
12	20190I	Type 1 counterparty risk – asset counterparty	30,073,579
13	30210I	Longevity risk – longevity mis-estimation	116,326,415
14	30220I	Longevity risk – longevity trend	429,795,951
15	30290I	Longevity risk – other longevity risks	260,848,276
16	30299I	Longevity risk – longevity diversification	-322,960,845
17	30600I	Expense risk	400,965,385
18	39900I	Life underwriting risk diversification	-128,915,478
19	70100I	Operational risk	313,198,116
20	80300I	Loss-absorbing capacity of deferred tax	-367,748,743

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	4,134,239,503
R0060	Diversification	-935,178,508
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	**3,199,060,996**
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	**3,199,060,996**

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-367,748,743
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,377,255,166
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	1,821,805,829
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0460	Net future discretionary benefits	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	No

	Calculation of loss absorbing capacity of deferred taxes	LAC DT C0130
R0640	**Amount/estimate of LAC DT**	-367,748,743
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	-138,442,166
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	0
R0670	Amount/estimate of LAC DT justified by carry back, current year	-229,306,577
R0680	Amount/estimate of LAC DT justified by carry back, future years	0
R0690	Amount/estimate of Maximum LAC DT	-367,748,743

Appendix B continued

S.28.01
Pension Insurance Corporation plc
Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	644,377,330

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050	Net (of reinsurance/SPV) total capital at risk C0060
R0210	Obligations with profit participation – guaranteed benefits		
R0220	Obligations with profit participation – future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	30,684,634,743	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070	C0070
R0300	Linear MCR		**644,377,330**
R0310	SCR		3,199,060,996
R0320	MCR cap		**1,439,577,448**
R0330	MCR floor		**799,765,249**
R0340	Combined MCR		**799,765,249**
R0350	Absolute floor of the MCR		3,444,600
R0400	**Minimum Capital Requirement**		**799,765,249**

Appendix B continued

S.02.01
Pension Insurance Corporation Group Limited
Balance sheet

		Solvency II value C0010
	Assets	
R0010	Goodwill	0
R0020	Deferred acquisition costs	0
R0030	Intangible assets	0
R0040	Deferred tax assets	6,129,668
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	3,886,302
R0070	**Investments (other than assets held for index-linked and unit-linked contracts)**	**57,640,433,781**
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	308,371,341
R0100	*Equities*	0
R0110	Equities – listed	0
R0120	Equities – unlisted	0
R0130	*Bonds*	*30,864,000,928*
R0140	*Government Bonds*	13,391,169,906
R0150	*Corporate Bonds*	17,210,087,670
R0160	*Structured notes*	0
R0170	*Collateralised securities*	262,743,352
R0180	*Collective Investments Undertakings*	4,016,588,887
R0190	*Derivatives*	22,451,472,626
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	**Loans and mortgages**	**5,627,210,302**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	5,627,210,302
R0270	**Reinsurance recoverables from:**	**1,139,767,733**
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding health and index-linked and unit-linked*	1,139,767,733
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	1,139,767,733
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	0
R0370	Reinsurance receivables	2,834,705
R0380	Receivables (trade, not insurance)	10,819,649
R0390	Own shares (held directly)	20,200,945
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	905,219,923
R0420	Any other assets, not elsewhere shown	104,834,095
R0500	**Total assets**	**65,461,337,102**

Appendix B continued

S.02.01 (continued)
Pension Insurance Corporation Group Limited
Balance sheet

		Solvency II value C0010
	Liabilities	
R0510	**Technical provisions – non-life**	**0**
R0520	**Technical provisions – non-life (excluding health)**	**0**
R0530	*Technical provisions calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	**Technical provisions – health (similar to non-life)**	0
R0570	*Technical provisions calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	**Technical provisions – life (excluding index-linked and unit-linked)**	**32,515,626,223**
R0610	**Technical provisions – health (similar to life)**	**0**
R0620	*Technical provisions calculated as a whole*	0
R0630	*Best Estimate*	0
R0640	*Risk margin*	0
R0650	**Technical provisions – life (excluding health and index-linked and unit-linked)**	**32,515,626,223**
R0660	*Technical provisions calculated as a whole*	0
R0670	*Best Estimate*	31,824,402,475
R0680	*Risk margin*	691,223,748
R0690	**Technical provisions – index-linked and unit-linked**	**0**
R0700	*Technical provisions calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0730	Other technical provisions	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	142,147,344
R0790	Derivatives	25,347,799,800
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	890,656
R0830	Reinsurance payables	24,738,642
R0840	Payables (trade, not insurance)	162,653,778
R0850	**Subordinated liabilities**	1,387,849,884
R0860	*Subordinated liabilities not in Basic Own Funds*	0
R0870	*Subordinated liabilities in Basic Own Funds*	1,387,849,884
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	**59,581,706,327**
R1000	**Excess of assets over liabilities**	**5,879,630,774**

Appendix B continued

S.05.01
Pension Insurance Corporation Group Limited
Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations	
	Life	Other life insurance C0240	Total C0300
	Premiums written		
R1410	Gross	4,095,214,212	**4,095,214,212**
R1420	Reinsurers' share	74,476,706	**74,476,706**
R1500	**Net**	**4,020,737,506**	**4,020,737,506**
	Premiums earned		
R1510	Gross	4,095,214,212	**4,095,214,212**
R1520	Reinsurers' share	74,476,706	**74,476,706**
R1600	**Net**	**4,020,737,506**	**4,020,737,506**
	Claims incurred		
R1610	Gross	1,918,639,305	**1,918,639,305**
R1620	Reinsurers' share	38,479,217	**38,479,217**
R1700	**Net**	**1,880,160,088**	**1,880,160,088**
	Changes in other technical provisions		
R1710	Gross	-13,984,173,625	**-13,984,173,625**
R1720	Reinsurers' share	-2,150,697,687	**-2,150,697,687**
R1800	**Net**	**-11,833,475,938**	**-11,833,475,938**
R1900	**Expenses incurred**	**248,130,512**	**248,130,512**
R2500	**Other expenses**		
R2600	**Total expenses**		**248,130,512**

Appendix B continued

S.05.02
Pension Insurance Corporation Group Limited
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations					
R1400		Home Country						Total Top 5 and home country
	Life	C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	4,095,214,212						4,095,214,212
R1420	Reinsurers' share	74,476,706						74,476,706
R1500	**Net**	**4,020,737,506**						**4,020,737,506**
	Premiums earned							
R1510	Gross	4,095,214,212						4,095,214,212
R1520	Reinsurers' share	74,476,706						74,476,706
R1600	**Net**	**4,020,737,506**						**4,020,737,506**
	Claims incurred							
R1610	Gross	1,918,639,305						1,918,639,305
R1620	Reinsurers' share	38,479,217						38,479,217
R1700	**Net**	**1,880,160,088**						**1,880,160,088**
	Changes in other technical provisions							
R1710	Gross	-13,984,173,625						-13,984,173,625
R1720	Reinsurers' share	-2,150,697,687						-2,150,697,687
R1800	**Net**	**-11,833,475,938**						**-11,833,475,938**
R1900	Expenses incurred	248,130,512						248,130,512
R2500	**Other expenses**							
R2600	**Total expenses**							**248,130,512**

Appendix B continued

S.22.01

Pension Insurance Corporation Group Limited

Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals C0010	Impact of transitional on technical provisions C0030	Impact of transitional on interest rate C0050	Impact of volatility adjustment set to zero C0070	Impact of matching adjustment set to zero C0090
R0010	Technical provisions	32,515,626,223	207,404,683	0	0	6,244,663,125
R0020	Basic own funds	7,236,164,174	-155,553,512	0	0	-4,682,614,776
R0050	Eligible own funds to meet Solvency Capital Requirement	7,236,164,174	-155,553,512	0	0	-5,043,493,531
R0090	Solvency Capital Requirement	3,199,060,996	51,851,171	0	0	4,171,766,780

Appendix B continued

S.23.01
Pension Insurance Corporation Group Limited
Own Funds

	Basic own funds before deduction for participations in other financial sector	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0010	Ordinary share capital (gross of own shares)	**2,157,119**	2,157,119		0	
R0020	Non-available called but not paid in ordinary share capital at group level	**0**				
R0030	Share premium account related to ordinary share capital	**873,213,835**	873,213,835		0	
R0040	Initial funds, members' contributions or the equivalent basic own – fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0060	Non-available subordinated mutual member accounts at group level	**0**				
R0070	Surplus funds	**0**				
R0080	Non-available surplus funds at group level	**0**				
R0090	Preference shares	**0**		0	0	0
R0100	Non-available preference shares at group level	**0**		0	0	0
R0110	Share premium account related to preference shares	**0**		0	0	0
R0120	Non-available share premium account related to preference shares at group level	**0**				
R0130	Reconciliation reserve	**4,528,542,132**	4,528,542,132			
R0140	Subordinated liabilities	**1,387,849,884**		0	1,387,849,884	0
R0150	Non-available subordinated liabilities at group level	**0**				
R0160	An amount equal to the value of net deferred tax assets	**0**				0
R0170	The amount equal to the value of net deferred tax assets not available at the group level	**0**				
R0180	Other items approved by supervisory authority as basic own funds not specified above	**444,401,204**	0	444,401,204	0	0
R0190	Non available own funds related to other own funds items approved by supervisory authority	**0**				
R0200	Minority interests (if not reported as part of a specific own fund item)	**0**				
R0210	Non-available minority interests at group level	**0**				
R0220	Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	**0**				
R0240	whereof deducted according to art 228 of the Directive 2009/138/EC	**0**				
R0250	Deductions for participations where there is non-availability of information (Article 229)	**0**				
R0260	Deduction for participations included by using D&A when a combination of methods is used	**0**				
R0270	*Total of non-available own fund items*	**0**	0	0	0	0
R0280	**Total deductions**	**0**	0	0	0	0
R0290	**Total basic own funds after deductions**	**7,236,164,174**	5,403,913,086	444,401,204	1,387,849,884	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	**0**				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual – type undertakings, callable on demand	**0**				
R0320	Unpaid and uncalled preference shares callable on demand	**0**				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	**0**				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	**0**				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	**0**				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0370	Supplementary members calls – other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	**0**				
R0380	Non available ancillary own funds at group level	**0**				
R0390	Other ancillary own funds	**0**				
R0400	**Total ancillary own funds**	**0**			0	0
	Own funds of other financial sectors					
R0410	Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies – Total	**0**				
R0420	Institutions for occupational retirement provision	**0**				

S.23.01 continued
Pension Insurance Corporation Group Limited
Own Funds continued

		Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0430	Non regulated entities carrying out financial activities	**0**				
R0440	*Total own funds of other financial sectors*	**0**	0	0	0	0
	Own funds when using the D&A, exclusively or in combination of method 1					
R0450	Own funds aggregated when using the D&A and combination of method	**0**				
R0460	Own funds aggregated when using the D&A and combination of method net of IGT	**0**	0	0	0	0
R0520	**Total available own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)**	**7,236,164,174**	5,403,913,086	444,401,204	1,387,849,884	0
R0530	**Total available own funds to meet the minimum consolidated group SCR**	**7,236,164,174**	5,403,913,086	444,401,204	1,387,849,884	
R0560	**Total eligible own funds to meet the consolidated group SCR (excluding own funds from other financial sector and from the undertakings included via D&A)**	**7,236,164,174**	5,403,913,086	444,401,204	1,387,849,884	0
R0570	**Total eligible own funds to meet the minimum consolidated group SCR**	**6,008,267,340**	5,403,913,086	444,401,204	159,953,050	
R0590	**Consolidated Group SCR**	**3,199,060,996**				
R0610	**Minimum consolidated Group SCR**	**799,765,249**				
R0630	**Ratio of Eligible own funds to the consolidated Group SCR (excluding other financial sectors and the undertakings included via D&A)**	**226.20%**				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	**751.25%**				
R0660	**Total eligible own funds to meet the group SCR (including own funds from other financial sector and from the undertakings included via D&A)**	**7,236,164,174**	5,403,913,086	444,401,204	1,387,849,884	
R0670	**SCR for entities included with D&A method**					
R0680	**Group SCR**	**3,199,060,996**				
R0690	**Ratio of Eligible own funds to SCR including other financial sectors' own funds and capital requirements**	**226.20%**				
	Reconciliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,879,630,774**				
R0710	Own shares (held directly and indirectly)	**20,200,945**				
R0720	Foreseeable dividends, distributions and charges	**11,115,539**				
R0730	Other basic own fund items	**1,319,772,158**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0750	Other non available own funds					
R0760	**Reconciliation reserve**	**4,528,542,132**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) – Life Business					
R0780	Expected profits included in future premiums (EPIFP) – Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**0**				

Appendix B continued

S.25.03
Pension Insurance Corporation Group Limited
Solvency Capital Requirement – for groups on Full Internal Models

Row	Unique number of component C0010	Component description C0020	Calculation of the Solvency Capital Requirement C0030
1	103101	Interest rate risk – interest rate down more onerous	0
2	103201	Interest rate risk – interest rate up more onerous	427,784,464
3	106001	Property Risk	17,492
4	107001	Spread risk – if matching adjustment impact not identified	3,207,295,728
5	109001	Currency risk	38,865,435
6	110101	Other market risk – inflation risk	91,704,884
7	110201	Other market risk – implied volatility risk	239,998,299
8	110301	Other market risk – RPI/CPI basis risk	46,174,371
9	110901	Other market risk – funds risk	876,431,191
10	199001	Diversification within market risk	-1,588,209,668
11	201201	Type 1 counterparty risk – external reinsurance	62,594,652
12	201901	Type 1 counterparty risk – asset counterparty	30,073,579
13	302101	Longevity risk – longevity mis-estimation	116,326,415
14	302201	Longevity risk – longevity trend	429,795,951
15	302901	Longevity risk – other longevity risks	260,848,276
16	302991	Longevity risk – longevity diversification	-322,960,845
17	306001	Expense risk	400,965,385
18	399001	Life underwriting risk diversification	-128,915,478
19	701001	Operational risk	313,198,116
20	803001	Loss-absorbing capacity of deferred tax	-367,748,743

	Calculation of Solvency Capital Requirement	C0100
R0110	**Total undiversified components**	**4,134,239,503**
R0060	Diversification	-935,178,508
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency capital requirement excluding capital add-on**	**3,199,060,996**
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	**3,199,060,996**

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	0
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-367,748,743
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	1,377,255,166
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	1,821,805,829
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0
R0460	Net future discretionary benefits	0
R0470	Minimum consolidated group solvency capital requirement	799,765,249

	Information on other entities	
R0500	Capital requirement for other financial sectors (Non-insurance capital requirements)	0
R0510	*Capital requirement for other financial sectors (Non-insurance capital requirements) – Credit institutions, investment firms and financial institutions, alternative investment funds managers, UCITS management companies*	
R0520	*Capital requirement for other financial sectors (Non-insurance capital requirements) – Institutions for occupational retirement provisions*	
R0530	*Capital requirement for other financial sectors (Non-insurance capital requirements) – Capital requirement for non- regulated entities carrying out financial activities*	
R0540	Capital requirement for non-controlled participation requirements	0
R0550	Capital requirement for residual undertakings	0

Appendix B continued

S.32.01
Pension Insurance Corporation Group Limited Undertakings in the scope of the Group

Country C0010	Identification code of the undertaking C0020	Type of code of the identification of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual/non-mutual) C0070	Supervisory authority C0080	Criteria of influence: % capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for Group solvency calculation C0230	Inclusion in the scope of Group supervision: Yes/No C0240	Date of decision if Article 214 is applied C0250	Group solvency calculation: Method used and under method 1, treatment of the undertaking C0260
GB	5493007PY8C1S8BSNK41	1 – LEI	PIC ERM 1 Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	549300Q8BH2WRUKFLA05	1 – LEI	PIC Holdings Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	549300R4HHJMZHQB8G02	1 – LEI	Pension Services Corporation Limited	10 – Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	549300UN2IF0TWMZYC35	1 – LEI	Pension Insurance Corporation Group Limited	5 – Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC	0	2 – Non-mutual		0.00%	0.00%	0.00%		1 – Dominant	0.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	549300X7DQTBRJ1NIK13	1 – LEI	PIC Real Estate GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	M31AVDIX8NY21MAUQF46	1 – LEI	Pension Insurance Corporation Plc	1 – Life insurance undertaking	Company limited by shares or guarantee	2 – Non-mutual	The Prudential Regulation Authority	100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		1 – Method 1: Full consolidation
GB	PICBOWBCKGP	2 – Specific code	PIC Bowback GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICBOWBCKNOM	2 – Specific code	PIC Bowback Nominee Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICBOWBCKPART	2 – Specific code	PIC Bowback Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICBOWBCKUT	2 – Specific code	PIC Bowback Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICGPAFRSTPART	2 – Specific code	PIC Real Estate Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

S.32.01 (continued)
Pension Insurance Corporation Group Limited
Undertakings in the scope of the Group

								Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Country C0010	Identification code of the undertaking C0020	Type of code of the identification of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual/ non-mutual) C0070	Supervisory authority C0080	% capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for Group solvency calculation C0230	Yes/No C0240	Date of decision if Article 214 is applied C0250	Method used and under method 1, treatment of the undertaking C0260
GB	PICNEWVICGP	2 – Specific code	PIC New Victoria GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICNEWVICNOM	2 – Specific code	PIC New Victoria Nominee Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICNEWVICPART	2 – Specific code	PIC New Victoria Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICNEWVICUT	2 – Specific code	PIC New Victoria Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICOEGP	2 – Specific code	PIC One Eastside GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICOENOM	2 – Specific code	PIC One Eastside Nominee Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICOEPART	2 – Specific code	PIC One Eastside Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICOEUT	2 – Specific code	PIC One Eastside Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICPROPGP	2 – Specific code	PIC Properties GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICPROPPART	2 – Specific code	PIC Properties Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICWILTRNGP	2 – Specific code	PIC Wiltern GP Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICWILTRNNOM	2 – Specific code	PIC Wiltern Nominee Limited	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICWILTRNPART	2 – Specific code	PIC Wiltern Limited Partnership	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PICWILTRNUT	2 – Specific code	PIC Wiltern Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

S.32.01 (continued)
Pension Insurance Corporation Group Limited
Undertakings in the scope of the Group

								Criteria of influence						Inclusion in the scope of Group supervision		Group solvency calculation
Country C0010	Identification code of the undertaking C0020	Type of code of the identification of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual/non-mutual) C0070	Supervisory authority C0080	% capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for Group solvency calculation C0230	Yes/No C0240	Date of decision if Article 214 is applied C0250	Method used and under method 1, treatment of the undertaking C0260
GB	BSFGPUT	2 – Specific code	BSF Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	CVTGPUT	2 – Specific code	CVT Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	GLSGPUT	2 – Specific code	GLS Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	PLEGPUT	2 – Specific code	PLE Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	STHGPUT	2 – Specific code	STH Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	TBWGPUT	2 – Specific code	TBW Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	TNTGPUT	2 – Specific code	TNT Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	WORGPUT	2 – Specific code	WOR Unit Trust	99 – Other	0	2 – Non-mutual		100.00%	100.00%	100.00%		1 – Dominant	100.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	M31AVDIX8NY21MAUQF46GB00007	2 – Specific code	Senior Living Investment Partners (General Partner) Limited	99 – Other	0	2 – Non-mutual		49.00%	100.00%	49.00%		2 – Significant	49.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method
GB	M31AVDIX8NY21MAUQF46GB00006	2 – Specific code	Senior Living Investment Partners Limited Partnership	99 – Other	0	2 – Non-mutual		99.00%	100.00%	99.00%		1 – Dominant	99.00%	1 – Included in the scope		3 – Method 1: Adjusted equity method

Pension Insurance Corporation Group Limited
14 Cornhill, London EC3V 3ND

www.pensioncorporation.com