PENSION INSURANCE
CORPORATION GROUP LIMITED

# *Guaranteed pensions, purposeful investments*

**Pension Insurance Corporation Group Limited**
Solvency and Financial Condition Report 2020

# Guaranteed pensions, purposeful investments

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 image (left): taken at a PIC policyholder Day
Front cover image (right): Trident Group

# 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 PRA Rules and the Solvency II Regulations.

We are satisfied that:

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

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

**Tracy Blackwell**
Director

Signed on behalf of the Board of Directors

8 April 2021

# 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 Company as at 31 December 2020:

- 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 2020, ('the Narrative Disclosures subject to audit'); and
- Group templates S02.01.02, S22.01.22, S23.01.22, S32.01.22 and Company templates S02.01.02, S12.01.02, S22.01.21, S23.01.01, S28.01.01 ('the Templates subject to audit').

The Narrative Disclosures subject to audit and the Templates subject to audit are collectively referred to as the 'Relevant Elements of the 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 about 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, S.19.01.21, 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 of both Pension Insurance Corporation Group Limited and Pension Insurance Corporation plc as at 31 December 2020 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 used our knowledge of the Group and Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

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

We also considered less predictable but realistic second order impacts such as failure of counterparties who have transactions with the Group's and Company's (such as reinsurers) to meet commitments that could give rise to a negative impact on the Group's and Company's financial position and reduced liquidity.

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

Our conclusions based on this work:

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

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

**Fraud and breaches of laws and regulations – ability to detect**
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Our risk assessment procedures included:

- Enquiring of directors, as to the companies' high-level policies and procedures to prevent and detect fraud, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management/directors.

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

As required by auditing standards, and taking into account possible pressures to meet solvency targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. Accordingly, we identified a fraud risk related to the selection of Group Solvency and Financial Condition Reporting operating assumptions given their direct impact on the company's technical provisions, the opportunity for management to manipulate assumptions due to the subjectivity involved and given the long-term nature of these assumptions which are more difficult to corroborate.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is no management judgement or estimation involved in recording the revenue streams and the amounts are contractually derived.

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

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

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, those including specific words based on our risk criteria, those journals which were unbalanced, those posted to unusual accounts, those posted at the end of the period and/or post-closing entries with little or no description and unusual journal entries posted to either cash or borrowings.
- Evaluating the business purpose of non-recurring transactions.
- Assessing significant accounting estimates for bias.

No other matters related to actual or suspected fraud, for which disclosure is not necessary, were identified.

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

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

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

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

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

Secondly, the Group and Company are subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such as effect: liquidity and certain aspects of company legislation recognizing the financial nature of the Group's and Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operation regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect a breach.

No other matters related to actual or suspected to breaches of laws or regulations, for which disclosure is not necessary, were identified.

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

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

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

### Other Information

The Directors 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 Group 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 Group Solvency and Financial Condition Report.

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

**Other Matter**
PIC has authority to calculate its Group Solvency Capital Requirement using an internal model ("the Model") approved by the Prudential Regulation Authority in accordance with the Solvency II Regulations. In forming our opinion (and in accordance with PRA Rules), we are not required to audit the inputs to, design of, operating effectiveness of 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 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

8 April 2021

**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 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 Group 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 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 Prudential Regulatory Authority ('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 PRA regulation, and must contain the following sections:

| SECTION | DESCRIPTION OF CONTENT |
|---|---|
| Business and Performance | Provides the basic information on the Group and Company, and gives a summary of the business performance during the year in question. |
| System of Governance | Provides governance information on the Group and Company including Board and Committee structure, responsibilities, and details of the principal process. |
| Risk Profile | Provides qualitative and quantitative information regarding the risks that face the Group and Company, and how they are managed. |
| Valuation for Solvency Purposes | Provides values for the Group and Company's assets and liabilities in accordance with IFRS and Solvency rules, gives details on the assumptions used in the valuations, and provides explanations on valuation differences between IFRS and Solvency II. |
| Capital Management | Provides detail on the regulatory capital (own funds) which the Group and Company must hold in line with Solvency II rules, and 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 2020 despite turbulent market conditions and the uncertainty caused by both the Covid-19 pandemic and Brexit. The Group has shown resilience and remains financially strong and profitable with a solvency ratio of 158% in PICG and 157% in PIC (2019: 164% in PICG and PIC) and profit before tax of £276 million in the year (2019: £394 million). This was made up of profit before tax from PIC of £276 million (2019: £394 million).

On 27 January 2020, the Group announced its intention to raise £750 million of new equity from its existing shareholders to support the continued growth of the business in the Pension Risk Transfer ("PRT") market. This was successfully completed in the year with two drawdowns of £450 million in February and £300 million in September. The Group injected £750 million as equity into PIC, via PIC Holdings Limited, its intermediary holding company.

PIC also issued two Tier 2 subordinated notes in the year; for £300 million with a coupon of 4.625% in May and for £400 million with a coupon of 3.625% in October.

**Statement of comprehensive income highlights – PIC**

| | 2020 £m | 2019 £m |
|---|---|---|
| **Gross premiums written** | **5,649** | 7,186 |
| Net premium revenue earned | **5,132** | 7,136 |
| Investment return (including commissions earned) | **4,091** | 3,063 |
| **Total revenue** | **9,223** | 10,199 |
| Net claims paid | **(1,683)** | (1,388) |
| Change in net insurance liabilities | **(6,997)** | (8,199) |
| Operating expenses | **(195)** | (157) |
| Finance costs | **(72)** | (61) |
| **Total claims and expenses** | **(8,947)** | (9,805) |
| **Profit before tax** | **276** | 394 |

**Statement of comprehensive income highlights – PICG**

| | 2020 £m | 2019 £m |
|---|---|---|
| **Gross premiums written** | **5,649** | 7,186 |
| Net premium revenue earned | **5,132** | 7,136 |
| Investment return (including commissions earned) | **4,091** | 3,063 |
| **Total revenue** | **9,223** | 10,199 |
| Net claims paid | **(1,683)** | (1,388) |
| Change in net insurance liabilities | **(6,997)** | (8,199) |
| Operating expenses | **(194)** | (157) |
| Finance costs | **(73)** | (61) |
| **Total claims and expenses** | **(8,947)** | (9,805) |
| **Profit before tax** | **276** | 394 |

**Premiums**

Gross premiums written were £5,649 million in 2020 compared to £7,186 million in 2019 as a result of reduced market activity in the pension risk transfer market when compared to 2019 and our continued pricing discipline. The Group completed seven new business transactions during the year (2019: fifteen). We continue to be selective in underwriting those risks where we expect to generate an adequate return within our risk appetite.

Net premiums earned represent the gross premiums written less the premiums ceded to reinsurers. Premiums ceded to reinsurers increased due to the completion of a quota share reinsurance agreement covering approximately £450 million of liabilities. Eight (2019: ten) new reinsurance transactions concluded in 2020.

**Investment return**

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

Interest income received increased from £923 million in 2019 to £1,027 million in 2020 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 £3,110 million compared to a gain of £2,126 million in 2019. This comprises realised gains of £634 million (2019: £290 million) and unrealised gains of £2,476 million (2019: £1,836 million). The unrealised gains recognised in 2020 are primarily due to lower risk free rates.

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 in investment return between 2019 and 2020 does not then flow through to profit before tax.

**Claims paid**

Net claims paid comprises of gross claims paid, which are pension payments to our policyholders, less any amounts received from reinsurers. Net claims paid increased from £1,388 million in 2019 to £1,683 million in 2020, 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.

Change in net insurance liabilities mainly reflects the increase in the number of pensioners by 48,400 to 273,500 and market movements, principally the fall in risk free rates seen in the year, partially offset by the impact of actuarial assumptions changes.

**Operating expenses**

PICs total operating expenses were £195 million in 2020 (PICG: £194 million in 2020) compared to £157 million in 2019 in PIC and PICG. This includes project spend of £45 million (2019: £31 million) to support the forthcoming introduction of the new IFRS 17 accounting standard, as well as spend on new asset and policy data systems. Excluding these project costs, the remaining increase is broadly in line with the growth of the business.

**Finance costs**

Finance costs represent the interest payable on borrowings. PICs expense of £72 million in 2020 (PICG: £73 million in 2020) (2019: £61 million in PIC and PICG) represents the interest payable on the five (2019: three) subordinated debt securities issued by PIC. The Restricted Tier 1 ("RT1") debt issued in July 2019 has been accounted as equity under IFRS and as such interest on these notes is not included in finance costs and instead is recognised as dividends when paid. The increase in finance costs during the year reflects the two new debt issues in the year.

**Statement of financial position review – PIC**

| Statement of financial position extract | 2020 £m | 2019 £m |
|---|---|---|
| Reinsurance assets | 2,773 | 2,598 |
| Financial investments | 49,742 | 40,886 |
| Derivative assets | 21,936 | 14,626 |
| Gross insurance liabilities | (44,835) | (37,663) |
| Derivative liabilities | (24,340) | (16,731) |
| Total equity | 4,143 | 3,198 |

**Statement of financial position review – PICG**

| Statement of financial position extract | 2020 £m | 2019 £m |
|---|---|---|
| Reinsurance assets | 2,773 | 2,598 |
| Financial investments | 49,648 | 40,886 |
| Derivative assets | 21,936 | 14,626 |
| Gross insurance liabilities | (44,835) | (37,663) |
| Derivative liabilities | (24,340) | (16,731) |
| Total equity | 4,167 | 3,215 |

The increase in the reinsurance assets during the year reflects primarily our new quota share reinsurance arrangement completed during the year and the impact of falling interest rates. In 2020, the Group reinsured longevity exposure on £6.6 billion of reserves, and at 31 December 2020, 84% of the Group's gross longevity related reserves had been reinsured (2019: 81%). The Group has 14 reinsurance counterparties, all of which have a credit rating of A or above.

At the end of 2020, the Group had total financial investments of £49.6 billion, compared with £40.9 billion at the end of 2019. The increase of £8.7 billion during 2020 was largely due to new business written of £5.6 billion, the equity and debt raised in the year of £1.45 billion and market movements, with the fall in risk free rates increasing investment values, as well as those of our insurance liabilities. The assets in which the Group invests are carefully chosen in order to match the policyholder obligations that they are designed to pay. The Group's investment strategy is to select assets that generate cash flows to match our 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.

During the year, we continued to carefully manage the credit quality of our investment portfolio. This helped to ensure that the Group did not experience any defaults in 2020 and that downgrades to sub-investment grade credit were kept to a minimum at 0.4% of the credit portfolio (excluding gilts). Such de-risking does incur a short term cost but the Group's view is that this cost is worth bearing given the uncertain market environment and the expectation of better investment opportunities in due course.

Whilst the Group's overall investment return (which comprises both investment income received and changes in market value of assets) in 2020 was positive, this was offset by corresponding increases in our liability valuations.

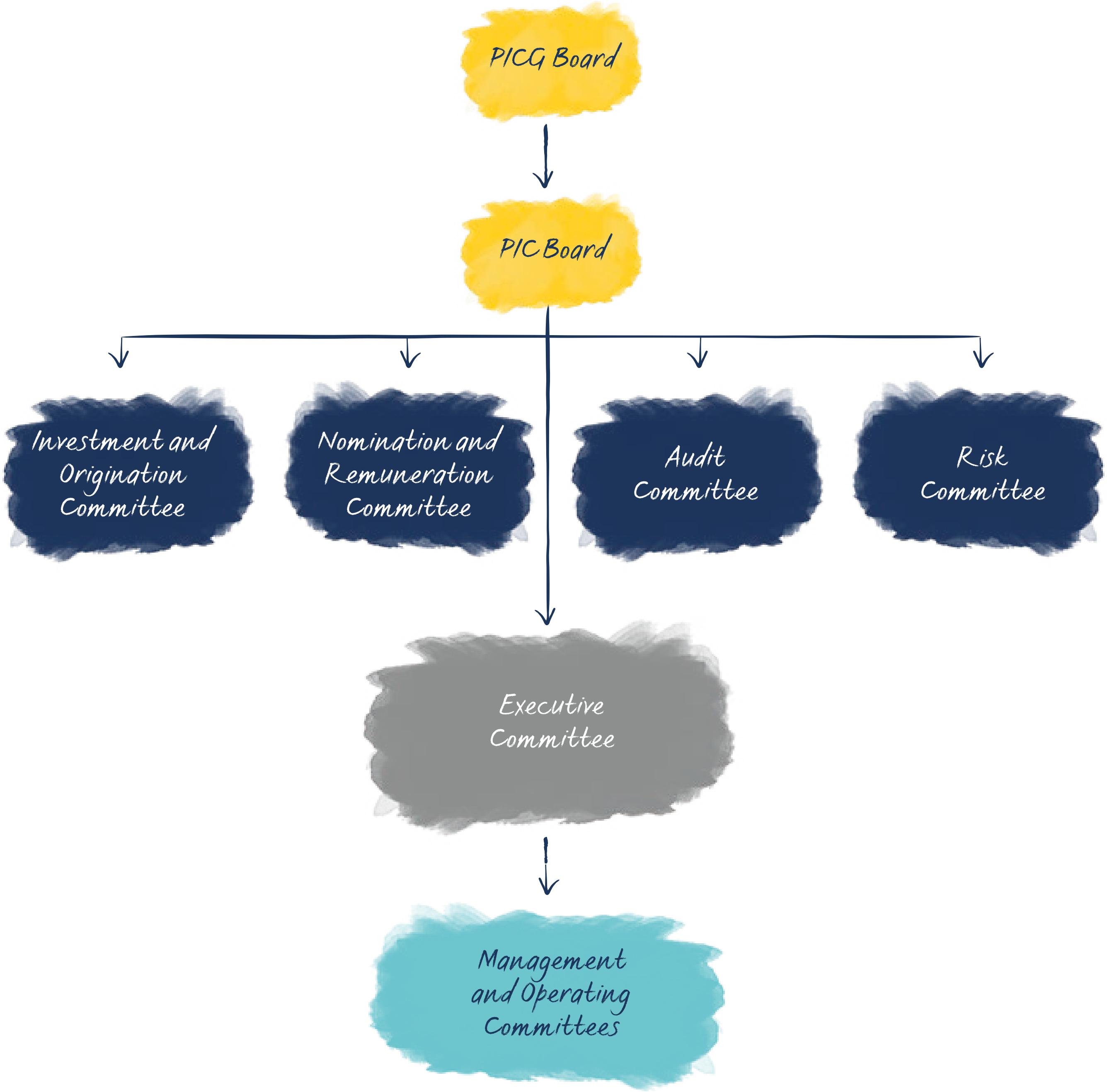
The increase in insurance liabilities in 2020 reflects the addition of new business liabilities and movements in economic factors during the year, notably lower interest rates, offset by claims paid and the impact of changes in actuarial assumptions for longevity and expenses.

Gross derivative assets and derivative liabilities have both increased significantly during the year, by £7.3 billion and £7.6 billion respectively. The net increase in the year across all derivative assets and liabilities was £299 million. The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business. The increase in the gross derivative asset and liability balances is as a result of new business written in the year and market movements. It should be noted that all derivative contracts are fully collateralised through the use of a custodian, and as such present little market risk in the event of a derivative counterparty default.

Both PIC and PICG total equity has increased due to the £750 million equity raise completed in the year and after-tax profits during the year.

**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.



### 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. Major Model Changes were approved by the PRA in December 2017 relating to longevity and inflation and in December 2020 relating to Equity Release Mortgages.

The 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 2020 | | 31 December 2019 | |
|---|---|---|---|---|
| SCR | £m | % of SCR | £m | % of SCR |
| Market risk | **3,917** | **63%** | 2,646 | 59% |
| Counterparty credit risk | **163** | **3%** | 151 | 3% |
| Insurance risk | **1,463** | **24%** | 1,164 | 26% |
| Expense risk | **287** | **4%** | 221 | 5% |
| Operational risk | **363** | **6%** | 301 | 7% |
| **Total before diversification** | **6,193** | **100%** | 4,483 | 100% |
| Diversification | **(1,674)** | | (1,307) | |
| **Total after diversification** | **4,519** | | 3,176 | |
| Loss absorbing capacity of deferred tax (LACDT) | **(258)** | | (222) | |
| **Total SCR after LACDT** | **4,261** | | 2,954 | |

### Valuation for solvency purposes

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

| | Group | | Company | |
|---|---|---|---|---|
| **2020** | **Solvency £m** | **IFRS £m** | **Solvency £m** | **IFRS £m** |
| Total Assets | **74,338** | **75,080** | **74,288** | **75,045** |
| Total Liabilities | **67,612** | **70,913** | **67,578** | **70,902** |
| Own Funds / Equity | **6,726** | **4,167** | **6,710** | **4,143** |

| | 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 |

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

- The Solvency II Risk Margin (net of TMTP) which is an addition to the Solvency II best estimate liabilities but is not required under IFRS;
- IFRS prudent margins in the projected liability cashflows (for example, via the expense and demographic assumptions) which increase IFRS liabilities relative to the Solvency II best estimate liabilities;
- Differences in the valuation discount rate, used to discount the liability cashflows, which is prescribed for Solvency II but determined by PIC for IFRS (and includes prudent margins);
- Subordinated debt issued by PIC, which is treated as a liability for IFRS purposes and Own Funds for Solvency II purposes; and
- Differences related to deferred tax assets and liabilities.

### Capital management

At 31 December 2020, PICG's Solvency II ratio was 158% (PIC: 157%) (2019: PICG and PIC: 164%) and it had surplus funds of £2,465 million (PIC: £2,449 million) (31 December 2019: PICG: £1,878 million; PIC: £1,890 million) in excess of its SCR as calculated by the internal model. Despite the impact of adverse market conditions and significant new business volumes written in 2020, a combination of additional debt and equity capital and effective underwriting, reinsurance and capital management ensured that the Solvency II ratio remained robust.

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

| **2020** | **Group** | **Company** |
|---|---|---|
| Own Funds (£m) | **6,726** | **6,710** |
| SCR (£m) | **4,261** | **4,261** |
| SCR coverage ratio % | **158%** | **157%** |

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

### 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 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 International Financial Reporting Standards ("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 2020**

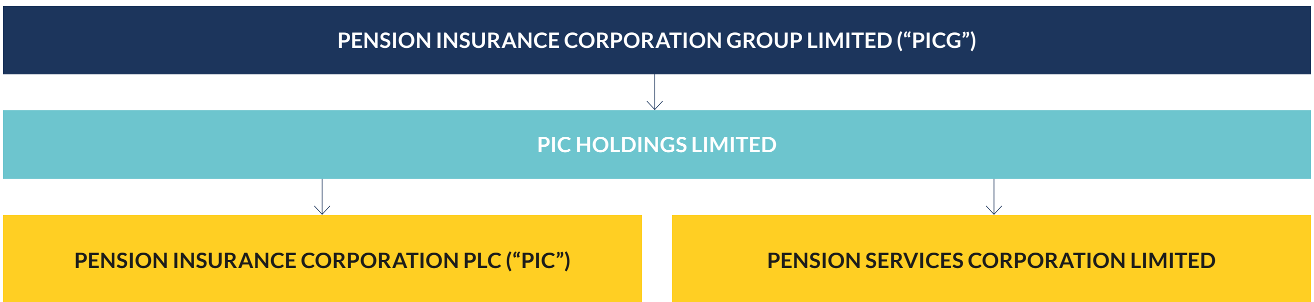
| | Group | | Company | |
|---|---|---|---|---|
| | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| Net premium revenue earned | **5,132** | 7,136 | **5,132** | 7,136 |
| Investment income and commissions earned | **981** | 937 | **981** | 937 |
| Net realised gains | **634** | 290 | **634** | 290 |
| Net unrealised gains | **2,476** | 1,836 | **2,476** | 1,836 |
| Net claims | **(1,683)** | (1,388) | **(1,683)** | (1,388) |
| Movement in net long-term business provision | **(6,997)** | (8,199) | **(6,997)** | (8,199) |
| Operating expenses | **(194)** | (157) | **(195)** | (157) |
| Finance costs | **(73)** | (61) | **(72)** | (61) |
| **Profit before Taxation** | **276** | 394 | **276** | 394 |

The Company made an IFRS profit before tax of £276 million in 2020 (2019: £394 million), and the Group made an IFRS profit before tax of £276 million in 2020 (2019: £394 million).

During 2020, the Company continued its strategy of providing pension risk transfer products to defined benefit schemes and their trustees.

### Group

A simplified group structure chart, and a description of the Group as at 31 December 2020 is set out below:




| Group Undertakings | Country of Incorporation | Principal Activity | 2020 % Equity Holding | 2019 % 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 2020, PSC had income of £185 million (2019: £151 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 IFRS results on an alternative performance metric, "adjusted operating profit" which is a non-GAAP measure of performance intended to provide an appropriate assessment of the long term nature of the business. Management believe this basis better reflects the long-term trading activities of the Group than the IFRS profit before taxation.

Adjusted operating profit has been designed to reflect the activities which are core to the Group's business and to reflect 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 Solvency II line of business in Quantitative Reporting Template ("QRT") S.05.01.02 in Appendix B of this report.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | PICG £m | PIC £m | PICG £m | PIC £m |
| Return from operations | 274 | 274 | 301 | 301 |
| New business and reinsurance surplus | 31 | 31 | 245 | 245 |
| **Net release from operations** | 305 | 305 | 546 | 546 |
| Change in valuation assumptions | 292 | 292 | 358 | 358 |
| Experience variances | (97) | (98) | 12 | 12 |
| Finance and project costs | (118) | (117) | (92) | (92) |
| **Adjusted operating profit before tax** | 382 | 382 | 824 | 824 |

The Group's adjusted operating profit before tax was £382 million, a decrease of £442 million from 2019. This was primarily due to a lower contribution from new business written in 2020 compared with 2019, updates to historic policy data and lower one-off reserve releases from changes to valuation assumptions compared with 2019. Reserve releases in respect of changes to valuation assumptions (£292 million in total), includes a move to the use of the CMI 2019 mortality improvements table (£217 million) and changes to expense assumptions (£73 million). Notwithstanding the changes to assumptions made in 2020 the Board considers the assumptions made remain prudent. 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 of writing new pension risk transfer contracts based on target asset mix assumptions, and entering into new contracts of reinsurance.

Net release from operations of £305 million in 2020 was £241 million lower than 2019. Within this figure, Return from operations of £274 million was lower than 2019 (£301 million) mainly reflecting a lower assumed longer term rate of return due to the fall in interest rates seen in the year.

New business and Reinsurance surplus of £31 million was also lower than 2019 (£245 million). This fall was caused by lower new business volumes, a different mix of business and less profitable, on an IFRS basis, reinsurance contracts. A higher initial expense strain incurred within new business was offset in the year by a reserve release in Changes in Valuation Assumptions, reflecting a significant number of new policies added during the year. Reinsurance transactions in 2020 covered £6.6 billion of liabilities compared to £8.3 billion of liabilities reinsured in 2019.

### 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 2020 routine review of assumptions, and as noted above, the Group updated its assumptions in respect of longevity and expenses resulting in a total reserve release of £292 million. In 2019, total reserve releases of £358 million were in respect to changes in assumptions for expenses and defaults on bonds.

Following a review of mortality experience, the Group has chosen to adopt the S3 series mortality tables published by the Continuous Mortality Investigation ("CMI") for the base mortality assumption. In addition, following a review of the appropriateness of continuing to use the CMI 2016 mortality improvement tables, it has been decided that it would be more appropriate to use the CMI 2019 mortality improvement tables which reflect mortality related improvement trends to the end of 2019. The changes in mortality related assumptions gave rise to a release of reserves of £217 million. It is unclear whether Covid-19 will materially impact our longevity assumptions and it is too early to know what the long term impact might be. As a result, we have not made any changes as a result of the ongoing Covid-19 pandemic.

The expense assumption for maintaining all policies until their expected end date was updated to take account of efficiency savings, reflecting the increased policy count in the year and management actions to control costs. Expense related assumption changes contributed £73 million to profits.

There were a number of smaller assumption changes made during the course of the year, which in total provided a net £2 million benefit to pre-tax profits.

### Experience variances and other costs

Experience variances, which reflect both the actual claims experience in the period compared to the expected amounts and the impacts of data updates on underlying policyholder information, gave rise to a loss of £97 million in PICG and a loss of £98 million in PIC in 2020 (2019: gain of £12 million in PICG and PIC).

The interest costs of the subordinated debt capital issued by PIC, rose to £72 million in 2020 (PICG: £73 million) from £61 million the previous year (PICG: £61 million). This was due to the two new Tier 2 debt issues in 2020 totalling £700 million. Project costs in 2020 were £45 million (2019: £31 million). This increase reflects the spend on IFRS 17 as well as spend on new asset and policy data systems.

### Other operational highlights

At the end of 2020, PIC had 103,700 current individual policies in issue, resulting from the buyout of 112 pension schemes, (2019: 99,600 individual policies resulting from the buyout of 109 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 273,500 (2019: 225,100) individuals, including those with individual policies, and those for whom the trustees of the underlying pension schemes retain ultimate responsibility.

At 31 December 2020, 84% of PIC's total longevity exposure on a regulatory solvency basis was reinsured to third party, investment grade reinsurer counterparties (2019: 81%).

### A.3 Performance of investment activity

| | Group and Company | |
|---|---|---|
| IFRS | **2020 £m** | 2019 £m |
| Interest income | **1,027** | 923 |
| Other investment return | **(46)** | 14 |
| Net realised gains | **634** | 290 |
| Net unrealised gains | **2,476** | 1,836 |
| Investment management expenses | **(29)** | (24) |
| **Total** | **4,062** | 3,039 |

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 (including commissions earned), 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.

| | Group and Company | |
|---|---|---|
| Investment return: by Solvency II Asset Class | 2020 £m | 2019 £m |
| Government bonds | 1,995 | 1,042 |
| Corporate bonds | 1,865 | 2,331 |
| Collective investment undertakings | 44 | 12 |
| Cash and deposits | 1 | (12) |
| Collateralised securities | 27 | 27 |
| Mortgages and loans | 652 | 524 |
| Property* | – | (9) |
| Derivative based instruments | (493) | (852) |
| Total | 4,091 | 3,063 |

* For 2020, investment return from properties has been included within Collective investment undertakings line, reflecting that they are held indirectly through investment entities.

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 £53 million for the year ended 31 December 2020 (2019: £75 million).

#### Pension Insurance Corporation Group Limited

Group corporation tax charges, including those incurred by PIC, were £54 million during the year (2019: £75 million).

### A.5 Any other information

#### Coronavirus pandemic (Covid-19)

As a result of the Covid-19 pandemic, 2020 proved to be a very unusual and challenging year, with many lives either lost to Covid-19 or otherwise impacted by the pandemic. This had a significant impact on global healthcare systems, global financial markets and levels of social interaction. The particular risks for the business arising from the pandemic include; operational risks as both the company and its outsourcers adopted 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.

Successfully transitioning PIC's operations to a remote working environment in response to Covid-19 restrictions introduced new operational risks with an increased reliance on IT systems and processes and a need to ensure PIC's control environment continued to function effectively when operated remotely. Overall, PIC was well positioned to manage these risks through prior contingency planning and work carried out to strengthen controls including streamlining and automating processes and reducing reliance on manual controls.

Going forward, while it is clear that business continuity and operational resilience is less dependent on being able to physically access offices and workspaces, the changes made over the year to facilitate remote working have the potential to increase our exposure to cyber risks and increase the materiality of IT-based controls around data protection and systems access.

There was significant volatility in economic markets, in particular in the early part of 2020, as a result of the varying assessment of credit risk following the developing impact of the pandemic especially in March 2020. Subsequent government and central bank interventions led to significant falls in interest rates during the period.

Against this volatile backdrop, our credit portfolio was resilient, with no defaults. Whilst there were a relatively small number of downgrades within the Investment Grade bandings, there were virtually no downgrades to sub-investment grade, with the entire sub-investment grade credit portfolio accounting for only 1% of the portfolio (2019: 2%). This outcome reflects the actions taken to proactively reduce our exposure to high risk assets and sectors over the last few years, resulting in an average credit rating of A.

At end February 2021, PIC's regulatory solvency ratio was 166%[1] (end 2020: 157%). The improvement reflects mainly changes in market conditions in the period.

PIC regularly reviews its longevity experience to ensure its assumptions remain appropriate, and continually seeks to enhance its understanding of the evolution of annuitant mortality. PIC holds a significant amount of risk-based capital to protect the business against potential increases in longevity. This is calculated using our approved Internal Model. PIC aims to reinsure more than 60% of its longevity risk exposure. As at 31 December 2020, PIC had reinsured 84% of its total longevity exposure.

#### Rounding convention

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

1 The end February 2021 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 2020.

# 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 as at the date of this report holds a 49.50% interest in PICG, one is nominated by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which holds a 18.20% interest in PICG, and one is nominated by Blue Grass Holdings Limited, a CVC entity, which holds a 17.42% interest in PICG.

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

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

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

#### PICG Board

| Director | Approved function | |
|---|---|---|
| Jon Aisbitt | SMF 7 Group Entity Senior Insurance Manager Function | |
| | SMF 9 Chairman | |
| Tracy Blackwell | SMF 1 Chief Executive Function | |
| | SMF 7 Group Entity Senior Insurance Manager Function | |
| Judith Eden | Non-executive Director | |
| Tim Gallico | SMF 7 Group Entity Senior Insurance Manager Function | Appointed 1 August 2020 |
| Stuart King | Non-executive Director | |
| Arno Kitts | Non-executive Director | |
| Josua Malherbe | SMF 7 Group Entity Senior Insurance Manager Function | |
| Roger Marshall | SMF 14 Senior Independent Director | |
| Jérôme Mourgue D'Algue | SMF 7 Group Entity Senior Insurance Manager Function | |
| Peter Rutland | SMF 7 Group Entity Senior Insurance Manager Function | Stepped down 31 July 2020 |
| Mark Stephen | Non-executive Director | |
| Wilhelm Van Zyl | SMF 7 Group Entity Senior Insurance Manager Function | |

*Pension Insurance Corporation plc*

PIC is governed by Board consisting of 12 Directors, 10 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 as at the date of this report indirectly holds a 49.50% interest in PIC, one is appointed by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which indirectly holds a 18.20% interest in PIC, and one is appointed by Blue Grass Holdings Limited, a CVC entity, which indirectly holds a 17.42% 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 in more detail their responsibilities.

### PIC Board

| Director | Approved function | |
|---|---|---|
| Jon Aisbitt | SMF 7 Group Entity Senior Insurance Manager Function<br>SMF 9 Chairman<br>SMF13 Chair of the Nomination Committee | |
| Tracy Blackwell | SMF 1 Chief Executive Function<br>SMF 7 Group Entity Senior Insurance Manager Function | |
| Sally Bridgeland | SMF 10 Chair of the Risk Committee | Board member from 28 January 2021, Chair of Risk Committee from 11 March 2021 |
| Judith Eden | SMF 12 Chair of the Remuneration Committee | SMF 12 from 15 October 2020 |
| Stuart King | Non-executive Director | |
| Arno Kitts | Non-executive Director | |
| Roger Marshall | SMF 11 Chair of the Audit Committee<br>SMF 14 Senior Independent Director | |
| Jérôme Mourgue D'Algue | SMF 7 Group Entity Senior Insurance Manager Function | |
| Eloy Michotte | SMF 7 Group Entity Senior Insurance Manager Function | Retired 31 December 2020 |
| Peter Rutland | SMF 7 Group Entity Senior Insurance Manager Function | Stepped down as SMF 12 Chair of the Remuneration Committee on 14 October 2020 |
| Steve Sarjant | SMF 10 Chair of the Risk Committee | Stepped down as SMF 10 on 10 March 2021. Retired from the Board on 31 March 2021 |
| 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 system of internal controls, 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 External Auditors and receives an Integrated Assurance Report which forms the basis of 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 2020 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 anti-money laundering. The Board had an oversight of whistleblowing in 2020 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, and 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, re-appointment 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 also reviews the risk appetite and tolerances and recommends these to the Board for approval.

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

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

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

### Material changes to the governance structure over the reporting period
*Pension Insurance Corporation Group Limited*
The following changes were made to the Board of Directors of PICG between 1 January 2020 and the date of this report:

- Tim Gallico was appointed on 1 August 2020
- Peter Rutland stepped down on 31 July 2020

*Pension Insurance Corporation plc*

The following changes were made to the Board of Directors of PIC between 1 January 2020 and the date of this report:

- Eloy Michotte retired on 31 December 2020
- Sally Bridgeland was appointed on 28 January 2021
- Steve Sarjant retired on 31 March 2021

### 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 sets out its duties and, which are reviewed regularly.

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

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

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

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

*Remuneration policy*

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

A description of the different remuneration elements for 2020 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.<br>Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Company to operate a fully flexible bonus policy. |
| **Benefits** | The following benefits are offered to all eligible employees: Private health cover; annual travel insurance; interest free loans (up to £10,000) for season tickets; death in service life assurance; participation in the Save As You Earn Plan and 28 days annual leave. |
| **Pension** | All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Company's contribution that otherwise would have been made under the Stakeholder Pension arrangement.<br>No member of the administrative and management bodies or members of committees and key function holders benefit from any additional pension arrangement to those listed above including supplementary pension or early retirement schemes. |

| | |
|---|---|
| **Annual bonus** | The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All eligible employees may be invited to participate in the plan.<br><br>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.<br><br>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.<br><br>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.<br><br>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.<br><br>Performance against all the above measures is assessed by the Remuneration Committee in the round.<br><br>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.<br><br>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 Deferred Bonus Share Plan (DBSP) seeks to align the long-term interests of the Company for all senior management and other key individuals through bonus deferral. Under DBSP, bonuses comprise of a cash element awarded annually at the end of the financial year and paid in March of the next year. The deferred element is awarded in the form of nil cost options which vest after three years.<br><br>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.<br><br>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:<br>– significant financial losses or material misstatement of the accounts for the Company or any group company;<br>– material failure of risk management for any period that the Committee reasonably considers is relevant;<br>– discovery of a material error in relation to the assessment of annual performance on which an award was based; and/or<br>– reasonable evidence of any act or omission by the participant which in the opinion of the Committee:<br>• has contributed to material losses or serious reputational damage to the Company or any business area; or<br>• 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 (issued as C shares) were granted in 2017 to certain senior employees and Executive Directors.<br><br>The Growth Shares vested on 1 January 2021 into ordinary shares of equal value.<br><br>Clawback provisions may 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 2017 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 2020, 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 2,654,633 ordinary shares of PICG (of which 1,408,301 related to key management) upon exercising in line with the scheme rules.

At its discretion, and as approved by the RemCo, the Group may settle personal tax liabilities on behalf of certain employees, including certain Directors and key management personnel, who exercise their options upon vesting of Deferred Performance Share Plans.

As at 31 December 2020, total loans in respect of share plans amounted to £6,794,210 of which £5,649,954 were made to certain Directors and key management personnel.

This comprises:

- £1,630,070 (£1,630,070 to certain Directors and key management personnel) relating to a loan made in 2017 in respect of the Growth Plan award in 2017 (repayable on the earlier of termination of employment or June 2021);
- £1,399,786 (£1,040,706 to certain Directors and key management personnel) relating to a loan agreement made in 2019 in respect of the Performance Share Plan award in 2016 (repayable on the earlier of termination of employment or a liquidity event in which the employee disposes of shares eligible for sale);
- £1,073,856 (£1,073,856 to certain Directors and key management personnel) relating to a loan made in 2019 in respect of the Performance Share Plan award in 2016 (repayable on the earlier of termination of employment or a liquidity event in which the employee disposes of shares eligible for sale);
- £2,690,498 (£1,905,322 to certain Directors and key management personnel) relating to a loan made in 2020 in respect of the Performance Share Plan award in 2017 (due to be repaid on the earlier of termination of employment or within 90 days after the end of the tax year in which the options were exercised);

Additionally, loans of £1,641,236 (£1,525,305 to certain Directors and key management personnel) were made in 2020 in respect of the Capital raise in 2020. These are repayable on the earlier of termination of employment or by December 2021.

### Transactions with shareholders

*Pension Insurance Corporation plc*

The Company issued 135,944,976 £1 ordinary shares at par on 13 February 2020 and a further 90,629,983 £1 ordinary shares at par on 28 September 2020. Both issues were fully paid and wholly subscribed by PIC Holdings Limited, the immediate parent company, for cash consideration. This followed the capital raise by PICG (PIC's ultimate holding company) of £750 million of new equity from existing shareholders.

*Pension Insurance Corporation Group Limited*

The Group issued 147,540,983 £1 ordinary shares at par in February 2020 and a further 98,360,655 £1 shares at par in September 2020. Both issues were fully paid and wholly subscribed by existing shareholders.

### B.2 Fit and proper requirements

PIC has in place procedures to ensure its staff are:

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

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

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

PIC carries out DBS 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.

PIC has implemented the requirements of the Senior Managers and Certification Regime which was extended to insurance companies on 10 December 2018. Staff were certified on 9 December 2020.

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

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

### 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.

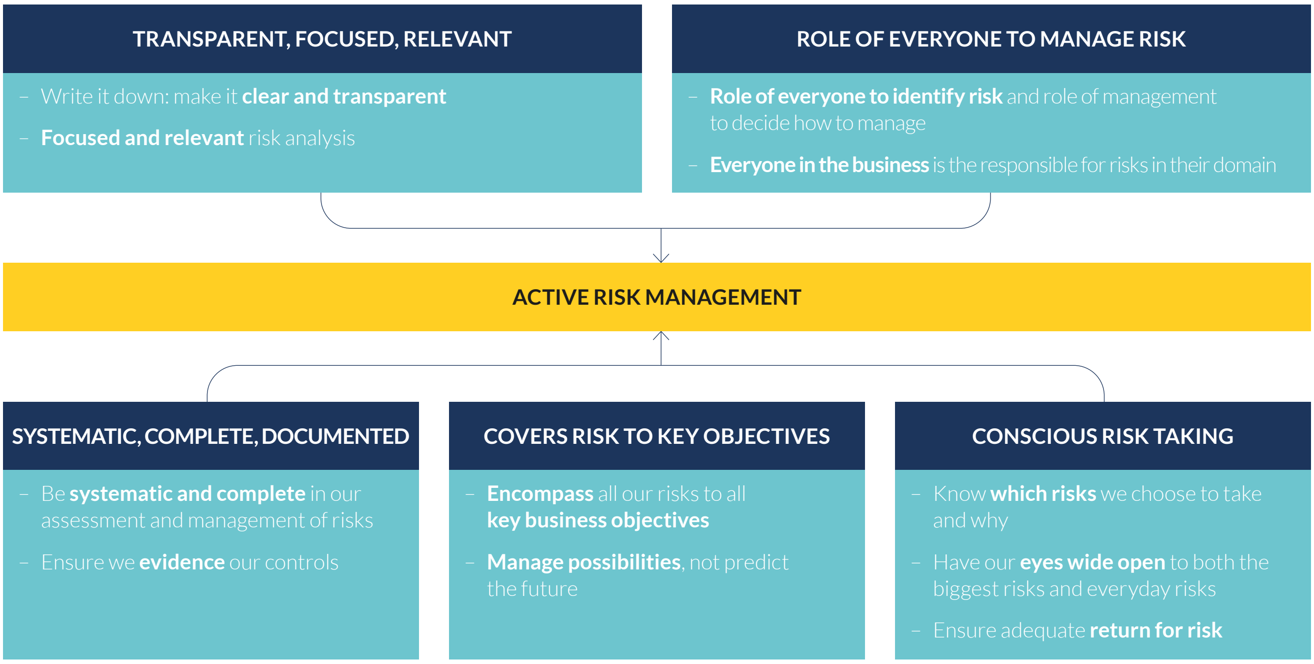
The Company's Board and committee structure, and the "three lines of defence" model by which its internal control system operates, are more fully described in the "General information on the system of governance" section earlier.

The Board controls and monitors risk through the application of a risk governance 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:




All PIC employees have a responsibility to identify risks in their area, to ensure that those risks are appropriately assessed and that 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 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 which 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, but 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 Reputation 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 ORSA provides an ongoing process to identify, assess, monitor and manage the risks to PIC's business plan and solvency over both the near term and the five-year business planning horizon. The ORSA activities include:

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

The ORSA documents are reviewed and approved throughout the year by the Board. These are summarised in the annual 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 is undertaken in a consistent manner.

**B.4 Internal control system**

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

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

- Staff recruitment, appraisal and training;
- Segregation of duties;
- Authorisation of transactions;
- Retention of records;
- Physical safeguards;
- Performance reviews;
- Information Security;
- Fraud detection;
- Reporting;
- Re-performance; and
- 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.<br>Monitoring is undertaken to confirm agreed service standards are met.<br>Records for assets maintained by outsourced custodians are checked to ensure completeness and accuracy.<br>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 external auditors.<br>Reviews are undertaken of the application of relevant policies.<br>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.<br>Relevant policies are documented and communicated to all staff, with clear record of their obligations to protect assets.<br>Security of information, and in particular data relating to policy-holders, is subject to scrutiny and review, with information security matters highlighted and communicated to executive management, the Board and relevant committees.<br>Physical assets are recorded and subject to regular checks.<br>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.<br>Financial statements, embedded value reports and certain Quantitative Reporting Templates as outlined in the Report of the External Independent Auditor are reviewed by external auditors.<br>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.<br>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.<br>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.<br>The Board sets a Risk Framework for the Company, which includes Risk Appetite and tolerance limits. Board Risk, Risk Management and Operational Risk Committees meet on a regular basis.<br>Oversight is provided by the relevant Board and Management Risk Committees to assess how risks are being managed and any areas that internal controls are not operating as expected. Meetings are minuted and action points followed up by Chief Risk Officer and Operational Risk Manager. |
| **Operational resilience** | 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:

- 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.
- Review 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 Auditor's (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 co-ordinates activity with other assurance functions as part of an "Integrated Assurance Approach", to align audit and assurance work where relevant to optimise assurance provided across the business and minimise duplication of work. This includes co-ordinating assurance plans and providing input to integrated assurance.

### B.6 Actuarial function

The Company's Actuarial Function is led by an internal Actuarial Function Holder ('AFH'). The current AFH is a senior qualified actuary who is employed by the Company and supported by other actuaries. The AFH reports to the Company's Chief Risk Officer and has direct access to the Board. 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 co-ordination of the calculation of technical provisions, providing an opinion on underwriting policy and adequacy of reinsurance arrangements, and contributing to the effective implementation of the risk management systems.

### 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 who will recommend approval or otherwise to the Board.

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

The Group's service company, PSC, provides all staff and certain services to PIC under the terms of a services agreement. The provision of these services is overseen by the Board. PSC charges to PIC during 2020 totalled £185 million (2019: £151 million).

The following key functions and activities have been outsourced:

- Policyholder, payroll and administration services to Capita Employee Benefits Limited and Barnett Waddingham LLP
- Payroll and some HR services to CBHC. MoorePay will provide payroll services from 1 April 2021
- Custodian and investment accounting to JP Morgan
- Custodian and Trade Management to Northern Trust
- Asset management to Henderson Global Investors, JP Morgan Schroders, Wellington Management International and TwentyFour Asset Management
- IT support to Content+Cloud
- Actuarial support services to Barnett Waddingham LLP
- Tax compliance to PwC – prior to February 2020, tax compliance was outsourced to PwC but this has now been brought in house.

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 £4,261 million as at 31 December 2020 (31 December 2019: £2,954 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)
- Insurance risk (see C.2)
- Operational risk (see C.3)
- Expense risk (see C.4)
- Counterparty credit risk (see C.5)

This can be expressed graphically, as shown below:

**2020**


**2019**


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 to 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 Guernsey Property Unit Trusts ("GPUTs"). The short-term market risk is mitigated by the fact that all of its properties are occupied on leases extending to 1 July 2034. 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.

| | **2020 £m** | 2019 £m |
|---|---|---|
| As Reported | **157%** | 164% |
| 100 bps increase in interest rates[1] | **3.9%** | 21.3% |
| 100 bps reduction in interest rates[1] | **(12.6)%** | (25.5)% |
| 100 bps increase in credit spreads[1] | **(1.0)%** | 9.4% |
| 100 bps reduction in credit spreads[1] | **(14.8)%** | (22.7)% |
| 20% credit downgrade[2] | **(11.1)%** | (7.7)% |
| 5% reduction in base mortality[3] | **(6.7)%** | (7.4)% |

All sensitivities allow for a transitional measure for technical provisions recalculation ("TMTP").

Notes:

1 For the interest rate and credit spread sensitivities, due to the nature and size of the impact, the recalculation of the TMTP results in a different test biting and causes asymmetry of the results.

2 Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be traded to the original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.

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.

### 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 a reinsurance fee for which the Company is liable. Settlement of the contract is on a net basis. These contracts also transfer the contingent longevity risk relating to any eligible dependants of relevant policyholders.

#### Quota share reinsurance - 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 in order to assess the potential impact on the balance sheet and the management actions available to help mitigate this. During 2020, this has included scenarios assessing the potential macro-economic impacts on PIC's solvency and liquidity position arising from the Covid-19 pandemic to ensure adequate controls are in place to mitigate the potential balance sheet impacts of market movements under a range of adverse scenarios.

### C.3 Operational risk

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

The Company has significant outsourcing arrangements in respect of pension administration and other functions. These arrangements are subject to agreements with formal service levels, operate within agreed authority limits and are subject to regular review by senior management. This is particularly important to mitigate our customer risk, which includes the risk that PIC does not deliver on its core purpose of paying the pensions of its current and future policyholders including risks resulting in failed, late, or incorrect payments.

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

These plans came into action in 2020 as a pandemic risk event crystallised in the form of Covid-19. This required the Company to take a number of actions internally and with its outsourcing partners in accordance with its business continuity plans in order to maintain services to stakeholders, protect its staff and comply with national and regional measures. These measures ensured the Company was able to operate throughout 2020 with no loss of service and within its risk appetite.

### 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 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.

**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, which can be readily converted to cash or used as collateral against movements in its derivative contracts. 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 2020.

## 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.

| 31 December 2020 | Solvency II value £m | Statutory accounts value £m | Valuation basis | Explanation of valuation difference |
|---|---|---|---|---|
| Holdings in related undertakings* | 87 | 87 | Adjusted equity basis | |
| Bonds | 41,577 | 41,577 | Marked to Market / Model | |
| Investment funds | 2,528 | 2,528 | Marked to Market / Model | |
| Derivative assets | 21,936 | 21,936 | Marked to Market / Model | |
| **Total Investments** | **66,128** | **66,128** | | |
| Loans and mortgages | 5,555 | 5,555 | Marked to Market / Model | |
| Reinsurance recoverables | 2,003 | 2,773 | Marked to Model | See section D.2.6 |
| Other assets | 119 | 102 | Marked to Model | Deferred Tax asset arising from subordinated debt revaluation |
| Receivables | 21 | 25 | Marked to Model | Premiums receivable are considered within technical provisions under Solvency II |
| Cash and cash equivalents | 462 | 462 | Marked to Market | |
| | **74,288** | **75,045** | | |

* For 2020, investments in property have been included within Holdings in related undertakings, reflecting that they are held indirectly through investment entities.

| 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 / Model | |
| 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 / Model | |
| Reinsurance recoverables | 1,645 | 2,598 | Marked to Model | See section D.2.6 |
| Other assets | 100 | 91 | Marked to Model | Deferred Tax asset arising from subordinated debt revaluation |
| Receivables | 17 | 26 | Marked to Model | Premiums receivable are considered within technical provisions under Solvency II |
| Cash and cash equivalents | 448 | 448 | Marked to Market | |
| | **57,682** | **58,635** | | |

### 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.

| 31 December 2020 | Solvency II value £m | Statutory accounts value £m | Valuation basis | Explanation of valuation difference |
|---|---|---|---|---|
| Property, plant and equipment | 20 | 21 | Amortised Cost | |
| Investment property | – | 91 | Marked to Model | Consolidation methodology* |
| Holdings in related undertakings | 87 | – | Adjusted equity basis | Consolidation methodology* |
| Bonds | 41,577 | 41,577 | Marked to Market / Model | |
| Investment funds | 2,528 | 2,528 | Marked to Market / Model | |
| Derivative assets | 21,936 | 21,936 | Marked to Market / Model | |
| **Total investments** | 66,148 | 66,153 | | |
| Loans and mortgages | 5,555 | 5,461 | Marked to Market / Model | Consolidation methodology* |
| Reinsurance recoverables | 2,003 | 2,773 | Marked to Model | See section D.2.6 |
| Other assets | 102 | 107 | Marked to Model | Inadmissible prepayments under Solvency II |
| Deferred tax asset | 20 | 3 | | See Section D.3.3 |
| Receivables | 20 | 25 | Marked to Model | Premiums receivable are considered within technical provsions under Solvency II |
| Cash and cash equivalents | 465 | 558 | Marked to Market | Consolidation methodology* |
| Own shares held directly | 25 | – | Marked to Model | Offset against Equity under IFRS |
| | 74,338 | 75,080 | | |

* Related undertakings that hold investment property are accounted for applying the adjusted equity method under Solvency II and are fully consolidated under IFRS.

| 31 December 2019 | Solvency II value £m | Statutory accounts value £m | Valuation basis | Explanation of valuation difference |
|---|---|---|---|---|
| Property | 81 | 81 | Marked to Model | |
| Bonds | 34,448 | 34,448 | Marked to Market / Model | |
| 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 / Model | |
| Reinsurance recoverables | 1,645 | 2,598 | Marked to Model | See Section D.2.6 |
| Other assets | 104 | 96 | Marked to Model | Inadmissible prepayments and other presentational differences |
| Intangible assets | – | 24 | Marked to Model | Inadmissible under Solvency II |
| Deferred tax asset | – | 3 | | See section D.3.3 |
| Receivables | 16 | 24 | Marked to Model | Premiums receivable are considered within technical provisions under Solvency II |
| Cash and cash equivalents | 454 | 454 | Marked to Market | |
| Own shares held directly | 32 | – | Marked to Model | Offset against Equity under IFRS |
| | 57,723 | 58,671 | | |

### 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 settlement, with any change in the fair value of the asset to be received during the period between the trade date and the settlement date recognised in profit or loss. 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.

*Property*

Investments in freehold properties not for occupation by the Group are carried at fair value, determined based on a valuation approach which applies investment yield to the rental income. Property right-of-use assets are valued at amortised cost, consistent with IFRS, on the grounds of materiality. Refer to 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 is 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 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.

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 based on fund net asset valuations.

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 or LPI.

The insurance liabilities also include a limited number of member options, such as the option to commute part of the pension for a tax-free cash lump sum on vesting, the option to transfer deferred benefits to another pension scheme and the option to take early or late retirement. In these cases, the bulk of the options are set on a basis which is broadly financially neutral to the Company. There are no other material options and guarantees such as guaranteed annuity options.

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 2020 on the regulatory solvency basis. The equivalent figures for 31 December 2019 are also shown.

| Technical provisions, Solvency II basis | 31 December 2020 £m | 31 December 2019 £m |
|---|---|---|
| Best estimate liabilities (BEL) | | |
| – Liabilities gross of reinsurance | 41,539 | 34,702 |
| – Value of reinsurance recoverables | (2,003) | (1,645) |
| – Net-of-reinsurance liabilities | 39,536 | 33,057 |
| Risk margin (RM) | 2,425 | 1,958 |
| Transitional measures deduction (TMTP) | (1,072) | (851) |
| **Total net technical provisions** | 40,889 | 34,164 |

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

The total technical provisions, gross of reinsurance, as at 31 December 2020 were £42,892 million (2019: £35,809 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 cashflows to the valuation date at the valuation discount rate, using methodology which conforms to the requirements of Section 3, subsection 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 2020 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S3 series of mortality tables published by the Continuous Mortality Investigation ("CMI"), a research body with strong links to the Institute and Faculty of Actuaries in the UK.

The assumption for future improvements to mortality is modelled using the CMI 2019 table. The long-term improvement rate is assumed to taper from 1.75% p.a. at age 85 to zero at age 110 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 zero, but a range of other types of LPI exist. These are not regarded as "options" in the sense that neither the policyholder nor the Company can elect to change the benefit, but are simply a special form of indexation. However, an option-based methodology is required to allow for the reserving and capital impacts of the caps and floors. PIC uses a mark-to-model approach to derive appropriate inflation curves for each LPI type to allow for the inherent optionality, as there is currently no deep and liquid market in appropriate swap contracts.

*Expense assumptions:*

The 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% per annum on each future year's estimated reference SCR, with the results discounted at the basic risk free rate.

The principal drivers underlying the estimate of 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 three recalculations of the TMTP, at 31 December 2017, 31 December 2019 and 31 December 2020. PIC applied to the PRA to recalculate the TMTP as at 31 December 2020 due to the particular economic circumstances arising over 2020.

*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 set having regard to factors stipulated by the PRA, may not be a good representation of the actual level of defaults arising in practice, and variations in experience (positive or negative) will arise as a result.
- A significant proportion of the annuity benefits escalate in line with defined inflation indices. A range of indices applies including CPI and LPI linkages, and assumptions have to be made as to how these indices will 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 cashflows.

### D.2.3 Use of matching adjustment
In December 2015, PIC was granted permission by the PRA to apply a matching adjustment in relation to the value of its insurance liabilities. In October 2020, PIC made a further application to the PRA in respect of its use of the matching adjustment. This application, which included a number of refinements to the approach, was approved by the PRA in December 2020.

As at 31 December 2020, 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 (including structured equity release mortgages) and property assets. In addition, the assets include derivatives designed to transform overseas cashflows to sterling, and to transform floating rate cashflows to fixed rates. All of the assets, once transformed through the use of appropriate derivatives, meet the requirements of Article 77b(1) of the Solvency II 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 gross-of-reinsurance best estimate liability cash flows for the business taken from the Company's liability projection model. The matching asset cash flows are the aggregate of the cash flows on each individual asset adjusted for the default component of the "fundamental spread" to allow for the credit risks retained by the Company plus the projected cash flows in respect of reinsurance recoverables calculated using the Company's liability projection model.

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

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

### D.2.3 Use of matching adjustment (continued)

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

| MA Fund assets | 31 December 2020 £m | 31 December 2019 £m |
|---|---|---|
| Property* | – | 72 |
| Holdings in related undertakings | 62 | – |
| Government bonds | 16,838 | 12,994 |
| Corporate bonds | 21,382 | 18,837 |
| Derivative assets | 6,741 | 5,340 |
| Loans and mortgages | 5,367 | 4,610 |
| Collateralised securities | 289 | 279 |
| Collective investment undertakings | 334 | - |
| Cash and cash equivalents | 402 | 389 |
| Total assets | 51,415 | 42,521 |
| Less Derivative liabilities | (11,339) | (9,255) |
| Net value of assets | 40,076 | 33,266 |

* For 2020, investments in property have been included within Holdings in related undertakings, reflecting that they are held indirectly through investment entities.

For the valuation at 31 December 2020, PIC included the value of reinsurance recoverables explicitly within the MA Fund assets, valuing the cash flows of these at the basic risk-free rate. The matching adjustment was then derived and applied to the valuation of the gross-of-reinsurance liabilities. For the valuation at 31 December 2019, the reinsurance recoverables were not included within the assets for the purposes of deriving the matching adjustment, with the matching adjustment applied to net-of-reinsurance liabilities.

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 2020, all of the test results were within the required limits.

The impact of not applying the matching adjustment but instead valuing the liabilities using the basic risk-free curve would have been as follows. Note that under this scenario the volatility adjustment ("VA") is assumed not to apply to any liabilities (as was the case both at 31 December 2020 and 31 December 2019) and it is assumed that there is no change to the TMTP. The figures presented include the effect of removing the matching adjustment on the credit taken for the Loss Absorbing Capacity of Deferred Taxes in the SCR.

| 31 December 2020<br>Impact of matching adjustment | Including matching adjustment £m | Excluding matching adjustment £m | Impact of not applying matching adjustment £m |
|---|---|---|---|
| Technical Provisions (gross of reinsurance) | 42,892 | 49,497 | 6,605 |
| Basic Own Funds | 6,710 | 1,362 | (5,348) |
| Eligible Own Funds to meet SCR | 6,710 | 1,362 | (5,348) |
| SCR | 4,261 | 10,359 | 6,098 |
| **Excess assets over SCR** | 2,449 | (8,997) | (11,446) |
| Eligible Own Funds to meet MCR | 5,219 | (867) | (6,086) |
| MCR | 1,065 | 2,590 | 1,525 |
| **Excess assets over MCR** | 4,154 | (3,457) | (7,611) |

| 31 December 2019<br>Impact of matching adjustment (£m) | 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 MCR | 4,029 | (1,699) | (5,728) |
| MCR | 738 | 2,008 | 1,270 |
| Excess assets over MCR | 3,291 | (3,707) | (6,998) |

### 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 2020, 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 less than 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 the liabilities is therefore nil as at 31 December 2020, as shown in the following table. 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 2020<br>Impact of volatility adjustment | Including volatility adjustment £m | Excluding volatility adjustment £m | Impact of not applying volatility adjustment £m |
|---|---|---|---|
| Technical Provisions (gross of reinsurance) | 42,892 | 42,892 | – |
| Basic Own Funds | 6,710 | 6,710 | – |
| Eligible Own Funds to meet SCR | 6,710 | 6,710 | – |
| SCR | 4,261 | 4,261 | – |
| **Excess assets over SCR** | 2,449 | 2,449 | – |
| Eligible Own Funds to meet MCR | 5,219 | 5,219 | – |
| MCR | 1,065 | 1,065 | – |
| **Excess assets over MCR** | 4,154 | 4,154 | – |

| 31 December 2019<br>Impact of volatility adjustment | Including volatility adjustment £m | Excluding volatility adjustment £m | Impact of not applying volatility adjustment £m |
|---|---|---|---|
| Technical Provisions (gross of reinsurance) | 35,809 | 35,809 | – |
| Basic Own Funds | 4,844 | 4,844 | – |
| Eligible Own Funds to meet SCR | 4,844 | 4,844 | – |
| SCR | 2,954 | 2,954 | – |
| Excess assets over SCR | 1,890 | 1,890 | – |
| Eligible Own Funds to meet MCR | 4,029 | 4,029 | – |
| MCR | 738 | 738 | – |
| Excess assets over MCR | 3,291 | 3,291 | – |

### 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 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, at 31 December 2019 and again at 31 December 2020. Allowing for both amortisation and re-calculation, the TMTP as at 31 December 2020 is £1,072 million (2019: £851 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 2020<br>Impact of TMTP | Including TMTP £m | Excluding TMTP £m | Impact of excluding TMTP £m |
|---|---|---|---|
| Technical Provisions (gross of reinsurance) | 42,892 | 43,964 | 1,072 |
| Basic Own Funds | 6,710 | 5,842 | (868) |
| Eligible Own Funds available to meet SCR | 6,710 | 5,842 | (868) |
| SCR | 4,261 | 4,465 | 204 |
| **Excess assets** | **2,449** | **1,377** | **(1,072)** |
| **Solvency ratio based on SCR** | **157%** | **131%** | |
| Eligible Own Funds available to meet MCR | 5,219 | 4,360 | (859) |
| MCR | 1,065 | 1,116 | 51 |
| **Excess assets** | **4,154** | **3,244** | **(910)** |
| **Solvency ratio based on MCR** | **490%** | **391%** | |

| 31 December 2019<br>Impact of TMTP | Including TMTP £m | Excluding TMTP £m | Impact of excluding TMTP £m |
|---|---|---|---|
| Technical Provisions (gross of reinsurance) | 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% | |

### 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 2020, approximately 84% (as measured by best-estimate liabilities) of the longevity risk was reinsured (2019: 81%).

PIC has entered into two types of reinsurance arrangements:

- Longevity swap arrangements, whereby PIC pays to the reinsurer a fixed, agreed stream of annuity benefit cashflows, together with a defined reinsurance fee, and the reinsurer pays PIC annuity benefits based on the actual mortality experience of the lives in question. All of the longevity swap arrangements are similar in nature. PIC has entered into these arrangements with 11 reinsurers. The total net value of the longevity swap asset, excluding the fees payable to the reinsurers, was £(772) million as at 31 December 2019 (2019: £90 million).
- Quota share reinsurance arrangements, whereby in return for an up-front single premium PIC will receive from the reinsurer a percentage share of a defined sub-set of the annuity liabilities paid out in future. PIC has entered into these arrangements with three reinsurers. The total value of the quota share reinsurance asset was £2,790 million as at 31 December 2020 (2019: £1,561 million).

The value of the amounts recoverable from reinsurance is calculated using the same projection model and assumptions (other than the discount rate) as are used for the gross best estimate liabilities, by projecting forward both the payments due to reinsurers and the payments expected from reinsurers, in each case calculated on a policy-by-policy basis. The value of reinsurance recoverables at 31 December 2020 was calculated by discounting the projected payments at the basic risk-free rate.

The value of the reinsurance recoverables is reduced by a counterparty default adjustment of £31 million (2019: £16 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 £16 million (2019: £10 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 £2,003 million (2019: £1,645 million).

PIC does not have any arrangements with special purpose vehicles in respect of its gross or net liabilities.

### D.2.7 Review of valuation methods and assumptions

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

During 2020, PIC revised its assumptions to reflect its analysis of current mortality rates and its current expectations for longevity improvements, and reductions in internal per-policy maintenance costs. Changes were also made to the assumed long-term corporation tax rate and to the reserve for expected project costs in 2021. 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 £245 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 cashflow profile of the liabilities, it is not possible simply to use the same matching asset profile as is used for the best-estimate liabilities. Instead, PIC notionally hypothecates a basket of assets for backing the liabilities based on the assets in the MA Fund and a selection of other assets held by the Company, and calculates the valuation rate of interest using a "portfolio IRR" approach which considers the yield for the whole basket. Using this approach, PIC is able to take into account both the level of the risk-adjusted yields on the assets and the terms over which the returns would be received.

PIC's approach to 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 historic 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 2019 are shown for comparison.

| Reconciliation between Solvency II and IFRS technical provisions balance sheets | 31 December 2020 £m | 31 December 2019 £m |
|---|---|---|
| Solvency II technical provisions (gross of reinsurance) | 42,892 | 35,809 |
| Less: | | |
| – Value of reinsurance recoverables on SII basis | (2,003) | (1,645) |
| Solvency II technical provisions (net of reinsurance) | 40,889 | 34,164 |
| Less: | | |
| – Risk margin | (2,425) | (1,958) |
| – Transitional measures deduction | 1,072 | 851 |
| Solvency II best estimate liability (net of reinsurance) | 39,536 | 33,057 |
| Add: | | |
| – Classification difference of deferred premium | 4 | 9 |
| – Impact of valuation discount rate margin | 1,246 | 953 |
| – Impact of other IFRS valuation margins | 1,276 | 1,046 |
| IFRS technical provisions (net of reinsurance) | 42,062 | 35,065 |
| Add: | | |
| – Value of reinsurance recoverables on IFRS basis | 2,773 | 2,598 |
| IFRS technical provisions (gross of reinsurance) | 44,835 | 37,663 |

### D.3 Other liabilities

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

| | 2020 | | | |
|---|---|---|---|---|
| | IFRS value | | Regulatory value | |
| | Group £m | Company £m | Group £m | Company £m |
| Derivative liabilities | 24,340 | 24,340 | 24,340 | 24,340 |
| Insurance and other payables | 118 | 107 | 115 | 108 |
| Deferred tax | 2 | 2 | 227 | 227 |
| Subordinated debt instruments | 1,618 | 1,618 | 1,704 | 1,704 |
| **Other liabilities** | **26,078** | **26,067** | **26,386** | **26,379** |

| | 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 |

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

#### D.3.1 Derivative liabilities

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 SII 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 2020, this resulted in a deferred tax liability of £227 million (2019: £155 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 £2 million (2019: £3 million) held on the IFRS balance sheet, relating to transitional arrangements on the UK Life tax regime and a deferred tax asset of £16 million (2019; £9 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 2020, a recognised deferred tax asset of £3 million existed within the Group (2019: £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 own credit standing of the Company. This differs from the valuation used for IFRS accounting purposes, where the subordinated debt instruments are valued at amortised cost.

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

The subordinated debt instruments fall due in 2024 (£300 million face value), 2026 (£250 million face value), 2030 (£350 million face value), 2031 (£300 million face value) and 2032 (£400 million face value).

In 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 and interest payments arising are recognised in equity upon payment under IFRS, and as Restricted Tier 1 own funds for Solvency II purposes. A deduction is made in the valuation of Own Funds available to take account of projected foreseeable dividends in respect of the RT1 notes. At 31 December 2020 this value was £12 million.

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

At 31 December 2020, differences between the value of other liabilities for regulatory reporting and IFRS financial statements are as follows:

| | 2020 | |
|---|---|---|
| | Group £m | Company £m |
| **Solvency II "other liabilities"** | **26,386** | **26,379** |
| Adjustment to Creditor balances offset in Assets | 4 | – |
| Reduction in subordinated debt valuation (held at amortised cost for IFRS purposes) and removal of associated accrued interest | (87) | (87) |
| Deferred tax (as above) | (225) | (225) |
| **Statutory Accounts "other liabilities"** | **26,078** | **26,067** |

| | 2019 | |
|---|---|---|
| | Group £m | Company £m |
| Solvency II "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) |
| Statutory Accounts "other liabilities" | 17,793 | 17,775 |

### D.3.6 Leases and contingent liabilities

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

At 31 December 2020, the Group recognised a right-of-use asset of £20 million (2019: £22 million) and a corresponding lease liability of £22 million (2019: £23 million). Under IFRS, a lease liability is initially measured as the value of expected future lease payments, discounted using the Group's incremental borrowing rate, and subsequently is measured at amortised cost using the effective interest method. Lease liabilities are valued in line with IFRS on the grounds of materiality.

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) – PIC £91 million; PICG £91 million (2019: £81 million PIC and PICG)

Investment properties are held indirectly through investment entities and included in the QRT on an adjusted equity basis.

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.

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

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

### Unlisted bonds (direct investment) – £6,252 million (2019: £4,056 million) (PIC and PICG)

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

### Equity release mortgages (ERM) – PIC: £547 million (2019: £414 million); PICG: £534 million (2019: £414 million)

The fair value of equity release mortgages (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.

### Own shares held directly – PICG £25 million (2019: £32 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 Company and Group.

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

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

- Managing the type and volume of new business written;
- Reinsurance of existing business;
- Risk mitigation techniques;
- Hedging strategies to manage key exposures such as credit risk, interest rate risk or inflation risk;
- 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 | | | |
|---|---|---|---|---|---|---|---|---|
| **2020** | **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 2020 | **5,022** | **1,704** | **–** | **6,726** | **5,006** | **1,704** | **–** | **6,710** |
| Amount of basic own funds available to cover SCR | **5,022** | **1,704** | **–** | **6,726** | **5,006** | **1,704** | **–** | **6,710** |
| Amount of basic own funds available to cover MCR | **5,022** | **213** | **n/a** | **5,235** | **5,006** | **213** | **n/a** | **5,219** |

| | 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 |

As at 31 December 2020, the ratio of eligible own funds to SCR of PICG was 158% (2019: 164%) and of PIC was 157% (2019: 164%).

There are no items of ancillary Own Funds at 31 December 2019 (2019: 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 £213 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*

| 2020 | Tier 1 Share capital £m | Tier 1 Share premium £m | Tier 1 Reconciliation reserve £m | Tier 1 restricted capital £m | Tier 2 Subordinated debt £m | Total £m |
|---|---|---|---|---|---|---|
| At start of year | 2 | 119 | 3,274 | 475 | 962 | 4,832 |
| Issued in year | – | 750 | – | – | 700 | 1,450 |
| Movements in year | – | 1 | 432 | (31) | 42 | 444 |
| **At end of year** | **2** | **870** | **3,706** | **444** | **1,704** | **6,726** |

| 2019 | Tier 1 Share capital £m | Tier 1 Share premium £m | Tier 1 Reconciliation reserve £m | Tier 1 restricted capital £m | Tier 2 Subordinated debt £m | Total £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 |

During the year, the Group announced its intention to raise £750 million of share capital. This was completed as two draw-downs in 2020 resulting in an increase in share premium of £750 million and an increase in the number of shares issued of 245,901,638.

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

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

| 2020 | Tier 1 Share capital £m | Tier 1 Share Premium £m | Tier 1 Reconciliation reserve £m | Tier 1 Restricted Capital £m | Tier 2 Subordinated debt £m | Total £m |
|---|---|---|---|---|---|---|
| At start of year | 1,000 | – | 2,407 | 475 | 962 | 4,844 |
| Issued in year | 226 | 524 | – | – | 700 | 1,450 |
| Movements in year | – | – | 405 | (31) | 42 | 416 |
| **At end of year** | **1,226** | **524** | **2,812** | **444** | **1,704** | **6,710** |

| 2019 | Tier 1 Share capital £m | Tier 1 Share Premium £m | Tier 1 Reconciliation reserve £m | Tier 1 restricted capital £m | Tier 2 Subordinated debt £m | Total £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 |

During the year, PIC issued 226,574,959 £1 ordinary shares at par following the £750 million capital raise by PICG (PIC's ultimate holding company). This resulted in an increase in share capital of £226 million and share premium of £524 million.

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

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

£300 million subordinated loan notes, issued on 3 July 2014, due to be repaid in 2024 with a fixed coupon of 6.5% paid annually in arrears. The notes were issued at 99.107% of par.

£250 million subordinated loan notes, issued on 23 November 2016, due to be repaid in 2026 with a fixed coupon of 8% paid annually in arrears. The notes were issued at 98.916% of par.

£350 million subordinated loan notes, issued on 20 September 2018, due to be repaid in 2030 with a fixed coupon of 5.625% paid annually in arrears. The notes were issued at 99.693% of par.

£300 million subordinated loan notes, issued on 7 May 2020, due to be repaid in 2031 with a fixed coupon of 4.625% paid annually in arrears. The notes were issued at 99.554% of par.

£400 million subordinated loan notes issued on 21 October 2020, due to be repaid in 2032 with a fixed coupon 3.625% paid annually in arrears. The notes were issued at 99.129% of par.

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

The Tier 2 instruments are valued in accordance with Article 75 of Solvency II directive, being fair value, excluding changes in own credit risk, and therefore at a different value than that used in the Company's IFRS financial statements. Changes arising from 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 £115 million (2019: £54 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 Financial Statements at the reporting date, and Own Funds under regulatory classifications:

| | Group | | Company | |
|---|---|---|---|---|
| | **2020 £m** | 2019 £m | **2020 £m** | 2019 £m |
| **Equity per IFRS financial statements** | **4,167** | 3,215 | **4,143** | 3,198 |
| Add: Reclassification of subordinated debt as Tier 2 capital for regulatory purposes, included at regulatory value | **1,704** | 962 | **1,704** | 962 |
| Deferred tax asset arising from Subordinated debt revaluation* | **16** | 9 | **16** | 9 |
| Adjustment of subordinated debt value between IFRS and regulatory value* | **(115)** | (53) | **(115)** | (53) |
| Adjustment for RT1 accrued interest* | **(12)** | (12) | **(12)** | (12) |
| Decrease in technical provisions under regulatory rules* | **1,942** | 1,854 | **1,942** | 1,854 |
| Increase in deferred tax liability under regulatory rules* | **(225)** | (152) | **(225)** | (152) |
| Decrease in reinsurance recoverable and other assets under regulatory rules* | **(751)** | (991) | **(743)** | (962) |
| **Own Funds per regulatory requirements** | **6,726** | 4,832 | **6,710** | 4,844 |

Items marked with a '*' above form part of the regulatory Reconciliation Reserve (see E.1.6 below), which totals £2,812 million for PIC (2019: £2,407 million): and £3,706 million for PICG (2019: £3,274 million) at 31 December 2020.

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

### E.1.6 Constituents of reconciliation reserve

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

| **2020** | **Group £m** | **Company £m** |
|---|---|---|
| IFRS retained earnings per financial statements | **1,773** | **1,889** |
| Capital contribution reserve per financial statements | **–** | **60** |
| Capital reduction reserve per financial statements | **1,055** | **–** |
| Other reserves per financial statements | **48** | **–** |
| Differences between IFRS rules and Solvency II rules (marked with '*' above) | **855** | **863** |
| Treasury shares per financial statements | **(25)** | **–** |
| **Reconciliation reserve at 31 December 2020** | **3,706** | **2,812** |

| 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 |

**E.2 SCR and MCR (unaudited)**

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 was approved by the PRA in December 2017 relating to the treatment of longevity and inflation risk and in December 2020 relating to Equity Release Mortgages.

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

PIC is satisfied that the SCR as at 31 December 2020 is not subject to supervisory assessment.

As at 31 December 2020, PICG's and PIC's SCR amounted to £4,261 million (2019: £2,954 million), and its Minimum Capital Requirement amounted to £1,065 million (2019: £738 million), being 25% of SCR.

The principal reasons for the movements in these items are:

- A general increase in the volume of business in force, due to new insurance contracts written during 2020;
- The impact of changes in economic conditions over the year, in particular the reduction in interest rates;
- The impact of changes in the investment mix used by the Company to support its insurance liabilities;
- 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 2020 is as follows:

| Summary of SCR | 2020 £m | 2019 £m |
|---|---|---|
| Risk capital before diversification: | | |
| – Market risk | 3,917 | 2,646 |
| – Counterparty credit risk | 163 | 151 |
| – Insurance risk | 1,463 | 1,164 |
| – Expense risk | 287 | 221 |
| – Operational risk | 363 | 301 |
| Total before diversification | 6,193 | 4,483 |
| Diversification benefit | (1,674) | (1,307) |
| Loss absorbing capacity of deferred tax | (258) | (222) |
| **Total diversified SCR after LACDT** | 4,261 | 2,954 |

**E.2.2 Key inputs for the calculation of the MCR**

The Minimum Capital Requirement has been calculated as follows:

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

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

The result of this calculation at end 2019 and 2020 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)**

PIC uses a full Internal Model to calculate its 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 variety of methods to calculate the probability distribution forecast and the SCR, ranging from statistical analysis of historic data (e.g. market risk) to expert judgements determined by panels of experts (e.g. insurance risk). Each method is appropriate to the risk in question.

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 the model more accurately captures 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 historic company experience. External data is used to support the calibration of market, insurance and counterparty credit risk. For market risk the main external providers of data are organisations such as Moody's, Merrill Lynch and Bloomberg who provide the majority of historical market data to support the calibration of the 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 FY2020 £m** | **Standard formula with matching adjustment FY2020 £m** |
|---|---|---|
| Market risk | **3,917** | **4,892** |
| Insurance risk | **1,463** | **579** |
| Operational risk | **363** | **226** |
| Expense risk | **287** | **260** |
| Counterparty credit risk | **163** | **86** |
| Benefit of diversification | **(1,674)** | **(666)** |
| Loss absorbing capacity of deferred tax | **(258)** | **(334)** |
| **Solvency Capital Requirement** | **4,261** | **5,043** |

| | Internal Model with matching adjustment FY2019 £m | Standard formula with matching adjustment FY2019 £m |
|---|---|---|
| Market risk | 2,646 | 3,858 |
| Insurance risk | 1,164 | 532 |
| Operational risk | 301 | 290 |
| Expense risk | 221 | 195 |
| Counterparty credit risk | 151 | 61 |
| Benefit of diversification | (1,307) | (561) |
| Loss absorbing capacity of deferred tax | (222) | (270) |
| Solvency Capital Requirement | 2,954 | 4,105 |

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

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

## E. CAPITAL MANAGEMENT CONTINUED

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

The Internal Model is widely used, and plays an important role in PIC's systems of governance. PIC considers the Internal model to be appropriate despite the economic conditions experienced in 2020 and 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 Minimum Capital Requirement and the Solvency Capital Requirement throughout 2020 and up to the date of approval of this report.

**E.6 Any other information**
There is no other material information to disclose regarding Capital Management.

## APPENDIX A – GLOSSARY OF TERMS

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

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

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

**SFCR**
The Solvency and Financial Condition Report (SFCR) is 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 BEL, RM 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.

**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 |

**S.02.01.02**
Balance sheet

| | | Solvency II value<br>C0010<br>£ |
|---|---|---|
| | Assets | |
| R0010 | Goodwill | |
| R0020 | Deferred acquisition costs | |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | 16,324,883 |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 0 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | **66,127,990,644** |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 87,000,085 |
| R0100 | *Equities* | **0** |
| R0110 | *Equities - listed* | |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | **41,576,480,186** |
| R0140 | *Government Bonds* | 19,336,498,662 |
| R0150 | *Corporate Bonds* | 21,875,309,125 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 364,672,399 |
| R0180 | *Collective Investments Undertakings* | 2,528,238,441 |
| R0190 | *Derivatives* | 21,936,271,933 |
| 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* | **5,554,981,880** |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | 5,554,981,880 |
| R0270 | Reinsurance recoverables from: | **2,003,382,155** |
| 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* | **2,003,382,155** |
| R0320 | *Health similar to life* | 0 |
| R0330 | *Life excluding health and index-linked and unit-linked* | 2,003,382,155 |
| R0340 | Life index-linked and unit-linked | 0 |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 36,954 |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | 20,776,208 |
| 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 | 462,383,757 |
| R0420 | Any other assets, not elsewhere shown | 101,674,811 |
| R0500 | **Total assets** | **74,287,551,293** |

**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 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | |
| R0550 | *Risk margin* | |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | **42,891,688,781** |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP 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)* | 42,891,688,781 |
| R0660 | *TP calculated as a whole* | 0 |
| R0670 | *Best Estimate* | 41,539,191,012 |
| R0680 | *Risk margin* | 1,352,497,769 |
| R0690 | Technical provisions - index-linked and unit-linked | **0** |
| R0700 | *TP calculated as a whole* | 0 |
| R0710 | *Best Estimate* | 0 |
| R0720 | *Risk margin* | 0 |
| R0730 | Other technical provisions | |
| R0740 | Contingent liabilities | 0 |
| R0750 | Provisions other than technical provisions | |
| R0760 | Pension benefit obligations | |
| R0770 | Deposits from reinsurers | |
| R0780 | Deferred tax liabilities | 227,098,654 |
| R0790 | Derivatives | 24,339,769,893 |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | 16,075,501 |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 91,498,340 |
| R0850 | Subordinated liabilities | **1,703,771,018** |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 1,703,771,018 |
| R0880 | Any other liabilities, not elsewhere shown | |
| R0900 | **Total liabilities** | **69,269,902,187** |
| R1000 | **Excess of assets over liabilities** | **5,017,649,105** |

**S.05.01.02**
Premiums, claims and expenses by line of business

| | Life | Line of business for life insurance obligations<br>Other life insurance<br>C0240<br>£ | **Total**<br>**C0300**<br>**£** |
|---|---|---|---|
| | **Premiums written** | | |
| R1410 | Gross | 5,648,575,097 | 5,648,575,097 |
| R1420 | Reinsurers' share | 517,131,855 | 517,131,855 |
| R1500 | Net | 5,131,443,242 | 5,131,443,242 |
| | **Premiums earned** | | |
| R1510 | Gross | 5,648,575,097 | 5,648,575,097 |
| R1520 | Reinsurers' share | 517,131,855 | 517,131,855 |
| R1600 | Net | 5,131,443,242 | 5,131,443,242 |
| | **Claims incurred** | | |
| R1610 | Gross | 1,729,923,637 | 1,729,923,637 |
| R1620 | Reinsurers' share | 47,387,286 | 47,387,286 |
| R1700 | Net | 1,682,536,351 | 1,682,536,351 |
| | **Changes in other technical provisions** | | |
| R1710 | Gross | 7,172,552,885 | 7,172,552,885 |
| R1720 | Reinsurers' share | 174,862,134 | 174,862,134 |
| R1800 | Net | 6,997,690,751 | 6,997,690,751 |
| R1900 | **Expenses incurred** | 193,912,956 | 193,912,956 |
| R2500 | **Other expenses** | | |
| R2600 | **Total expenses** | | 193,912,956 |

**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 | 5,648,575,097 | | | | | | **5,648,575,097** |
| R1420 | Reinsurers' share | 517,131,855 | | | | | | **517,131,855** |
| R1500 | Net | **5,131,443,242** | | | | | | **5,131,443,242** |
| | Premiums earned | | | | | | | |
| R1510 | Gross | 5,648,575,097 | | | | | | **5,648,575,097** |
| R1520 | Reinsurers' share | 517,131,855 | | | | | | **517,131,855** |
| R1600 | Net | **5,131,443,242** | | | | | | **5,131,443,242** |
| | Claims incurred | | | | | | | |
| R1610 | Gross | 1,729,923,637 | | | | | | **1,729,923,637** |
| R1620 | Reinsurers' share | 47,387,286 | | | | | | **47,387,286** |
| R1700 | Net | **1,682,536,351** | | | | | | **1,682,536,351** |
| | Changes in other technical provisions | | | | | | | |
| R1710 | Gross | 7,172,552,885 | | | | | | **7,172,552,885** |
| R1720 | Reinsurers' share | 174,862,134 | | | | | | **174,862,134** |
| R1800 | Net | **6,997,690,751** | | | | | | **6,997,690,751** |
| | | | | | | | | |
| R1900 | Expenses incurred | 193,912,956 | | | | | | **193,912,956** |
| R2500 | Other expenses | | | | | | | |
| R2600 | Total expenses | | | | | | | **193,912,956** |

**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 Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole | | | | 0 |
| | **Technical provisions calculated as a sum of BE and RM** | | | | |
| | **Best estimate** | | | | |
| R0030 | **Gross Best Estimate** | | 41,539,191,012 | | 41,539,191,012 |
| R0080 | Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default | | 2,003,382,155 | | 2,003,382,155 |
| R0090 | Best estimate minus recoverables from reinsurance/SPV and Finite Re | | 39,535,808,857 | 0 | 39,535,808,857 |
| R0100 | **Risk margin** | 2,425,345,660 | | | 2,425,345,660 |
| | **Amount of the transitional on Technical Provisions** | | | | |
| R0110 | Technical Provisions calculated as a whole | | | | 0 |
| R0120 | Best estimate | | | | 0 |
| R0130 | Risk margin | -1,072,847,891 | | | -1,072,847,891 |
| R0200 | **Technical provisions – total** | 42,891,688,781 | | | 42,891,688,781 |

**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 | 42,891,688,781 | 1,072,847,891 | 0 | 0 | 6,605,255,209 |
| R0020 | Basic own funds | 6,709,805,400 | -869,006,583 | 0 | 0 | -5,347,701,811 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 6,709,805,400 | -869,006,583 | 0 | 0 | -5,347,701,811 |
| R0090 | Solvency Capital Requirement | 4,261,066,941 | 203,841,099 | 0 | 0 | 5,894,320,307 |
| R0100 | Eligible own funds to meet Minimum Capital Requirement | 5,219,087,729 | -858,814,528 | 0 | 0 | -6,300,452,315 |
| R0110 | Minimum Capital Requirement | 1,065,266,735 | 50,960,275 | 0 | 0 | 1,473,580,077 |

**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)** | 1,226,384,310 | 1,226,384,310 | | 0 | |
| R0030 | Share premium account related to ordinary share capital | 523,426,034 | 523,426,034 | | 0 | |
| R0040 | Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings | 0 | 0 | | 0 | |
| R0050 | Subordinated mutual member accounts | 0 | | 0 | 0 | 0 |
| R0070 | Surplus funds | 0 | 0 | | | |
| R0090 | Preference shares | 0 | | 0 | 0 | 0 |
| R0110 | Share premium account related to preference shares | 0 | | 0 | 0 | 0 |
| R0130 | Reconciliation reserve | 2,811,822,834 | 2,811,822,834 | | | |
| R0140 | Subordinated liabilities | 1,703,771,018 | | 0 | 1,703,771,018 | 0 |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0180 | Other own fund items approved by the supervisory authority as basic own funds not specified above | 444,401,204 | 0 | 444,401,204 | 0 | 0 |
| | **Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds** | | | | | |
| R0220 | Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds | 0 | | | | |
| | **Deductions** | | | | | |
| R0230 | Deductions for participations in financial and credit institutions | 0 | 0 | 0 | 0 | |
| R0290 | **Total basic Own Funds after deductions** | 6,709,805,400 | 4,561,633,178 | 444,401,204 | 1,703,771,018 | 0 |
| | **Ancillary Own Funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Available and eligible Own Funds** | | | | | |
| R0500 | **Total available own funds to meet the SCR** | 6,709,805,400 | 4,561,633,178 | 444,401,204 | 1,703,771,018 | 0 |
| R0510 | **Total available own funds to meet the MCR** | 6,709,805,400 | 4,561,633,178 | 444,401,204 | 1,703,771,018 | |
| R0540 | **Total eligible own funds to meet the SCR** | 6,709,805,400 | 4,561,633,178 | 444,401,204 | 1,703,771,018 | 0 |
| R0550 | **Total eligible own funds to meet the MCR** | 5,219,087,729 | 4,561,633,178 | 444,401,204 | 213,053,347 | |
| R0580 | **SCR** | 4,261,066,941 | | | | |
| R0600 | **MCR** | 1,065,266,735 | | | | |
| R0620 | **Ratio of Eligible own funds to SCR** | 157.47% | | | | |
| R0640 | **Ratio of Eligible own funds to MCR** | 489.93% | | | | |
| | **Reconciliation reserve** | C0060 | | | | |
| R0700 | Excess of assets over liabilities | 5,017,649,105 | | | | |
| R0710 | Own shares (held directly and indirectly) | 0 | | | | |
| R0720 | Foreseeable dividends, distributions and charges | 11,614,723 | | | | |
| R0730 | Other basic own fund items | 2,194,211,548 | | | | |
| R0740 | Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds | 0 | | | | |
| R0760 | **Reconciliation reserve** | 2,811,822,834 | | | | |
| | **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 £ |
|---|---|---|---|
| 1 | 10310I | Interest rate risk - interest rate down more onerous | 0 |
| 2 | 10320I | Interest rate risk - interest rate up more onerous | 1,089,688,009 |
| 3 | 10600I | Property Risk | 45,974 |
| 4 | 10700I | Spread risk - if matching adjustment impact not identified | 4,140,770,444 |
| 5 | 10900I | Currency risk | 248,629,022 |
| 6 | 11010I | Other market risk - inflation risk | 150,127,872 |
| 7 | 11020I | Other market risk - implied volatility risk | 561,640,064 |
| 8 | 11030I | Other market risk - RPI/CPI basis risk | 399,500,421 |
| 9 | 11090I | Other market risk - funds risk | 404,680,048 |
| 10 | 19900I | Diversification within market risk | -3,077,826,902 |
| 11 | 20120I | Type 1 counterparty risk - external reinsurance | 126,689,280 |
| 12 | 20190I | Type 1 counterparty risk - asset counterparty | 36,247,731 |
| 13 | 30210I | Longevity risk - longevity mis-estimation | 347,642,131 |
| 14 | 30220I | Longevity risk - longevity trend | 1,353,020,755 |
| 15 | 30290I | Longevity risk - other longevity risks | 460,981,267 |
| 16 | 30299I | Longevity risk - longevity diversification | -698,438,678 |
| 17 | 30600I | Expense risk | 459,374,758 |
| 18 | 39900I | Life underwriting risk diversification | -171,917,648 |
| 19 | 70100I | Operational risk | 362,908,886 |
| 20 | 80300I | Loss-absorbing capacity of deferred tax | -257,669,846 |

| | Calculation of Solvency Capital Requirement | C0100 £ |
|---|---|---|
| R0110 | Total undiversified components | **5,936,093,589** |
| R0060 | Diversification | -1,675,026,648 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | |
| R0200 | **Solvency capital requirement excluding capital add-on** | **4,261,066,941** |
| R0210 | Capital add-ons already set | |
| R0220 | **Solvency capital requirement** | **4,261,066,941** |

| | 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 | -257,669,846 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 204,785,716 |
| R0420 | Total amount of Notional Solvency Capital Requirement for ring fenced funds | |
| R0430 | Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 4,056,281,225 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | |

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

| | | LAC DT C0130 £ |
|---|---|---|
| R0640 | **Amount/estimate of LAC DT** | -257,669,846 |
| R0650 | Amount/estimate of LAC DT justified by reversion of deferred tax liabilities | -227,098,654 |
| R0660 | Amount/estimate of LAC DT justified by reference to probable future taxable economic profit | |
| R0670 | Amount/estimate of AC DT justified by carry back, current year | -30,571,192 |
| R0680 | Amount/estimate of LAC DT justified by carry back, future years | |
| R0690 | Amount/estimate of Maximum LAC DT | -257,669,846 |

**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<br>£ |
|---|---|---|
| R0010 | MCRNL result | 0 |

| | | Net (of reinsurance/ SPV) best estimate and technical provisions calculated as a whole<br>C0020<br>£ | Net (of reinsurance) written premiums in the last 12 months<br>C0030<br>£ |
|---|---|---|---|
| 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<br>£ |
|---|---|---|
| R0200 | MCRL result | 830,251,986 |

| | | Net (of reinsurance/ SPV) best estimate and technical provisions calculated as a whole<br>C0050<br>£ | Net (of reinsurance/ SPV) total capital at risk<br>C0060<br>£ |
|---|---|---|---|
| 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 | 39,535,808,857 | |
| R0250 | Total capital at risk for all life (re)insurance obligations | | |

| | Overall MCR calculation | C0070<br>£ |
|---|---|---|
| R0300 | Linear MCR | 830,251,986 |
| R0310 | SCR | 4,261,066,941 |
| R0320 | MCR cap | 1,917,480,123 |
| R0330 | MCR floor | 1,065,266,735 |
| R0340 | Combined MCR | 1,065,266,735 |
| R0350 | Absolute floor of the MCR | 3,337,696 |
| R0400 | **Minimum Capital Requirement** | 1,065,266,735 |

| 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 groups on Full Internal Models |
| S.32.01.22 | Undertakings in the scope of the Group |

**S.02.01.02**
Balance sheet

| | | Solvency II value C0010 £ |
|---|---|---|
| | **Assets** | |
| R0010 | Goodwill | |
| R0020 | Deferred acquisition costs | |
| R0030 | Intangible assets | |
| R0040 | Deferred tax assets | 19,538,926 |
| R0050 | Pension benefit surplus | |
| R0060 | Property, plant & equipment held for own use | 19,609,473 |
| R0070 | Investments (other than assets held for index-linked and unit-linked contracts) | 66,128,062,990 |
| R0080 | *Property (other than for own use)* | 0 |
| R0090 | *Holdings in related undertakings, including participations* | 87,072,432 |
| R0100 | *Equities* | 0 |
| R0110 | *Equities - listed* | |
| R0120 | *Equities - unlisted* | |
| R0130 | *Bonds* | 41,576,480,186 |
| R0140 | *Government Bonds* | 19,336,498,662 |
| R0150 | *Corporate Bonds* | 21,875,309,125 |
| R0160 | *Structured notes* | 0 |
| R0170 | *Collateralised securities* | 364,672,399 |
| R0180 | *Collective Investments Undertakings* | 2,528,238,439 |
| R0190 | *Derivatives* | 21,936,271,933 |
| 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 | 5,554,981,880 |
| R0240 | *Loans on policies* | 0 |
| R0250 | *Loans and mortgages to individuals* | |
| R0260 | *Other loans and mortgages* | 5,554,981,880 |
| R0270 | Reinsurance recoverables from: | 2,003,382,155 |
| 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* | 2,003,382,155 |
| R0320 | *Health similar to life* | |
| R0330 | *Life excluding health and index-linked and unit-linked* | 2,003,382,155 |
| R0340 | *Life index-linked and unit-linked* | |
| R0350 | Deposits to cedants | 0 |
| R0360 | Insurance and intermediaries receivables | 36,954 |
| R0370 | Reinsurance receivables | |
| R0380 | Receivables (trade, not insurance) | 19,983,235 |
| R0390 | Own shares (held directly) | 25,246,478 |
| 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 | 465,249,909 |
| R0420 | Any other assets, not elsewhere shown | 101,674,809 |
| R0500 | **Total assets** | 74,337,766,809 |

**S.02.01.02 continued**
Balance sheet

| | | Solvency II value<br>C0010<br>£ |
|---|---|---|
| | **Liabilities** | |
| R0510 | Technical provisions - non-life | 0 |
| R0520 | *Technical provisions - non-life (excluding health)* | 0 |
| R0530 | *TP calculated as a whole* | |
| R0540 | *Best Estimate* | |
| R0550 | *Risk margin* | |
| R0560 | *Technical provisions - health (similar to non-life)* | 0 |
| R0570 | *TP calculated as a whole* | |
| R0580 | *Best Estimate* | |
| R0590 | *Risk margin* | |
| R0600 | Technical provisions - life (excluding index-linked and unit-linked) | 42,891,688,781 |
| R0610 | *Technical provisions - health (similar to life)* | 0 |
| R0620 | *TP calculated as a whole* | |
| R0630 | *Best Estimate* | |
| R0640 | *Risk margin* | |
| R0650 | *Technical provisions - life (excluding health and index-linked and unit-linked)* | 42,891,688,781 |
| R0660 | *TP calculated as a whole* | |
| R0670 | *Best Estimate* | 41,539,191,012 |
| R0680 | *Risk margin* | 1,352,497,769 |
| R0690 | Technical provisions - index-linked and unit-linked | 0 |
| R0700 | *TP 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 | 227,098,654 |
| R0790 | Derivatives | 24,339,769,891 |
| R0800 | Debts owed to credit institutions | |
| R0810 | Financial liabilities other than debts owed to credit institutions | |
| R0820 | Insurance & intermediaries payables | 16,075,501 |
| R0830 | Reinsurance payables | |
| R0840 | Payables (trade, not insurance) | 99,726,930 |
| R0850 | Subordinated liabilities | 1,703,771,018 |
| R0860 | *Subordinated liabilities not in BOF* | |
| R0870 | *Subordinated liabilities in BOF* | 1,703,771,018 |
| R0880 | Any other liabilities, not elsewhere shown | |
| R0900 | **Total liabilities** | 69,278,130,775 |
| | | |
| R1000 | **Excess of assets over liabilities** | 5,059,636,033 |

**S.05.01.02**
Premiums, claims and expenses by line of business

| | Life | Line of business for life insurance obligations<br>Other life insurance<br>C0240<br>£ | Total<br>C0300<br>£ |
|---|---|---|---|
| | **Premiums written** | | |
| R1410 | Gross | 5,648,575,097 | 5,648,575,097 |
| R1420 | Reinsurers' share | 517,131,855 | 517,131,855 |
| R1500 | Net | 5,131,443,242 | 5,131,443,242 |
| | **Premiums earned** | | |
| R1510 | Gross | 5,648,575,097 | 5,648,575,097 |
| R1520 | Reinsurers' share | 517,131,855 | 517,131,855 |
| R1600 | Net | 5,131,443,242 | 5,131,443,242 |
| | **Claims incurred** | | |
| R1610 | Gross | 1,729,923,637 | 1,729,923,637 |
| R1620 | Reinsurers' share | 47,387,286 | 47,387,286 |
| R1700 | Net | 1,682,536,351 | 1,682,536,351 |
| | **Changes in other technical provisions** | | |
| R1710 | Gross | 7,172,552,885 | 7,172,552,885 |
| R1720 | Reinsurers' share | 174,862,134 | 174,862,134 |
| R1800 | Net | 6,997,690,751 | 6,997,690,751 |
| R1900 | **Expenses incurred** | 193,758,462 | 193,758,462 |
| R2500 | **Other expenses** | | |
| R2600 | **Total expenses** | | 193,758,462 |

**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 | | Home country | | | | | | |
| | **Life** | **C0220** £ | **C0230** | **C0240** | **C0250** | **C0260** | **C0270** | **C0280** £ |
| | Premiums written | | | | | | | |
| R1410 | Gross | 5,648,575,097 | | | | | | **5,648,575,097** |
| R1420 | Reinsurers' share | 517,131,855 | | | | | | **517,131,855** |
| R1500 | Net | **5,131,443,242** | | | | | | **5,131,443,242** |
| | Premiums earned | | | | | | | |
| R1510 | Gross | 5,648,575,097 | | | | | | **5,648,575,097** |
| R1520 | Reinsurers' share | 517,131,855 | | | | | | **517,131,855** |
| R1600 | Net | **5,131,443,242** | | | | | | **5,131,443,242** |
| | Claims incurred | | | | | | | |
| R1610 | Gross | 1,729,923,637 | | | | | | **1,729,923,637** |
| R1620 | Reinsurers' share | 47,387,286 | | | | | | **47,387,286** |
| R1700 | Net | **1,682,536,351** | | | | | | **1,682,536,351** |
| | Changes in other technical provisions | | | | | | | |
| R1710 | Gross | 7,172,552,885 | | | | | | **7,172,552,885** |
| R1720 | Reinsurers' share | 174,862,134 | | | | | | **174,862,134** |
| R1800 | Net | **6,997,690,751** | | | | | | **6,997,690,751** |
| | | | | | | | | |
| R1900 | Expenses incurred | 193,758,462 | | | | | | **193,758,462** |
| R2500 | Other expenses | | | | | | | |
| R2600 | Total expenses | | | | | | | **193,758,462** |

**S.22.01.22**

### 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 | 42,891,688,781 | 1,072,847,891 | 0 | 0 | 6,605,255,209 |
| R0020 | Basic own funds | 6,726,545,850 | -869,006,583 | 0 | 0 | -5,347,701,811 |
| R0050 | Eligible own funds to meet Solvency Capital Requirement | 6,726,545,850 | -869,006,583 | 0 | 0 | -5,347,701,811 |
| R0090 | Solvency Capital Requirement | 4,261,066,941 | 203,841,099 | 0 | 0 | 5,894,320,307 |

## 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) | 2,151,929 | 2,151,929 | | 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 | 869,444,387 | 869,444,387 | | 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 | 3,706,777,312 | 3,706,777,312 | | | |
| R0140 | Subordinated liabilities | 1,703,771,018 | | 0 | 1,703,771,018 | 0 |
| R0150 | *Non-available subordinated liabilities at group level* | 0 | | | | |
| R0160 | An amount equal to the value of net deferred tax assets | 0 | | | | 0 |
| R0170 | *The amount equal to the value of net deferred tax assets not available at the group level* | 0 | | | | 0 |
| R0180 | Other items approved by supervisory authority as basic own funds not specified above | 444,401,204 | 0 | 444,401,204 | 0 | 0 |
| R0190 | *Non available own funds related to other own funds items approved by supervisory authority* | 0 | | | | |
| R0200 | Minority interests (if not reported as part of a specific own fund item) | 0 | | | | |
| R0210 | *Non-available minority interests at group level* | 0 | | | | |
| | **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 art 228 of the Directive 2009/138/EC* | 0 | | | | |
| R0250 | Deductions for participations where there is non-availability of information (Article 229) | 0 | | | | |
| R0260 | Deduction for participations included by using D&A when a combination of methods is used | 0 | | | | |
| R0270 | **Total of non-available own fund items** | 0 | 0 | 0 | 0 | 0 |
| R0280 | **Total deductions** | 0 | 0 | 0 | 0 | 0 |
| R0290 | **Total basic own funds after deductions** | 6,726,545,850 | 4,578,373,628 | 444,401,204 | 1,703,771,018 | 0 |
| | **Ancillary own funds** | | | | | |
| R0300 | Unpaid and uncalled ordinary share capital callable on demand | 0 | | | | |
| R0310 | Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand | 0 | | | | |
| R0320 | Unpaid and uncalled preference shares callable on demand | 0 | | | | |
| R0330 | A legally binding commitment to subscribe and pay for subordinated liabilities on demand | 0 | | | | |
| R0340 | Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0350 | Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC | 0 | | | | |
| R0360 | Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0370 | Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC | 0 | | | | |
| R0380 | Non available ancillary own funds at group level | 0 | | | | |
| R0390 | Other ancillary own funds | 0 | | | | |
| R0400 | **Total ancillary own funds** | 0 | | | 0 | 0 |
| | **Own funds of other financial sectors** | | | | | |
| R0410 | Credit institutions, investment firms, financial institutions, alternative investment fund managers, UCITS management companies - total | 0 | | | | |
| R0420 | Institutions for occupational retirement provision | 0 | | | | |
| 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 of method 1** | | | | | |
| R0450 | Own funds aggregated when using the D&A and combination of method | 0 | | | | |
| R0460 | Own funds aggregated when using the D&A and combination of method net of IGT | 0 | | | | |
| 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 ) | 6,726,545,850 | 4,578,373,628 | 444,401,204 | 1,703,771,018 | 0 |
| R0530 | Total available own funds to meet the minimum consolidated group SCR | 6,726,545,850 | 4,578,373,628 | 444,401,204 | 1,703,771,018 | |
| 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 ) | 6,726,545,850 | 4,578,373,628 | 444,401,204 | 1,703,771,018 | 0 |
| R0570 | Total eligible own funds to meet the minimum consolidated group SCR (group) | 5,235,828,179 | 4,578,373,628 | 444,401,204 | 213,053,347 | |
| R0610 | **Minimum consolidated Group SCR** | 1,065,266,735 | | | | |
| R0650 | **Ratio of Eligible own funds to Minimum Consolidated Group SCR** | 491.50% | | | | |
| 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 )** | 6,726,545,850 | 4,578,373,628 | 444,401,204 | 1,703,771,018 | 0 |
| R0680 | **Group SCR** | 4,261,066,941 | | | | |
| R0690 | **Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A** | 157.86% | | | | |
| | **Reconciliation reserve** | C0060 | | | | |
| R0700 | Excess of assets over liabilities | 5,059,636,033 | | | | |
| R0710 | Own shares (held directly and indirectly) | 25,246,478 | | | | |
| R0720 | Foreseeable dividends, distributions and charges | 11,614,723 | | | | |
| R0730 | Other basic own fund items | 1,315,997,520 | | | | |
| 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** | 3,706,777,312 | | | | |
| | **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.25.03.22**
Solvency Capital Requirement - for groups on full Internal Models

| | Unique number of component C0010 | Component description C0020 | Calculation of the Solvency Capital Requirement C0030 £ |
|---|---|---|---|
| 1 | 10310I | Interest rate risk - interest rate down more onerous | 0 |
| 2 | 10320I | Interest rate risk - interest rate up more onerous | 1,089,688,009 |
| 3 | 10600I | Property Risk | 45,974 |
| 4 | 10700I | Spread risk - if matching adjustment impact not identified | 4,140,770,444 |
| 5 | 10900I | Currency risk | 248,629,022 |
| 6 | 11010I | Other market risk - inflation risk | 150,127,872 |
| 7 | 11020I | Other market risk - implied volatility risk | 561,640,064 |
| 8 | 11030I | Other market risk - RPI/CPI basis risk | 399,500,421 |
| 9 | 11090I | Other market risk - funds risk | 404,680,048 |
| 10 | 19900I | Diversification within market risk | -3,077,826,902 |
| 11 | 20120I | Type 1 counterparty risk - external reinsurance | 126,689,280 |
| 12 | 20190I | Type 1 counterparty risk - asset counterparty | 36,247,731 |
| 13 | 30210I | Longevity risk - longevity mis-estimation | 347,642,131 |
| 14 | 30220I | Longevity risk - longevity trend | 1,353,020,755 |
| 15 | 30290I | Longevity risk - other longevity risks | 460,981,267 |
| 16 | 30299I | Longevity risk - longevity diversification | -698,438,678 |
| 17 | 30600I | Expense risk | 459,374,758 |
| 18 | 39900I | Life underwriting risk diversification | -171,917,648 |
| 19 | 70100I | Operational risk | 362,908,886 |
| 20 | 80300I | Loss-absorbing capacity of deferred tax | -257,669,846 |

| | Calculation of Solvency Capital Requirement | C0100 |
|---|---|---|
| R0110 | Total undiversified components | **5,936,093,589** |
| R0060 | Diversification | -1,675,026,648 |
| R0160 | Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC | |
| R0200 | **Solvency capital requirement excluding capital add-on** | **4,261,066,941** |
| R0210 | Capital add-ons already set | |
| R0220 | **Solvency capital requirement** | **4,261,066,941** |

| | 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 | -257,669,846 |
| R0410 | Total amount of Notional Solvency Capital Requirements for remaining part | 204,785,716 |
| R0420 | Total amount of Notional Solvency Capital Requirement for ring fenced funds | |
| R0430 | Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios | 4,056,281,225 |
| R0440 | Diversification effects due to RFF nSCR aggregation for article 304 | |
| R0470 | Minimum consolidated group solvency capital requirement | 1,065,266,735 |

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

## S.32.01.22
### Undertakings in the scope of the Group

| | Country C0010 | Identification code of the undertaking C0020 | Type of code of the identification of the undertaking C0030 | Legal name of the undertaking C0040 | Type of undertaking C0050 | Legal form C0060 | Category (mutual/ non-mutual) C0070 | Supervisory authority C0080 | Criteria of influence: % capital share C0180 | % used for the establishment of consolidated accounts C0190 | % voting rights C0200 | Other criteria C0210 | Level of influence C0220 | Proportional share used for Group solvency calculation C0230 | Inclusion in the scope of Group supervision: Yes/No C0240 | Date of decision if Article 214 is applied C0250 | Group solvency calculation: Method used and under method 1, treatment of the undertaking C0260 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | GB | 549300UN2IF0TWMZYC35 | LEI | Pension Insurance Corporation Group Limited | Insurance holding company as defined in Article 212(1) (f) of Directive 2009/138/EC | | Non-mutual | | | | | | 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 | Non-mutual | 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 | | Non-mutual | | 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 | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Full consolidation |
| 5 | GB | PICGPUT | Specific code | PIC GPUT Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 6 | GB | PICERM | Specific code | PIC ERM1 Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 7 | GB | PICPROPGP | Specific code | PIC Properties GP Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 8 | GB | PICNEWVICGP | Specific code | PIC New Victoria GP Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 9 | GB | PICNEWVICNOM | Specific code | PIC New Victoria Nominee Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 10 | GB | PICPROPPART | Specific code | PIC Properties Limited Partnership | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 11 | GB | PICNEWVICUT | Specific code | PIC New Victoria Unit Trust Limited | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |
| 12 | GB | PICNEWVICPART | Specific code | PIC New Victoria Limited Partnership | Other | | Non-mutual | | 100% | 100% | 100% | | Dominant | 100% | Included in the scope | | Method 1: Adjusted equity method |

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