Creating long-term social value.

Pension Insurance Corporation Group Limited
Solvency and Financial Condition Report 2021

About PIC

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

We aim to balance the interests of all our stakeholders – policyholders, employees, shareholders, regulators and others – with excellence in customer service at the heart of what we do.

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

Directors' Responsibility Statement

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

We are satisfied that:

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

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

Signed on behalf of the Board of Directors

7 April 2022

Report of the Independent External Auditor

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

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

Opinion

Except as stated below, we have audited the following documents prepared by the Group and the Company as at 31 December 2021:

- 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 2021, ('**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.25.02.22, S.25.03.22;
- Company templates S05.01.02, S05.02.01, S19.01.21, S.25.02.21, S.25.03.21;
- Information calculated in accordance with the previous regime used in the calculation of the transitional measure on technical provisions, and as a consequence all information relating to the transitional measures on technical provisions as set out in the Appendix to this report;
- The written acknowledgement by the Directors of 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 2021 is 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.

Report of the Independent External Auditor continued

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 / reinsurers who have transactions with the Group / Company that could negatively impact on the financial position.

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 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 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

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 accounting estimates and judgements related to best estimate liabilities (BEL) in the valuation of technical provisions given 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 judgment 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.

Report of the Independent External Auditor continued

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 Group Solvency and Financial Condition Report, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such as effect: 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.

Report of the Independent External Auditor continued

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

Other Matter

The Company has authority to calculate 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
15 Canada Square
London
E14 5GL

7 April 2022

Report of the Independent External Auditor continued

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

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

Solo internal model
The relevant elements of the 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 (unaudited)

The Solvency and Financial Condition Report ("SFCR") is an annual report that is required to be produced under UK law, as part of the Solvency II regime. References to the Solvency II Directive should be taken as referring to the transposition of that Directive into UK legislation which have been retained for convenience and comparability with instances of the SFCR from prior years.

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 PRA regulation, and must contain the following sections:

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

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

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

The Company takes a leading role in developing and informing the pensions market through pension trustee training events.

PIC publishes regular papers on the pensions market and information on how to address certain key issues for the commercial and the public sector, such as managing pension costs and risk inherent in pension schemes. It has an active thought leadership programme in dealing with government, corporate sponsors and pension trustees and working with them on pension solutions in the public and private sectors.

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

PIC is the primary operating subsidiary of the Group.

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

Business and performance

The Group and Company continued to trade profitably during 2021 despite turbulent market conditions and the uncertainty caused mainly by the ongoing Covid-19 pandemic. The Group has shown resilience and remains financially strong and profitable with a Solvency II ratio of 169% in PICG and 168% in PIC (2020: 158% in PICG and 157% PIC). The Group profit before tax was £393 million for the year (2020: £276 million) and PIC's profit before tax was £394 million (2020: £276 million).

Summary (unaudited) continued

Statement of comprehensive income highlights – PICG

	2021 £m	2020 £m
Gross premiums written	**4,702**	5,649
Net premium revenue earned	**3,856**	5,132
Investment return (including commissions earned)	**210**	4,091
Total revenue	**4,066**	9,223
Net claims paid	**(1,785)**	(1,683)
Change in net insurance liabilities	**(1,601)**	(6,997)
Operating expenses	**(198)**	(194)
Finance costs	**(89)**	(73)
Total claims and expenses	**(3,673)**	(8,947)
Profit before tax	**393**	276

Statement of comprehensive income highlights – PIC

	2021 £m	2020 £m
Gross premiums written	**4,702**	5,649
Net premium revenue earned	**3,856**	5,132
Investment return (including commissions earned)	**210**	4,091
Total revenue	**4,066**	9,223
Net claims paid	**(1,785)**	(1,683)
Change in net insurance liabilities	**(1,601)**	(6,997)
Operating expenses	**(198)**	(195)
Finance costs	**(88)**	(72)
Total claims and expenses	**(3,672)**	(8,947)
Profit before tax	**394**	276

Premiums

A combination of lower market activity in the first half of the year and our adherence to our policy of only writing business which meets long-term value targets, led to a reduction in gross premiums written to £4,702 million from £5,649 million in 2020. The Group completed fourteen new business transactions during the year (2020: seven), including the largest single transaction of the year, the £2.2 billion Metal Box buyout. 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 premiums ceded to reinsurers. Premiums ceded to reinsurers increased due to the completion of asset backed reinsurance transactions covering approximately £750 million (2020: £385 million) of liabilities. In total, seven (2020: eight) new reinsurance contracts were concluded in 2021.

Investment return

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

Interest income on fixed securities increased to £1,054 million in 2021 from £1,027 million in 2020, reflecting the growth in the investment portfolio during the year.

The net movement in the fair value of assets, including realised and unrealised items, was a loss of £1,029 million compared with a gain of £3,110 million in 2020. This comprises realised gains of £307 million (2020: £634 million) and unrealised losses of £1,336 million (2020: gain of £2,476 million).

The unrealised losses recognised in 2021 are primarily due to higher risk-free rates.

Other investment return and commissions amounted to £185 million (2020: loss of £46 million) primarily representing gains on derivative contracts.

It is important to note that fair value gains and losses included in investment return in the income statement are largely offset by changes in insurance liabilities, also in the income statement. Therefore, there is minimal impact on profit before tax.

Claims paid

Net claims paid comprises of gross claims paid, which are pension payments to our policyholders, less any payments received from reinsurers. Net claims paid increased from £1,683 million in 2020 to £1,785 million in 2021, reflecting the increased number of customers.

Summary (unaudited) continued

Change in net insurance liabilities

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

The change in net insurance liabilities mainly reflects the increase in the number of policies by 17,200 to 289,600 partially offset by market movements, principally the increase in risk-free rates seen in the year, and the impact of assumption changes.

Operating expenses

The operating expenses of both PIC and PICG were £198 million in 2021 (2020: PIC £195 million, PICG £194 million). This includes project spend of £38 million (2020: £45 million) primarily to support the forthcoming introduction of the new IFRS 17 accounting standard, as well as spend on new asset and capital models. Excluding these project costs, the remaining increase in spend mainly reflects an increase in equity release mortgage origination fees.

Finance costs

Finance costs represent the interest payable on borrowings and finance lease costs. The expense in PIC of £88 million in 2021 (2020: £72 million) represents the interest payable on the five (2020: five) subordinated debt securities issued. This increase was due to the full year effect of the two Tier 2 debt issues made in 2020. The expense in PICG of £89 million (2020: £73 million) includes an additional £1 million (2020: £1 million) in respect of finance lease costs. The Restricted Tier 1 ("RT1") debt issued in July 2019 has been accounted for as equity under IFRS and as such interest on these notes is not included in finance costs and is instead recognised as dividends when paid.

Statement of financial position review – PICG

Statement of financial position extract	**2021 £m**	2020 £m
Financial investments	**51,143**	49,648
Reinsurance assets	**3,350**	2,773
Derivative assets	**15,018**	21,936
Gross insurance liabilities	**(47,013)**	(44,835)
Derivative liabilities	**(16,997)**	(24,340)
Borrowings	**(1,590)**	(1,589)
Other net assets	**554**	574
Total equity	**4,465**	4,167

Statement of financial position review – PIC

Statement of financial position extract	**2021 £m**	2020 £m
Financial investments	**51,316**	49,742
Reinsurance assets	**3,350**	2,773
Derivative assets	**15,018**	21,936
Gross insurance liabilities	**(47,013)**	(44,835)
Derivative liabilities	**(16,997)**	(24,340)
Borrowings	**(1,590)**	(1,589)
Other net assets	**345**	456
Total equity	**4,429**	4,143

At the end of 2021, the Group had total financial investments of £51.1 billion (PIC: £51.3 billion), compared with £49.6 billion (PIC: £49.7 billion) at the end of 2020. 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.

The credit quality of our investment portfolio continues to remain strong which has ensured that the Group did not experience any defaults in 2021 (2020: none) and that downgrades to sub-investment grade credit were less than 0.1% (2020: 0.4%) of the credit portfolio (including private investments but excluding gilts).

The increase in reinsurance assets during the year primarily reflects the asset backed reinsurance arrangements completed during the year. In 2021, the Group reinsured longevity exposure on £4.0 billion of reserves (2020: £6.6 billion), and at 31 December 2021, 85% of the Group's gross longevity related reserves had been reinsured (2020: 84%). The Group has 14 reinsurance counterparties (2020: 14), all of which have a credit rating of A or above.

The increase in insurance liabilities in 2021 reflects the addition of new business liabilities partly offset by movements in economic factors during the year coupled with claims paid and the impact of changes in assumptions.

Gross derivative assets and derivative liabilities have both decreased during the year, by £6.9 billion and £7.3 billion respectively. The net increase in the year across all derivative assets and liabilities was £425 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 decrease in the gross derivative asset and liability balances is as a result of market

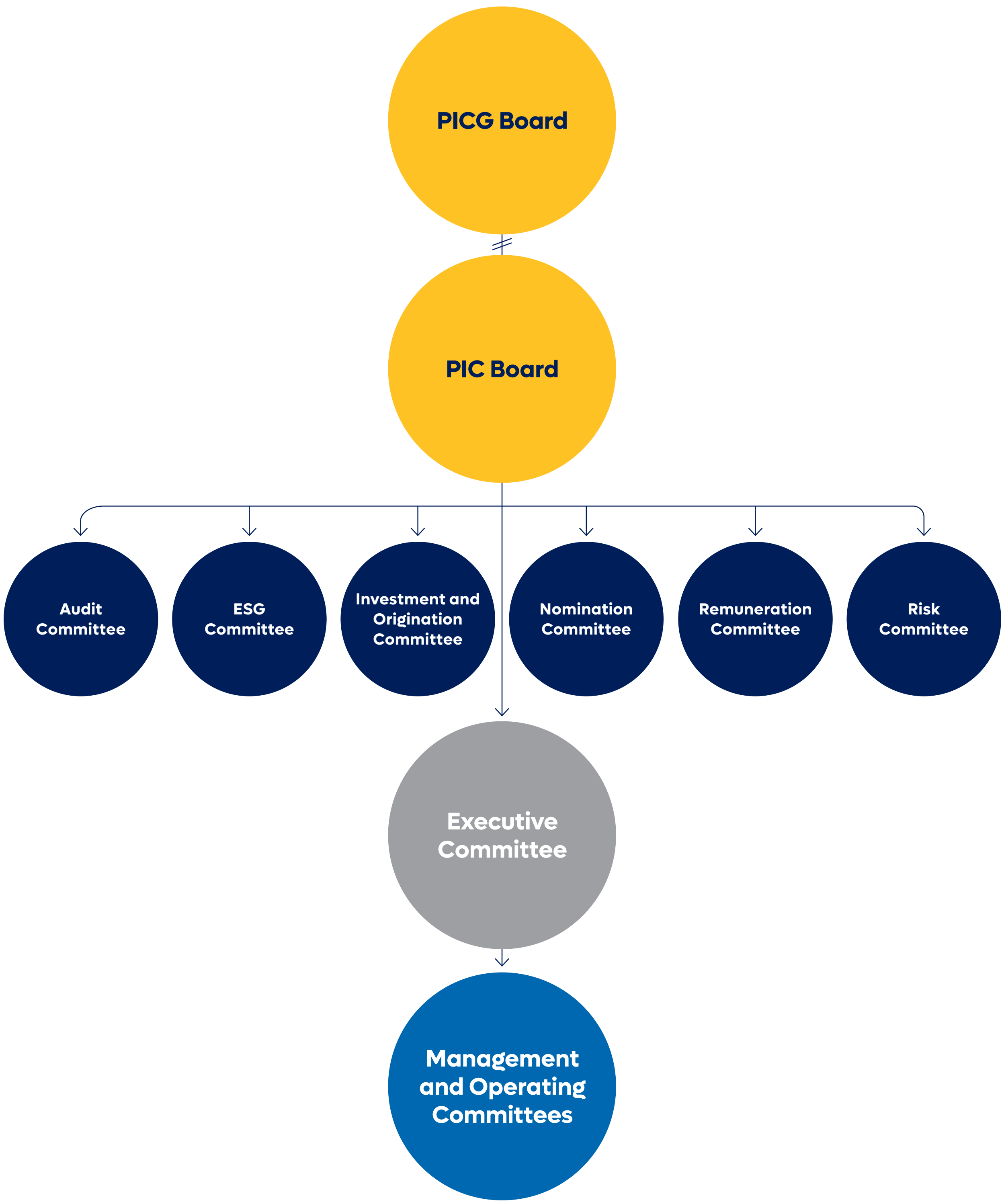
Summary (unaudited) continued

movements partially offset by new business written in the year. It should be noted that all derivative contracts are fully collateralised using a custodian, and as such present little credit risk in the event of a derivative counterparty default.

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



Summary (unaudited) continued

Audit Committee

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

ESG Committee

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

Investment and Origination Committee

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

Nomination Committee

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

Remuneration Committee

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

Risk Committee

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

Risk Profile

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

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

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

Valuation for Solvency Purposes

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

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

	Group		Company	
2020	Solvency £m	IFRS £m	Solvency £m	IFRS £m
Total Assets	74,338	75,080	74,288	75,045
Total Liabilities	69,278	70,913	69,270	70,902
Excess of Assets over Liabilities/Equity	5,060	4,167	5,018	4,143

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

- The Solvency II Risk Margin (net of transitional measures for technical provisions ("TMTP")) which is an addition to the Solvency II best estimate liabilities but is not required under IFRS;
- IFRS prudent margins in the projected liability cashflows (for example, via the expense and demographic assumptions) which increase IFRS liabilities relative to the Solvency II best estimate liabilities;
- Differences in the valuation discount rate, used to discount the liability cashflows, which is prescribed for Solvency II but determined by PIC for IFRS (and includes prudent margins);

Summary (unaudited) continued

- Valuation of subordinated debt liabilities, which are at amortised cost for IFRS purposes and are at fair value under Solvency II; and
- Differences related to deferred tax assets and liabilities.

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

Capital Management

At 31 December 2021, PICG's Solvency II ratio was 169% (PIC: 168%) (2020: PICG 158% and PIC: 157%) and it had surplus funds of £2,731 million (PIC: £2,701 million) (31 December 2020: PICG: £2,465 million; PIC: £2,449 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 2021, a combination of 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:

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

2020	Group	Company
Own Funds (£m)	6,726	6,710
SCR (£m)	4,261	4,261
Solvency II surplus (£m)	2,465	2,449
Solvency II ratio %	158%	157%

A. Business and Performance (unaudited)

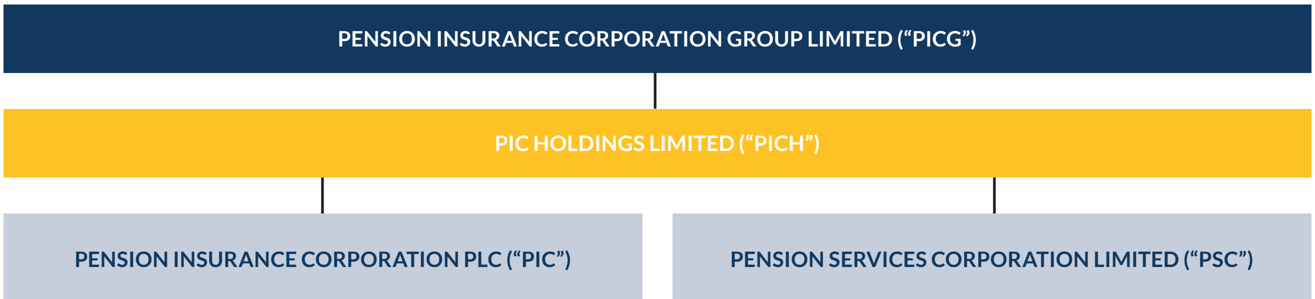
A.1 Business

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

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

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

A simplified group structure chart, and a description of the Group as at 31 December 2021 is set out below:



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

The Group and Company prepare their financial statements in accordance with IFRS and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. There are no differences between the scope of the Group for the consolidated financial statements and the scope under the default accounting consolidation method for Solvency purposes. The External Auditor to the Group is KPMG LLP, 15 Canada Square, London E14 5GL.

As presented in the Summary, the Group made an IFRS profit before tax of £393 million in 2021 (2020: £276 million), and the Company made an IFRS profit before tax of £394 million in 2021 (2020: £276 million).

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

A. Business and Performance (unaudited) continued

A.2 Performance of underwriting activity

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

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

Adjusted operating profit

	2021		2020 (restated)	
	PICG £m	**PIC £m**	PICG £m	PIC £m
Expected return from operations	**288**	**288**	274	274
New business and reinsurance profit	**167**	**167**	187	187
Underlying profit	**455**	**455**	461	461
Change in valuation assumptions	**315**	**315**	292	292
Experience and other variances	**(77)**	**(77)**	(253)	(253)
Finance and project costs	**(160)**	**(159)**	(151)	(151)
Adjusted operating profit before tax	**533**	**534**	349	349
Investment related variances	**(173)**	**(173)**	(106)	(106)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	**33**	33	33
Profit before taxation	**393**	**394**	276	276

During 2021, the definition of adjusted operating profit before tax was amended to take account of three refinements to the methodology:

1. New business profit has been redefined to align the reported new business profitability with the assumptions used in the pricing of new business. Any variance between pricing and current valuation assumptions is then recognised as an experience variance outside of underlying profit that will reverse over time. There is no change to adjusted operating profit before tax.

2. Reinsurance profit has been restated to recognise short term timing differences, and their reversal, within experience variances. This is consistent with underlying profit being an 'expected' profit measure. There is no change to adjusted operating profit before tax.

3. The cost of the RT1 interest has been recognised within finance costs. This is to align the reporting across all bases and reflects the way management and rating agencies view these financing costs. The treatment for the statutory IFRS statement of comprehensive income remains unchanged, i.e. the RT1 interest is treated as a dividend, and therefore the RT1 interest is added back before profit before tax in the alternative profit metric.

The 2020 comparatives have been restated accordingly.

The Group's adjusted operating profit before tax was £533 million (PIC: £534 million), an increase of 53% from 2020 (PIC: 53%). This was primarily due to management actions and assumption changes and a lower adverse experience variance. More detail on the main components of adjusted operating profit is set out below.

Underlying profit

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

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

Underlying profit of £455 million in 2021 was broadly in line with 2020 (2020: £461 million). Within this figure, expected return from operations of £288 million was higher than last year (2020: £274 million) mainly reflecting a higher assumed longer-term rate of return due to the increase in interest rates seen in the year, partially offset by lower credit spreads in 2021.

A. Business and Performance (unaudited) continued

New business and reinsurance profit of £167 million was lower than 2020 (£187 million). Within this result, new business profits were higher than last year, despite lower volumes, reflecting a favourable business mix. This was offset by a reduced benefit from reinsurance on the in-force book.

Reinsurance transactions in 2021 covered £4.0 billion of liabilities compared to £6.6 billion of liabilities reinsured in 2020.

Changes in valuation assumptions

The Group sets assumptions in respect of the in-force liabilities and new business acquired during the year. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

As part of management's review of assumptions in 2021, the Group updated several assumptions including those in respect of credit defaults, maintenance expenses, investment management fees, inflation and the IFRS liquidity premium rate. This resulted in a profit of £315 million.

To ensure that our default and downgrade expectations are appropriate, we undertake a regular update of our long-term expectations based on data provided by rating agencies. The update for 2021 resulted in a release of £116 million, which reflects the lesser likelihood of downgrades in our investment portfolio, and has been impacted by various actions taken by the business in recent years. The credit default reserve was £2.7 billion as at 31 December 2021 (31 December 2020: £2.9 billion).

During the year, after reviewing our contractual custodian fees, the assumption for investment management fees was updated resulting in a release of reserves of £104 million.

Following the Retail Price Index ("RPI") reform announced by the Chancellor in November 2020 which proposes to align RPI to the Consumer Prices Index including owner occupiers' housing costs ("CPIH") after 2030, we took the opportunity to update our longer-term inflation assumptions and refine our inflation modelling to take account of both Consumer Price Index ("CPI") and RPI volatility. This resulted in an increase in IFRS surplus of £70 million.

In addition, there were several other assumption changes made in the year which included an update to the reinvestment/disinvestment rate used for the IFRS liquidity premium calculation and an update to the maintenance expense assumption incorporating the latest expense budgets and following a review and update of expense allocations. In 2020, total reserve releases of £292 million were in respect to changes in assumptions for longevity and expenses.

Experience variances and other costs

Experience variances, which reflect the difference between the assumptions used for pricing within the new business line and those used for reserving, 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 £77 million in 2021 (2020: loss of £253 million).

In 2020, the negative experience variance was primarily due to differences between the maintenance expense assumption used in pricing compared to those used in the valuation basis. This gave rise to a negative experience variance of £158 million which was largely offset in the year by a reserve release within changes in valuation assumptions. In addition, data updates resulted in a loss of £46 million.

Finance and Other Costs

The interest costs of the subordinated Tier 2 debt capital issued by PIC, rose to £88 million in 2021 (PICG: £88 million) from £73 million the previous year (PICG: £73 million). This increase was due to the full year effect of the two Tier 2 debt issues made in 2020.

Interest coupons paid on the RT1 Debt issued by PIC were £33 million (PICG: £33 million) and were unchanged from 2020 (PICG: £33 million).

Project costs in 2021 were £38 million (PICG: £38 million) compared to 2020 costs of £45 million (PICG: £45 million).

Investment related variances

Investment related variances gave rise to a loss of £173 million in the year (2020: loss of £106 million).

As noted above, adjusted operating profit before tax is based on expected long-term investment returns which are calculated using management assumptions of the returns on the assets backing policyholder and shareholder funds with an allowance for the corresponding expected movements in liabilities. The long-term rates of return earned on excess assets are derived with reference to the expected longer-term yield of the underlying assets. Profit before tax includes the actual investment returns earned in the period on assets backing insurance liabilities and surplus assets. Actual investment returns in the year, on a mark to market basis, will differ from the expected longer-term returns due to short-term impacts from market movements. The difference between the actual and the expected long-term rates of return, coupled with the impact of changes in economic assumptions on liabilities and the difference between the short-term actual asset mix and the expected long-term asset mix on new business transactions during the year are included within investment related variances, outside of adjusted operating profit before tax.

A. Business and Performance (unaudited) continued

The Group carefully manages its exposure to market and other economic risks in order that we are able to fulfil our purpose over the long-term. As such the Group's hedging strategy is primarily designed to protect the solvency balance sheet. This is achieved by entering into derivative hedging contracts in accordance with our risk framework. However, due to the differing requirements of the Solvency II and IFRS reporting metrics, there is a mismatch between the Solvency II and the IFRS balance sheet hedging strategies. This mismatch, and the resulting volatility, is included within the investment related variance line. The impact of downgrades and management actions which were taken to improve the resilience of the balance sheet are also both included here.

In 2021, the adverse investment variance of £173 million was primarily due to significant economic volatility in the year, in particular rising GBP risk free rates and credit spread movements partially offset by higher inflation.

Other operational highlights

In total, in 2021, PIC was responsible for the current and future pension payments of 282,900 (2020: 271,500) individuals, including those with individual policies, and those for whom the trustees of the underlying pension schemes retain ultimate responsibility.

At 31 December 2021, 85% of PIC's total longevity exposure on a regulatory solvency basis was reinsured to third party, investment grade reinsurer counterparties (2020: 84%).

A.3 Performance of investment activity

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

	Group and Company	
Investment return: by Solvency II Asset Class	**2021 £m**	2020 £m
Government bonds	**59**	1,995
Corporate bonds	**(188)**	1,865
Collective Investment undertakings	**119**	44
Cash and deposits	**(2)**	1
Collateralised securities	**1**	27
Mortgages and loans	**(220)**	652
Derivative based instruments	**440**	(494)
Commissions earned	**1**	1
Investment Return	**210**	4,091
Investment management expenses	**(42)**	(29)
Total	**168**	4,062

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

It is important to note that fair value gains and losses included in investment return in the income statement are largely offset by changes in insurance liabilities, also in the income statement. Therefore, there is minimal impact on profit before tax.

A.4 Performance of other activities

Pension Insurance Corporation Group Limited

Group corporation tax charges, including those incurred by PIC, were £82 million during the year (2020: £54 million).

Pension Insurance Corporation plc

The Company incurred corporation tax charges of £81 million for the year ended 31 December 2021 (2020: £53 million).

A. Business and Performance (unaudited) continued

A.5 Any other information

Economic uncertainty and market volatility

We expect the trend of uncertainty and volatility in the financial markets to continue into 2022. The clear need for the global economies to address climate change is also driving global economic uncertainty. The outlook for UK economic growth remains uncertain, with ongoing pressure driven by the Covid-19 pandemic, our developing trade relationship with the EU post-Brexit, and expected higher inflation driven by energy prices and supply constraints.

A similar picture exists at a global level where a range of risk drivers continue to sow uncertainty including further Covid related restrictions, geopolitical risks from protectionist measures, social unrest, the Ukraine conflict, and advanced economies' governments' inability to deliver a significant fiscal stimulus to revive economic growth.

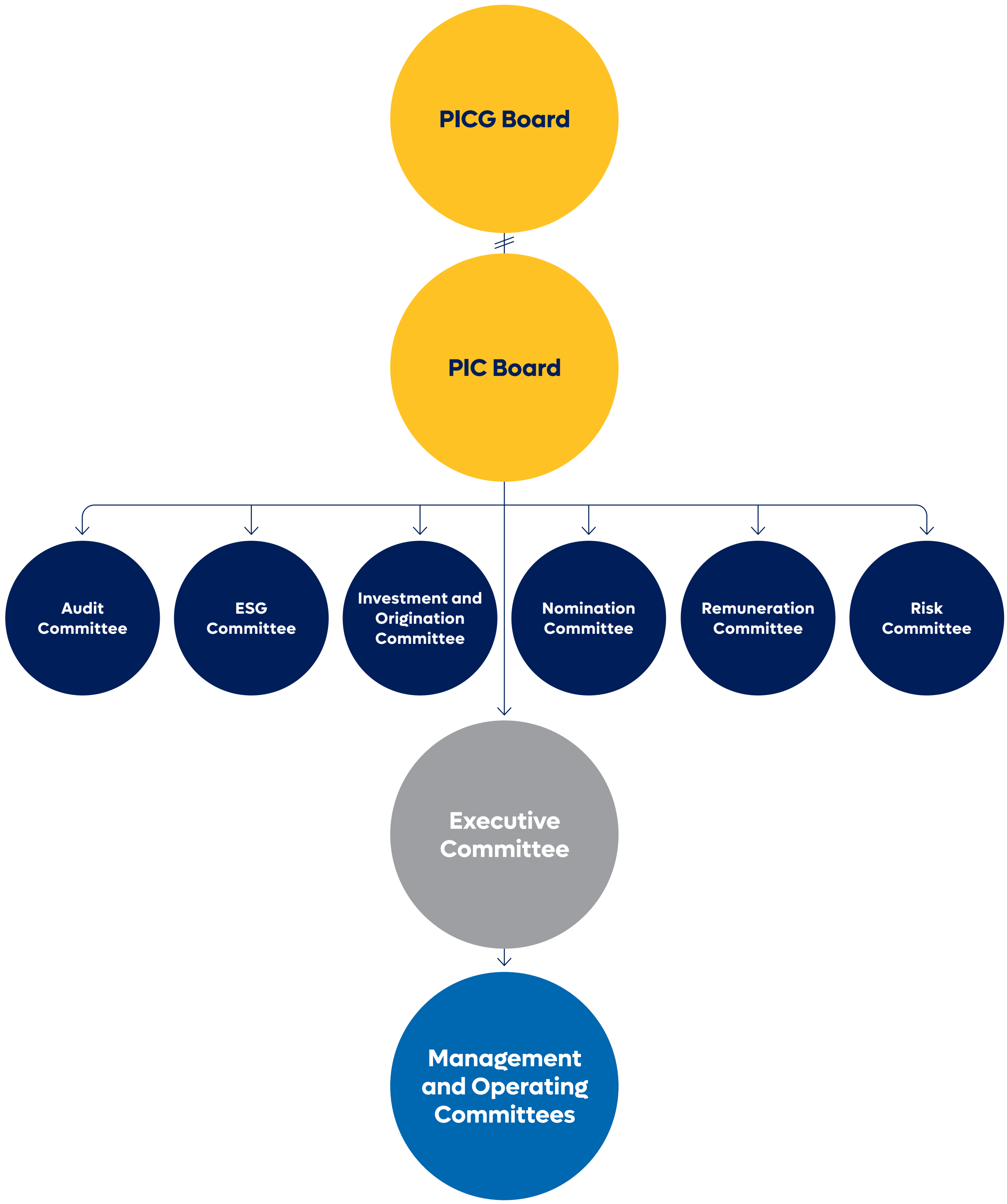
During 2021, we have been cautious in our credit portfolio, focused on consolidating the portfolio into secure assets should markets become more volatile. We also have extremely limited direct exposure to the crisis in Ukraine, with circa £3 million from a legacy private equity investment, with a focus on Russia, held in our shareholder assets. We are confident in the resilience of our portfolio and the situation remains under careful review. In addition, PIC carries out close management of its balance sheet, and actively hedges its balance sheet against adverse movements in financial markets. PIC monitors areas of potential pricing bubbles that may see market corrections in order to limit exposures where appropriate. The business holds a significant amount of risk-based capital to protect against market movements.

Rounding convention

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

B. System of Governance (unaudited)

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



B. System of Governance (unaudited) continued

B.1 Governance Function

Board of Directors

Pension Insurance Corporation Group Limited

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

Of the non-executive Board members, two are nominated by Reinet PC Investments (Jersey) Limited which as at 31 December 2021, holds a 49.37% interest in PICG, one is nominated by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which holds a 18.15% interest in PICG, one is nominated by Blue Grass Holdings Limited, a CVC entity, which holds a 17.37% interest in PICG, and one is nominated by MP 2019 K2 Aggregator, L.P., an HPS Investment Partners entity, which holds a 10.23% interest in PICG.

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

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

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

PICG Board

Director	Approved Function	
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function	
	SMF 9 Chairman	
Tracy Blackwell	SMF 1 Chief Executive Function	
	SMF 7 Group Entity Senior Insurance Manager Function	
Jake Blair	SMF 7 Group Entity Senior Insurance Manager Function	Appointed 7 June 2021
Judith Eden	Non-executive Director	
Tim Gallico	SMF 7 Group Entity Senior Insurance Manager Function	
Julia Goh	Non-executive Director	Appointed 1 October 2021
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	
Mark Stephen	Non-executive Director	
Wilhelm Van Zyl	SMF 7 Group Entity Senior Insurance Manager Function	

Pension Insurance Corporation plc

PIC is governed by its Board consisting of 14 directors, 12 of whom are non-executive. 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 31 December 2021, indirectly holds a 49.37% interest in PIC, one is appointed by Luxinva S.A., a wholly owned subsidiary of the Abu Dhabi Investment Authority, which indirectly holds a 18.15% interest in PIC, one is appointed by Blue Grass Holdings Limited, a CVC entity, which indirectly holds a 17.37% interest in PIC, and one is nominated by MP 2019 K2 Aggregator, L.P., an HPS Investment Partners entity, which holds a 10.23% 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.

B. System of Governance (unaudited) continued

PIC Board

Director	Approved Function	
Jon Aisbitt	SMF 7 Group Entity Senior Insurance Manager Function SMF 9 Chairman SMF13 Chair of the Nomination Committee	
Tracy Blackwell	SMF 1 Chief Executive Function 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
Jake Blair	SMF 7 Group Entity Senior Insurance Manager Function	Appointed 7 June 2021
Judith Eden	SMF 12 Chair of the Remuneration Committee	
Julia Goh	Non-executive Director	Appointed 1 October 2021
Stuart King	Non-executive Director	
Arno Kitts	Non-executive Director	
Roger Marshall	SMF 11 Chair of the Audit Committee SMF 14 Senior Independent Director	
Jérôme Mourgue D'Algue	SMF 7 Group Entity Senior Insurance Manager Function	
Peter Rutland	SMF 7 Group Entity Senior Insurance Manager Function	
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	Stepped down as SMF 2 and retired from the Board on 9 December 2021
Mark Stephen	Non-executive Director	
Wilhelm Van Zyl	SMF 7 Group Entity Senior Insurance Manager Function	
Dom Veney	SMF 2 Chief Finance Function	Appointed 10 December 2021

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

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

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

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

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

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

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

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

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

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

B. System of Governance (unaudited) continued

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

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

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

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

The appointment or removal of the Head of Internal Audit.

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

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

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

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

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

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

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

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

The Risk Committee also reviews reports on any material breaches of risk and compliance limits and material incidents. The committee monitors the adequacy of proposed actions and management's responsiveness to remedial actions 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's on making recommendations to the Board with regard to the appointment and removal of the Chief Risk Officer.

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

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

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

B. System of Governance (unaudited) continued

Nomination Committee

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

Remuneration Committee

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

Environmental, Social and Governance Committee

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

Executive Committee

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

Executive Committee
Chief Executive Officer
Chief Financial Officer ("CFO")
Chief Risk Officer ("CRO")
Chief Operating Officer
General Counsel
Chief Origination Officer
Chief People Officer
Chief Investment Officer
Head of Internal Audit
Chief Technology Officer
Head of Corporate Development and Strategy
Chief Transformation Officer

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 2021 and the date of this report:

- Jake Blair was appointed on 7 June 2021
- Julia Goh was appointed on 1 October 2021

Pension Insurance Corporation plc

The following changes were made to the Board of Directors of PIC between 1 January 2021 and the date of this report:

- Sally Bridgeland was appointed on 28 January 2021
- Steve Sarjant retired on 31 March 2021
- Jake Blair was appointed on 7 June 2021
- Julia Goh was appointed on 1 October 2021
- Rob Sewell retired on 9 December 2021
- Dom Veney was appointed on 10 December 2021

Remuneration Policies and Practices

Governance of remuneration

The PIC 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.

B. System of Governance (unaudited) continued

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

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

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

A description of the different remuneration elements for 2021 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive taking into account the individual's skills, the size and scope of their role, and that of the Company. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Company to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all eligible employees: Private health cover; annual travel insurance; interest free loans (up to £10,000) for season tickets; death in service life assurance; 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. 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.

B. System of Governance (unaudited) continued

Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All eligible employees may be invited to participate in the plan. Awards are based on the achievement of annual objectives. At all levels within the Group, individual performance metrics include compliance with standards relating to risk and compliance set by the Board. Other performance metrics assess alignment with the Group's values, which include good conduct both within the firm and in dealings with customers. For Solvency II Identified Staff, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. Performance is assessed against both financial and non-financial criteria. Financial performance is reviewed against a basket of financial metrics agreed at the beginning of the year. Non-financial criteria could consider metrics such as compliance with risk appetite, compliance breaches, customer service measures and conduct, and findings of Risk, Compliance and Internal Audit reviews. The CRO, with input from the Chair of the Board Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all the above measures is assessed by the Remuneration Committee in the round. For Solvency II staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil-cost options. While the cash element of the bonus is paid upfront, for Solvency II Identified Staff at least 40% of 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	The DBSP seeks to align the long-term interests of the Company for all senior management and other key individuals through bonus deferral. Under DBSP, bonuses comprise of a cash element awarded annually at the end of the financial year and paid in March of the next year. The deferred element is awarded in the form of nil cost options which vest after three years.
	
	For Solvency II Identified Staff a minimum of 40% of any variable award is deferred. Prior to vesting, the RemCo can make adjustments to awards under the malus and clawback provisions.
	
	The RemCo has the ability to reduce or extinguish the level of any award, or require amounts to be reclaimed from individuals. This may be the case in the event of:
	• significant financial losses or material misstatement of the accounts for the Company or any group company;
	• material failure of risk management for any period that the Committee reasonably considers is relevant;
	• discovery of a material error in relation to the assessment of annual performance on which an award was based; and/or
	• reasonable evidence of any act or omission by the participant which in the opinion of the Committee:
	  • has contributed to material losses or serious reputational damage to the Company or any business area; or
	  • has amounted to serious misconduct, fraud or misstatement (whether by exaggeration of financial performance or mismarking the valuation of any asset or otherwise).
	• for any period that the Remuneration Committee determines is relevant; and/or in relation to an Award granted on or after 1 January 2022, and to the extent not already covered by the above provisions:
	  • a material corporate failure in any Group Member or a relevant business unit; or
	  • the discovery of a material error in relation to the information or assumptions on which the Award was granted or vests.

B. System of Governance (unaudited) continued

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

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

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

Material transactions during the reporting period

Transactions with directors and key management personnel
Key management personnel comprise directors of the Group and members of the Executive Committee.

	2021 £m	2020 £m
Short-term employee benefits	**9**	9
Share-based payments	**5**	4
Total	**14**	13

Total loans to directors and key personnel in respect of share plans were fully repaid in the year. The balance of loans outstanding at 31 December 2020 were £7 million.

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

Transactions with shareholders

Pension Insurance Corporation plc
There were no transactions with shareholders during 2021 (2020: £750 million equity raised).

Pension Insurance Corporation Group Limited
There were no transactions with shareholders during 2021 (2020: £750 million equity raised).

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.

B. System of Governance (unaudited) continued

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

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

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

PIC has implemented the requirements of the Senior Managers and Certification Regime which was extended to insurance companies on 10 December 2018. Staff were certified on 21 June 2021.

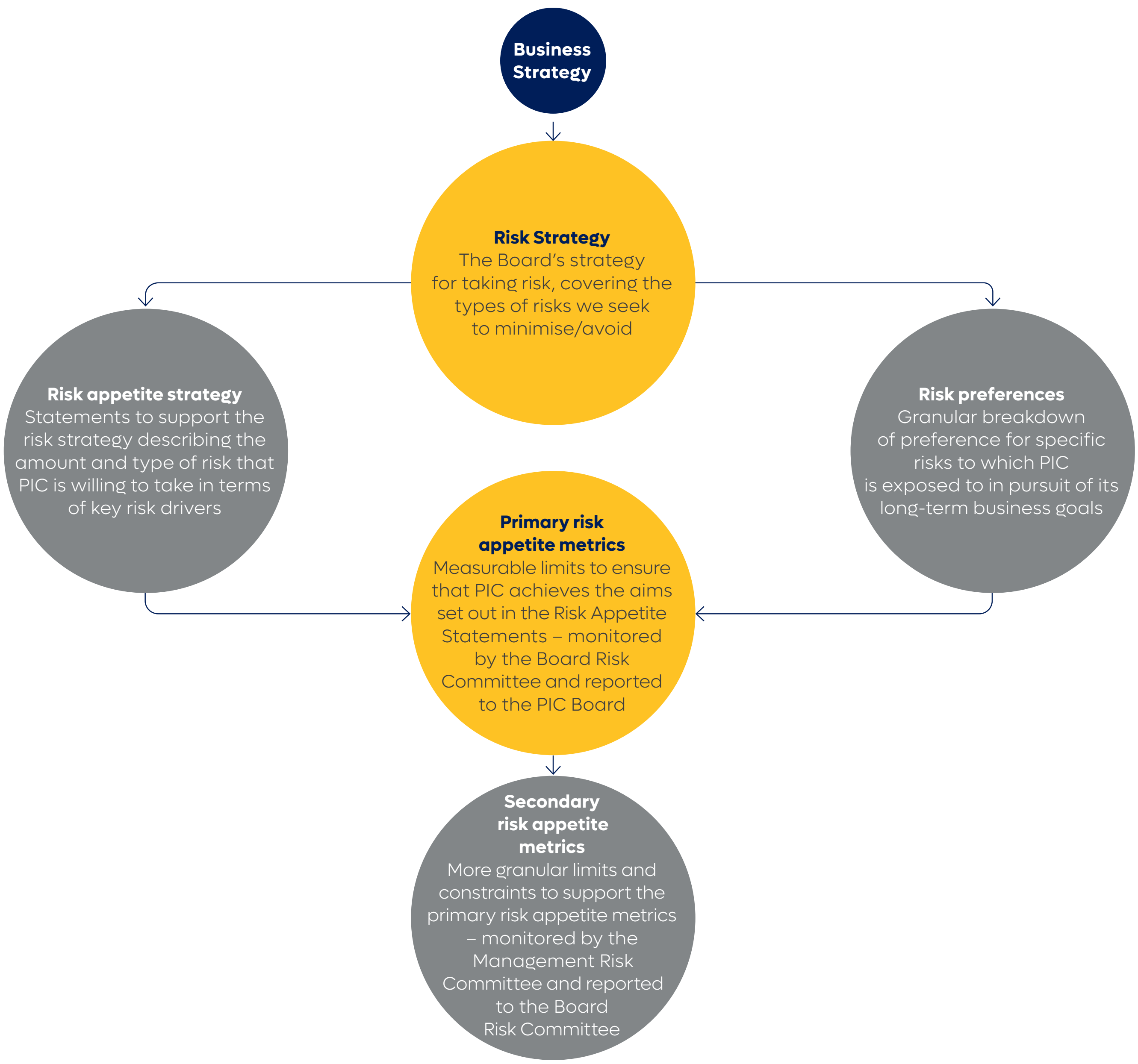
A list of the approved persons of the Company is held on the Financial Services Register website, maintained by the Financial Conduct Authority, and is available from the following link.

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

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

B.3.1 Risk Appetite Framework

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



B. System of Governance (unaudited) continued

B.3.2 Risk strategy and preferences

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

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

These principles are:

We should actively seek risks that:

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

We should accept and take measured amounts of risks that:

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

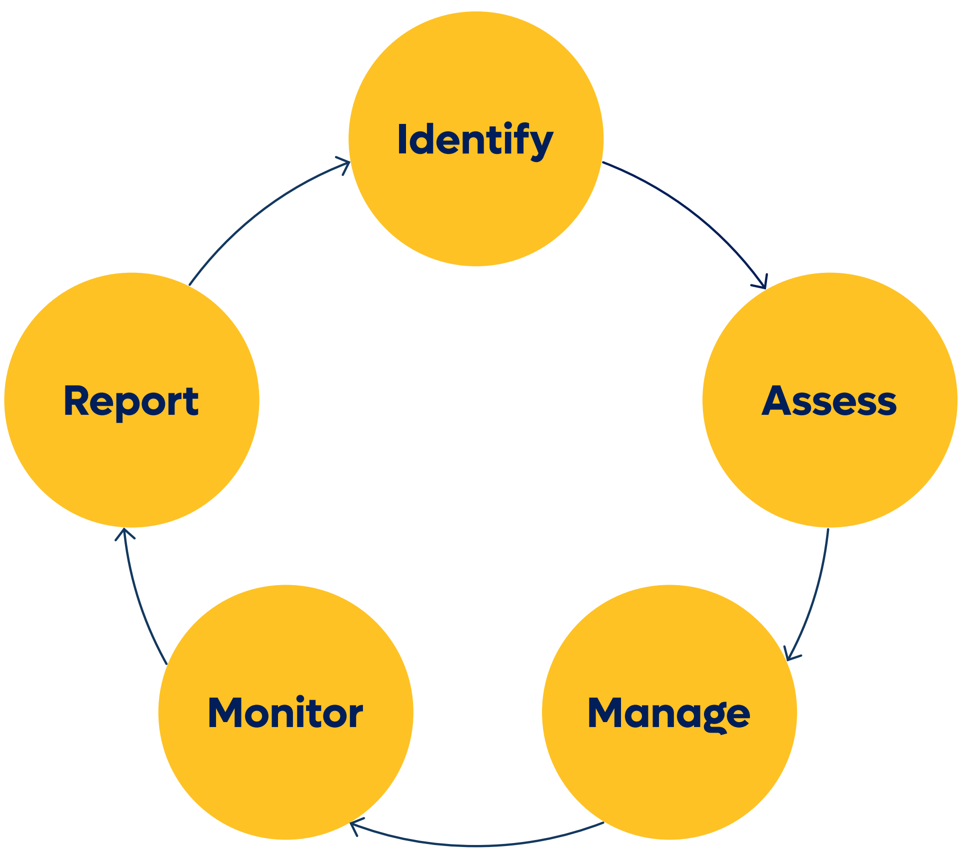
We should minimise risks which:

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

B.3.3 Risk Management System

PIC's Risk Management System outlines how risks are identified, assessed, controlled and managed. Risk assessment is a continuous process, incorporating regular monitoring, stress and scenario testing and deep dive reviews.

Quantifiable and material risks over the coming year which are mitigated through holding capital are measured using PIC's internal model, which is used to determine the appropriate Solvency Capital Requirement for the business to manage the impact of these risks. Those quantifiable and material risks for which capital is not held as part of their risk mitigation treatment or which are expected to occur at a future date over the planning horizon, beyond the 12-month horizon of the SCR calculation, are not included within PIC's internal model. Instead, these are measured by considering their impact as part of the stress and scenario testing programme and discussed in risk and solvency reports such as the Own Risk and Solvency Assessment ("ORSA"). PIC also tracks and monitors a range of emerging and developing risks that may impact its business model and strategy in order to assess whether any new risks need to be more extensively assessed and formally managed, including additional controls and monitoring.



B. System of Governance (unaudited) continued

B.3.4 Risk appetite
PIC's Risk Appetite Framework is closely aligned with its business strategy. This is defined for the medium-term (typically three to five years) and reviewed annually. The Company has developed primary and secondary risk appetite metrics which are designed to align with supporting the safe delivery of the business strategy objectives. A target, threshold trigger and limit are set for each of the risk appetite metrics. If one of the risk appetite metrics passes through a trigger or limit, it necessitates escalation and appropriate action.

B.3.5 Own Risk and Solvency Assessment
The ORSA assessment provides an ongoing process to identify, assess, monitor and manage the risks to PIC's business plan and solvency over both the near term and the five-year business planning horizon.

The ORSA activities include:

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

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

B.3.6 Capital Buffer
In addition to managing the profile of its assets to meet the Company's objectives to ensure it can meet its obligations to policyholders and providers of capital in a timely manner, the Board determines its own view of the amount of capital it believes the business needs to hold.

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

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

B.3.7 Internal Model governance
The BRC is responsible for the oversight of the Internal Model and providing recommendations to the Board with respect to its calibration and any proposed changes. These duties are supported by the Management Risk Committee which is chaired by the CRO.

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

- model use: to provide assurance that the model is widely used in the business and plays an important role in the system of governance and decision-making processes;
- model change: where changes to the Internal Model are required, these are implemented in a controlled manner with appropriate oversight and governance;
- model data: controls are applied to ensure the data used by the Internal Model is accurate, complete and appropriate;
- expert judgements: where judgements are required in the model, then these are informed by relevant internal and/or external experts and supported with robust justification, considering the range of plausible assumptions and their impacts and limitations;
- model documentation: the Internal Model documentation outlines the data, methodology, assumptions and judgements within the model, including highlighting the circumstances where the model does not work effectively. This allows management to determine whether the output is reasonable and reliable for its different uses; and
- model validation: the Model Risk and Validation team within the Risk function provides independent assurance that the Internal Model remains fit for purpose and compliant with all applicable rules through a risk-based cycle of reviews. These reviews use a range of quantitative and qualitative validation tools documented in the Internal Model Validation Procedure such as profit and loss attribution and back-testing against experience.

There have been no material changes to the Company's Internal Model governance over 2021.

B. System of Governance (unaudited) continued

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 risk including conduct risk. The daily control activities include approvals, reconciliations, management reviews, appropriate measurements applicable to each business area, physical access controls, compliance with agreed limits, and compliance with operating principles/instructions and procedures. The control activities should be proportionate to the risks stemming from the controlled activities and processes. They consist of a number of control activities which are deemed appropriate to the business and the principles of these are documented below:

CONTROL ACTIVITY	PRINCIPLES
Existence:	Only valid or authorised transactions are processed and appropriate assets and liabilities recorded. This includes appropriate reconciliation of records held by external parties to expected outcomes.
Occurrence:	Transactions are correctly processed and recorded in the period to which they relate on a timely basis. This includes controls over outsourcing arrangements such as confirmation that controls have occurred and suitable records have been maintained.
Completeness:	All valid transactions are processed without omissions. Checks are made to confirm completeness of transactions, including payments to pensioners each month. Monitoring is undertaken to confirm agreed service standards are met. Records for assets maintained by outsourced custodians are checked to ensure completeness and accuracy. Control attestations are completed by Executive Management at least annually to confirm conformance with key policies.
Valuation:	The value of each transaction and balance in the Company's accounts is calculated using an appropriate methodology and is computationally accurate. Policies and procedures are documented and approved including the Investment valuation policy, which is reviewed by external auditors. Reviews are undertaken of the application of relevant policies. Models are subject to appropriate change control, assumptions are documented and appropriate approvals are undertaken prior to new business commitments.
Security:	The Company's assets and data are held in a secure environment with adequate safeguards over misuse and misappropriation. Relevant policies are documented and communicated to all staff, with clear record of their obligations to protect assets. Security of information, and in particular data relating to policy-holders, is subject to scrutiny and review, with information security matters highlighted and communicated to executive management, the Board and relevant committees. Physical assets are recorded and subject to regular checks. Physical access to the Company's premises and assets is restricted, with regular testing of access controls, monitoring and exceptions reporting.

B. System of Governance (unaudited) continued

CONTROL ACTIVITY	PRINCIPLES
Rights and Obligations:	Assets and liabilities are properly recorded and valued. Assets represent the rights of the company, and liabilities its obligations, at a given date.
Presentation & Disclosure:	Components of financial statements (or other reporting) shall be properly classified (by type or account) and described appropriately. 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. An audit trail is kept from financial statements to internal management reports.
Competence:	Staff employed by the Company have the skills appropriate to their role and responsibilities, and are supported by a suitable training programme to augment their skills as necessary; this includes documented job descriptions, agreed development plans and support for continuing professional development. Monitoring and assessment of "fit and proper" requirements, including critical finance functions, undertaken in line with the Company's Fit and Proper Persons policy.
Regulation:	The Company's affairs are conducted at all times in compliance with the rules of its regulatory bodies. Established Compliance function supported by staff training and regular monitoring of key parameters by which compliance is measured (e.g. treating customers fairly, breach reporting etc).
Risk:	The Company identifies and considers the operational and financial risks it runs in the course of managing its business and identifies and implements appropriate mitigating procedures. The Board sets a Risk Framework for the Company, which includes Risk Appetite and tolerance limits. Board Risk, Risk Management and Operational Risk Committees meet on a regular basis. Oversight is provided by the relevant Board and Management Risk Committees to assess how risks are being managed and any areas that internal controls are not operating as expected. Meetings are minuted and action points followed up by Chief Risk Officer and Operational Risk Manager.
Operational resilience:	Operational resilience defines PIC's ability to prevent, adapt, respond to, recover and learn from operational disruptions. PIC's business continuity and disaster recovery plans are key elements of PIC's approach to achieve operational resilience. The plans are produced, maintained and regularly tested, with periodic update and review, including monitoring by the Business Continuity Review Group.

B.4.1 Compliance

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

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

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

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

B.5 Internal audit function

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

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

Internal Audit is responsible for reviewing and reporting on:

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

B. System of Governance (unaudited) continued

Internal Audit is responsible for developing a risk-based internal audit plan at least annually to Senior Management and the Audit Committee for review and approval. The annual planning process includes review of current and emerging risks, discussions with senior management, risk based prioritisation and agreeing the approach, timing and resource to be allocated to the audits.

The 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, 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 adequacy and effectiveness of the Risk Management, Compliance and Finance functions. Effectiveness and efficiency of operations and employment of resources;
- Risks of poor customer treatment, giving rise to conduct or reputational risk;
- Review and reporting on significant control failures and assisting investigation of significant suspected fraudulent activities; and
- Key corporate events including new products, services, outsourcing decisions and acquisitions/divestments.

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

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

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

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

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

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

B.6 Actuarial function

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

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

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

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

B.7 Outsourcing

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

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

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

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 2021 totalled £176 million (2020: £185 million).

The following key functions and activities have been outsourced:

- Policyholder, payroll and administration services to Capita Employee Benefits Limited, Barnett Waddingham LLP and Equiniti (Paymaster 1836 Ltd)
- Some HR services to CBHC
- Payroll services to MoorePay
- 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, TwentyFour Asset Management and MacQuarie
- IT support to Content+Cloud
- Actuarial support services to Barnett Waddingham LLP and XPS Pensions Consulting Limited.

B.8 Any other information

Adequacy of systems of governance

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

C. Risk Profile (unaudited)

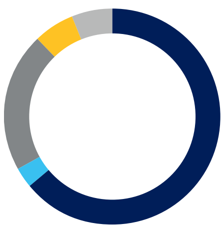
The Solvency Capital Requirement for both PICG and PIC was £3,968 million as at 31 December 2021 (31 December 2020: £4,261 million), as measured by the Group's Internal Model.

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

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

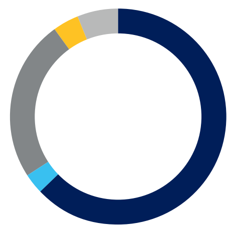
This can be expressed graphically, as shown below:

2021



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

2020



- Market risk (including credit risk) 63%
- Counterparty default risk 3%
- Insurance risk 24%
- Expense risk 4%
- Operational risk 6%

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

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

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

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

C.1 Market risk

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

C.1.1 Market risk exposure

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

C.1.2 Market risk management and mitigation

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

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

C. Risk Profile (unaudited) continued

Capital is held to further protect the Company against crystallisation of market risks. Stress testing of the Solvency II solvency position is conducted to ensure a suitable solvency buffer is maintained. The impact of certain scenarios on the reported Solvency II ratio is shown below. 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.

	2021	2020
As Reported	**168%**	157%
100 bps increase in interest rates[1]	**12.9%**	3.9%
100 bps reduction in interest rates[1]	**(23.1)%**	(12.6)%
100 bps increase in credit spreads[1]	**9.4%**	(1.0)%
100 bps reduction in credit spreads[1]	**(19.1)%**	(14.8)%
20% credit downgrade[2]	**(7.9)%**	(11.1)%
5% reduction in base mortality[3]	**(7.1)%**	(6.7)%

All sensitivities allow for a transitional measure for technical provisions recalculation.

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 22.9 years to 23.3 years for a typical male aged 65.

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

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

In order to help minimise this risk and also uncertainty arising through future longevity experience, PIC adopts an active approach to reinsuring these risks where it is economic to do so. This reinsurance can be classified into two broad categories:

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

C.2.2 Quota share reinsurance – longevity reinsurance via the transfer of assets
Under such contracts, in return for 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:

C.2.3 Risk arising from a specific insurance contract
The Company considers, as part of its risk management process, the risk attached to each new contract accepted and the mitigation of such risk.

C. Risk Profile (unaudited) continued

C.2.4 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 2021, 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.

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 2021 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 changes in the value of credit risk sensitive instruments due to movements in mark-to-market value, downgrades or defaults.

C.5.1 Credit risk exposure
The Company is primarily exposed to credit risk through its investment in debt securities. A significant proportion of the asset portfolio is comprised of corporate and government bonds held to back annuity liabilities.

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

C.5.2 Credit risk management and mitigation
The Company manages exposure to credit risk by maintaining a comprehensive due diligence and governance process for assessing and selecting appropriate credit risks to acquire. Counterparty risk is controlled through establishment of collateral agreements and master netting agreements on interest rate and currency swaps. Minimum credit quality requirements are applied when selecting derivative and reinsurance partners to transact with and exposure limits are determined based on credit ratings and projected exposure to losses on default. To manage the credit risk the Company maintains, the credit portfolio and exposure to counterparties are monitored on a regular basis, and capital is held to further protect against crystallisation of credit risk.

C.5.3 Credit risk concentration
The Company manages credit concentration risk by placing concentration limits for various characteristics (e.g. sectors, credit rating, geographical) and on exposures to individual counterparties. Capital is held to protect against the additional potential impact of concentrations within the portfolio in an adverse credit scenario.

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

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

C. Risk Profile (unaudited) continued

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

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

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

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

C.7 Any other information

C.7.1 Climate change risk
Climate change presents a number of significant risks across our stakeholder group, including loss of value due to asset impairment as a result of climate change factors, operational disruption and reputational consequences arising from any failure in evidencing our long-term climate actions. These could lead to reduced asset values, increased cost of capital and reduced new business volumes.

We are continually assessing how our business may be impacted by the above risks. Importantly, we have developed our risk management approach to identify, manage and report climate related risks to our ESG Board sub-committee, and ultimately our Board. For our systems and processes, we include adaptation or operational disruption caused by physical and transition risk associated with climate change in our risk analysis and have actively started engaging with our external providers. For the assets we invest in, we seek to manage the level of transition risk and minimise the physical risk.

2022 is the first year PIC has produced a Taskforce for Climate-related Financial Disclosures report, which outlines our approach to managing climate change across four key areas: strategy, metrics and targets, risk management and governance.

D. Valuation for Solvency Purposes

Balance Sheet: PICG

2021

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

2020

31 December 2020	Section reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Property, plant and equipment	*D.1.2.1*	20	1	21
Investment property	*D.1.2.2*	–	91	91
Holdings in related undertakings	*D.1.2.2*	87	(87)	–
Bonds	*D.1.2.3*	41,577	–	41,577
Collective Investments undertakings	*D.1.2.4*	2,528	–	2,528
Derivative assets	*D.1.2.5*	21,936	–	21,936
Total Investments		66,148	5	66,153
Loans and mortgages	*D.1.2.6*	5,555	(94)	5,461
Reinsurance recoverables	*D.1.2.7*	2,003	770	2,773
Other assets	*D.1.2.8*	102	5	107
Deferred tax asset	*D.1.2.8*	20	(17)	3
Receivables	*D.1.2.9*	20	5	25
Cash and cash equivalents	*D.1.2.10*	465	93	558
Own shares held directly	*D.1.2.11*	25	(25)	–
Total Assets S.02.01		74,338	742	75,080
Technical provisions	*D.2.1*	42,892	1,943	44,835
Derivative liabilities	*D.3.1*	24,340	–	24,340
Insurance and other payables	*D.3.2*	115	3	118
Deferred tax liability	*D.3.3*	227	(225)	2
Subordinated debt instruments	*D.3.4*	1,704	(86)	1,618
Total Liabilities S.02.01		69,278	1,635	70,913
Excess of Assets over Liabilities/Equity		5,060	(893)	4,167

D. Valuation for Solvency Purposes continued

Balance Sheet: PIC

2021

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

2020

31 December 2020	Section Reference	Solvency II value (£m)	Adjustment (£m)	Statutory Accounts Value (£m)
Holdings in related undertakings	D.1.2.2	87	–	87
Bonds	D.1.2.3	41,577	–	41,577
Collective Investments undertakings	D.1.2.4	2,528	–	2,528
Derivative assets	D.1.2.5	21,936	–	21,936
Total Investments		66,128	–	66,128
Loans and mortgages	D.1.2.6	5,555	–	5,555
Reinsurance recoverables	D.1.2.7	2,003	770	2,773
Other assets	D.1.2.8	102	–	102
Deferred tax asset	D.1.2.8	17	(17)	–
Receivables	D.1.2.9	21	4	25
Cash and cash equivalents	D.1.2.10	462	–	462
Total Assets S.02.01		74,288	757	75,045
Technical provisions	D.2.1	42,892	1,943	44,835
Derivative liabilities	D.3.1	24,340	–	24,340
Insurance and other payables	D.3.2	107	–	107
Deferred tax liability	D.3.3	227	(225)	2
Subordinated debt instruments	D.3.4	1,704	(86)	1,618
Total Liabilities S.02.01		69,270	1,632	70,902
Excess of Assets over Liabilities/Equity		5,018	(875)	4,143

D. Valuation for Solvency Purposes continued

D.1. Assets:

Consolidation approach

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

Type of subsidiary	Solvency II method	IFRS method
Insurance undertakings, Insurance holding companies and ancillary service companies	Full consolidation under Solvency II valuation rules	Full consolidation under IFRS valuation rules
Other undertakings (primarily investment property vehicles)	Included within a single line 'Holdings in related undertakings' under Solvency II valuation rules	Full consolidation under IFRS valuation rules

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

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

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

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

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

D.1.2 Asset valuation basis

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

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

These assessments are based largely on observable market data.

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

D.1.2.1 Property plant and equipment

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

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

In addition to right of use assets, the Group recognises £1 million on a statutory basis in relation to intangible assets (2020: £1 million). These are not permissible assets under Solvency II, giving rise to a valuation difference between the SII basis and the IFRS statutory accounts.

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

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**17**	**–**	20	–
Consolidation differences	**–**	**–**	–	–
Valuation differences	**1**	**–**	1	–
Statutory Accounts value	**18**	**–**	21	–

D. Valuation for Solvency Purposes continued

D.1.2.2 Investment Property / Holdings in related undertakings

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

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

Refer to D.4 for more details.

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value of holdings in related undertakings	**162**	**162**	87	87
Consolidation differences	**11**	**–**	4	–
Valuation differences	**–**	**–**	–	–
Statutory Accounts value of Investment properties (PICG) / Holdings in related undertakings (PIC)	**173**	**162**	91	87

The consolidation difference of £11 million (2020: £4 million) relates to the other net liabilities of the investment property entities that are presented under other lines in the statutory accounts.

D.1.2.3 Bonds

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

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

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

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

D.1.2.4 Collective Investment Undertakings

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

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

D.1.2.5 Derivatives

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

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

D. Valuation for Solvency Purposes continued

D.1.2.6 Loans and mortgages

This asset class contains mortgage backed securities and private investments.

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

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

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**7,451**	**7,451**	5,555	5,555
Consolidation differences	**(216)**	**–**	(94)	–
Valuation differences	**–**	**–**	–	–
Statutory Accounts value	**7,235**	**7,451**	5,461	5,555

The consolidation difference within the Group of £(216) million (2020: £(94) million) in the above table relates to loans to holdings in related undertakings that are eliminated under the IFRS consolidation methodology.

D.1.2.7 Reinsurance recoverables

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

	PICG & PIC (£m) 2021	PICG & PIC (£m) 2020
Solvency II value	**2,735**	2,003
Consolidation differences	**–**	–
Valuation differences	**615**	770
Statutory Accounts value	**3,350**	2,773

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

D.1.2.8 Other assets and Deferred tax asset

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

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**103**	**98**	122	119
Consolidation differences	**–**	**–**	–	–
Valuation differences	**5**	**–**	(12)	(17)
Statutory Accounts value	**108**	**98**	110	102

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

This includes a valuation difference of £6 million (2020: £5 million) in relation to the removal of Group service company prepayments which are reported in IFRS but not included under Solvency II.

Deferred tax valuation differences for Group were £(1) million and £nil for PIC (2020: (£17) million for PICG and PIC). In 2021 these are related to the prepayments in PSC which are not permissible for Solvency II. In 2020 these related to differences in the subordinated debt valuation methodology between IFRS and SII, as detailed in D.3.4.

D. Valuation for Solvency Purposes continued

D.1.2.9 Receivables
Receivable assets are measured on a Solvency II basis at the values for which they could be exchanged between knowledgeable willing parties in an arm's length transaction. This is equivalent to the value for IFRS accounting purposes, with the exception of future premium balances, which are recognised within the best estimate liabilities as detailed below.

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**18**	**16**	20	21
Consolidation differences	**9**	**–**	1	–
Valuation differences	**1**	**1**	4	4
Statutory Accounts value	**28**	**17**	25	25

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings, give rise to the consolidation difference within the Group of £9 million (2020: £1 million) in the above table.

A valuation difference of £1 million (2020: £4 million) arises in the Group and the Company with regard to regulatory adjustments to future premium balances, which are excluded from the SII receivables figure because they are already allowed for within the best estimate liabilities.

D.1.2.10 Cash and cash equivalents
The fair value of Cash and cash equivalents represents their cash value in current terms. All deposits are redeemable within three months and consequently no discounting adjustment is made at period end.

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**812**	**805**	465	462
Consolidation differences	**210**	**–**	93	–
Valuation differences	**–**	**–**	–	–
Statutory Accounts value	**1,022**	**805**	558	462

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings give rise to the consolidation difference within the Group of £210 million (2020: £93 million) in the above table.

D.1.2.11 Own shares directly held
These assets are treated as a deduction from equity in the IFRS financial statements of PICG. For regulatory purposes, they are held as an asset and are marked to model in accordance with Solvency II regulations, using an estimate of the valuation of PICG as a whole. Also, in accordance with Solvency II regulations, the amounts are deducted from the available Own Funds figure.

	PICG (£m) 2021	**PIC (£m) 2021**	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**19**	**–**	25	–
Consolidation differences	**–**	**–**	–	–
Valuation differences	**(19)**	**–**	(25)	–
Statutory Accounts value	**–**	**–**	–	–

D.2 Technical provisions
PIC writes only one line of business, i.e. bulk annuities in relation to UK defined benefit pension schemes. The Company's insurance contracts are a mixture of "buy-in" policies, where the policyholder is the pension scheme and the insured liabilities cover defined benefits within the scheme, and "buyout" policies, where the policyholder is an individual.

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

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

Further detail is provided on S.12.01.

D. Valuation for Solvency Purposes continued

D.2.1 Technical provisions on regulatory solvency basis

The following table summarises the technical provisions of the Group and the Company as at 31 December 2021 on the regulatory solvency basis. The equivalent figures for 31 December 2020 are also shown.

Technical provisions, Solvency II basis (£m)	**31 December 2021**	31 December 2020
Best estimate liabilities		
• Liabilities gross of reinsurance	**44,283**	41,539
• Value of reinsurance recoverables	**(2,735)**	(2,003)
• Net-of-reinsurance liabilities	**41,548**	39,536
Risk margin (RM)	**2,026**	2,425
Transitional measures deduction ("TMTP")	**(757)**	(1,072)
Total net technical provisions	**42,817**	40,889
Add back value of reinsurance recoverables	**2,735**	2,003
Total gross technical provisions	**45,552**	42,892

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 2021 were £45,552 million (2020: £42,892 million).

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

	PICG & PIC (£m) 2021	PICG & PIC (£m) 2020
Solvency II value	**45,552**	42,892
Consolidation differences	**–**	–
Valuation differences	**1,461**	1,943
Statutory Accounts value	**47,013**	44,835

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

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

D.2.2 Valuation methods and assumptions for the solvency valuation

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

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

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

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

Valuation discount rate:

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

D. Valuation for Solvency Purposes continued

Mortality and demographic assumptions:
The base mortality assumptions as at 31 December 2021 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 model with some adjustment. 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 postcode. In addition, an adjustment is made to allow for the risk of anti-selection.

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

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

Inflation assumptions:
Assumptions for expected future Retail Price Index inflation are based on a curve derived from market prices of inflation-linked swap contracts. Assumptions for expected Consumer Price Index 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 in addition to best estimate liabilities that would be required by a hypothetical third party (the "reference undertaking") to take on the Company's insurance obligations. This would provide an amount of eligible own funds equal to the capital necessary to support those obligations over their future lifetime assuming that all hedgeable risks had been eliminated.

The risk margin is calculated by estimating the solvency capital requirement in respect of non-hedgeable risks 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 TMTP deduction which is consistent with the requirements of Article 308d of the Solvency II Directive, is expected to amortise linearly to zero over a 16-year period starting from 1 January 2016. Since the start of Solvency II, there have been four recalculations of the TMTP, three due to the biennial recalculation requirement (at 31 December 2017, 31 December 2019, and 31 December 2021), and one (at 31 December 2020) due to the particular economic circumstances arising over 2020.

D. Valuation for Solvency Purposes continued

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

- A key assumption is the rate of future policyholder mortality, which is expressed as a combination of a base mortality rate (reflecting the current observed experience) and a rate of future mortality improvements. Changes in these assumptions could have a material impact on the BEL calculation.
- For deferred annuity policyholders, there is uncertainty about the extent to which certain options will be taken up prior to or at retirement. The most important option is the commutation of part of the pension benefit for a lump sum. While this take up has been reasonably stable in the past, there remains uncertainty as to whether future take-up rates will be as expected.
- The discount rate used in the valuation is determined allowing implicitly for an assumed level of future defaults arising in relation to the supporting assets. The allowance, which is set having regard to factors stipulated by the PRA, may not be a good representation of the actual level of defaults arising in practice, and variations in experience (positive or negative) will arise as a result.
- A significant proportion of the annuity benefits escalate in line with defined inflation indices. A range of indices applies including CPI and LPI linkages, and assumptions have to be made as to how these indices will relate to RPI 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 2021, 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 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 Directive.

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. Valuation for Solvency Purposes continued

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

MA Fund assets	31 December 2021	31 December 2020
Investments in related undertakings	**70**	62
Government bonds	**16,842**	16,838
Corporate bonds	**20,998**	21,382
Derivative assets	**6,044**	6,741
Loans and mortgages	**7,030**	5,367
Collateralised securities	**273**	289
Collective investment undertakings	**685**	334
Cash and cash equivalents	**464**	402
Total assets	**52,406**	51,415
Less Derivative liabilities	**(9,914)**	(11,339)
Net value of assets	**42,492**	40,076

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 Directive. In addition, PIC monitors the asset and liability matching of the MA Fund against the three specific tests identified in regulatory requirements. As at 31 December 2021, 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 at 31 December 2020) 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 2021

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

31 December 2020

Impact of matching adjustment (£m)	Including matching adjustment	Excluding matching adjustment	Impact of not applying matching adjustment
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)

D. Valuation for Solvency Purposes continued

D.2.4 Use of volatility adjustment

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

As detailed in section D.2.3 above, as at 31 December 2021, 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 2021 (nil at 31 December 2020).

31 December 2021

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

31 December 2020

Impact of volatility adjustment (£m)	Including volatility adjustment	Excluding volatility adjustment	Impact of not applying VA
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	–

D. Valuation for Solvency Purposes continued

D.2.5 Use of transitional measures adjustment (unaudited)

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

In December 2015, PIC was granted permission to apply a TMTP. PIC calculated the TMTP as at 31 December 2015 as £1,355 million. As noted in Section D.2.2, PIC has been granted permission to recalculate the TMTP on four occasions, most recently at 31 December 2021 in line with the regulatory biennial recalculation requirement. Allowing for both amortisation and re-calculation, the TMTP as at 31 December 2021 is £757 million (2020: £1,072 million).

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

31 December 2021

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

31 December 2020

Impact of TMTP (£m)	Including TMTP	Excluding TMTP	Impact of excluding TMTP
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 II 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 II ratio based on MCR	490%	391%	

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 2021, approximately 85% (as measured by best estimate liabilities) of the longevity risk was reinsured (2020: 84%).

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 £(647) million as at 31 December 2021 (2020: £(772) 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 £3,415 million as at 31 December 2021 (2020: £2,790 million).

D. Valuation for Solvency Purposes continued

The value of the amounts recoverable from reinsurance is calculated using the same projection model and assumptions (other than the discount rate) as are used for the gross best estimate liabilities, by projecting forward both the payments due to reinsurers and the payments expected from reinsurers, in each case calculated on a policy-by-policy basis. The value of reinsurance recoverables at 31 December 2021 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 £47 million (2020: £31 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 £14 million (2020: £16 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 £2,735 million (2020: £2,003 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 2021, PIC revised its assumptions for: expenses and expense inflation; the long-term corporation tax rate; and the transition of the Solvency II risk-free rate from LIBOR to SONIA. It also updated the LPI/CPI inflation assumptions to reflect the recent HM Treasury review of RPI, and the longevity trend and baseline insurance risk calibrations and correlations.

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.

In aggregate, the assumption changes increased Solvency II Own Funds by £69 million.

D.2.8 Valuation methods and assumptions for the financial statements

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

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

PIC's approach to 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.

D. Valuation for Solvency Purposes continued

The impact of applying the prudential margins is summarised in the following table, which shows the transition from the Own Funds under Solvency II to the IFRS net assets presented in the Company's financial statements. The equivalent figures as at 31 December 2020 are shown for comparison.

Reconciliation between Solvency II and IFRS technical provisions (£m)	31 December 2021	31 December 2020
Solvency II technical provisions (gross of reinsurance)	**45,552**	42,892
Less:		
- Value of reinsurance recoverables on SII basis	**(2,735)**	(2,003)
Solvency II technical provisions (net of reinsurance)	**42,817**	40,889
Less:		
- Risk margin	**(2,026)**	(2,425)
- Transitional measures deduction	**757**	1,072
Solvency II best estimate liability (net of reinsurance)	**41,548**	39,536
Add:		
- Classification difference of deferred premium	**–**	4
- Impact of valuation discount rate margin	**836**	1,246
- Impact of other IFRS valuation margins	**1,279**	1,276
IFRS technical provisions (net of reinsurance)	**43,663**	42,062
Add:		
- Value of reinsurance recoverables on IFRS basis	**3,350**	2,773
IFRS technical provisions (gross of reinsurance)	**47,013**	44,835

D.3 Other liabilities

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

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

D.3.1 Derivative liabilities

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

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

D.3.2 Insurance and other payables

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

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

	PICG (£m) 2021	PIC (£m) 2021	PICG (£m) 2020	PIC (£m) 2020
Solvency II value	**183**	**183**	115	107
Consolidation differences	**15**	**–**	3	–
Valuation differences	**–**	**–**	–	–
Statutory Accounts value	**198**	**183**	118	107

On a Solvency II basis, those investments in subsidiaries that are not consolidated and presented as holdings in related undertakings, give rise to the consolidation difference within the Group of £15 million (2020: £3 million) in the above table.

D. Valuation for Solvency Purposes continued

D.3.3 Deferred tax liability

A deferred tax asset or liability is recognised to the extent that there is a temporary difference between the Company's tax base balance sheet (which is IFRS) and the balance sheet for Solvency II purposes. At 31 December 2021, this resulted in a deferred tax liability of £215 million (2020: £227 million), primarily arising from adjustments to Technical Provisions and Risk Margin arising from the application of Solvency II regulations.

On the IFRS Statement of Financial Position a deferred tax liability of £1 million (2020: £2 million) is held relating to transitional arrangements on the UK Life tax regime.

	PICG & PIC (£m) 2021	PICG & PIC (£m) 2020
Solvency II value	**215**	227
Consolidation difference	**–**	–
Valuation differences	**(214)**	(225)
Statutory Accounts value	**1**	2

D.3.4 Subordinated debt instruments

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

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

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

	PICG & PIC (£m) 2021	PICG & PIC (£m) 2020
Solvency II value	**1,608**	1,704
Consolidation differences	**–**	–
Valuation differences	**11**	(86)
Statutory Accounts value	**1,619**	1,618

The valuation differences arise because the subordinated debt is measured at amortised cost for IFRS purposes and at fair value under Solvency II.

Resticted Tier 1 notes (included in Own Funds)

In 2019, PIC issued £450 million of new RT1 loan notes with a fixed coupon of 7.375% paid semi-annually in arrears beginning on 25 January 2020. The notes are perpetual with the first call date in 2029 at the option of the issuer. The interest rate is reset on 25 July 2029 and every five years thereafter. The RT1 notes are treated as equity capital and interest payments arising are recognised in equity upon payment under IFRS, and as Restricted Tier 1 Own Funds for Solvency II purposes. A deduction is made in the valuation of Own Funds available to take account of projected foreseeable dividends in respect of the RT1 notes. At 31 December 2021 this value was £11 million (2020: £12 million).

D.3.5 Leases and contingent liabilities

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

At 31 December 2021, the Group recognised a right-of-use asset of £17 million (2020: £20 million) and a corresponding lease liability of £20 million (2020: £22 million).

PICG does not have any material contingent liabilities.

D.3.6 Employee benefits

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

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

D. Valuation for Solvency Purposes continued

D.4. Alternative methods for valuation

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

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

Property (other than for own use) – PICG £173 million; PIC £162 million (2020: PICG £91 million, PIC £87 million)

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

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

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

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

Unlisted bonds (direct investment) – £9,021 million PIC and PICG (2020: £7,736 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 – PIC: £1,125 million (2020: £547 million); PICG: £1,125 million (2020: £534 million)

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

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

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

Own shares held directly – PICG £19 million (2020: £25 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 II ratio (measured as its eligible Own Funds divided by its Solvency Capital Requirement) is a key metric in the management of the financial position of the Company and Group.

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

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

- Managing the type and volume of new business written;
- Reinsurance of existing business;
- Risk mitigation techniques;
- Hedging strategies to manage key exposures such as credit risk, interest rate risk or inflation risk;
- Efficient asset management strategy; and
- Seeking further external debt or equity capital.

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

Further information available at S.23.01.

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

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

	Group				Company			
2020 (£m)	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total
Ordinary share capital	2	–	–	2	1,226	–	–	1,226
Share premium account	870	–	–	870	524	–	–	524
Reconciliation reserve	3,706	–	–	3,706	2,812	–	–	2,812
Restricted Tier 1 debt	444	–	–	444	444	–	–	444
Subordinated liabilities	–	1,704	–	1,704	–	1,704	–	1,704
Amount of basic own funds available and eligible to cover SCR	5,022	1,704	–	6,726	5,006	1,704	–	6,710
Eligibility deduction in Tier 2 own funds	–	(1,491)	–	(1,491)	–	(1,491)	–	(1,491)
Amount of basic own funds eligible to cover MCR	5,022	213	–	5,235	5,006	213	–	5,219

As at 31 December 2021, the ratio of eligible Own Funds to Solvency Capital Requirement of PICG was 169% (2020: 158%) and of PIC was 168% (2020: 157%).

E. Capital Management continued

There are no items of ancillary Own Funds at 31 December 2021 (2020: nil).

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

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

For the purposes of MCR coverage, the amount of Tier 2 basic own funds which can be used to cover MCR has been restricted to £198 million (2020: £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

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

	Tier 1				Tier 2	
2020 £m	Share Capital	Share Premium	Reconciliation Reserve	Tier 1 Restricted Capital	Subordinated Debt	Total
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

There was no additional share capital raised during the year (2020: £750 million).

There was no subordinated debt raised during the year (2020: £700 million).

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

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

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

	Tier 1				Tier 2	
2020 £m	Share Capital	Share Premium	Reconciliation Reserve	Tier 1 Restricted Capital	Subordinated Debt	Total
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

E. Capital Management continued

E.1.4 Restrictions to own funds and capital tiering

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

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

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

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

	Issue Amount £m	% of Par Value	Coupon %	Redemption date	Solvency II Value	
Issue Date					**2021 £m**	2020 £m
03/07/14	300	99.107	6.5	03/07/24	**320**	334
23/11/16	250	98.916	8.0	23/11/26	**253**	265
20/09/18	350	99.693	5.625	20/09/30	**367**	392
07/05/20	300	99.554	4.625	07/05/31	**293**	312
21/10/20	400	99.129	3.625	21/10/32	**375**	401
Total Tier 2 capital					**1,608**	1,704

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 £18 million (2020: increase of £115 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	
(£m)	**2021**	2020	**2021**	2020
Equity per IFRS financial statements	**4,465**	4,167	**4,429**	4,143
Add: Reclassification of Subordinated debt as Tier 2 capital for regulatory purposes, included at regulatory value	**1,608**	1,704	**1,608**	1,704
* Deferred Tax (liability)/asset arising from Subordinated debt revaluation	**(3)**	16	**(3)**	16
* Adjustment of subordinated debt value between IFRS and regulatory value	**11**	(115)	**11**	(115)
* Adjustment for RT1 accrued interest	**(11)**	(12)	**(11)**	(12)
* Decrease in technical provisions under regulatory rules	**1,461**	1,942	**1,461**	1,942
* Increase in deferred tax liability under regulatory rules	**(211)**	(225)	**(211)**	(225)
* Decrease in reinsurance recoverable and other assets under regulatory rules	**(621)**	(751)	**(615)**	(743)
Own Funds per regulatory requirements	**6,699**	6,726	**6,669**	6,710

Items marked with a '*' above form part of the regulatory Reconciliation Reserve (see E.1.6 below), which totals £3,772 million for PICG (2020: £3,706 million) and £2,867 million for PIC (2020: £2,812 million) at 31 December 2021.

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

E. Capital Management continued

E.1.6 Constituents of reconciliation reserve

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

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

2020 £m	Group	Company
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

E.2 SCR and MCR (unaudited)

E.2.1 Components of SCR

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

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

As at 31 December 2021, PICG's and PIC's Solvency Capital Requirement amounted to £3,968 million (2020: £4,261 million), and its Minimum Capital Requirement amounted to £992 million (2020: £1,065 million), being 25% of SCR.

The principal movements in these items arise from:

- A run-off of required capital for the in-force insurance business;
- A general increase in the volume of business in force, due to new insurance contracts written during 2021;
- The impact of changes in economic conditions over the year, in particular an increase in interest rates which materially reduced capital requirements and more than offset an increase in capital requirements arising from higher inflation and a narrowing of credit spreads;
- The impact of changes in the investment mix used by the Company to support its insurance liabilities; and
- The impact of assumption changes in relation to LPI and CPI, longevity calibrations and correlations, and correlations between risks.

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

The split of the Solvency Capital Requirement by risk category as at 31 December 2021 is as follows:

Summary of SCR (£m)	**2021**	2020
Risk capital before diversification:		
• Market risk	**3,821**	3,917
• Counterparty credit risk	**172**	163
• Insurance risk	**1,280**	1,463
• Expense risk	**349**	287
• Operational risk	**378**	363
Total before diversification	**6,000**	6,193
Diversification benefit	**(1,746)**	(1,674)
Loss absorbing capacity of deferred tax ("LACDT")	**(286)**	(258)
Total diversified SCR after LACDT	**3,968**	4,261

E. Capital Management continued

E.2.1.1 Loss absorbing capacity of deferred tax

The total SCR for the Company has been adjusted for LACDT. At 31 December 2021 the amount of the adjustment was £286m (2020: £258m). LACDT is a deferred tax benefit, reflecting the tax relief that would be available following a loss equal to the SCR.

LACDT support arises from the following sources:

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

E.2.2 Key inputs for the calculation of the MCR

The Minimum Capital Requirement has been calculated as follows:

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

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

The result of this calculation at end 2020 and 2021 was that the MCR equals 25% of the SCR.

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

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

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

E.4.1 Use of the Internal Model

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

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

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

E.4.2 Internal Model calculation methodology

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

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

- Market;
- Insurance;
- Counterparty;
- Expense; and
- Operational.

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

E. Capital Management continued

E.4.3 Nature and appropriateness of data used within the Internal Model

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

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

E.4.4 Comparison of the Company's Internal Model with the Standard Formula (unaudited)

The following table compares the Solvency Capital Requirement calculated on the Standard Formula basis and using the Company's Internal Model.

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

	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

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

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

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

E.5 Non-compliance with the MCR and significant non-compliance with the SCR

Both PIC and PICG have been fully compliant with both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2021 and up to the date of approval of this report.

E.6 Any other information (unaudited)

There is no other material information to disclose regarding Capital Management.

Appendix – A Glossary of Terms

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

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

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

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

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

LIBOR
The London Interbank Offered Rate (LIBOR) is a benchmark interest rate at which major global banks lend to one another in the international interbank market for short-term loans.

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

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

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

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

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

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

Risk Margin
The RM, 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.

Appendix – A Glossary of Terms continued

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

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

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

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

TMTP
Transitional Measures on Technical Provisions. 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.

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

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

Appendix B – Index of QRTs attached

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

Pension Insurance Corporation plc

QRT REF	QRT NAME
S.02.01.02	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	SCR – for undertakings on Full Internal Models
S.28.01.01	MCR – Only life or only non-life insurance or reinsurance activity

Pension Insurance Corporation Group Limited

QRT REF	QRT NAME
S.02.01.02	Balance Sheet
S.05.01.02	Premiums, claims and expenses
S.05.02.01	Premiums, claims and expenses by country
S.22.01.22	Impact of long-term guarantees measures and TMTP's
S.23.01.22	Own Funds
S.25.03.22	SCR – for undertakings on Full Internal Models
S.32.01.22	Undertakings in the scope of the group

The appendices to the SFCR are presented in GBP sterling (£m) unless otherwise stated.

Appendix B continued

S.02.01.02
Pension Insurance Corporation plc
Balance sheet

		2021 Solvency II value C0010
	Assets	
R0010	Goodwill	0
R0020	Deferred acquisition costs	0
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	0
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**58,520,247,785**
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	161,664,898
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	**40,044,733,768**
R0140	*Government Bonds*	18,262,952,688
R0150	*Corporate Bonds*	21,450,890,476
R0160	*Structured notes*	0
R0170	*Collateralised securities*	330,890,604
R0180	*Collective Investments Undertakings*	3,295,913,031
R0190	*Derivatives*	15,017,936,087
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	**7,450,727,070**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	7,450,727,070
R0270	Reinsurance recoverables from:	**2,734,732,257**
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	2,734,732,257
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	2,734,732,257
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	972,517
R0370	Reinsurance receivables	5,506,783
R0380	Receivables (trade, not insurance)	11,008,740
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	804,879,556
R0420	Any other assets, not elsewhere shown	98,184,240
R0500	**Total assets**	**69,626,258,946**

Appendix B continued

S.02.01.02 (continued)
Pension Insurance Corporation plc
Balance sheet

		2021 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*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	**45,551,825,994**
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)*	**45,551,825,994**
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	44,282,581,928
R0680	*Risk margin*	1,269,244,067
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	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	214,870,548
R0790	Derivatives	16,997,144,252
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	21,865,293
R0840	Payables (trade, not insurance)	161,055,787
R0850	Subordinated liabilities	**1,608,182,498**
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	1,608,182,498
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	**64,554,944,372**
R1000	**Excess of assets over liabilities**	**5,071,314,574**

Appendix B continued

S.05.01.02

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

	Life	Line of Business for: life insurance obligations Other life insurance C0240	**Total** **C0300**
	Premiums written		
R1410	Gross	4,702,594,575	**4,702,594,575**
R1420	Reinsurers' share	846,436,191	**846,436,191**
R1500	Net	**3,856,158,384**	**3,856,158,384**
	Premiums earned		
R1510	Gross	4,702,594,575	**4,702,594,575**
R1520	Reinsurers' share	846,436,191	**846,436,191**
R1600	Net	**3,856,158,384**	**3,856,158,384**
	Claims incurred		
R1610	Gross	1,844,486,974	**1,844,486,974**
R1620	Reinsurers' share	59,262,217	**59,262,217**
R1700	Net	**1,785,224,757**	**1,785,224,757**
	Changes in other technical provisions		
R1710	Gross	2,177,584,206	**2,177,584,206**
R1720	Reinsurers' share	577,688,269	**577,688,269**
R1800	Net	**1,599,895,937**	**1,599,895,937**
R1900	**Expenses incurred**	**195,920,504**	**195,920,504**
R2500	**Other expenses**		
R2600	**Total expenses**		**195,920,504**

Appendix B continued

S.05.02.01
Pension Insurance Corporation plc
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) – life obligations					
R1400								**Total Top 5 and home country**
	Life	**Home Country C0220**	**C0230**	**C0240**	**C0250**	**C0260**	**C0270**	**C0280**
	Premiums written							
R1410	Gross	4,702,594,575						**4,702,594,575**
R1420	Reinsurers' share	846,436,191						**846,436,191**
R1500	Net	**3,856,158,384**						**3,856,158,384**
	Premiums earned							
R1510	Gross	4,702,594,575						**4,702,594,575**
R1520	Reinsurers' share	846,436,191						**846,436,191**
R1600	Net	**3,856,158,384**						**3,856,158,384**
	Claims incurred							
R1610	Gross	1,844,486,974						**1,844,486,974**
R1620	Reinsurers' share	59,262,217						**59,262,217**
R1700	Net	**1,785,224,757**						**1,785,224,757**
	Changes in other technical provisions							
R1710	Gross	2,177,584,206						**2,177,584,206**
R1720	Reinsurers' share	577,688,269						**577,688,269**
R1800	Net	**1,599,895,937**						**1,599,895,937**
R1900	**Expenses incurred**	195,920,504						**195,920,504**
R2500	**Other expenses**							
R2600	**Total expenses**							**195,920,504**

Appendix B continued

S.12.01.02
Pension Insurance Corporation plc
Life and Health SLT Technical Provisions

			Other life insurance		
			Contracts without options and guarantees	Contracts with options or guarantees	Total (Life other than health insurance, incl Unit-linked)
		C0060	C0070	C0080	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**		**44,282,581,927**		**44,282,581,927**
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default		**2,734,732,257**		**2,734,732,257**
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re		**41,547,849,670**	**0**	**41,547,849,670**
R0100	**Risk margin**	**2,026,502,523**			**2,026,502,523**
	Amount of the transitional on Technical Provisions				
R0110	Technical Provisions calculated as a whole				**0**
R0120	Best estimate				**0**
R0130	Risk margin	**-757,258,456**			**-757,258,456**
R0200	**Technical provisions - total**	**45,551,825,994**			**45,551,825,994**

Appendix B continued

S.22.01.21
Pension Insurance Corporation plc
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	45,551,825,994	757,258,457	0	0	6,671,821,602
R0020	Basic own funds	6,668,742,699	-567,943,843	0	0	-5,002,856,838
R0050	Eligible own funds to meet Solvency Capital Requirement	6,668,742,699	-567,943,843	0	0	-5,107,479,289
R0090	Solvency Capital Requirement	3,967,589,509	189,314,614	0	0	6,116,598,221
R0100	Eligible own funds to meet Minimum Capital Requirement	5,258,939,676	-558,478,112	0	0	-6,342,674,729
R0110	Minimum Capital Requirement	991,897,377	47,328,654	0	0	1,529,149,555

S.23.01.01
Pension Insurance Corporation plc
Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0010	**Ordinary share capital (gross of own shares)**	**1,226,384,310**	1,226,384,310		0	
R0030	Share premium account related to ordinary share capital	**523,426,034**	523,426,034		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0070	Surplus funds	**0**	0			
R0090	Preference shares	**0**		0	0	0
R0110	Share premium account related to preference shares	**0**		0	0	0
R0130	Reconciliation reserve	**2,866,348,653**	2,866,348,653			
R0140	Subordinated liabilities	**1,608,182,498**		0	1,608,182,498	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**	**6,668,742,699**	4,616,158,997	444,401,204	1,608,182,498	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**	**6,668,742,699**	4,616,158,997	444,401,204	1,608,182,498	0
R0510	**Total available own funds to meet the MCR**	**6,668,742,699**	4,616,158,997	444,401,204	1,608,182,498	
R0540	**Total eligible own funds to meet the SCR**	**6,668,742,699**	4,616,158,997	444,401,204	1,608,182,498	0
R0550	**Total eligible own funds to meet the MCR**	**5,258,939,676**	4,616,158,997	444,401,204	198,379,475	
R0580	**SCR**	**3,967,589,509**				
R0600	**MCR**	**991,897,377**				
R0620	**Ratio of Eligible own funds to SCR**	**168.08%**				
R0640	**Ratio of Eligible own funds to MCR**	**530.19%**				
	Reconciliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,071,314,574**				
R0710	Own shares (held directly and indirectly)	**0**				
R0720	Foreseeable dividends, distributions and charges	**10,754,373**				
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**	**2,866,348,653**				

Appendix B continued

S.25.03.21
Pension Insurance Corporation plc
Solvency Capital Requirement - for undertakings on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
	C0010	C0020	C0030
1	10310I	Interest rate risk - interest rate down more onerous	0
2	10320I	Interest rate risk - interest rate up more onerous	911,662,315
3	10600I	Property Risk	1,339,962
4	10700I	Spread risk - if matching adjustment impact not identified	3,983,624,443
5	10900I	Currency risk	233,144,583
6	11010I	Other market risk - inflation risk	101,680,226
7	11020I	Other market risk - implied volatility risk	399,254,249
8	11030I	Other market risk - RPI/CPI basis risk	241,249,474
9	11090I	Other market risk - funds risk	562,725,016
10	19900I	Diversification within market risk	-2,613,860,310
11	20120I	Type 1 counterparty risk - external reinsurance	136,663,422
12	20190I	Type 1 counterparty risk - asset counterparty	35,074,858
13	30210I	Longevity risk - longevity mis-estimation	256,184,276
14	30220I	Longevity risk - longevity trend	1,197,047,036
15	30290I	Longevity risk - other longevity risks	423,021,426
16	30299I	Longevity risk - longevity diversification	-596,276,859
17	30600I	Expense risk	526,993,894
18	39900I	Life underwriting risk diversification	-177,668,203
19	70100I	Operational risk	378,463,718
20	80300I	Loss-absorbing capacity of deferred tax	-286,482,194

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	5,713,841,333
R0060	Diversification	-1,746,251,825
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	**3,967,589,509**
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	**3,967,589,509**

	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	-286,482,193
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	686,855,253
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	3,280,734,256
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0460	Net future discretionary benefits	

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

		LAC DT C0130
R0640	**Amount/estimate of LAC DT**	-286,482,193
R0650	Amount/estimate of LAC DT justified by reversion of deferred tax liabilities	-215,757,094
R0660	Amount/estimate of LAC DT justified by reference to probable future taxable economic profit	
R0670	Amount/estimate of LAC DT justified by carry back, current year	-70,725,099
R0680	Amount/estimate of LAC DT justified by carry back, future years	
R0690	Amount/estimate of Maximum LAC DT	-286,482,193

Appendix B continued

S.28.01.01
Pension Insurance Corporation plc
Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

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

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

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCRL Result	872,504,843

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole C0050	Net (of reinsurance/SPV) total capital at risk C0060
R0210	Obligations with profit participation - guaranteed benefits		
R0220	Obligations with profit participation - future discretionary benefits		
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	41,547,849,670	
R0250	Total capital at risk for all life (re)insurance obligations		

	Overall MCR calculation	C0070	C0070
R0300	Linear MCR		872,504,843
R0310	SCR		3,967,589,509
R0320	MCR cap		1,785,415,279
R0330	MCR floor		991,897,377
R0340	Combined MCR		991,897,377
R0350	Absolute floor of the MCR		3,126,130
R0400	**Minimum Capital Requirement**		**991,897,377**

Appendix B continued

S.02.01.02
Pension Insurance Corporation Group Limited
Balance sheet

		Solvency II value C0010
	Assets	
R0010	Goodwill	0
R0020	Deferred acquisition costs	0
R0030	Intangible assets	0
R0040	Deferred tax assets	4,938,052
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	17,121,696
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	**58,520,327,211**
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	161,744,324
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	**40,044,733,768**
R0140	*Government Bonds*	18,262,952,688
R0150	*Corporate Bonds*	21,450,890,476
R0160	*Structured notes*	0
R0170	*Collateralised securities*	330,890,604
R0180	*Collective Investments Undertakings*	3,295,913,031
R0190	*Derivatives*	15,017,936,087
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	0
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	**7,450,727,070**
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	7,450,727,070
R0270	Reinsurance recoverables from:	**2,734,732,257**
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	2,734,732,257
R0320	*Health similar to life*	0
R0330	*Life excluding health and index-linked and unit-linked*	2,734,732,257
R0340	Life index-linked and unit-linked	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	972,517
R0370	Reinsurance receivables	5,506,783
R0380	Receivables (trade, not insurance)	11,939,076
R0390	Own shares (held directly)	19,301,689
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	811,987,971
R0420	Any other assets, not elsewhere shown	98,183,644
R0500	**Total assets**	**69,675,737,966**

Appendix B continued

S.02.01.02 (continued)
Pension Insurance Corporation Group Limited
Balance sheet

		Solvency II value C0010
	Liabilities	
R0510	Technical provisions – non-life	**0**
R0520	*Technical provisions – non-life (excluding health)*	**0**
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions – health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions – life (excluding index-linked and unit-linked)	**45,551,825,994**
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)*	**45,551,825,994**
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	44,282,581,928
R0680	*Risk margin*	1,269,244,067
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	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	214,870,548
R0790	Derivatives	16,997,144,252
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	0
R0830	Reinsurance payables	21,865,293
R0840	Payables (trade, not insurance)	160,658,706
R0850	Subordinated liabilities	**1,608,182,498**
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	1,608,182,498
R0880	Any other liabilities, not elsewhere shown	0
R0900	**Total liabilities**	**64,554,547,292**
R1000	**Excess of assets over liabilities**	**5,121,190,674**

Appendix B continued

S.05.01.02
Pension Insurance Corporation Group Limited
Premiums, claims and expenses by line of business

		Line of Business for: life insurance obligations	
	Life	Other life insurance C0240	Total C0300
	Premiums written		
R1410	Gross	4,702,594,575	**4,702,594,575**
R1420	Reinsurers' share	846,436,191	**846,436,191**
R1500	Net	**3,856,158,384**	**3,856,158,384**
	Premiums earned		
R1510	Gross	4,702,594,575	**4,702,594,575**
R1520	Reinsurers' share	846,436,191	**846,436,191**
R1600	Net	**3,856,158,384**	**3,856,158,384**
	Claims incurred		
R1610	Gross	1,844,486,974	**1,844,486,974**
R1620	Reinsurers' share	59,262,217	**59,262,217**
R1700	Net	**1,785,224,757**	**1,785,224,757**
	Changes in other technical provisions		
R1710	Gross	2,177,584,206	**2,177,584,206**
R1720	Reinsurers' share	577,688,269	**577,688,269**
R1800	Net	**1,599,895,937**	**1,599,895,937**
R1900	**Expenses incurred**	**196,536,197**	**196,536,197**
R2500	**Other expenses**		
R2600	**Total expenses**		**196,536,197**

Appendix B continued

S.05.02.01
Pension Insurance Corporation Group Limited
Premiums, claims and expenses by country

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
			Top 5 countries (by amount of gross premiums written) - life obligations					
R1400	Life	Home Country C0220	C0230	C0240	C0250	C0260	C0270	Total Top 5 and home country C0280
	Premiums written							
R1410	Gross	4,702,594,575						**4,702,594,575**
R1420	Reinsurers' share	846,436,191						**846,436,191**
R1500	Net	**3,856,158,384**						**3,856,158,384**
	Premiums earned							
R1510	Gross	4,702,594,575						**4,702,594,575**
R1520	Reinsurers' share	846,436,191						**846,436,191**
R1600	Net	**3,856,158,384**						**3,856,158,384**
	Claims incurred							
R1610	Gross	1,844,486,974						**1,844,486,974**
R1620	Reinsurers' share	59,262,217						**59,262,217**
R1700	Net	**1,785,224,757**						**1,785,224,757**
	Changes in other technical provisions							
R1710	Gross	2,177,584,206						**2,177,584,206**
R1720	Reinsurers' share	577,688,269						**577,688,269**
R1800	Net	**1,599,895,937**						**1,599,895,937**
R1900	**Expenses incurred**	196,536,197						**196,536,197**
R2500	**Other expenses**							
R2600	**Total expenses**							**196,536,197**

Appendix B continued

S.22.01.22
Pension Insurance Corporation Group Limited
Impact of long term guarantees measures and transitionals

		Amount with Long Term Guarantee measures and transitionals	Impact of transitional on technical provisions	Impact of transitional on interest rate	Impact of volatility adjustment set to zero	Impact of matching adjustment set to zero
		C0010	C0030	C0050	C0070	C0090
R0010	Technical provisions	45,551,825,994	757,258,457	0	0	6,671,821,602
R0020	Basic own funds	6,699,317,110	-567,943,843	0	0	-5,002,856,838
R0050	Eligible own funds to meet Solvency Capital Requirement	6,699,317,110	-567,943,843	0	0	-5,107,479,289
R0090	Solvency Capital Requirement	3,967,589,509	189,314,614	0	0	6,116,598,221

Appendix B continued

S.23.01.22
Pension Insurance Corporation Group Limited
Own Funds

	Basic own funds before deduction for participations in other financial sector	Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
R0010	Ordinary share capital (gross of own shares)	**2,157,119**	2,157,119		0	
R0020	*Non-available called but not paid in ordinary share capital at group level*	**0**				
R0030	Share premium account related to ordinary share capital	**873,213,835**	873,213,835		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	**0**	0		0	
R0050	Subordinated mutual member accounts	**0**		0	0	0
R0060	*Non-available subordinated mutual member accounts at group level*	**0**				
R0070	Surplus funds	**0**	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	**3,771,362,454**	3,771,362,454			
R0140	Subordinated liabilities	**1,608,182,498**		0	1,608,182,498	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**	**6,699,317,110**	4,646,733,408	444,401,204	1,608,182,498	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

S.23.01.22 continued
Pension Insurance Corporation Group Limited
Own Funds continued

		Total C0010	Tier 1 unrestricted C0020	Tier 1 restricted C0030	Tier 2 C0040	Tier 3 C0050
	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
	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)	**6,699,317,110**	4,646,733,408	444,401,204	1,608,182,498	0
R0530	Total available own funds to meet the minimum consolidated group SCR	**6,699,317,110**	4,646,733,408	444,401,204	1,608,182,498	
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)	**6,699,317,110**	4,646,733,408	444,401,204	1,608,182,498	0
R0570	Total eligible own funds to meet the minimum consolidated group SCR (group)	**5,289,514,087**	4,646,733,408	444,401,204	198,379,475	
R0610	**Minimum consolidated Group SCR**	**991,897,377**				
R0650	**Ratio of Eligible own funds to Minimum Consolidated Group SCR**	**533.27%**				
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)**	**6,699,317,110**	4,646,733,408	444,401,204	1,608,182,498	0
R0680	**Group SCR**	**3,967,589,509**				
R0690	**Ratio of Eligible own funds to group SCR including other financial sectors and the undertakings included via D&A**	**168.85%**				
	Reconciliation reserve	**C0060**				
R0700	Excess of assets over liabilities	**5,121,190,674**				
R0710	Own shares (held directly and indirectly)	**19,301,689**				
R0720	Foreseeable dividends, distributions and charges	**10,754,373**				
R0730	Other basic own fund items	**1,319,772,158**				
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	**0**				
R0750	Other non available own funds					
R0760	**Reconciliation reserve**	**3,771,362,454**				
	Expected profits					
R0770	Expected profits included in future premiums (EPIFP) - Life business					
R0780	Expected profits included in future premiums (EPIFP) - Non- life business					
R0790	**Total Expected profits included in future premiums (EPIFP)**	**0**				

Appendix B continued

S.25.03.22
Pension Insurance Corporation Group Limited
Solvency Capital Requirement - for groups on Full Internal Models

Row	Unique number of component	Component description	Calculation of the Solvency Capital Requirement
Row	C0010	C0020	C0030
1	10310I	Interest rate risk – interest rate down more onerous	0
2	10320I	Interest rate risk – interest rate up more onerous	911,662,315
3	10600I	Property Risk	1,339,962
4	10700I	Spread risk – if matching adjustment impact not identified	3,983,624,443
5	10900I	Currency risk	233,144,583
6	11010I	Other market risk – inflation risk	101,680,226
7	11020I	Other market risk – implied volatility risk	399,254,249
8	11030I	Other market risk – RPI/CPI basis risk	241,249,474
9	11090I	Other market risk – funds risk	562,725,016
10	19900I	Diversification within market risk	-2,613,860,310
11	20120I	Type 1 counterparty risk – external reinsurance	136,663,422
12	20190I	Type 1 counterparty risk – asset counterparty	35,074,858
13	30210I	Longevity risk – longevity mis-estimation	256,184,276
14	30220I	Longevity risk – longevity trend	1,197,047,036
15	30290I	Longevity risk – other longevity risks	423,021,426
16	30299I	Longevity risk – longevity diversification	-596,276,859
17	30600I	Expense risk	526,993,894
18	39900I	Life underwriting risk diversification	-177,668,203
19	70100I	Operational risk	378,463,718
20	80300I	Loss-absorbing capacity of deferred tax	-286,482,194

	Calculation of Solvency Capital Requirement	C0100
R0110	Total undiversified components	5,713,841,333
R0060	Diversification	-1,746,251,825
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	
R0200	**Solvency capital requirement excluding capital add-on**	**3,967,589,509**
R0210	Capital add-ons already set	
R0220	**Solvency capital requirement**	**3,967,589,509**

	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	-286,482,194
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	686,855,253
R0420	Total amount of Notional Solvency Capital Requirement for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirement for matching adjustment portfolios	3,280,734,256
R0440	Diversification effects due to RFF nSCR aggregation for article 304	
R0470	Minimum consolidated group solvency capital requirement	991,897,377

	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	

Appendix B continued

S.32.01.22
Pension Insurance Corporation Group Limited
Undertakings in the scope of the Group

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

S.32.01.22 (continued)
Pension Insurance Corporation Group Limited
Undertakings in the scope of the Group

Country	Identification code of the undertaking C0020	Type of code of the identification of the undertaking C0030	Legal name of the undertaking C0040	Type of undertaking C0050	Legal form C0060	Category (mutual/non-mutual) C0070	Supervisory authority C0080	Criteria of influence: % capital share C0180	% used for the establishment of consolidated accounts C0190	% voting rights C0200	Other criteria C0210	Level of influence C0220	Proportional share used for Group solvency calculation C0230	Inclusion in the scope of Group supervision: Yes/No C0240	Date of decision if Article 214 is applied C0250	Group solvency calculation: Method used and under method 1, treatment of the undertaking C0260
GB	PICNEWVICPART	2 - Specific code	PIC New Victoria Limited Partnership	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICNEWVICUT	2 - Specific code	PIC New Victoria Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICPROPGP	2 - Specific code	PIC Properties GP Limited	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICPROPPART	2 - Specific code	PIC Properties Limited Partnership	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICWILTRNGP	2 - Specific code	PIC Wiltern GP Limited	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICWILTRNNOM	2 - Specific code	PIC Wiltern Nominee Limited	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICWILTRNPART	2 - Specific code	PIC Wiltern Limited Partnership	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PICWILTRNUT	2 - Specific code	PIC Wiltern Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PLEGPUT	2 - Specific code	PLE Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	PSC	2 - Specific code	Pension Services Corporation Limited	10 - Ancillary services undertaking as defined in Article 1 (53) of Delegated Regulation (EU) 2015/35	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		1 - Method 1: Full consolidation
GB	STHGPUT	2 - Specific code	STH Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	TBWGPUT	2 - Specific code	TBW Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	TNTGPUT	2 - Specific code	TNT Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method
GB	WORGPUT	2 - Specific code	WOR Unit Trust	99 - Other	0	2 - Non-mutual		100.00%	100.00%	100.00%		1 - Dominant	100.00%	1 - Included in the scope		3 - Method 1: Adjusted equity method

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