PENSION INSURANCE
CORPORATION GROUP LIMITED

A disciplined approach

PENSION INSURANCE CORPORATION GROUP
ANNUAL REVIEW 2019

A disciplined approach

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

SEE PAGE 4 FOR OUR PURPOSE

CONTENTS

The Pension Insurance Corporation Group consists of Pension Insurance Corporation Group Limited ("PICG"), the Group holding company; Pension Insurance Corporation plc ("PIC"), the Group's regulated insurer; Pension Services Corporation Limited, the Group's service company; and PIC Holdings Limited, a holding company. This Annual Report is for PICG, but reference is made to PIC where it is the activity of the insurance company being reported on. Pension Insurance Corporation Group Limited is incorporated and registered in England and Wales under company number 09740110. Its registered office is at 14 Cornhill, London EC3V 3ND.

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

HIGHLIGHTS

OUR CLIENTS INCLUDE

- AON
- BHS
- British American Tobacco
- Cadbury
- citi
- co op
- Department for Environment Food & Rural Affairs
- HONDA
- Institute and Faculty of Actuaries
- Kingfisher
- London Stock Exchange
- M&S
- Pensions and Lifetime Savings Association
- Rentokil Initial
- sse For a better world of energy
- TOTAL
- WPP

ANOTHER EXCELLENT YEAR

Premiums

2019 £7,186 MILLION

2018 £7,150 MILLION

IFRS profit before tax

2019 £394 MILLION

2018 £477 MILLION

Financial investments

2019 £40.9 BILLION

2018 £31.4 BILLION

Market Consistent Embedded Value

2019 £3,874 MILLION

2018 £3,638 MILLION

Solvency II ratio (PIC)

2019 164%

2018 167%

Assets held to meet solvency and risk margins (PIC)

2019 £6.6 BILLION

2018 £5.8 Billion

Policyholder satisfaction

2019 99.1%

2018 97.3%

FitchRatings A+

In February 2019 Fitch Ratings affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

OUR AWARDS

- European Pensions AWARDS 2019 WINNER Risk Management Firm of the Year
- INVESTORS IN PEOPLE We invest in people Standard
- Risk Awards 2020 Winner Pension Insurance Corporation Insurer of the year
- The Institute of Customer Service UK Customer Satisfaction Awards 2019 WINNER
- FAST TRACK in association with THE SUNDAY TIMES The network of Britain's top private companies

INVESTING IN SOCIAL HOUSING

In July 2019, PIC invested £40 million in debt issued by Eildon Housing Association. The funds will be used to support Eildon's development plan, which includes building 750 new homes by 2021. One of Eildon's recent developments is illustrated above.

01

STRATEGIC REPORT

Our purpose

The purpose of PIC is to pay the pensions of its current and future policyholders. PIC is a specialist insurer which provides secure and stable retirement incomes through financial strength, leading customer service, comprehensive risk management and excellence in asset and liability management.

Delivering on this purpose provides attractive returns for shareholders and fulfilling careers for employees.

KEY OUTCOMES OF OUR PURPOSE

Policyholders: Receive a guaranteed pension for life

SEE PAGES 8 – 9
FOR OUR POLICYHOLDER JOURNEY

Shareholders and debt holders:
£6.6 billion of value that is expected to go back to providers of capital over the long term

SEE PAGES 46 – 55
FOR OUR CHIEF FINANCIAL OFFICER'S REVIEW

Society: £7.8 billion invested in social infrastructure, including social housing, renewable energy and UK universities

SEE PAGES 44 – 45
FOR CASE STUDY

OUR STRATEGIC OBJECTIVES

GROWTH AND FOCUS
Grow the value of the business on a focused, secure and sustainable basis

REPUTATION AND CONDUCT
Ensure that our behaviours reflect our values through the delivery of market-leading customer service

COST AND CAPITAL EFFICIENCY
Maintain a scalable business model that optimises internal and external resources

RETURNS
Deliver attractive risk-adjusted total shareholder returns

SEE PAGES 20 – 23 FOR MORE ON OUR STRATEGIC OBJECTIVES AND KPIS

Our culture and values

HOW WE DELIVER OUR PURPOSE

FOCUS ON CUSTOMER CARE
We always aim for delivery of excellent customer service for policyholders, trustees and sponsors

MANAGE OUR LIABILITIES
Liabilities are hedged for interest rate and inflation exposure

INVEST OUR ASSETS
Assets are matched to pension cash flows, optimising returns, and security for policyholders

MANAGE OUR RISKS
Longevity risk is reinsured to create dependable liability cash flows and manage capital

CAPITAL RESOURCES
Capital is committed to protect our policyholders' pensions for the full term of the liabilities

SEE PAGES 18 – 19
FOR OUR BUSINESS MODEL

OUR CUSTOMERS ARE OUR PRIORITY

We value all our customers (policyholders, trustees and sponsors) and work hard to provide exceptional service. We listen to and are responsive to their requirements.

OUR VALUES

PROVIDING SECURITY
We are committed to managing risk and providing long-term stability and financial security for our customers. We protect customer data. Our strong, conservatively managed balance sheet ensures resilience against difficult economic events

EMBRACING NEW IDEAS
We pride ourselves on doing things differently, being adaptable enough to operate successfully in any environment and match any challenge. We go beyond existing ways of thinking to come up with innovative, personalised solutions

BEING A TEAM
We know the benefit of working together as a team. We respect, value and nurture our people in terms of both their development and engagement

STRIVING TO BE THE BEST
We provide sector-leading expertise, operating at a level of excellence in everything we do. We listen carefully, are not afraid to learn and challenge ourselves and deliver a consistently high-quality offering

DOING THE RIGHT THING
Our policyholders are our customers for life, which is why our strong ethos around doing the right thing is so important to us. Our policyholders must be able to trust us, so we live by a set of ethical principles and standards of behaviour and genuinely believe that fairness and honesty really count

PENSION RISK TRANSFER ("PRT") IN ACTION

CASE STUDY

PIC INSURES £3.4 BILLION OF THE BRITISH AMERICAN TOBACCO UK PENSION FUND

August 2019

PIC concluded a pension insurance buy-in with the Trustee of the British American Tobacco UK Pension Fund (the "Fund"), insuring £3.4 billion of liabilities.

The agreement secures the benefits of 10,600 members (8,300 pensioners and 2,300 non-pensioners), providing long-term certainty and security. It was the largest ever transaction to include both pensioner and deferred members.

"This transaction is very good news for our members, insuring the vast majority of benefits within the Fund. It achieves a significant step towards the Trustee's objective of reducing risk and increasing the security of members' benefits. We are delighted that we have been able to complete a transaction of this scale successfully, despite the recent market volatility. PIC has been flexible and innovative throughout and I want to thank them and our advisers for helping us achieve our de-risking goals."

BRIAN BARROW
CHAIRMAN OF THE BRITISH AMERICAN TOBACCO UK PENSION FUND
AUGUST 2019

CASE STUDY

PIC INSURES THE DRESDNER KLEINWORT PENSION PLAN IN £1.2 BILLION BUYOUT

April 2019

PIC concluded a pension insurance buyout with the Trustees of the Dresdner Kleinwort Pension Plan (the "Plan"), insuring £1.2 billion of pension liabilities. The buyout covers the whole Plan but is split across two transactions for the two sections in the Plan, a £900 million Final Salary Section and a £300 million Money Purchase Section.

The transaction allowed members in the Money Purchase Section with hybrid defined contribution ("DC") and defined benefit ("DB") benefits to choose to transfer their benefits to an alternative arrangement, or to convert them into pure DB benefits. The DB benefits were then insured under the terms of the transaction.

The Plan was sponsored by Commerzbank AG following the acquisition of Dresdner Bank in December 2009. Commerzbank is a leading international commercial bank with locations in just under 50 countries. Commerzbank finances approximately 30% of Germany's foreign trade and is a leader in financing corporate clients in Germany.

"We are very pleased to have completed the insurance of both sections of the Plan with the support of Commerzbank.

I would like to thank PIC for their flexibility, especially in relation to the insurance of the Money Purchase Section, which is an unusual transaction, and, I believe, a great result for the membership."

DAVID CURTIS
REPRESENTS LAWDEB PENSION TRUSTEES
AS CHAIRMAN OF THE TRUSTEES
APRIL 2019

The policyholder journey

Our policyholders, all former members of UK defined benefit pension schemes, are central to our business. Everything we do is designed to provide secure, long-term pensions for them.

They become our policyholders following a buyout transaction signed by the trustees of their pension scheme.

+ SEE PAGES 18 – 19 FOR OUR BUSINESS MODEL.

1

FROM PENSION SCHEME MEMBER…
The Trustee signs a buyout transaction, which transfers all risks, assets and policyholder obligations to PIC.

WHAT DIFFERENTIATES US
We work closely with the trustees on a communication schedule so that members are fully informed about their impending transfer.

> "PIC won based on their ability to complete the transaction in these markets, as well as their overall track record, including a deep-seated commitment to customer care."

CHRIS MARTIN
CHAIR OF THE TRUSTEE OF THE SOMERFIELD PENSION SCHEME (£425 MILLION TRANSACTION CONCLUDED IN JANUARY 2019)

...VIA A TRANSITION PERIOD...

Once the trustees have informed the members about the transaction, we introduce ourselves to them in a series of communications, giving an overview of the Company and explaining the process.

WHAT DIFFERENTIATES US

All our communications are in plain English: we hold the Platinum Crystal Mark from Plain English Campaign.

> The level of service and communication PIC has delivered is second to none.

PIC POLICYHOLDER 2019

...TO PIC POLICYHOLDER

We genuinely seek to do things better for our policyholders.

WHAT DIFFERENTIATES US

We hold events across the country where they can meet with, and question, senior management about the company which pays their pension.

> It's all about providing information on how the company works, how they invest assets to pay the pensions and how they assess risk to protect future payments. Not a salesperson in sight!

ATTENDEE AT LONDON POLICYHOLDER DAY 2019

A culture of integrity

JON AISBITT
CHAIRMAN

BOARD PRIORITIES
The Board has prioritised oversight of the Group writing new business in a sustainable way so that we can fulfil our purpose and bring returns to our shareholders. A part of this is ensuring the Board is fit for purpose, with a focus this year on Board diversity and committee membership.

I'm delighted to say that in 2019 PIC had an outstanding year and exceeded our previous new business record with £7.2 billion of new business concluded (2018: £7.1 billion). The PRT market as a whole has been exceptionally buoyant, with total liabilities insured also reaching a new high. Within this context we have maintained our focus, and our strict underwriting discipline has ensured a very good set of financial results and a company well positioned to continue to deliver for our stakeholders.

Total pensions paid in the year

£1,229m

Employees who are proud to work at PIC

90%

Our position is strong: we are strategically positioned as a leading provider in the UK's pension risk transfer market; we have a strong reputation for customer service; we have a high-quality, low-volatility portfolio; our management and employees are second to none; our business is profitable, and our market is predicted to grow consistently.

These strengths mean that we continue to grow rapidly. Our investment portfolio has grown by 59% in just two years, the number of policyholders has grown by 48% over the same period, and our employee numbers have grown to 245, an increase of 20% in the year. As such we have a responsibility to plan and invest for the future.

Part of this planning is managing our capital position, and I am delighted that, after year-end, our existing shareholders agreed to invest £750 million of new equity capital into the business to support what is already a very full pipeline of new business.

During the year, we invested significant resources in the people and systems which will sustain the business over the long term, ensuring we continue to provide very high levels of customer service.

The Board has focused on reviewing the control environment for business operations and ensuring that we have a risk framework that is appropriate for the much bigger Company we expect to develop into with our continued pace of growth. As we outline in more detail in the governance section of this report (see page 62 onwards), we look to the Financial Reporting Council's Corporate Governance Code (the "Code") as the basis of the Company's governance, although there are some provisions that are not relevant for us at this stage in our development.

In my view, this approach to governance is the right one for a sophisticated, highly regulated private company, even though we have no plans to change this status. Amongst other benefits, the collegiate, open culture the Code fosters is attractive to independent non-executive directors ("INEDS") and has therefore been crucial in our ability to attract and retain a first-class Board. I'm delighted that we have a majority of INEDS who complement the perspective of our supportive, long-term shareholders for the benefit of all our stakeholders. We continue to address the gender diversity of the Board, which is not as diverse currently as we would like it to be.

Another key issue which we have focused on this year has been the potential effects of climate change on our business. As we outline in more detail on page 42, when we invest, we have always considered long-term factors which do not naturally sit within a formal financial analysis as part of our credit risk analysis framework. But we have now made real progress in embedding the management of the effects of climate change on our business as a whole into our risk management processes, going well beyond the investment process.

As I have gone around the country and met with our policyholders at the events we put on for them, one theme seems to be of profound importance: our social responsibilities, whether that is focusing on our purpose, or our social impact as an investor.

The core values a company holds cannot be a superficial response to external pressure, but must be truly embedded from the Board down. And I do not believe that this is a temporary shift, that companies will get away with what might be called values-washing. If anything, the importance of embedded values will continue to grow in significance.

As we explain to our policyholders, the investments we make in very long-term, secure cash flows to match our non-redeemable, long-term liabilities benefit society. One example is development funding for thousands of social homes in the UK. As such, we play an increasingly significant role in the economy by focusing on our purpose.

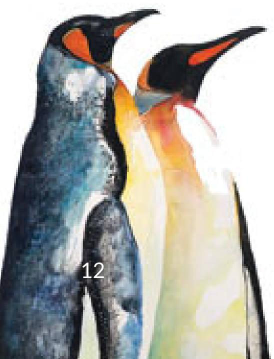
Our social focus is important to our other stakeholders, including our employees, who feel proud to work for us (see page 30). This is reflected in the quality of their work and I want to thank them for their efforts this year.

Flexible and innovative

TRACY BLACKWELL
CHIEF EXECUTIVE OFFICER

A HIGHLIGHT OF THE YEAR
It was very pleasing that in December, we attained the Investors in People ("IIP") Award. IIP found that, "people have joined PIC because of the emphasis on values, customer service, business growth and, importantly, work-life balance".

2019 was another excellent year for PIC, with £7.2 billion of defined benefit pension liabilities insured (2018: £7.1 billion), a record, £8.3 billion of longevity reinsurance completed (2018: £5.6 billion), a record, and £1.9 billion of direct, private placements completed (2018: £2.5 billion).



Investment portfolio

£40.9bn

Policyholder satisfaction

99.1%

The PRT market has been extremely buoyant this year and our expectation is that this is not a short-term phenomenon, even with interest rates stuck at very low levels. Trustees have spent years steadily de-risking their pension schemes, and those furthest along this track are closely aligned with insurance pricing, immunising them against market movements. Our strategy remains unchanged: it is to position the Company to be able to meet this substantial and growing demand for pension risk transfer through a clear focus on excellent customer outcomes, supported by a financially robust balance sheet.

Our results this year have been very good, with the overall value of the business as measured by Market Consistent Embedded Value ("MCEV") now at £3,874 billion (2018: £3,638 billion), an increase of 6% year-on-year. The Group's IFRS profit before tax was £394 million (2018: £477 million). The investment portfolio has grown to £40.9 billion (2018: £31.4 billion), a result of assets gathered in the course of new business, market movements, and payments to policyholders. Our solvency ratio, a key measure of the strength of business, was 164% at year-end.

The flip side of rapidly expanding demand is whether there is enough capacity in the market to meet it. On the capital side, we issued £450 million of Tier 1 debt during the year and we are well established in the capital markets, providing future funding flexibility. Since year-end PICG's shareholders agreed to invest a very significant £750 million to support our growth. On the liability side of the balance sheet, we have reinsured a significant tranche of longevity risk, including £1.5 billion of longevity risk relating to deferred members. This is the first time such a significant amount of this risk has been reinsured and it signals an opening up of the market for further deals of this type, feeding through into pricing for pension risk transfer deals.

In managing our assets, we have invested significantly to support our track record of investing in secure, long-term assets that are sourced privately. We have now invested a total of £2 billion in social housing, funding the construction or refurbishment of thousands of social homes, £700 million in renewable energy and £2 billion in the higher education sector. We have also enhanced the robustness of our credit research and internal rating frameworks.

Our policyholders are central to our business, so I am delighted that we completed the transition of our policyholder administration service to Capita during the year. This relationship has been working well for our policyholders, and our latest figures show 99.1% of our policyholders rate us favourably or very favourably. We were once again the proud recipients of an award from the Institute of Customer Service for exceptional customer service. Through our series of policyholder events, we met over 4,000 policyholders and their guests, which gave us an opportunity to hear first-hand their experiences of PIC, helping us to ensure that we can keep building on their customer experience.

In terms of our wider social responsibilities, we have spent time and resource in engaging, and leading, on issues of concern, including the need to select proposals to allow the creation of risky pension "superfunds". We have also continued our long-running series on the Purpose of Finance, including the launch of a series of excellent podcasts, and the launch of a paper on the Purpose of Stock Exchanges, all available on our website. Finally, for the third year, we are sponsoring the ever-popular Actuarial Mentoring Programme, which has record numbers of participating companies and mentees.

One of the main themes across the business this year has been the recruitment of dozens of new staff members to make sure we have the resources available to manage future demand. It is therefore very pleasing that in December we attained the Investors in People ("IIP") Award. IIP found that, "people have joined PIC because of the emphasis on values, customer service, business growth and, importantly, work-life balance". That is very gratifying to everyone who has worked so hard to make our business a success over many years and I would like to take this opportunity to thank our employees for the significant contribution they have made. I look forward to continuing that success.

Significant and growing market

Assets held within UK defined benefit pension schemes

2019
£1.6
TRILLION

2018
£1.6
TRILLION

Gilts and fixed income assets to match liabilities

2019[1]
£1.0
TRILLION

2018
£928
BILLION

Life expectancy age 65[2]

January 2019[3]
21.6
(MALE)
23.5
(FEMALE)

January 2018
22.1
(MALE)
24.0
(FEMALE)

Total defined benefit pension liabilities insured through buyouts and buy-ins since 2008[2]

2019[1]
£145
BILLION

2018
£105
BILLION

1 PPF Purple Book 2019
2 CMI's Working Paper 119
3 Life expectancy at 1 January 2019

Strategic Report 01-61 | Corporate Governance 62-87 | Additional Information 88-89

SCHEME FUNDING

In 2019 schemes continued to benefit from improved funding levels, driving the record volume of pension risk transfer activity. Trustees and their advisers are well positioned to continue with their de-risking strategies.

Improved funding levels have become more commonplace due to the following factors:

- Better matched assets and liabilities within pension schemes
- A slowdown in mortality improvements
- Pension freedoms spurring higher numbers of members to transfer out of their schemes

PIC's close and collaborative relationship with trustees and the advisory market has allowed us to complete transactions in line with pension scheme requirements. As a result, the market for pension risk transfer continues to become more efficient and flexible.

Increased numbers of schemes are now locking in pricing while detailed contractual negotiations take place.

MORTALITY ASSUMPTIONS

Assumptions in respect of life expectancy have decreased over recent years for both males and females.

Early indications from 2019 data suggest lighter mortality than recent years, meaning that previous slowdown in longevity improvements may be reversing, although it is too early to draw any long-term conclusions.

PIC concluded a record amount of reinsurance of £8.3 billion, and is now working with 11 counterparties. This included reinsuring £1.5 billion of longevity risk relating to deferred members, a growing area of interest for the reinsurers.

INSURANCE PRICING

Record interest from trustees for pension risk transfer and significant competition from insurers have maintained attractive pricing within the market.

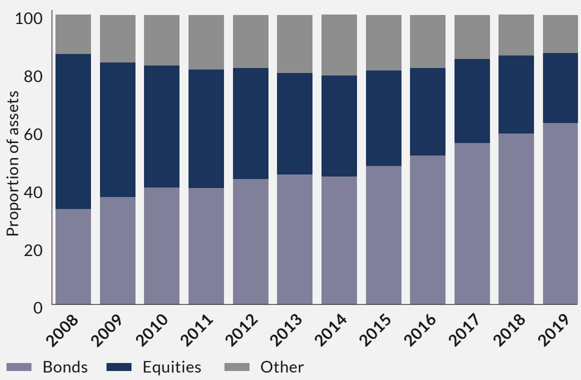
This has allowed trustees and their advisers to approach the market with confidence of securing an insurance solution at a competitive price.

Insurers have developed their expertise in asset sourcing and longevity reinsurance, improving the management of their liabilities on the balance sheet.

At PIC we remain focused on our core areas of expertise:

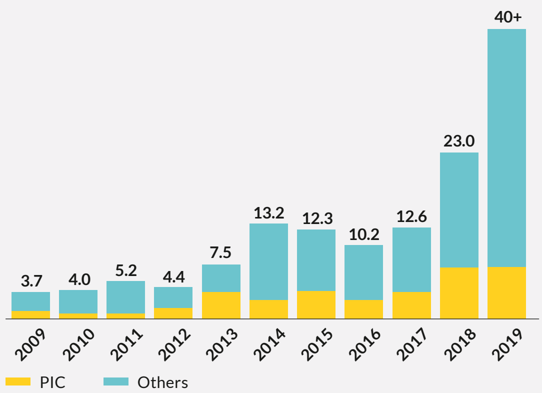
- Hedging liabilities
- Tailoring transactions
- Customer service for trustees and policyholders
- Investing assets
- Raising capital
- Reinsuring longevity risk

Asset allocation of defined benefit pension schemes (%)



Source: PPF's Purple Book 2019

Buy-in and buyout volumes since 2009 Premiums (£bn)



Source: LCP, Willis Towers Watson and company estimate

ENGAGING WITH OUR STAKEHOLDERS

As a long-term business, PIC understands the need to balance the interests of all our stakeholders. Here we demonstrate how PIC takes account of the factors our stakeholders care about.

SEE PAGE 75 FOR MORE ON STAKEHOLDER ENGAGEMENT

DEFINED BENEFIT PENSION SCHEME TRUSTEES

- Guaranteed pension benefits for their members
- The provision of exceptional customer service, both during the transaction and for our policyholders (their former members)

How we engage

- Each pension risk transfer transaction is managed by a dedicated team at PIC
- Once the transaction is signed, close communication with the trustees is crucial as we transition pension s cheme members over to becoming our policyholders
- We conduct independent research to measure and benchmark their experience post completion

Relevance to our business model and strategy

- A reputation for excellence is critical to us in winning future transactions

PIC takes the views of its stakeholders seriously at all times, especially when taking business decisions. In particular, we now require all Board papers to include a section outlining how the interests of stakeholders are affected by a particular decision. This brings stakeholder interests to the fore not only for our Directors, but also for senior management when bringing proposals to the Board.

An example of where the interests of our stakeholders have had an impact on the Board's decisions include the transition of our policyholder operations to Capita. This was a decision made by the Board that needed an understanding of the views of our policyholders and relevant suppliers. Ultimately, the decision to make the transition was made in order to protect our policyholders and ensure they received the very highest levels of customer service.

POLICYHOLDERS

- Our policyholders are our customers for life – we consider their long-term interests at all times
- Our purpose dictates the decisions we make on risk management and asset and liability management to secure the pensions of our policyholders
- We pride ourselves on our exceptional customer service for policyholders

How we engage

- We interact with our policyholders by written, telephone, online and face-to-face communications
- All relevant letters are Crystal Marked by the Plain English Campaign, ensuring straight forward, jargon-free language is used
- Uniquely, policyholders can attend complimentary policyholder events where they are able to question management about the Company in a relaxed and enjoyable setting

Relevance to our business model and strategy

- Providing first-class customer service is a prerequisite of a long-term business model
- Exceptional customer service is the foundation on which PIC's reputation rests

Listening...

DIRECT INVESTMENT COUNTERPARTIES

- PIC is a long-term investor and approaches each investment with this in mind; we value the relationships created with those that we invest in
- In private debt markets, PIC invests in assets with stable, secure cash flows that complement our investments in public debt markets
- The experience of our dedicated team enables PIC to be responsive and deliver solutions in a timely manner, working collaboratively with borrowers whilst ensuring suitability to support our liabilities

How we engage

- Proactive engagement with stakeholders including brokers, intermediaries and industry specialists, ensuring focused execution
- PIC has built up considerable experience in the private debt market, with borrowers engaging directly with the t eam in respect of repeat transactions

Relevance to our business model and strategy

- These investments provide a competitive edge in bidding for pension risk transfer business
- They increase the overall security of the portfolio
- They are also beneficial for the wider economy and our reputation

SHAREHOLDERS AND DEBT HOLDERS

- Clear, transparent and timely communications that allow investors to understand our business model and strategy

How we engage
- Business updates are communicated regularly to providers of capital, and other stakeholders, including via the Regulatory News Service ("RNS")
- We meet regularly with debt holders and have an annual debt holder conference call

Relevance to our business model and strategy
- Our investors, both equity and debt, provide the capital to enable us to continue to write new business and grow on a focused, secure and sustainable basis

and responding

REGULATORS AND POLICYMAKERS

- PIC's Risk Appetite Framework is closely aligned with its business strategy
- PIC remains focused on good customer outcomes

How we engage
- PIC maintains an open dialogue with regulators and policymakers
- PIC has been active in public debates affecting financial markets, including on investment in social infrastructure, leading to regular engagement with regulators and policymakers

Relevance to our business model and strategy
- Understanding and managing our risks is key to PIC's business strategy
- Regular horizon scanning helps us identify key risks to the business

KEY SUPPLIERS

- Our business model is built on finding exceptional partners to help us deliver business critical services, including policyholder administration
- Our key suppliers are our partners in helping us fulfil our purpose over the long-term and we invest time and effort in those relationships

How we engage
- We build close and collaborative relationships with our suppliers
- Our policy is to pay our suppliers within the payment terms on invoice rather than within 30 business days

Relevance to our business model and strategy
- We believe in working with suppliers that help us fulfil our purpose and that are aligned to our culture and values
- These partnerships allow us to find the best suppliers in a given areas as well as maintain a scalable business model, optimising internal and external resources

EMPLOYEES

- A challenging and stimulating work environment
- Management have high expectations of employees, within a respectful environment
- An accessible and responsive leadership team
- A commitment to improving diversity within our workforce and a commitment to be a place where our employees are proud to work

How we engage
- Town hall meetings allow all staff to receive updates on the business
- CEO and senior management lunches, and employee surveys provide employees with opportunities to say what matters to them directly to management
- A flat reporting structure and short reporting lines encourage collaboration, innovation, risk management and entrepreneurial behaviour

Relevance to our business model and strategy
- Having a strong, inclusive culture is attractive to current and future employees
- Our people are the face of the Company and demonstrate our values in action
- As a growing company, the need to maintain our culture becomes ever more important

Long-term returns

The key steps in securing pensions and generating long-term shareholder returns:

PRE-TRANSACTION

PENSION SCHEME

Pension scheme **LIABILITIES** (projected pension payments) – are usually uncertain in both timing and amount (longevity and inflation uncertainty)

ASSETS – a pension scheme will typically hold cash and gilts in the expectation of completing a buy-in or buyout. These assets are not closely cash flow matched to the liabilities

MEMBERS benefits are administered by the trustees and can be either pensioners-in-payment, or people who are yet to start drawing a pension (deferred pensioners)

WHAT

PENSION RISK TRANSFER

BUY-IN OR BUYOUT AGREEMENT SIGNED

+ VISIT THE 'WHAT WE DO' SECTION OF THE PIC WEBSITE FOR DESCRIPTIONS OF BUY-IN AND BUYOUT

HOW

PIC

ASSETS received are reinvested to optimise returns on a cash flow matched and risk-adjusted basis, taking into account a variety of risk factors, including Environment, Social and Governance ("ESG") factors

LIABILITIES are hedged for interest rate and inflation exposure

LONGEVITY RISK is reinsured to transfer risk, create certain liability cash flows and optimise PIC's capital deployment

CAPITAL RESOURCES are committed for the full term of the liabilities

WE VALUE all our stakeholders and strive to deliver excellent customer service

PIC'S OUTCOME FOR POLICYHOLDERS AND CAPITAL PROVIDERS

ASSETS are financial investments, current net assets and net derivative positions

2019 £39.0 BILLION

2018 £30.2 BILLION

LIABILITIES – best estimate liability net of reinsurance and prudent margins

2019 £32.4 BILLION

2018 £24.4 BILLION

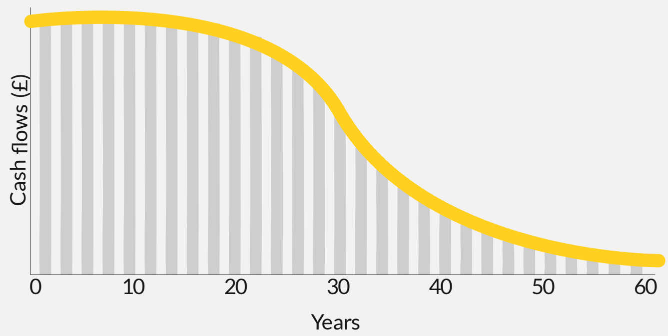
EXCESS ASSETS are assets allocated to cover solvency risk and prudent margins that will generate future cash flows for capital providers (debt and equity)

2019 £6.6 BILLION

2018 £5.8 BILLION

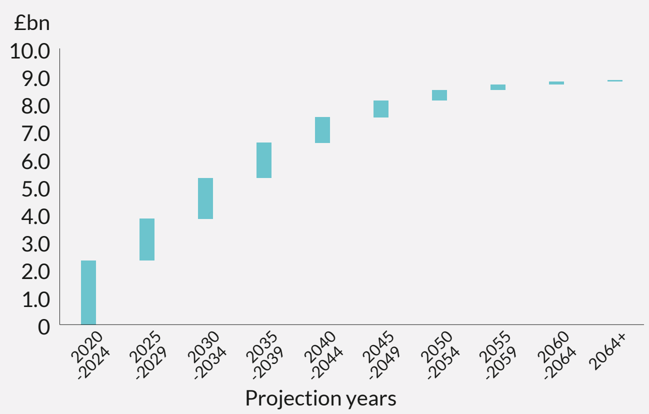
SEE PAGE 55 IN THE CHIEF FINANCIAL OFFICER'S REVIEW FOR MORE INFORMATION

BEST ESTIMATE LIABILITIES are made more certain with reinsurance and liabilities are cash flow matched with high-quality assets



RETURNS FOR OUR CAPITAL PROVIDERS

Illustrative profile of future cash generation from current in-force business (FY 2019)



Measuring our progress

STRATEGIC OBJECTIVE

GROWTH AND FOCUS

GROW THE VALUE OF THE BUSINESS ON A FOCUSED, SECURE AND SUSTAINABLE BASIS

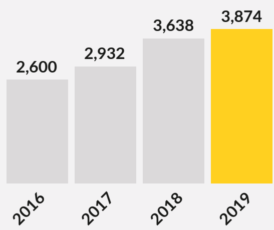
PROGRESS OVER 2019

- PIC continues to be a leader in the UK PRT market, with a long-term market share of 25%
- £7.2 billion of new business premiums written in 2019 with 15 pension schemes in another record year for the UK PRT market
- At FY 2019 financial investments were £40.9 billion, growing from £1.9 billion in 2008, a compound annual growth rate of 32%
- At year-end PIC had reinsured over 81% of its total longevity exposure with 11 highly rated reinsurance counterparties

KPI'S TO MEASURE PROGRESS

EMBEDDED VALUE ("EV") (£M)

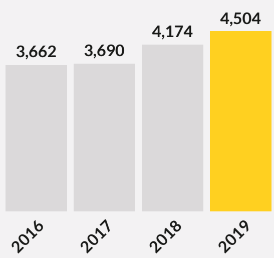
This measure provides a snapshot of the value created to date. It is also a financial metric the Board uses to evaluate the value of the business



Comments
The Group's EV increased by 6% to £3,874 million (2018: £3,638 million) with the growth mainly due to the new business profit partially offset by the increase in fair value of PIC's issued debt.

ADJUSTED EQUITY OWN FUNDS ("AEOF") (£M)

This is a shareholder view of Solvency II own funds after deducting hybrid debt and removing the impact of transitional measures on technical provisions and risk margin



Comments
PIC's AEOF rose by 8% to £4,504 million (2018: 13% to £4,174 million) mainly due to the profits generated during the year.

PIC focuses on eight key performance indicators ("KPIs") to measure performance in four strategic objectives: growth and focus, reputation and conduct, cost and capital efficiency, and returns

STRATEGIC OBJECTIVE

REPUTATION AND CONDUCT

ENSURE THAT OUR BEHAVIOURS REFLECT OUR VALUES THROUGH THE DELIVERY OF MARKET-LEADING CUSTOMER SERVICE

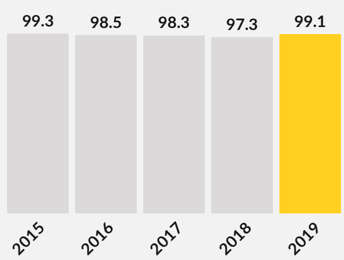
PROGRESS OVER 2019

- Continued commitment to provide the excellent customer service to our policyholders. 99.1% of policyholders expressed overall satisfaction with our service levels
- Awarded "Risk Management Firm of the Year" at the European Pensions Awards 2019, "Insurer of the Year" at the Risk Awards 2020 and "The Customer Commitment Awards" by the Institute of Customer Service
- Successfully launched third year of mentoring programme for female actuaries, in conjunction with the Institute and Faculty of Actuaries ("IFoA")
- Successful third year of ground-breaking "Purpose of Finance" series

KPI'S TO MEASURE PROGRESS

POLICYHOLDER SATISFACTION (%)

This is a measure calculated where policyholders express their overall satisfaction with our customer service. This metric ensures we continue to focus on the purpose of the business



Comments

These numbers show the percentage of customers surveyed who gave PIC a satisfied or very satisfied rating, evidencing the quality of service we have provided

CUSTOMER FOCUS (%)

As PIC continues to expand, one of our key internal measures is our customer focus. Employees are asked as part of a biennial survey whether they believe PIC is always seeking to understand and meet customer needs, ensuring our customers continue to remain our priority

2019
98.0%

2017
97.3%

Comments

These figures show the percentage of employees that believe PIC is customer focused. Refer to page 30 for more details.

OUR STRATEGIC OBJECTIVES AND KPIS CONTINUED

STRATEGIC OBJECTIVE

COST AND CAPITAL EFFICIENCY

MAINTAIN A SCALABLE BUSINESS MODEL THAT OPTIMISES INTERNAL AND EXTERNAL RESOURCES

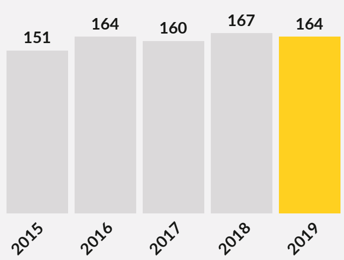
PROGRESS OVER 2019

- PIC maintained a robust solvency ratio of 164%
- Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (strong) and long term Insurer Default Rating at 'A'
- In July, the Group successfully raised £450 million of Restricted Tier 1 notes; this was PIC's first issuance in the RT1 space
- Operating expense ratio reduced from 0.42% in 2015 to 0.37% in 2019

KPI'S TO MEASURE PROGRESS

PIC SOLVENCY RATIO (%)

The Solvency II ratio is a regulatory capital measure that demonstrates the Company's financial strength

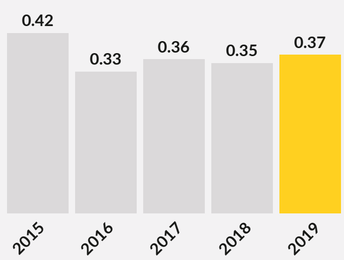


Comments

PIC's solvency ratio remained strong at 164% despite the significant new business volumes and adverse market movements.

EXPENSE RATIO (%)

The expense ratio is a measure of the operating efficiency of PICG and reflects operating expenses as a percentage of closing financial investments



Comments

Expense ratio has increased slightly in 2019 due to increased spend on business wide projects.

STRATEGIC OBJECTIVE

RETURNS

DELIVER ATTRACTIVE RISK-ADJUSTED TOTAL SHAREHOLDER RETURNS

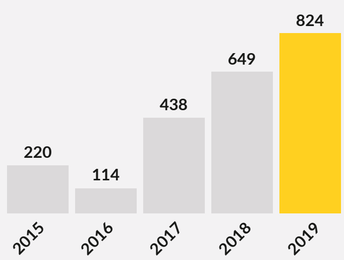
PROGRESS OVER 2019

- Focused, disciplined pricing, consistent with long-term Internal Rate of Return targets
- £6.6 billion of assets (2018: £5.8 billion) held in excess of best estimate of liabilities (BEL)
- Adjusted operating profit before tax increased by 27% to £824 million in 2019
- Return on equity was 12.2%

KPI'S TO MEASURE PROGRESS

ADJUSTED OPERATING PROFIT BEFORE TAX ("AOPBT") (£M)

AOPBT is the IFRS profit assessed on a long-term basis excluding investment variances

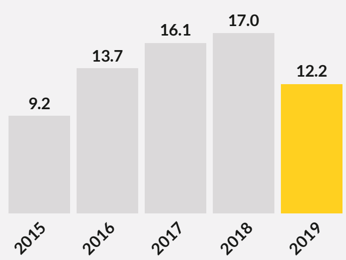


Comments

AOPBT increased by 27% due to positive impacts of new business, reinsurance and assumption changes.

RETURN ON EQUITY (%)

Return on equity is a measure of the after tax profits in relation to average equity (excluding RT1)



Comments

The return on equity decreased to 12.2% in 2019 from 17.0% in 2018 due to lower after tax profits.

Market-leading customer service

Our purpose is to pay the pensions of our policyholders for the rest of their lives. We have committed to very high standards of customer service for them and are one of only 13 companies to hold the Institute of Customer Service's ("ICS") ServiceMark with Distinction.

PIC'S ADMINISTRATION SERVICES

PIC is committed to delivering the best possible outcomes for our clients and policyholders. With that in mind we are committed to ongoing investment in and development of our award-winning administration services. This is delivered through a third party outsourcing arrangement with Capita Employee Benefits ("Capita"), which we moved to in early 2019.

As PIC continues to grow, it is vital that we have an administration partner that is able to help us develop the scale and sophistication of our customer service provision, whilst maintaining very high levels of customer service.

PIC works closely with Capita, which we see as an extension of the PIC team. Our customer service provision is not the standard administration offering, but based on a bespoke administration agreement that was developed in line with our culture and values. The agreement gives our operations team high levels of oversight and control. These include:

- regular PIC onsite presence at the Darlington centre of excellence;
- full remote and transparent access to all systems;
- administration team focused exclusively on PIC's customers; and
- PIC involvement in recruitment and training to make sure the right people are servicing our policyholders.

Crystal Mark 20064 Clarity approved by Plain English Campaign

ServiceMark with Distinction Accredited from Oct '17 to Jun '20 The Institute of Customer Service

Policyholder satisfaction
99.1%

Total pensions, lump sum and other payments in 2019
£1,430m

MEETING OUR CUSTOMERS

Speaking to and meeting with the people who receive our service is an important element of PIC's offering. Our policyholders come to us directly from their sponsoring employers and would not normally be familiar with the Company. PIC arranges complimentary events throughout the year at which our members can meet the leadership team and our employees, listen to inspirational talks from external guests and learn more about the way we do business. We also have dedicated staff available to answer any questions relating to pension payments or other administrative details. Since our first event in 2011, we have welcomed more than 25,000 policyholders and guests to meet the people whose job is to secure their benefits. We are proud to be the only financial services company to offer these types of events.

All members of staff are expected to attend our policyholder events at least once every two years. As well as the events PIC puts on, we continue to look at other options to engage with our ever-increasing policyholder base. For example, we recognise that there are existing pensioner groups associated with particular pension schemes that have completed a buyout with us and been wound up. These groups are looked to by members for advice and we attend annual meetings for many of these groups, offering a chance to discuss member concerns and provide an update on the Company. Members also appreciate the ongoing connection to the original scheme. Events and meetings such as these are an important part of communications and member engagement.

Other, more routine interactions with our policyholders are also assessed for ease of understanding, whether this covers straightforward administrative requirements such as a change of address, or more sensitive scenarios such as bereavement. All relevant letters are Crystal Marked by the Plain English Campaign, providing jargon-free, simple and straightforward language when providing the information that our policyholders need.

Our approach to customer care and the emphasis the whole company, from senior management to front-line staff, places on customer service has led to our accreditation by the ICS. We are holders of the ICS ServiceMark with Distinction, the highest attainable award, and were the first financial services company to attain it. The award is based on customer satisfaction feedback and employee engagement with our customer service strategy.

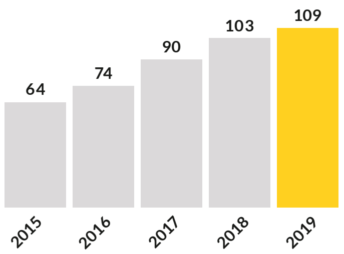
Policyholder registration at the PIC Manchester Policyholder Day, December 2019

POLICYHOLDER SATISFACTION

Our customers receive high levels of service but we want to do more and so we track policyholder satisfaction in a number of ways. These include:

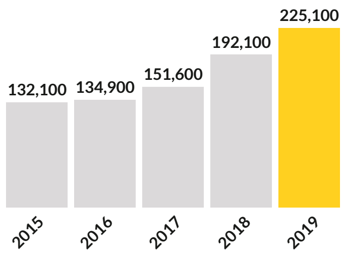
- satisfaction levels monitored via telephone and paper surveys;
- close monitoring of complaint levels and analysis of complaint root cause;
- stringent oversight of outsourced administrators such as: monthly file and call review; regular site visits; weekly operational catch-ups; and formal monthly service reviews;
- face-to-face feedback at our six policyholder events;
- ICS ServiceMark accreditation; and
- Complaints reviewed by senior management and the Board.

Number of schemes that have transitioned to full buyout



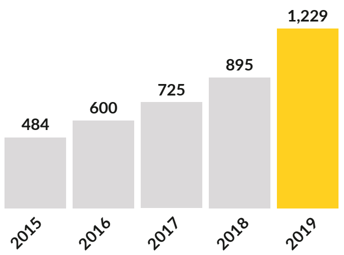
The number of schemes increased by 5.8% in 2019.

Number of pensioners insured



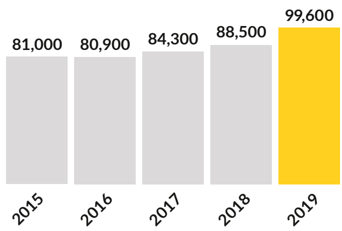
The number of pensioners insured increased by 17% in 2019.

Pensions paid (£m)



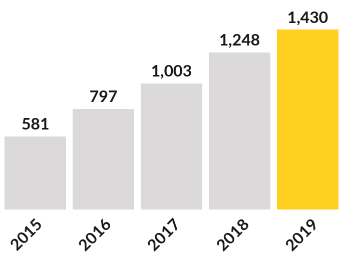
Payment of annuities increased by 37% in 2019.

Individual policies in issue



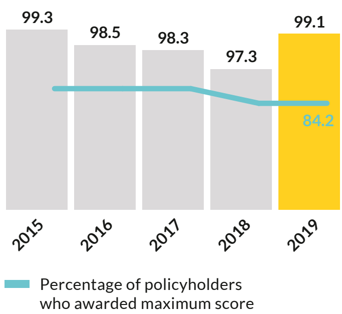
At the end of 2019, PIC had 99,600 current individual policies in issue in respect of 109 pension schemes. This compared with 88,500 in respect of 103 schemes in 2018.

Total payments to policyholders (£m)



Total payments to policyholders were £1,430 million (2018: £1,248 million) an increase of 15% due to increased number of policyholders.

Policyholder satisfaction (%)



We have extremely high levels of customer satisfaction, and have maintained over 97% overall satisfaction in the last eight years.

Customers take priority

CASE STUDY

I started working for Ryland Pumps Ltd in 1972 and remained working for them for 43 years during which time there were several company name changes. In 2012 we were advised that the existing company pension scheme was no longer viable and would be transferred to the Pension Protection Fund ("PPF"). As this would result in a reduction of benefits compared with the original company scheme, the company, which was by then known as Sterling Fluid Systems Ltd, agreed that our pensions would be transferred to PIC. I subsequently retired in March 2015 at age 65 and started claiming my pension from PIC in September 2017.

Without PIC, the situation regarding the pensions that we had been paying into for decades would have been very insecure and there was the possibility that, had the company been forced to honour the existing arrangements, it may well have ended up in receivership.

> "I'm very satisfied with the job that PIC does in fulfilling its purpose and it's clear to me that looking after their customers is important to the Company."

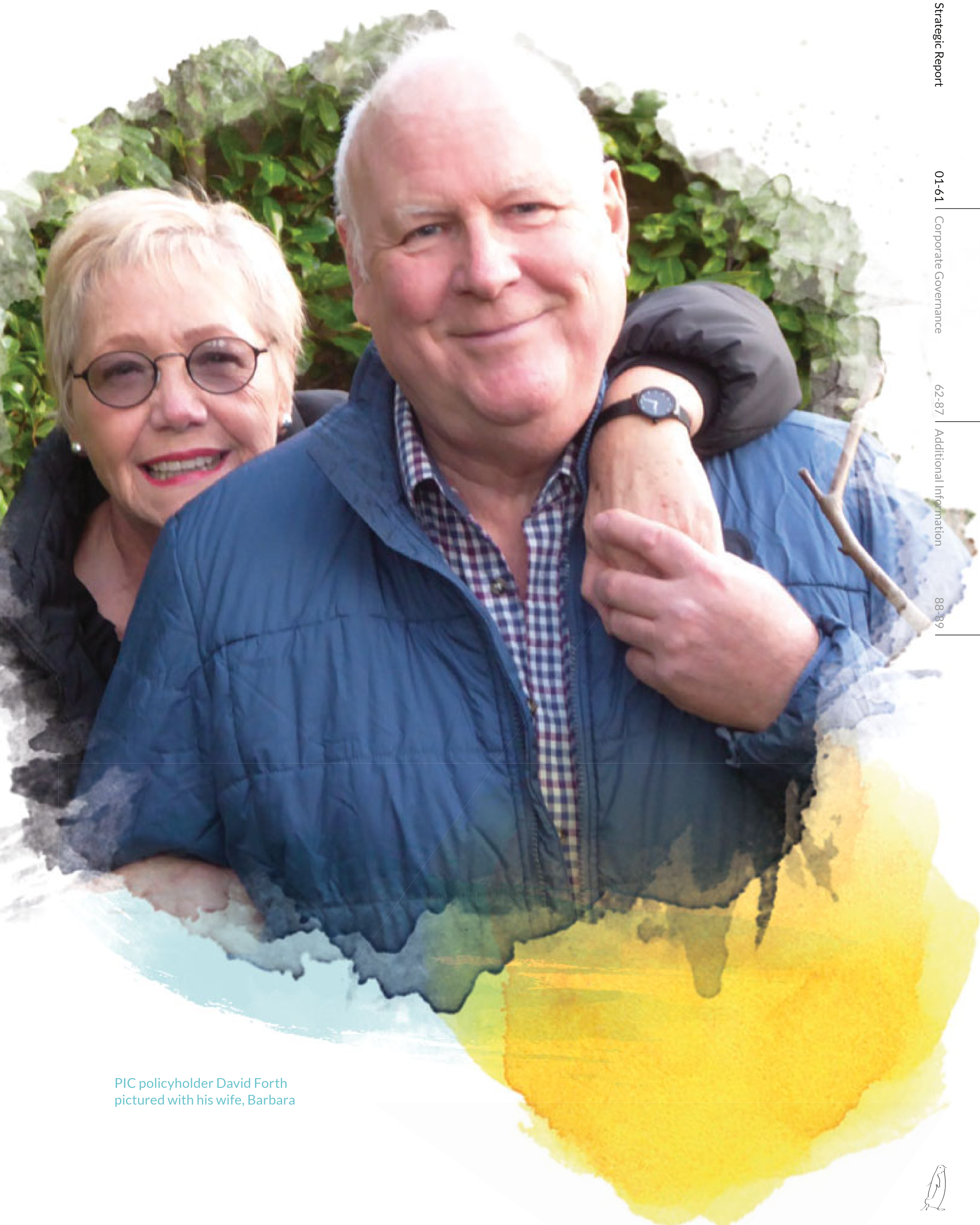
I'm very satisfied with the job that PIC does in fulfilling its purpose and it's clear to me that looking after their customers is important to the company. Whenever I have had queries, PIC has always dealt with them efficiently so I would say the customer service is excellent. In addition, I've always been happy that communications are easy to read and understand.

I've spoken to PIC employees at the policyholder days, by phone and by email. I know you can't actually be on personal terms with every PIC customer but in my conversations with the PIC staff, the service always feels personal and I am left with the impression that they care about what they do and strive to do a good job.

This is evident at the policyholder events, which I think are a really good idea. When PIC's senior managers run through the figures and strategy it projects the personal service from the top directly to us and also demonstrates that PIC takes its accountability very seriously. This year was the third event that I have attended and, as always, I especially enjoyed the guest speaker. Then of course there's the free lunch and who doesn't enjoy one of those!

Overall, being a PIC policyholder feels like being in a club that puts money in your bank account each month and I would have no hesitation in recommending the company to any of my friends.

DAVID FORTH
FORMER MEMBER OF THE STERLING FLUID SYSTEMS PENSION SCHEME AND PROUD PIC POLICYHOLDER



PIC policyholder David Forth
pictured with his wife, Barbara

Central to our success

OVERVIEW

PIC places great importance on providing a positive and challenging work environment for all its employees. Our purpose, which is paying the pensions of our current and future policyholders, helps set the tone for the way we conduct business, and this is enacted by individual employees and departments, including executive management and the Board. There is a strong belief that our purpose, culture and values are fundamental to the success of the business. This focus helps ensure a collaborative spirit when engaging with our stakeholders, whether internally in cross-team interactions or externally with our clients, suppliers and partners. This results in a hard-working, productive environment, where everyone can take pride in, and be recognised for, the contribution they make to the Company's success.

WHAT OUR EMPLOYEES SAID ABOUT OUR VALUES

98%	**Believe PIC is customer focused (always seeking to understand and meet customer needs)**	**"Valuing our customers"** We pride ourselves on our customer focus and work hard to ensure that employees feel they can serve our customers' interests efficiently and effectively without undue red tape.
98%	**Believe PIC will be successful in the next 2-3 years**	**"Striving to be the best" and "Providing security"** Employees have a demonstrable understanding of PIC's purpose, strategy and focus on the customer. The vast majority of employees feel that PIC is effectively managed and well run.
97%	**Say they have a good understanding of PIC's values**	**"Good understanding of PIC values"** Our values are integral to the way that we work. Every effort is made to hire those individuals who are aligned to the importance of organisational purpose, culture and the values which flow from this.
90%	**Feel proud to work for PIC**	**"Doing the right thing"** The result clearly demonstrates that a good understanding of the values and a focus on purpose brings pride. Employees expressed very high levels of trust and confidence in the senior leadership team.
89%	**Would recommend PIC as a place to work**	**"Being a team" and "Embracing new ideas"** Many employees commented on the recognition they received and the appreciation that managers and the leadership team showed to them for their contribution, reinforcing the team ethos and commitment to innovation that these values represent.

IN THE WORDS OF OUR EMPLOYEES

"

PIC has a true family feel about it with a strong positive culture framed around the organisation's purpose and objectives. People are always willing to support one another and there is a real tendency to work together to solve problems. **The tone from the top is consistent and clearly aligns people behind purpose.** Senior management are always visible and happy to engage in open discussions around all topics.

"

PIC EMPLOYEE
2019

"

The organisation has a very strong culture and it is clear that everyone is focused on delivering PIC's objectives, which are aligned to our values. The senior management are very accessible and willing to spend time with people across the organisation. The scope of work is varied and challenging, and people engage across teams on a regular basis.

"

PIC EMPLOYEE
2019

"

PIC has a strong culture rooted in its values and the top-down messaging is excellent. Colleagues are skilled, respectful and innovative and working with them inspires me to do my best. **I most enjoy using my skills to do something that's genuinely beneficial to a large, vulnerable section of society** and the leadership of the CEO is second to none.

"

PIC EMPLOYEE
2019

Retaining the culture

During 2019, the Group's employee base increased by 23% with 245 employees at year-end 2019. We are proud to have retained a flexible and innovative culture throughout this time, with flat reporting lines and easy access to senior leaders. PIC continues to foster a listen-and-learn approach. This is evidenced by regular staff surveys, an open-door policy and company-wide learning sessions. In the last 12 months, PIC held over 100 of these types of events which included hosting external and internal speakers on subjects as diverse as "The Purpose of Stock Exchanges" and "Fraud Prevention", as well as more prosaic sessions to help employees learn more about different areas of the business.

In addition, PIC holds regular, informal events with the CEO and executive team for all employees who are invited to attend at least one session every 18 months. Attendees can discuss any topic of interest or concern, giving employees the opportunity to discuss concerns with the leadership team. Feedback indicates that our staff gain valuable insight into the Company's priorities and short- to medium-term developments and they provide employees with the chance to have input into the way we conduct business, offer ideas for improving processes and provide feedback on things that are, or are not, working. These sessions work both ways and are an invaluable way for senior leaders to get the views of those who make PIC a successful and dynamic company. Extending the session to the wider leadership team was a direct result of feedback from one of the initial CEO lunches.

Increase of total staff numbers

+23%

Rewarding our employees

We believe in rewarding the hard work of our employees and for that reason we offer competitive remuneration packages and a wide range of benefits, which include:

- generous pension contributions;
- private medical cover;
- season ticket loan; and
- travel insurance.

SAYE

The Group operates an annual Save As You Earn ("SAYE") plan, which has been on offer since 2013. The scheme gives staff members the opportunity to acquire the Group's shares at a favourable price and take-up has remained consistently high, even as the Company has significantly grown. SAYE schemes are mostly found in public companies, but we believe the scheme aligns well with our overall values and helps our employees develop a pride of ownership, laying the foundations for a sustainable and successful Company for many years to come.

Ethics

Our people and the culture we have developed at PIC are vital to our success as an organisation. We recognise our place as a corporate citizen, the impact of our actions and behaviours, and the responsibilities we have to each of our stakeholders. We are proud to be a values-led company with a strong moral and ethical stance. Emphasis is placed on how we do things as much as on what we do.

GENDER PAY

Overview

From 5 April 2018, UK businesses with more than 250 employees have been required to report their gender pay gap. Whilst the Group has no requirement to publish the data this year, we are committed to equality, diversity and transparency, and have therefore published this information voluntarily.

The gender pay gap measures the difference between the average hourly pay of men and women across the Group. It does not take into account the ratio of men and women, different levels of seniority or those working part-time. It simply shows the average across the business, expressed as a percentage of men's earnings. This is different from equal pay, which is about men and women in the same employment and performing equal work receiving equal pay, in line with the Equality Act 2010.

Mean and median

The mean (or average) gap is calculated by totalling the earnings of employees and dividing that number by the number of employees. The chart below shows the mean salary percentage pay gap between males and females at PIC compared with other financial services organisations, as well as to all UK companies. Our median salary pay gap was 15.6% in 2019.

	Pension Insurance Corporation Group	Financial Services	all UK companies
Mean salary	17.2%	26.3%	13.1%

The median pay gap is the difference between the number in the middle range of male earnings compared with the number in the middle range of female earnings. Our mean and median bonus pay gap was 15.8% and 22.9% respectively.

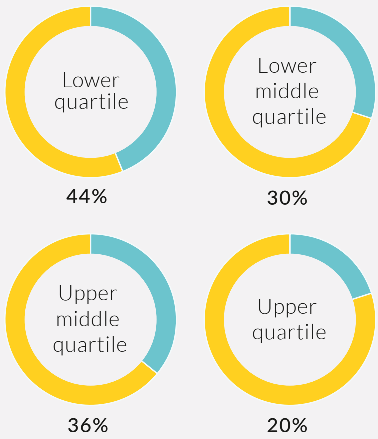
Employees awarded a bonus

93% of women received a bonus

85% of men received a bonus

Pay quartiles

Percentage of women in each pay quartile



Source: PIC data

As shown by the quartile reporting, there are fewer females than males in every pay quartile, although there is near parity in the lower quartile. This number drops to 20% of women in the upper quartile.

Improving industry diversity and working to close the gender gap

The Group expects to make improvements in gender equality, and this subject receives regular attention at Board level.

As part of our wider commitment to equality within the actuarial profession, from which the Group heavily recruits, PIC is the sponsor of the Actuarial Mentoring Programme ("AMP"). This highly successful mentoring scheme for female actuaries, run in conjunction with the Institute and Faculty of Actuaries (IFoA), is now in its third year. It is designed to improve diversity at senior levels of the actuarial profession over time by helping female actuaries stay longer in the industry. Retaining women longer in this profession will help close the gender pay gap.

Finally, the Group requires recruitment agencies to provide a minimum of 30% of CVs to be from females for every role.

PROJECT AMP

Diversity of thought

As a specialist insurer, a large proportion of the employee base join PIC with job specific, quantifiable skills in areas such as economics, maths and accountancy.

This year, PIC began offering an apprenticeship scheme for junior actuaries. Over the course of three years, the graduates will spend time across the business in our Finance, Origination and Investment team. Members of the scheme will benefit from on-the-job training as well as being supported to gain their actuarial qualifications. As PIC continues to grow, we see this as an opportunity to develop our own pipeline of future talent. The scheme is intended to be a pilot, which if successful will be expanded into a Company-wide graduate scheme.

"All in all, I'm really enjoying the challenge of being at PIC."

CASE STUDY

I've always been interested in pursuing a career as an actuary and when I saw the apprenticeship scheme advertised with PIC it seemed like the perfect opportunity. My background is in accountancy and I qualified in 2018 so the time was right for me to look for a new challenge; and when I went along to the initial assessment centre, I knew that I'd certainly found one with PIC!

I started in September 2019 and am spending my first year within the Finance team. The role is varied, and my responsibilities are split between the reporting team and the modelling team. I could be running the models in RAFM – our Risk Agility Financial Modelling software – to generate reports for month-end reporting one week and delving into the code in RAFM to gain further understanding of the various components of the models the next. Working here is fun and challenging in equal measures. The role takes me outside of my comfort zone which can be daunting at times, but this is where PIC's supportive and nurturing culture come to the fore. Everyone has been great, and I've received informal one-to-one support when needed. This helped me settle into the team more quickly. All in all, I'm really enjoying the challenge of being at PIC.

JULIE JAIYEN
TRAINEE ACTUARY, FINANCE TEAM

JULIE JAIYEN
TRAINEE ACTUARY,
FINANCE TEAM

A sustainable investment philosophy

ROB GROVES
CHIEF INVESTMENT OFFICER

HIGHLIGHTS OF THE YEAR:

- Portfolio increased 30% to £40.9 billion
- £1.9 billion of direct debt investments, including £521 million into social housing

During the year we continued to see a robust pension risk transfer market. The amount of liabilities we have insured surpassed our record last year. As we reach the latter stage of the credit cycle, we have been more cautious in our credit portfolio, focused on consolidating the portfolio into even more secure assets as markets become more volatile. This has meant that as well as meeting the demand to source suitable secure, long-term cash flows, the Investment team has been focused on managing the risk within our £40.9 billion portfolio.

Overview

2019 was characterised by an uncertain economic and political environment. This has had an impact on the availability of suitable listed debt and therefore meant an increasing demand for secure, high-quality cash flows that are privately sourced. Balancing these elements within the portfolio has been helped by our focus on maintaining a sustainable, low-risk asset base from which we can generate predictable cash flows to back our policyholders' pensions.

The macro trends seen during the year, for example the US - China trade war and the subsequent Chinese economic slowdown, as well as negative interest rates in various markets, led us to take a prudent approach to our credit portfolio. Our desire to de-risk was further vindicated by ongoing political uncertainty caused by the delays to Brexit and an increased likelihood of a downgrade to UK sovereign debt on the back of a possible recession (yet to materialise). As a consequence, we increased our holdings of higher rated US corporate bonds where there is also better liquidity.

Risk management – cash flow matching

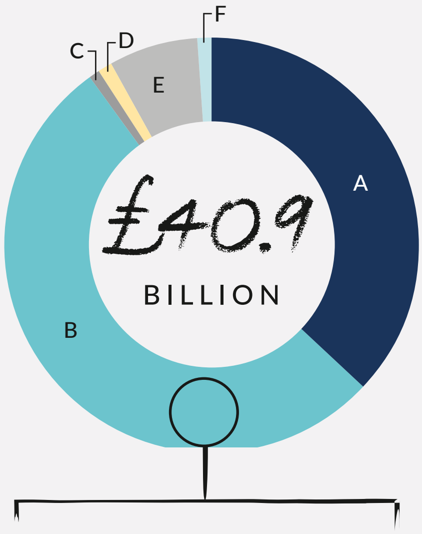
PIC's liabilities stretch out over the very long term, with pensions expected to be paid to policyholders in some cases up to 50 years from now. Our portfolio is therefore carefully constructed to cash flow match the liabilities and this is the fundamental driver of our investment decisions. After all, our purpose is to pay the pensions of our policyholders. We seek regular and reliable income over growth and operate on a buy-to-hold basis, which means that fluctuations in value of the underlying assets on a day-to-day basis are of little importance versus the stability of the cash flow they generate. The cash flow matching approach provides certainty over every individual policyholder's pension payment. These payments are locked down from the moment they become our policyholder and will be in place for their entire life.

How we manage our portfolio

Working to such long time horizons means building a portfolio that can do what it is designed for across a range of economic outcomes. The portfolio needs to withstand micro-economic factors such as short-term interest rate fluctuations and company bankruptcies; macro-economic considerations, for example economic recession and growth; and global concerns, such as the risks posed by climate change. We recognise the importance and uncertainties around climate change and as prudent long-term investors we are focused on understanding and managing those risks when considering our investment approach. "ESG", or environmental, social and governance-based investing has become a much more prominent consideration for asset owners, including for fixed income investors, over the past few years. As a fixed income investor with a long-term view and clear purpose, ESG factors are part of our investment decision, and this is an area we are spending more time and resources on (see pages 42 and 43 for details of our approach to ESG and climate change).In terms of financial resilience we characterise our strategy as "weather-proofing" – building resilience to any potential storm that might hit the portfolio. Our portfolio is therefore best categorised as a high-quality, low- risk pool of assets built for the long term.

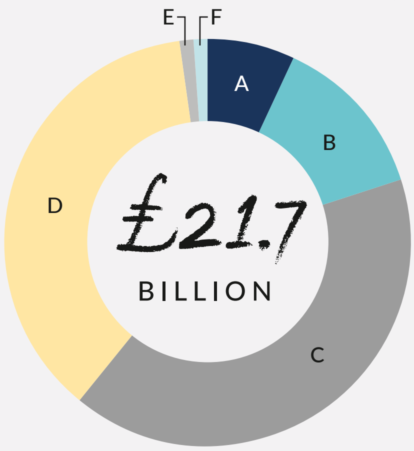
In numbers, our portfolio comprises 90% government and corporate bonds, with 98% of these corporate bonds rated investment grade. Aside from the UK Government, no single counterparty represents more than 2.3% of our total investments. We have about 5% of our portfolio invested in social housing, about 3% invested in the university sector and about 2% invested in renewable energy. We expect this latter number to grow over the coming years.

52% of our assets are managed internally, including gilts, supranational bonds and private debt. Our external asset managers, the largest of which are Schroders (US corporate debt), Janus Henderson (UK corporate debt) and JPMorgan (emerging market corporate debt), look after the bulk of the rest of the portfolio.



Financial investments by asset class (31 December 2019)

- A Government securities 37%
- B Corporate securities 53%
- C Asset backed securities 1%
- D Equity release mortgages 1%
- E Cash and liquidity funds 7%
- F Other 1%



Corporate securities by rating

- A AAA 7%
- B AA 13%
- C A 41%
- D BBB 37%
- E BB 1%
- F Unrated 1%

ASSET AND LIABILITY MANAGEMENT CONTINUED

Corporate securities by country/region of issuance

Country	Market value (£m)	%
UK	10,990	50
US	6,884	32
Europe (ex UK)	2,349	11
Rest of world	1,445	7
Total	21,668	100

Corporate securities split by industry sector

Sector	Market value (£m)	%
Financial	5,606	25.8
Utilities	2,878	13.2
Consumer, non-cyclical	2,430	11.2
Communications	1,877	8.7
Energy	1,441	6.7
Consumer, cyclical	645	3.0
Industrial	775	3.6
Basic materials	493	2.3
Technology	1,227	5.7
Diversified	62	0.3
Quasi-Government	34	0.2
Other	4,200	19.3
Total	21,668	100

Historical default experience

Our strong track record of no defaults in the portfolio continued over the last 12 months, taking us to our seventh consecutive year of zero defaults. This means that none of our borrowers failed to repay the debt we have lent, which evidences the quality of our portfolio. This means we are outperforming our Solvency II and IFRS assumptions which make an allowance for poor credit performance.

Direct debt investments

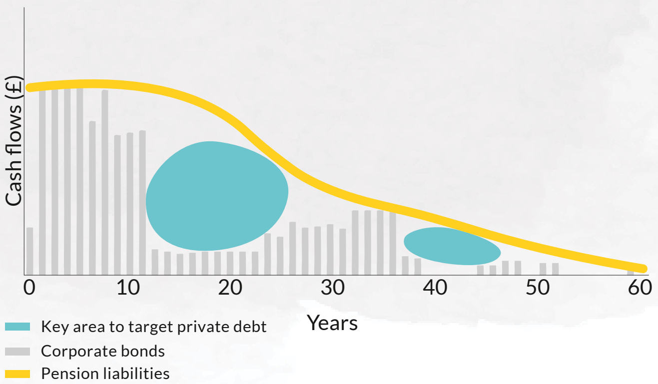
This year we have seen ongoing success with our ability to source direct debt investments in a challenging environment. These investments provide us with a competitive edge with regard to pricing for new business, as well as increasing the overall security of the portfolio.

The team directly sourced £1.9 billion of investments (2018: £2.5 billion) in our preferred sectors during the year, including social housing, renewable energy and the university sector. PIC's investments in 2019 helped finance plans to build over 4,000 social homes and nearly 3,000 additional student bedrooms at universities across the country. In total, PIC has invested £7.8 billion through private placements, representing 20% of the portfolio.

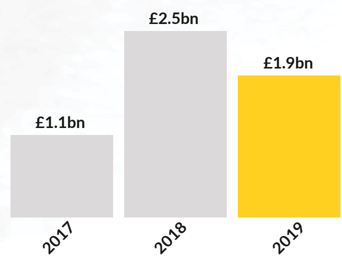
In the second half, we also took advantage of lending opportunities with local authorities such as the City of London Corporation (see case study on page 41) and Glasgow City Council.

DIRECT DEBT INVESTMENTS

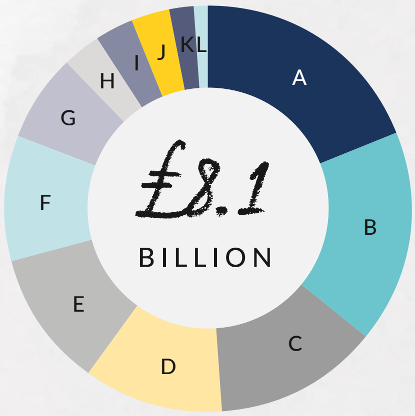
Finding cash flows for years with low levels of listed bonds in issuance



Direct debt investment originated in the year (£m)



Breakdown by sector of direct investments (2019)



- A Social Housing 19%
- B Financial 17%
- C Student accommodation 13%
- D Education 11%
- E Utilities 11%
- F Not for Profit 10%
- G Project Finance 7%
- H Asset Backed Securities 3%
- I Transport 3%
- J Government Guaranteed 3%
- K Commercial Property 2%
- L Industrial 1%

We continue to look at other types of projects both in the UK and abroad, which are tailored to match our liabilities, are very secure, and provide regular cash flows in years where income is difficult to source in the public bond markets.

PIC has an experienced in-house team with an established history of sourcing private debt making our first private debt investment in 2012. During this time, the characteristics we look for in our private debt deals have remained the same. Secure and predictable cash flows, with a long-term maturity that occurs at times when there is less availability in public listed debt (see chart on opposite page: Finding cash flows for years with low levels of listed bonds in issuance).

Our private investments make up 20% of our portfolio and this year we completed 25 transactions with a variety of high-quality partners.

On average, these were around £76 million in size and PIC's team worked with each borrower to individually tailor the deal. In many cases, and especially when PIC is the sole lender, we can offer increased flexibility around the terms of the deal. This can include the ability to defer the drawdown of funds to suit the lender (see the Eildon case study on page 40), saving them the additional interest charges that would otherwise be payable from the date the contract is exchanged.

The advantage for PIC is the ability for us to negotiate a maturity date to match our liabilities, alongside putting in place documentation such as covenants or merger consents, which provide an additional layer of security in the event of a possible default.

The quality of our investments is important. We want to ensure we have a thorough understanding of the risk profile of each investment. The team turns down hundreds of deals a year that do not meet our criteria, for reasons such as unattractive pricing, weak demand and inadequate governance controls. We are less concerned with benchmarking or relative performance, focusing instead on the quality of the cash flows we are buying to match our pension payments. The illiquid nature of these assets provides us with an illiquidity premium, or a higher level of yield given the long-term commitment made, while maintaining a lower level of risk.

"This is a very important partnership for Eildon and we are delighted to have secured PIC's investment. These funds are crucial as we seek to build 750 new homes. I want to thank the PIC team for their flexibility and proactive approach in helping close this deal."

NILE ISTEPHAN
CEO AT EILDON HOUSING ASSOCIATION
JULY 2019

£521m

invested in social housing in 2019

CASE STUDY

EILDON HOUSING GROUP

In July 2019, PIC invested £40 million in debt issued by Eildon Housing Association ("Eildon"), a housing association based in the Scottish Borders. The funds will be used to support Eildon's development plan, under which it is building 750 new homes by 2021. This was the first private placement PIC did with a Scottish housing association.

Eildon is one of Scotland's leading housing associations, providing 2,500 high-quality, affordable, rented homes for tenants, as well as specialised care and sheltered housing, throughout the Scottish Borders.

Key points of the transaction:

- £40 million funding, maturing in 2053 and 2055 to match PIC's liabilities
- Drawdown of £15 million of the loan is deferred until 2020, providing certainty of debt cost for Eildon
- The debt is secured on a pool of housing assets
- Maturity profile has been tailored to match PIC's pension liabilities in years where it is difficult to source cash flows in the public bond markets, as well as meet Eildon's borrowing needs

CASE STUDY

CITY OF LONDON CORPORATION

In December 2019, PIC invested £250 million in debt issued by the City of London Corporation (the "City Corporation") for an ambitious programme of major projects designed to benefit the Square Mile, London and the UK.

The projects include the proposed relocation and development of three of the City's historic wholesale food markets – Billingsgate (fish), Smithfield (meat) and New Spitalfields (fruit, vegetable and flower) markets – to a former power station site in Barking and Dagenham. It will also help fund the Museum of London's relocation to West Smithfield.

The investment will not be drawn down by the City Corporation until 2021, locking in borrowing costs.

PIC was awarded the largest share of the £450 million transaction, reflecting the Company's reputation as a significant investor in social infrastructure. The proceeds will also refinance a £125 million bridge loan used to acquire the Barking site, as well as preparing the site for development. The City Corporation is the governing body of the Square Mile and the oldest continuous municipal democracy in the world.

Key points of the transaction:

- PIC is the largest investor, taking £250 million out of the £450 million deal
- Split across 40- and 45-year maturities to match PIC's pension payments
- Drawdown of funds is fully deferred for two years

> We are pleased to have secured this funding from PIC. The team showed great flexibility and knowledge in structuring this investment so that it meets our need to draw down the funds this year and in 2021.

JEREMY MAYHEW
CHAIRMAN OF THE FINANCE COMMITTEE
AT THE CITY OF LONDON CORPORATION
DECEMBER 2019

£250m

PIC was awarded the largest share of the £450 million transaction

Integrating ESG into our decision making

OUR COMMITMENT TO ESG INVESTING

The purpose of PIC is to pay the pensions of our current and future policyholders. With liabilities stretching out 30-40 years and beyond, we invest in secure, long-term cash flows that allow us to pay our pension commitments when they fall due. The assets that we invest in must therefore be sustainable, with business models that can survive changing environments. So we have always considered long-term factors beyond just financial analysis as a natural part of our credit risk management process. ESG is a great way to capture these risks and means that we have focused on investments that are socially useful and are likely to meet the needs of society for decades to come, such as investments in social housing, higher education and renewable energy.

> We have always considered long-term factors beyond just financial analysis as a natural part of our credit risk management process.

Why ESG is relevant for fixed income investors

- With liabilities stretching out 30 – 40 years and beyond, we must invest in secure, long-term cash flows that allow us to pay our pension commitments as they fall due
- ESG-type risks can equally apply to the assets backing liabilities (e.g. flood risk) as they can to the liabilities themselves (e.g. longevity risk)
- As a fixed income investor we have always sought to manage the downside risk of any investment, rather than aim for additional returns

OUR ESG OBJECTIVES

PIC's integration of ESG factors into our investment process is designed to ensure that we understand and manage the risks in our investment portfolio as fully as possible. Our primary objective is to avoid the risk of not getting our money back. However, ESG analysis helps us to understand transition risk as we shift to a more sustainable economy.

Formalising the ESG part of the credit assessment process, including the use of Sustainalytics' ESG Risk Assessment framework, has provided an additional lens through which we can review the risks to which we are exposed, especially over the very long term. Sustainalytics is a global leader in ESG and corporate governance research and ratings, helping investors incorporate these insights into their investment processes.

2019 PROGRESS

1. Setting external manager parameters to ensure they are considering ESG factors and that they can evidence this to PIC
2. Integration of Sustainalytics' ESG Risk Assessments into the credit risk management process
3. Signing up to the United Nations' Principles for Responsible Investment ("UNPRI")

THEME	ENVIRONMENTAL	SOCIAL	GOVERNANCE
APPROACH	Climate change has become a key focus for institutional investors over the course of 2019. Climate change presents several risks to our business, including the impact on longevity of pensioners and the potential impact on our investments, such as social housing. It is therefore important we consider it holistically, and PIC's Chief Risk Officer has responsibility for managing the uncertainty for our business presented by climate change.	The "Social" aspect of ESG cuts across our portfolio in several ways. The first is considering wider social trends and how these might change over the course of a lifetime. The second is the social impact of our investments and how they provide for the social good. For example, consideration is given to how the borrower balances the needs of its stakeholders, including employees, the local community, etc.	In terms of "Governance", it is important for us to understand whether a borrower is managed robustly enough, such that it is likely to be able to pay us back. Typical areas for consideration include the composition of the borrower's board and senior management; its business plan and strategic rationale; the depth of its enterprise risk management systems and capabilities; and the flexibility and agility of the institution to measure performance and implement change based on internal objectives or external signals.
EXAMPLE	Climate change is driving many developments across society and it is important that as we invest our assets we are capturing these trends. This can work to make us reconsider the long-term risks in some sectors, such as the automotive industry, where we have reduced and shortened our exposure. Separately, we have had a long-standing interest in renewable energy as an investment opportunity. Our first investment into solar energy was in 2012, with the completion of the UK's first ever publicly listed solar finance bond. We have since invested £700 million in solar energy and offshore wind, including in the world's largest offshore wind farm. We intend investing further into these sectors, in the UK and across Europe.	Similar to the "Environmental" focus, the "Social" element of ESG provides opportunities for us to reduce exposure to industries that are likely to run against the grain of society over the coming decades, such as tobacco, as well as to look to invest in new opportunities that will serve society. For example, PIC invested £250 million in the City of London Corporation to help relocate three historic markets (see page 41 for details).	In 2019 PIC completed a second £40 million long-dated, senior secured private debt investment with Soha Housing, a regulated housing association based in South Oxfordshire, as part of a long-term relationship. This type of relationship where we are a repeat lender will become the norm, as housing associations and other similar borrowers strengthen their corporate governance structures with the help of institutional investors. This virtuous circle of increased engagement improves corporate governance and operational excellence across the sector, not only making it better equipped for future funding, but also providing a more stable environment for tenants.

Benefit to society

CASE STUDY

SOHA HOUSING ASSOCIATION

Studio-style photos of Victoria and her daughter adorn the walls of their lounge. It is a similar scene in many loving homes across the country. But for Victoria there is a special meaning behind each picture. Every year she has a new set taken on the anniversary of the date they moved into their home. Each picture is a celebration of their life together.

A few years earlier it was quite different for Victoria. In the space of 24 hours her life was turned upside down. She had to give up her teaching job, then lost her marriage and home as a combination of difficult life events spiralled to leave her homeless with her young daughter.

Victoria suffers from rheumatoid arthritis ("RA") and the debilitating condition made it impossible for her to lead the full life she had enjoyed up to that point. Although she had reached crisis point Victoria was determined to re-build.

"I ended up at my parents' home for six months, but all we had to sleep on was the sofa and a travel cot," said Victoria. "It was horrendous with my disability and we needed something permanent that suited our needs. "Soha offered us a house in Henley and it was transformational. Family and friends really helped. They came and decorated and got us back on our feet.

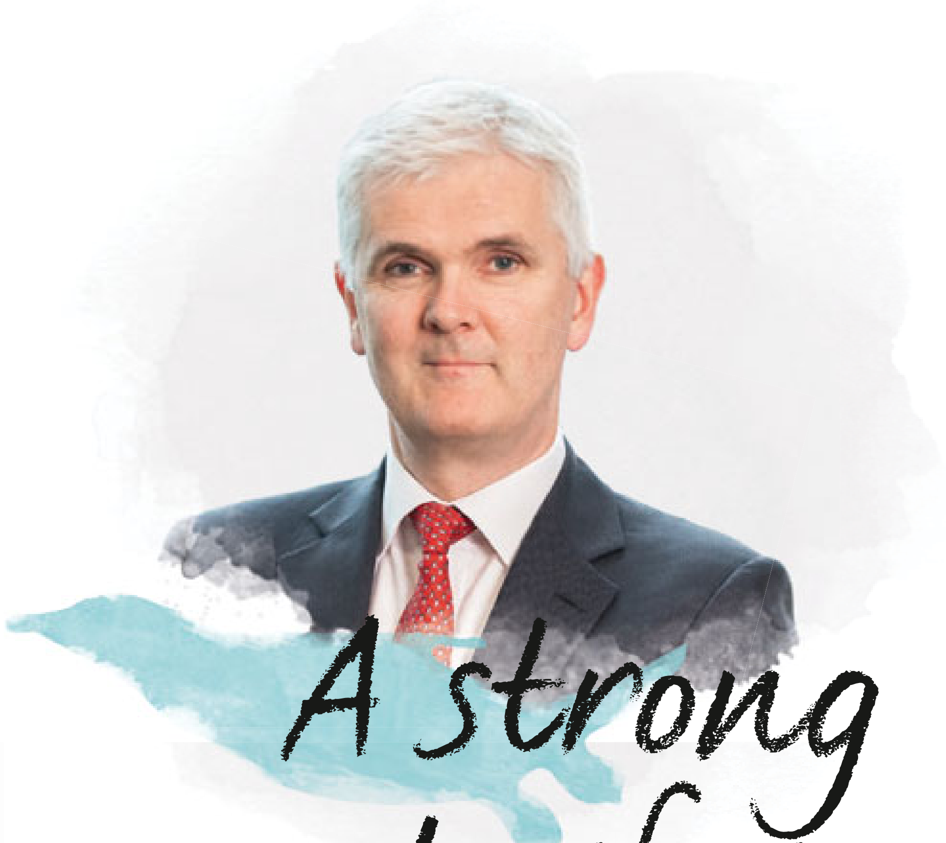
We furnished the house with a lot of items from Freecycle to begin with. "Now it's a lovely home and we're happy. All I wanted when I was homeless was a comfortable bed and a safe home to call our own and now we have that." She added: "What happened to me could happen to anyone. I have a First-Class Honours degree, had a professional teaching job and paid private rent. But my disability changed my life."

Once Victoria was settled into her new home she started volunteering as her RA, which is variable, allowed. "I wanted to give something back to Soha," she said. "I got involved in various events encouraging the public to better understand social housing in a fairer way, via the national "Benefit to Society" campaign. Social housing is affordable housing for people on low incomes. Those people are just as unique and individual as people in the private rented sector."

In October 2019, PIC invested a further £40 million in Soha Housing, a regulated housing association in South Oxfordshire, which will help build 250 new homes per year.*

* This case study has been used with permission from Soha Housing and was first published 2018.

CHIEF FINANCIAL OFFICER'S REVIEW



A strong performance

ROB SEWELL
CHIEF FINANCIAL OFFICER

	2019 £m	2018 £m
Gross premiums written	7,186	7,150
Adjusted operating profit	824	649
Profit before tax	394	477
PIC Solvency II ratio (%)	164%	167%
Embedded value	3,874	3,638
Financial investments	40,886	31,371

I am delighted to report that the Group has delivered another year of strong performance, with a record level of new business and good profitability demonstrated by adjusted operating profit of £824 million (2018: £649 million) and profit before tax of £394 million (2018: £477 million). Capital management underpins everything that we do, with our solvency level remaining strong at 164% (2018: 167%) despite the significant new business volumes and adverse market movements. This reflects the successful issuance of £450 million Restricted Tier 1 ("RT1") capital in July 2019 and careful management of the Group's internal capital resources. The Group's embedded value increased to £3,874 million from £3,638 million at end 2018 whilst financial investments increased by 30% to £40.9 billion.

The PRT market offers huge opportunities but we ensure that we maintain the right balance between writing new business and achieving sustainable growth. For this purpose, we maintain strict underwriting discipline and we only write new business that meets our target mid-teens pre-tax IRR.

Over the next few pages, we have presented our performance and results across the different reporting bases (IFRS, Solvency II and Embedded Value ('EV')).

2019 FINANCIAL PERFORMANCE

Statement of comprehensive income highlights

	2019 £m	2018 £m
Gross premiums written	7,186	7,150
Net premiums revenue earned	7,136	7,121
Investment return (including commissions earned)	3,063	(977)
Total revenue	10,199	6,144
Net claims paid	(1,388)	(1,174)
Change in net insurance liabilities	(8,199)	(4,323)
Operating expenses	(157)	(124)
Finance costs	(61)	(46)
Total claims and expenses	(9,805)	(5,667)
Profit before tax	394	477
Tax charge	(75)	(91)
Profit after tax	319	386

Premiums

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

Net premiums earned represent the gross premiums written less premiums ceded to reinsurers. These grew at a similar rate to gross premiums. Ten (2018: seven) new reinsurance transactions concluded in 2019.

Investment return

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

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

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

Claims paid

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

Change in net insurance liabilities

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

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

Operating expenses

The increase in operating expenses from £124 million in 2018 to £157 million in 2019 is broadly in line with the growth of the business.

Operating expenses as a percentage of closing financial investments under management increased marginally during 2019 from 0.35% to 0.37%. The slight increase in the ratio was largely due to the increased spend on business wide projects reflecting our significant investment in wider infrastructure and preparation for the implementation of new accounting standards, in particular IFRS 9 and IFRS 17.

Finance costs

Finance costs represent the interest payable on borrowings. The £61 million expense in 2019 (2018: £46 million) represents the interest payable on the three subordinated debt securities issued by PIC, the Group's main trading entity. The RT1 debt issued in July has been accounted as equity under IFRS; as such interest on these notes is not included in finance costs and instead will be recognised as dividends when paid. The increase in finance cost during the year reflects the full year interest cost of the debt security issued in 2018.

Tax charge

The Group's tax strategy is to ensure compliance with applicable tax laws, regulations and disclosure requirements and to pay the correct amount of tax.

All of the active companies within the Group are UK incorporated and conduct their business within the UK. The Group aims to be transparent in its tax disclosures and seeks to build and maintain a constructive relationship with the relevant tax authorities at all times. The Group had an effective corporation tax rate of 19% during 2019 (2018: 19%). During 2019, the Group paid a total of £92 million (2018: £112 million) in respect of corporation, payroll related and value added taxes.

Statement of financial position review

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

Financial investments

£40.9bn

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

At the end of 2019, the Group had total financial investments of £40.9 billion, compared with £31.4 billion at the end of 2018. The increase of £9.5 billion during 2019 was largely due to new business written, favourable market movements and the new RT1 capital issued in July 2019 partially offset by payments to policyholders. The assets in which the Group invests are carefully chosen in order to match the policyholder obligations that they are designed to pay. Our 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 our assets and liabilities should move broadly in tandem as factors such as interest and inflation rates change.

Whilst our overall investment return (which comprises both investment income received and changes in market value of assets) in 2019 was positive, this was offset by corresponding increases in our liability valuations.

The increase in insurance liabilities since December 2018 reflects the addition of new business liabilities and movements in economic factors during the year, less claims paid and the impact of changes in actuarial assumptions.

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

Total equity has increased by £758 million mainly due to the issue of £450 million RT1 notes in July and the after-tax profits during the year. Return on equity (which is defined as after tax profits divided by average equity excluding RT1) in 2019 of 12.2% was lower than 17.0% in 2018, due to lower after tax profits in 2019, which were negatively impacted by investment related variances, as explained in more detail in the following section.

ALTERNATIVE MEASURES OF PROFIT & LOSS

Adjusted operating profit basis

In addition to the statutory results presentation outlined above, the Group also chooses to analyse its IFRS results on an adjusted operating profit basis, which management feels better reflects the activities of the Group rather than the statutory income and expense categories. The following table takes all the items in the IFRS income statement and apportions them between various categories which the Group believes gives a better alignment with the activities of the business.

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

The Group's adjusted operating profit has grown by 27% to £824 million (2018: £649 million). The growth was positively impacted by one-off benefits in respect of changes to valuation assumptions (£358 million in total), including changes to expense assumptions (£253 million) and changes to our default allowance for corporate bonds (£78 million) although in aggregate the benefits arising from assumption changes in 2019 were smaller than those in 2018. Notwithstanding the benefits from these assumption changes, net release from operations increased by £249 million which principally reflects the new insurance business and accompanying reinsurance deals concluded in 2019, along with

	2019 £m	2018 £m
Return from operations	301	238
New business and reinsurance surplus	245	59
Net release from operations	546	297
Changes in valuation assumptions	358	400
Experience variances	12	16
Finance and project costs	(92)	(64)
Adjusted operating profit before tax	824	649
Investment related variances	(430)	(172)
IFRS Profit before tax	394	477

growth in the in-force book due to the full year benefit of business written in 2018. More detail on the main components of Adjusted operating profit are set out below.

Net release from operations

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

It also includes the impact on profit, on the basis of using the assumptions used in pricing, of writing new buy in and buyout insurance contracts, and entering into new contracts of reinsurance. As a result of the credit default assumption changes that were implemented in late 2018, profits recognised on new business at the point of sale are higher than they would have been before the change. This means that profits for the business are recognised earlier and so the on-going release from the in-force book will be lower, albeit that this will be applied to an in-force book which is growing due to the record levels of new business written in 2018 and 2019.

Changes in valuation assumptions

The Group focuses on long-term profitability, which is achieved by setting prudent assumptions in respect of the in-force liabilities and new business acquired during the year. These assumptions are regularly reviewed to ensure that they reflect the characteristics of our book and wider market practice.

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

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

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

Prudent margins

There are significant prudent margins within the IFRS accounting basis in respect of key underlying assumptions, such as longevity and expenses, and within the discount rate applied to the liabilities. Notwithstanding the changes to expense and default assumptions during the year that released £358 million, at the end of 2019 total prudent margins were £2.5 billion (2018: £2.5 billion).

Under our expected outcome, these prudent margins will be released over the long term and recognised as profits. They are essentially a future store of value that will emerge should our best estimate assumptions turn out to be correct.

Experience variances and other costs

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

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

Investment related variances

To reconcile from adjusted operating profit before tax to the IFRS profit before tax figure, we adjust differences between our longer-term assumptions about investment return and the returns experienced during the year.

Profit before tax includes actual investment returns earned on the surplus assets and the assets backing insurance liabilities, whereas the adjusted operating profit is based on the expected returns which are calculated using the management assumption of long-term returns on the assets backing shareholder and policyholder funds over the reporting period, with allowance for the corresponding expected movements on liabilities. The long-term rates of return earned on excess assets are derived with reference to longer term swap rates with additional spreads added to take into account the return associated with the underlying type of asset. The difference between the actual and the expected long-term returns, 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.

The long-term expected rate of return on surplus assets (i.e. those assets not backing liabilities, which consist mainly of UK government securities, cash and liquidity funds) and which represent 10% of total assets (2018: 11%), is weighted based on the asset classes held at the beginning of the year. For 2019, the rate was 3.01% (2018: 2.26%) for the surplus assets, which comprised government securities of 30% (2018: 31%), cash and liquidity funds of 27% (2018: 40%) and other asset classes (including corporate bonds, hedge funds, ABS and MBS) of 43% (2018: 29%).

The impact of investment volatility on the Group's assets and liabilities was a loss of £430 million in 2019 (2018: £172 million loss). As noted in the HY 2019 report, as at June 2019, there were approximately £300 million of investment variance losses due to the timing differences of obtaining assets assumed in new business pricing compared to those acquired as at June. The Group wrote significant volumes of new business in the first half of 2019 and, having received the premiums largely in cash and gilts, the assets had not been invested in line with the long-term target portfolios immediately. As expected, much of this £300 million loss has reversed in the second half of the year. At year end, there is a loss of £138 million due to timing differences in asset purchases assumed in the pricing of new business compared to that actually achieved in 2019.

The remainder of the investment related variances arose from the impact of short-term market movements. The Group carefully manages its exposures to factors such as interest rates, inflation, credit spreads and foreign exchange rates, and enters into derivative hedging contracts to manage these exposures in accordance with its risk appetite. The Group's hedging basis is designed predominantly around its solvency balance sheet, and accordingly there is a degree of mismatch between the hedging basis and the IFRS balance sheet, meaning that some volatility flows through into the annual IFRS results. Over the long term we would expect that the overs and unders to be broadly neutral, but for 2019 this resulted in losses due to the impact of falling overseas interest rates (£194 million), reductions in GBP interest rates (£73 million), inflation movements (£15 million) and other economic variances (£10 million).

NEW ACCOUNTING STANDARDS

The new insurance accounting standard, IFRS 17, is expected to become effective from 1 January 2022, although there is still a possibility that the implementation date will be delayed. The new standard transforms the way the insurers report the IFRS results and present the primary statements and related disclosure notes. The Group has established an IFRS 17 project team to ensure we are ready to implement the standard when it becomes effective. We involve external advisers and our auditors to challenge and validate our proposed methodology and solutions.

Although IFRS 9, 'Financial Investments' is effective from 1 January 2018, we have taken the deferral option to delay the implementation of the standard to the same date as IFRS 17. Work is ongoing to identify the impact on our operations and systems.

EV RESULTS

The Group prepares an embedded value analysis under the European Insurance CFO Forum Market Consistent Embedded Value Principles issued in April 2016. The starting point is the Solvency II balance sheet; to this is added an estimate of the after-tax value that is expected to emerge in the future from the release of the prudent margins built into the actuarial valuation of the in-force business. Further adjustments to the regulatory balance sheet are made in respect of the subordinated loan notes, frictional cost of capital and cost of residual non-hedgeable risks to arrive at a more appropriate quantification of the Group's value.

At 31 December 2019, the Group's EV had increased by 6.5% to £3,874 million (2018: £3,638 million), with the increase being

	2019 £m	2018 £m
Free surplus	1,025	902
Required capital	3,841	3,038
Adjusted net worth	4,866	3,940
Value of in-force business after tax	1,487	1,489
IFRS amortised cost value of Tier 1 and Tier 2 debt instruments	(1,337)	(891)
Fair value movement of Tier 1 and Tier 2 debt instruments	(266)	(71)
EV fair value of Tier 1 and Tier 2 debt instruments	(1,603)	(962)
EV before cost of capital	4,750	4,467
Frictional cost of capital	(208)	(207)
Cost of residual non-hedgeable risk	(668)	(622)
EV net of cost of capital	**3,874**	**3,638**

mainly due to the significant levels of new business written in the year, partially offset by the negative net impact of market movements, most notably in respect of the valuation of PIC's debt at fair value (in line with the MCEV principles) which resulted in a £195 million reduction to the EV in the period.

CAPITAL AND SOLVENCY

PIC successfully raised £450 million RT1 capital in July 2019, which is treated as equity capital under IFRS and Restricted Tier 1 Own Funds under Solvency II.

In May 2019, Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (Strong) with a Stable outlook. PIC's Tier 2 subordinated debts are rated BBB+ whilst RT1 is rated BBB-.

PIC manages its leverage in line with separate internal limits based on:

- the Fitch definition of leverage, which treats the RT1 capital as equity. Under this limit, leverage reduced to 22.0% (2018: 27.0%); and
- an internal measure (defined as debt / (debt + equity), where debt includes the RT1 at its notional value similar to the other subordinated debt instruments and equity is the IFRS NAV excluding RT1, where leverage increased to 33.0% (2018: 27.0%)

Both leverage ratios remain within the Group's relevant risk appetite.

PIC, the regulated subsidiary of the Group, is required to comply with the Solvency II regulatory framework. Solvency II requires firms to follow either a prescribed approach to calculating required regulatory capital (the standard formula approach), or to apply to the PRA to use an "internal model" developed by the company but subject to comprehensive review and approval by the regulator.

PIC has received PRA approval to apply an internal model, which is a better reflection of the risk profile of the Company's business than the standard formula.

The Company has complied with the Solvency Capital Requirements under Solvency II as set out in the relevant PRA rules throughout the year (see Note 22 to the financial statements). At 31 December 2019, PIC's unaudited solvency ratio on the Solvency II basis was 164% (2018: 167%) and it had surplus funds which were £1,890 million (2018: £1,574 million) in excess of Solvency Capital Requirements ("SCR"). Despite the significant new business volumes written during the year and the adverse impact of market movements, a combination of effective capital management, the issuance of RT1 debt, careful underwriting and reinsurance ensured that our solvency levels remain sound.

PIC Solvency	2019 unaudited £m	2018 (unaudited) £m
Own Funds	4,844	3,917
Solvency II capital requirements	(2,954)	(2,343)
Solvency II surplus	1,890	1,574
Solvency ratio (%)	164%	167%
Matching adjustment (%)	1.156%	1.539%

PIC Solvency

	2019 £m	2018 £m
Own Funds	4,844	3,917
Deduct RT1 and Tier 2 own funds	(1,447)	(948)
Shareholder equity own funds	3,397	2,969
Add Risk margin net of transitionals	1,107	1,205
Adjusted equity own funds	4,504	4,174

Adjusted equity own funds and Solvency II capital requirements increased during the year mainly due to the new business transactions and the profit generated in the year.

The risk margin is a measure of the potential costs of transferring insurance obligations to a third party. It is equal to an insurer's baseline solvency capital requirement for non-hedgeable risks multiplied by the cost of capital at 6% and discounted at current interest rates. The transitional arrangements on the introduction of Solvency II, allowed insurers to smooth the impact of the introduction of Solvency II rules over a 16 year period.

In general, the solvency ratio has reduced slightly during the year mainly due to the new business capital strain which was broadly offset by the positive impact of the newly issued RT1 notes.

The Matching Adjustment (MA) is the benefit obtained from having a portfolio of assets backing policyholder liabilities that is yielding greater than the risk-free curve specified within the Solvency II regulations. For 2019 the MA was 1.16% (2018: 1.54%) with the fall due to changes in asset mix and general reductions in credit spreads.

Key solvency sensitivities

PIC uses various management tools to mitigate the impact of market fluctuations and manage its capital position:

- Pricing applied to new business and control of new business volumes.
- New business is only transacted provided it meets the Company's return on capital targets.

The hedging approach is structured to mitigate risks to the regulatory solvency balance sheet:

- Interest rate, inflation and foreign exchange risks are hedged using market instruments.
- Longevity risk is managed through reinsurance.

The key sensitivities to which PIC's regulatory solvency balance sheet are exposed, and their impact on the reported solvency ratio, are shown below:

	2019	2018
As at 31 December	164%	167%
25bps increase in interest rates[1]	5.7%	6.1%
25 bps reduction in interest rates[1]	(6.0)%	(6.9)%
£100 million credit default (no recovery)	(3.5)%	(4.3)%
5% reduction in base mortality[2]	(9.4)%	(8.3)%
£1 billion credit asset downgrade[3]	(5.4)%	(6.6)%

1 This allows for a transitional measure for technical provisions recalculation.
2 Equivalent to a 0.4 year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.
3 £1 billion credit assets are downgraded by 1 Credit Quality Step (CQS). E.g. AAA rated assets fall to AA.

RECONCILIATION OF IFRS, SOLVENCY AND EV BALANCE SHEETS

IFRS reconciliation to Solvency II

31 December 2019 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 sub-ordinated debt	Add accrued interest on Tier 2 sub-ordinated debt	Deduct accrued interest on RT1 notes	Add risk margin net of transitionals	Reduction in technical provisions	Reduction in reinsurance assets	Differences in deferred tax	Differences in other asset values	Solvency II (£m)
Total assets less other liabilities	38,280	892	17	(12)	–	–	–	(152)	(29)	38,996
Insurance liabilities/Best estimate liabilities (BEL) net of reinsurance assets	(35,065)	–	–	–	–	2,961	(953)	–	–	(33,057)
Risk margin net of transitional	–	–	–	–	(1,107)	–	–	–	–	(1,107)
IFRS net assets/ Solvency II own funds	3,215	892	17	(12)	(1,107)	2,961	(953)	(152)	(29)	4,832

Solvency II to EV reconciliation

31 December 2019 (£m)	Solvency II balance sheet	Allow for differences between Solvency II and EV	Allow for subordinated debt	Recognise the FCoC	Release (RM, minus transitional) recognise CRNHR	Release MA margins	Tax on PVFP	EV (£m)
Total assets less other liabilities	38,996							
BEL net of reinsurance assets	(33,057)							
Risk margin net of transitionals	(1,107)							
Solvency II Own Funds/ Adjusted net worth	4,832	34						4,866
Present value of future profits (PVFP)					1,107	685	(305)	1,487
Cost of residual non-hedgeable risks (CRNHR)					(668)			(668)
Frictional cost of required capital (FCoC)				(208)				(208)
RT1 and Tier 2 subordinated debt			(1,603)					(1,603)
EV								3,874

POST BALANCE SHEET EVENT

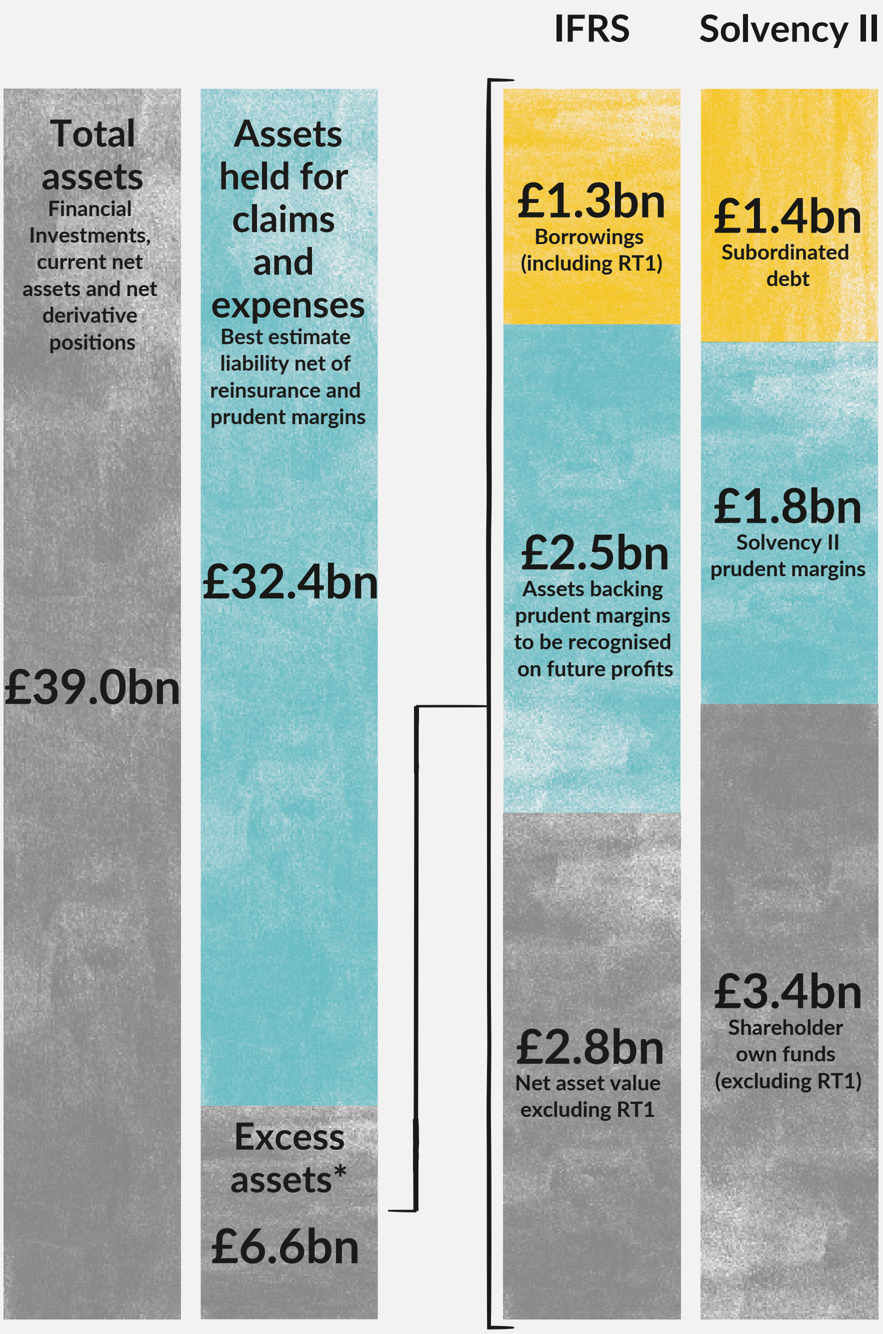
On 27 January 2020, PICG announced that it planned to raise £750 million of new equity from existing shareholders to support the continued growth of the business in the PRT market.

The offered shares were issued on a partly paid basis, with 60% paid initially and the remaining 40% to be paid at the request of PICG, with the intention to call the unpaid amounts by no later than 26 January 2021.

OUTLOOK

I am delighted with the progress that the Group has made over the last few years. Another record year for new business, together with our strong solvency position demonstrates our consistent focus on capital management as we deliver against our strategy. However, whilst we had a successful 2019, given current uncertainties, including the unknown future impact on the economy and market volatility that may arise on the back of the ongoing trade negotiations with the EU, we remain vigilant and cautious. In conclusion, we approach 2020 with strong fundamentals, our capital position is strong, our business is well positioned in the growing PRT market with a strong pipeline of new business and we will continue to develop the Group's key strengths, supporting the delivery of positive outcomes for all our stakeholders.

PIC SOLVENCY II AND IFRS



* Assets allocated to cover solvency risk and prudent margins that will generate future cash flows for capital providers (debt and equity)

Our approach to risk management

GILES FAIRHEAD
CHIEF RISK OFFICER

Sound risk management is key to PIC's business strategy. PIC's risk management framework ensures that the risks we take on in the pursuit of our strategic objectives are consistent with the Board's risk preferences and are managed in an appropriate way.

Risk management is embedded at PIC through the Enterprise Risk Management Framework, comprising our systems of governance, our policies, our Risk Appetite Framework and the application of the Risk Management System:

- the **Governance Framework** within which risk management responsibilities are delegated and governed, including the Three Lines of Defence model;
- the **Policy Framework** through which risk management expectations and requirements are embedded and consistently monitored across the business;
- the **Risk Appetite Framework** within which the Company's risk exposures are controlled and monitored in line with the Board's risk preferences and risk appetite; and
- the **Risk Management System** by which risks are identified, assessed, mitigated, monitored and reported throughout the Company.

Risk Appetite Framework

The Risk Appetite Framework considers the material risks to the business, to its strategy and to PIC's reputation with key stakeholders (including policyholders, trustees, regulators and investors). It also includes risk metrics and limits within which the business operates, and outlines the roles and responsibilities of those who implement and monitor the Company's risk appetite.

Risk strategy and preferences
PIC's risk preferences define the Board's appetite towards taking different types of risks that the Company may be exposed to in pursuit of its strategic objectives. Risks are categorised as those the Company actively seeks, those the Company seeks to minimise and those the Company seeks to avoid or transfer. The Board's preferences for taking risk are reflected in the development of the Risk Appetite Statements and associated limits.

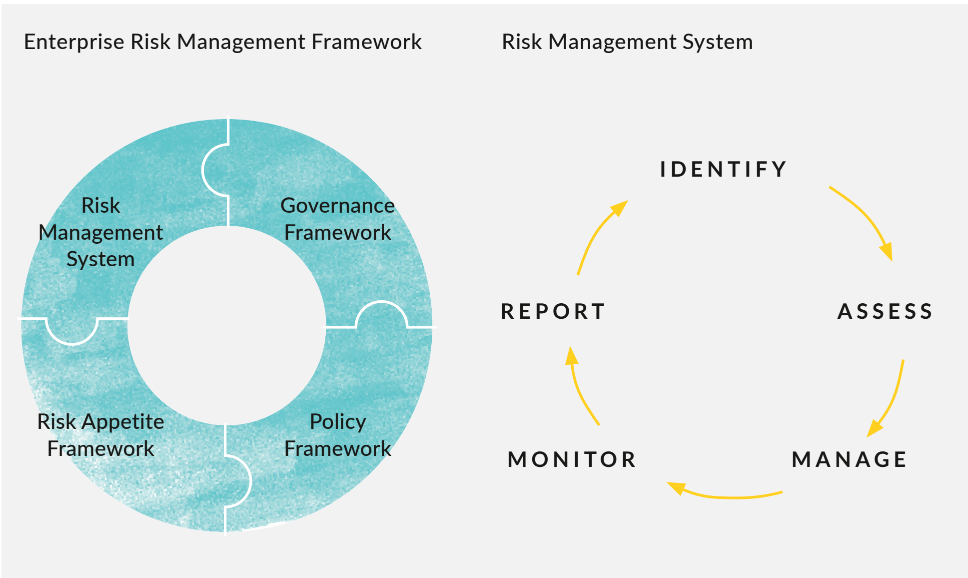
Actively seek risks that are:
- aligned with PIC's business strategy and expectations given to policyholders and other stakeholder groups;
- within the expertise, experience and capacity of PIC's staff to understand, price, monitor and manage;
- within the capabilities and capacity of PIC's systems to price, monitor and manage;
- expected to contribute to risk-adjusted return on the capital that PIC needs to hold against the risk; and
- beneficial to enhancing diversification benefits (i.e. reducing the aggregated risk capital requirement) when viewed holistically across the business.

Minimise risks that are:
- necessary to incur as a by product of exposure to the risks that PIC actively seeks;
- necessary to incur as a by-product of avoiding risks that PIC actively wishes not to be exposed to; and
- necessary to incur as part of being authorised to conduct insurance business in a competitive market place (i.e. incurred as part of "being in business").

Avoid or transfer risks which:
- jeopardise PIC's ability to meet obligations to policyholders, staff and other stakeholders;
- give rise to undue concentration of risk within PIC's portfolio;
- are terminal to the strategy of PIC should they arise;
- are not within the experience, expertise and capacity of PIC's staff to price, understand, monitor and manage; and
- are not within the capabilities and capacity of PIC's systems to price, monitor and manage.

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 and limit are set for each of the risk appetite metrics. If one of the risk appetite metrics passes through a threshold or limit, it necessitates escalation and appropriate action.

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 ("SCR") for the business to mitigate the impact of these risks on PIC and its policyholders.

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 changes to the Risk Appetite Framework are required including additional controls and monitoring. The risk spotlight below provides more detail in relation to emerging climate change risk that is currently being embedded within PIC's risk management framework.

Management information

A consolidated pack of management information is regularly presented to executive management and the Board Risk Committee detailing the position of the business against the risk appetite metrics and expected evolution of these positions.

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.

The ORSA documents are reviewed and approved throughout the year by the Board. These are summarised in the annual ORSA report.

Risk spotlight – climate change risk

The Task Force on Climate-related Financial Disclosures ("TCFD") notes that the most significant effects of climate change are likely to emerge over the medium to longer term and their timing and magnitude are uncertain. This uncertainty presents challenges for individual organisations in understanding the potential effects of climate change on their businesses, strategies and financial performance on a forward-looking basis. To deal with this uncertainty, PIC has started developing and embedding the impacts of climate change within its existing risk management processes. This includes consideration of the ongoing identification, measurement, monitoring and reporting of climate change as well as integrating climate change risks within the risk strategy and appetites. The use of scenario analysis is an important tool in understanding the potential implications under different conditions.

The impacts of climate change on PIC's risk profile are in part due to the long tail of the liabilities, and the business strategy of matching assets to these liabilities. It is therefore important to understand and monitor risks arising from this business model as decisions today may be influenced by crystallising climate change risks in the future.

PIC categorises climate change risks in relation to the following three key risk categories, consistent with a number of regulatory and industry papers:

1. Physical risks – risks relating to the increased severity, frequency and duration of specific weather events.
2. Transition risks – risks arising from the process of moving to a low-carbon economy.
3. Liability risks – risks arising from legal or regulatory action in relation to the approach or disclosures around climate change.

As a result of the potential impacts of climate change, areas of PIC that may be impacted are investments, operations, reputation, liability and policyholder management, and legal matters. PIC has started to look at the impact of extreme weather events on some parts of its portfolio.

In relation to investments, while PIC's diversified asset portfolio helps hedge against the physical risks arising from climate change in the short term, transition risks are likely to impact the short to medium term. These are monitored by PIC's Investment team on a sectorial basis to assess whether any changes in investment strategy is required. In addition, there are expected long-term impacts from climate change which PIC will continue to monitor and, where appropriate, take action to mitigate. To help inform the decision-making process, PIC has an existing ESG framework for its investments, which is in the process of being enhanced to more explicitly measure and monitor climate change risks within the investment portfolio.

For operations including business continuity, initial physical risk assessments indicate risks are contained. Business continuity and disaster recovery planning is in place to manage any physical risks that do arise.

As well as direct financial impacts, climate change may have an indirect financial impact on PIC's business strategy due to reputational damage from a perceived lack of action or inadequate action on climate change. This may lead to a loss of new business. Inaction on climate change could also lead to potential litigation risks.

On the liability side of the balance sheet, climate change is expected to have an impact on longevity trends; however, the number of factors and the data available to draw conclusions on a forward-looking basis are complex and inconclusive.

PRINCIPAL RISKS AND UNCERTAINTIES

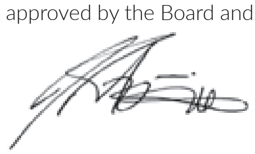
MITIGATING OUR KEY RISKS

The principal risks to the Group, and its strategy for managing those risks, are set out below. More details are also included in Note 16 to the financial statements.

	POLITICAL RISK	MARKET RISK	DEFAULT RISK
RISKS AND UNCERTAINTIES	Political and/or regulatory intervention.	Impact of market and/or economic volatility on PIC's capital position.	On credit/debt assets in the portfolio.
TREND AND OUTLOOK	While defined benefit pensions remained on the political and regulatory agenda during 2019, the greater focus has continued to be on the implications of the UK's decision to leave the EU.	Uncertainty around the near-term UK economic growth outlook remains heightened – despite improving economic data – as uncertainty in future relationship with the EU continues to crowd the macro outlook. At a global level, risks include geopolitical risks from protectionist measures, a slight weakening of global trade, emerging market weakness, higher oil prices and potential for a late-cycle correction from an abrupt tightening of monetary conditions. At the time of publication Novel Coronavirus (Covid-19) has become an emerging risk. We have carried out testing to ensure the business can operate remotely if required and we are liaising with our outsourced service providers to ensure their resilience. During 2019, we have been cautious in our credit portfolio, focused on consolidating the portfolio into even more secure assets should markets become more volatile. The situation remains under careful review.	While PIC has historically experienced very low levels of default in the portfolio (see page 38 for historical experience), this risk continues to be significant given the growth of our balance sheet and the increased volatility of financial markets.
MITIGATION	PIC maintains an open dialogue with regulators and policymakers and closely monitors regulatory and legislative developments. Regular horizon scanning helps identify key risks to best position PIC's strategy. As in 2018, a key consideration of the 2019 ORSA process has been around the risks associated with the UK leaving the EU and the potential impact that this may have on PIC's business model and its policyholders. This has included scenario assessments to assess whether appropriate controls are in place to ensure that PIC's contractual relationships with various stakeholders continue to operate as intended post transition period, including the ability to pay policyholders, relationships with banking and reinsurance counterparties and legislation around data security. Scenarios have also been tested considering potential macro-economic impacts to ensure adequate controls are in place to mitigate the potential balance sheet impacts of market movements on PIC's solvency and liquidity position in a worst-case no-deal scenario.	Close management of PIC's balance sheet, such that the Company 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. Regular stress and scenario analysis is carried out to assess the impact of different possibilities. The business holds a significant amount of risk-based capital to protect against market movements.	PIC selects and monitors its investment holdings very closely, either directly or through high-quality external managers. Provisions are held for defaults and downgrades in addition to the risk-based capital requirements.

COUNTERPARTY RISK	LONGEVITY RISK	CYBER RISK	CONDUCT RISK
The possibility of failure by our reinsurance and swap counterparties, who are contracted to honour their obligations in a timely manner.	PIC's insured policyholders may live longer than was originally assumed when pricing new business.	The financial services sector is increasingly becoming a target for cyber crime. This might include the risks that third parties seek to disrupt PIC's operations, steal personal data or perpetrate acts of fraud.	The risk that PIC policyholders receive a poor outcome.
The impact of Solvency II and the increased volatility in the financial markets has increased the importance of third party risk transfers, for example longevity risk.	PIC is exposed to factors that may lead to increases in life expectancy, such as improvements in medical science beyond those anticipated. The UK has generally experienced heavier than expected pensioner mortality in the past 7-8 years, with the slowdown in mortality improvements considered to be a change in trend as opposed to a one-off event. The drivers of the slowdown are believed to include the increased strain on the NHS and social care budgets, a tailing off of the mortality improvements seen for conditions such as cardiovascular disease, a change in morbidity prevalences including influenza and dementia, offset by changes in lifestyle and health monitoring as technology continues to provide new opportunities. Population mortality experience in 2019 was however substantially lighter than in 2018, although it is too early to say whether this marks the beginning of a new change in the trend.	The drivers of this risk continue to evolve rapidly as technology is changing the way firms do business and society operates. The financial services sector has seen a significant increase in the number of attempts by third parties to seek and exploit vulnerabilities in IT systems.	PIC now has 225,100 policyholders whose pensions we administer. We also have a significant number of vulnerable customers. PIC has historically achieved excellent levels of customer service. The challenge is to maintain standards of service and ensure good outcomes for policyholders across the customer lifecycle despite increased numbers of policyholders.
PIC only transacts with highly rated reinsurance counterparties, and includes collateral provisions to improve overall security. Interest rate swaps are fully collateralised on a daily basis. PIC carries out continuous monitoring of our counterparties to ensure issues can be identified earlier, allowing actions to be taken to reduce the risk.	PIC regularly reviews its longevity experience to ensure its assumptions remain appropriate, and continually seeks to enhance its understanding of the evolution of annuitant mortality. PIC holds a significant amount of risk-based capital to protect the business against potential increases in longevity. This is calculated using our approved Internal Model. PIC aims to reinsure more than 60% of its longevity risk exposure. As at 31 December 2019, PIC had reinsured 81% of its total longevity exposure.	PIC maintains a robust IT environment to ensure protection of its data and security of its systems and those of outsourced or third parties that we work with. PIC works with its business partners to maintain controls and carries out regular monitoring to proactively address emerging threats. The IT environment is regularly tested internally and externally to maintain awareness of the latest threats and how these might impact PIC.	PIC continues to enhance its conduct risk framework and ensure we are treating customers fairly. This includes a focus on defining and evidencing good customer outcomes, and identifying and supporting vulnerable customers.

The Strategic Report on pages 1 to 61 was approved by the Board and



signed on its behalf by:

Jon Aisbitt
Chairman
14 Cornhill, London,
EC3V 3ND
5 March 2020

02

CORPORATE GOVERNANCE

INVESTING IN
RENEWABLE ENERGY
PIC is an active investor in renewable energy infrastructure, including offshore wind farms (illustrated above).

Good standards of behaviour start with the Board

JON AISBITT
CHAIRMAN

Q WHY IS GOOD GOVERNANCE IMPORTANT?

A Having a strong governance framework and a commitment to the highest standards of corporate governance is essential for our Group and reflects the responsibilities we have to our policyholders and all our stakeholders, whether regulators, employees or providers of capital. The governance framework we have in place ensures that this is the case and that the long-term, sustainable success of our Group is based on the prudent and effective identification and management of risk. We have based our governance framework on the Financial Reporting Council's Corporate Governance Code as we believe this sends a strong signal to our stakeholders about the way we believe our Group should be managed.

Q **WHAT ROLE DOES THE BOARD HAVE IN SHAPING THE CULTURE OF THE BUSINESS?**

A PICG's Board rightly takes a lead in shaping the culture of the Group, primarily through a continued focus on PIC's purpose on the one hand, and adherence to, and regard for, PIC's values on the other. The right culture helps a company deliver its strategy by promoting the right behaviours. But it can only ever be of real benefit if the Board is the guardian and champion of the company's purpose, and the company's values and culture are in complete alignment with this. It is also essential that its Directors are bound by that same culture. An example of this is that our Directors are required to attend at least one of our policyholder events every two years, the same requirement that we have for employees.

Q **DO YOU CONSIDER THE BOARD HAS THE RIGHT SKILLS, EXPERIENCE AND BEHAVIOURS?**

A We are very aware of the need to ensure that our Directors have the right skills and experience, and that they exhibit the right behaviours. The Board uses a skills matrix to assess the balance of skills on the Board and, where there are gaps, training is provided. A Board evaluation exercise is carried out each year, covering both the PIC Board and its sub-committees. The results indicated that the Board has a broad and appropriate range of skills with which to properly challenge management, as well as the skills and experience needed to meet stakeholder expectations. One area where the Board recognises it needs to do more is in respect of diversity. The Board has a clear aim in this area which it is working hard to deliver.

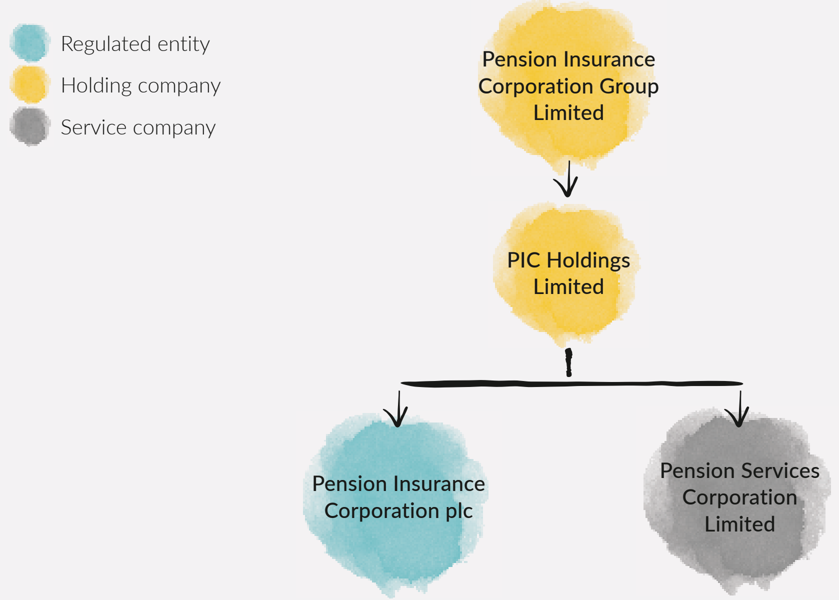
Q **HOW DOES THE BOARD DELIVER PIC'S STRATEGIC GOALS?**

A The Board has responsibility for setting PIC's strategic goals and part of this process is ensuring that the right resources are in place to ensure these can be delivered. This includes the necessary financial and human resources, in terms of the right levels of capital to underwrite new business as well as the appropriate team of people needed to run a growing business whilst managing our risks.

Q **WHAT ARE THE BOARD'S PRIORITIES FOR THE YEAR AHEAD?**

A The main priorities for the Board in 2020 are to ensure that it remains effective and has all the relevant skills and experience. The Board is also very focused on ensuring that, as PIC is a high-growth business, it maintains an appropriate focus on operational effectiveness and control.

PENSION CORPORATION GROUP STRUCTURE



BOARD OF DIRECTORS

The right skills and experience

N O R

JON AISBITT

PICG & PIC Director
Chairman of the Board

Date of appointment
Jon was appointed to the Board as a Non-Executive Chairman in October 2016.

Background and career
From 2007 until May 2016, Jon was Chairman of Man Group plc, the FTSE250 provider of alternative investment products with over $70 billion under management. Prior to joining Man Group plc, Jon was a Partner and Managing Director in the Investment Banking division of Goldman Sachs based in New York, London and Sydney. He was previously Deputy Chairman of Ocean Rig plc and Honorary Treasurer of the NSPCC.
He is a member of the Institute of Chartered Accountants in England and Wales ("ICAEW").

Areas of expertise
Jon has over 20 years' experience in international corporate finance. He has significant technical knowledge of capital markets and the complex regulatory backdrop in which they operate. While Chairman of Man Group, Jon navigated the company and the board through significant change through the introduction of new and diversified investment styles.

Current and external roles
Jon is Chairman of New Forests Company Holdings Limited (African sustainable forestry and timber processing) and Ascension Healthcare plc (biotechnology).

Committee membership
Jon is Chair of the Nomination Committee and a member of the Remuneration Committee and Investment and Origination Committee. He attends Audit and Risk Committee meetings by invitation.

TRACY BLACKWELL

PICG & PIC Director
Chief Executive Officer

Date of appointment
Tracy was appointed to the Board as an Executive Director in July 2011 and appointed as Chief Executive Officer in July 2015.

Background and career
Tracy was Chief Investment Officer on joining PIC at its inception in 2006 and had overall responsibility for managing PIC's asset and liability management strategy. Prior to joining PIC, Tracy spent ten years at Goldman Sachs, where she held a variety of roles including Head of Risk Management, EMEA, and was an executive director in Goldman Sachs International's Pension Services Group, which involved advising large European and UK pension funds and insurance companies. Tracy served as a Non-Executive Director at United Trust Bank from 2013 to 2019.

Areas of expertise
Tracy has 30 years' experience in asset management including over eight years at Goldman Sachs working in interest rate and foreign exchange derivatives, risk management and pension and insurance strategy. Tracy has a strong knowledge and understanding of the regulatory landscape.

Current and external roles
Tracy is Treasurer of the Elton John AIDS Foundation and a member of the Wellcome Trust Investment Committee.

Committee membership
Tracy is an Executive Director. She attends Audit, Risk, Nomination and Remuneration, and Investment and Origination Committee meetings by invitation.

KEY

- Chair
- A Audit Committee
- N Nomination Committee
- O Investment and Origination Committee
- R Remuneration Committee
- Ri Risk Committee

ROB SEWELL
PIC Director
Chief Financial Officer

N R Ri

JUDITH EDEN
PICG & PIC Director
Independent Non-Executive Director

A Ri

STUART KING
PICG & PIC Director
Independent Non-Executive Director

O Ri

ARNO KITTS
PICG & PIC Director
Independent Non-Executive Director

Date of appointment
Rob was appointed to the Board as an Executive Director in July 2008.

Background and career
Rob has spent nearly 30 years working in financial services, primarily in banking and retail insurance. He spent six years as Finance Director for Legal & General Group's UK businesses, and before that was Chief Executive of National Westminster Life Assurance. Rob is a Fellow of the ICAEW.

Areas of expertise
Rob has spent nearly 30 years in financial services, with a strong background in insurance accounting, tax and regulatory affairs, and has extensive board level experience.

Current and external roles
Rob serves as a Non-Executive Director of HCT Group and Chair of its Audit Committee.

Committee membership
Rob is an Executive Director. He attends Investment and Origination, Audit and Risk Committee meetings by invitation.

Date of appointment
Judith was appointed to the Board in August 2019.

Background and career
Most of Judith's corporate career was spent at Morgan Stanley in operational, financial and strategic management roles across both the Institutional Securities and Investment Management divisions. In 2009, she was appointed a Director and Chief Administrative Officer of MSIM Ltd, where she oversaw a period of significant restructuring and change. In 2013, she additionally became Chief Executive Officer of MSIM's international cross-border fund management company. From 2015 Judith moved to focus on her non-executive career.

Judith is an alumnus of Price Waterhouse (Fellow ICAEW) and INSEAD (Corporate Governance Certificate IDP-C).

Areas of expertise
Judith has over 25 years' experience in financial services gained from both executive and non-executive roles, in particular in investment management. Judith has an in-depth understanding of the regulatory environment, and has helped guide companies through business restructuring and change programmes.

Current and external roles
Judith is a Non-Executive Director and Audit Committee chair of Invesco UK and ICBC Standard Bank plc. She is also Non-Executive Director of Flood Re and a Council Member at the University of Surrey.

Committee membership
Judith is a member of the Risk, Nomination and Remuneration Committees.

Date of appointment
Stuart was appointed to the Board in January 2019.

Background and career
Stuart has previously worked at the Bank of England before moving to become Head of UK Banks Regulation and then Head of Major Insurance Groups Regulation at the Financial Services Authority ("FSA") (predecessor of Financial Conduct Authority). After his time at the FSA, Stuart became Managing Director at advisory firm Promontory Financial Group and after that Group Compliance Director at Aviva plc.

Areas of expertise
Stuart has over 25 years' experience working in the UK financial regulation industry as both regulator and at regulated firms, and led the enhanced supervision approach of major insurance groups following the financial crisis in 2007.

Current and external roles
Stuart remains an external advisor for financial services firms.

Committee membership
Stuart is a member of the Audit and Risk Committees.

Date of appointment
Arno was appointed to the Board as an independent Non-Executive Director in July 2016.

Background and career
Arno's previous roles include Managing Director of Blackrock's £250 billion UK institutional business, Head of the Henderson Global Investors global distribution and Head of JPMorgan's Asset Management UK institutional business. Arno was a JPMorgan Managing Director, responsible for institutional and defined contribution business, and he was the Chief Executive Officer of the JPMorgan Life business. He served as a director of many investment funds and was a former Board member of the Pensions and Lifetime Savings Association ("PLSA"). Arno is a Fellow of the Institute of Actuaries and holds a PhD from Southampton University.

Areas of expertise
Arno has been involved in investment management since 1989, including seven years as Head of Investments of an insurance company. Arno was a member of the Council and Finance & Investment Board of the Actuarial Profession and has been actively involved in industry matters as a member of the PLSA Defined Benefit Council.

Current and external roles
Arno is the founder of Perspective Investments, an investment management firm, and is also a Non-Executive Director of Wake Trade Technologies.

Committee membership
Arno is Chair of the Investment and Origination Committee. He is also a member of the Risk Committee.

BOARD OF DIRECTORS CONTINUED

JOSUA MALHERBE

PICG Director
Non-Executive Director
Shareholder nominated
by Reinet

Date of appointment
Josua was appointed to the Board as a Non-Executive Director in December 2015.

Background and career
Josua qualified as a chartered accountant in South Africa in 1984 having worked at a predecessor firm to PricewaterhouseCoopers. Josua became Chief Executive Officer of VenFin Limited in 2000 until 2006 when he held the position of Deputy Chairman. VenFin Limited was acquired by Remgro Limited and Josua now serves as Deputy Chairman of Remgro.

Areas of expertise
Josua has over 30 years' experience in corporate finance and has had executive experience at companies since 1993.

Current and external roles
Josua is Deputy Chairman of Remgro Limited and Compagnie Financière Richemont SA. and is a Non-Executive Director at Reinet Investments SCA.

Committee membership
n/a

A Ri

ROGER MARSHALL

PICG & PIC Director
Senior Independent Director

Date of appointment
Roger was appointed to the Board as an independent Non-Executive Director in April 2015.

Background and career
Roger was a member of the Financial Reporting Council board ("FRC"), member of the FRC Codes and Standards Committee and member of the FRC Corporate Reporting Council. He spent much of his career in PricewaterhouseCoopers, where he was an audit partner in London and Zurich. Roger chaired PwC's Global Audit Policy Board in 2003–2007 and its global Corporate Reporting Task Force in 2008–2009. He left PwC in 2009. He served on the board of Old Mutual plc, where he was also Chair of the Audit Committee. Roger is a Fellow of the ICAEW.

Areas of expertise
Roger spent almost 40 years at PwC and six years on the Accounting Standards Board refining his skills and experience in the risk management, compliance, finance and audit functions in the financial services industry.

Current and external roles
Roger serves on the board of European Financial Reporting Advisory Group.

Committee membership
Roger is Senior Independent Director, Chair of the Audit Committee and member of the Risk Committee.

N O R

ELOY MICHOTTE

PIC Director
Non-Executive Director
Shareholder nominated
by Reinet

Date of appointment
Eloy was appointed to the Board as a Non-Executive Director in October 2012.

Background and career
Eloy was previously an Executive Director of Reinet Investments Manager S.A. and Reinet Fund Manager S.A. and Group Director of Corporate Finance for Compagnie Financière Richemont SA. He graduated in Engineering and Applied Mathematics from the University of Louvain in Belgium and holds an MBA from the University of Chicago.

Areas of expertise
Eloy has extensive experience in international business and finance, having worked with Ford, McKinsey & Co and Bankers Trust Company prior to joining Richemont at the time of its formation in 1988.

Current and external roles
Eloy is Reinet's appointed representative on behalf of Reinet PC Investments (Jersey) Limited.

Committee membership
Eloy is a member of the Investment and Origination, Nomination and Remuneration Committees.

N O R

JEROME MOURGUE-D'ALGUE

PICG & PIC Director
Non-Executive Director
Shareholder nominated
by Luxinva

Date of appointment
Jerome was appointed to the Board as a Non-Executive Director in November 2018.

Background and career
Jerome holds an MBA from the Wharton School and a BA from ESSEC. Jerome was previously an Associate at McKinsey & Company and Vice President of Morgan Stanley Capital Partners in London. Jerome was a Partner at private equity firm Englefield Capital LLP. Jerome has been an employee of Abu Dhabi Investment Authority ("ADIA") since 2012, joining as Senior Portfolio Manager, Principal Investments before becoming Head of Financial Services, Private Equities in 2017 and Head of EMEA, Private Equities in 2018.

Areas of expertise
Jerome has spent 25 years working in the financial services industry with a strong background in asset management.

Current and external roles
Jerome is currently Head of EMEA, Private Equities at ADIA and represents ADIA on the boards of various entities ADIA has invested in.

Committee membership
Jerome is a member of the Nomination and Remuneration Committees and Investment and Origination Committee.

KEY

- Chair
- A Audit Committee
- N Nomination Committee
- O Investment and Origination Committee
- R Remuneration Committee
- Ri Risk Committee

N O R

PETER RUTLAND

PICG & PIC Director
Non-Executive Director
Shareholder nominated by CVC

A Ri

STEVE SARJANT

PIC Director Independent Non-Executive Director

A N R

MARK STEPHEN

PICG & PIC Director
Independent Non-Executive Director

Ri

WILHELM VAN ZYL

PICG & PIC Director
Non-Executive Director
Shareholder nominated by Reinet

Date of appointment
Peter was appointed to the Board as a Non-Executive Director in May 2017.

Background and career
Peter is a partner and Co-Head of CVC's Financial Services Group and is based in London. Prior to joining CVC in 2007, he worked for Advent International since 2002. Peter has had previous roles for Goldman Sachs in the Investment Banking division. Peter holds an MA Degree from the University of Cambridge and an MBA from INSEAD.

Areas of expertise
Peter has over 20 years' experience in the banking, investment and insurance industries as well as experience as a director of both private and listed companies.

Current and external roles
Peter represents CVC and is a director of Newday, Domestic & General, Paysafe and TMF. Peter is also an independent director of DXC Technology.

Committee membership
Peter is Chair of the Remuneration Committee, and a member of the Nomination, and Investment and Origination Committees.

Date of appointment
Steve was appointed to the Board as an independent Non-Executive Director in November 2014.

Background and career
Steve spent 20 years at Towers Watson (previously Watson Wyatt) in a number of roles including London practice leader and member of the global management team for Watson Wyatt's insurance and financial service practice. Prior to joining Towers Watson, Steve worked at Criterion Assurance Group and National Provident Institution in a variety of roles. He graduated from the University of Bristol with a BSc in Mathematics in 1982 and subsequently trained as an actuary. Steve is a Fellow of the Institute and Faculty of Actuaries.

Areas of expertise
Steve has over 30 years' experience in the financial services industry including 20 years spent as an actuarial consultant at Towers Watson, where he was a Managing Director in its Risk and Financial Services segment and Global Leader, Mergers and Acquisitions.

Current and external roles
Steve is a Non-Executive Director and Chair of the Actuarial Committee for Vitality Health and Vitality Life, and an independent member of the With Profits Committee of Liverpool Victoria Friendly Society.

Committee membership
Steve is Chair of the Risk Committee and member of the Audit Committee.

Date of appointment
Mark was appointed to the Board as an independent Non-Executive Director in November 2014.

Background and career
Mark was previously a partner at PricewaterhouseCoopers LLP where he led the insurance consulting business and latterly was UK Insurance Industry leader. His clients included many leading insurers in the UK, Switzerland and South Africa. Mark left PwC in 2013 and now serves on the board of TransRe London where he chairs the investment committee and also on the board of Hyperion Insurance Group Limited where he chairs the Audit Committee and the Remuneration Committee. Mark graduated from Royal Holloway College University of London with a BSc in Biochemistry and Chemistry and subsequently qualified as a chartered accountant.

Areas of expertise
Mark has over 30 years' experience of advising and working with insurance company boards on many aspects of business, including how they adapt to the changing regulatory and business landscape.

Current and external roles
Mark serves as a director of TransRe London Limited. He is also a director of Hyperion Insurance Group Limited.

Committee membership
Mark is a member of the Audit Committee and the Nomination and Remuneration Committees.

Date of appointment
Wilhelm was appointed to the Board as a Non-Executive Director in May 2015.

Background and career
Wilhelm is the Chief Executive of Reinet Investments Manager S.A. and Reinet Fund Manager S.A. Prior to this Wilhelm was group actuary of the financial services group Metropolitan Holdings from 2001 and headed up its corporate business from 2006. In 2008 he was appointed as Chief Executive of Metropolitan Holdings. Following the listing of MMI Holdings in 2010, resulting from the merger between Metropolitan and Momentum, he was appointed as deputy group Chief Executive. Wilhelm holds a BCom degree from the University of Stellenbosch and is a Fellow of the Institute and Faculty of Actuaries (UK) and Fellow of the Actuarial Society of South Africa.

Areas of expertise
Wilhelm has a strong background in the financial services sector in South Africa and overseas along with experience in investment strategy.

Current and external roles
Wilhelm serves on the boards of directors of various Reinet entities.

Committee membership
Wilhelm is a member of the Risk Committee. He also attends Audit Committee meetings by invitation.

CORPORATE GOVERNANCE REPORT

Code Principles explanation references
The table below shows the pages where you can find explanations of how the Company applies the Principles of the Code.

Pension Insurance Corporation Group Limited ("PICG" or the "Company") and Pension Insurance Corporation plc ("PIC") are each led by a Board of Directors (the "Board") who are appointed pursuant to the Articles of Association. There is an overlap of Directors between the Boards as shown on the attendance table on page 74. The simple corporate structure of the Group means that discussions on PICG may directly impact PIC and having an overlap of Directors ensures that both Boards are aware of all relevant matters. References to the Board in this report refer to the PICG Board, unless stated otherwise. The Directors have the benefit of the Company's Directors' and Officers' indemnity and insurance policy.

The Board believes that good governance, strong values and the right culture enable the Company to do what is right for our policyholders, employees, shareholders and other stakeholders. The Board looks to the Principles of the Financial Reporting Council's Corporate Governance Code as the basis of how the Company should be governed. Therefore, the Company applies the Principles of the 2018 Corporate Governance Code (the "Code") and this report explains how the Company does this. Details of which Provisions are not relevant and why the Company does not apply them are provided below. The Code can be accessed on the Financial Reporting Council's website at www.frc.org.uk.

Responsibilities
The Board's primary focus is on the Group's purpose, which is to pay the pensions of its current and future policyholders. The Board promotes the long-term sustainable success of both PIC and PICG within a framework of prudent and effective controls which enable risks to be assessed and managed. The Board ensures that the culture and values of the Company are aligned so that the Company is successful in achieving its purpose, whilst at the same time generating value for shareholders and contributing to wider society.

The Board acknowledges its collective responsibility for setting PICG's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance. The principal responsibilities of the Board are included in its terms of reference, which also list matters specifically reserved for decision by the Board.

The Board agrees the responsibilities of the Directors and the Company Secretary.

Code Provisions that the Group does not apply

Provision	Explanation
17 The board should establish a nomination committee to lead the process for appointments, ensure plans are in place for orderly succession to both the board and senior management positions, and oversee the development of a diverse pipeline for succession. A majority of members of the committee should be independent non-executive directors. The chair of the board should not chair the committee when it is dealing with the appointment of their successor.	The Company's Nomination and Remuneration Committee is not majority independent, with independent and non-independent Non-Executive Directors appointed to the Committee. The non-independent Directors are nominated by major shareholders and allow these shareholders to safeguard and have oversight of the sustainable growth of the Company through Board appointments and to ensure remuneration is in line with regulatory requirements and has regard to shareholders' and other stakeholders' interests.
18 All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.	The Company's directors are not subject to annual re-election. Major shareholders of the Group nominate Directors for appointment to the Board and can raise any issues directly with the Chairman.
32 The board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	As 17 above.

Board effectiveness

The PIC Board is currently composed of a Chairman, CEO, CFO and ten Non-Executive Directors, six of whom are independent and four who have been nominated by major shareholders of the Group. The PICG Board comprises the same Chairman and CEO, as well as nine Non-Executive Directors, five of whom are independent and four nominated by major shareholders. The Board has spent time recruiting Non-Executive Directors for both the PIC and PICG Boards. Stuart King was appointed on 1 January 2019 and Judith Eden was appointed on 1 August 2019. There were no Director resignations during 2019.

Each Director is expected to attend all Board meetings and all committee meetings for which they are a member. All meetings are planned a year in advance except for meetings which may be required on an ad hoc basis. In order to ensure that the Board operates effectively, Directors' time commitments are assessed on appointment and reviewed on an ongoing basis. Any new appointments that Directors wish to accept must be cleared with the Chairman and the Company Secretary. The Board is satisfied that all Non-Executive Directors are able to devote sufficient time to the business.

> "Good governance, strong values and the right culture enable the Company to do what is right for our policyholders, employees, shareholders and other stakeholders."

Roles and names	Responsibilities
Chairman Jon Aisbitt	Jon focuses on the leadership of the Board, ensuring its effectiveness and promoting a culture of openness and constructive debate among the Directors. He also leads on the development of culture by the Board as well as the development and monitoring of the effective implementation of policies and procedures for the succession planning, induction, training and development of Directors.
Chief Executive Officer ("CEO") Tracy Blackwell	Tracy leads the executives in the day-to-day management of the business and effective implementation of the Board decisions. Tracy is responsible for the Group's performance of its obligations, adoption of the culture set by the Board, outsourcing arrangements and the Group's obligations in respect of individual conduct rules for training and reporting.
Senior Independent Director Roger Marshall	Roger acts as a sounding board for the Chairman and a trusted intermediary for the other Directors and shareholders. Additionally, in his role as the Whistleblowing Champion he guards the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing.
Chief Financial Officer ("CFO") Rob Sewell	Rob is responsible for the financial and actuarial matters of the Group, including management, allocation and maintenance of capital, funding and liquidity. He also manages and oversees the production and integrity of the Group's financial information and its regulatory reporting.
Non-Executive Directors Judith Eden Stuart King Arno Kitts Eloy Michotte Josua Malherbe Jerome Mourgue D'Algue Peter Rutland Steve Sarjant Mark Stephen Wilhelm Van Zyl	Non-Executive Directors provide challenge and strategic guidance to the Board, scrutinise performance of the Group and play key roles in the functioning of the Board committees. Non-Executive Directors are required to ensure they are able to provide sufficient time to meet their Board responsibilities.
Company Secretary Louise Inward	Louise, through the Chairman, is responsible for advising the Board on all governance matters, ensuring the Board has the right procedures, policies, processes and resources it needs to function effectively. She makes sure there is a good information flow between the Board, its committees and senior management and Non-Executive Directors.

Board meetings

The Board meets formally on a regular basis and attends to various matters by way of written resolutions. The Chairman and the Company Secretary ensure that, prior to each meeting, the Directors receive accurate, clear and timely information, which aids the decision-making process. Occasionally the PIC and PICG Boards will meet together to allow all-encompassing discussions of key matters such as the Group's strategy and business plan, Annual Report and financial statements, and matters raised by the four assurance functions: Risk, Internal Audit, Compliance and the Actuarial Function Holder.

At each meeting, the Board will receive updates from the CEO and CFO, as well as from the other members of the Executive Committee. These reports cover how the Company is executing the business plan, policyholder administration, including details of how we meet our obligation to treat policyholders fairly, the new business pipeline and associated investments, and Risk's review of current and emerging risks. The chairmen of each Board committee also report back to the Board on each committee's recent activities.

The Board is in regular dialogue with senior management outside of formal meetings and in addition to regular matters, the Board and committees also discuss other topics that require their attention. The topics that the Board discussed outside of regular reports are detailed on page 73.

Culture and purpose

The Board believes that having a formal purpose allows the right culture to be embedded in the business. The right culture enables the delivery of the Company's strategy and business model by promoting attitudes and behaviours of high ethical standards and integrity, as set out in the Company's values. The Board, under the Chairman's leadership, establishes and endorses the culture. The Board holds senior management to account where there is a misalignment of the existing culture with the Group's purpose and values.

The Group's values continue to help the Group succeed by building and maintaining strong relationships built on trust with all our stakeholders.

More on our stakeholder engagement can be found in our Strategic Report on pages 16 and 17 as well as in this report.

Evaluation and development

The Board conducts an evaluation of its effectiveness each year in order to identify areas for development. Every three years the evaluation is facilitated by an external consulting firm; the last external evaluation was in 2017 so for 2019 the Board conducted an internal evaluation. The process entailed a completion of a questionnaire for the Board and each committee, with the results being discussed by the Nomination Committee and then the Board. The outcome of the 2019 evaluation, and actions from the 2018 evaluation results, are detailed below.

Board strengths:

- Good understanding of the ORSA and Directors use it to help them make decisions.
- Open and constructive debate amongst the Directors.
- The role of the Board and its committees is clearly defined.
- The Board has a good mix of competencies and experience, including knowledge of the business.

Areas for development:

- Progress against the Board's Diversity Policy.
- The Nomination Committee to be mindful of the number of Directors appointed to the Board and to factor this into the Board succession planning.
- Reduce operational considerations and review of backward-looking updates and focus on strategic matters.
- Continue to develop the strategy that is well balanced between the views of management and shareholders.

Areas for Board development from 2018 evaluation	Actions taken during 2019
Improve visibility of succession planning with the Board.	Plans were made more accessible to the Board, including thorough discussions in a private session. Directors were happy with the progress made.
Further work is required on Board diversity.	Progress against the Board Diversity Policy was made during 2019 with Judith Eden joining PIC and PICG Boards in August 2019. Directors note that more work needs to be done.
More time is needed for substantive discussions by the Board, and more focus on key issues and long-term vision and strategy.	Board meetings were extended in 2019 and a strategy day was organised. The Directors acknowledged this was a better schedule. A similar schedule will continue for 2020 with adjustments made during the year if required.

Training and induction

The Company has provided two inductions, to Stuart King and Judith Eden, during 2019. The inductions involve meetings with each function within the Group and attending the first Board committee meetings following their appointment in order to allow new Directors to be aware of all the current issues facing the Company. Specific training, that has been identified during the induction process, is then provided to new Directors to enable them to properly challenge the Executive Directors.

Training sessions are regularly provided to Directors for each round of Board and committee meetings. There is a training session scheduled for each Board meeting and after each Investment and Origination Committee and Risk Committee meetings. The Directors have been provided with training sessions on ORSA, IFRS 17, Internal Model key judgements and conduct risk during 2019.

Board Activities

In addition to the regular reports that the Board discusses at each meeting, the important matters that the Board discussed in 2019 were:

FINANCIAL REPORTING AND CONTROLS

- Approved the full year statutory accounts and Annual Report, as well as the half year financial report
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee
- Approved the Company's Whistleblowing Policy and was aware of no instances of whistleblowing during the year
- The Non-Executive Directors continued to challenge senior management on the progress of the Capita migration, in particular the controls that were being put in place to safeguard policyholders

EMPLOYEES AND REMUNERATION

- Approved the Remuneration Policy Statement was approved by the Board following recommendation from the Nomination and Remuneration Committee
- Approved the launch of the Company's share schemes for the year as an important way for the Company to engage with its employees
- An employee survey was completed with the Board discussing the results and what their significance is on the Company's culture and strategy
- With the continued growth of the Company, future employee resourcing issues were considered to ensure that the Company would continue to be properly resourced to meet its future business needs

RISK MANAGEMENT AND INTERNAL MODEL

- Approved the Company's Own Risk and Solvency Assessment
- Regular reports were made to the Board on the progress of regulatory stress testing
- Conduct risk was an important topic for the Board this year and the Directors received training on how the Company helps vulnerable policyholders
- The recovery and resolution plan was approved by the Board with the Directors challenging management for further considerations to be included above and beyond what the Company is required to consider
- Assessed the potential risks arising from Brexit to manage their impact on the Group
- Reviewed the Group's reinsurance limits to ensure they remain prudent

CORPORATE GOVERNANCE

- Discussed the composition of the Board, which resulted in the decision to appoint an additional independent Non-Executive Director
- The Directors completed an internal Board effectiveness review this year with the results considered as disclosed in this report
- Considered the corporate governance reforms that needed to be implemented this year and decided that the Company should report on compliance with the Code

STRATEGY

- Approved the five-year business plan following the Board discussing various scenarios at its strategy day
- Approval of the Tier I restricted debt raise completed by PIC in July
- New business transactions above a defined threshold require Board approval and the Board considered several new business transactions during 2019
- Discussed culture in the context of how it affects the Company's strategy
- Considered the Company's pricing assumptions against investment outcomes
- Discussed implications of various Brexit scenarios and their impact on the Company and stakeholders
- Assessed the expected level of new business expected in the future and potential new asset classes

MEETING ATTENDANCE

In 2019, there were six scheduled PIC Board meetings and two ad hoc meetings. The PICG Board held four scheduled meetings and one ad hoc meeting. The PIC and PICG Boards held joint Board meetings four times, with one of those meetings being designated as a strategy session and one being an ad hoc meeting.

The table below shows the attendance by Directors for both the PICG and PIC Boards, as well as the Board committees, for all scheduled meetings.

Director	PICG	PIC	Nomination and Remuneration Committees	Investment and Origination Committee	Audit Committee	Board Risk Committee
Jon Aisbitt	4/4	6/6	5/5	4/4	–	–
Tracy Blackwell	4/4	6/6	–	–	–	–
Judith Eden[1]	1/2	2/3	1/1	–	–	1/1
Stuart King	4/4	6/6	–	–	5/5	–
Arno Kitts	4/4	6/6	–	4/4	–	5/5
Josua Malherbe	4/4	–	–	–	–	–
Roger Marshall	4/4	6/6	–	–	5/5	5/5
Eloy Michotte[2]	–	5/6	5/5	3/4	–	–
Jerome Mourgue D'Algue[3]	4/4	6/6	5/5	3/4	–	–
Peter Rutland	4/4	6/6	5/5	4/4	–	–
Steve Sarjant[4]	–	5/6	–	–	5/5	5/5
Rob Sewell	–	6/6	–	–	–	–
Mark Stephen	4/4	6/6	5/5	–	5/5	–
Wilhelm van Zyl	4/4	6/6	–	–	–	5/5

1 Judith Eden was appointed on 1 August 2019 and did not attend the joint PICG/PIC Board meeting on 4 December 2019 due to a commitment made prior to joining the Board.
2 Eloy Michotte did not attend the PIC Board meeting on 30 January 2019 and the Investment and Origination Committee on 19 November 2019 due to prior commitments.
3 Jerome Mourgue D'Algue did not attend the Investment and Origination Committee meeting on 4 June 2019 due to a prior commitment.
4 Steve Sarjant did not attend the joint PICG/PIC Board meeting on 2 October 2019 due to a prior commitment.

STAKEHOLDER ENGAGEMENT

The Board values its engagement with its stakeholders. It is a key part of the culture of the Group and ensures that the Company is doing the right thing and protecting the long-term interests of its stakeholders.

SEE PAGES 16 AND 17 FOR HOW PIC ENGAGES WITH ITS STAKEHOLDERS

Valuing our stakeholders

Main activities that the Board has undertaken to engage with our stakeholders:

EMPLOYEES

Directors are invited to employee events; the Chairman has regular interactions with employees; in comparison to other companies, a relatively big pool of employees present to the Board at Board meetings; employee satisfaction survey; Remuneration Committee reviews overall salaries and bonuses for employees

SUPPLIERS

Involved with Capita transition including the Chairman visiting Capita; Investment and Origination Committee reviews investment managers each year; report of supplier payments presented to the Audit Committee

POLICYHOLDERS

Directors meet with policyholders during the Company's policyholder days; the Board listened to anonymised policyholder calls as part of vulnerable customer training

DEFINED BENEFIT PENSION SCHEME TRUSTEES

The relationship the Company has with trustees, and their expectations, is discussed alongside each deal considered by the Board

REGULATORS AND POLICYMAKERS

Regulator interactions reported to the Board and Risk Committee; Directors have meetings with the PRA; and the PRA present to the Board for Periodic Summary Meetings

DIRECT INVESTMENT COUNTERPARTIES

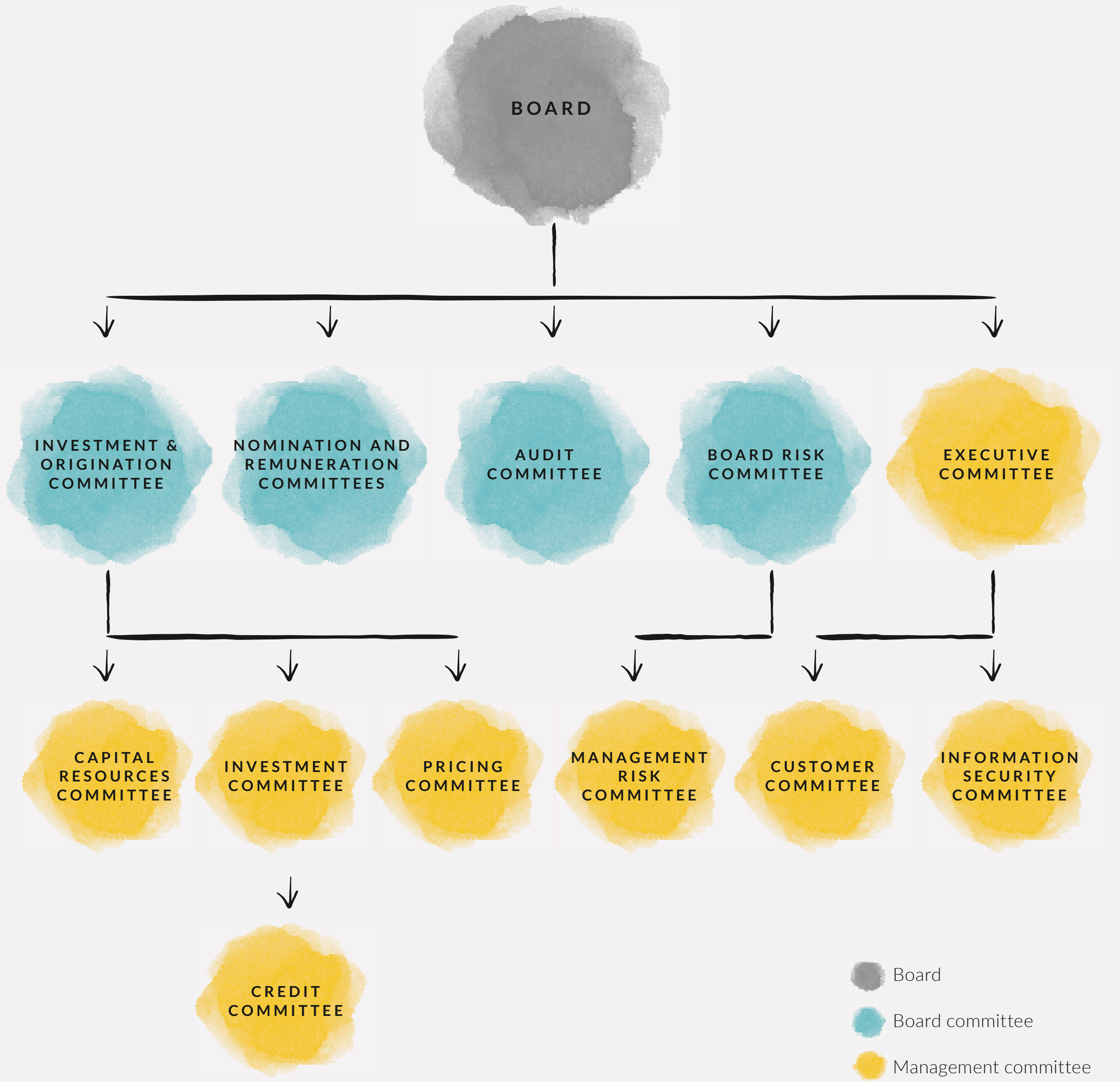
Invited to attend and present at policyholder days, at which Directors also attend

SHAREHOLDERS & DEBT HOLDERS

Annual Report; publication of material updates on RNS; shareholder nominees on the Board; interactions with employees (largest group by number of shareholders)

GOVERNANCE AND CONTROL FRAMEWORK

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



Delegation

The Board delegates specific responsibilities to the Board committees, which assist the Board in its oversight and control of the business. There are currently four Board committees: Audit, Risk, Nomination and Remuneration, and Investment and Origination. The Investment and Origination Committee considers matters specific to PIC.

The three remaining committees consider matters concerning PIC and PICG, as per the delegations in their terms of references. Members of the committees are appointed by the Board on recommendation of the Nomination and Remuneration Committee in consultation with the committees' chairmen.

There are a number of executive and operating committees, which assist executives with business management and oversight. The remit of some of these are as follows:

- The Executive Committee assists the CEO with day-to-day management of the business.
- The Investment Committee acts as the supervisory body on investment matters within authority delegated to it by the Investment and Origination Committee.
- The Management Risk Committee advises on all aspects of the risk management frameworks and inputs into the development of the risk strategy. It also makes recommendations to the Risk Committee on the overall risk appetite and risk exposure of the Group and monitors the Group's risk profile against the risk appetite.
- The Pricing Committee considers all new business deals and keeps under review the pricing assumptions and recommends any changes to the Investment and Origination Committee. Deals above £1 billion are reviewed and approved by the Investment and Origination Committee or the Board.
- The Capital Resources Committee acts as the supervisory body on Matching Adjustment ("MA") and non-MA related matters.
- The Credit Committee oversees the individual assets in PIC's internal portfolio, specifically their creditworthiness. It also provides expert credit advice on investment matters to the investment executives.
- The Customer Committee reviews the principles, assumptions and application of the Actuarial Factors, including those relating to commutation of pension, recommends to the Board any changes proposed to the Actuarial Principles to be adopted by PIC and exercises any discretions required under policies issued by PIC. It also oversees all aspects of interaction with policyholders including Treating Customers Fairly outcomes and overall conduct.

NOMINATION AND REMUNERATION COMMITTEE REPORT

JON AISBITT
CHAIRMAN OF THE
NOMINATION COMMITTEE

PETER RUTLAND
CHAIRMAN OF THE
REMUNERATION COMMITTEE

"The Committee considers diversity and the Directors' skills matrix to ensure a Board with the skills and diversity to deliver the Company's purpose and strategy."

We are pleased to present the Nomination and Remuneration Committee (the "Committee") report for 2019. The Committee has continued to focus on Board composition again this year.

Two independent Non-Executive Directors joined the Board this year, Stuart King and Judith Eden, with the Committee recommending that Stuart joins the Audit and Risk Committees and Judith joins this Committee and the Risk Committee. Stuart brings a lot of compliance experience to the Audit Committee as well as a regulatory perspective to the Risk Committee, and Judith's committee appointments create a strong link between this Committee and the Risk Committee so that we maintain a strong risk mindset when discussing remuneration and nomination matters.

The Committee continued to review executive remuneration with reference to the remuneration of the Company's employees. This is important for the Committee to do as it aids the Committee in keeping executive remuneration proportionate and allows oversight of overall employee remuneration so that it is appropriate and sufficiently rewards good performance.

The Committee has been addressing Board diversity this year. The Board is limited in its ability to affect Board diversity as there are four shareholder nominated Directors on the Board and while the Company discusses the need for diversity with our shareholders, these nominations are ultimately made by our shareholders. For the Board appointments which the Company has control over, the proportion of female representation is 25% following Judith's appointment. The Board's Diversity Policy has a target of three female representatives which would correspond to 33% of the appointments that the Company can influence.

Alongside diversity, the Committee has been making the Company's succession plans more visible with the Board so that each Director, and not just the members of the Committee, are aware of what these plans are and how they affect the Company's strategy. When deciding on a pipeline of talent to support the succession plans, the Committee considers diversity and the Directors' skills matrix to ensure a Board with the skills and diversity to deliver the Company's purpose and strategy.

This report will cover how the Committee evaluates the balance of Directors on the Board, the governance of our remuneration practices and the activities of the Committee during the year.

JON AISBITT AND PETER RUTLAND
CHAIRMEN OF THE NOMINATION
AND REMUNERATION COMMITTEE

Role of the Committee

- Oversight of the structure, size and composition (including the skills, experience, independence and diversity) of the Board.
- Determine and agree, with the Board, the policy for the remuneration of Executive and Non-Executive Directors.
- Oversee the Remuneration Policy for all material risk takers.
- Review the design of all share incentive plans.

The Committee comprises six Non-Executive Directors, three of whom are independent. In addition to these members, regular attendees include the CEO and the Chief People Officer. The Chief Risk Officer attends periodically to assist the Committee in determining whether the Company has performed within its risk profile before making decisions relating to remuneration.

Director evaluation

The Committee evaluates the Company's Non-Executive Directors in terms of their skills, time commitment and independence. The Committee utilises a Board skills matrix to assess the skills of the Directors which allows the Committee to evaluate the balance of skills on the Board. Where there are any gaps in skills, either training will be provided to Directors to bring the skills of the Board up as a whole, or the desired skills are looked for when making Board appointments.

The independence and time commitment from each Director are also important aspects of the Board's effectiveness. The time commitment of each Director is assessed before they are appointed to the Board and their outside interests are monitored to ensure that every Director can continue to devote enough time to the Company. As part of monitoring Directors' outside interests, the Committee can assess whether the independent Non-Executive Directors remain independent to provide effective challenge to senior management.

The Committee conducts these assessments each year and the members of the Committee have confirmed they are satisfied with the balance of skills on the Board, that each Director is able to devote enough time to the Company and that the independent Non-Executive Directors remain independent.

Appointment of Directors

The Company has a defined process it follows when appointing new Directors. When a need for a new independent Non-Executive Director is identified the Company will engage with an executive search agency if appropriate. For the appointment of Judith Eden, Korn Ferry were engaged to carry out a search for candidates. Korn Ferry does not have any connection to the Group other than for this purpose. When candidates are identified they will meet with members of the Committee and other Directors, such as the CEO and the Senior Independent Director to assess their experience and fit for the Board.

The Company also needs to meet regulatory requirements for appointing new Directors. The Company will put together all the required documentation with the candidate in order to comply with these requirements. Once the members of the Committee are happy that the candidate is suitable for the Board and satisfied that the candidate fulfils the regulatory requirements, the Committee recommends the appointment to the Board for final approval.

Governance of remuneration

The Committee's responsibilities include setting the Remuneration Policy for Executive Directors, all key function holders and material risk takers, ensuring that the strategy, purpose and culture of the Group are clearly aligned with the outcomes that the policy intends. The objectives are to make the policy transparent, simple and predictable for both the executives captured by the policy and for the Company's stakeholders.

The membership of the Committee includes Directors nominated by major shareholders allowing shareholders oversight of executive remuneration. The long-term remuneration plans in the current policy are designed to align executives' interests with shareholders' interests, are complementary with the Company's strategy and help to avoid rewarding poor performance. The Committee determines executive remuneration with reference to the remuneration of the wider workforce to ensure that executive pay is appropriate and aligned with wider Company pay policy. The Committee also receives a report from the CRO to ensure risk objectives are being met by executives and that potential behaviour risks associated with performance targets are mitigated.

The Committee believes that the policy has operated as it was intended to during 2019.

Activities during the year

The Committee undertakes its main activities during the year and deals with ad hoc issues as and when they come to the Committee. Examples of specific matters are below:

Board/executive composition:

- Discussed plans for Executive Director succession.
- Reviewed and recommended the appointment of Judith Eden to the Board and for her committee appointments.
- Approved the Board Diversity Policy and assessed progress against the policy.
- Assessed the Board tenure and considered the independence of the independent Non-Executive Directors, concluding that they were independent.

Share schemes:

- Reviewed and approved the grant of bonus share options.
- Approved the launch of the Company's 2019 Save As You Earn scheme.
- Discussed and set the share valuation for the Company's share schemes.

Governance:

- Approved the Fit and Proper Persons policy.
- The Committee carried out a review of its terms of reference.
- Discussed changes to the Senior Managers & Certification Regime.
- Reviewed the results of the Gender Pay Gap analysis and the associated reporting.

Remuneration:

- Conducted an annual remuneration review.
- Approved the remuneration of senior management and Non-Executive Directors.
- Received a report from the CRO on staff compliance with the risk appetite as part of staff objectives.
- Reviewed and challenged the setting of senior management objectives.

Areas of focus for 2020

The Committee's focus will remain to be ensuring the effective composition of the Board; succession planning, particularly Non-Executive Director succession after the work on executive succession planning in 2019; and making further progress in progressing the Board's diversity agenda.

Performance evaluation

The Committee conducted an evaluation of its performance and of each individual member alongside the overall Board evaluation process. The review was carried out internally, with each Committee member and regular attendees asked to complete a questionnaire.

The members are happy that the right expertise is on the Committee and that the Committee meets sufficiently regularly to be able to discharge its responsibilities. However, the members want more work to be done to set a new process for share schemes, such as the evaluation of the Company's share price.

Remuneration Policy

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

A description of the different remuneration elements for 2019 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive taking into account the individual's skills, as well as the size and scope of their role and that of the Group. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Group to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all permanent employees: private health cover; annual travel insurance; interest-free loans (up to £10,000) for season tickets; death in service life assurance; and participation in the Save As You Earn plan.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Group's contribution that otherwise would have been made under the Stakeholder Pension arrangement.
Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All employees are eligible to 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 material risk takers, individual bonus payments are determined by the Nomination and Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. Performance is assessed against both financial and non-financial criteria. Financial performance is reviewed against a basket of financial metrics agreed at the beginning of the year. Non-financial criteria could consider metrics such as compliance with risk appetite, compliance breaches, customer service measures and conduct, and findings of Risk, Compliance and Internal Audit reviews. The CRO, with input from the Chair of the Board Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all of the above measures is assessed by the Remuneration Committee in the round. For staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil-cost options. While the cash element of the bonus is paid upfront, for material risk takers 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 Group for all senior management and other key individuals through bonus deferral. Under the DBSP, bonuses comprise a cash element awarded annually at the end of the financial year and paid in March of the next year. The deferred element is awarded in the form of nil-cost options which vest after three years. For Solvency II Identified Staff a minimum of 40% of any bonus award is deferred. Prior to vesting, the Committee can make adjustments to awards under the malus and clawback provisions. The Committee 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 Group or any Group company; or 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 Group or any business area; or has amounted to serious misconduct, fraud or misstatement (whether by exaggeration of financial performance or mismarking the valuation of any asset or otherwise).
2017 Growth Share Plan	Growth Share awards were granted in 2017 to certain senior employees and Executive Directors. No further grants will be made under this plan. Grant levels were determined based on an assessment of individual performance and future potential as determined at the time. These Growth Share awards are due to vest on 1 January 2021, depending on growth in value of the Group over the four-year performance period from 1 January 2017. Participants receive a portion of the growth in the Group's value above a hurdle. The level of reward at vesting is dependent on the growth achieved and can be zero if the growth in the Group's value is less than the hurdle rate. The proportion of growth above the hurdle allocated to participants reduces once the growth rate exceeds the upper end of expected performance. Prior to vesting, the Committee can make adjustments to awards under the malus provisions, and clawback provisions also apply following vesting.

ARNO KITTS
CHAIRMAN OF THE INVESTMENT AND ORIGINATION COMMITTEE

> "We have been diligent in scrutinising investment outcomes versus assumptions included in our pricing to ensure these are realistic and optimal for the Group and therefore good for our policyholders."

I am pleased to present the Investment and Origination Committee (the "IOC", the "Committee") report for 2019. The Group's approach to managing its portfolio is covered on pages 36 to 39. You will note that the recurring theme throughout the report is the growth of the Group.

In 2019, we discussed a variety of standing matters and areas of special focus. The Committee met several times during the year on an ad hoc basis to either consider large deals or to provide expert oversight of the asset strategies for deals being considered by the Board. We have been diligent in scrutinising investment outcomes versus assumptions included in our pricing to ensure these are realistic and optimal for the Group and therefore good for our policyholders.

The Committee has also spent a lot of time providing oversight of the existing portfolio to ensure the right quality and diversification within the portfolio and to protect it to the extent practicable from market volatility. This has meant a lot of attention has been given to our hedging approach and how best to adjust it to the Group's needs. We have also reviewed the Diversified Capital Fund strategy and composition and continued to monitor the development of the Real Asset strategy.

The growth of the portfolio has also meant that the Investment team had to look at its operating model, the controls environment, technology and priorities for 2019 and beyond. The Committee participated in all those considerations and provided oversight of the crucial projects within Investments. We have also looked at governance arrangements and delegation of authorities including a suite of new revised policies for Investments and Origination.

We have made progress on PIC's approach to environmental, social and governance ("ESG") investment strategy and engaged a specialist consultant to assist us with the assessment of our portfolio, and to further develop a comprehensive ESG Policy and methodology. This provides an extra lens for PIC as a responsible investor to better manage risk and generate sustainable, long-term returns.

More detail on the Committee's activities and the focus for the coming year is covered by this report.

ARNO KITTS

CHAIRMAN OF THE INVESTMENT AND ORIGINATION COMMITTEE

Role of the Committee

- Oversee the management of all aspects of investment policy and strategy.
- Provide oversight of the operation of the Group's investment portfolios.
- Oversee all aspects of the Group's new business and reinsurance origination.
- Recommend to the Board investment arrangements and pricing for significant transactions for approval.

The Committee membership comprises five Non-Executive Directors of whom two are independent. Arno is also member of the Risk Committee, therefore provides a good link and collaboration between the two committees.

Activities during the year

The Committee receives the following regular reports at each meeting: updates on performance of PIC's portfolio, review of hedging, update on managing the surplus assets of the Group, deal pipeline and solvency. It also receives information on the activities of the Investment Committee, Pricing Committee and Capital Resources Committee.

In addition to regular reports, each year the Committee reviews the priorities set for the year by the Investments team. This sets the focus for the meetings throughout the year. Examples of some of specific matters considered by the Committee are listed below.

Investments governance and operational framework:

- The Committee reviewed its terms of reference and approved an updated policies framework to improve consistency and reflect changes in the Group.
- Reviewed the Investment teams' operational framework to keep it in line with the growth of the business.
- Provided oversight of the PIC commissioned external evaluation of PIC's illiquid assets framework and provided input on how the recommendations were implemented.
- Further consideration was given to the development of ESG policy and methodology. The Committee believes that ESG is an important part of investment decisions and a better way of managing risk and generating sustainable, long-term returns.

Oversight of the performance:

- The Committee reviewed PIC's portfolio in the context of general market conditions and economic environment. The Committee also reviewed ratings migration within PIC's portfolio and any downgrades.
- Received the analysis of pricing assumptions and how these compared with the investment outcomes, including pricing allowances versus reinsurance fees.
- Carried out the regular review of performance by PIC's external investment managers.

Project work:

- The Committee had oversight of the key projects in the Investments and Origination areas. These pertained to changes in technology, controls environment, addressing regulatory and legislative changes and ensuring these are reflected in the Investments processes.

New business and new initiatives:

- The Committee reviewed asset strategies for large deals and advised the Board whether to approve the transactions.
- Reviewed new initiatives which aimed to improve PIC's access to assets to support writing new business. This will continue to remain on the Committee's oversight radar.
- Discussed the work from the Investments team on its strategy day, looking at the future needs of the team and new asset classes that the Company could invest in.

Areas of focus for 2020

In 2020, the Committee will continue with the focus on oversight of embedding ESG factors into investment decision making; reviewing proposals for the Company investing in new asset classes that came out of the Investments team strategy day, as well as the development of plans to ensure the Investments team is resourced sufficiently to match the growth of the Company; and assessing plans for new technology and further automation.

Performance evaluation

The Committee conducted an evaluation of its performance and of each individual member alongside the overall Board evaluation process. The review was carried out internally, with each Committee member and regular attendees asked to complete a questionnaire.

The review concluded that the Committee functions well with the right expertise on the Committee and has good communication with the Board. This was the first full year when the Committee has met and the comments from members of the Committee suggest that the balance of focus between Investments and Origination should be considered, and that the information presented on the approval of deals should be reviewed.

ROGER MARSHALL
CHAIRMAN OF THE AUDIT COMMITTEE

"We have also focused on making sure that the risk management and internal control frameworks keep up with the growth of the Group."

I am pleased to present the Audit Committee (the "Committee") report for 2019. This has been another year of record new business and greater regulatory supervision. It has therefore been more important than ever to maintain the Committee's focus on the Company's internal controls and external reporting.

We received a report from the Head of Internal Audit on the effectiveness of the Group controls, risk management and governance processes. We have been updated on outcomes of any significant audits, proposed improvements and mitigating actions agreed with management. I am pleased with the progress that the business has made this year to close any gaps in our controls and that it recognises that ongoing improvement is needed as the Group changes.

We have also focused on making sure that the risk management and internal control frameworks keep up with the growth of the Group. It meant that a considerable amount of the Committee's time was spent on oversight of the major projects such as policy data, information management capability, third party risk management which aimed to bring further improvements to the business. This has also included the work on the changes brought about by IFRS 17 and PIC took the opportunity to look holistically at all changes required within the Finance function under the umbrella of the Finance Change Programme which we will continue to scrutinise in the coming years.

Together with the Risk Committee, we have also assisted the Board with the oversight of the Company's transition of the administration services to the new outsource provider, Capita, and the controls that need to be in place to ensure that we continue to protect the interest of our policyholders.

The Committee has also carried out an oversight of financial reporting, related methodologies and underlying assumptions. We ensured that the growth of the Group and the new business written is accurately represented in the Group's financial statements. More detail on the Committee's activities is included in the report itself.

ROGER MARSHALL
CHAIRMAN OF THE AUDIT COMMITTEE

Role of the Committee

- Make recommendation to the Board on appointment or re-appointment of the external auditor, and oversight of the external auditor and annual audit.
- Oversight of Internal Audit function.
- Review systems of internal controls and governance.
- Oversight responsibility for the integrity of financial reporting, including Annual Report and solvency reporting, the effectiveness of the risk management and internal control system and related governance and compliance matters.

The Committee comprises only independent Non-Executive Directors. In addition to these members, regular attendees include the Chairman of the Board, CEO, CFO, Chief Risk Officer, General Counsel, Head of Internal Audit and Wilhelm van Zyl, one of the shareholder appointed Non-Executive Directors.

External auditor

KPMG LLP has been the auditor for the Group for the last 13 years, with a tender process having taken place in 2016.

The Committee annually reviews the performance of the external auditor and conducted this review in Q4. The Committee discusses the external audit process with senior managers to ensure the process is as effective as possible and the Committee concluded that it was satisfied with the quality of the audit work completed, including the satisfactory level of challenge from the external audit team.

To ensure the continued independence of the external auditor, the Group has put in place a Non-Audit Services Policy, which is reviewed annually by the Committee. The policy places a 70% cap on non-audit services fees relative to the statutory audit fees, with any fees over £25,000 requiring approval of the Committee. Details of the remuneration paid to the external auditor are set out in Note 5.

Internal Audit plan and integrated assurance plan

The Committee meets regularly with management, the CRO, the General Counsel and the Head of Internal Audit to review the effectiveness of internal controls, risk management and compliance processes.

The Committee approves the internal audit plan and the integrated assurance plan each year and there are updates from the Head of Internal Audit and the CRO on the progress of implementation and monitoring of controls at each meeting. The General Counsel also provides a report on the material issues identified through the Compliance Monitoring Programme at each meeting.

Each year the Committee reviews the effectiveness of the Internal Audit function and of the performance of the Head of Internal Audit, to ensure high standards of oversight and challenge remain in the third line of defence. The Committee is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the Group.

Fair, balanced and understandable statements

The Committee, and the Board, have reviewed the financial statements and have confirmed that they are satisfied with the fairness, balance and clarity of the Annual Report to provide the information necessary for stakeholders to assess the Company's position and performance, business model and strategy. This opinion is based on the authors of each section having sufficient expertise and the formal review process at all levels to ensure the Annual Report is factually correct.

Activities during the year

The Committee receives regular reports from the Internal Audit, Risk and Compliance functions, as well as updates regarding progress of major projects being undertaken which affect the control framework of the Group. The Committee also receives regular financial performance reports. In addition to these regular reports, this year the Committee considered the matters below:

Financial reporting:

- Approved the 2018 statutory accounts and reviewed the drafting of the 2019 statutory accounts for both PICG and PIC.
- Considered and approved the Solvency and Financial Condition Report and the Regular Supervisory Report for filing with the Company's regulator.
- Approved the half year report.
- Reviewed the Company's benchmarking on IFRS prudent margins.
- Approved the changes to methodology and assumptions used in the actuarial valuation for Solvency II and IFRS for the 2019 year end.

Internal controls and risk management:

- Monitored the Company's IT controls and reviewed the continued development of these controls as external threats develop.
- Reviewed Internal Model Consolidated Annual Validation Report.
- Reviewed the progress against the integrated assurance plan and approved the plan for 2020.
- Received Internal Audit opinion on the effectiveness of the Group controls, risk management and governance processes and approved the internal audit plan for 2020.
- Assisted the Board with oversight of the transition of the outsourced administration services to Capita, ensuring a focus on the best interest of the Company's policyholders.
- Provided oversight of the key projects such as policy data, information management capability, model risk management, third party risk management, finance change programme which focused on IFRS 17 implementation.
- Reviewed and approved the 2020 annual Compliance Monitoring Programme.
- Reviewed the Money Laundering Reporting Officer's report.

Internal and External Audit:

- Reviewed and approved Internal Audit Policy, Internal Controls Policy and Internal Audit Plan for 2020.
- Conducted a review of effectiveness of the Internal Audit function and performance of the Head of Internal Audit.
- Reviewed and approved the Non-Audit Services Policy.
- Conducted an external auditor appraisal.
- Approved and monitored the external audit plan and external auditor fees for 2019.

Other matters

- Approved policies which fall within the Committee's remit as part of the Policy Framework Project including Whistleblowing Policy.
- Reviewed its terms of reference and recommended them to the Board for approval.
- Reviewed Group tax strategy.

Areas of focus for 2020

The Committee's focus will always primarily be on the quality of the Group's external reporting; ensuring the effectiveness of the external auditor, Internal Audit and Compliance functions, and considering the effectiveness of the Group's internal controls.

As the Group continues to grow and mature, the Committee will oversee the controls and governance of any changes in the Group to ensure the continued effectiveness and integrity of the Group's systems of internal controls.

Performance evaluation

The Committee conducted an evaluation of its performance and of each individual member alongside the overall Board evaluation process. The review was carried out internally, with each committee member and regular attendees asked to complete a questionnaire.

The members were happy with the overall performance of the Committee in 2019. The members praised the performance of the Chairman of the Committee and the benefit of the range of perspectives and experience among the members. The training programme on specialist topics offered to both the Audit and Risk Committees was well received, with members suggesting future topics for training which included potential risks in customer journey processes.

Significant issues

Area of focus	Actions taken by the Committee
TMTP recalculation policy and methodology	The Committee reviewed the TMTP recalculation policy, methodology and assumptions proposed for the year-end recalculation of TMTP.
Finance Change Programme including IFRS 17	The Committee provided oversight of the preparations for IFRS 17 implementation and the impact it will have on the Company's financials. In the context of IFRS 17 the Group devised a wider Finance Change Programme which will deliver transformation of Finance and update technology, reporting and analytical tools.
IFRS prudent margins review	The Committee kept PIC's prudent margins under scrutiny and was supported by an external review and benchmarking. This was to ensure the Group is in line with its peers whilst maintaining a prudent approach.
Matching Adjustment documentation update	The MA documents have undergone a robust review process and the Committee made recommendations to the Board to approve the amendments ahead of formal submission to the PRA.

RISK COMMITTEE REPORT

COMMITTEE AT A GLANCE

STEVE SARJANT
CHAIRMAN OF THE RISK COMMITTEE

"We have kept a close eye on operational risks and overall operational resilience, in particular, during migration of our administration services to the new outsource provider, Capita."

I am pleased to present the Risk Committee (the "Committee") report for 2019. The Group's approach to risk management including its principal risks is covered on pages 56 to 61.

The Group continued to grow in 2019 despite the market volatility and ongoing uncertainty around the UK's exit from the European Union. We saw large volumes of new business written, a debt raise, and significant organisational and operational changes within the Group. All of this kept the Committee busy and focused on ensuring that the changes happened in a controlled way, the Risk Appetite Framework remains appropriate and any emerging risks continue to be captured.

During the year the Committee provided oversight of several key projects supporting the changes within the Group; these included a new Policy Framework, the Governance, Risk and Compliance platform implementation, further development of the Conduct Risk Framework and related Treating Customers Fairly initiatives. We have kept a close eye on operational risks and overall operational resilience, in particular, during migration of the administration services to the new outsource provider, Capita, and when the large deals were being implemented. Solvency monitoring, capital and liquidity management and investment risks remained on our radar throughout the year.

Given the movements in the market, we have maintained significant attention on PIC's counterparties as well as planning for Brexit including assessing any high-level financial impacts and operational disruption it could bring to PIC. This also included work we have done during the year on stress and scenario testing.

We have also received regular updates on PIC's regulatory engagement which has increased in line with the size of the business. The Committee members attended various meetings with the regulator during 2019.

Needless to say, 2019 was a successful but very busy year in PIC's life. More detail on the Committee's activities and the focus for the coming year is covered by this report.

STEVE SARJANT
CHAIRMAN OF THE RISK COMMITTEE

Role of the Committee

- Provide oversight and advice to the Board on the Group's current and likely risk exposures, risk appetite, risk management and risk controls.
- Oversee the Internal Model and recommend improvements to the Board.
- Ensure effectiveness of the Risk function and the performance of the Chief Risk Officer.
- Provide challenge to embed and maintain a supportive risk culture throughout the Group.
- Review and oversee interactions between the Group and its regulators.

The Committee membership is a majority of independent Non-Executive Directors. The membership has been further strengthened by welcoming Judith Eden and Stuart King to the Committee in 2019. Judith Eden is a member of the Nomination and Remuneration Committee, therefore providing a good link between the two committees. Roger Marshall is also the Chairman of the Audit Committee and his membership, as well as Stuart King's and Steve Sarjant's membership of the Audit Committee, ensure there is good collaboration between those two committees.

Activities during the year

Each year, the Committee carries out a robust assessment of the Group's principal risks, the Group's management of these risks and its internal controls, making appropriate recommendations to the Board. This year, the Committee reported to the Board that it was happy with the procedures in place to monitor and manage risks, and that the internal controls in place are fit for purpose.

The Committee receives the following regular reports at each meeting: Chief Risk Officer's overview, risk management information pack, risk appetite dashboard, enterprise risk management dashboard, risk incident report and integrated assurance report, as well as updates from the Head of Internal Audit on matters of interest to the Committee. In addition to these regular reports, this year the Committee:

Governance and framework:

- Reviewed the CRO's report on the annual assessment of risk and compliance within established risk appetite limits as part of the consideration of the Remuneration Committee's recommendations to the Board in respect of the remuneration policy.
- Reviewed the Committee's terms of reference and recommended them to the Board for approval.
- Reviewed the regular integrated assurance reports, in its new format, to help ensure that the systems of risk management and internal controls are appropriate.
- Reviewed the limits set for various counterparties and the Risk Appetite and Tolerances Schedule to ensure they remain appropriate and evolve with the changing external environment.
- Reviewed the ORSA report and recommended it to the Board for approval.
- Reviewed the Actuarial Function Opinion on Underwriting Policy 2019.

Oversight of projects:

- Provided oversight of the Policy Framework project which sought to update the Group policy framework to address changes within the Group, ensuring that the policies remain consistent with the Company's values and support its long-term sustainable success.
- Received updates on the implementation of the Governance, Risk and Compliance platform.
- Approved an updated Conduct Risk Framework and received an update on the Treating Customers Fairly initiative which among other things looked at the 'Customer Journeys'.
- Reviewed the hedging framework and hedging approach.
- Assisted the Board in oversight of migration of PIC's administration services to the new outsource provider, Capita.

Risk monitoring and controls:

- Considered the impact of the United Kingdom's exit from the European Union looking at both the financial and operational impacts.
- Received an overview of the emerging risks which can potentially affect the Group but at the same time bring opportunities.
- Discussed the investment risk including consideration of the Diversified Capital Fund.
- Reviewed stress and scenario testing particularly the stress and scenario testing results for the PRA Life Insurance Stress Tests 2019.
- Challenged any risk incidents to see if there were any systemic issues which could compromise the integrity of the risk management and internal controls systems.

Internal model:

- Reviewed the Internal Model validation report and the Internal Model Consolidated Annual Report.
- Reviewed the Internal Model Validation plan and recommended it to the Board for approval.
- Reviewed input into the Internal Model change application pertaining to Equity Release Mortgages.

Areas of focus for 2020

The Committee will focus on the oversight of the developing relationship between the Company and its regulators as the Company continues to grow; monitor emerging risks to the business, as well as the growing risk brought by climate change; and continued monitoring of the Company's risk appetite.

Performance evaluation

The Committee conducted an evaluation of its performance and of each individual member alongside the overall Board evaluation process. The review was carried out internally, with each Committee member and regular attendees asked to complete a questionnaire.

The members of the Committee are happy with the information flow between the Committee and the Board and other committees, as well as the training programme on specialist topics offered to both Risk and Audit Committees. The meeting times can be stretched with the number of items on the agenda and the remit of the Committee will be assessed during 2020.

GLOSSARY

ANNUITIES
A type of insurance policy that pays out regular amounts of benefit to the policyholder for the remainder of insured individual's lifetime and in certain cases their spouse and/ or dependents. The payments may commence immediately ("Immediate Annuity") or may be deferred to commence from a future date, such as the date of retirement ("Deferred Annuity"). Immediate annuities and deferred annuities may be purchased for an individual and his or her dependent's or on a bulk purchase basis for groups of individuals.

BEST ESTIMATE LIABILITIES (BEL)
The expected present value of future cash flows for a company's current insurance obligations, calculated using best estimate assumptions, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information.

BULK PURCHASE ANNUITY (BPA)
Bulk annuities are annuity policies that insure a group of individuals under a single contract, typically the members of a Defined Benefit Pension Plan, or a defined subset of such members.

DEFERRED TAX LIABILITY (DTL)
Liability arising due to timing differences between tax computations and the recognition of items in company accounts.

DEFINED BENEFIT (DB) PENSION PLAN
An employer sponsored retirement benefit plan where the benefits promised to the members of the Plan are defined according to a formula typically based on factors such as salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the trustees of the pension plan and not the employee or employer.

DEFINED CONTRIBUTION (DC) PENSION PLAN
A pension plan on which the employer and / or the employee make regular contributions, where the amount received by the employee on retirement is based on the accumulated fund. The employee normally has the responsibility of deciding how the contributions are invested (though investment choices may be limited by the actual pension fund provider).

FINANCIAL CONDUCT AUTHORITY (FCA)
One of the two bodies (along with the PRA) which replaced the Financial Services Authority from 1 April 2013. The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA. The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

INTERNAL RATE OF RETURN (IRR)
A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil.

MARKET CONSISTENT EMBEDDED VALUE ("MCEV")
The methodology for calculating and reporting Embedded Value, as set out by the Market Consistent Embedded Value Principles. It is made up of five components: Adjusted Net Worth plus Present Value of Future Profits less Cost of Residual Non-Hedgeable Risks less Frictional Cost of Required Capital less Subordinated Debt.

MCEV – ADJUSTED NET WORTH
Adjusted net worth is equal to the unadjusted Own Funds under Solvency II.

MATCHING ADJUSTMENT (MA)
An adjustment made to the risk-free interest rate when the insurer holds certain long-term assets to back a portfolio of their liabilities.

MCEV – COST OF RESIDUAL NON-HEDGEABLE RISKS (CRNHR)
Under the MCEV methodology allowance is made for the cost of holding capital in respect of nonhedgeable risks. Market risks are assumed to be hedgeable and so no cost is allowed for any capital that might be held under the regulatory solvency regime. Longevity risk is treated as hedgeable but only to the extent that the risks have actually been hedged, typically using reinsurance. Longevity risk that has not been reinsured at the balance sheet date is treated as non-hedgeable for the purpose of calculating the cost of non-hedgeable risks.

MCEV – FRICTIONAL COST OF REQUIRED CAPITAL (FCOC)
There is a cost associated with the assets which cover the minimum amount of regulatory capital the Company expects to hold (the Required Capital). This is principally in respect of investment management fees and tax on investment income. This cost is captured as the "Frictional Cost of Required Capital".

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