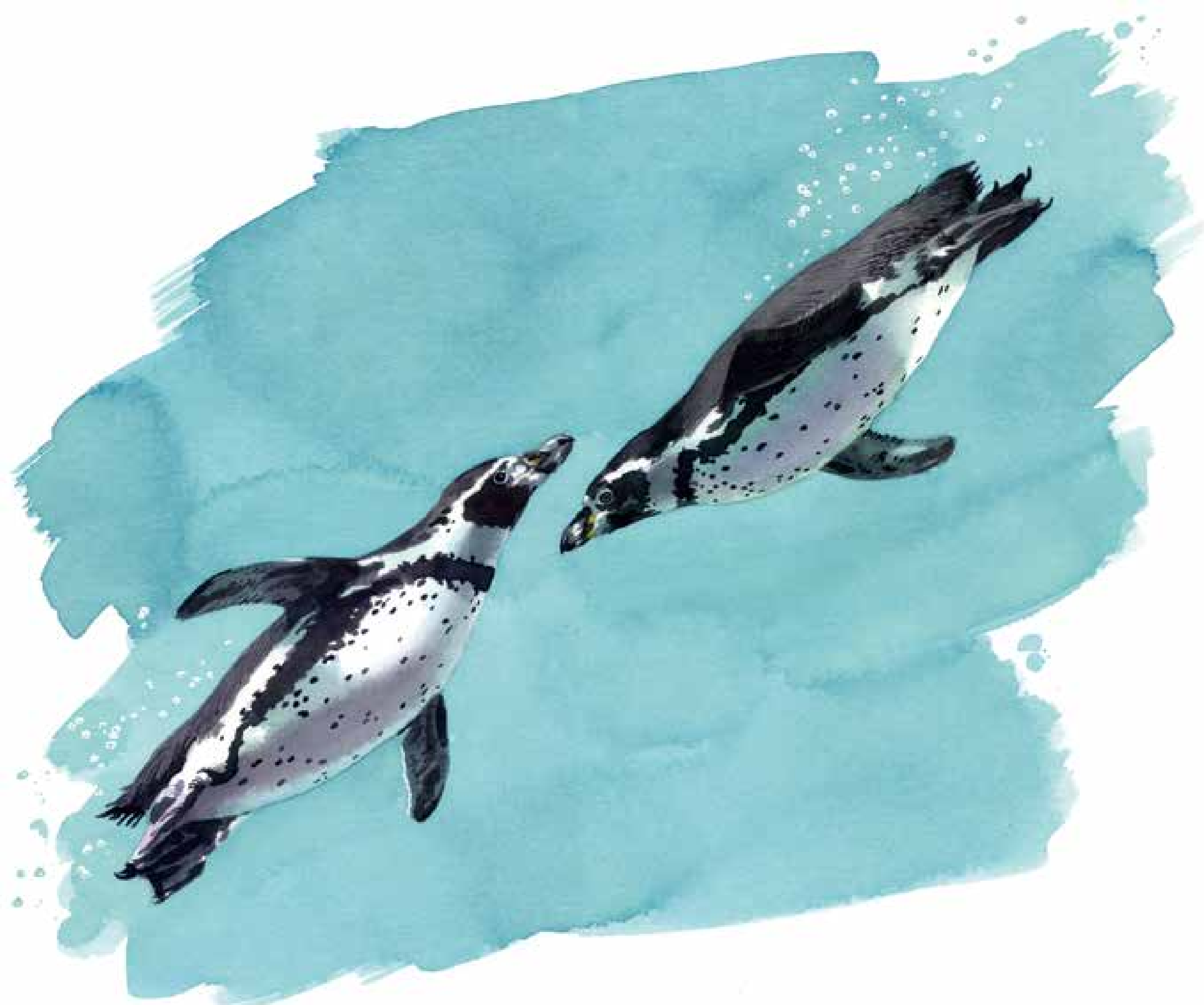
PENSION INSURANCE
CORPORATION GROUP LIMITED

A disciplined approach



PENSION INSURANCE CORPORATION GROUP LIMITED
PENSION INSURANCE CORPORATION PLC
SOLVENCY AND FINANCIAL CONDITION REPORT 31 DECEMBER 2019

A disciplined approach

Pension Insurance Corporation ("PIC") is a specialist insurer which has established itself as a leader in the UK pension risk transfer market. We pride ourselves on superior customer service for policyholders, trustees and pension scheme sponsors.

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.

Front cover illustration:
The Humboldt penguin, also known as the Peruvian penguin or Patranca, lives across coastal Peru and Chile. They are a mid-sized penguin, growing from 56 to 70cm high, and have white markings that wrap across the top of the head, under the chin and down to the flippers. They nest across islands and the rocky coast line. Their population is declining and in 2010 they were granted protection under the U.S. Endangered Species Act.

DIRECTORS' RESPONSIBILITY STATEMENT

We acknowledge our responsibility for preparing the insurer and Group Solvency and Financial Condition Report ("SFCR") in all material respects in accordance with the Prudential Regulation Authority ("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 have continued so to comply subsequently and will continue so to comply in future.

Tracy Blackwell
Director

Signed on behalf of the Board of Directors

21 April 2020

Report of the external independent auditor to the Directors of Pension Insurance Corporation Group Limited ('the Group') and Pension Insurance Corporation Plc ('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 Group Solvency and Financial Condition Report

Opinion
Except as stated below, we have audited the following documents prepared by the Group and the Company as at 31 December 2019:

- The 'Valuation for solvency purposes' and 'Capital Management' sections of the Solvency and Financial Condition Report of the Group and the Company as at 31 December 2019, ('**the Narrative Disclosures subject to audit**'); and
- Group templates S02.01.02, S22.01.22, S23.01.22, S.32.01.22 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 Group 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 Group Solvency and Financial Condition Report set out above which are, or 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 Group Solvency and Financial Condition Report;
- Group templates S05.01.02, S05.02.01, S.25.03.22;
- Company templates S05.01.02, S05.02.01, S25.03.21;
- 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 their responsibilities, including for the preparation of the Group Solvency and Financial Condition Report ('**the Responsibility Statement**');
- 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 Group 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 Group Solvency and Financial Condition Report both Pension Insurance Corporation Group Limited and Pension Insurance Corporation plc as at 31 December 2019 are prepared, in all material respects, in accordance with the financial reporting provisions of the PRA Rules and Solvency II regulations on which they are based, as modified by relevant supervisory modifications, and as supplemented by supervisory approvals and determinations.

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 Group Solvency and Financial Condition Report section of our report. We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the Group Solvency and Financial Condition Report in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – special purpose basis of accounting
We draw attention to the 'Valuation for solvency purposes' and 'Capital Management' sections of the Group Solvency and Financial Condition Report, which describe the basis of accounting. The Group 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 Group 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 Group Solvency and Financial Condition Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Going concern
The Directors have prepared the Group Solvency and Financial Condition Report on the going concern basis as they do not intend to liquidate the Company or the Group or to cease their operations, and as they have concluded that the Company's and the Group'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 their ability to continue as a going concern for at least a year from the date of approval of the Group Solvency and Financial Condition Report ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the Group Solvency and Financial Condition Report. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's and Group's business model, and analysed how those risks might affect the Company's and Group's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company or Group will continue in operation.

Other Information
The Directors are responsible for the Other Information.

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

Responsibilities of Directors for the Solvency and Financial Condition Report
The Directors are responsible for the preparation of the Group 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.

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

Auditor's Responsibilities for the Audit of the Relevant Elements of the Group Solvency and Financial Condition Report
It is our responsibility to form an independent opinion as to whether the Relevant Elements of the Group Solvency and Financial Condition Report are prepared, in all material respects, with financial reporting provisions of the PRA Rules and Solvency II regulations on which it they 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 Relevant Elements of the Group Solvency and Financial Condition Report are 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 Relevant Elements of the Solvency and Financial Condition Report.

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

Other Matter
PIC has authority to calculate its Group Solvency Capital Requirement using a 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 and outputs from the Model, or whether the Model is being applied in accordance with the Company's 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 Pension Insurance Corporation Group Limited and Pension Insurance Corporation Plc's statutory financial statements. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The purpose of our audit work and to whom we owe our responsibilities
This report of the external auditor is made solely to the company's directors, as its governing body, 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 company's 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 company, 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 company's 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 company through its governing body, for our audit, for this report, or for the opinions we have formed.

Philip Smart for and on behalf of KPMG LLP
KPMG LLP

15 Canada Square
London,
E14 5GL

21 April 2020

Appendix – relevant elements of the Group Solvency and Financial Condition Report that are not subject to audit

Group internal model

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

- 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 internal model

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

- The following elements of 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

The Solvency and Financial Condition Report ("SFCR") is an annual report that is required to be produced under European Union ("EU") and UK law, as part of the Solvency II regime.

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"). This requirement is set out in a direction made by the PRA on 6 November 2019. This direction is in force until 30 June 2022.

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 the EU 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 rules, gives details on the assumptions used in the valuations, and provides explanation 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 the composition of such Own Funds.

A summary of the content of each of these sections is provided below:

Business and performance
The Group and Company continued to trade profitably during 2019. The Group made an IFRS profit before tax of £394 million (2018: £477 million). This was primarily made up of profits before tax from PIC of £394 million (2018: £454 million), and no profits from other companies (2018: £23 million). The profits from other companies in 2018 were mainly due to a one-off credit in PICG as a result of a change to recharge share-based payment expenses between Group entities. This resulted in a one-off charge in PIC of £25 million and a one-off credit in PICG of the same amount.

On 27 January 2020, the Group announced that it planned to raise £750 million of new equity from existing shareholders to support the continued growth of the business in the pension risk transfer ("PRT") market. The offered shares were issued on a partly paid basis, with 60% or £450 million paid initially and the remaining 40% or £300 million to be paid at the request of the Group, with the intention to call the unpaid amounts by no later than 26 January 2021. In February 2020, the Group injected £450 million as equity into PIC, via PIC Holdings Limited, its intermediary holding company.

Statement of comprehensive income highlights – PIC

	2019 £m	2018 £m
Gross premiums written	7,186	7,150
Net premiums revenue earned	7,136	7,121
Investment return (including commissions earned)	3,063	(977)
Total revenue	10,199	6,144
Net claims paid	(1,388)	(1,174)
Change in net insurance liabilities	(8,199)	(4,323)
Operating expenses	(157)	(147)
Finance costs	(61)	(46)
Total claims and expenses	(9,805)	(5,690)
Profit before tax	394	454

Statement of comprehensive income highlights – PICG

	2019 £m	2018 £m
Gross premiums written	7,186	7,150
Net premiums revenue earned	7,136	7,121
Investment return (including commissions earned)	3,063	(977)
Total revenue	10,199	6,144
Net claims paid	(1,388)	(1,174)
Change in net insurance liabilities	(8,199)	(4,323)
Operating expenses	(157)	(124)
Finance costs	(61)	(46)
Total claims and expenses	(9,805)	(5,667)
Profit before tax	394	477

Premiums
Gross premiums written increased from £7,150 million in 2018 to £7,186 million in 2019 as a result of 15 new business transactions completed during the year (2018: 30).

Net premiums earned represent the gross premiums written less the premiums ceded to reinsurers. These grew at broadly the same rate as gross premiums, following the ten (2018: seven) new reinsurance transactions concluded in 2019.

Investment return
Investment return comprises interest received on fixed income securities, and the realised and unrealised gains or losses on financial investments.

Interest received increased from £729 million in 2018 to £923 million in 2019 reflecting the growth in the investment portfolio.

The net movement in the fair value of assets, including realised and unrealised items, was a gain of £2,126 million compared to a loss of £1,672 million in 2018. This comprises realised gains of £290 million (2018: £163 million) and unrealised gains of £1,836 million (2018: £1,835 million loss). The significant increase in the unrealised fair value movements is largely due to the positive impact of market movements in 2019 (predominantly due to a reduction in risk-free rates), compared to negative movements in 2018 (mainly due to widening credit spreads). It is important to note that changes in the fair value of assets are largely offset by changes in the insurance liabilities, such that the difference between 2018 and 2019 does not then flow through to profit before tax.

Claims paid
Net claims paid are total payments to policyholders, less any amounts received from reinsurers. Net claims paid increased from £1,174 million in 2018 to £1,388 million in 2019, reflecting the increase in the size of the insurance book during the year.

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

Insurance liabilities increased due to new business written in 2019 and the impact of market movements, such as interest rates and inflation. This was partially offset by payments to policyholders and the impact of actuarial assumption changes, mainly relating to expenses.

Operating expenses
The increase in PIC's operating expenses from £147 million in 2018 to £157 million in 2019 is broadly in line with the growth of the business.

Finance costs
Finance costs represent the interest payable on borrowings. The £61 million expense in 2019 (2018: £46 million) represents the interest payable on the three subordinated debt securities issued by PIC. The Restricted Tier 1 ("RT1") debt issued in July has been accounted as

equity under IFRS; as such, interest on these notes is not included in finance costs and instead will be recognised as dividends when paid. The increase in finance costs during the year reflects the full year interest cost of the debt security issued in 2018.

Statement of financial position review – PIC

Statement of financial position extract	2019 £m	2018 £m
Reinsurance assets	2,598	1,854
Financial investments	40,886	31,371
Derivative assets	14,626	9,757
Gross insurance liabilities	(37,663)	(28,720)
Derivative liabilities	(16,731)	(11,303)
Total equity	3,198	2,434

Statement of financial position review – PICG

Statement of financial position extract	2019 £m	2018 £m
Reinsurance assets	2,598	1,854
Financial investments	40,886	31,371
Derivative assets	14,626	9,757
Gross insurance liabilities	(37,663)	(28,720)
Derivative liabilities	(16,731)	(11,303)
Total equity	3,215	2,457

The increase in the reinsurance assets during the year reflects the positive impact of falling interest rates on the value of the Group's reinsurance arrangements and the new reinsurance deals completed during the year. In 2019, the Group reinsured longevity exposure on £8.3 billion of reserves, and at year-end 81% of the Group's gross longevity related reserves had been reinsured (2018: 74%). The Group has 11 reinsurance counterparties, all of which are investment grade.

At the end of 2019, the Group had total financial investments of £40.9 billion, compared with £31.4 billion at the end of 2018. The increase of £9.5 billion during 2019 was largely due to new business written, market movements and the new RT1 capital issued in July 2019, partially offset by pension related payments to policyholders. The assets in which the Group invests are carefully chosen in order to match the policyholder obligations that they are designed to meet. The Group's investment strategy is to select assets that generate cash flows to match future claims payments in both timing and amount. This means that the value of assets and liabilities should move broadly in tandem as factors such as interest and inflation rates change.

Whilst the Group's overall investment return (which comprises both investment income received and changes in market value of assets) in 2019 was positive, this was offset by a corresponding increase in liabilities.

The increase in insurance liabilities since December 2018 reflects the increase in the number of policyholders and movements in economic factors during the year, less benefits paid and the impact of changes in valuation assumptions.

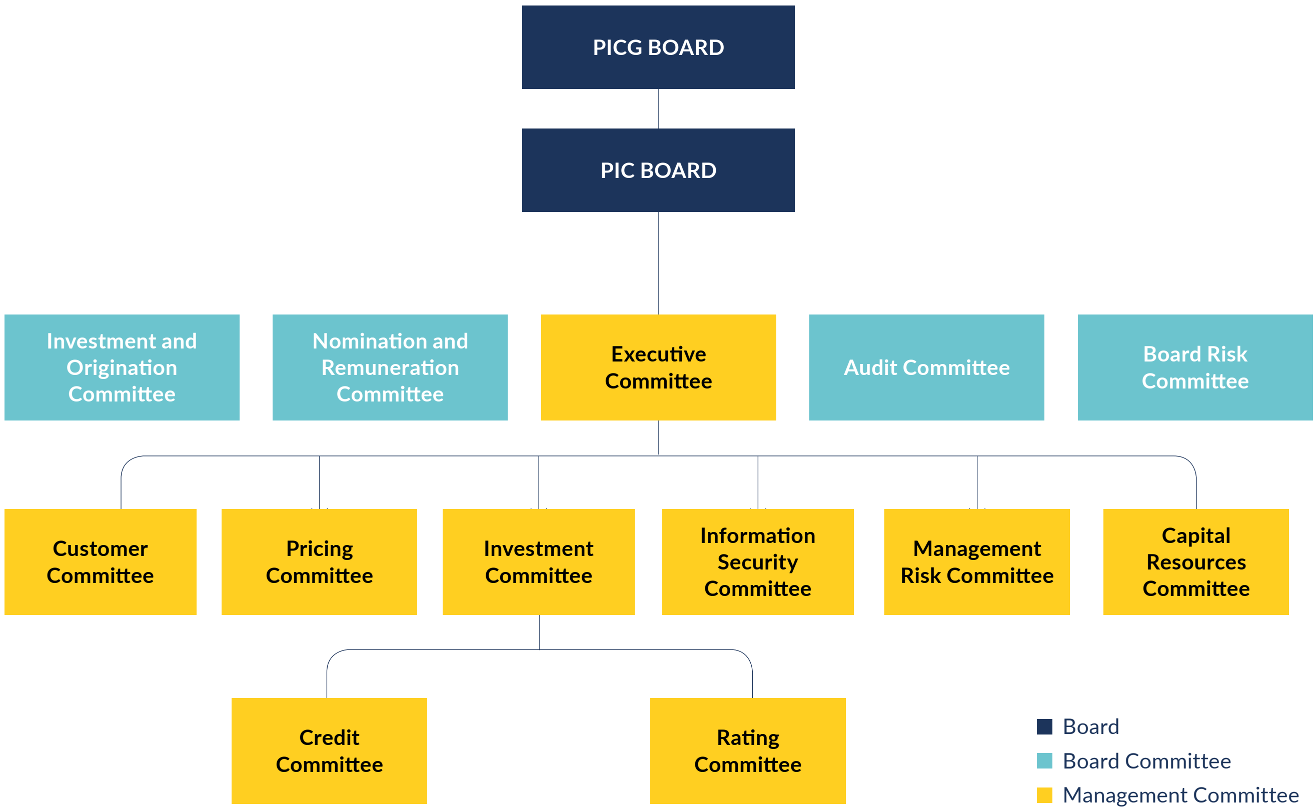
Gross derivative assets and derivative liabilities have both increased since 31 December 2018, as the Company implements hedges on the assets and liabilities associated with new business written in the year as well as rebalancing hedges on existing insurance liabilities.

Both PIC and PICG total equity have increased due to the after-tax profits generated during the year and the issue of £450 million RT1 notes in July.

System of governance
PIC's governance structure is in line with the "three lines of defence" model which is operated by the Group. The Board delegates specific responsibilities to the Board committees, which assist the Board in its oversight and control of the business.

There are currently four Board committees: Audit, Risk, Nomination and Remuneration, and Investment and Origination. The Investment and Origination Committee considers matters specific to PIC. The three remaining committees consider matters specific to PIC and the Group, as per the delegations in their terms of reference. Members of the committees are appointed by the Board on recommendation of the Nomination and Remuneration Committee in consultation with the committees' chairmen.

The Group governance structure is summarised below:



Risk profile
The Group and Company's risk profile is measured by its Internal Model, which was approved for use by the PRA in December 2015. A Major Model Change application to the Internal Model relating to the treatment of longevity and inflation risk was approved by the PRA in December 2017.

The table below shows the component risks which make up the Group's total Solvency Capital Requirement ("SCR"), which represents the amount of capital the firm must hold to protect it from extreme risk events and comply with regulatory requirements:

	31 December 2019		31 December 2018	
SCR	£m	% of SCR	£m	% of SCR
Market risk	2,646	59%	2,082	56%
Counterparty risk	151	3%	109	3%
Insurance risk	1,164	26%	1,007	27%
Expense risk	221	5%	242	7%
Operational risk	301	7%	241	7%
Total before diversification	4,483	100%	3,681	100%
Diversification	(1,307)		(1,130)	
Total after diversification	3,176		2,551	
Loss absorbing capacity of deferred tax ("LACDT")	(222)		(208)	
Total SCR after LACDT	2,954		2,343	

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

	Group		Company	
2019	Solvency £m	IFRS £m	Solvency £m	IFRS £m
Total assets	57,723	58,671	57,682	58,635
Total liabilities	52,891	55,456	52,838	55,437
Own Funds/equity	4,832	3,215	4,844	3,198

	Group		Company	
2018	Solvency £m	IFRS £m	Solvency £m	IFRS £m
Total assets	42,938	43,501	42,894	43,479
Total liabilities	38,998	41,044	38,977	41,045
Own Funds/equity	3,940	2,457	3,917	2,434

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

- Subordinated debt issued by PIC, which is treated as a liability for IFRS purposes and Own Funds for Solvency purposes.
- Adjustments relating to differences between the IFRS and Solvency results related to insurance liabilities, reinsurance, deferred premium and deferred tax positions, including items such as the Solvency II Risk Margin (less transitional measures) and prudent margins under IFRS.
- Minor valuation differences between IFRS and Solvency results, such as valuation differences relating to fixed assets intangible assets, lease assets and prepayments at a Group level.

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

2019	Group	Company
Own Funds (£m)	4,832	4,844
SCR (£m)	2,954	2,954
SCR coverage ratio (%)	164%	164%

2018	Group	Company
Own Funds (£m)	3,940	3,917
SCR (£m)	2,343	2,343
SCR coverage ratio (%)	168%	167%

A.1 Business

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

The Company is a wholly owned subsidiary of PIC Holdings Limited. PIC Holdings Limited is a wholly owned subsidiary of Pension Insurance Corporation Group Limited ("PICG", or the "Group"), a company registered in England and Wales. PICG is regarded as the ultimate parent company of Pension Insurance Corporation plc.

Pension Services Corporation Limited ("PSC") is a subsidiary company of PIC Holdings Limited, and provides employee and other services to companies within the PICG Group.

The external auditor to the Group is KPMG LLP, 15 Canada Square, London E14 5GL.

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.

The Group and Company prepare their financial statements in accordance with IFRS and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

Summary of the IFRS Statement of Comprehensive Income for the year ended 31 December 2019

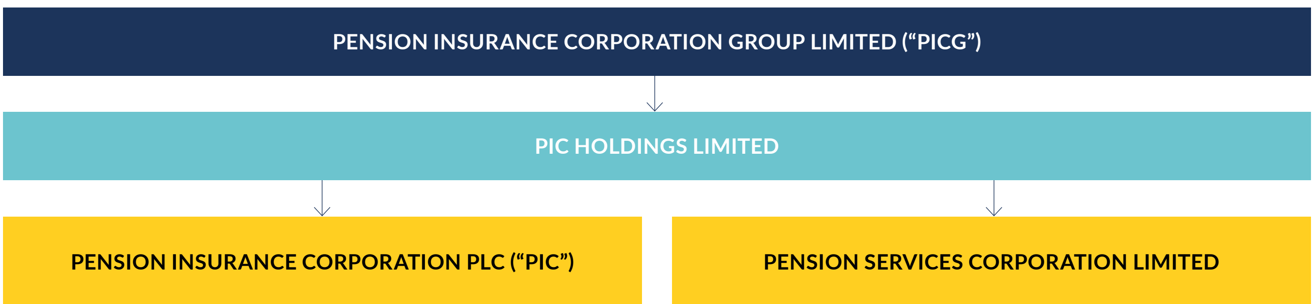
	Group		Company	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Net premium revenue earned	**7,136**	7,121	**7,136**	7,121
Investment income	**937**	695	**937**	695
Net realised gains	**290**	163	**290**	163
Net unrealised gains	**1,836**	(1,835)	**1,836**	(1,835)
Net claims	**(1,388)**	(1,174)	**(1,388)**	(1,174)
Movement in net long-term business provision	**(8,199)**	(4,323)	**(8,199)**	(4,323)
Administrative expenses	**(157)**	(124)	**(157)**	(147)
Finance costs	**(61)**	(46)	**(61)**	(46)
Profit before taxation	**394**	477	**394**	454

The Company made an IFRS profit before tax of £394 million in 2019 (2018: £454 million), and the Group made an IFRS profit before tax of £394 million in 2019 (2018: £477 million).

During 2019, the Company continued its strategy of providing pension risk transfer products to defined benefit schemes and their trustees.

Group

A group structure chart and a description of the Group as at 31 December 2019 are set out below:



Group undertakings	Country of incorporation	Principal activity	2019 % equity holding	2018 % equity holding
Pension Insurance Corporation Group Limited	England	Holding company		
PIC Holdings Limited	England	Holding company	100%	100%
Pension Insurance Corporation plc	England	Bulk annuity insurance	100%	100%
Pension Services Corporation Limited	England	Service company	100%	100%

Material lines of business and geographical areas

The principal activity of PICG is to act as the holding company for the other companies within the PICG Group. 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 is an intermediate holding company, and has no material assets or liabilities in the context of the Group.

The principal activity of PIC is providing insurance annuity products to corporate pension schemes.

PSC is the 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 material contracts (with the exception of pension insurance contracts) on behalf of the Group.

During 2019, PSC had income of £151 million (2018: £104 million) from other Group companies (primarily PIC) for the performance of its service contracts.

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.2 Performance of underwriting activity

The Group analyses its underwriting performance on an adjusted operating profit basis, which management feel better reflects the activities of the Group rather than the statutory income and expense categories. Adjusted operating profit is the main profit measure used by management and is calculated as the profit before tax excluding the investment related variances.

Adjusted operating profit reflects the activities which are core to the Group's business and the management choices and decisions around those activities. These encompass the writing and management of pension insurance contracts, the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities.

Adjusted operating profit is a key metric used to manage the Group's business. Information on premiums, claims and changes in technical provisions, which can be considered as key elements of underwriting performance, is presented by the Solvency II line of business in QRT S.05.01 in Appendix B of this report.

	2019		2018	
	PICG £m	PIC £m	PICG £m	PIC £m
Return from operations	301	301	238	238
New business and reinsurance surplus	245	245	59	59
Net release from operations	546	546	297	297
Change in valuation assumptions	358	358	400	400
Experience variances	12	12	16	(7)
Finance and other costs	(92)	(92)	(64)	(64)
Adjusted operating profit before tax	824	824	649	626

The Group's adjusted operating profit has grown by 27% to £824 million (2018: £649 million). The growth was positively impacted by one-off benefits in respect of changes to valuation assumptions (£358 million in total), including changes to expense assumptions (£253 million) and changes to the Company's default allowance for corporate bonds (£78 million).

In aggregate the benefits arising from assumption changes in 2019 were smaller than those in 2018. Notwithstanding the benefits from these assumption changes, the Board considers the assumptions made remain prudent. Net release from operations increased by £249 million which principally reflects the new insurance business and accompanying reinsurance deals concluded in 2019, along with growth in the in-force book due to the full year benefit of business written in 2018. More detail on the main components of adjusted operating profit are set out below.

Net release from operations

The item "net release from operations" comprises the 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, based on the assumptions used in pricing, of writing new pension risk transfer contracts, and entering into new contracts of reinsurance.

Changes in valuation assumptions

The Group focuses 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. These assumptions are regularly reviewed to ensure that they reflect the characteristics of the Group's book and wider market practice.

As part of the 2019 review and as noted above, the Group implemented assumption changes in respect of expenses and the allowance for defaults on bonds, resulting in a total reserve release of £358 million.

Expense assumptions were reduced on a per-policy basis reflecting operational efficiencies achieved within the business, resulting in a positive impact on profit before tax of £178 million. A reduction in expense inflation assumptions had a further positive impact of £30 million. During the year, certain expense modelling assumptions were refined, resulting in an increase in pre-tax profit of £45 million.

The liabilities are discounted at a rate based upon the return on the backing assets, reduced by a prudent assessment of future defaults. The default assumption is set with reference to historical data. Updating for the most recent available data led to an increase in pre-tax profit of £78 million. There were a number of smaller assumption changes made during the course of the year, which in total provided a net £27 million benefit to pre-tax profits.

Experience variances and other costs

Experience variances, which reflect both the actual claims experience compared to the expected amounts and the impacts of data updates on underlying policyholder information, were positive in 2019, totalling £12 million (2018: £16 million).

The interest costs of the subordinated debt capital issued by PIC rose to £61 million in 2019 from £46 million the previous year, reflecting the first full year of interest expense on the £350 million of debt raised in September 2018. Project costs in 2019 were £31 million (2018: £18 million), the increase reflecting additional expenditure on the implementation of IFRS 17 and other business-wide projects.

Other operational highlights

At the end of 2019, PIC had 99,600 current individual policies in issue, resulting from the buyout of 109 pension schemes, (2018: 88,500 individual policies resulting from the buyout of 103 schemes). The number of individual policies in issue increased during the year, offset by commutations, transfers and deaths.

In total PIC was responsible for the current and future pension payments of 225,100 individuals, including those with individual policies, and those for whom the trustees of pension schemes retain ultimate responsibility.

At 31 December 2019, 81% of PIC's total longevity exposure on a regulatory solvency basis was reinsured to third party, investment grade reinsurer counterparties (2018: 74%).

A.3 Performance of investment activity

IFRS	Group 2019 £m	Group 2018 £m	Company 2019 £m	Company 2018 £m
Interest income	923	729	923	729
Other investment income/(losses)	14	(34)	14	(34)
Realised gains	658	284	658	284
Realised losses	(368)	(121)	(368)	(121)
Unrealised gains	2,823	219	2,823	219
Unrealised losses	(987)	(2,054)	(987)	(2,054)
Investment management expenses	(24)	(26)	(24)	(26)
Total	3,039	(1,003)	3,039	(1,003)

The table above sets out a sub-section of the Group and Company's results. The overall profit is set out in the table in section A.1 above.

The Investment performance, as presented in the table above, is only a reflection of income, gains, losses and expenses arising from the investment portfolio owned by the Group.

Investment income by Solvency II asset class	Group and Company 2019 £m	Group and Company 2018 £m
Government bonds	1,042	74
Corporate bonds	2,331	(183)
Collective investment undertakings	12	(42)
Cash and deposits	(12)	10
Collateralised securities	27	11
Mortgages and loans	524	(46)
Property	(9)	3
Derivative-based instruments	(852)	(804)
Total	3,063	(977)

Derivative instruments are held by the Group for the purposes of risk management and hedging, and accordingly the losses reflected above are offset by (and should be viewed in the context of) gains recognised on other classes of assets and the movement in insurance liabilities.

A.4 Performance of other activities

Pension Insurance Corporation plc

The Company incurred corporation tax charges of £75 million for the year ended 31 December 2019 (2018: £86 million).

Pension Insurance Corporation Group Limited

Group corporation tax charges, including those incurred by PIC, were £75 million during the year (2018: £91 million).

A.5 Any other information

Risks arising from coronavirus pandemic (Covid-19)

A new global pandemic, Covid-19, has had a significant impact on global healthcare systems, global financial markets and levels of social interaction, as the UK government and others impose restrictions on people movement. The particular risks for the business arising from this pandemic include; operational risks as both the company and its outsourcers adopt different working practices; mortality rates, and their impact on the Company's and its reinsurers financial resources; and market risks, in particular interest rate, inflation and foreign exchange volatility, liquidity and credit spread volatility and elevated risks of credit related downgrades and defaults.

In respect to market related risks, there was significant market volatility during March 2020, where credit spreads in particular moved significantly wider. This improved solvency but the increased likelihood of downgrades will ultimately reduce solvency if they materialise. There were also sharp movements during the month in interest rate, inflation and foreign exchange rates but these largely reversed by early April 2020.

At end March 2020, PIC's regulatory solvency ratio was 159%[1] (end 2019: 164%). The change compared to end 2019 reflects new business written in the period (£3bn), additional equity capital raised in February 2020 (£450m), management actions taken in the period and the impact of market movements seen during Q1, and in particular during March.

Limited actual downgrades have been seen to date in the credit book of the Company. However, it is considered that there is an elevated likelihood of downgrades in the near to medium term, together with a remoter risk of defaults within the portfolio. The Company has considered a number of scenarios for future downgrades and is carefully monitoring and managing the portfolio to limit any adverse financial impacts. These scenarios continue to be updated and refined as the ongoing situation develops. As an example, a scenario has been developed in conjunction with our investment managers, which broadly represents the impact on our asset portfolio of a three-month global lockdown together with central bank monetary support. This scenario leads to c.£1.8bn of public credit within our portfolio being downgraded from an A rating to a BBB rating, and together with the impact of management actions to ensure ongoing compliance with Solvency II rules would result in a reduction in the solvency ratio of c.10%. Under this scenario haircuts have also been applied to the value of assets outside of the matching adjustment fund where it is felt appropriate to do so, based on potential losses under the scenario. Actual downgrades are being monitored very closely and the scenario analysis continues to be refined in the light of our actual experience.

1 The 31 March 2020 solvency ratio is a management estimate, has not been audited and does not include an update to the transitional measure for technical provisions from 31 December 2019.

The Group adopts an active approach to reinsuring longevity risks where it is economic to do so (at year end, 81% of total longevity exposure was reinsured) and hence any changes to mortality experience would be predominantly offset by PIC's reinsurance recoveries. The Group is exposed to the risk of reinsurer default but it is currently felt that the level of expected deaths as a result of the Covid-19 pandemic is not sufficient to weaken reinsurer financial strength, in particular as reinsurers are exposed to both mortality and longevity risk which offset each other. Additional risks to reinsurers such as credit risk, are also not expected to have a significant impact due to the strong financial ratings of the reinsurers that the Group uses.

All of the Group's reinsurance contracts have arrangements in place which require the posting of collateral in the event that actual experience deviates from the level of longevity risk that has been reinsured. In the event that significant deaths arose from Covid-19 that were in excess of those expected under the reinsurance treaties, then this would be expected to lead to a requirement for the Group to post collateral in respect of the reinsured risks. In this scenario the Group would be able to release liabilities held on its balance sheet, and to use the assets backing those liabilities as collateral.

The Group has a comprehensive liquidity management framework in place to ensure that even through market stress events it is able to continue to pay its policyholder obligations and appropriately manage the financial instruments in place to mitigate risk. This in particular refers to available collateral assets to post on daily collateralised financial instruments such as interest rate, inflation rate and FX related derivatives. The level of assets eligible to be posted as collateral has remained very significant at all times, even at times of heightened market stress.

The Group has implemented its full Business Continuity Plan (BCP), whereby all staff, including those of our Third Party providers, are now working remotely. This has ensured minimal disruption to the normal daily activities of the Group and has allowed the Group to maintain all policyholder related activities, including pension payments, and meet the requests for information from regulators and to provide the information necessary to maintain its governance requirements.

The Board continues to monitor risks associated with the Covid-19 pandemic very carefully but is satisfied currently that the risks are well understood and have been managed effectively to date.

B SYSTEM OF GOVERNANCE (UNAUDITED)

B.1 Governance function

Board of Directors

Pension Insurance Corporation Group Limited

PICG is governed by its Board consisting of 11 Directors, 10 of whom are Non-Executive.

Of the Non-Executive Board members, two are nominated by Reinet PC Investments (Jersey) Limited which holds a 46.430% interest in PICG, one is nominated by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which holds a 18.196% interest in PICG, and one is nominated by Blue Grass Holdings Limited, a CVC entity, which holds a 17.408% interest in PICG. The shareholdings represent the position subsequent to a further issuance of share capital on 20 February 2020.

The Board maintains overall responsibility for PICG 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 the day-to-day running of PIC.

PICG Board

Director	Approved function
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function
	SMF 9 Chairman
Tracy Blackwell	SMF 1 Chief Executive Function
	SMF 7 Group Entity Senior Insurance Manager Function
Judith Eden	Non-Executive Director
Stuart King	Non-Eexecutive Director
Arno Kitts	Non-Executive Director
Josua Malherbe	SMF 7 Group Entity Senior Insurance Manager Function
Roger Marshall	SMF 14 Senior Independent Director
Jerome 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

Pension Insurance Corporation plc

PIC is governed by its Board consisting of 13 Directors, 11 of whom are non-executive. Seven of PIC's Directors are independent, including the Chairman.

Of the non-executive Board members, two are appointed by Reinet PC Investments (Jersey) Limited which indirectly holds a 46.430% interest in PIC, one is appointed by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which indirectly holds an 18.196% interest in PIC, and one is appointed by Blue Grass Holdings Limited, a CVC entity, which indirectly holds a 17.408% interest in PIC.

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 their responsibilities in more detail.

PIC Board

Director	Approved function
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function
	SMF 9 Chairman
	SMF13 Chair of the Nomination Committee
Tracy Blackwell	SMF 1 Chief Executive Function
	SMF 7 Group Entity Senior Insurance Manager Function
Judith Eden	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
Jerome Mourgue D'Algue	SMF 7 Group Entity Senior Insurance Manager Function
Eloy Michotte	SMF 7 Group Entity Senior Insurance Manager Function
Peter Rutland	SMF 7 Group Entity Senior Insurance Manager Function
	SMF 12 Chair of the Remuneration Committee
Steve Sarjant	SMF 10 Chair of the Risk Committee
Rob Sewell	SMF 2 Chief Finance Function
Mark Stephen	Non-Executive Director
Wilhelm Van Zyl	SMF 7 Group Entity Senior Insurance Manager Function

Audit Committee
The Audit Committee's key role is to assist the Board with the discharge of its responsibilities with regard to oversight of the financial reporting process, the systems of internal control, internal and external audits, and system of governance and compliance.

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.

Financial reporting
The Audit Committee oversees the financial reporting process, monitors integrity of the financial statements which includes the annual financial statements of the Company, half yearly results, regulatory returns and any significant estimates and judgements made as well as a review as to whether the Company has followed appropriate accounting standards.

Internal controls
The Audit Committee oversees and, where necessary, challenges the framework, effectiveness and adequacy of the Company's systems of internal control. The Committee reviews findings and recommendations of Internal Audit and the external auditor and receives an Integrated Assurance Report which forms the basis to the statements included in the Annual Report and financial statements with regard to the effectiveness of the internal controls system.

Financial crime and whistleblowing
During 2019 the Audit Committee carried out a review of the whistleblowing policy. It also reviewed the Company's arrangements for detection of fraud, and systems and controls for the prevention of bribery and money laundering. The Board had an oversight of whistleblowing in 2019 and reviewed the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns about possible wrongdoing in financial reporting and other matters.

Internal Audit
The Audit Committee reviews the effectiveness of the Company's Internal Audit function in the context of the Company's overall risk management system and its performance against agreed objectives, approves and removes the Head of Internal Audit. The Committee receives, reviews and approves the annual internal audit plan, which forms part of the annual Integrated Assurance programme, and monitors management's responsiveness to Internal Audit's findings.

External Audit
The Audit Committee considers and makes recommendations to the Board in relation to the appointment, reappointment and removal of the Company's external auditor, its terms of engagement and fees. The Audit Committee also reviews non-audit services fees and monitors that these are in accordance with the Company's non-audit services policy and assesses the external auditor's independence and objectivity. The Audit Committee reviews and approves the annual audit plan, and reviews the external auditor's findings with the auditor and with the Company.

Risk Committee
The Risk Committee has primary responsibility to the Board for the Risk Management Framework which includes the Company's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance, and its risk policies and procedures, as well as recommending the risk policies to the Board.

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 further reviews and recommends to the Board for approval the risk appetite and tolerances.

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, and 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, and monitors the adequacy of proposed actions and management's responsiveness to remedial actions proposed by the Chief Risk Officer.

Risk function and the Chief Risk Officer
The Risk Committee considers and approves the Risk function mandate, and reviews and assesses performance of the Chief Risk Officer. It works with the Nomination and Remuneration Committee on making recommendations to the Board with regard to appointment/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.

Nomination and Remuneration Committee
The role of the Nomination and Remuneration 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. The role of the Committee is to make recommendations to the Board with regard to any changes, and 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.

Executive Committee
The Executive Committee consists of the CEO 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 the 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
Chief Operating Officer
General Counsel
Chief Origination Officer
Chief People Officer
Chief Investment Officer
Head of Internal Audit
Chief Actuary
Chief Information Officer
Head of Strategy

Material changes to the governance structure over the reporting period
Pension Insurance Corporation Group Limited
The Board of Directors of PICG all served from 1 January 2019 to the date of this report. The following Directors were appointed in the period from 1 January 2019 to the date of signing of this report:

- Stuart King was appointed on 1 January 2019; and
- Judith Eden was appointed on 1 August 2019.

Pension Insurance Corporation plc
The Board of Directors of PIC all served from 1 January 2019 to the date of this report. The following Directors were appointed in the period from 1 January 2019 to the date of signing of this report:

- Stuart King was appointed on 1 January 2019; and
- Judith Eden was appointed on 1 August 2019.

Remuneration policies and practices
Governance of remuneration
The PIC Nomination and Remuneration Committee ("RemCo") is a sub-committee of the Board. The RemCo fully consists of Non-Executive Directors and is governed by its terms of reference, which set out its duties and 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.

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 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 2019 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, and that of the Company. 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; and participation in the Save As You Earn Plan.
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.
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 Nomination and 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 CRO, with input from the Chair of the Board Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all of the above measures is assessed by the Remuneration Committee in the round. For 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 annual bonuses is in the form of nil-cost options which are subject to deferral over a three-year period using the Deferred Bonus Share Plan ("DBSP"), as detailed below.

Deferred Bonus Share Plan ("DBSP")	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 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).
2017 Growth Share Plan	Growth Share awards were granted in 2017 to certain senior employees and Executive Directors. No further grants will be made under this plan. Grant levels were determined based on an assessment of individual performance and future potential as determined at the time. These Growth Share awards are due to vest in 1 January 2021 based on growth in value of the Company over the four-year performance period from 1 January 2017. Participants receive a portion of the growth in the Company's value above a hurdle. The level of reward at vesting is dependent on the growth achieved and can be zero if the growth in Company value is less than the hurdle rate. The proportion of growth above the hurdle allocated to participants reduces once the growth rate exceeds the upper end of expected performance. Prior to vesting, the RemCo can make adjustments to awards under the malus provisions, and clawback provisions also apply following vesting.

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 (four-year vesting for senior managers in the Growth Share Plan), followed by a post-vesting holding period of up to three years before liquidity can be obtained.
- 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
During 2019, certain share-based payment schemes operated by PICG in respect of employees of PSC have vested. Eight of the key management personnel of the Company, including the Directors, were participants in these schemes and received a total of 2,826,899 ordinary shares of PICG upon exercising in line with the scheme rules.

In addition, the Group settled tax liabilities on behalf of certain employees, including Directors and key management personnel, who exercised their options upon vesting of the Performance Share Plan. The settlement was made on the condition that the employees would repay this amount to the Group within 90 days after the end of the relevant tax year. The Group recognised a loan asset of £2,114,652 (2018: £1,853,790) due from the Directors and key management personnel at 31 December 2019. The loans do not bear any interest, and except for the repayment period, do not have any other condition attached to them. In addition, a loan of £1,630,070 was advanced to the Directors and the key management personnel in 2017 to settle the purchase of C shares awarded as part of the Share Growth Plan. As at 31 December 2019, the balance outstanding was £1,630,070 (2018: £1,630,070).

Transactions with shareholders
The following share capital transactions took place during 2019:

Pension Insurance Corporation plc
There were no transactions with shareholders during 2019.

Pension Insurance Corporation Group Limited
There were no transactions with shareholders during 2019.

B.2 Fit and proper requirements
PIC has in place procedures to ensure its staff are:

- fit – their professional qualifications, knowledge and experience are adequate to enable sound and prudent management; and
- 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 checks and also 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.

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

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

PIC has implemented the requirements of the Senior Managers and Certification Regime which was extended to insurance companies on 10 December 2018. The certified staff were certified by 10 December 2019, the regulatory deadline.

B.3 Risk management system including the Own Risk and Solvency Assessment
PIC adopts a holistic enterprise-wide perspective on risk facilitated through a strong risk culture. The Company's ambition is to protect its obligations to policyholders and treat them fairly, whilst growing shareholder value through making better risk-return based business decisions resulting from a balanced awareness of the opportunities and threats, only taking risks that the Company has the capability to understand and manage.

PIC achieves this through linking its business strategy objectives and its approach to risk management through the key business processes operated, including setting the business plans, seeking new business opportunities, selecting investments and implementing risk mitigation techniques such as hedges and reinsurance.

The Company's Board and committee structure, and the "three lines of defence" model by which its internal control system operates, are more fully described in the "Governance function" section earlier.

The Board controls and monitors risk through the application of a Risk Management Framework, and through setting risk appetites and risk limits for the principal risk types to which the Company is exposed.

The Risk Appetite Framework ("RAF") considers the material risks to the business in the context of the achievement of its strategic objectives. As such, the RAF covers:

- capital and liquidity requirements;
- the Company's reputation with customers, advisers and investors;
- internal capacity and the capability to deliver on promises and plans;
- the corporate delivery of risk-adjusted growth in the value of the business; and
- the impact of changes in regulation and legislation.

PIC's Risk Management Framework outlines how risks are identified, assessed, controlled and managed, and is organised as follows:

TRANSPARENT, FOCUSED, RELEVANT

- Write it down: make it **clear and transparent**
- **Focused and relevant** risk analysis

ROLE OF EVERYONE TO MANAGE RISK

- **Role of everyone to identify risk** and role of management to decide how to manage
- **Everyone in the business** is the responsible for risks in their domain

ACTIVE RISK MANAGEMENT

SYSTEMATIC, COMPLETE, DOCUMENTED

- Be **systematic and complete** in our assessment and management of risks
- Ensure we **evidence** our controls

COVERS RISK TO KEY OBJECTIVES

- **Encompass** all our risks to all **key business objectives**
- **Manage possibilities**, not predict the future

CONSCIOUS RISK TAKING

- Know **which risks** we choose to take and why
- Have our **eyes wide open** to both the biggest risks and everyday risks
- Ensure adequate **return for risk**

All PIC employees have a responsibility to identify risks in their area, to ensure they are appropriately assessed and controls are put in place to manage the risks within the Company's risk appetite. The risks identified are documented, and a log is maintained known as the Risk Register.

The Risk Register contains all material risks to PIC's business. The Management Risk Committee reviews any changes in the status of existing risks, and any new and emerging risks are added to the Register.

Risks in the Risk Register are assessed by the CRO, with all material and quantifiable risks to which PIC is exposed over the coming year for which capital is an appropriate risk mitigating technique incorporated within PIC's Internal Model.

The regular Board Risk Committee meetings receive details of key risks, as well as new and emerging risks that have been identified.

Those quantifiable and material risks for which capital is not held as part of their risk mitigation treatment or are expected to occur at a future date over the planning horizon, in excess of the 12-month horizon of the SCR calculation, are not included within PIC's Internal Model, and are instead measured by considering their impact as part of the stress and scenario testing programme; and also discussed in Risk and Solvency reports, such as the Own Risk and Solvency Assessment ("ORSA").

Non-quantifiable and material risks are also considered by measuring their impact as part of the stress and scenario testing programme; and discussed in risk and solvency reports, such as the ORSA.

Of note, conduct risk is the risk that actions will have a detrimental effect on the Company's customers or will impact one of the FCA's other objectives relating to financial crime or competition. These risks often also fall across multiple risk categories.

The dimensions not best addressed through holding additional capital on the balance sheet, but through other risk management techniques, are outlined below.

B.3.1 Liquidity risk
PIC does not hold capital for liquidity risk but instead prefers to set a risk appetite limit for the amount of liquid assets that it needs to hold as PIC believes this to be a more appropriate approach to the management of this risk. PIC also uses a monthly liquidity stress test to check that the level of liquid assets can withstand an extreme adverse scenario.

B.3.2 Regulatory and legislative risk
PIC does not hold capital against regulatory and legislative risk as management prefer to monitor this activity and do not see this as a risk that can be readily quantified. In the event that such a risk is likely to crystallise, the Board would meet to discuss the best way forward.

B.3.3 Brand and reputational risk
PIC does not explicitly hold capital for reputational and brand risks as the Company prefers to manage this with an appropriate governance structure. Reputational damage is most likely to reduce the quantum of future new business flows, which would have a beneficial effect on solvency, because new business generally consumes capital, whereas managing the in-force policies only over their lifetime generally releases capital.

B.3.4 The annual ORSA process

The annual ORSA process runs alongside the existing business strategy and business planning process. If there is a key decision or change which results in a business plan refresh being required, the ORSA process is re-run. Management have established triggers for when the business plan refresh may be required, which take account of PIC's risk profile and the volatility of its overall solvency needs relative to its capital position.

Within the annual ORSA process, the Board:

- requests the commencement of the strategy, business planning and ORSA process;
- challenges the strategy proposed by management;
- establishes its preferences for taking various types of risks;
- establishes the risk appetite and limit framework within which it wishes the strategy to be managed;
- reviews and challenges the stress and scenario testing programme (including reverse stress tests) developed to support the ORSA; and
- challenges the business plan and the associated ORSA report.

B.3.5 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.

This assessment is based on an economic view of the business requirements, with the final assessment including consideration of other constraints such as regulatory requirements, external analyst perceptions, competitor positioning and pricing. Presently, this amount of capital is expressed as a buffer over the regulatory capital requirement which serves to define the overall capital needs. The Board reviews the capital buffer on an annual basis as a part of the review of the risk appetite.

The ranking and categorisation of risks for internal economic capital assessment and regulatory reporting through the use of an Internal Model are undertaken in a consistent manner.

B.4 Internal control systems

In line with the internal controls policy, 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 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.
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 the external auditor. 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 a clear record of their obligations to protect assets. Security of information, and in particular data relating to policyholders, 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 and disclosure	Components of financial statements (or other reporting) shall be properly classified (by type or account) and described appropriately. Financial statements, embedded value reports and certain Quantitative Reporting Templates as outlined in the Report of the External Auditor are reviewed by the external auditor. 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. There is an 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).

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 Management 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 where internal controls are not operating as expected. Meetings are minuted and action points followed up by the Chief Risk Officer and Operational Risk Manager.
Operational resilience	Operation 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.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 includes advisory services to the business to support it in discharging regulatory obligations and managing conduct risk, to run processes to manage personal conflicts of interests including personal dealing, gifts and entertainment and outside business activities.

The function also coordinates and delivers compliance training to PIC staff, management and the Board and is responsible for tracking regulatory developments and their impact on PIC.

Furthermore, the function carries out a number of monitoring reviews across the business and outsourcers each year, liaising with the Risk function, Internal Audit and the Actuarial Function Holder to ensure each area is properly monitored, reporting findings to the Audit Committee.

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

B.5 Internal Audit function

The Head of Internal Audit is responsible for providing internal audit services supported by co-sourced specialist expertise as required.

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the organisation. It does so by providing independent and objective assurance to the Board and Executive Management that the governance processes, management of risk and systems of internal control are adequate and effective to mitigate the most significant risks, both current and emerging, that threaten the achievement of the organisation's objectives, and in doing so help improve the control culture of the Company.

The scope of Internal Audit activities encompasses, but is 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 the following:

- Governance, policies and processes, to confirm they are in line with the objectives, risk appetite and values of the organisation. This includes review of the risk and control culture and management and oversight of third parties and outsourcers.
- Design and operation of the Risk Management Framework. This includes risks relating to capital and liquidity, IT, assets, conduct, operations, people, finance and actuarial.
- Reliability, integrity and effectiveness of management information and reporting, used by the Board and Executive Management for strategic and operational decision making.
- An assessment of the management of the organisation's capital and liquidity risks.
- An assessment of the adequacy and effectiveness of the Risk Management, Compliance and Finance functions. Effectiveness and efficiency of operations and employment of resources.
- Compliance with significant policies, plans, procedures, laws and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Reviewing and reporting on significant control failures and assisting investigation of significant suspected fraudulent activities.
- Key corporate events including new products, services, outsourcing decisions and acquisitions/divestments.

Internal Audit adheres to the Institute of Internal Auditors ("IIA") requirements as set out in the IIA's "Code of Ethics" and "International Standards for the Professional Practice of Internal Auditing", and the Chartered Institute of Internal Auditors' ("CIIA") guidance, "Effective Internal Audit in the Financial Services Sector".

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.

Internal Audit is functionally independent and objective from the activities audited and the day-to-day internal control processes of the organisation, and shall be able to conduct an assignment on its 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 and governance processes and systems.

Internal Audit coordinates 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 coordinating assurance plans and providing input to integrated assurance.

B.6 Actuarial function

The Company's Actuarial function has recently been moved to an internal Actuarial Function Holder ("AFH"), who reports to the Company's Chief Risk Officer and has direct access to the Board. The AFH attends the PIC Audit Committee and PIC Board Risk Committee.

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 internal 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 under Article 48 of the Solvency II Directive and Article 272 of the Solvency II Delegated Acts relating to the coordination 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.

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

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.

All proposals for outsourcing, or material changes to the outsourcing, of critical, important or material functions or activities are reviewed by the Board Risk Committee which 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 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 2019 totalled £151 million (2018: £104 million).

The following key functions and activities have been outsourced:

- Policyholder payroll and administration services to Capita Employee Benefits Limited in 2018, replacing Mercer.
- Tax compliance to PwC – this function has been brought in house with effect from February 2020.
- Payroll and some HR services to CBHC.
- Custodian and investment accounting to JP Morgan.
- Custodian and trade management to Northern Trust.
- Asset management to Henderson Global Investors, JP Morgan Schroders and Twenty Four am.
- IT support to IT Labs and Endava.

All of the outsourcers utilised are located within the European Union.

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 SCR for both PICG and PIC was £2,954 million as at 31 December 2019 (31 December 2018: £2,343 million), as measured by the Group's Internal Model.

In order of relative size of contribution to the SCR, the most important risks to the Company are:

- Market risk (see C.1 below)
- Insurance risk (see C.2 below)
- Operational risk (see C.3 overleaf)
- Expense risk (see C.4 overleaf)
- Counterparty default risk (see C.5 overleaf)

This can be expressed graphically, as shown below:

2019

2018

The various components of the risk profile are discussed in further detail below.

C.1 Market risk

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 and currency exchange rates.

The Company manages market risk through an asset liability management ("ALM") framework that has been developed to closely match the investment portfolio duration and income to its obligations under insurance contracts.

Within the context of the ALM framework, 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 cash flows, and ensure that risk driver sensitivities are aligned across the maturity spectrum. The quality of the interest rate and inflation matching strategies is carefully monitored by management, and is operated within tightly defined limits. Currency forwards and swaps are entered into to eliminate the majority of the currency risk on financial assets invested in non-sterling-based debt securities where liabilities are denominated in sterling.

The Company is also exposed to risks of movements in the property market through its investment in eight Guernsey Property Unit Trusts ("GPUTs"). The short-term market risk is mitigated by the fact that all eight of its properties are occupied on leases extending to 1 April 2033. The Company performs regular reviews of both the movement in the property market specific to these properties and the financial status of the tenants.

Further asset exposures include investments in hedge funds, insurance linked funds and private debt, including social housing. Where appropriate, the management of these alternative exposures is delegated to specialist fund managers, in line with defined investment management mandates. In all cases the Company ensures regular oversight of the investment management activities, and maintains detailed risk models for all investment types, incorporating analysis of alternative investments in its risk and capital assessment.

The impact on the reported Solvency II ratio of changes to certain assumptions is shown below. 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.

	2019	2018
As at 31 December	**164%**	167%
25 bps increase in credit spreads[1]	**11.5%**	9.1%
25 bps reduction in credit spreads[1]	**-10.8%**	-8.7%
25bps increase in interest rates[2]	**5.7%**	6.1%
25 bps reduction in interest rates[2]	**-6.0%**	-6.9%
50 bps increase in inflation rates[2]	**-3.8%**	-2.8%
50 bps reduction in inflation rates[2]	**6.2%**	4.2%
£100 million credit default (no recovery)	**-3.5%**	-4.3%
5% reduction in base mortality[3]	**-9.4%**	-8.3%
£1 billion credit asset downgrade[4]	**-5.4%**	-6.6%

1 The credit spread sensitivity is stated before updating for TMTPs. Updating for TMTPs would reduce the level of the sensitivity.
2 This allows for a transitional measure for technical provisions recalculation.
3 Equivalent to a 0.4 year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.
4 £1 billion credit assets are downgraded by 1 Credit Quality Step (CQS). E.g. AAA rated assets fall to AA.

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
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 an insurance 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.

Longevity reinsurance via the transfer of assets
Under such contracts, in return for a 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.

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.

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:

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.

Exposure to changes in financial market conditions
The Company prepares information based upon a range of possible market conditions. The results of this exercise are then considered with regard to the effect on the current insurance liability portfolio.

A key consideration of the ORSA process has been around the risks associated with the UK leaving the EU and the potential impact that this may have on PIC's business model and its policyholders. This has included scenario assessments to evaluate whether appropriate controls are in place to ensure that PIC's contractual relationships with various stakeholders continue to operate as intended post Brexit – including the ability to pay policyholders, relationships with banking and reinsurance counterparties and legislation to ensure that adequate controls are in place to mitigate the potential balance sheet impacts of market movements in a worst-case Brexit scenario on PIC's solvency and liquidity position.

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 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, a continuous training programme, segregation of duties and whistleblowing 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, they must 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.

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 a strict internal budgeting and monitoring process and through careful oversight of external investment managers and other outsourced service providers.

C.5 Credit risk

Credit risk is the risk of loss due to the default of another party in performing its financial obligations to the Company. The Company is primarily exposed to credit risk through its investment in debt securities and cash deposits.

Credit risk also arises in respect of derivative contracts to the extent that there is the potential for the counterparties to default on their obligations.

The Company manages exposure to credit risk by placing limits on exposures to individual counterparties as well as groups of counterparties. Counterparty risk on derivatives is controlled through the establishment of collateral agreements and master netting agreements on interest rate and currency swaps. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis, and the Company also invests in credit default swaps.

C.6 Liquidity risk

Liquidity risk is the risk that the Company may not have liquid assets available at the right times to be able to pay its liabilities, despite the fact that it meets its regulatory solvency requirements. This would typically arise if derivative contracts to manage inflation and interest rates required collateral to be posted, a large proportion of deferred policyholders opted to take transfer values, or if a large proportion of assets were invested in assets which are not easy or straightforward to liquidate.

In order to manage this, projected cash flows for all new policy liabilities taken on are determined as a part of the new business origination process to identify the expected profile of liability payments, including expected mortality experience. This is then used to identify appropriate assets, which provide matching cash flows at an acceptable price.

The Company's risk policies define a minimum proportion of its assets to be held in highly liquid cash and gilts, and stress testing is conducted to ensure that there are sufficient liquid assets at all times to meet potential demands from derivative movements under extreme scenarios.

The projected cash flows are updated regularly, and assumptions are updated at least annually, taking into account factors such as mortality experience and how this affects the required cash flows in the future.

C.7 Any other information

The risk exposures highlighted above are the same in nature to those the Group was exposed to in the previous year. No material new risk exposures were introduced during 2019.

D. VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

D.1.1 Assets: PIC

The value of each material class of assets of the Company for solvency purposes at the reporting date is as follows. The valuation basis used is the same for the solvency valuation as for the statutory accounts valuation, except for the reinsurance recoverables, which are valued as described in D.2.6.

31 December 2019	Solvency II value £m	Statutory accounts value £m	Valuation basis	Explanation of valuation difference
Property	81	81	Marked to market	
Bonds	34,448	34,448	Marked to market	
Investment funds	2,240	2,240	Marked to market/model	
Derivative assets	14,626	14,626	Marked to market/model	
Total investments	**51,395**	**51,395**		
Loans and mortgages	4,077	4,077	Marked to market	
Reinsurance recoverables	1,645	2,598	Marked to model	Solvency II regulations
Other assets	100	91	Marked to model	Solvency II regulations
Receivables	17	26	Marked to model	Solvency II regulations
Cash and cash equivalents	448	448	Marked to market	
	57,682	58,635		

31 December 2018	Solvency II value £m	Statutory accounts value £m	Valuation basis	Explanation of valuation difference
Property	96	96	Marked to market	
Bonds	27,981	27,849	Marked to market	
Investment funds	1,556	1,556	Marked to market/model	
Derivative assets	9,757	9,757	Marked to market/model	
Total investments	**39,390**	**39,258**		
Loans and mortgages	1,843	1,843	Marked to market	
Reinsurance recoverables	1,150	1,854	Marked to model	Solvency II regulations
Other assets	59	59	Marked to model	
Receivables	40	53	Marked to model	Solvency II regulations
Cash and cash equivalents	412	412	Marked to market	
	42,894	43,479		

D.1.2 Assets: PICG

The value of each material class of assets of the Group for solvency purposes at the reporting date is as follows. The valuation basis used is the same for the solvency valuation as for the statutory accounts valuation, except for the reinsurance recoverables, which are valued as described in D.2.6.

31 December 2019	Solvency II value £m	Statutory accounts value £m	Valuation basis	Explanation of valuation difference
Property	81	81	Marked to market	
Bonds	34,448	34,448	Marked to market	
Investment funds	2,240	2,240	Marked to market/model	
Derivative assets	14,626	14,626	Marked to market/model	
Total investments	**51,395**	**51,395**		
Loans and mortgages	4,077	4,077	Marked to market	
Reinsurance recoverables	1,645	2,598	Marked to model	Solvency II regulations
Other assets	104	96	Marked to model	Solvency II regulations
Intangible assets	–	24	Marked to model	Solvency II regulations
Deferred tax asset	–	3		See section D.3.3
Receivables	16	24	Marked to model	Solvency II regulations
Cash and cash equivalents	454	454	Marked to market	
Own shares held directly	32	–	Marked to model	Solvency II regulations
	57,723	58,671		

31 December 2018	Solvency II value £m	Statutory accounts value £m	Valuation basis	Explanation of valuation difference
Property	96	96	Marked to market	
Bonds	27,981	27,849	Marked to market	
Investment funds	1,556	1,556	Marked to market/model	
Derivative assets	9,757	9,757	Marked to market/model	
Total investments	39,390	39,258		
Loans and mortgages	1,843	1,843	Marked to market	
Reinsurance recoverables	1,150	1,854	Marked to model	Solvency II regulations
Other assets	59	62	Marked to model	
Deferred tax ssset	3	3		
Receivables	45	57	Marked to model	
Cash and cash equivalents	424	424	Marked to market	
Own shares held directly	24	–		
	42,938	43,501		

D.1.3 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 date of trading. Financial liabilities are derecognised when the Company's obligations specified in the contract expire or are discharged or cancelled.

D.1.4 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.

Where an active market does not exist for a financial instrument, the Company uses financial modelling to ascertain fair value. 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, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment.

Property (other than for own use)

Investments in freehold properties not for occupation by the Company are carried at fair value, which is calculated using discounted cash flow techniques on a mark to model basis. Refer to section D.4 for more details.

Government and corporate bonds

The Group's and the Company's investments in government and corporate bonds are valued for Solvency II purposes on the same basis as the annual financial statements, which follow IFRS. The fair value of government bonds and the majority of corporate bonds are determined by reference to their quoted bid price at the reporting date.

Fair values of unlisted corporate bonds, such as bilateral investments, are determined as the present value of future cash flows, discounted at the market rate of interest at the reporting date. The details of the valuation method are provided in section D.4.

Assets valued on this basis are included in the tables above as "Bonds".

Collateralised securities

This asset class contains mortgage backed securities, other asset backed securities and other collateralised securities.

The fair value of mortgage backed and other asset backed securities is determined by reference to their listed market price.

The fair value of the unlisted collateralised securities is determined using alternative valuation methods as described in section D.4.

Assets valued on this basis are included in the tables above within the "Investment funds" or "Loans and mortgages" headings.

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 calculated using alternative valuation methods as described in section D.4.

Assets valued on this basis are included in the tables above within the "Investment funds" or "Loans and mortgages" headings.

Derivatives
Derivative financial instruments are measured at fair value.

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.

Deposits other than cash equivalents, and cash and cash equivalents
The fair value of deposits held with credit institutions represents their cash value in current terms. All deposits are redeemable within three months and consequently no discounting adjustment is made at period-end.

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

Receivables
These assets are held at the values for which they could be exchanged between knowledgeable willing parties in an arm's length transaction, which is equivalent to the value for IFRS accounting purposes. Adjustments are made to regulatory amounts with regard to future premium balances and to exclude prepayments of expenses in the Group's service company, PSC.

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.

Other assets
There are no other material tangible assets.

D.2 Technical provisions
PIC writes only one line of business, i.e. bulk annuities in relation to UK defined benefit pension schemes. All of 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 ("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.

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 "buyout" policies, where the policyholder is an individual.

D.2.1 Technical provisions on the regulatory solvency basis
The following table summarises the technical provisions of PIC as at 31 December 2019 on the regulatory solvency basis. The equivalent figures for 31 December 2018 are also shown.

Technical provisions, Solvency II basis	31 December 2019 £m	31 December 2018 £m
Best estimate liabilities ("BEL")		
– Liabilities gross of reinsurance	34,702	26,107
– Value of reinsurance recoverables	(1,645)	(1,150)
– Net-of-reinsurance liabilities	33,057	24,957
Risk margin ("RM")	1,958	1,897
Transitional measure on technical provisions ("TMTP") deduction	(851)	(692)
Total net technical provisions	34,164	26,162

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) and a risk margin, reduced by the TMTP deduction.

The total technical provisions, gross of reinsurance, as at 31 December 2019 were £35,809 million (2018: £27,313 million).

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

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 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 cash flows to the valuation date at the valuation discount rate, using methodology which conforms to the requirements of Section 3, sub-section 1 (and in particular Articles 22–26) of Chapter III of the Solvency II Delegated Acts.

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 taken as the swaps rate less the prescribed credit risk adjustment. For the majority of the business in force, this is increased by use of either a matching adjustment or a volatility adjustment as described below.

Mortality and demographic assumptions

The base mortality assumptions as at 31 December 2019 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S2 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.

The assumption for future improvements to mortality is modelled using the CMI 2016 table. The long-term improvement rate is assumed to taper from 2.6% p.a. at age 60 to 0% at age 120 for both men and women.

Adjustments are applied according to a number of factors including, but not limited to, an individual's gender, age, pension amount, occupation and place of residence. 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 very low and 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 0%, 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 internal costs of maintaining the existing insurance contracts, the 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 are factored into the calculation of liabilities by adding appropriate allowances, and include an estimate of the impact of future inflation where this is applicable. No allowances are included for expenses incurred by the Company in relation to the generation of new business.

Risk margin (unaudited)

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

The risk margin is calculated by estimating the SCR in respect of non-hedgeable risks 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 a prescribed rate of 6.0% p.a. 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 reference undertaking's SCR are longevity 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 between RPI and CPI and operational risk. Longevity 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 applies a transitional measures deduction in respect of technical provisions ("TMTP"). The 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. Note that since the start of Solvency II, there have been two recalculations of the TMTP, and 31 December 2017 and 31 December 2019.

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, assumptions have to be made about the extent to which certain options will be taken up prior to 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 stipulated by EIOPA, 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 relate to the standard retail prices index 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 cash flows.

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. As at 31 December 2019, all of the business in force (aside from an immaterial amount of Euro-denominated liabilities) was eligible for use with the matching adjustment, and 99.99% of the business was held within the matching adjustment fund and valued using the matching adjustment. A small percentage of the liabilities of the modelled liabilities, amounting to 0.01% of the total net 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, and property assets. In addition, the assets include derivatives designed to transform overseas cash flows to sterling, and to transform floating rate cash flows 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 Delegated Acts.

PIC holds all assets and liabilities for which the matching adjustment applies in a clearly ring-fenced fund, the 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 net-of-reinsurance best estimate liability cash flows for the business taken from the Company's liability projection model, and the 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.

The initial matching adjustment is then calculated as the difference between two annual effective internal rates of return, i.e. (a) the flat discount rate which, if applied to the liability cash flows, would equate these to the market value of the matching assets; and (b) the flat rate which, if applied to the liability cash flows, would equate these to the value of those liability cash flows calculated using the basic risk-free rate curve.

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

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

MA Fund assets	31 December 2019 £m	31 December 2018 £m
Property	72	77
Government bonds	12,994	9,893
Corporate bonds	18,837	15,788
Derivative assets	5,340	3,673
Loans and mortgages	4,610	1,721
Collateralised securities	279	257
Cash and cash equivalents	389	282
Total assets	42,521	31,691
Less derivative liabilities	(9,255)	(6,727)
Net value of assets	33,266	24,964

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)(i)(c) of the Solvency II Delegated Acts. 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 2019, 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 to continue to apply to those liabilities to which it is currently applied (only for 2018 comparators as no liabilities are valued under the VA at 31 December 2019), and it is assumed that there is no change to the TMTP.

31 December 2019 **Impact of matching adjustment**	Including matching adjustment £m	Excluding matching adjustment £m	Impact of not applying matching adjustment £m
Technical provisions	35,809	42,360	6,551
Basic Own Funds	4,844	(124)	(4,968)
Eligible Own Funds to meet SCR	4,844	(124)	(4,968)
SCR	2,954	8,035	5,081
Excess assets over SCR	1,890	(8,159)	(10,049)
Eligible Own Funds to meet Minimum Capital Requirement ("MCR")	4,029	(1,699)	(5,728)
MCR	738	2,008	1,270
Excess assets over MCR	3,291	(3,707)	(6,998)

31 December 2018 Impact of matching adjustment (£m)	Including matching adjustment £m	Excluding matching adjustment £m	Impact of not applying matching adjustment £m
Technical provisions	27,313	33,687	6,374
Basic Own Funds	3,917	(1,053)	(4,970)
Eligible Own Funds to meet SCR	3,917	(1,053)	(4,970)
SCR	2,343	6,210	3,867
Excess assets over SCR	1,574	(7,263)	(8,837)
Eligible Own Funds to meet MCR	3,092	(2,579)	(5,671)
MCR	586	1,552	966
Excess assets over MCR	2,506	(4,131)	(6,637)

D.2.4 Use of volatility adjustment

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

As detailed in section D.2.3 above, as at 31 December 2019, all of the business in force (aside from an immaterial amount of Euro-denominated liabilities) was eligible for use with the matching adjustment. A small percentage of the liabilities, amounting to 0.01% of the total net liabilities, was held outside the MA Fund. These were not eligible for valuation using the volatility adjustment. The impact of not applying the volatility adjustment to these liabilities is therefore £nil as at 31 December 2019. Note that under this scenario of not applying the VA, the MA is assumed to continue to apply to those liabilities to which it is currently applied, and it is assumed that there is no change to the TMTP.

31 December 2019 Impact of volatility adjustment	Including volatility adjustment £m	Excluding volatility adjustment £m	Impact of not applying volatility adjustment £m
Technical provisions	35,809	35,809	0
Basic Own Funds	4,844	4,844	0
Eligible Own Funds to meet SCR	4,844	4,844	0
SCR	2,954	2,954	0
Excess assets over SCR	**1,890**	**1,890**	**0**
Eligible Own Funds to meet MCR	4,029	4,029	0
MCR	738	738	0
Excess assets over MCR	**3,291**	**3,291**	**0**

31 December 2018 Impact of volatility adjustment	Including volatility adjustment £m	Excluding volatility adjustment £m	Impact of not applying volatility adjustment £m
Technical provisions	27,313	27,314	1
Basic Own Funds	3,917	3,916	(1)
Eligible Own Funds to meet SCR	3,917	3,916	(1)
SCR	2,343	2,343	0
Excess assets over SCR	1,574	1,573	(1)
Eligible Own Funds to meet MCR	3,092	3,091	(1)
MCR	586	586	0
Excess assets over MCR	2,506	2,505	(1)

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 measures deduction to technical provisions ("TMTP") in accordance with Article 308d of Directive 2009/138/EC.

PIC calculated the TMTP as at 31 December PIC 2015 as £1,355 million. This amount, which is gross of any deferred tax impacts, has since been amortised on a 16-year basis. In addition, PIC was granted permission to recalculate the TMTP as at 31 December 2017 and again at 31 December 2019. Allowing for both amortisation and re-calculation, the TMTP as at 31 December 2019 is £851 million (2018: £692 million).

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

31 December 2019 Impact of TMTP	Including TMTP £m	Excluding TMTP £m	Impact of excluding TMTP £m
Technical provisions	35,809	36,660	851
Basic Own Funds	4,844	4,138	(706)
Eligible Own Funds available to meet SCR	4,844	4,138	(706)
SCR	2,954	3,099	145
Excess assets	**1,890**	**1,039**	**(851)**
Solvency ratio based on SCR	164%	134%	
Eligible Own Funds available to meet MCR	4,029	3,330	(699)
MCR	738	774	36
Excess assets	**3,291**	**2,556**	**(735)**
Solvency ratio based on MCR	**546%**	**430%**	

31 December 2018 Impact of TMTP	Including TMTP £m	Excluding TMTP £m	Impact of excluding TMTP £m
Technical provisions	27,313	28,005	692
Basic Own Funds	3,917	3,343	(574)
Eligible Own Funds available to meet SCR	3,917	3,343	(574)
SCR	2,343	2,461	118
Excess assets	1,574	882	(692)
Eligible Own Funds available to meet MCR	3,092	2,523	(569)
MCR	586	615	29
Excess assets	2,506	1,908	(598)
Solvency ratio based on MCR	528%	410%	

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 2019, approximately 81% (as measured by best estimate liabilities) of the longevity risk was reinsured (2018: 74%).

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 cash flows, 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 ten reinsurers. The total net value of the longevity swap asset, excluding the fees payable to the reinsurers, was £90 million as at 31 December 2019 (2018: (£113) million).
- Quota share reinsurance arrangements, whereby in return for an upfront 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 two reinsurers. The total value of the quota share reinsurance asset was £1,561 million as at 31 December 2019 (2018: £1,265 million).

The value of the amounts recoverable from reinsurance is calculated using the same projection model and assumptions 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 the reinsurance recoverables is reduced by a counterparty default adjustment of £16 million (2018: £10 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 (2018: £9 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 £1,645 million (2018: £1,150 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 reviews its technical provisions valuation assumptions and methodology regularly 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 2019, PIC revised its assumptions to reflect identified reductions in both internal and external per-policy maintenance costs, to refine the expense modelling approach and to revise the inflation assumptions applied to expenses and members' pension payments. Other smaller changes were made to the assumptions used in order to better reflect emerging experience. In aggregate, the assumption changes applied increased own funds by £266 million.

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, based upon the current business mix and environment.

As the impact of applying these prudential margins is to change the cash flow 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 and calculates the valuation rate of interest using a "portfolio internal rate of return" 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 determine the credit default adjustment for the IFRS valuation rate of interest is to use a fixed basis points default allowance by asset, based on historical levels of default and downgrade with prudent margins.

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 2018 are shown for comparison.

Reconciliation between Solvency II and IFRS technical provisions balance sheets	31 December 2019 £m	31 December 2018 £m
Solvency II technical provisions (gross or reinsurance)	35,809	27,313
Add:		
– Classification difference of deferred premiums	9	14
Less:		
– Value of reinsurance recoverables on Solvency II basis	(1,645)	(1,150)
Solvency II technical provisions (net of reinsurance)	34,173	26,177
Less:		
– Risk margin	(1,958)	(1,897)
– Transitional measures deduction	851	692
Solvency II best estimate liability (net of reinsurance)	33,066	24,972
Add:		
– Impact of valuation discount rate margin	953	912
– Impact of other IFRS valuation margins	1,046	982
IFRS technical provisions (net of reinsurance)	35,065	26,866
Add:		
– Value of reinsurance recoverables on IFRS basis	2,598	1,854
IFRS technical provisions (gross of reinsurance)	37,663	28,720

D.3 Other liabilities

Other liabilities at 31 December reflect derivative liabilities, deferred tax and accounting accruals and creditors, as follows:

2019	IFRS value		Regulatory value	
	Group £m	Company £m	Group £m	Company £m
Derivative liabilities	16,731	16,731	16,731	16,731
Insurance and other payables	149	131	151	131
Deferred tax	3	3	155	155
Subordinated debt instruments	910	910	962	962
Other liabilities	**17,793**	**17,775**	**17,999**	**17,979**

2018	IFRS value		Regulatory value	
	Group £m	Company £m	Group £m	Company £m
Derivative liabilities	11,303	11,303	11,303	11,303
Insurance and other payables	125	128	242	242
Deferred tax	3	3	117	117
Subordinated debt instruments	891	891	942	942
Other liabilities	12,322	12,325	12,604	12,604

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 and Company's financial statements. There are no significant estimates or judgements in the valuation of these liabilities.

D.3.1 Derivative liabilities

This represents the liability valuation, at fair value, of derivatives held by the Company for managing its currency, interest and inflation exposures. These are "Level 2" valuations for IFRS purposes, and 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 Solvency II regulations.

D.3.3 Deferred tax

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 2019, this resulted in a deferred tax liability of £155 million (2018: £123 million), primarily arising from adjustments to technical provisions and risk margin arising from the application of Solvency II regulations. Also included is a deferred tax liability of £3 million (2018: £3 million) held on the IFRS balance sheet, relating to transitional arrangements on the UK Life tax regime and a deferred tax asset of £9 million (2018; £6 million) in the Solvency II balance sheet, which arose from the valuation differences between the Solvency II and IFRS values of the subordinated loan notes.

At 31 December 2019, a recognised deferred tax asset of £3 million existed within the Group (2018: £3 million). The amount represents an estimate of the potential future tax deduction available on vesting of existing share incentive schemes.

There are no other unused tax losses or unused tax credits for which no deferred tax asset or liability has been recognised on the balance sheet.

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 Company's own credit standing. 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).

The subordinated debt instruments fall due in 2024 (£300 million face value), 2026 (£250 million face value) and 2030 (£350 million face value).

On 25 July 2019, PIC issued £450 million of new Restricted Tier 1 ("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 under IFRS and as RT1 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 2019 this value was £12 million.

D.3.5 Reconciliation between regulatory value and financial statements value of other liabilities

At 31 December 2019, differences between the value of other liabilities for regulatory reporting and IFRS financial statements are as follows:

2019	Group £m	Company £m
Regulatory solvency "other liabilities"	**17,999**	**17,979**
Adjustment to creditor balances offset in assets	2	4
Reduction in subordinated debt valuation (held at amortised cost for IFRS purposes) and removal of associated accrued interest.	(53)	(53)
Deferred tax (as above)	(155)	(155)
Other liabilities under IFRS	**17,793**	**17,775**

2018	Group £m	Company £m
Regulatory solvency "other liabilities"	12,604	12,604
Adjustment to creditor balances offset in assets	(131)	(131)
Reduction in subordinated debt valuation (held at amortised cost for IFRS purposes) and removal of associated accrued interest.	(34)	(34)
Deferred tax (as above)	(117)	(114)
Other liabilities under IFRS	12,322	12,325

D.3.6 Leases and contingent liabilities

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

The Group has applied IFRS 16 *Leases* from 1 January 2019 but has not restated comparatives for 2018, as permitted by the modified retrospective approach in the standard. On transition, the Group elected to use the practical expedient to apply IFRS 16 only to contracts that were identified as leases under IAS 17. At 31 December 2019, the Group recognised a right-of-use asset of £22 million and a corresponding lease liability of £23 million. 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.

The Group has taken a prudent approach and has not included the right-of-use asset value in its Solvency II assets. This approach is under review.

PICG does not have any material contingent liabilities.

D.3.7 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 employees.

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.1.4. 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) – £81 million (2018: £96 million) (PIC and PICG)

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

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.

The main inputs used in the valuation model relate to the rental income, property's tenure, location, lease length and other factors specific to each property.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific property.

Unlisted bonds (direct investment) – £4,056 million (2018: £3,831 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 based on the credit spreads observed on other, quoted instruments that are substantially the same.

This category also includes directly invested bonds where PIC holds the greater part of the issuance and as such values these investments using discounted cash flow techniques on a mark to model basis.

Unlisted collateralised securities – £15 million (2018: £32 million) (PIC and PICG)

The fair value of unlisted collateralised securities is calculated using discounted cash flow techniques on a mark to model basis.

The valuation models use the security specific observable (interest rates and yield curves) and unobservable (implied volatilities, loss given default) inputs.

The unobservable inputs reflect the assumptions market participants would use in pricing the asset or liability based on sources independent of the entity pricing the asset or liability.

In addition, unobservable inputs are developed based on the best information available relating to a particular security and can be adjusted if information indicating that market participants would use different assumptions is reasonably available without undue cost and effort or when corroborated by evidence such as market transactions or quoted prices of other similar securities where available.

Unlisted (private equity) collective investment undertakings – £39 million (2018: £45 million) (PIC and PICG)

The fair value of unlisted collective investments is determined using the discounted cash flow method, which calculates the present value of future cash flows, discounted at the market rate of interest at the reporting date. The main inputs used in these calculations relate to interest rates, which are market observable.

Equity release mortgages ("ERM") – £414 million (2018: £294 million) (PIC and PICG)

The fair value of ERM 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 ERM, 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.

The fair value of ERM is determined by means of an internal model which uses a number of unobservable inputs including mortality, morbidity, interest rates and property prices.

Own shares held directly – PICG £32 million (2018: PICG £24 million)

This is determined using a modelled valuation of the PICG Group, derived from its audited Market Consistent Embedded Value at the valuation date.

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 ratio (measured as its eligible Own Funds divided by its SCR) is a key metric in the management of the financial position of the Group and Company.

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 this monitoring 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 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 employ 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;
- efficient asset management strategy; and
- seeking further external debt or equity capital.

E.1.2 Amount of basic Own Funds at the reporting date

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

	Group				Company			
2019	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Balance at 31 December 2019	3,870	962	–	4,832	3,882	962	–	4,844
Amount of basic own funds available to cover SCR	3,870	962	–	4,832	3,882	962	–	4,844
Amount of basic own funds available to cover MCR	3,870	148	n/a	4,018	3,882	147	n/a	4,029

	Group				Company			
2018	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m	Tier 1 £m	Tier 2 £m	Tier 3 £m	Total £m
Balance at 31 December 2018	2,998	942	–	3,940	2,975	942	–	3,917
Amount of basic own funds available to cover SCR	2,998	942	–	3,940	2,975	942	–	3,917
Amount of basic own funds available to cover MCR	2,998	117	n/a	3,115	2,975	117	n/a	3,092

As at 31 December 2019, the ratio of eligible Own Funds to SCR of PICG was 164% (2018: 168%) and of PIC was 164% (2018: 167%).

There are no items of ancillary Own Funds at 31 December 2019 (2018: nil).

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

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 £148 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

2019	Tier 1				Tier 2	Total
	Share capital £m	Share premium £m	Reconciliation reserve £m	Tier 1 restricted capital £m	Subordinated debt £m	£m
At start of year	2	119	2,877	–	942	3,940
Issued in year	–	–	–	445	–	445
Movements in year	–	–	397	30	20	447
At end of year	2	119	3,274	475	962	4,832

2018	Tier 1			Tier 2	Total
	Share capital £m	Share premium £m	Reconciliation reserve £m	Subordinated debt £m	£m
At start of year	2	119	2,623	589	3,333
Issued in year	–	–	–	350	350
Movements in year	–	–	254	3	257
At end of year	2	119	2,877	942	3,940

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

2019	Tier 1			Tier 2	Total
	Share capital £m	Reconciliation reserve £m	Tier 1 restricted capital £m	Subordinated debt £m	£m
At start of year	1,000	1,975	–	942	3,917
Issued in year	–	–	445	–	445
Movements in year	–	432	30	20	482
At end of year	1,000	2,407	475	962	4,844

2018	Tier 1		Tier 2	Total
	Share capital £m	Reconciliation reserve £m	Subordinated debt £m	£m
At start of year	1,000	1,739	589	3,328
Issued in year	–	–	350	350
Movements in year	–	236	3	239
At end of year	1,000	1,975	942	3,917

E.1.4 Restrictions to Own Funds and capital tiering

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 Restricted Tier 1 ("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 new issue is treated as equity capital under IFRS reporting. The interest payments will only be recognised in equity upon payment as dividends; the first semi-annual coupon of £17 million was paid on 25 January 2020. 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 £300 million nominal of subordinated loan notes due 2024 with a fixed coupon of 6.5% paid annually in arrears that were issued at 99.107% of par in July 2014, £250 million nominal of subordinated loan notes due 2026 with a fixed coupon of 8% paid annually in arrears that were issued at 98.916% of par in November 2016 and £350 million nominal of subordinated loan notes due 2030 with a fixed coupon of 5.625% paid annually in arrears that were issued at 99.693% of par in September 2018. 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 RT1 and Tier 2 instruments are valued in accordance with Article 75 of the Solvency II Directive, being economic value and therefore at a different value than that used in the Company's IFRS financial statements. Changes arising from movements in the risk-free rate between the dates of issue and the reporting date have led to an increase in the value of the subordinated debt (including accrued interest) of £54 million (2018: £34 million). The difference in value between the two bases is offset by an equal and opposite amount included within the reconciliation reserve.

E.1.5 Reconciliation of Own Funds to IFRS equity

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

	Group		Company	
	2019 £m	2018 £m	2019 £m	2018 £m
Equity per IFRS financial statements	**3,215**	2,457	**3,198**	2,434
Add: Reclassification of subordinated debt as Tier 2 capital for regulatory purposes, included at regulatory value	**962**	942	**962**	942
Deferred tax asset arising from RT1 evaluation*	**9**	–	**9**	–
Adjustment of subordinated debt value between IFRS and regulatory value*	**(53)**	(34)	**(53)**	(34)
Adjustment for RT1 accrued interest*	**(12)**	–	**(12)**	–
Decrease in technical provisions under regulatory rules*	**1,854**	1,407	**1,854**	1,407
Increase in deferred tax liability under regulatory rules*	**(152)**	(114)	**(152)**	(114)
Decrease in reinsurance recoverable and other assets under regulatory rules*	**(991)**	(718)	**(962)**	(718)
Own Funds per regulatory requirements	**4,832**	3,940	**4,844**	3,917

Items marked with a '*' above form part of the regulatory reconciliation reserve (see section E.1.6 below), which totals £2,407 million for PIC (2018: £1,975 million) and £3,274 million for PICG (2018: £2,877 million) at 31 December 2018.

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

E.1.6 Constituents of reconciliation reserve

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

2019	Group £m	Company £m
IFRS retained earnings per financial statements	**1,576**	**1,693**
Revaluation of RT1 debt	**(30)**	**(30)**
Capital contribution reserve per financial statements	**–**	**60**
Capital reduction reserve per financial statements	**1,055**	**–**
Other reserves per financial statements	**50**	**–**
Differences between IFRS rules and Solvency II rules (marked with '*' above)	**655**	**684**
Treasury shares per financial statements	**(32)**	**–**
Reconciliation reserve at 31 December 2019	**3,274**	**2,407**

2018	Group £m	Company £m
IFRS retained earnings per financial statements	1,256	1,374
Capital contribution reserve per financial statements	–	60
Capital reduction reserve per financial statements	1,055	–
Other reserves per financial statements	49	–
Differences between IFRS rules and Solvency II rules (marked with '*' above)	541	541
Treasury shares per financial statements	(24)	–
Reconciliation reserve at 31 December 2018	2,877	1,975

E.2 SCR and MCR (unaudited)

As at 31 December 2019, PICG's and PIC's SCR amounted to £2,954 million (2018: £2,343 million) and its MCR amounted to £738 million (2018: £586 million), being 25% of SCR.

The Group and Company's risk profile is measured by its Internal Model, which was approved for use by the PRA in December 2015. Note that a Major Model Change was approved by the PRA in December 2017 relating to the treatment of longevity and inflation risk.

PIC is therefore satisfied that the SCR as at 31 December 2019 is not subject to supervisory assessment.

No adjustment to the SCR has been made by the PRA, in respect of the third sub-paragraph of Article 51(2) of Directive 2009/138/EC.

The SCR has increased from £2,343 million in 2018 to £2,954 million in 2019, and the MCR has increased from £586 million in 2018 to £738 million in 2019.

The principal reasons for the movements in these items are:

- a general increase in the volume of business in force, due to insurance contracts written during 2019;
- the impact of changes in economic conditions over the year; and
- the impact of the reinsurance programme effected by the Company, which has served to reduce the insurance risk element of the SCR.

These reasons reflect the natural progression of the business. There have been no material changes to the underlying methodology or assumptions used in the calculation of either item.

E.2.1 Components of SCR

PIC uses an Internal Model agreed with the PRA to calculate its SCR. It does not apply the standard formula in the business.

The split of the SCR by risk category as at 31 December 2019 is as follows:

Summary of SCR	2019 £m	2018 £m
Risk capital before diversification:		
– Market risk	**2,646**	2,082
– Counterparty credit risk	**151**	109
– Insurance risk	**1,164**	1,007
– Expense risk	**221**	242
– Operational risk	**301**	241
Total before diversification	**4,483**	3,681
Diversification benefit	**(1,307)**	(1,130)
Loss absorbing capacity of deferred tax	**(222)**	(208)
Total diversified SCR after LACDT	**2,954**	2,343

E.2.2 Key inputs for the calculation of the MCR

The MCR 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 SCR; and

Step 2: The lower amount of the result from Step 1 and 45% of the SCR.

The result of this calculation at end 2018 and 2019 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

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)

The Internal Model is used to calculate PIC's regulatory capital requirements. The output from the Internal Model also helps support strategic decision making including in the following areas:

- Business planning
- Pricing of new business
- Asset allocation
- Reinsurance transactions and hedging activities

PIC uses a full Internal Model.

PIC uses a variety of methods to calculate the probability distribution forecast and the SCR, ranging from statistical analysis of historical 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.

PIC's Internal Model methodologies and assumptions use a more bespoke and granular approach than the "one-size-fits-all" approach underpinning the standard formula. The main differences are as follows:

Insurance risk: PIC's risk profile includes substantial long-term liabilities so the Internal Model applies capital stresses for base mortality and future mortality improvement risk, rather than solely base mortality as prescribed by the standard formula, to ensure we more accurately capture the nature of insurance risks for annuitants. PIC also holds capital against uncertainty in second life assumptions and lump sum commutation assumptions, which are excluded from the standard formula.

Operational risk: PIC's Internal Model for operational risk is based on an assessment of the actual operational risks that PIC is exposed to, including underwriting, asset management, hedging, reserving and outsourcer related risks. By comparison the standard formula for operational risk is a function of premium income received in the previous year which can bear little relationship to where operational risks may arise.

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

PIC uses a variety of data sources in its Internal Model, both internal and external. Internal data includes policyholder data and PIC's own historical 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 which provide the majority of historical market data to support the calibration of the SCR. 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.4.1 Comparison of the Company's Internal Model with the standard formula (unaudited)

The following table compares the SCR calculated on the standard formula basis and using the Company's Internal Model.

	Internal Model with matching adjustment 2019 £m	Standard formula with matching adjustment 2019 £m
Market risk	2,646	3,858
Insurance risk	1,164	532
Operational risk	301	290
Expense risk	221	195
Counterparty default risk	151	61
Benefit of diversification	(1,307)	(561)
Loss absorbing capacity of deferred tax	(222)	(270)
Solvency Capital Requirement	**2,954**	**4,105**

	Internal Model with matching adjustment 2018 £m	Standard formula with matching adjustment 2018 £m
Market risk	2,082	3,054
Insurance risk	1,007	486
Operational risk	241	397
Expense risk	242	206
Counterparty default risk	109	40
Benefit of diversification	(1,130)	(513)
Loss absorbing capacity of deferred tax	(208)	(228)
Solvency Capital Requirement	2,343	3,442

Of note, the standard formula was 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 that PIC is exposed to, including underwriting, asset management, hedging, reserving and outsourcer related risks. By comparison, the standard formula for operational risk is a function of premium income received in the previous year, which can bear little relationship to where operational risks may arise. For counterparty default 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.

The Internal Model is widely used, 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.

The Chief Financial Officer, Chief Investment Officer and Head of Origination each provide an annual attestation to the Chief Risk Officer either confirming that the Internal Model has been used in all decision making where capital is a relevant factor or else setting out any decisions where capital is a relevant factor that were made without the use of the Internal Model together with justifications for why the internal model was not used. 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	Nomination and Remuneration Committee
Financial reporting	Audit Committee

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 MCR and the SCR throughout 2019 and up to the date of approval of this report.

APPENDIX A – GLOSSARY OF TERMS

BEL
Best estimate liability.

EIOPA
European Insurance and Occupational Pensions Authority. This is the European regulator that sets Solvency II regulations.

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.

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.

Risk margin
The risk margin is a regulatory requirement introduced by Solvency II. Although it forms a part of the technical provisions, it can be thought of as a part of the wider capital requirements of a regulated insurance company. It is designed to represent the amount which another insurer would require to take on the insurance obligations of an insurer, in the event that it used up all of its surplus and capital as a result of a shock.

SCR
Solvency Capital Requirement – the risk-based capital assessment under Solvency II. Can either be set by standard formula or a regulatory-approved Internal Model.

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

Technical provisions
The liabilities arising under insurance contracts. Under the Solvency II framework, these represent the sum of best estimate liability, risk margin and the TMTP.

TMTP
Transitional measures on technical provisions. A transitional arrangement whereby differences between the Solvency II regime and an insurer's previous regulatory capital regime can be phased in over a period, generally a maximum of 16 years.

APPENDIX B
Pension Insurance Corporation plc

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

QRT REF	QRT NAME
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.12.01.02	Life and Health SLT technical provisions
S.22.01.21	Impact of long-term guarantees, measures and transitionals
S.23.01.01	Own Funds
S.25.03.21	Solvency Capital Requirement – for undertakings on full Internal Models
S.28.01.01	Minimum Capital Requirement – Only life or only non-life insurance or reinsurance activity

Pension Insurance Corporation plc

S.02.01.02
Balance sheet

		Solvency II value C0010 £
	Assets	
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	8,962,095
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**51,395,697,701**
R0080	*Property (other than for own use)*	81,083,834
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	**0**
R0110	*Equities – listed*	
R0120	*Equities – unlisted*	
R0130	*Bonds*	**34,448,189,954**
R0140	*Government bonds*	15,011,855,825
R0150	*Corporate bonds*	19,074,479,628
R0160	*Structured notes*	0
R0170	*Collateralised securities*	361,854,500
R0180	*Collective investment undertakings*	2,240,807,423
R0190	*Derivatives*	14,625,616,491
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	*Loans and mortgages*	**4,076,895,943**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	4,076,895,943
R0270	Reinsurance recoverables from:	**1,644,900,783**
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	**1,644,900,783**
R0320	Health similar to life	0
R0330	Life excluding health and index-linked and unit-linked	1,644,900,783
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,078,755
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	13,530,966
R0390	Own shares (held directly)	
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	447,574,366
R0420	Any other assets, not elsewhere shown	91,244,375
R0500	**Total assets**	**57,681,884,985**

S.02.01.02 continued
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*	
R0540	*Best estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*Technical provisions calculated as a whole*	
R0580	*Best estimate*	
R0590	*Risk margin*	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**35,809,040,669**
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)	**35,809,040,669**
R0660	*Technical provisions calculated as a whole*	0
R0670	*Best estimate*	34,702,307,046
R0680	*Risk margin*	1,106,733,623
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	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	155,388,448
R0790	Derivatives	16,731,272,678
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance and intermediaries payables	87,305,625
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	43,346,430
R0850	Subordinated liabilities	**962,345,803**
R0860	*Subordinated liabilities not in basic Own Funds*	
R0870	*Subordinated liabilities in basic Own Funds*	962,345,803
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**53,788,699,653**
R1000	**Excess of assets over liabilities**	**3,893,185,322**

S.05.01.02
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	7,185,733,491	**7,185,733,491**
R1420	Reinsurers' share	50,226,101	**50,226,101**
R1500	Net	**7,135,507,390**	7,135,507,390
	Premiums earned		
R1510	Gross	7,185,733,491	**7,185,733,491**
R1520	Reinsurers' share	50,226,101	**50,226,101**
R1600	Net	**7,135,507,390**	7,135,507,390
	Claims incurred		
R1610	Gross	1,430,461,993	**1,430,461,993**
R1620	Reinsurers' share	41,858,612	**41,858,612**
R1700	Net	**1,388,603,381**	1,388,603,381
	Changes in other technical provisions		
R1710	Gross	8,942,835,712	**8,942,835,712**
R1720	Reinsurers' share	744,342,799	**744,342,799**
R1800	Net	**8,198,492,913**	8,198,492,913
R1900	**Expenses incurred**	**156,649,514**	156,649,514
R2500	**Other expenses**		
R2600	**Total expenses**		156,649,514

S.05.02.01
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations					Total top 5 and home country
R1400	**Life**	**Home country C0220 £**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280 £**
	Premiums written							
R1410	Gross	7,185,733,491						**7,185,733,491**
R1420	Reinsurers' share	50,226,101						**50,226,101**
R1500	Net	**7,135,507,390**						**7,135,507,390**
	Premiums earned							
R1510	Gross	7,185,733,491						**7,185,733,491**
R1520	Reinsurers' share	50,226,101						**50,226,101**
R1600	Net	**7,135,507,390**						**7,135,507,390**
	Claims incurred							
R1610	Gross	1,430,461,993						**1,430,461,993**
R1620	Reinsurers' share	41,858,612						**41,858,612**
R1700	Net	**1,388,603,381**						**1,388,603,381**
	Changes in other technical provisions							
R1710	Gross	8,942,835,712						**8,942,835,712**
R1720	Reinsurers' share	744,342,799						**744,342,799**
R1800	Net	**8,198,492,913**						**8,198,492,913**
R1900	Expenses incurred	156,649,514						**156,649,514**
R2500	Other expenses							
R2600	Total expenses							**156,649,514**

S.12.01.02
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 reinsurance after the adjustment for expected losses due to counterparty default associated to technical provisions calculated as a whole				0
	Technical provisions calculated as a sum of best estimate and risk margin				
	Best estimate				
R0030	**Gross best estimate**		34,702,307,046		34,702,307,046
R0080	Total recoverables from reinsurance/SPV and finite reinsurance after the adjustment for expected losses due to counterparty default		1,644,900,783		1,644,900,783
R0090	Best estimate minus recoverables from reinsurance/SPV and finite reinsurance		33,057,406,263	0	33,057,406,263
R0100	**Risk margin**	1,957,655,258			1,957,655,258
R0110	**Amount of the transitional on technical provisions** Technical provisions calculated as a whole				0
R0120	Best estimate				0
R0130	Risk margin	-850,921,635			-850,921,635
R0200	**Technical provisions – total**	35,809,040,669			35,809,040,669

S.22.01.21
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	35,809,040,669	850,921,636	0	0	6,550,724,882
R0020	Basic Own Funds	4,843,916,135	-706,264,971	0	0	-4,967,862,287
R0050	Eligible Own Funds to meet Solvency Capital Requirement	4,843,916,135	-706,264,971	0	0	-4,967,862,287
R0090	Solvency Capital Requirement	2,954,374,065	144,656,678	0	0	4,935,482,830
R0100	Eligible Own Funds to meet Minimum Capital Requirement	4,029,289,035	-699,032,137	0	0	-5,727,870,337
R0110	Minimum Capital Requirement	738,593,516	36,164,170	0	0	1,233,870,707

S.23.01.01
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)**	999,810,351	999,810,351		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic Own Fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	0	0			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	2,406,399,573	2,406,399,573			
R0140	Subordinated liabilities	962,345,803		0	962,345,803	0
R0160	An amount equal to the value of net deferred tax assets	0				
R0180	Other Own Fund items approved by the supervisory authority as basic Own Funds not specified above	475,360,408	0	475,360,408	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				
R0290	**Total basic Own Funds after deductions**	4,843,916,135	3,406,209,924	475,360,408	962,345,803	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 Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC	0				
R0360	Supplementary members' calls under first subparagraph of Article 96(3) of Directive 2009/138/EC	0				
R0370	Supplementary members' calls – other than under first sub-paragraph of Article 96(3) of 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**	4,843,916,135	3,406,209,924	475,360,408	962,345,803	0
R0510	**Total available Own Funds to meet the MCR**	4,843,916,135	3,406,209,924	475,360,408	962,345,803	
R0540	**Total eligible Own Funds to meet the SCR**	4,843,916,135	3,406,209,924	475,360,408	962,345,803	0
R0550	**Total eligible Own Funds to meet the MCR**	4,029,289,035	3,406,209,924	475,360,408	147,718,703	
R0580	**SCR**	2,954,374,065				
R0600	**MCR**	738,593,516				
R0620	**Ratio of eligible Own Funds to SCR**	163.96%				
R0640	**Ratio of eligible Own Funds to MCR**	545.54%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	3,893,185,332				
R0710	Own shares (held directly and indirectly)	0				
R0720	Foreseeable dividends, distributions and charges	11,615,000				
R0730	Other basic Own Fund items	1,475,170,759				
R0740	Adjustment for restricted Own Fund items in respect of matching adjustment portfolios and ring-fenced funds	0				
R0760	**Reconciliation reserve**	2,406,399,573				
	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				

S.25.03.21
Solvency Capital Requirement – for undertakings on full Internal Models

	Unique number of component C0010	Component description C0020	Calculation of the Solvency Capital Requirement C0030 £	Consideration of the future management actions regarding technical provisions and/or deferred taxes C0060
1	10310I	Interest rate risk – interest rate down more onerous	0	No embedded consideration of future management actions
2	10320I	Interest rate risk – interest rate up more onerous	707,185,219	No embedded consideration of future management actions
3	10600I	Property risk	148,116,726	No embedded consideration of future management actions
4	10700I	Spread risk – if matching adjustment impact not identified	2,669,902,919	No embedded consideration of future management actions
5	10900I	Currency risk	222,068,123	No embedded consideration of future management actions
6	11010I	Other market risk – inflation risk	111,752,911	No embedded consideration of future management actions
7	11020I	Other market risk – implied volatility risk	478,048,908	No embedded consideration of future management actions
8	11030I	Other market risk – RPI/CPI basis risk	254,703,504	No embedded consideration of future management actions
9	11090I	Other market risk – funds risk	264,546,872	No embedded consideration of future management actions
10	19900I	Diversification within market risk	-2,210,517,544	No embedded consideration of future management actions
11	20120I	Type 1 counterparty risk – external reinsurance	100,244,649	No embedded consideration of future management actions
12	20190I	Type 1 counterparty risk – asset counterparty	50,985,844	No embedded consideration of future management actions
13	30210I	Longevity risk – longevity mis-estimation	328,135,114	No embedded consideration of future management actions
14	30220I	Longevity risk – longevity trend	1,054,518,641	No embedded consideration of future management actions
15	30290I	Longevity risk – other longevity risks	391,074,910	No embedded consideration of future management actions
16	30299I	Longevity risk – longevity diversification	-609,699,111	No embedded consideration of future management actions
17	30600I	Expense risk	355,891,088	No embedded consideration of future management actions
18	39900I	Life underwriting risk diversification	-134,773,397	No embedded consideration of future management actions
19	70100I	Operational risk	300,758,142	No embedded consideration of future management actions
20	80300I	Loss-absorbing capacity of deferred tax	-221,354,793	Future management actions regarding the loss-absorbing capacity of deferred taxes embedded within the component

	Calculation of Solvency Capital Requirement	C0100 £
R0110	Total undiversified components	**4,261,588,724**
R0060	Diversification	-1,307,214,659
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**2,954,374,065**
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement**	**2,954,374,065**
	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-221,354,793
R0410	Total amount of notional Solvency Capital Requirement for remaining part	-388,158,326
R0420	Total amount of notional Solvency Capital Requirement for ring-fenced funds	
R0430	Total amount of notional Solvency Capital Requirement for matching adjustment portfolios	3,342,532,392
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	

S.28.01.01

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

	Linear formula component for non-life insurance and reinsurance obligations	C0010 £
R0010	MCRNL result	0

		Net (of reinsurance/SPV) best estimate and technical provisions 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	694,205,531

		Net (of reinsurance/SPV) best estimate and technical provisions 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	33,057,406,263	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070 £
R0300	Linear MCR	694,205,531
R0310	SCR	2,954,374,065
R0320	MCR cap	1,329,468,329
R0330	MCR floor	738,593,516
R0340	Combined MCR	738,593,516
R0350	Absolute floor of the MCR	3,186,921
R0400	**Minimum Capital Requirement**	738,593,516

Pension Insurance Corporation Group Limited

QRT REF	QRT NAME
S.02.01.02	Balance sheet
S.05.01.02	Premiums, claims and expenses by line of business
S.05.02.01	Premiums, claims and expenses by country
S.22.01.22	Impact of long-term guarantees, measures and transitionals
S.23.01.22	Own Funds
S.25.03.22	Solvency Capital Requirement – for undertakings on full Internal Models
S.32.01.22	Undertakings in the scope of the Group

Pension Insurance Corporation Group Limited

S.02.01.02

Balance sheet – 31 December 2019

		Solvency II value C0010 £
	Assets	
R0010	Goodwill	
R0020	Deferred acquisition costs	
R0030	Intangible assets	
R0040	Deferred tax assets	11,691,009
R0050	Pension benefit surplus	
R0060	Property, plant and equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**51,395,778,867**
R0080	*Property (other than for own use)*	81,165,000
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities – listed*	
R0120	*Equities – unlisted*	
R0130	*Bonds*	**34,448,189,954**
R0140	*Government bonds*	15,011,855,825
R0150	*Corporate bonds*	19,074,479,628
R0160	*Structured notes*	0
R0170	*Collateralised securities*	361,854,500
R0180	*Collective investment undertakings*	2,240,807,423
R0190	*Derivatives*	14,625,616,491
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	
R0230	Loans and mortgages	**4,076,895,943**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	
R0260	*Other loans and mortgages*	4,076,895,943
R0270	Reinsurance recoverables from:	**1,644,900,783**
R0280	*Non-life and health similar to non-life*	**0**
R0290	*Non-life excluding health*	
R0300	*Health similar to non-life*	
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	**1,644,900,783**
R0320	*Health similar to life*	
R0330	*Life excluding health and index-linked and unit-linked*	1,644,900,783
R0340	*Life index-linked and unit-linked*	
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	3,078,755
R0370	Reinsurance receivables	
R0380	Receivables (trade, not insurance)	12,423,939
R0390	Own shares (held directly)	32,423,949
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	454,261,358
R0420	Any other assets, not elsewhere shown	91,244,376
R0500	**Total assets**	**57,722,698,979**

S.02.01.02 continued
Balance sheet – 31 December 2019

		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*	
R0540	*Best estimate*	
R0550	*Risk margin*	
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*Technical provisions calculated as a whole*	
R0580	*Best estimate*	
R0590	*Risk margin*	
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**35,809,040,669**
R0610	*Technical provisions – health (similar to life)*	**0**
R0620	*Technical provisions calculated as a whole*	
R0630	*Best estimate*	
R0640	*Risk margin*	
R0650	*Technical provisions – life (excluding health and index-linked and unit-linked)*	**35,809,040,669**
R0660	*Technical provisions calculated as a whole*	
R0670	*Best estimate*	34,702,307,046
R0680	*Risk margin*	1,106,733,623
R0690	Technical provisions – index-linked and unit-linked	**0**
R0700	*Technical provisions calculated as a whole*	
R0710	*Best estimate*	
R0720	*Risk margin*	
R0730	Other technical provisions	
R0740	Contingent liabilities	
R0750	Provisions other than technical provisions	
R0760	Pension benefit obligations	
R0770	Deposits from reinsurers	
R0780	Deferred tax liabilities	155,746,415
R0790	Derivatives	16,731,272,678
R0800	Debts owed to credit institutions	
R0810	Financial liabilities other than debts owed to credit institutions	
R0820	Insurance and intermediaries payables	111,180,972
R0830	Reinsurance payables	
R0840	Payables (trade, not insurance)	39,074,440
R0850	Subordinated liabilities	**962,345,803**
R0860	*Subordinated liabilities not in basic Own Funds*	
R0870	*Subordinated liabilities in basic Own Funds*	962,345,803
R0880	Any other liabilities, not elsewhere shown	
R0900	**Total liabilities**	**53,808,660,977**
R1000	**Excess of assets over liabilities**	**3,914,038,002**

S.05.01.02
Premiums, claims and expenses by line of business – 31 December 2019

	Life	Line of business for life insurance obligations Other life insurance C0240 £	Total C0300 £
	Premiums written		
R1410	Gross	7,185,733,491	**7,185,733,491**
R1420	Reinsurers' share	50,226,101	**50,226,101**
R1500	Net	**7,135,507,390**	**7,135,507,390**
	Premiums earned		
R1510	Gross	7,185,733,491	**7,185,733,491**
R1520	Reinsurers' share	50,226,101	**50,226,101**
R1600	Net	**7,135,507,390**	**7,135,507,390**
	Claims incurred		
R1610	Gross	1,430,461,993	**1,430,461,993**
R1620	Reinsurers' share	41,858,612	**41,858,612**
R1700	Net	**1,388,603,381**	**1,388,603,381**
	Changes in other technical provisions		
R1710	Gross	8,942,835,712	**8,942,835,712**
R1720	Reinsurers' share	744,342,799	**744,342,799**
R1800	Net	8,198,492,913	**8,198,492,913**
R1900	**Expenses incurred**	**155,889,536**	**155,889,536**
R2500	**Other expenses**		
R2600	**Total expenses**		**155,889,536**

S.05.02.01
Premiums, claims and expenses by country – 31 December 2019

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) - life obligations					Total top 5 and home country
R1400		Home country						
	Life	**C0220** £	**C0230**	**C0240**	C0250	**C0260**	**C0270**	**C0280** £
	Premiums written							
R1410	Gross	7,185,733,491						**7,185,733,491**
R1420	Reinsurers' share	50,226,101						**50,226,101**
R1500	Net	**7,135,507,390**						**7,135,507,390**
	Premiums earned							
R1510	Gross	7,185,733,491						**7,185,733,491**
R1520	Reinsurers' share	50,226,101						**50,226,101**
R1600	Net	**7,135,507,390**						**7,135,507,390**
	Claims incurred							
R1610	Gross	1,430,461,993						**1,430,461,993**
R1620	Reinsurers' share	41,858,612						**41,858,612**
R1700	Net	**1,388,603,381**						**1,388,603,381**
	Changes in other technical provisions							
R1710	Gross	8,942,835,712						**8,942,835,712**
R1720	Reinsurers' share	744,342,799						**744,342,799**
R1800	Net	**8,198,492,913**						**8,198,492,913**
R1900	Expenses incurred	155,889,536						**155,889,536**
R2500	Other expenses							
R2600	Total expenses							**155,889,536**

S.22.01.22

Impact of long-term guarantees, measures and transitionals – 31 December 2019

		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	35,809,040,669	850,921,636	0	0	6,550,724,882
R0020	Basic own funds	4,832,344,856	-706,264,971	0	0	-4,967,862,287
R0050	Eligible own funds to meet Solvency Capital Requirement	4,832,344,856	-706,264,971	0	0	-4,967,862,287
R0090	Solvency Capital Requirement	2,954,374,065	144,656,678	0	0	4,935,482,830

S.23.01.22
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)	1,753,359	1,753,359		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	119,841,960	119,841,960		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	0			
R0080	*Non-available surplus funds at Group level*	0	0			
R0090	Preference shares	0		0	0	0
R0100	*Non-available preference shares at Group level*	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	3,273,043,326	3,273,043,326			
R0140	Subordinated liabilities	962,345,803		0	962,345,803	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 Group level*	0				0
R0180	Other items approved by supervisory authority as basic Own Funds not specified above	475,360,408	0	475,360,408	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				
	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					
	Deductions					
R0230	Deductions for participations in other financial undertakings, including non-regulated undertakings carrying out financial activities	0				
R0240	*whereof deducted according to Article 228 of 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 depreciation and amortisation ("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**	4,832,344,856	3,394,638,645	475,360,408	962,345,803	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 Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of Directive 2009/138/EC	0				
R0360	Supplementary members' calls under first sub-paragraph of Article 96(3) of Directive 2009/138/EC	0				
R0370	Supplementary members' calls other than under first sub-paragraph of Article 96(3) of 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, Undertaking for Collective Investment in Transferable Securities ("UCITs") management companies – total	0				
R0420	Institutions for occupational retirement provision	0				
R0430	Non-regulated entities carrying out financial activities	0				
R0440	**Total Own Funds of other financial sectors**	0	0	0	0	0

S.23.01.22 continued

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 £
	Own Funds when using the D&A, exclusively or in combination with 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				
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)	4,832,344,856	3,394,638,645	475,360,408	962,345,803	0
R0530	Total available Own Funds to meet the minimum consolidated group SCR	4,832,344,856	3,394,638,645	475,360,408	962,345,803	
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)	4,832,344,856	3,394,638,645	475,360,408	962,345,803	0
R0570	Total eligible Own Funds to meet the minimum consolidated Group SCR (Group)	4,017,717,756	3,394,638,645	475,360,408	147,718,703	
R0610	**Minimum consolidated Group SCR**	738,593,516				
R0650	**Ratio of eligible Own Funds to minimum consolidated Group SCR**	544.0%				
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)**	4,832,344,856	3,394,638,645	475,360,408	962,345,803	0
R0680	**Group SCR**	2,954,374,065				
R0690	**Ratio of eligible Own Funds to Group SCR (including other financial sectors and the undertakings included via D&A)**	163.6%				
	Reconciliation reserve	C0060				
R0700	Excess of assets over liabilities	3,914,038,002				
R0710	Own shares (held directly and indirectly)	32,423,949				
R0720	Foreseeable dividends, distributions and charges	11,615,000				
R0730	Other basic Own Fund items	596,955,727				
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**	3,273,043,326				
	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				

Pension Insurance Corporation Group Limited

S.25.03.22

Solvency Capital Requirement - for undertakings on full Internal Models

	Unique number of component C0010	Component description C0020	Calculation of the Solvency Capital Requirement C0060 £
1	10310I	Interest rate risk – interest rate down more onerous	0
2	10320I	Interest rate risk – interest rate up more onerous	707,185,219
3	10600I	Property risk	148,116,726
4	10700I	Spread risk – if matching adjustment impact not identified	2,669,902,919
5	10900I	Currency risk	222,068,123
6	11010I	Other market risk – inflation risk	111,752,911
7	11020I	Other market risk – implied volatility risk	478,048,908
8	11030I	Other market risk – RPI/CPI basis risk	254,703,504
9	11090I	Other market risk – funds risk	264,546,872
10	19900I	Diversification within market risk	-2,210,517,544
11	20120I	Type 1 counterparty risk – external reinsurance	100,244,649
12	20190I	Type 1 counterparty risk – asset counterparty	50,985,844
13	30210I	Longevity risk – longevity mis-estimation	328,135,114
14	30220I	Longevity risk – longevity trend	1,054,518,641
15	30290I	Longevity risk – other longevity risks	391,074,910
16	30299I	Longevity risk – longevity diversification	-609,699,111
17	30600I	Expense risk	355,891,088
18	39900I	Life underwriting risk diversification	-134,773,397
19	70100I	Operational risk	300,758,142
20	80300I	Loss-absorbing capacity of deferred tax	-221,354,793

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	**4,261,588,724**
R0060	Diversification	-1,307,214,659
R0160	Capital requirement for business operated in accordance with Article 4 of Directive 2003/41/EC	
R0200	**Solvency Capital Requirement excluding capital add-on**	**2,954,374,065**
R0210	Capital add-ons already set	
R0220	**Solvency Capital Requirement**	**2,954,374,065**

	Other information on SCR	
R0300	Amount/estimate of the overall loss-absorbing capacity of technical provisions	
R0310	Amount/estimate of the overall loss-absorbing capacity of deferred taxes	-221,354,793
R0410	Total amount of notional Solvency Capital Requirements for remaining part	-388,158,326
R0420	Total amount of notional Solvency Capital Requirement for ring-fenced funds	
R0430	Total amount of notional Solvency Capital Requirement for matching adjustment portfolios	3,342,532,392
R0440	Diversification effects due to RFF nSCR aggregation for Article 304	
R0470	Minimum consolidated Group Solvency Capital Requirement	738,593,516

S.32.01.22

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
1	GB	549300UN2IF0TWMZYC35	LEI	Pension Insurance Corporation Group Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC		2						Dominant		Included in the scope		Method 1: Full consolidation
2	GB	M31AVDIX8NY21MAUQF46	LEI	Pension Insurance Corporation Plc	Life insurance undertaking	Company limited by shares or guarantee	2	Prudential Regulation Authority	100%	100%	100%		Dominant	100%	Included in the scope		Method 1: Full consolidation
3	GB	549300Q8BH2WRUKFLA05	LEI	PIC Holdings Limited	Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC		2		100%	100%	100%		Dominant	100%	Included in the scope		Method 1: Full consolidation
4	GB	PSC	Specific code	Pension Services Corporation Limited	Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35		2		100%	100%	100%		Dominant	100%	Included in the scope		Method 1: Full consolidation

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