PENSION INSURANCE CORPORATION

Guaranteed pensions, purposeful investments

Pension Insurance Corporation PLC
Annual Report and Accounts 2020

Guaranteed pensions, purposeful investments

Pension Insurance Corporation PLC ("PIC") is a specialist insurer which has become a leader in the UK pension risk transfer market by focusing on our purpose.

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

CONTENTS

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

Our clients include

Aon · BHS · 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 · Old British Steel Pension Scheme · Rentokil Initial · sse · Total

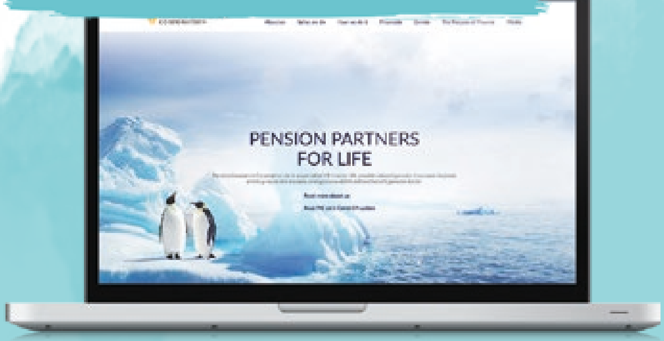
Our privately-sourced debt counterparties include

Durham University · emh group · University of Exeter · Glasgow City Council · Royal College of Surgeons of England · Trident Group

Our 2020 awards

Professional Pensions UK Pensions Awards 2020 Winner · Pensions Age Awards 2020 Winner · European Pensions Awards 2020 Winner · Fast Track · Investors in People Standard · ServiceMark, The Institute of Customer Service

Keep up to date at www.pensioncorporation.com



Delivering for our stakeholders

Premiums

2020

£5,649m

2019

£7,186m

IFRS profit before tax

2020

£276m

2019

£394m

Financial investments

2020

£49.6bn

2019

£40.9bn

Market Consistent Embedded Value

2020

£4,948m

2019

£3,864m

Solvency II ratio (PIC)

2020

157%

2019

164%

Assets held to meet solvency and risk margins (PIC)

2020

£8.9bn

2019

£6.6bn

Fitch Rating

FitchRatings
A+

In October 2020 Fitch Ratings affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

We have a wide range of stakeholders and providing non-financial metrics alongside our key financial metrics makes the business more transparent for the non-specialist reader."

Jon Aisbitt
Chairman

Policyholder satisfaction

2020
98.7%

2019
99.1%

Total pensions paid to policyholders

2020
£1,487m

2019
£1,229m

Numbers of pensioners insured

2020
273,500

2019
225,100

Total value of socially beneficial investments

2020
£11.4bn

2019
£8.6bn

% of the credit portfolio rated investment grade

2020
99%

2019
98%

Longevity reinsured

2020
84%

2019
81%

Gender pay gap

2020
12.1%

2019
17.2%

£750m of new equity raised

2020
£750m

The Directors present the Strategic Report, Directors' Report and the audited consolidated financial statements for Pension Insurance Corporation PLC ("PIC"or the "Company"), registered number 05706720, for the year ended 31 December 2020.

PRINCIPAL ACTIVITY

The principal activity of Pension Insurance Coporation PLC and its subsidiaries (the "Group") is the provision of pension buy-in and buyout contracts to corporate pension schemes ("pension insurance" or "bulk annuities").

BUSINESS REVIEW

Background

PIC is authorised to write long-term insurance business by the Prudential Regulation Authority (the "PRA"), and regulated by the PRA and the Financial Conduct Authority (the "FCA"). Pension insurance products are used by pension funds to transfer to an insurance company the risks and liabilities arising from the benefit promises made to pension fund members. Insurance is also used as a means by which the ultimate responsibility to pay the benefits promised is transferred to the insurance company through the issuance of an individual annuity insurance policy to the pension fund member.

The Company takes a leading role in developing and informing the pensions market through pension trustee training events. It publishes regular papers on the pensions market and information on how to address certain key issues for the commercial and the public sector, such as managing pension costs and risk inherent in pension schemes. It has an active thought leadership programme in dealing with government, corporate sponsors and pension trustees and working with them on pension solutions in the public and private sectors. The Company's ultimate parent company is Pension Insurance Corporation Group Limited ("PICG").

Strategy

PIC's continued strategy is to use its capital resources and expertise to provide long-term security for its policyholders and to generate target returns for its shareholders by writing pension insurance policies for UK defined benefit pension funds.

PIC aims to deliver these objectives through:

- **A strong and sustainable pipeline of new business:** PIC provides tailored products to meet the specific requirements of each of its clients, dealing with complexity through innovation and flexibility, and offering price certainty where this is a requirement;
- **Risk-adjusted assets performance:** PIC aims to source and acquire long-dated assets which provide investment returns over and above those needed to meet the liabilities assumed, whilst optimising the impact of those assets on capital requirements and reserve calculations;
- **Hedging of unwanted risks:** PIC seeks to pass on inflation, interest rate and currency risk through hedging strategies, and to manage its longevity risk through the use of reinsurance;
- **A focus on administration efficiency and customer service levels:** PIC aims to provide policyholders with a high-quality service, adhering to the requirements and objectives of the FCA's "Treating Customers Fairly" principles, whilst building on its reputation in this key area; and
- **Focused use of skills and resources:** PIC aims to be efficient in deploying resources to manage and operate its business and uses services from outsourcing partners where it is efficient and cost effective to do so.

The escalating financial costs to pension schemes and their sponsors of pension provision, arising from an onerous regulatory regime, volatility in asset performance, increases in life expectancy and the need to match assets more closely with liabilities (in order to comply with ever more stringent accounting and funding regime standards) have caused pension fund trustees and corporate sponsors to look at the benefit of transferring the risks associated with their defined benefit pension funds to the security of a regulated insurance company such as PIC.

Accordingly, the size of the potential market in which PIC operates continues to broaden and widen and is influenced by the affordability of the insurance offering. The Directors believe that, as the market continues to develop and pension insurance becomes more commonplace, these solutions will continue to be considered as affordable and necessary.

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.

KEY PERFORMANCE INDICATORS

PIC has identified a number of financial and non-financial key performance indicators ("KPIs") and performance measures that it considers relevant at this point in its development. These indicators are shown below. As the business continues to develop, management will determine whether these indicators remain the most appropriate metrics by which to measure the risk and profitability of the business.

	Profit before taxation £m	Embedded value £m	Solvency ratio %	Customer satisfaction %
2020	**276**	**4,948**	**157**	**98.7**
2019	394	3,864	164	99.1

Embedded value

PIC calculates its embedded value ("EV") under the European Insurance CFO Forum Market Consistent Embedded Values Principles ("MCEV Principles"). EV gives a snapshot of the value created to date and facilitates market comparisons. EV is a key financial metric the Board uses to evaluate the progress of the business.

Solvency ratio

The solvency ratio demonstrates the proportion of surplus funds in excess of Regulatory Capital Requirements. A robust solvency ratio reflects the prudent management of interest, inflation and longevity risks, underpinned by capital optimisation, including hybrid debt issuance.

Customer satisfaction

As well as the financial metrics, the business also uses customer satisfaction as a KPI, reflecting our emphasis on excellent customer service. This is done by measuring the percentage of customers surveyed who give PIC a "satisfied" or "very satisfied" rating, evidencing the quality of the service we have given.

TRADING DURING THE YEAR

Overview

	2020 £m	2019 £m
Gross premiums written	**5,649**	7,186
Profit before taxation	**276**	394
Solvency II ratio (%)	**157%**	164%
Embedded value	**4,948**	3,864
Financial investments	**49,648**	40,886

Despite turbulent market conditions and the uncertainty caused by both the Covid-19 pandemic and Brexit, the Group has shown resilience and remains financially strong and profitable with a solvency ratio of 157% and profit before tax of £276 million in the year, whilst increasing the prudent margins contained in the IFRS reserves to £3.2 billion.

The main financial consequences of the on-going Covid-19 pandemic were in respect of market volatility in the early part of 2020, and the financial impacts of government and central bank support across the globe. These interventions led to significant falls in interest rates and significant volatility of credit spreads following the disruption seen in March 2020.

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

The Group wrote £5.6 billion of new business premiums which, while lower than 2019 (£7.2 billion), was in line with our historic market share.

Profit before tax of £276 million was lower than 2019 (£394 million) primarily due to a lower contribution from new business and a lower positive impact from changes in valuation assumptions compared to the prior year. The results were negatively impacted by downgrades of a small proportion of the asset portfolio over the year, as well as a number of management actions which were taken to improve the resilience of the balance sheet and protect against further market volatility but which incurred a short term cost.

CORPORATE ACTIVITY

During the year the Group raised £750 million of new equity capital from its ultimate parent undertaking, Pension Insurance Corporation Group Limited.

The Group further strengthened its regulatory capital position by issuing two Tier 2 subordinated notes in the year; for £300 million with a coupon of 4.625% in May and for £400 million with a coupon of 3.625% in October, taking advantage of very strong market conditions to issue debt at historically low spreads.

On 23 October 2020, Fitch Ratings affirmed PIC's Insurer Financial Strength Rating at 'A+' (Strong) and Long-Term Issuer Default Rating at 'A'. Both outlooks were affirmed at 'Stable'.

IFRS COMMENTARY

2020 financial performance

Statement of comprehensive income highlights

	2020 £m	2019 £m
Gross premiums written	**5,649**	7,186
Net premium revenue earned	**5,132**	7,136
Investment return (including commissions earned)	**4,091**	3,063
Total revenue	**9,223**	10,199
Net claims paid	**(1,683)**	(1,388)
Change in net insurance liabilities	**(6,997)**	(8,199)
Operating expenses	**(195)**	(157)
Finance costs	**(72)**	(61)
Total claims and expenses	**(8,947)**	(9,805)
Profit before taxation	**276**	394
Tax charge	**(53)**	(75)
Profit after tax	**223**	319

Premiums

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

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

Investment return

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

Interest income increased from £923 million in 2019 to £1,027 million in 2020, reflecting the growth in the investment portfolio during the year.

The net movement in the fair value of assets, including realised and unrealised items, was a gain of £3,110 million compared with a gain of £2,126 million in 2019. This comprises realised gains of £634 million (2019: £290 million) and unrealised gains of £2,476 million (2019: £1,836 million). The unrealised gains recognised in 2020 are primarily due to lower risk free rates.

It is important to note that changes in the fair value of assets are largely offset by changes in the insurance liabilities, such that the difference in investment return between 2019 and 2020 does not then flow through to profit before tax.

Claims paid

Net claims paid comprises of gross claims paid, which are pension payments to our policyholders, less any payments received from reinsurers. Net claims paid increased from £1,388 million in 2019 to £1,683 million in 2020, reflecting the increase in the size of the insurance book during the year.

Change in net insurance liabilities

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

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

Operating expenses

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

Finance costs

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

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. 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 2020 (2019: 19%). During the year, the Group paid a total of £118 million (2019: £92 million) in respect of corporation, payroll related and value added taxes.

Statement of financial position review

Statement of financial position extract	2020 £m	2019 £m
Reinsurance assets	**2,773**	2,598
Financial investments	**49,648**	40,886
Derivative assets	**21,936**	14,626
Gross insurance liabilities	**(44,835)**	(37,663)
Derivative liabilities	**(24,340)**	(16,731)
Total equity	**4,143**	3,198

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

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

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

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

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

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

Total equity has increased by £945 million mainly due to the £750 million equity raise completed in the year and after-tax profits during the year.

CAPITAL AND SOLVENCY

As mentioned above the Group successfully completed a £750 million equity raise in the year, along with two additional Tier 2 subordinated debt issues totalling £700 million. This brings the total nominal value of Tier 2 subordinated notes to £1.6 billion and the nominal value of the total debt including Restricted Tier 1 (RT1) notes to £2.05 billion. Following the issue of the equity and debt during the year, the Group's leverage remained within external ratings and internal risk management limits.

PIC, as a regulated company, 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 approach.

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

	2020 unaudited £m	2019 £m
Own Funds	**6,710**	4,844
Solvency II capital requirements	**(4,261)**	(2,954)
Solvency II surplus	**2,449**	1,890
Solvency ratio (%)	**157%**	164%
Matching adjustment (%)	**1.062%**	1.156%

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 2020 the MA was 1.062% (2019: 1.156%). The decrease in the year is primarily driven by de-risking in the asset portfolio and spread narrowing.

Key solvency sensitivities

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

— New business is only transacted provided it meets the Group's financial return targets.

— New Business is only written if the Group has sufficient capital resources to ensure on-going financial security for its existing policyholders

The group uses hedging to partially mitigate risk to the business:

— 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:

	2020	2019
As at 31 December	**157%**	164%
100bps increase in interest rates[1]	**3.9%**	21.3%
100bps reduction in interest rates[1]	**(12.6)%**	(25.5)%
100bps increase in credit spreads[1]	**(1.0)%**	9.4%
100bps reduction in credit spreads[1]	**(14.8)%**	(22.7)%
20% credit downgrade[2]	**(11.1)%**	(7.7)%
5% reduction in base mortality[3]	**(6.7)%**	(7.4)%

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

Notes:

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

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

3 Equivalent to a 0.4-year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.

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 which 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.

	2020 £m	2019 £m
Adjusted net worth	**6,721**	4,856
Value of in-force business after tax	**1,812**	1,487
EV fair value of Tier 1 and Tier 2 debt instruments	**(2,505)**	(1,603)
EV before cost of capital	**6,028**	4,740
Frictional cost of capital	**(243)**	(208)
Cost of residual non-hedgeable risk	**(837)**	(668)
EV net of cost of capital	**4,948**	3,864

At 31 December 2020, the Group's EV increased to £4,948 million from £3,864 million at the end of 2019. The increase is primarily due to the issue of £750 million of equity capital in year, the impact of writing £5.6 billion of profitable new business in 2020, and modelling adjustments. The fair value of PIC's issued debt increased by £198 million in the year, over and above the nominal amount issued in the period. This £198 million increase in fair value is treated as a cost in the EV balance sheet. At 31 December 2020 the fair value of PIC's debt was £455 million higher than the nominal value of the issued debt. This represents a deduction to the closing EV.

RECONCILIATION OF IFRS, SOLVENCY II AND EV BALANCE SHEETS

Group IFRS reconciliation to Solvency II

31 December 2020 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 subordinated debt	Add accrued interest on Tier 2 subordinated 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	Unaudited Solvency II (£m)
Total assets less other liabilities	46,205	1,589	29	(11)				(225)	12	47,599
Insurance liabilities / Best estimate liabilities (BEL) net of reinsurance assets	(42,062)					3,295	(769)			(39,536)
Risk margin net of transitionals					(1,353)					(1,353)
IFRS net assets / Solvency II own funds	4,143	1,589	29	(11)	(1,353)	3,295	(769)	(225)	12	6,710

Solvency II to EV reconciliation

31 December 2020 (£m)	Unaudited Solvency II balance sheet	Allow for differences between Solvency II and EV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	EV (£m)
Total assets less other liabilities	47,599	11						
BEL net of reinsurance assets	(39,536)							
Risk margin net of transitionals	(1,353)							
Solvency II Own Funds/ Adjusted net worth	6,710	11						6,721
Present value of future profits (PVFP)					1,353	884	(425)	1,812
Cost of residual non-hedgeable risks (CRNHR)					(837)			(837)
Frictional cost of required capital (FCoC)				(243)				(243)
Subordinated debt			(2,505)					(2,505)
EV								4,948

ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ("ESG")

For more information regarding the Company's ESG policies and how we have implemented these during the year please refer to page 56 of the Pension Insurance Corporation Group annual report.

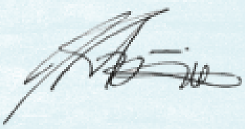
MITIGATING OUR KEY RISKS

The principal risks to the business and its strategy for managing those risks, are set out below. More details are also included in Note 15 to the financial statements.

	POLITICAL	MARKET RISK	DEFAULT RISK	COUNTERPARTY RISK
Risks and Uncertainty	Political and/or regulatory intervention.	Impact of market and/or economic volatility on PIC's capital position.	On credit/debt assets in the portfolio.	The possibility of failure by our reinsurance and swap counterparties, who are contracted to honour their obligations in a timely manner.
Trend and Outlook	Whilst defined benefit pensions remained on the political and regulatory agenda during 2020 with the pensions bill being passed, it remains the medium to longer term outcomes from Brexit which are likely to be more material to PIC. The UKs exit from the EU at the end of 2020 did not present a significant risk to the business. However, expected changes to the Insurance regulatory approach post Brexit could be more significant. Work on 'superfunds' regulation continues which is important in the context of PICs business model.	The trend of financial markets appears to be one of continuing uncertainty and volatility going into 2021. Uncertainty around the near-term UK economic growth outlook remains heightened – tightening of lockdown measures in the UK, uncertainty around vaccine production and distribution and geopolitical risks from UK-EU Brexit negotiations weigh down on UK's economic outlook and have the potential to create further market volatility. A similar picture exists at a global level where a range of risk drivers continue to sow uncertainty including further Covid-related restrictions, geopolitical risks from protectionist measures, social unrest, and advanced economies' governments' inability to deliver a significant fiscal stimulus to revive economic growth.	While PIC has historically experienced very low levels of default in the portfolio (see page 51 of the Pension Insurance Corporation Group Limited annual report for historical experience), this risk continues to be significant given the credit market uncertainty from Covid-induced economic deceleration globally and the increased volatility of financial markets.	PIC's reinsurance and swap counterparties have felt the adverse impact from Covid-19 shock, however the impact on credit quality of these counterparties has been manageable. While there exist risks to these counterparties from the future path of pandemic, strong liquidity and capital positions of these counterparties along with support from fiscal and monetary policy to the markets is likely to limit any adverse impact.
Mitigation	PIC maintains an open dialogue with regulators and policymakers closely monitoring discussions and scanning the horizon for potential political risks to the business. Where changes which pose a risk to the business are identified, such as the regulation of pension superfunds and the changes to the Insurance regulatory framework post Brexit, then resource is committed to focus on a more detailed dialogue with relevant stakeholders to influence change and closely monitor likely outcomes. This allows us to identify key issues early and to actively manage the risk on an ongoing basis.	During 2020, 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. In addition, PIC carries out close management of its balance sheet, and actively hedges its balance sheet against adverse movements in financial markets. PIC monitors areas of potential pricing bubbles that may see market corrections in order to limit exposures where appropriate. 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.	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 its counterparties to ensure issues can be identified earlier, allowing actions to be taken to reduce the risk.

LONGEVITY RISK	CYBER RISK	CONDUCT RISK	OPERATIONAL RISK
PIC's insured policyholders may live longer than was originally assumed when pricing new business.	The financial services sector continues to be a target for cybercrime. This includes 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, and that vulnerable customers do not receive as good an outcome as all other customers.	Risks and Uncertainty: The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
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 prevalence's including influenza and dementia, offset by changes in lifestyle and health monitoring as technology continues to provide new opportunities. During 2019, i.e. prior to the COVID-19 outbreak, low mortality had been observed in the England & Wales population, raising the possibility that the trend might be beginning to reverse. Mortality experience during April-May was higher than usual as a result of the pandemic, but then reverted to levels more in line with previous trends over the summer period. The outlook for Q4 is that we are likely to see mortality being higher than previous years, but this may not be as significant as the increase in Q2. Increased deaths caused by COVID-19 and seasonal flu's are expected for the UK in the short-to-medium term. This does not pose a risk to PIC. Whilst increase mortality has an operational impact this does not present a material issue to us, and the financial consequences are limited.	The drivers of this risk continue to evolve rapidly as technology is changing the way firms do business and society operates. Covid-19 and the swift move to remote working has increased the reliance on IT systems and controls and with it PIC's exposure to cyber risks. 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. This has included increased phishing attempts looking to take advantage of the reduced level of face-to-face interactions and ransomware attacks which are on the increase across the globe both in terms of number and value.	PIC successfully migrated to a remote working environment and has maintained high levels of customer service throughout the pandemic which should continue into 2021. We expect to see an increase in the number of vulnerable customers given the negative impact of COVID-19. Our policyholders are likely to be impacted by higher levels of sickness, loneliness and isolation. This area will continue to be a major focus for us and our regulators. Staff culture risks arising from prolonged remote working include loss of cross team collaboration, increased time to complete tasks and impacts on staff mental health and well-being, which could have an indirect impact on customer outcomes.	Trend and Outlook: Given the continued growth in PIC's balance sheet it is important to ensure that the process and control environment keeps pace. If the controls and process do not keep pace then PIC's exposure to operational risks will increase as the organisation grows in size and complexity. Additional risks also need to be managed given the changes in working environment resulting from the COVID-19 pandemic; in particular, an increased reliance on remote working placing heightened reliance on remote and automated systems and processes. This trend looks set to continue into 2021 and beyond. While the initial transition to a remote environment could have increasing operational risks through the introduction of new processes, reduced inter-personal contact and the potential for reduction in the effectiveness of manually operated controls, the enhancements put in place to address these risk is viewed to have strengthened PIC's overall control framework. Our ongoing risk and control work now has a permanent focus on reviewing all controls to assess their effectiveness in both an on-site and remote environment.
PIC regularly reviews its longevity experience to ensure its assumptions remain appropriate, and continually seeks to enhance its understanding of the evolution of annuitant mortality. PIC holds a significant amount of risk-based capital to protect the business against potential increases in longevity. This is calculated using our approved Internal Model. PIC aims to reinsure more than 60% of its longevity risk exposure. As at 31 December 2020, PIC had reinsured 84% of its total longevity exposure.	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.	A robust conduct risk framework has enabled PIC to monitor and mitigate the risk of poor outcomes throughout the pandemic. PIC's approach to vulnerable customers is well developed but will have a specific focus on the consequences of the pandemic, led by the Vulnerable Customer working group. Management continue to focus on staff well-being and mental health with a "Ways of Working" project underway to manage the risks associated with remote working in the future.	Mitigation: PIC maintains a robust control environment across its operations in order to reduce the likelihood and impact of operational risks. Operational risks are monitored and assessed through an ongoing process with the business in order to identify areas where the control environment needs further enhancement. Where areas of weaknesses are identified remediation work is completed.

The Strategic Report on pages 04 to 16 was approved by the Board and signed on its behalf by:



Jon Aisbitt
Chairman
14 Cornhill, London, EC3V 3ND
16 March 2021

SECTION 172 STATEMENT

PROMOTING THE LONG-TERM SUCCESS OF THE COMPANY

This section of the Strategic Report describes how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 (the "2006 Act") and also forms the Directors' statement required under section 414CZA of the 2006 Act. The Directors are required to act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard, amongst other matters, to the following:

(a) The likely consequences of a decision in the long term;

(b) The interests of the company's employees;

(c) The need to foster the company's business relationships with suppliers, customers and others;

(d) The impact of the company's operations on the community and the environment;

(e) The desirability of the company maintaining a reputation for high standards of business conduct; and

(f) The need to act fairly as between members of the company.

OUR STAKEHOLDERS AND OUR ENGAGEMENT

PIC has identified its key stakeholders as being its: Policyholders, pension fund trustees, privately-sourced debt counterparties, employees (any references to employees in this report mean Group employees), shareholders, debtholders, regulators and key suppliers.

Understanding and engaging with our stakeholders enables the Board to take proper account of stakeholder impacts and interests in decision-making, and will promote the longevity of the Company.

Further information on why and how we engage with our stakeholders and examples of principal decisions taken by the Board during the year can be found on pages 13 and 14 and within the Director's Report on page 21.

DECISION-MAKING PROCESS

The factors set out in S.172 of the 2006 Act are not only considered at Board level, they are embedded throughout the culture at PIC. Taking into consideration the Company's stakeholders is a fundamental aspect of the Board's decision-making and the Board recognises that considering the impact of decisions on each stakeholder group will help the directors to deliver the Company's strategy in line with the wider PIC Group, and will promote the success of the Company.

In making its decisions, the Board discusses relevant information and makes enquiries of relevant executive management and control functions, including in relation to the factors set out in s.172 of the 2006 Act. Our Board interacts with stakeholders through direct engagement and an open dialogue, as well as through information provided by senior management.

The Board focuses on the Company's purpose, of paying the pensions of our current and future policyholders, as it considers generating long-term value. With the increasing focus on the relationship between stakeholder interests and governance, we take increased care to ensure such considerations are documented, and that the Board receives adequate and appropriate training on its responsibilities. See page 18 on Directors' training and induction.

PRINCIPAL DECISION 1: CAPITA

The Board took the decision to migrate PIC's administration services to Capita in 2018 to ensure that PIC's policyholders continued to receive first-class service as the business expanded. As part of that process, detailed due diligence was carried out on Capita, including a briefing by Capita's CEO to PIC's Board.

In 2020, the Board decided to extend the contract with Capita. The Board continued its close oversight of the services provided by Capita by receiving regular updates from PIC's Chief Operating Officer (the COO), the executive responsible for managing the relationship. The COO's updates included direct, high-level feedback from Capita, which was recognised by the Board as an important part of their efforts to hear PIC stakeholders' voices.

Suppliers and other stakeholders

PIC works in close partnership with Capita (more detail can be found in the Group Annual Report and Accounts). The Capita team servicing PIC's policyholders is treated as an extension of PIC. Executives at Capita and PIC discuss initiatives based on feedback from the front-line staff, and how Capita's scale can bolster PIC's policyholder services. The Board and executives at PIC believe that close collaboration with suppliers and stakeholders helps to maintain and improve PIC's customer service.

Consequence of any decision in the long term

The Board acknowledged Capita's efforts and overall investment in delivering high standard of service to PIC's policyholders. The Board understands that PIC's relationship with Capita is critical to ensure continued excellence of service for our policyholders, and agreed that a renewed relationship with Capita would be in the best interests of our policyholders for the long term.

Policyholders

Our policyholders see good customer service as an important aspect of our business. Services provided by Capita and our relationship with them enable our policyholders to receive the highest level of customer service.

Outcomes and actions

The Board reached the decision that it was in the Company's best interests to extend the contract with Capita, as it would ensure consistent delivery of high standard of administration services to PIC's policyholders who are at the heart of PIC's business.

PRINCIPAL DECISION 2: APPOINTMENT OF WELLINGTON MANAGEMENT

The Board considered and approved the appointment of Wellington Management ("Wellington") to manage PIC's US Municipal Bond portfolio. PIC has approximately £700 million invested in taxable US Municipal Bonds, out of the total portfolio of £49.7 billion.

Maintaining a reputation for high standards of business conduct

In early 2020, the public credit team initiated a search process to recruit a best-in-class municipal bond manager to manage assets within this sector on a standalone basis. The public credit team ran an extensive process including request for proposal and two rounds of interviews, and made recommendations to PIC's Investment and Executive Committees, who in turn reported to the Board recommending the appointment of Wellington.

In considering this appointment the Board satisfied itself that a thorough due diligence process had been followed and completed in line with the requirements for a 'critical supplier' as set out in PIC's Procurement and Outsourcing Policy. The Board discussed PIC's key requirements to ensure that Wellington has the ability to provide bespoke solutions and understands PIC's needs, has deep investment team resources with a strong performance record, and that they can provide good access to the market. The Board also ensured that Wellington is aligned with PIC's own culture and values whilst providing value for money.

Environment and community

The Board was mindful of the impact this appointment has on PIC's investments. Municipal Bonds provide a valuable complement to PIC's corporate credit holdings and it is expected that the allocation to this sector will continue to grow over time. The size and potential growth in this mandate drove the decision to appoint a specialist to manage this sector on a standalone basis. The Board considered Wellington's strong track record in integration of Environmental, Social and Governance ("ESG") considerations and good risk management throughout all their decision making process. It satisfied itself that PIC's policyholders will benefit from Wellington's differentiated work on climate risk, where they use climate research to mitigate the impact of physical climate risk on long-dated assets held in the portfolio.

Outcomes and actions

Having gone through a thorough review process, the Board decided to approve the appointment of Wellington and concluded that given their strong track record and focus on ESG, they will be able to provide services to PIC which are in the best interests of PIC's current and future policyholders, and to the Company.

PRINCIPAL DECISION 3: INVESTMENT IN WELSH HOUSING ASSOCIATION

The Board carefully considered PIC's investment strategy and its impact on local communities. As a result of that strategy, PIC made an investment of £65 million in debt issued by POBL, a housing association based in Newport, Wales, to support POBL's affordable housing development programme. This is the second POBL funding agreement considered by the Board and follows a £35 million investment made in 2017.

Promote the long-term success of the Company

The purpose of PIC is to pay the pensions of our current and future policyholders and this dictates the decisions the Board takes on risk management to secure the pensions of our policyholders. The Board placed high emphasis on the need for secure cash-flows to match liabilities in years where it is difficult to source cashflows in the public bonds markets. The Board therefore considered the maturity profile, as well as the overall security, of the funding agreement in relation to PIC's pension liabilities.

Environment and community

It is important to PIC that our investments, where possible, have a social benefit, because this means they are more like to be sustainable and secure over the long-term. POBL's affordable housing development programme will create 10,000 new homes which will be up to 40% more energy efficient than the Welsh average. One of the key considerations in PIC's investment strategy for the Board was whether the funding agreement was in accordance with PIC's Environment, Social and Governance ("ESG") investing strategy.

Suppliers, customers and other stakeholders (including regulators)

POBL's affordable housing development programme will foster positive relationships between suppliers, customers and other stakeholders and will benefit the 2,000 people currently employed by POBL.

Outcomes and actions

It was in the Company's best interests to make the further £65 million investment in POBL Welsh Housing Association and the funding will be split into two tranches. This was announced in November 2020 and further information on our other social housing investments can be found in the Group Annual Report and Accounts.

PRINCIPAL DECISION 4: INVESTMENT IN RENEWABLE ENERGY

The Board has continued to increase its focus on integrating Environmental, Social and Governance ("ESG") investment factors into PIC's investment process. It reviewed PIC's activities in relation to sustainable opportunities. As part of that approach, at the beginning of the year PIC made a debt investment of £190 million into 21 solar parks, and during the year made a further debt investment of £277 million into eight solar parks.

Promote the long-term success of the Company and the interests of PIC's policyholders

The Board placed high importance on the key steps in securing pensions for policyholders and generating long-term shareholder returns through re-investing assets. The Board acknowledged that investing in renewable energy, such as the solar bonds, did promote the long-term success of the Company. The cashflows over the full term are well matched to PIC's long-term liabilities, providing cashflows in years where it is difficult to source public bonds. The funds will also be used to refinance existing debt.

Environment and community

The 29 solar parks will have the capacity to provide enough energy to supply thousands of homes and come with a ten-year track record of operational experience.

Outcomes and actions

The decision to invest £467m in solar bonds was in the Company's best interest as the investment was in accordance with PIC's investment strategy and benefitted PIC's policyholders.

ENGAGING WITH OUR STAKEHOLDERS

OUR STAKEHOLDERS

A key part of fulfilling PIC's purpose is balancing the needs and requirements of all of the Company's stakeholders. We explain what this means in practice.

	Why we engage	How we engage	2020 update
PRIVATELY SOURCED DEBT COUNTERPARTIES	— We work with counterparties, such as social housing providers and the developers of renewable energy projects, because we can source cash flows which are tailored to match our liabilities in years where income is difficult to source in the public bond markets — The investments provide us with a competitive edge when pricing for new business, as well as increasing the overall security of the portfolio — These investments are socially beneficial, creating jobs, helping the transition to a greener economy, and balancing intergenerational equity	— Our in-house, dedicated debt origination team enables PIC to be responsive and deliver solutions in a timely manner, working collaboratively with borrowers whilst ensuring suitability to support our liabilities — Once a transaction is agreed, our in-house research team continues to work closely with our borrowers through ongoing monitoring and reporting — We engage proactively with stakeholders ensuring focused execution — In many cases we can offer increased flexibility around the terms of any deal. This can include the ability to defer the drawdown of funds to suit the lender	— We completed 27 transactions with a variety of high-quality partners. PIC now manages 150 ongoing private placements — PIC became a founder member of the Good Economy's "Building a Sector Standard Approach for ESG Reporting" for social housing — Two existing counterparties extended the scope of their debt agreement, resulting in the planned development of hundreds of new homes for social rent — PIC announced its first Build to Rent project, involving a £130 million regeneration of part of Manchester city centre, creating 650 jobs
POLICYHOLDERS	— PIC's purpose is to pay the pensions of our current and future policyholders — Our policyholders are our customers for life, although it is the trustee of their defined benefit pension scheme which signs the contract entrusting their benefits to us — We engage with our policyholders because: • we want to be open, transparent, and build trust in the company which pays their guaranteed pensions • we want to provide good customer outcomes through market-leading customer service	— We interact with our policyholders in writing, by telephone, online and via email, and face-to-face at our policyholder events — All relevant communications are Crystal Marked by the Plain English Campaign, to ensure ease of understanding for our policyholders — Uniquely, our policyholders are invited to complimentary events where they can meet and question management in a relaxed and enjoyable setting	— The Institute of Customer Service polled our customers as part of its scheduled review of PIC's ServiceMark with Distinction award. The findings show that PIC far outclasses other UK insurance companies, and UK companies in general, in the opinion of our policyholders, especially for overall experience, emotional connection, ethics and customer ethos — PIC held online Policyholder Hours in place of the Covid-19 disrupted in-person events we have held for almost ten years
DEFINED BENEFIT PENSION SCHEME TRUSTEES	— Defined Benefit trustees are the stakeholder group that entrust PIC with responsibility for paying the pensions of their members for life — Transactions with trustees and how the business grows, with increasing numbers of policyholders and clients	— Each pension risk transfer transaction is managed by a dedicated team at PIC — We pride ourselves on our flexibility and innovation in structuring transactions that meet their needs — Once the transaction is signed, close work and proactive communication with the trustees is vital, as we transition the members from the scheme to be our policyholders — Trustees of schemes with buy-in policies receive regular updates on the Company	— PIC won three industry awards based on the transactions we have structured and completed

	Why we engage	How we engage	2020 update
SHAREHOLDERS AND DEBT HOLDERS	— Our equity and debt investors provide the capital to enable us to continue to write new business and grow on a focused, secure and sustainable basis	— We provide clear, transparent and timely communications that help investors understand our purpose, strategy, and business model — Business updates are communicated regularly to providers of capital, including via the Regulatory News Service ("RNS") and on our website — We meet and speak regularly with debt holders and have an annual debt holder conference call	— PIC raised £1.45 billion of new capital in 2020: £750 million of new equity, with £700 million of new debt issued — The coupon on the £400 million of debt we raised in October 2020 is, at 3.625%, the lowest we have achieved to date, demonstrating faith in PIC's management and overall business
EMPLOYEES	— PIC recognises that our people are critical to the success of the Company in fulfilling its purpose. We therefore seek to recruit, retain and motivate the very best people through active employee engagement	— PIC conducts an annual employee survey, managed by a specialist third party organisation, as well as surveying employees as part of the Institute of Customer Service ("ICS") ServiceMark with Distinction process — Our Diversity and Inclusion Forum supports management's efforts to make PIC a place where our employees are proud to work, alongside PIC's commitments to LGBT Great, #1000blackinterns, and continuing our sponsorship of the Actuarial Mentoring Programme, with the Institute and Faculty of Actuaries, for the third year	— In this challenging year, PIC has placed considerable emphasis on the mental and physical wellbeing of employees, as well as focusing management communications on our unifying purpose, reinforced by a strong culture and values — We have grown significantly – adding 82 new employees in the year — 95% of employees have confidence in PIC's leadership; 95% believe the Company has respect and recognition for employees — Our volunteering included providing 'talking support' that builds a trusting relationship with isolated and vulnerable elderly people, in association with Independent Age
REGULATORS AND POLICYMAKERS	— Demonstrating our understanding and management of our risks to the regulators is key to fulfilling PIC's purpose and strategy — Strong relationships with policymakers helps them understand the importance of a purposeful finance sector and allows effective representations to be made on areas with socially beneficial outcomes, such as reform of Solvency II — Engaging with regulators and policymakers helps to reinforce PIC's positive reputation and generate goodwill with an influential group of stakeholders	— PIC maintains an open, ongoing dialogue with regulators and policymakers — PIC is active in public debates affecting the sector, including on ESG and investment in social infrastructure, reform of Solvency II, and pension superfunds	— Engaged on key public policy issues, including pension superfunds, and the Government's consultation on Solvency II
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	— We invest time and effort to 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	— As part of the move to virtual working, PIC and Capita collaborated closely to ensure effective home working for all of PIC's customer care operatives. This included the provision of necessary physical equipment and software — As part of a deep-rooted investment in systems and processes, PIC implemented a new purchase order system, enabling speedy payment of supplier invoices

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2020

BOARD OF DIRECTORS
The Directors who served during the period and up to the date of approval of these financial statements were:

Director	Position	Executive/Non-Executive	Notes
Jon Aisbitt	Chairman	Non-Executive	
Roger Marshall		Senior Independent Director	
Tracy Blackwell	Chief Executive	Executive	
Sally Bridgeland		Non-Executive	Appointed 28 January 2021
Judith Eden		Non-Executive	
Stuart King		Non-Executive	
Arno Kitts		Non-Executive	
Eloy Michotte		Non-Executive	Retired 31 December 2020
Jérôme Mourgue D'Algue		Non-Executive	
Peter Rutland		Non-Executive	
Steve Sarjant		Non-Executive	
Rob Sewell		Executive	
Mark Stephen		Non-Executive	
Wilhelm Van Zyl		Non-Executive	

CORPORATE GOVERNANCE STATEMENT
References made to Pension Insurance Corporation plc ("PIC" or the "Company") mean PIC and its subsidiaries. References made to PICG Group mean Pension Insurance Corporation Group Limited and its subsidiaries (the "PICG Group").

PIC has listed securities in issue and complies with the applicable sections DTR7.1 and DTR7.2 of the FCA handbook. The Company does not have a Premium Listing and therefore is not required to adopt the UK Corporate Governance Code (the "Code"). However, the Board is committed to the high standards of corporate governance and supports the principles laid down in the Code, as issued by the Financial Reporting Council. The Board considers that the Company was compliant with all of the principles of the Code during the financial year ended 31 December 2020. Detailed disclosures on how the PICG Group complied with the Code is included in the Pension Insurance Corporation Group Limited 2020 Annual Report and Accounts ("the PICG Annual Report and Accounts"). The Code can be accessed on the Financial Reporting Council's website at www.frc.org.uk. Additional information on the Company's governing body and its Committees is included in the governance framework section of this report.

LEADERSHIP
The Company is 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 PIC Board and the Board of PIC's ultimate parent, Pension Insurance Corporation Group Limited ("PICG") as shown in the table on page 23. The simple corporate structure of the PICG 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. Any mention to the Board in this report refers to the PIC Board, unless stated otherwise. The Directors have the benefit of the Company's Directors' and Officers' indemnity and insurance policy. The current Board members and the date of their appointment is set out above. Details of their experience can be found in the PICG Annual Report and Accounts.

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 Code as the basis of how the Company should be governed and therefore, the Company applies the principles of the Code.

The Board's primary role is to provide effective leadership, to ensure that the Company is appropriately managed and delivers long-term shareholder value, thereby making a contribution to wider society. A key responsibility of the Board is to define, promote and monitor the Company's culture and values, setting the "tone from the top". It also ensures effective engagement with, and participation from, shareholders and other stakeholders. When making decisions, the Board has regard to the interests of a range of stakeholders, including employees (any reference to employees in this report means PICG Group employees), customers, shareholders and policyholders, as well as its broader duties under s.172 of the Companies Act 2006. The Company's formal s.172 statement can be found on page 12 of this Annual Report which also set out how the Board has taken into account the views of our stakeholders, the impact of its decisions on them, and any actions which have arisen as a consequence. The independence of the Non-Executive Directors ("NEDs") is reviewed annually in accordance with the criteria set out within provisions 10 and 19 of the Code. The Board comprises of a majority Independent Non-Executive Directors including the Chairman. More detail on the Board responsibilities, composition and effectiveness can be found in the PICG Annual Report and Accounts.

TIME COMMITMENT
As part of the appointment process and their annual review the NEDs each confirm that they are able to allocate sufficient time to the Company to discharge their responsibilities. The external commitments of the Chairman and the other Directors are indicated in the PICG Annual Report and Accounts and on the Company's website www.pensioncorporation.com. Each Director is required to advise the Chairman as early as possible and to seek the agreement of the Board before accepting additional commitments that might affect the time that Director is able to devote to his or her role as a NED of the Company. The Board is satisfied that the Chairman and each NED are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

INDUCTION AND ONGOING TRAINING AND DEVELOPMENT

The Board has developed an induction programme which all new Directors participate in upon joining the Board. This programme is monitored by the Chairman and is the responsibility of the Company Secretary. Depending upon their qualifications and experience, the programme will include presentations and briefings, meetings with Board members, senior management and external advisers. The ongoing professional development of the Directors has been reviewed by the Board and its Committees. The Chairman reviews and agrees training and development needs with each of the Directors annually. Directors have the opportunity to highlight specific areas where they feel their skills or knowledge would benefit from development as part of the Board evaluation process, and are encouraged to continue their own professional development through attendance at seminars and conferences. Directors confirm annually that they have received sufficient training to fulfil their duties. The Company has provided one induction in 2020, to Sally Bridgeland. The inductions involve meetings with each function within the PICG 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. Usually, there is a training session scheduled for each Board meeting and after each Investment and Origination Committee and Risk Committee meetings. During 2020, due to the Covid-19 pandemic the in-person training sessions were replaced by shorter video sessions. In addition to the mandatory compliance, conduct risk and anti-money laundering training, the Directors have been provided with thematic training sessions on ESG considerations in Investments, entertainment royalties, climate change risk, customer journeys, IFRS17, counterparty risk capital, reinsurance contracts, pricing process and vulnerable customers and their relevance to PIC.

PERFORMANCE EVALUATION

The Board conducts an evaluation of its effectiveness, including evaluation of the effectiveness of its Committees, each year in order to identify areas for development. Every three years the evaluation is facilitated by an external consulting firm; therefore in 2020 such external evaluation was conducted by Clare Chalmers Limited. The process entailed a series of interviews with Board Directors and management who regularly attend Board and Committee meetings. The results found members and attendees contribute well to the meetings and the overall conclusion was that that PIC benefits from a committed and diligent Board and Committees. More details on the evaluation can be found in the corporate governance report in the PICG Annual Report and Accounts.

SECTION 172 STATEMENT ON THE COMPANY'S BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS

Information on how the Directors have had regard to the need to foster effective business relationships with suppliers, customers and others including detail on how they have discharge their duty under s.172(1) of the Companies Act 2006 is included in the Strategic Report on pages 12 to 16 and in this report on pages 18 and 21.

Any payments to suppliers are made through the service company Pension Services Corporation Limited ("PSC") and the required disclosures on policy and practice on payment of creditors are included in the PSC annual report and accounts.

STAKEHOLDERS AND THE BOARD

PIC aims to provide secure and stable retirement incomes through leading customer service, comprehensive risk management and excellence in asset and liability management. The Board recognises that the needs and relevance of different groups of stakeholders can vary over time, and as such the Board seeks to understand the needs and priorities of each stakeholder as part of its decision making. This can only be achieved through engagement with, and consideration of, all stakeholders including our suppliers, employees, policyholders, shareholders and debt holders, trustees, investment counterparties and regulators. The consideration of stakeholder needs is not new to PIC; however this year we are taking the opportunity to explain in further detail how we, and our Board, engage with our stakeholders, and how stakeholder needs are at the core of our decision making. This is integral to the way the Board operates and pages 15 and 16 of the Strategic Report set out who our stakeholders are and how we have engaged with them as a business. Further detail on how the Board engaged with our stakeholders during the year to fulfil its duties under s.172 is included on page 21.

SUPPORTING THE BOARD'S COMMITMENT TO STAKEHOLDERS

At all times PIC takes the views of its stakeholders seriously, especially when taking business decisions. In particular, the Company's Board process has been reviewed and enhanced so that Board papers include a section outlining how the interests of stakeholders are affected by a particular decision and this helps the Directors take the s.172 factors into consideration in their decision making. This brings stakeholder interests to the forefront not only for our Directors, but also for senior management when bringing proposals to the Board. An illustration of where the interests of our stakeholders have had an impact on some of the Board's key decisions is given in examples on pages 13 and 14 in the s.172 statement of this Annual Report.

New directors joining the Board are also provided with an induction programme that includes training on Directors' duties and, with regard to s.172, the factors that must be taken into consideration. Directors receive periodic refresher training on directors' duties throughout their tenure. The induction programme and continuing Board education sessions provide the Directors with an understanding of the Company's business, risks, financial performance and regulatory landscape and help to provide them with a solid foundation for making decisions with stakeholders in mind.

The Company has a schedule of matters reserved for the Board which makes sure that certain material and/or strategic decisions can only be made by the Board and may not be delegated to executive committees or senior management. More detail on the matters reserved for the Board can be found in the PICG Annual Report and Accounts in the section 'The Board and its responsibilities'. Combined with a robust agenda-setting process, this schedule helps the Company to make sure that decisions are made at the right level and that stakeholder impacts are particularly considered in the most significant decisions. The Board is also supported in its work by four Board Committees, whose responsibilities are delegated by the Board and are described on page 23.

EMBEDDING STAKEHOLDER INTERESTS WITHIN OUR CULTURE

Through informed discussion at Board level, our executive team carries forward stakeholder consideration into and throughout the business. PIC operates a culture of openness and transparency, with management at all levels working amongst their operational teams, ensuring that the tone from the top is well embedded in the day-to-day operations of the Company and therefore stakeholder interests are evidenced in PIC's culture.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEM

The Board has overall responsibility for the system of risk management and internal controls, and for reviewing its effectiveness. The Company has a risk management and internal controls system in place which is designed to manage and reduce rather than eliminate the risk of failing to achieve business objectives. It can only provide the Board with reasonable, and not absolute, assurance against material misstatement or loss.

The Board has delegated responsibility to the Audit Committee and the Risk Committee for monitoring this system and reporting on its effectiveness to the Board. Each year, the Board approves an Integrated Assurance Plan which is intended to provide the Board with assurance that the internal controls and risk management system works effectively. The plan, which is effected by the Internal Audit, Compliance, Risk and Actuarial functions within the Company, is overseen by the Risk and Audit Committees as part of their delegated authority from the Board. The overlap in membership of those two Committees ensures that all areas of the system are adequately covered.

KEY FEATURES OF THE COMPANY'S INTERNAL CONTROL FRAMEWORK

Financial reporting	Responsibility
Delegated authority	An established management structure operates across PIC with clearly defined levels of responsibility and delegated authorities.
Financial reporting	The Company has a robust system for reporting of the financial results to the Board. During the year, monthly and quarterly financial results are produced which include comparison to forecast and prior year. The Board, Audit Committee, Risk Committee and the executive management group review the Company's performance throughout the year and monitor the operation of budgets and long-term business plans. The reports ensure that variances are investigated and acted upon.
Internal controls, processes and procedures	The Company has in place formal written procedures and controls which are designed to facilitate effective and efficient business operation, robust financial reporting and compliance with laws and regulations. Procedures, processes and controls are updated regularly to ensure that they are effective and in compliance with best practice. As part of the requirements of DTR 7.1.3 of the FCA Handbook, the Board, in line with the delegated authority to the Audit Committee, specifically monitors the financial reporting process and the statutory audit of the annual financial statements through reporting provided by management and reporting received from the Audit Committee. The Audit Committee meets regularly with members of the executive management group and the internal and external auditors to review the annual financial information and internal control matters, and to satisfy themselves that the internal control systems are operating effectively. The Audit Committee also reviews any follow-up actions to correct identified weaknesses. All Board members receive minutes of the Audit Committee meetings.
Internal audit assurance	The Audit Committee oversees the PICG Group's and the Company's Internal Audit function, which is managed by the Head of Internal Audit using a co-sourced model and has a direct reporting line to the Audit Committee. The Audit Committee approves an annual internal audit plan which is designed to review key areas of risk. Regular updates on progress of the internal audit plan are provided to the Audit Committee by the Head of Internal Audit, who is a standing attendee at the Audit Committee's meetings. Progress reports include results of individual audits. The Head of Internal Audit provides an annual report and opinion on internal controls, governance and culture.
External audit assurance	The work of the external auditors provides further independent assurance on the internal control environment, as described in their reporting to the Audit Committee. Furthermore, the Audit Committee reviews and monitors the independence of the statutory auditor and considers the relationship with PIC as part of its assessment, including provision of non-audit services.
Risk management framework	The Board has established a risk management and compliance system which includes a process for identifying, evaluating and managing the risks faced by the Company. The Risk Committee works closely with the Audit Committee and provides oversight and advice to the Board with regard to the Company's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance and its risk policies and procedures and risk controls. All Board members receive minutes of the Risk Committee meetings. Procedures are in place to ensure that the employment, retention, training and development of suitably qualified staff to manage activities.

The Board has reviewed the effectiveness of the system of internal controls, including risk management, for the year ended 31 December 2020 and up to the date of signing of these financial statements and the annual report. It has not identified any weaknesses sufficient to cause material misstatement or loss which requires disclosure in the financial statements.

BOARD ACTIVITIES IN 2020

The impact of the Covid-19 pandemic has been significant for companies across all industries including PIC. The Board has led the business's response to the pandemic and in addition to the regular matters that the Board discusses at each meeting, there were several key topics the Board considered during regular and ad hoc Board meetings which focused on issues arising from the pandemic. The Board in its considerations took into account its obligations arising from s.172 as outlined on page 12. The key deliberations are listed below:

Board activities	
Employees and remuneration	— Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of PICG Group staff, working arrangements during the pandemic and adjustments made to PIC's offices and working in the post-pandemic world. — Considered the launch of the PICG Group's share schemes for the year as an important way for the PICG Group 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 as well as the future ways of working in the post pandemic reality. — Received report on the gender pay gap and progress made during the year. — Approved annual remuneration parameters, NED and Executive remuneration taking into account all stakeholders' interest and business priorities.
Risk management and Internal Model	— Carried out increased oversight and monitoring of the PIC's liquidity and solvency positions ensuring that it was robust and resilient to exceptional market conditions during the pandemic. — Closely oversaw PIC's portfolio and received regular updates on any de-risking carried out by the Investments team and assessment of risk arising from the US election. — Closely oversaw PIC's external operations with particular focus on administration services outsourced to Capita to ensure minimal impact on PIC's policyholders. — Approved risk appetite with particular focus on capital risk, debt, hedging and pricing. — Approved the Company's Own Risk and Solvency Assessment. — Regular reports were made to the Board on the progress of regulatory and Covid-19 stress and scenario testing to ensure the business remained resilient and robust in challenging times and there was no adverse impact on policyholders, workforce and other stakeholders. — Reviewed Reinsurance strategy in light of the pandemic development. — Continued its focus on conduct risk and received training on vulnerable customers and their relevance to PIC. — Continued its focus on PIC's regulatory engagement. — The updated recovery and resolution plan was approved by the Board.
Financial reporting and controls	— Approved the full year Annual Report and accounts. — 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 reviewed the Whistleblowing report. — 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.
Strategy	— Approved the five-year business plan following the Board discussing various scenarios at its strategy day focusing on PIC's purpose, growth and long-term success. — Approved the capital raise at the start of 2020 and two Tier II debt issuances during the year ensuring the business can deliver on its objectives and serve its purpose. — New business transactions above a defined threshold require Board approval and the Board considered and approved some new business transactions during 2020. — Discussed culture in the context of how it affects the Company's strategy. — Considered the Company's pricing assumptions against investment outcomes. — Approved equity release mortgages Major Model Change application to the PRA. — Provided oversight of the company wide, comprehensive program of change that has been instituted as part of the strategy to provide a robust platform for future growth for the business, and which focuses on key processes, people, MI and technology.
Corporate governance	— Discussed the composition of the Board and Committees which resulted in the decision to appoint an additional independent Non-Executive Director and changes to Committees' membership recognising that a strong Board is key to its long-term success. — Considered the results of an external Board effectiveness review in 2020 as disclosed in this report. — Approved changes to the delegation of authority to suit the circumstances arising from the pandemic to ensure that during this challenging time PIC maintained a high standard of business conduct.

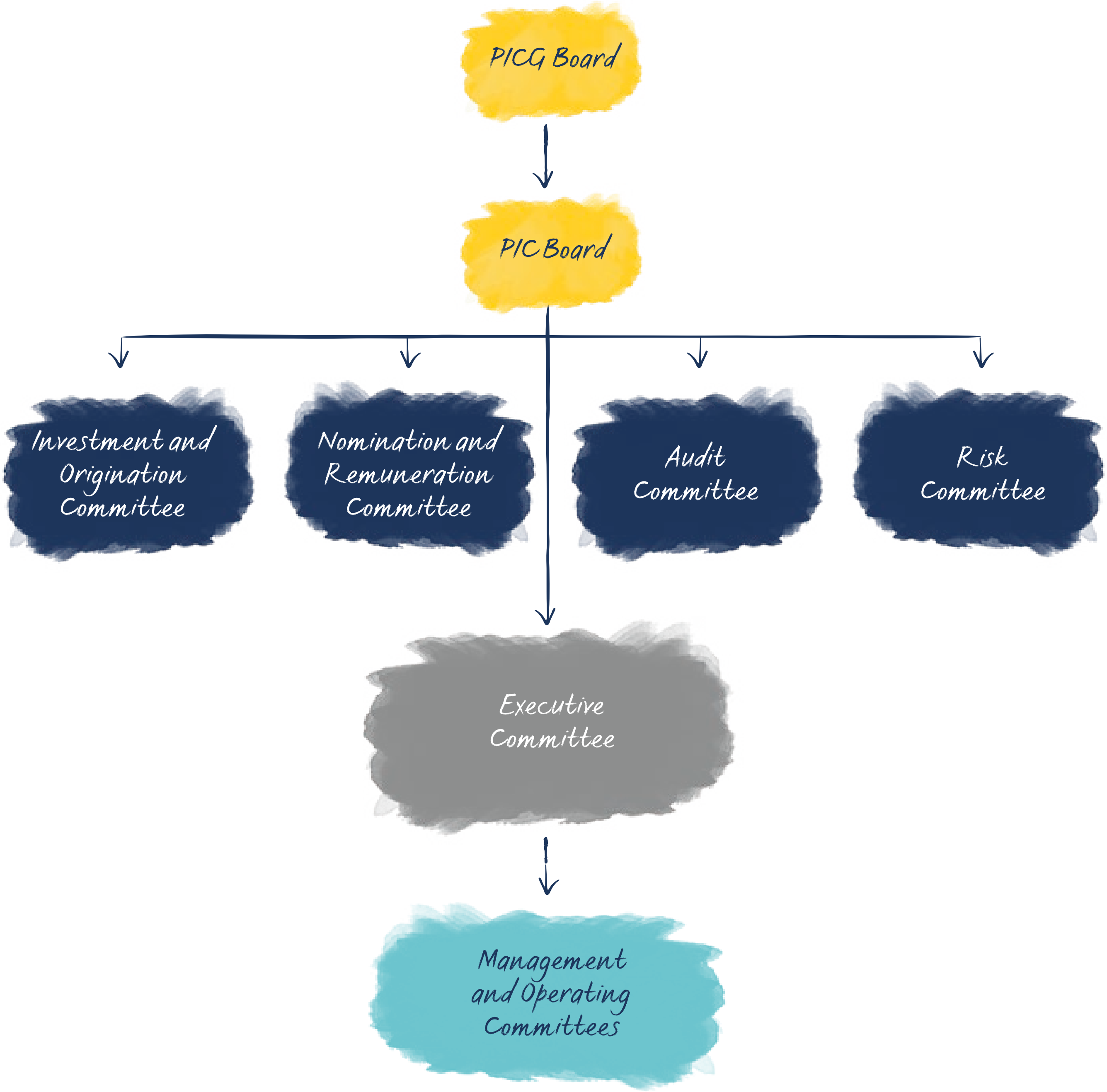
VALUING OUR STAKEHOLDERS

As a business we know that we can only be successful and sustainable in the long term if we take into account our stakeholders, their views and needs. The Board places an utmost importance on our stakeholders and takes an active role in engaging with them. The pandemic presented some challenges to the usual interactions but did not prevent the Board in its effort to engage with PIC stakeholders during the year as much as possible. The main activities of the Board with regard to stakeholder engagement are shown below.

Suppliers	— The Board recognises its suppliers which are identified and managed in accordance with the PIC's Third Party Management Policy which forms part of a PIC-wide policy framework approved by the Board. A risk assessment is carried out on each supplier and the service provided to identify and prioritise critical relationships along with the applicable due diligence, whilst setting the frequency of ongoing reviews. This process is integral to any Board decision in respect of critical suppliers and outsourcers. — The Board and its Committees regularly discuss commercial performance of PIC's suppliers, investment managers and key outsourcers, including an update on relationships. It is key for the Board that PIC fosters these relationships so that they are mutually beneficial, sustainable, and therefore in the best interest of PIC's policyholders. — In 2020 the Board continued its close oversight of migration of PIC's administration services to Capita ensuring that the process took into account the needs of PIC's policyholders and requirements both of PIC and Capita. More on this can be found on page 13.
Shareholders & Debt holders	— The Annual Report; half-yearly results and RNS updates are available throughout the year and these provide information on the Company's activities and financial information. The Board and its Committees are part of the process ensuring this information is accurate, fair, balanced and accessible to our stakeholders. — Major shareholders' views are voiced to the Board and management through their nominated Directors on the Board. Further, the Board has ongoing interactions with employees who are the largest group by number of shareholders.
Regulators and policymakers	— PIC is subject to regulation and supervision by regulatory authorities in the UK, most notably the Financial Conduct Authority and the PRA. The Board and its Committees are kept updated on PIC's interactions with the regulators and receives Periodic Summary Meeting Letters. Throughout the year Directors met with the PRA, and management provided updates on major developments at PIC. PIC seeks to engage with regulators proactively to facilitate dialogue on a regulatory landscape, either by taking part in formal consultation process or through meetings. Where appropriate, consulting in advance with the regulator is part of the Board's decision-making process.
Policyholders	— Directors usually meet with policyholders during the Company's Policyholder Days. The Covid-19 pandemic prevented us from holding these events in person, but we held an online Policyholder Hour event and a recording of the Chairman's message to policyholders was presented. — The Board received training on vulnerable customers and their relevance to PIC during which they heard anonymised stories of vulnerable policyholders, their experiences and how PIC acted to ensure best outcomes for PIC's policyholders. Having in-depth understanding of issues faced by vulnerable customers helps the Board in its consideration of any decisions which may impact PIC's policyholders. — Non-Executive Directors took part in a series of workshops which explored PIC's customer journeys. These provided the Board with a detailed insight into customer touchpoints, experiences, challenges and outcomes.
Employees	— The Board has regular interactions with PIC's workforce including mentorship provided by NEDs to the executive team, attendance by a relatively large pool of employees at Board and Committee meetings and engagement outside of meetings on a variety of initiatives. — The Board received updates on the results of the employee survey and took these into account in its decisions affecting employees, e.g. in respect of remuneration, approval of the budget and the business plan. — During challenging times at the peak of the pandemic the Board was regularly updated on the wellbeing of staff and supported management in devising the best way forward during the pandemic and in the post-pandemic reality.
Defined benefit pension scheme Trustees	— The relationship the Company has with trustees, and their expectations, is discussed alongside each deal considered by the Board. Feedback received from the trustees and consultants is factored into the Board's strategic discussions around new business and underpins the Board's approval of the business plan.
Direct investment counterparties	— PIC works with its counterparties, such as social housing providers and the development of renewable energy projects, and provides financing to counterparties which enables development of new homes for social rent. The Board is part of the approval of any new strategies and the ongoing oversight of direct investments to ensure they provide good outcome for communities, for PIC and its policyholders.

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 remains as such in the context of the Company's growth prospects.



DELEGATION

The Board has delegated certain aspects of its responsibilities to its four Board Committees to assist in providing effective oversight and leadership:

— the Audit Committee;

— the Risk Committee;

— the Nomination and Remuneration Committee; and

— the Investment and Origination Committee.

The terms of reference for each of its Committees were approved by the Board and are reviewed annually.

The Committee reports are set out on pages 24 to 29. More detail on the Committees can be found in the PICG Annual Report and Acccounts.

The Investment and Origination Committee considers matters specific to PIC. The three remaining Committees consider matters concerning both 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 Committee Chairs.

In addition to the Board Committees, there are also a number of management and operating committees that assist executive management with business management and oversight of PIC and PICG in relation to; the day-to-day management of the business; investment matters, risk management frameworks and input into the development of the risk strategy; projects and major change initiatives to maximise PIC's project investment return, all new business deals and interaction with policyholders including Treating Customers Fairly outcomes and overall conduct.

BOARD AND COMMITTEE MEETINGS

The Board meets formally on a regular basis and attends to various matters by way of written resolutions. In light of the Covid-19 pandemic, the Board increased its communication and interaction with management and held several additional ad hoc Board meetings and received weekly updates from management. 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 meet together to allow all-encompassing discussions of key matters such as the PICG 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 receives updates from the CEO and CFO, as well as from other members of the Executive Committee. These reports cover how the PICG Group and the Company are 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 Chairs 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 20.

Director	PICG Board	PIC Board	Nomination and Remuneration Committees	Investment and Origination Committee	Audit Committee	Risk Committee
Jon Aisbitt	6/6	7/7	5/5	4/4	–	–
Tracy Blackwell	6/6	7/7	–	–	–	–
Judith Eden	6/6	7/7	5/5	–	–	5/5
Tim Gallico[1]	2/2	–	–	–	–	–
Stuart King	6/6	7/7	–	–	5/5	5/5
Arno Kitts	6/6	7/7	–	4/4	–	5/5
Josua Malherbe	6/6	n/a	–	–	–	–
Roger Marshall	6/6	7/7	–	–	5/5	5/5
Eloy Michotte[2]	–	4/7	4/5	1/1	–	–
Jérôme Mourgue D'Algue	6/6	7/7	5/5	4/4	–	–
Peter Rutland[3]	3/4	6/7	5/5	4/4	–	–
Steve Sarjant	–	7/7	–	–	5/5	5/5
Rob Sewell	–	7/7	–	–	–	–
Mark Stephen	6/6	7/7	5/5	–	5/5	–
Wilhelm van Zyl[4]	5/6	6/7	–	2/3	–	5/5

1 Tim Gallico was appointed to PICG Board on 1 August 2020

2 Eloy Michotte did not attend some of the PIC Board meetings due to personal reasons. Eloy retired from the PIC Board on 31 December 2020.

3 Peter Rutland did not attend the joint PIC/PICG Board meeting in March 2020 due to prior commitments. Peter stepped down from the PICG Board on 31 July 2020.

4 Wilhelm van Zyl did not attend one of the strategy sessions in July 2020 due to prior commitments. He was represented at the meeting by Josua Malherbe.

AUDIT COMMITTEE

The Committee's membership:

The membership as at the date of this report together with the attendance record for the year ended 31 December 2020 are set out below. The table below shows the attendance by Committee members for all scheduled meetings.

Roger Marshall (Chair)	5/5
Sally Bridgeland[1]	–
Stuart King	5/5
Steve Sarjant	5/5
Mark Stephen	5/5

1 Sally Bridgeland was appointed to the Board and the Committee on 28 January 2021. She attended some of the Committee meetings as an observer.

The Committee's role and responsibilities:

— Make recommendations to the Board on appointment or re-appointment of the external auditor, and oversight of the external auditor and annual audit.

— Oversight and appointment of Internal Audit function.

— Review systems of internal controls including financial, IT, governance and compliance.

— Oversight responsibility for the integrity of financial reporting, including Annual Report and Financial Statements, and related accounting policies and judgements.

— Review of any applicable annual solvency or regulatory capital Reporting which the PICG Group and the Company are required to do under their regulatory reporting obligations.

— Review of any applicable material which the Committee is required to review under the PICG Group's and the Company's Reporting and Disclosure Policy.

— Review of any other external reporting material (such as investor reporting) which management may bring to the Committee for review or approval.

— Liaise closely with the Risk Committee, and seek to identify, and ensure that there are steps to mitigate, any significant risk to the PICG Group and the Company not covered by the headings above.

In accordance with its terms of reference the Board has delegated to the Committee responsibility for overseeing key areas of responsibility which include the following:

Financial and narrative reporting – this area of responsibility includes monitoring the integrity and compliance of the Company's financial statements and any formal announcements or publications relating to the PICG Group's and the Company's financial performance as well as reviewing significant financial reporting issues and judgements made in connection with them.

Risk management – this includes reviewing and monitoring the effectiveness of the procedures for the identification, assessment and reporting of risk as well as setting, and monitoring adherence to, a risk appetite that defines the nature and extent of the risks that the PICG Group and the Company are facing and should be willing to take in achieving its strategic objectives. It also includes oversight of the processes by which risk-based capital requirements, and the PICG Group's and the Company's solvency position, are determined and monitored.

Compliance – this includes reviewing the PICG Group's and the Company's compliance policies and procedures to ensure that the PICG Group and the Company comply with relevant regulatory and legal requirements, including the arrangements in place for the reporting and investigation of concerns and for ensuring fair customer outcomes.

Internal audit – this includes monitoring the role and effectiveness of the PICG Group's and the Company's Internal Audit function, including approving the annual programme of internal audit work, monitoring the reports arising from internal audits and the status of actions resulting therefrom, and the appointment or removal of the Head of Internal Audit.

Whistleblowing – reviewing arrangements by which employees may in confidence raise concerns about possible improprieties regarding financial reporting and other matters.

Internal controls – this includes reviewing the effectiveness of the PICG Group's and the Company's system of internal controls and ensuring timely action is taken by management to address matters arising from the risk and internal audit assessments. In order to do so, 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 PICG Group and the Company.

External audit – this includes considering and making recommendations to the Board on the appointment of the external auditor (including approving the remuneration and terms of appointment) as well as reviewing the external auditor's annual audit programme and the results therefrom. The Committee assesses the auditor's independence and objectivity and reviews the quality and effectiveness of the audit. To ensure the continued independence of the auditor, the PICG Group has put in place a Non-Audit Services Policy, which is reviewed annually by the Committee, and the Committee reviews the non-audit services provided by the external auditor.

Other matters – this includes approving policies which fall within the Committee's remit as part of the Policy Framework Project including the Whistleblowing Policy. The Committee also reviewed its terms of reference and recommended them to the Board for approval, as well as reviewing the PICG Group tax strategy.

The Committee has a planned cycle of activities to ensure that it addresses its responsibilities in the current financial year.

ACTIVITIES DURING THE YEAR

During the financial year, the Committee held six meetings, five of which were scheduled and one of which was ad hoc. 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 PICG Group and the Company. The Committee also receives regular financial performance reports. In addition to these regular reports, this year the Committee considered the matters below.

Financial reporting:

- Reviewed the accounting issues and significant judgements related to the financial statements.
- Reviewed the process and stress testing undertaken to support the PIC's viability and going concern statements.
- Reviewed the appropriateness of the PIC's accounting policies.
- Reviewed the appropriateness of key accounting judgements.
- Reviewed and confirmed to the Board that, based on its review of the Annual Report and Accounts and internal controls that support the disclosures, the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the necessary information for the shareholders to assess the Company's position and performance and its business model and strategy.
- Reviewed Half Year and Year End valuation basis and assumptions.
- Received reports and updates from the Actuarial Function Holder in respect of validation of Technical Provisions and year end basis and assumptions.
- Reviewed 2019 statutory accounts and reviewed the drafting of the 2020 statutory accounts for both PIC and PICG, and approved half yearly report.
- Considered and approved the Solvency and Financial Condition Report for filing with the Company's regulator.
- Reviewed the TMTP recalculation assessment.

Internal controls and risk management:

- Reviewed the PICG Group and PIC's system of controls and its effectiveness using information drawn from a number of different sources including management, compliance and risk management reports, and independent assurance provided by internal audit (through its annual audit plan) and the external auditors.
- Reviewed Internal Model Consolidated Annual Validation Report.
- Received Internal Audit opinion on the effectiveness of the PICG Group and the Company's controls, risk management and governance processes.
- Continued overseeing the key projects such as policy data, third party risk management, and the Finance Change Programme which focuses on IFRS 17 implementation.
- Reviewed and approved the 2021 annual Compliance Monitoring Programme.
- Reviewed the Money Laundering Reporting Officer's report;
- Received updates on regulatory interactions.
- Review and approved various policies within the Committee's remit.

Internal and External Audit:

- Approved the Internal Audit Policy, Internal Audit Charter and 2021 internal audit plan.
- Reviewed the external auditor's plan for the audit of the PICG Group's and the Company's financial statements, which included key areas of scope of work, key risks on the financial statements, and the proposed audit fee and terms of appointment.
- Reviewed the results of the external auditor's effectiveness assessment which was conducted in Q4 2020. Based on the survey, discussions with management and Committee members, the Committee concluded that it was satisfied with the quality of the audit work completed and that the challenge from the external audit team was at the satisfactory level. The Committee also confirmed it was satisfied that the auditor remained independent and objective.

Other Matters

- The Committee, together with the Risk Committee, reviewed the equity release mortgages (ERM) securitisation proposals and the ERM Major Model Change and Matching Adjustment applications, and made recommendations to the Board to approve these.

Significant issues throughout the year were dealt with as follows:

Area of focus	Actions taken by the Committee
Finance Change Programme including IFRS 17	The Committee continued to provide oversight of the wider Finance Change Programme which focuses on transformation of finance and update technology, reporting and analytical tools.
IFRS 17 methodology	The Committee reviewed progress made in IFRS 17 preparation and progress on the technical development of IFRS 17 methodology and assessed high-level financial impacts on PIC's plans.
Valuation basis and assumptions	The Committee continued to review and approve valuation basis and assumptions for financial reporting.
Matching Adjustment update	The operation of the Matching Adjustment has been further reviewed to reflect the ERM Major Model Change and other minor updates based on the feedback from the PRA.

RISK COMMITTEE

The Committee's membership:

The membership as at the date of this report together with attendance record for the year ended 31 December 2020 are set out below. The table below shows the attendance by Committee members for all scheduled meetings.

Steve Sarjant (Chair)	5/5
Sally Bridgeland[1]	–
Judith Eden	5/5
Stuart King	5/5
Arno Kitts	5/5
Roger Marshall	5/5
Wilhelm Van Zyl	5/5

1 Sally Bridgeland was appointed to the Board and the Committee on 28 January 2021. She will assume chair of the Committee on 11 March 2021. She attended some of the Committee meetings as an observer.

The Committee's role and responsibilities:

- Working closely with the Audit Committee, the Committee provides oversight and advice to the PIC and PICG Board on the PICG Group's and the Company's current and likely risk exposures, risk appetite, risk management and risk policies and procedures and risk controls.
- Reviewing and monitoring the effectiveness of the procedures for the identification, assessment and reporting of risk as well as adherence to risk appetite that defines the extent of risks the PICG Group and the Company are facing and is prepared to take in achieving its strategic objectives.
- Overseeing the Internal Model and recommending improvements to the Board.
- Ensuring effectiveness of the Risk function and the performance of the CRO.
- Providing challenge to embed and maintain a supportive risk culture throughout the PICG Group.
- Reviewing and overseeing the interactions between the PICG Group and its regulators.

In accordance with its terms of reference the Board has also delegated to the Committee responsibility for overseeing key areas of responsibility which include the following:

Governance and framework – this area of responsibility includes an oversight of the Risk Appetite Framework, systems of governance and policies, and the Risk Appetite and Tolerances Schedule to ensure they remain appropriate and evolve with the changing external environment. The Committee also considers regular integrated assurance reports to help ensure that the systems of risk management and internal controls are appropriate, as well as the limits set for various counterparties. The CRO provides to the Committee a 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. The ORSA report is also reviewed and recommended to the Board for approval, as well as the Actuarial Function Opinions on Reinsurance and Underwriting Policy. Furthermore, the Committee reviews its terms of reference and recommends these to the Board for approval.

Risk oversight, monitoring and controls – this includes keeping under review the PICG Group's and the Company's overall risk identification, assessment and management processes that inform Board's decision making. The Committee receives an overview of the emerging risks which can potentially affect the Group but at the same time bring opportunities and this is assessed. It considered the impact of the UK's exit from the European Union and looked at both the financial and operational impacts. The Committee also discusses the investment risk and reviews the stress and scenario testing. In addition, any risk incidents are challenged to see if there were any systemic issues which could compromise the integrity of the risk management and internal controls systems.

Internal Model – this includes reviewing the Internal Model validation report and the Internal Model Consolidated Annual Report, as well as the Internal Model validation plan for recommendation to the Board for approval.

The Committee has a planned cycle of activities to ensure that it addresses its responsibilities in the current financial year.

ACTIVITIES DURING THE YEAR

During the financial year, the Committee held six meetings, five of which were scheduled meetings and one was ad hoc. Each year, the Committee carries out a robust assessment of the PICG Group's principal risks, the 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: the CRO'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:

Risk monitoring and controls:

- Received an overview of the emerging risks, including those arising from the Covid-19 pandemic and the United Kingdom's exit from the European Union.
- Reviewed PIC's capital Risk Appetite Framework and made recommendations to the Board to approve more conservative limits.
- Received updates on PIC's counterparties and how they have been impacted by the Covid-19 pandemic.
- Discussed the investment risk including consideration of the Diversified Capital Fund.
- Reviewed stress and scenario testing including economic, operational and conduct risk scenarios.
- Provided input into Board discussions around the Covid-19 pandemic stress and scenario testing.
- 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 the Internal Model drift analysis to ensure PIC's Internal Model does not weaken over time such that it no longer reflects the risks to which PIC is exposed.

— Together with the Audit Committee, reviewed the ERM securitisation proposals, the ERM Major Model Change and Matching Adjustment applications, and made recommendations to the Board to approve these.

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 performance of the Risk function and the CRO.

— Reviewed the Committee's terms of reference and recommended them to the Board for approval.

— Reviewed the regular integrated assurance reports to help ensure that the systems of risk management and internal controls are appropriate.

— Reviewed the ORSA report and recommended it to the Board for approval.

— Reviewed the Actuarial Function Opinion on Reinsurance Underwriting Policy.

— Approved the Risk Function Mandate and various policies which are within the Committee's remit and are subject to annual review.

— Received regular updates on regulatory interactions.

Oversight of projects:

— Provided oversight of the workstreams within the Risk function's remit which had arisen as part of the business-wide transformation project including further development of the risk management framework.

— Provided oversight of the project focusing on the redevelopment of the credit module of the Internal Model.

NOMINATION AND REMUNERATION COMMITTEES

The Nomination and Remuneration Committee is a joint Committee (the "Committee"), as determined by the Articles of the Company. In practice, nomination matters and remuneration matters are discussed separately and despite the same membership of the Committee, there are two Chairs, as shown below.

The Committee's membership:

The membership as at the date of this report together with attendance record for the year ended 31 December 2020 are set out below.
The table below shows the attendance by Committee members for all scheduled meetings.

Jon Aisbitt (Chair of the Nomination Committee)	5/5
Peter Rutland[1]	5/5
Judith Eden[2] **(Chair of the Remuneration Committee)**	5/5
Josua Malherbe[3]	–
Eloy Michotte[4]	4/5
Jérôme Mourgue D'Algue	5/5
Mark Stephen	5/5

1 Peter Rutland was chair of the Remuneration Committee until 14 October 2020.
2 Judith Eden commenced chairing of the Remuneration Committee from 15 October 2020.
3 Josua Malherbe joined the Committee from 1 January 2021. He attended some of the Committee meetings as an observer.
4 Eloy Michotte was unable to attend some of the meetings due to personal reasons. He retired from the Board and the Committee on 31 December 2020.

The Committee's role and responsibilities:

In accordance with its terms of reference the Board has delegated to the Committee responsibility for overseeing key areas of responsibility which include the following:

— Reviewing the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board and its Committees and making recommendations to the Board regarding any changes.

— Adopting a formal, rigorous and transparent procedure using independent external search consultants or firms before candidates are recommended to the Board. The Committee recognises the importance of diversity and, when recruiting, ensures that there are no obstacles to the Committee having visibility of suitable candidates for possible appointment to the Board and that such appointments are based on merit regardless of gender, social and ethnic backgrounds.

— Setting succession plans for Executive and Non-Executive Directors and senior management within the PICG Group and reviewing the Company's diversity policy.

— Recommending to the Board the framework or broad policy for the remuneration and recruitment of the Company's Chairman, NEDs, the CEO, the Executive Directors and such other members of the executive management as it is designated to consider.

— Identifying, evaluating and recommending candidates to join the Board.

— Overseeing the Remuneration Policy for all material risk takers.

— Reviewing the design of all share incentive plans.

The Committee has a planned cycle of activities to ensure that it addresses its responsibilities in the current financial year.

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. During the financial year, the Committee held ten meetings of which five were scheduled meetings and five were ad hoc. It focused on:

Board/executive composition:

- Reviewing the position regarding succession planning and talent management for the Executive Directors and senior management of the Company.
- Reviewing the ongoing professional development of Committee members and the induction of new Directors.
- Approving the Board Diversity Policy and assessing progress against the policy.
- Assessing the Board tenure and considering the independence of the independent Non-Executive Directors, concluding that they were independent.
- Reviewing the Board and Committee composition including the balance of skills and experience on the Board and considering if any changes were necessary.

Remuneration and share schemes:

- Reviewing and overseeing the design of a new management incentive plan to be rolled out in 2021 with a focus on benchmarking the remuneration structure to listed peers and regulatory expecations to determine the appropriate structure to incentivise and reward long-term performance going forward;
- Reviewing and approving the grant of bonus share options;
- Discussing and setting the share valuation for the PICG Group's share schemes;
- Approving exercise and liquidity events and Save As You Eear launch;
- Reviewing Board Remuneration and making recommendations to the Board;
- Reviewing a report from the CRO on staff compliance with the risk appetite as part of staff objectives;
- Reviewing the performance of the Company over the year to decide on bonus pool availability; and
- Conducting an annual remuneration review and recommending to the Board.

Governance:

- Reviewing the results of the gender pay gap analysis and the associated reporting.
- Approving policies within the Committee's remit, namely: the Fit and Proper Persons policy; NED Expendse Policy, and the Remuneration Policy Statement.
- Reviewing and approving the Committee's terms of reference.

Further information on remuneration can be found in the PICG Annual Report and Accounts.

INVESTMENT & ORIGINATION COMMITTEE

The Committee's membership:

The membership as at the date of this report together with attendance record for the year ended 31 December 2020 are set out below. The table below shows the attendance by Committee members for all scheduled meetings.

Arno Kitts (Chair)	4/4
Jon Aisbitt	4/4
Eloy Michotte[1]	1/1
Jérôme Mourgue D'Algue	4/4
Peter Rutland	4/4
Wilhelm Van Zyl[2]	2/3

1 Eloy Michotte stepped down from the Committee on 5 March 2020. He retired from the Board on 31 December 2020.
2 Wilhelm Van Zyl was unable to attend the meeting held in May 2020 due to commitment prior to his appointment to the Committee on 5 March 2020.

The Committee's role and responsibilities:

- Overseeing the management of all aspects of investment policy and strategy.
- Providing oversight of the operation of the PIC's investment portfolios.
- Overseeing all aspects of the PIC's new business and reinsurance origination within established strategy and risk frameworks including conduct risk.
- Recommending to the Board investment arrangements and pricing for significant transactions for approval.
- Ensuring that PIC has integrated ESG risks into its investment decision-making process.

ACTIVITIES DURING THE YEAR

During the financial year, the Committee held seven meetings of which four were scheduled meetings and three were ad hoc. It focused on the following:

- Performance updates of PIC's portfolio.
- Reviewing of hedging, updates on managing the surplus assets of the PIC, foreign exchange management, strategy of the Diversified Capital Fund deal pipeline and solvency.
- Reviewing the priorities set for the year by the Investments and Origination teams. This sets the focus for the meetings throughout the year. Examples of some of the specific matters considered by the Committee are Investments and Origination governance and the operational framework, oversight of performance in the context of general market conditions and the economic environments.
- Reviewing ratings migration within PIC's portfolio and any downgrades.
- Receiving the analysis of pricing assumptions and how these compared with the investment outcomes, including pricing allowances versus reinsurance fees.
- Transition of LIBOR derivatives and renegotiating with counterparties on uncleared margin rules.
- Consideration of IT and technological strategy in respect of the Securities Financing Transactions Regulations.

- Selection of a fund manager for the US private credit market.
- Revision of the Target Operating Model and appropriate debt restructuring.
- Development of the capital allocation methodology.
- The securitisation and implementation of equity release mortgages.
- Carrying out the regular review of performance by PIC's external investment managers.

DIRECTORS' INTERESTS

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

ISSUE OF SHARES AND DEBT

The Company issued 135,944,976 £1 ordinary shares at par on 13 February 2020 and further 90,629,983 £1 ordinary shares at par on 28 September 2020. Both issues were fully paid and wholly subscribed by PIC Holdings Limited, the immediate parent company, for cash consideration. This followed the capital raise by PICG (PIC's ultimate holding company) of £750 million of new equity from existing shareholders. The offered PICG shares were issued on a partly paid basis, with 60% paid on 20 February 2020 and the remaining 40% paid on 25 September 2020.

In May 2020, the Company issued £300 million of Tier 2 debt notes with a fixed coupon of 4.625% and in October 2020 issued a further £400 million of Tier 2 debt notes with a fixed coupon of 3.625%.

DIVIDENDS

The Directors recommended no dividend to be paid for the year ended 31 December 2020 (2019: £nil). The Directors do not recommend any further dividends for the year (2019: £nil).

POLITICAL CONTRIBUTIONS

The Company made no political contributions during the year (2019: £nil).

QUALIFYING THIRD PARTY INDEMNITIES

The Articles of Association of the Company provide for the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain forms of protection for its Directors and senior managers of companies within the PICG Group against personal financial exposure that they may incur in their capacity as such.

During the year and at the time the Directors' Report was approved under section 234 of the Companies Act 2006, this protection included qualifying third party indemnity provisions (as defined under section 234 of the Companies Act 2006) in force for the benefit of the Company's Directors.

GOING CONCERN

After making enquiries, including specific consideration of regulatory solvency, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

FINANCIAL INSTRUMENTS

The information relating to the Company's financial instruments is included in Note 10 to the financial statements.

FUTURE DEVELOPMENTS

The information that fulfils the reporting requirements relating to the likely future developments in the business of the Company is included in the Strategic Report which is separate to this Directors' Report.

MATERIAL CONTRACTS

During the year, Pension Services Corporation Limited ("PSC"), a UK limited company that is a fellow subsidiary of Pension Insurance Corporation Group Limited, continued to provide management, staff, IT and office services to the Company under a defined service agreement.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that ought to have been taken as a Director to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

In accordance with section 489 of the Companies Act 2006, the auditor was re-appointed at the Annual General Meeting (the "AGM") of the Company held on 23 March 2020. The Board proposes the re-appointment of KPMG LLP and subject to approval by shareholders at the AGM, KPMG LLP will continue in office.

CONFLICTS OF INTEREST

The Board has established a procedure to deal with Directors' conflicts of interest which complies with the Company's Articles and the provisions in section 175 of the Companies Act 2006. Schedules of a Director's actual or potential conflicts are compiled based on disclosures made by the Director. These are updated and reviewed on an annual basis in addition to conflicts or potential conflicts being considered at the beginning of Board meetings.

MODERN SLAVERY ACT 2015

The Company has a Modern Slavery Statement, which is reviewed and approved by the Board on an annual basis. The Company's Modern Slavery Act statement is available on the Company's website:

https://www.pensioncorporation.com/about-us/modernslavery-statement/. PIC commits to support the aims of the Modern Slavery Act and seeks to ensure that modern slavery or human trafficking does not feature in any part of its business or supply chains. PIC is committed to acting responsibly and like any other business, must seek to ensure that modern slavery or human trafficking does not feature in any part of its business or supply chains. PIC is committed to acting responsibly and ethically in business relationships and to ensuring that slavery and human trafficking does not occur anywhere within our business operations. It has a zero-tolerance approach to any form of slavery and human trafficking within the PICG Group or its suppliers.

ANTI-BRIBERY AND CORRUPTION

The Company operates an anti-bribery and corruption policy to prevent and prohibit bribery, in line with the Bribery Act 2010. The Company will not tolerate any form of bribery by, or of, its employees, agents or consultants or any person or body acting on its behalf, and no such incidents occurred in the financial year ending 31 December 2020. Senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery. The policy covers:

- the main areas of liability under the Bribery Act 2010;
- the responsibilities of employees and associated persons acting for, or on behalf of, the Company; and
- the consequences of any breaches of the policy.

WHISTLEBLOWING ARRANGEMENTS

The Company has a policy which enables and encourages employees to report in confidence any possible improprieties in either financial reporting or other matters.

OVERSEAS BRANCHES

PIC does not have any branches outside the United Kingdom.

GREENHOUSE GAS EMISSIONS

In accordance with Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and Companies Act 2006 (Strategic Report and Directors' Report) Regulations the required information is reported at PICG Group level and can be found in the PICG Annual Report and Accounts.

LONGER-TERM VIABILITY STATEMENT

1. The assessment process

The longer-term viability process is primarily carried out by strategic and financial planning. The PIC's strategy (see pages 4 and 5), and year-on-year activities, combined with a focus on material factors which may impact the Company in the foreseeable future, are central to the assessment that the Company can be reasonably expected to continue in operation and meet its liabilities as they fall due. The Company's business plan is prepared annually and covers a five-year period on a rolling basis. The plan covers projected performance and related profitability, cash and value generation and the capital position of the Company over the period. The plan is designed within the Company's Risk Appetite Framework, which forms an integral part of the business planning process. The plan is tested against the risk appetite set for the Company by the Board. This includes a number of stress scenarios, which consider the Company's resilience and capacity to respond to relevant stresses and shock events, which may potentially impact the Company. The Company also evaluates various management actions designed to maintain and restore key capital and solvency metrics to within the Company's approved risk appetite over the planning period and takes into account the cost of these actions to the Company and their potential impact on the Company's Market Consistent Embedded Value and IFRS profits.

2. The assessment period

The Directors have assessed the viability of the Company by reference to the five-year planning period to December 2025, which has been chosen as appropriate because it reflects the Company's business model and the dynamics of the bulk annuity market as covered by the Company's five-year business plan.

3. Assessment of viability

The Directors have carried out an assessment by reference to the Company's current position and strategy, the Board's risk appetite and the Company's financial forecasts from December 2020 to December 2025. The Directors discussed the strategy and draft business plan at the strategy sessions held on 29 June 2020, 20 July 2020 and 21 July 2020. They considered and approved the draft business plan at the Board meeting held on 2 December 2020 which was supported by the assessment of key risks to the successful execution of the business plan. The Directors also considered the Company's principal risks and how these are managed, as detailed on pages 10 and 11. The risk assessment included stress and scenario testing of key assumptions, and horizon scanning to consider the key risks to the business and the potential impact of these on the business plan objectives.

The scenarios considered in the risk assessment covered:

- risks from PIC's external operating environment including risks from markets around downgrades and spread risks, rates and inflation risks, as well as regulatory changes;
- execution risks to achieving the plan including risks associated with PIC's ability to raise further capital, reinsurance and asset origination; and
- risks to PIC's operations if the plan is successfully achieved focusing among others on operational resilience, stakeholder, climate change, reputation and various other risks.

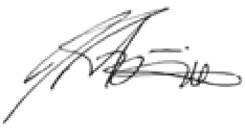
This year the Board also assessed potential impacts arising from the economic uncertainty from Covid-19 lockdowns combined with geopolitical risks and how these could cause solvency or liquidity declines on PIC's balance sheet from credit downgrades and continued volatility of rates/inflation and foreign exchange. The Board held in-depth discussions in September 2020 which considered the impact of stress scenarios calibrated to adverse credit movements and their impact on PIC's solvency. The Board also reviewed management actions available to mitigate risks arising from those adverse scenarios and the cost to the Company of those actions.

As well as risks arising from the macro-economic environment, a number of operational scenarios were performed considering the potential impact of failures of key systems and third parties as well as criminal activity targeted against PIC's policyholders in the form of pension scams.

4. Viability statement

Based on the results of the assessment of the Company's prospects and viability, the Directors confirm that they have a reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due in the five-year assessment period.

On behalf of the Board



Jon Aisbitt
Chairman

14 Cornhill, London, EC3V 3ND

16 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 DECEMBER 2020

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF PENSION INSURANCE CORPORATION PLC

Our opinion is unmodified
We have audited the financial statements of Pension Insurance Corporation Plc ("the Company") for the year ended 31 December 2020 which comprise:

- the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, statement of changes in equity, and the related notes, including the accounting policies in note 1.
- the parent company statement of comprehensive income, statements of financial position, statement of cash flows and of changes in equity, and the related notes, including the significant accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group and of the parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act of 2006;
- the parent company's financial statements have been properly prepared in accordance with International Financial Reporting Standards in conformity with requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders during 2006. The period of total uninterrupted engagement is for the 14 financial years ended 31 December 2020. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Key audit matters: including our assessment of risks of material misstatement
Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

VALUATION OF INSURANCE CONTRACT LIABILITIES (2020: £44,835 MILLION; 2019: £37,663 MILLION)

The risk compared to the prior year has increased.

Refer to page 57 (accounting policy) and pages 58 to 61 (financial disclosures)

THE RISK

The Group has significant insurance contract liabilities representing 96% (2019: 97%) of the Group's total liabilities.

Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, mainly the ultimate total settlement value of these liabilities, future credit and expense experience.

Operating and economic assumptions and sector experience

Management is required to use judgment in the selection of key assumptions covering both operating assumptions and economic assumptions.

The key operating assumptions include baseline mortality and future longevity improvement rates and maintenance expenses.

Mortality and longevity improvement rates require a high degree of judgement due to the number of factors which may influence future mortality experience. These judgments are set based on Group's own experience, management's and industry expected level of future rate of mortality improvement and other external factors arising from developments in the annuity market and the impacts from COVID-19.

Maintenance expense assumptions require significant judgment to set the unit cost based on the expected future costs for administering the underlying policies.

The key economic assumption is the valuation rate of interest ('VRI') i.e. the discount rate applied to the insurance liabilities. The VRI is derived from the yield on the assets backing the annuity liabilities. In setting the VRI, an explicit allowance for credit risk is included by making a deduction, representing part of the yield on debt and other fixed income securities. The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected.

Completeness and accuracy of data

Annuity liabilities are calculated by applying assumptions to the underlying actuarial data. There is a risk that incorrect or incomplete data may cause a misstatement in the calculation of the insurance liabilities.

Calculation error:

Management uses actuarial models to calculate policyholder liabilities. There is a risk that unauthorised or erroneous changes to the models may occur.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note 12(e) discloses the sensitivities estimated by the Group.

OUR RESPONSE

We used our own actuarial specialists in order to assist us in performing our procedures in this area.

Methodology choice:

We have assessed the methodology for selecting assumptions. This included:

- Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;
- Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and actuarial market practice, and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities
- Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted / updated during the year; and
- Comparing changes in methodology to our expectations derived from market experience including the impact of COVID-19 on the observed policyholder experience.

Historical comparisons:

- We evaluated the mortality base assumptions used in the calculation of insurance contract liabilities by comparing to the Company's historic mortality experience in order to assess whether the results of this analysis support the year-end assumptions adopted, taking into consideration the impact of COVID-19 on policyholder experience.

Benchmarking assumptions and sector experience:

- We compared mortality assumptions to industry data on current mortality and expectations of future mortality improvements, including assessing management's choice of Continuous Mortality Investigation data whilst considering the impact of COVID-19 by comparing to industry practice and our expectations derived from market experience.
- We assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing the most recent expense budget, comparing to prior years, and the likely impact of planned management actions on future cost.
- We assessed the credit risk assumption and evaluated the appropriateness of the methodology used to calculate the VRI by reference to the industry practice and our expectation derived from market experience;
- We utilised the results of KPMG benchmarking of assumptions and actuarial market practice to inform our challenge of management's assumptions in some of the areas noted above.

Independent reperformance:

We used our own valuation models to perform independent calculations to estimate the liabilities for a sample of policies. We compared these with the balances estimates by the Group to assess the accuracy of the calculations performed by the actuarial models, in particular whether they were in line with internally approved methodologies and assumptions.

Completeness and accuracy of data:

- We tested the underlying data by reconciling the source data with the data input used in the model to assess if the data is complete and accurate.

Assessing transparency:

- We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements.

Our results

- We found the valuation of insurance contract liabilities to be acceptable (2019: acceptable)

VALUATION OF INVESTMENTS (2020: £49,648 MILLION; 2019: £40,886 MILLION)

The risk compared to the prior year has increased.

Refer to page 49 (accounting policy) and pages 50 to 56 (financial disclosures)

THE RISK

The Investment portfolio represents 93% (2019: 93%) of the total assets of the Group.

Key audit matter

The portfolio of investments other than those requiring subjective valuation makes up 76% (2019: 78%) of the assets (by value). We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which has the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Subjective valuation

The areas that involve significant audit effort and judgment were harder to value investments which made up 17% of the total assets (by value) as at year end 2020 (2019: 14%). These include unquoted debt securities and alternate investment schemes. For these investments, application of expert judgment in the valuation is required. We believe the risk to have increased in the current year for the unquoted debt securities due to the market effects of COVID-19 and so require more judgment in setting additional adjustment spreads including credit spreads;

The valuation of the portfolio involves judgement depending on the observability of the inputs into the valuation and further judgement in determining the appropriate valuation methodology for harder to value investments where external pricing sources are either not readily available or are unreliable.

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments held at fair value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note 10 discloses the sensitivities estimated by the Group.

OUR RESPONSE

We used Financial Risk Modelling, Credit Risk Assurance specialists, and pricing services in order to assist us in performing our procedures in this area.

Methodology choice:

We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards and the Group's own valuation guidelines, as well as industry practice for harder to value investments.

Benchmarking of assumptions and sector experience:

We involved our valuation experts to assess pricing model methodologies and management chosen inputs and assumptions into the models against industry practice, valuation guidelines and Group's historical experience. We also took into consideration the impact of COVID-19 in setting additional adjustment spreads including credit spreads (where applicable).

Test of details:

We performed independent price checks using our own pricing services for liquid and illiquid positions in securities where observable inputs could be identified.

We agreed the valuations for the alternate investment schemes to the most recent Fund statements / reports. To assess reliability of these statements / reports we compared to audited financial statements of the funds, where available, or performed a retrospective test over fund valuations to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent fund valuation statements / reports.

Assessing transparency

We assessed whether the disclosures in relation to the investments held at fair value are compliant with the relevant accounting requirements.

Our result

We found the valuation of investments to be acceptable, (2019: Acceptable).

In the prior year we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments such as going concern, valuation of insurance contract liabilities and valuation of investments however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

Our application of materiality and an overview of the scope of our audit

Materiality for the Group and parent company financial statements as a whole was set at £42.5m (2019: £28m), determined with reference to a benchmark of Net Assets (of which it represents 1.1% (2019: 0.9.%) of the Group and Company's Net Assets).

We consider the Group's and parent company net assets to be the most appropriate benchmark, as it represents the residual interest that can be ascribed to shareholders after assets and corresponding liabilities have been accounted for. We compared our materiality against other relevant benchmarks, such as total assets, total revenue and profit before tax to ensure the materiality selected was appropriate for our audit.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality for both the group and parent company was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £31.9 million (2019: £21 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.9m (2019: £1m) in addition to other identified misstatements that warranted reporting on qualitative grounds for Group and parent company's financial statements.

The Group team performed the audit of the Group as if it was a single aggregated set of financial information. The audit was performed using the materiality and performance materiality level set out above.

We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company to cease its operations, and as they have concluded that the Group's and Company financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements. ("the going concern period").

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

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

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

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

We considered whether the going concern disclosure in note 1 to the financial statements gives a full and accurate description of the Directors' assessment of going concerns, including the identified risks and related sensitivities.

Our conclusions based on this work:

- We consider that the Directors' use of the going basis of accounting in the preparation of the financial statements is appropriate.
- We have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group and company's ability to continue as a going concern for the going concern period; and
- We have nothing material to add or draw attention to in relation to the Directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and company's use of that basis for the going concern period, and we found the going concern disclosure in note 1 to be acceptable.

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

Fraud and Breaches of Laws and Regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the Group’s high-level policies and procedures to prevent and detect fraud, including the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, Audit Committee, Risk Committee and Credit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management/ directors.
- Using data and analytics procedures to identify any usual or unexpected relationships.

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of insurance contract liabilities. On this audit we do not believe there is a fraud risk related to revenue recognition because there is no management judgment or estimation involved in recording the revenue streams and the amounts are contractually derived.

In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities, we involved actuarial specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the business, trends in experience, policyholder behaviour and economic conditions and also by reference to market practice. Further detail in respect of these is set out in the audit response to the risks associated with this key audit matters in section 2 of this report.

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

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

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

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from Group’s regulatory and legal correspondence and we discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity’s procedures for complying with regulatory requirements.

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

The potential effect of these laws and regulations on the financial statements varies considerably.

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

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

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

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

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

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

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit know ledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006

We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 32, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

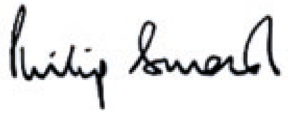
Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

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

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Philip Smart (Senior Statutory Auditor))
for and on behalf of KPMG LLP, Statutory Auditor
London
E14 5GL

16 March 2021

STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £m	2019 £m
Revenue			
Gross premiums written	12	**5,649**	7,186
Outward reinsurance premiums	12f	**(517)**	(50)
Net premium revenue earned		**5,132**	7,136
Investment return	3	**4,090**	3,062
Commissions earned		**1**	1
Total revenue (net of reinsurance premiums)		**9,223**	10,199
Expenses			
Claims paid – gross	12	**(1,730)**	(1,430)
Reinsurers' share of claims paid	12f	**47**	42
		(1,683)	(1,388)
Increase in insurance liabilities – gross		**(7,172)**	(8,943)
Increase in reinsurers' share of insurance liabilities	12f	**175**	744
		(6,997)	(8,199)
Acquisition expenses	4	**(75)**	(66)
Other operating expenses	5	**(120)**	(91)
Finance costs	13	**(72)**	(61)
		(267)	(218)
Total expenses		**(8,947)**	(9,805)
Profit before taxation		**276**	394
Tax charge	8	**(53)**	(75)
Profit and total comprehensive income for the year		**223**	319

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 43 to 69 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION FOR THE GROUP
AS AT 31 DECEMBER 2020

	Note	2020 £m	2019 £m
Assets			
Investment properties	9	**91**	81
Financial investments	10	**49,648**	40,886
Derivative assets	11	**21,936**	14,626
Current taxation		**3**	–
Reinsurers' share of insurance liabilities	12	**2,773**	2,598
Prepayments		**102**	91
Receivables and other financial assets	10	**284**	277
Cash and cash equivalents	10	**211**	76
Total Assets		**75,048**	58,635
Equity			
Share capital	16	**1,226**	1,000
Share premium	18	**524**	–
Other reserves	18	**60**	60
Tier 1 notes	17	**444**	445
Retained profit	18	**1,889**	1,693
Total Equity		**4,143**	3,198
Liabilities			
Gross insurance liabilities	12	**44,835**	37,663
Borrowings	13	**1,589**	892
Derivative liabilities	11	**24,340**	16,731
Deferred tax liability	14	**2**	3
Current taxation		**–**	43
Insurance and other payables	10	**109**	88
Accruals	10	**30**	17
Total Liabilities		**70,905**	55,437
Total Equity and Liabilities		**75,048**	58,635

The accounting policies and notes on pages 43 to 69 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 March 2021 and were signed on its behalf by:

Rob Sewell
Director

Registration number: 05706720

STATEMENT OF CHANGES IN EQUITY FOR THE GROUP
FOR THE YEAR ENDED 31 DECEMBER 2020

31 December 2020	Note	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year		1,000	–	60	445	1,693	3,198
Total comprehensive income							
Profit for the year		–	–	–	–	223	223
Transactions with owners							
Tier 1 coupon	17	–	–	–	–	(33)	(33)
Tier 1 tax relief	8	–	–	–	–	6	6
Tier 1 additional costs	17	–	–	–	(1)	–	(1)
Equity raise		226	524	–	–	–	750
At end of year		1,226	524	60	444	1,889	4,143

31 December 2019	Note	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year		1,000	–	60	–	1,374	2,434
Total comprehensive income							
Profit for the year		–	–	–	–	319	319
Tier 1 note issuance	17	–	–	–	445	–	445
At end of year		1,000	–	60	445	1,693	3,198

The accounting policies and notes on pages 43 to 69 form an integral part of these financial statements.

GROUP STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	2020 £m	Restated 2019[1] £m
Cash flows from operating activities			
Profit for the year		**223**	319
Adjustments for:			
Interest income recognised in profit	3	**(1,027)**	(923)
Other investment return	3	**47**	(13)
Finance costs		**72**	61
Tax expense	8	**53**	75
		(855)	(800)
Changes in operating assets and liabilities			
(Increase)/Decrease in investment properties	9	**(10)**	15
Increase in financial investments including derivative assets		**(16,072)**	(14,384)
Increase in reinsurers' share of insurance liabilities	12	**(175)**	(744)
Increase in prepayments		**(11)**	(33)
Decrease in receivables and other financial assets		**3**	28
Increase/(Decrease) in accruals		**13**	(2)
Increase in insurance liabilities	12	**7,172**	8,943
Increase in financial liabilities including derivative liabilities		**7,609**	5,428
Increase in insurance and other payables		**21**	16
		(1,450)	(733)
Cash flows used in operating activities		**(2,082)**	(1,214)
Interest income received		**1,017**	895
Other investment return		**(47)**	13
Taxation paid		**(93)**	(69)
Net outflow from operating activities		**(1,205)**	(375)
Cash flows from financing activities			
Proceeds from issue of Tier 1 notes	17	**–**	450
Proceeds from issue of subordinated debt	13	**700**	–
Proceeds from issue of equity		**750**	–
Interest paid on subordinated debt	13	**(72)**	(61)
Coupon on Tier 1 notes	17	**(33)**	–
Equity and debt Issue costs	13, 17	**(5)**	(5)
Net inflow from financing activities		**1,340**	384
Net increase in cash and cash equivalents		**135**	9
Cash and cash equivalents at beginning of year		**76**	67
Cash and cash equivalents at end of year		**211**	76

The accounting policies and notes on pages 43 to 69 form an integral part of these financial statements.

1 Some presentational inconsistencies in the of investment property cash flows have been corrected in the comparative figures.

1.1 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The functional currency of the Group is GBP sterling. These financial statements have been presented in millions of GBP sterling (£m) unless otherwise stated. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the foreign exchange rate ruling at the end of the financial year. Non-monetary assets and liabilities are translated into the functional currency using the historical rate. All revenue and expense items are reflected in the Statement of Comprehensive Income at the rate effective at the date the transaction took place.

The financial statements have been prepared on a going concern basis. Management has conducted a detailed assessment of the Group's going concern status based on its current position and forecast results and have concluded that the Group has adequate resources to operate for at least the next 12 months from the approval of these financial statements.

In making the going concern assessment, management reviewed the forecast solvency and liquidity positions and stress and scenario testing of key assumptions and horizon scanning to consider the key risks to the business, especially in light of the pandemic caused by Covid-19, and the potential impact of these risks on the business plan objectives. Mitigating actions were also considered and are set out in the Principal Risks and Uncertainties section of the Strategic Report on pages 10 to 11. The key stress tests, scenarios and sensitvities include a decline in interest rates, widening of spreads, downgrades and defaults, and reinsurance and capital availability. The principal sources of forecast information were the 2021 business plan, approved by the Board in December 2020 and the Group's Own Risk and Solvency Assessment ("ORSA"), expected to be approved by the Board in March 2021. Details on our financial position and solvency can be found in the Strategic Report on page 4.

In publishing its own financial statements here together with the Group financial statements, the Group has taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

The Group has applied all IFRS and interpretations that are adopted by the EU and are effective for accounting periods beginning on or after 1 January 2020.

1.2 CRITICAL ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain accounting estimates and assumptions that affect the reported assets, liabilities, income and expenses. It also requires management to exercise judgement in applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions are significant to the Consolidated Financial Statements, are set out below and in more detail in the related notes. Insurance liabilities and Financial Instruments are the areas where there is more risk of a material adjustment to the carrying amounts within the next financial year.

Judgements:

Contract classification

Contracts written by insurers are classified as either insurance contracts or investment contracts, depending on the level of insurance risk transferred. The Group has classified all its policyholder contracts as insurance contracts. Please refer to Note 12 for further details.

Restricted Tier 1 notes

Classification of financial instruments as debt or equity is dependent on whether the terms impose an obligation to deliver cash or other financial assets. The Group's Restricted Tier 1 notes have been classified as equity. Please refer to Note 17 for further details.

Estimates:

Insurance liabilities

Insurance liabilities are valued using projected cashflows of future retirement income and the cost of administrating payments to policyholders. The key assumptions relate to future mortality, expenses, discount rates and inflation. Please refer to Note 12 for further details.

Financial Instruments

Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discount them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment. For Equity release mortgages ("ERM") key inputs also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity, early repayment rates and 'No negative equity guarantees'. The relevant fair value disclosures are set out in Note 10.

1.3 CHANGES IN ACCOUNTING POLICIES

The Group has consistently applied its accounting policies to all periods presented in these financial statements. The application, in 2020, of"'Definition of a Business (Amendments to IFRS 3), Covid-19-Related Rent Concessions (Amendments to IFRS 16), Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)" and "Definition of Material (Amendments to IAS 1 and IAS 8)" have had no impact on the Group.

1.4 SIGNIFICANT NEW STANDARDS OR AMENDMENTS TO STANDARDS WHICH ARE NOT YET EFFECTIVE

The following standards are only mandatory for accounting periods on or after 1 January 2021 and have not been adopted early by the Group:

IFRS 17 – Insurance Contracts – effective for accounting periods beginning on or after 1 January 2023.

The Group is required to adopt IFRS 17 for its financial year beginning on 1 January 2023, subject to local endorsement. The International Accounting Standards Board ("IASB") published the amended version of IFRS 17 Insurance Contracts on 25 June 2020, which is the final standard.

The adoption of the standard is expected to have a significant impact on the financial statements as it transforms the way the Group measures, presents and discloses the insurance and reinsurance assets and liabilities in the Statement of Comprehensive Income, Statement of Financial Position and the notes to the financial statements.

Under IFRS 17, new business profits at inception are deferred as a Contractual Service Margin ("CSM") on the Statement of Financial Position, which is released into the Statement of Comprehensive Income over time. In addition to the CSM, an explicit margin called the Risk Adjustment ("RA") is required to be held for non-financial risks. More quantitative and qualitative information will be disclosed, including the reconciliations of CSM, RA and present value of future cashflows.

The Statement of Comprehensive Income will no longer include premium and claim volumes, and instead will focus on new measures, such as insurance contract revenue and insurance service expense.

In addition, IFRS 17 is expected to introduce significant operational changes, including new models and significant updates to current systems and processes to account for new requirements for the collection, aggregation and analysis of data.

The Group is in the process of developing and implementing models and capabilities to meet the requirements of IFRS 17 over the next two years. Given the complexity of the requirements, the Group is not currently able to quantify the impact the adoption of the standard will have on its financial position.

IFRS 9 – Financial Instruments – effective for accounting periods beginning on or after 1 January 2019.

The adoption of the standard is not expected to have a material impact on the results of the Group, as the financial instruments held by the Group are expected to remain classified as fair value through profit and loss. Although this standard is now effective, the IASB published Amendments to IFRS 4 "Extension of the temporary exemption from applying IFRS 9", which includes an optional temporary exemption from applying IFRS 9 until IFRS 17 is adopted. This exception is available to insurance entities whose activities are "predominantly connected with insurance" by meeting certain eligibility criteria.

As at 31 December 2020 the Group met the eligibility criteria and will defer the adoption of IFRS 9 to 1 January 2023.

The disclosure of the fair value of the Group's financial assets, showing the amounts for instruments that meet the 'Solely for Payment of Principal and Interest' (SPPI) criteria separately from all other financial assets, as required for entities applying the temporary exemption is provided below. Note that financial assets classified as held for trading or that are managed and whose performance is evaluated on a fair value basis are not required to be assessed under the SPPI test and are reported in all other financial assets.

	As at 31 December 2020		As at 31 December 2019	
	Financial assets passing SPPI test[1,2] £m	All other financial assets £m	Financial assets passing SPPI test[1,2] £m	All other financial assets £m
Receivables and other financial assets[2]	284	–	277	–
Financial investments	–	49,648	–	40,886
Derivative assets	–	21,936	–	14,626

1 For financial assets which passed the SPPI test as at 31 December 2020 there was a change in the fair value in the year of £nil (2019: £nil).
2 For the credit rating split of receivables and other financial assets please see Note 15.

2. OPERATING SEGMENTS

Management considers that the Group consists of one operating segment, which operates in one geographical location (the United Kingdom) and has one line of business (the provision of insurance annuity products to UK defined benefit occupational pension funds and their members).

Customers

The nature of the Group's business is that it conducts a relatively small number of individual transactions each year. These transactions are all one-off in nature, and the Group's business plans do not anticipate conducting a significant amount of repeat business with any particular customers. Revenue concentration items have therefore not been disclosed.

3. INVESTMENT RETURN

Interest income is calculated using the effective interest method.

Realised gains or losses represent the difference between net sales proceeds and purchase price or, in the case of investments valued at amortised cost, the latest carrying value prior to the date of sale.

Unrealised gains and losses on investments represent the difference between the fair value of investments held at the end of each financial year and their purchase price. The net movement recognised in the Income Statement reflects both unrealised gains and losses recognised during the year and the reversal of any prior cumulative period unrealised gains and losses which have been realised in the current accounting period.

	2020 £m	2019 £m
Income from debt securities	1,021	896
Interest income on cash deposits	2	25
Income from mortgage backed securities ("MBS")	4	2
Interest income	**1,027**	923
Rental income	4	6
Income from other investments		
– Investment schemes	1	4
– Other asset backed securities ("ABS")	10	11
– Other investment return	(62)	(8)
Total other investment return	**(47)**	13
Total investment income	**980**	936
Net realised gains/(losses) on investments		
– Investments designated as FVTPL on initial recognition	767	590
– Investments classified as held for trading	(133)	(300)
Net realised gains	**634**	290
Net unrealised gains/(losses) on investments		
– Investments designated as FVTPL on initial recognition	2,774	2,397
– Investments classified as held for trading	(298)	(561)
Net unrealised gains	**2,476**	1,836
Investment return	**4,090**	3,062

4. ACQUISITION EXPENSES

Acquisition expenses comprise all direct and indirect costs of obtaining and processing new business. Indirect costs consist primarily of management, staff and related overhead costs.

A deferred acquisition cost asset has not been established in the Statement of Financial Position.

	2020 £m	2019 £m
Acquisition expenses	**75**	66

5. OTHER OPERATING EXPENSES

Investment charges and related expenses comprise:

- fees payable to investment managers. Performance fees are payable to certain investment managers that exceed relevant targets measured over a number of financial years. The Group recognises the costs of such agreements during the life of each contract. No provision is made for fees on potential outperformance of targets in future years. All other fees payable to investment managers are recognised on an accruals basis; and
- transaction costs on financial assets at fair value through profit or loss.

	2020 £m	2019 £m
Investment charges and related expenses	**29**	24
Project costs	**45**	31
Equity settled share-based payments[1]	**7**	7
Other expenses	**39**	29
	120	91

1 These are amounts relating to Pension Insurance Corporation Group limited ("PICG"") share based payment costs which are recharged to PIC.

6. AUDITOR'S REMUNERATION

	2020 £000	2019 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**471**	334
Fees payable to the Group's auditor and its associates for other services:		
Audit-related assurance services	**150**	152
All other services	**135**	145
Total fees paid to the auditor	**756**	631

7. DIRECTORS' REMUNERATION, HEADCOUNT AND EMPLOYEE COSTS

Employee benefits

Defined contribution plans

Pension Services Corporation Limited ("PSC") operates a defined contribution pension plan into which PSC contributes 8% if the employee makes a minimum contribution of 2% of qualifying salary. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of Comprehensive Income in the period during which the related services are rendered by employees.

PSC was the provider of management, staff, IT and office services to the Group, under a defined service agreement, throughout the year.

The Group employs no staff directly as all staff were provided by PSC during the year.

The recharged costs of Directors and employees of the Group for the year were as follows:

	2020 £m	2019 £m
Wages and salaries	41	33
Social security costs	6	6
Other pension costs	2	2
	49	41

The Group has 14 Directors who served during the year (2019: 11). All Directors were employed by or contracted by the Group's service provider. The total remuneration received by the Directors for their services to the Company was £3 million (2019: £3 million). Certain Directors also receive remuneration from Pension Insurance Corporation Group Limited, the ultimate parent company.

The amount of remuneration received by the highest paid Director was £1 million (2019: £1 million). These amounts relate solely to the services provided by the Directors to the Company and do not include any payments due for services provided with regard to other Group entities.

Two Directors had money paid to money purchase pension schemes and were provided a cash alternative where their lifetime or annual allowance limit had been reached (2019: two). No Directors, including the highest paid Director, were eligible for shares or share options in the Company under a long-term incentive scheme (2019: nil). No Directors exercised options in the Company during the year (2019: nil).

8. CORPORATION TAX

For transactions and other events recognised outside profit or loss (either in other comprehensive income or directly in equity), any related tax effects are also recognised outside profit or loss (either in other comprehensive income or directly in equity, respectively).

The Group's tax charge for the year is:

	2020 £m	2019 £m
Current taxation		
Tax payable for the current year	54	75
Deferred taxation		
Tax transitional adjustment	(1)	–
Corporation tax charge	53	75

The effective current tax charge for the period is the same as (2019: the same as) the standard rate of corporation tax in the UK of 19% (2019: 19%).

Tax credited to equity

Tax credited directly to equity in the year in respect of coupon payments on Tier 1 notes amounted to £6 million (2019: £nil).

Factors that may affect future tax charges

Current taxation is provided on taxable profits at the corporation tax rate ruling in the year they are earned. The current UK corporation tax rate is 19%.

Following the January 2013 change in the taxation regime for insurance companies, the benefit of the differences between IFRS retained earnings and taxable profits at 31 December 2012 will reverse over a period of ten years. Consequently, the Group has recognised a deferred tax liability at 31 December 2020 of £2 million (2019: £3 million) in respect of these timing differences which total £8 million (2019: £12 million).

Measures announced in the 3 March 2021 Budget include increasing the rate of Corporation Tax to 25% in 2023. The proposed changes do not have a significant impact on the Group's results and Statement of Financial Position as at 31 December 2020, but, if enacted, the proposed changes will apply to profits generated from 2023 onwards.

9. INVESTMENT PROPERTIES

Investments in properties not for occupation by the Group, that are leased to third parties to generate rental income. Investment properties are carried at fair value, with changes in fair value included in the Statement of Comprehensive Income. In exceptional cases, in the early period of construction of an investment property, where fair value is not reliably measurable, the investment property is measured at construction cost until the earlier of its fair value becoming reliably measurable or construction completing.

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

The external valuers also consider changes in market conditions and the status of the tenants in determining whether a full physical inspection is required each year. Irrespective of such considerations, each property is fully inspected as part of the valuation process at least once every three years.

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

	2020 At cost £m	2020 At fair value £m	2020 Total £m	2019 £m
At beginning of year	–	81	81	96
Additions	19	–	19	–
Change in fair value during the year	–	(9)	(9)	(15)
At end of year	**19**	**72**	**91**	81

The Group's holding in investment properties at fair value relate to the freehold of six properties and long leasehold in two properties held via Guernsey registered property unit trusts ("GPUTs"). All eight properties are located in the United Kingdom.

The additions in the year relate to the construction of residential flats and retail space.

The market value of the investment properties held at fair value is determined based on a valuation approach which applies investment yield to the rental income. The investment yield is derived from available transactional evidence of similar rental units considering the property specific factors such as its location, the unexpired term, current rent, size of the unit and other factors. Due to the unobservable inputs, Investment properties are classified as Level 3 in the fair value hierarchy.

The investment yields, as at 31 December 2020, take into account that the general decline in the high street retail sector has been further exacerbated by the pandemic. However, the valuations continue to be strongly underpinned by the contractual lease payments.

Significant assumptions used in the valuation of our GPUTs include:

	2020	2019
Investment yield	**Range from 6.75% – 10.0%**	Range from 5.7% – 8.9%
Rental value per square foot	**Range from £14.96 – £32.19**	Range from £13.8 – £31.35

The sensitivities of the property values to +/- 50 bps change in the investment yield is +/- £4 million (2019: +/- £6 million).

Rental income received in relation to these properties of £4 million (2019: £6 million) is shown within investment return in Note 3.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments
Derivative financial instruments are measured at fair value through profit or loss ("FVTPL") and classified as held for trading. All other financial assets and financial liabilities, with the exception of borrowings, short-term assets and liabilities and cash and cash equivalents are classified as FVTPL on initial recognition.

Financial investments are designated at FVTPL upon initial recognition where they are managed on a fair value basis in accordance with risk management and investment strategies, and information is provided internally to key management personnel on that basis. Financial instruments at FVTPL are initially recognised at fair value in the Statement of Financial Position, with transaction costs and any subsequent change in fair value taken directly to the Statement of Comprehensive Income.

Assets held as collateral
In order to meet its contractual obligations, the Group receives and pledges collateral in the form of cash and non-cash assets in respect of certain derivative contracts. The amount of collateral required is determined by the valuation of each contract on a mark-to-market basis and the type of collateral to be deposited is specified within the agreement with each counterparty. Collateral pledged in the form of cash and non-cash assets, which are not legally segregated from the Company, continue to be recognised in the Statement of Financial Position within the appropriate asset classification, as the Group retains all risks and rewards relating to these assets. If the Group relinquishes the economic risks and rewards of ownership when pledging the assets, it derecognises the asset and recognises a corresponding receivable for its return.

Collateral received in the form of cash and non-cash assets are not recognised as an asset in the Statement of Financial Position unless the Group acquires the economic risks and rewards of ownership. Where such assets are recognised, the Group recognises a corresponding financial liability.

Recognition and derecognition of financial instruments
A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire, or if either the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset are transferred to another party. Regular purchases and sales of financial assets are accounted for at the date of settlement, with any change in the fair value of the asset to be received during the period between the trade date and the settlement date recognised in profit or loss. Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents
Cash and cash equivalents consist of cash balances that are repayable on demand and are integral to the Group's cash management, including any overdrawn balances, and deposits held at call with banks with less than 90 days maturity from date of acquisition. As at 31 December 2020 the total balance in overdraft was £nil (2019: £nil).

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

	2020		2019	
	Fair value through profit and loss £m	Amortised cost £m	Fair value through profit and loss £m	Amortised cost £m
Financial assets				
Financial investments				
Debt securities	**45,922**	**–**	36,631	–
MBS and ABS	**387**	**–**	384	–
Equity release mortgages	**534**	**–**	414	–
Deposits with credit institutions	**494**	**–**	1,453	–
Participation in investment schemes	**2,311**	**–**	2,004	–
Total financial investments	**49,648**	**–**	40,886	–
Derivative assets	**21,936**	**–**	14,626	–
Loans and receivables and other financial assets				
Debtors arising out of direct insurance operations	**–**	**5**	–	12
Other debtors	**–**	**18**	–	14
Accrued interest	**–**	**261**	–	251
Total receivables and other financial assets	**–**	**284**	–	277
Cash and cash equivalents	**–**	**211**	–	76
Total financial assets	**71,584**	**495**	55,512	353
Financial liabilities				
Derivative liabilities	**24,340**	**–**	16,731	–
Creditors arising out of reinsurance operations	**–**	**16**	–	15
Other creditors	**–**	**93**	–	73
Insurance and other payables	**–**	**109**	–	88
Borrowings	**–**	**1,589**	–	892
Accruals	**–**	**30**	–	17
Total financial liabilities	**24,340**	**1,728**	16,731	997

Amounts due to be received after more than one year in the above table are as follows:

	2020 £m	2019 £m
Financial assets designated as fair value through profit or loss	**67,858**	52,358

All amounts relating to insurance and other payables and accruals are expected to be settled within one year.

Deposits with credit institutions

Deposits with credit institutions include £21 million (2019: £19 million) in two bank accounts operated by PIC which are designated fee collateral bank accounts. These accounts were established under deeds of charge dated 9 July 2012 and 11 December 2012 between PIC and Münchener Rückversicherungsgesellschaft ("Munich Re") in respect of longevity reinsurance agreements. The amount deposited in each account represents a proportion of PIC's liability for the payment of fees due over the life of each agreement ("fee collateral amount") and is subject to annual review by each party.

PIC retains control of the cash deposited in these accounts; however, it must maintain a balance at least equal to the agreed fee collateral amount and Munich Re has a fixed first charge over the accounts, which gives it the right to withdraw an amount equivalent to its outstanding fees due under the agreement, on the occurrence of certain specified default events.

Assets pledged as collateral

As explained in Note 11, the Group uses derivative financial instruments as part of its risk management strategy. Most over the counter derivative transactions require collateral to be received or pledged by the Group to mitigate the counterparty credit risk. The Group has collateral agreements with each counterparty based on standard ISDA master netting agreements, which specify minimum thresholds, asset class and credit quality of collateral and the frequency of valuation. While each party to the contract has a legal right to the collateral received if the counterparty does not meet its obligations, there is no economic benefit from holding the assets as each party has the right to substitute the collateral delivered for another asset of the same value and quality at any time. Therefore, these agreements do not meet the criteria for offsetting under IAS 32.

The Group returns/receives the collateral received/pledged upon contract termination or settlement. The amount of collateral received/pledged fluctuates due to the changes in fair value of the derivative subject to the minimum thresholds.

Derivatives

At 31 December 2020, the Group has £3,862 million (2019: £3,054 million) of financial assets which have been pledged as security under the terms of derivative contracts. The Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements.

At 31 December 2020, the amount of collateral received by the Group was £881 million (2019: £488 million). While the Group is permitted to sell or repledge collateral received, no collateral was actually sold or repledged in the absence of default during the year (2019: £nil).

Buy ins

In 2014, PIC concluded a pension insurance buy-in transaction to underwrite approximately £1.6 billion of pension liabilities. Under the terms of the agreement, a security structure was put in place which required PIC to transfer legal title to certain assets back to the Trustee as collateral against PIC default.

Under the terms of the security, the Trustee is free to use the assets without constraint; however, it is obliged to deliver equivalent assets (defined as "an asset of the same type, nominal value, description and amount"), as well as the income earned and gains or losses incurred on these assets to PIC. PIC retains the right to replace any of the assets with assets of similar nature.

Collateral is returned to PIC as it services the insured pension liabilities under the policy. This, in theory, exposes PIC to counterparty credit risk, which is, however, fully mitigated as PIC has a contractual right to offset its obligation to pay under the policy in the event of default by the Trustee. PIC retains substantially all the risks and rewards of ownership in respect of the transferred assets and accordingly PIC continues to recognise the assets which it has pledged under title transfer security in its financial statements. At 31 December 2020, this totalled £1.7 billion (2019: £1.7 billion).

Reinsurance

In 2020, the Group has £469 million of financial assets which have been pledged as collateral under the terms of certain reinsurance contracts (2019: £314 million). At 31 December 2020, the Group held cash of £29 million (2019: £27 million pledged) as collateral under the terms of certain reinsurance contracts. The Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements.

Lending arrangements

The Group enters into a number of securities lending, sale and repurchase arrangements and reverse sale and repurchase arrangements.

Under securities lending arrangements, the Group lends an agreed debt security to a counterparty and receives collateral in the form of eligible, investment grade debt securities as a security against potential counterparty default. In sale and repurchase agreements the Company receives cash for a specified period in return for providing collateral in the form of UK gilts or other sovereign bonds. In reverse sale and repurchase arrangements, the Group provides cash for a specified period and receives collateral in the form of UK gilts or other sovereign bonds.

In all cases the Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements. At 31 December 2020, the Group held assets of £1,168 million (2019: £1,421 million) related to securities lending, sale and repurchase agreements, reverse sale and repurchase agreements, and held £1,168 million (2019: £1,421 million) in gilts and cash as collateral in respect of these arrangements.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Offsetting

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position only when there is an unconditional and a legally enforceable right to offset the recognised amounts in all circumstances (including the default by, or insolvency or bankruptcy of the Group and all counterparties), and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the settlements are executed at the same time, or within a single settlement process or cycle, resulting in no or insignificant credit and liquidity risk.

The Group has no financial assets and financial liabilities that have been offset in the Statement of financial position as at 31 December 2020 (2019: £nil).

The table below contains disclosures related to financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements as required by IFRS 7.

				Related amounts not offset in the Statement of Financial Position			
31 December 2020	**Gross amounts of recognised financial assets/ (liabilities) £m**	**Amounts offset in accordance with IAS 32 £m**	**Net amounts as recognised in the Statement of Financial Position £m**	**Financial instruments (received)/ pledged £m**	**Cash collateral (received)/ pledged £m**	**Derivative (liabilities)/ assets £m**	**Net amount £m**
Financial assets							
Derivatives	**21,936**	**–**	**21,936**	**–**	**(881)**	**(20,840)**	**215**
Debt securities	**270**	**–**	**270**	**(270)**	**–**	**–**	**–**
Deposits with credit institutions	**898**	**–**	**898**	**(898)**	**–**	**–**	**–**
Financial liabilities							
Derivatives	**(24,340)**	**–**	**(24,340)**	**3,862**	**–**	**20,840**	**362**

				Related amounts not offset in the Statement of financial position			
31 December 2019	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts offset in accordance with IAS 32 £m	Net amounts as recognised in the Statement of financial position £m	Financial instruments (received)/ pledged £m	Cash collateral (received)/ pledged £m	Derivative (liabilities)/ assets £m	Net amount £m
Financial assets							
Derivatives	15,853	(1,227)	14,626	–	(488)	(13,957)	181
Debt securities	489	–	489	(489)	–	–	–
Deposits with credit institutions	932	–	932	(932)	–	–	–
Financial liabilities							
Derivatives	(17,958)	1,227	(16,731)	3,054	–	13,957	280

Measurement of financial assets and liabilities

The Group's financial assets and liabilities have been valued using the following methods in accordance with IAS 39 "Financial Instruments".

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

The specific valuation techniques used for the main classifications of financial assets and liabilities are:

(a) Investments in shares, debt securities, unit trusts and participation in investment schemes
The fair value of shares and debt securities is determined by reference to their quoted bid price at the reporting date. For instruments quoted on a recognised stock exchange, these would generally be considered as Level 1 within the fair value hierarchy.

Fair values for debt securities where quoted prices from third parties are not available, are estimated as the present value of future cash flows, discounted at a rate based on yields for comparable quoted bonds, adjusted, where applicable, for illiquidity and idiosyncratic risk. These include infrastructure and other loans in respect of capital projects. Where unobservable inputs do not significantly impact the fair value, these are classified as Level 2 within the fair value hierarchy. Otherwise, they are classified as Level 3.

(b) MBS and ABS
The fair value of mortgage backed and other asset backed securities is determined by reference to their listed market price. Due to the types of markets in which these instruments are traded, such instruments are usually classified as Level 2 within the fair value hierarchy.

Included within MBS and ABS investments are credit linked notes, which are classified as Level 3 within the fair value hierarchy. The fair value of these notes is determined using a discounted cash flow model taking into account the cash flows, the capital structure and risk profile of each note and available market data such as recently traded prices for comparable notes.

(c) Deposits with credit institutions
The fair value of deposits held with credit institutions represents their cash value in current terms. All deposits are short term and consequently no discounting adjustment has been made at the year end. Deposits with credit institutions are classified as Level 1 within the fair value hierarchy with the exception of one asset which has been measured using observable inputs other than quoted prices therefore classified as Level 2.

(d) Equity release mortgages
Equity release mortgages (“ERM”) are loans secured against property that are repayable on death or entry into long-term care of the borrower. The fair value of ERM assets is determined using a mark to model approach based on discounting projected future cash flow arising from the loans. In addition to market observable inputs (such as interest and inflation rates), key inputs to the model also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity and early repayment rates, which are not market observable. The valuation allows for the "no negative equity guarantee", which restricts the amount recoverable by the Group on repayment of the mortgage to the net sale proceeds of the property. The value of this guarantee is calculated using option pricing techniques. Due to the significant estimation uncertainty involved in deriving the values, the ERMs are classified as Level 3 assets within the fair value hierarchy. Principal assumptions underlying the valuation of ERM assets are set out below and sensitivities of the valuations to changes in the key unobservable inputs are disclosed on page 56.

Equivalent spread
The loan-by-loan equivalent spread is solved at the point of each loan’s inception to equate the present value of the expected cash flows to its face value. Subsequently each loan’s equivalent spread is updated in line with changes in the spread of a reference corporate bond index.

Future property prices
The property values at the reporting date are estimated using the most recent property valuation adjusted using a property index. The projected property values reflect future property growth in line with the retail price index and property volatility of 15%.

Early repayment rates
The Group has assumed early repayment rates of between 0.5% and 9% p.a. depending on the projection term, and the loan’s term since inception.

Mortality
The mortality assumptions are derived using the CMI 2019 mortality improvements and a multiple of the PXA08 mortality tables which varies by property postcode.

Dilapidation and sales costs
The valuation model allows for dilapidation and sales costs, both of which are set as a fixed percentage of the value of the property at the point of sale.

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

Measurement of fair value

The following table analyses the Group's financial investments according to the basis of measurement required by IFRS 13 *"Fair Value Measurement"*:

31 December 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	13,251	26,917	5,754	45,922
MBS and ABS	–	387	–	387
Equity release mortgages	–	–	534	534
Deposits with credit institutions	344	150	–	494
Participation in investment schemes	957	1,328	26	2,311
Financial investments	14,552	28,782	6,314	49,648
Derivative assets	–	21,936	–	21,936
Financial assets	14,552	50,718	6,314	71,584
Derivative liabilities	–	(24,340)	–	(24,340)

31 December 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities	14,736	18,214	3,681	36,631
MBS and ABS	–	377	7	384
Equity release mortgage	–	–	414	414
Deposits with credit institutions	1,302	151	–	1,453
Participation in investment schemes	1,124	801	79	2,004
Financial investments	17,162	19,543	4,181	40,886
Derivative assets	–	14,626	–	14,626
Financial assets	17,162	34,169	4,181	55,512
Derivative liabilities	–	(16,731)	–	(16,731)

Level 1 assets are those assets for which the fair value has been measured using quoted prices, without adjustment, in an active market.

Level 2 assets are those assets for which the fair value has been measured using observable inputs other than quoted prices included in Level 1.

Level 3 assets are those assets for which no observable data exists in relation to a significant element of the fair value measurement.

Transfers between levels of the fair value hierarchy

For recurring fair value measurements, the Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the year in which the event or change in circumstances that caused the transfer has occurred.

Transfers between Level 2 and Level 3

During the year, £686 million of debt securities were transferred from Level 2 to Level 3 (2019: £180 million) and £237 million of debt securities were transferred out of Level 3 to Level 2 (2019: £69 million).

Transfers into and out of Level 3 relate to debt securities which are valued using discounted cash flow models. Within the model, interest rate, inflation rate and credit risk assumptions are derived from market data with adjustments applied to ensure that they are relevant to the debt securities held by the Group. Where the impact of the adjustments on the value of the debt securities become significant, these securities would be classified as Level 3 and transferred from Level 2 to Level 3 at the end of the year. Conversely, where the impact becomes less significant, the securities would be classified as Level 2 and transferred out of Level 3 to Level 2.

Movements relating to Level 3 assets during the reporting period are analysed as follows:

31 December 2020	**Debt securities £m**	**MBS and ABS £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Opening balance	**3,681**	**7**	**414**	**79**	**4,181**
Unrealised gains or losses	**472**	**–**	**59**	**18**	**549**
Acquisitions in year	**1,237**	**–**	**61**	**6**	**1,304**
Transfers into Level 3	**686**	**–**	**–**	**–**	**686**
Transfers out of Level 3	**(237)**	**–**	**–**	**–**	**(237)**
Disposals in year	**(85)**	**(7)**	**–**	**(77)**	**(169)**
Closing balance	**5,754**	**–**	**534**	**26**	**6,314**

31 December 2019	Debt securities £m	MBS and ABS £m	ERM £m	Participation in investment schemes £m	Total £m
Opening balance	1,960	24	294	149	2,427
Unrealised gains or losses	408	–	47	(18)	437
Acquisitions in year	1,255	–	75	69	1,399
Transfers into Level 3	180	–	–	–	180
Transfers out of Level 3	(69)	–	–	–	(69)
Disposals in year	(53)	(17)	(2)	(121)	(193)
Closing balance	3,681	7	414	79	4,181

The investment return within the Statement of Comprehensive Income includes the following income and investment gains and losses relating to Level 3 assets:

31 December 2020	**Debt securities £m**	**MBS and ABS £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Investment income	**78**	**–**	**2**	**–**	**80**
Realised gains or losses	**5**	**–**	**(2)**	**(11)**	**(8)**
Unrealised gains or losses	**472**	**–**	**59**	**18**	**549**
Investment return on Level 3 assets	**555**	**–**	**59**	**7**	**621**

31 December 2019	Debt securities £m	MBS and ABS £m	ERM £m	Participation in investment schemes £m	Total £m
Investment income	47	1	1	–	49
Realised gains or losses	19	1	1	(88)	(67)
Unrealised gains or losses	408	–	47	(18)	437
Investment return on Level 3 assets	474	2	49	(106)	419

10. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

As discussed previously, the valuations of financial assets classified as Level 3 are, under certain circumstances, measured using valuation techniques that incorporate assumptions based on unobservable inputs which cannot be evidenced by readily available market information.

The following table shows the effect on the fair value of Level 3 financial assets from changes in unobservable input assumptions.

31 December 2020	Main assumptions	Sensitivity	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Debt securities	Discount rates	+/- 100 bps credit spread	5,754	1,303	(977)
MBS and ABS	Expected loss ("EL")	+/- 30% change in EL	–	–	–
ERM	Discount rates	+/- 100 bps credit spread	534	31	(55)
	Mortality	+/-5% change in mortality assumption	–	1	(1)
	Property price	+/-20% change in property prices	–	21	(34)
	Property growth	+/- 1% change in property growth assumption	–	2	(5)
	Voluntary Redemptions	+/-10% change in voluntary redemption assumption	–	1	(1)
Participation in investment schemes	Expected loss ("EL")	+/-£10 million change in EL	26	10	(10)
			6,314	1,369	(1,083)

31 December 2019	Main assumptions	Sensitivity	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Debt securities	Discount rates	+/- 100 bps credit spread	3,681	829	(438)
MBS and ABS	Expected loss ("EL")	+/- 30% change in EL	7	–	–
ERM	Discount rates	+/- 100 bps credit spread	414	27	(43)
	Mortality	+/-5% change in mortality assumption	–	–	(1)
	Property price	+/-20% change in property prices	–	11	(22)
	Property growth	+/- 1% change in property growth assumption	–	3	(6)
	Voluntary Redemptions	+/-10% change in voluntary redemption assumption	–	1	(1)
Participation in investment schemes	Expected loss ("EL")	+/-£10 million change in EL	79	10	(10)
			4,181	881	(521)

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Net gains or losses arising from changes in the fair value of the derivative financial instruments are recognised immediately in the Statement of Comprehensive Income within the heading investment return.

The Group enters into a number of inflation rate and interest rate swap agreements during the ordinary course of business as part of its risk management strategy to hedge its solvency position against changes in interest rates and inflation. Currency swaps and forward contracts are entered into to eliminate the majority of the currency risk on financial assets invested in non-sterling based debt securities where liabilities are denominated in sterling.

	31 December 2020		31 December 2019	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Interest rate swaps	18,738	(19,335)	12,904	(13,251)
Inflation swaps	2,215	(4,023)	1,456	(2,608)
Credit default swaps	–	(6)	57	(79)
Currency swaps	966	(897)	165	(774)
Foreign exchange forward contracts	8	(36)	–	(19)
Total return swaps	9	(43)	44	–
Total derivative position	21,936	(24,340)	14,626	(16,731)

12. INSURANCE CONTRACTS AND RELATED INSURANCE LIABILITIES

Contract classification
IFRS 4 “Insurance Contracts” requires policyholder contracts written by insurers to be classified as either insurance contracts or investment contracts depending on the level of insurance risk transferred. Insurance contracts are defined as those contracts containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Policyholder contracts which do not transfer significant insurance risk to the insurer are classified as investment contracts. The Group has classified all its policyholder contracts as insurance contracts.

Insurance liabilities
Insurance liabilities are determined by the Group’s internal actuarial department, using recognised actuarial methods and assumptions approved by the Directors. The liabilities are calculated using assumptions equivalent to those used for reporting under Solvency II but with the addition of prudent margins. The liabilities are then adjusted to remove certain items which are not required to be recognised as insurance liabilities under IFRS 4.

Insurance liabilities comprise the present value of future annuity payments to current policyholders, increased to take due account of investment expenses and future administration costs associated with the maintenance of the in-force business. Estimates of future obligations to policyholders allow for the impact of mortality in line with the bases set out below. These bases have been derived from having regard to recent UK general population mortality experience, the demographic profile of the Group’s in-force business and the Group’s own internal mortality experience, and include an allowance for improvements in longevity in the future.

The interest rate used for discounting future claims payments and the associated expenses is derived from the yield on the assets held to back those liabilities and includes an allowance for risks, including credit risk, associated with holding these assets.

Premiums
Premiums are received in consideration for completing an insurance policy with the trustees of the pension scheme. They are recognised and valued on the day risk is accepted. Any adjustments to premiums following work performed during the transition of a scheme are recognised and valued at the date they become payable or receivable by the Group.

Premiums reported exclude any taxes or duties based on premiums.

Claims
Claims and benefits payable consist of regular annuities paid to pension scheme members and beneficiaries, and surrenders which consist of full settlements of transfers out and partial settlement of tax-free cash components of pension benefits. Annuities are recognised when due for payment. Surrenders are accounted for when paid. Death claims are accounted for when notified, at which time the policy ceases to be included within the calculation of the insurance contract liabilities. If the terms of the policy enable a spouse or dependant to receive a benefit, then the policy record will reflect this to ensure the continuing spouse benefits are paid.

Prepayments
Prepayments include annuity payments made to pension schemes in advance of the Statement of Financial Position date to ensure settlement of the following month’s annuity payments to policyholders on a timely basis.

12. INSURANCE CONTRACTS AND RELATED INSURANCE LIABILITIES (continued)

The Group's liabilities in relation to future policyholders' benefits are:

	2020 £m	2019 £m
Future policyholders' benefits		
Gross	**44,835**	37,663
Reinsurance	**(2,773)**	(2,598)
Net	**42,062**	35,065

The gross insurance liabilities shown above are stated in accordance with the Group's accounting policies as set out above. The figures exclude reserves which are required for the calculation of regulatory solvency under the PRA rules but which do not meet the definition of a liability under IFRS and therefore are excluded from insurance liabilities under IFRS 4 and IAS 37 "*Provisions, Contingent Assets and Contingent Liabilities*".

The reinsured liabilities include liabilities ceded under longevity reinsurance contracts with external counterparties and immediate and deferred annuity payments ceded under external quota share arrangements.

(a) Terms and conditions of insurance contracts

The Group's insurance liabilities represent contracts that provide immediate annuities for current pensioners and deferred annuities for members who have not yet reached pensionable age. Annuities in deferment and in payment can be level, subject to fixed increases or increases linked to inflation or a mixture of the three, and in many cases are also subject to defined caps and floors on the increases that can be applied. The insurance liabilities also include member options, such as the option to commute part of the pension for a tax-free cash lump sum on vesting, and annuities payable to spouses or other dependants on the death of the main member.

The Group's insurance contracts are a mixture of "buy-in" policies, where the policyholder is the pension scheme and the insured liabilities cover defined benefits within the scheme, and "buyout" policies, where the policyholder is an individual.

Insurance liabilities are calculated as the present value of future annuity payments and expenses. The principal assumptions used in the calculation are set out below.

(b) Principal assumptions used in the preparation of insurance liabilities

Mortality assumptions

The base mortality assumptions as at 31 December 2020 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S3 series mortality tables published by the Continuous Mortality Investigation ("CMI"), a research body with strong links to the Institute and Faculty of Actuaries in the UK.

Adjustments are applied to these according to a number of factors including, but not limited to, an individual's gender, age, pension amount, occupation and place of residence.

The assumption for future improvements to mortality is modelled using the CMI 2019 model with a period smoothing parameter of 7.0. Both the base mortality tables and the improvements table were updated in 2020.

Valuation rate of interest ("VRI")

The VRI is set at 100% of the risk adjusted yield on assets backing liabilities. Risk adjustments are applied for credit risk associated with the assets held to match liabilities. Those risk adjustments, applied via a fixed basis points default allowance by asset, based on historic levels of default and downgrade with prudent margins, are principally driven by ratings changes in our investment portfolio.

The rate calculated in accordance with these rules as at 31 December 2020 was 1.25% for both index-linked liabilities and non-linked liabilities (2019: 1.93% combined rate).

Inflation

Assumptions for expected future Retail Price Index inflation and Consumer Price Index inflation are based on a curve derived from market prices of inflation-linked swap contracts. For Limited Price Index linked annuities, which are subject to maximum and minimum percentage annual increases, a mark-to-model approach is used to allow for the inherent optionality, as there is currently no deep and liquid market in appropriate swap contracts.

Other assumptions

The internal costs of maintaining the existing insurance contracts, the fees payable to third-party administrators engaged to manage payments due under the in-force policies, fees due to reinsurers and investment management expenses are factored into the calculation of liabilities by adding appropriate allowances, and include an estimate of the impact of future inflation where this is applicable. No allowances are included for expenses incurred in relation to the generation of new business.

Covid-19

The Covid-19 pandemic is ongoing and its economic and demographic implications remain highly uncertain. As such, it is considered that there is currently insufficient evidence to make specific adjustments to long term insurance liability assumptions, but sensitivities to changes in key related assumptions, notably credit and mortality, are included in section e).

(c) Movements

The following table analyses the movement between the insurance liabilities at the beginning and the end of the year into its major components. The main reasons for the increase are the new business written in the year and changes in underlying economic assumptions.

2020	**Gross £m**	**Reinsurance £m**	**Net £m**
At beginning of year	**37,663**	**(2,598)**	**35,065**
Increase in liability from new business	**5,721**	**(8)**	**5,713**
Impact of reinsurance entered into in the year	**–**	**(739)**	**(739)**
Reduction in liability from claims	**(1,653)**	**17**	**(1,636)**
Impact of investment volatility	**4,065**	**(525)**	**3,540**
Changes in valuation assumptions	**(1,273)**	**979**	**(294)**
Other movements	**312**	**101**	**413**
At end of year	**44,835**	**(2,773)**	**42,062**

2019	Gross £m	Reinsurance £m	Net £m
At beginning of year	28,720	(1,854)	26,866
Increase in liability from new business	7,210	–	7,210
Impact of reinsurance entered into in the year	–	(359)	(359)
Reduction in liability from claims	(1,391)	6	(1,385)
Impact of investment volatility	3,268	(478)	2,790
Changes in valuation assumptions	(417)	79	(338)
Other movements	273	8	281
At end of year	37,663	(2,598)	35,065

Changes in assumptions
The movements during the year relating to economic and non-economic assumptions, as shown in the above table, comprise the following items:

Impact of investment volatility
Valuation interest rates are affected by the movement in long-term interest rates, inflation expectations and credit spreads.

The main drivers of the movements are a reduction in UK interest rates resulting in an increase in the value of liabilities and a change in the asset mix and duration of our credit risk asset portfolio.

Changes in valuation assumptions
The movements during the year relating to valuation assumptions comprise the following items:

- The assumptions for base mortality were updated to reflect current experience and those for future amendments revised to reflect current expectations, leading to a release of reserves.
- Maintenance expense assumptions were updated to reflect current budgets and business volumes, leading to a release of reserves.
- All other assumptions were reviewed and updated where necessary to reflect current operating conditions.

Other movements
Other movements primarily comprise the unwind of the valuation rate of interest, expenses/fees, the release of demographic margins and the impact of data changes.

12. INSURANCE CONTRACTS AND RELATED INSURANCE LIABILITIES (continued)

(d) Analysis of expected maturity of gross and net insurance contract liabilities

The table below indicates the net insurance contract liabilities analysed by duration, showing the discounted values of the policy cash flows estimated to arise during each period.

	Within one year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Deferred annuities					
Gross	**95**	**726**	**2,330**	**7,314**	**10,465**
Reinsurance	**(14)**	**(77)**	**(294)**	**(1,721)**	**(2,106)**
As at 31 December 2020	**81**	**649**	**2,036**	**5,593**	**8,359**
Annuities in payment					
Gross	**1,612**	**6,233**	**13,363**	**13,162**	**34,370**
Reinsurance	**66**	**214**	**75**	**(1,022)**	**(667)**
As at 31 December 2020	**1,678**	**6,447**	**13,438**	**12,140**	**33,703**

	Within one year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Deferred annuities					
Gross	63	549	1,822	5,553	7,987
Reinsurance	(2)	(17)	(125)	(1,254)	(1,398)
As at 31 December 2019	61	532	1,697	4,299	6,589
Annuities in payment					
Gross	1,392	5,324	11,350	11,610	29,676
Reinsurance	46	135	(91)	(1,290)	(1,200)
As at 31 December 2019	1,438	5,459	11,259	10,320	28,476

(e) Sensitivity analysis

In accordance with IFRS 4 and IFRS 7 “Financial Instruments: Disclosures” the Directors have considered the effect on profits and equity at 31 December 2020 resulting from changes in a number of key assumptions. The effect of each of the assumption changes is considered in isolation on the basis that all other key assumptions remain unaltered. The impact of this sensitivity analysis on profits and equity is set out in the table below.

	2020		2019	
31 December 2020	**Pre-tax change in profit £m**	**Post tax change in profit and equity £m**	Pre-tax change in profit £m	Post tax change in profit and equity £m
100 bps increase in interest rates	**(639)**	**(517)**	(337)	(273)
100 bps decrease in interest rates	**428**	**347**	339	275
50 bps increase in inflation	**148**	**120**	110	89
50 bps decrease in inflation	**(19)**	**(15)**	(4)	(3)
Base mortality (see below)	**(188)**	**(152)**	(144)	(117)
Mortality improvements (see below)	**(92)**	**(74)**	(75)	(61)
Renewal expenses (see below)	**(147)**	**(119)**	(112)	(91)
Exchange rates (see below)	**(10)**	**(8)**	(4)	(3)
Credit spreads increase of 100 bps	**(64)**	**(51)**	79	64

Parameters for exchange rate, longevity and renewal expense sensitivities

The base mortality sensitivity is based on a 5% reduction in the base mortality rates. This is equivalent to a 0.4 year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.

The mortality improvements sensitivity is based on a 0.1% increase in annual mortality improvement rates. This is equivalent to a 0.2 year increase in life expectancy from 22.8 years to 23.0 years for a typical male aged 65.

The expense sensitivity is based on an increase in annual maintenance expenses (including third party administration costs) of 15%.

The exchange rate sensitivity is based on the weakening of US Dollar and Euro against sterling by 1%.

The key assumptions, methodology and limitations of the sensitivity analysis are as follows:

- The effects of the specified changes in factors are determined based on the year-end financial instrument values. The level of movements in market factors on which the sensitivity analyses are based were determined based on economic forecasts and historical experience of variations in these factors. The sensitivity analysis is based on the risks to which the Group is exposed at the end of the reporting period, and reflects the changes in relevant risk variables that are reasonably possible at this date and over the next reporting period. The sensitivities used are based around the core assumptions in the financial statements rather than considering more extreme scenarios.
- Each entry in the sensitivity table demonstrates the effect of a change in a single key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor will often lead to changes in other market factors. In particular, the Group's use of derivatives is designed to ensure that its exposure to interest and inflation risks is carefully managed.

(f) Reinsurance results

Amounts recoverable from or due to reinsurers are measured consistently with the amounts covered under each of the in-force reinsurance contracts and in accordance with the terms of each reinsurance contract.

Premiums payable under quota share reinsurance contracts are recognised at the inception of each reinsurance contract. In cases where the amount of premiums due to the reinsurer has not been finalised at the end of a reporting period, an estimate is made in accordance with the terms of each reinsurance contract. Subsequent adjustments to the premium payable are accounted for in the period in which the adjustment arises.

Premiums payable for reinsurance ceded are recognised in the period in which the benefit of the reinsurance treaty is recognised within insurance contract liabilities.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, together with longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

The Group has two types of quota share reinsurance arrangements. The first type are quota share agreements with external reinsurers covering all policyholder benefit payments for a proportion of the business reinsured. This proportion varies between 50% and 100% for certain discrete blocks of business. The second type is a tail-risk quota share arrangement with an external reinsurer under which 100% of all benefit payments after a fixed period (subject to certain treaty-specific limits) are covered in return for an initial single premium.

The Group has also entered into a number of longevity reinsurance contracts with external reinsurers under which it has committed to pay the reinsurer a schedule of fixed payments ("the fixed line") in respect of expected claims relating to defined tranches of policyholder benefits and in return the reinsurer undertakes to reimburse the actual cost of claims on those tranches to the Group. Separately, there is also a reinsurance fee on each of these contracts for which the Group is liable. Settlement of the contract is on a net basis. The amounts receivable from or payable to reinsurers are recognised as Reinsurers' share of insurance liabilities in the Statement of Financial Position.

Fees paid in respect of certain longevity reinsurance contracts which are contingent on surplus levels under the historical solvency regime are recognised as incurred and are included under outward reinsurance premiums.

Reinsurance recoveries are accounted for in the same period as the related claim is incurred.

The Group impairs its reinsurance assets if there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that not all amounts due to it under the terms of the contract will be received and the impact of the event on the amount to be received from the reinsurer can be reliably measured. An impairment loss is recognised for the amount by which the reinsurance asset's carrying amount exceeds its recoverable amount.

The effect of reinsurance contracts entered into by the Group on profit before taxation is as follows:

	2020 £m	2019 £m
Outward reinsurance premiums	(517)	(50)
Reinsurers' share of claims paid	47	42
Changes in reinsurers' share of insurance liabilities	175	744
Net effect of reinsurance contracts on profit before taxation	(295)	736

Reinsurance assets have increased during the year due to entering into a new quota share arrangement.

13. BORROWINGS

Borrowings are recognised initially at fair value, which is the cash consideration received net of transaction costs incurred. Borrowings classified as liabilities are subsequently stated at amortised cost. The difference between the net proceeds and the redemption value is recognised in the Statement of Comprehensive Income over the borrowing period using the effective interest method.

	2020		2019	
Loan notes	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
£300m notes maturing 2024	298	362	297	355
£250m notes maturing 2026	248	335	248	319
£350m notes maturing 2030	347	450	347	398
£300m notes maturing 2031	299	367	–	–
£400m notes maturing 2032	397	445	–	–
Total	**1,589**	**1,959**	892	1,072

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

On 23 November 2016, PIC issued a further £250 million subordinated loan notes due to be repaid in 2026 with a fixed coupon of 8.0% paid annually in arrears. These notes were issued at 98.916% of par.

On 20 September 2018, PIC issued a further £350 million subordinated loan notes due 2030 with a fixed coupon of 5.625% paid annually in arrears. These notes were issued at 99.693% of par.

On 7 May 2020, PIC issued a further tranche of £300 million subordinated loan notes due 2031 with a fixed coupon of 4.625% paid annually in arrears. These notes were issued at 99.554% of par.

On 21 October 2020, PIC issued a further tranche of £400 million subordinated loan notes due 2032 with a fixed coupon of 3.625% paid annually in arrears. These notes were issued at 99.129% of par.

All notes represent direct, unsecured and subordinated obligations of PIC, and are classified as qualifying dated Tier 2 securities for the purposes of regulatory capital requirements. The notes are listed on the London Stock Exchange.

The fair value is the quoted price of the loan notes. The loan notes have been classified as Level 2 in the fair value hierarchy.

Finance costs comprise the interest expense on borrowings, which is calculated using the effective interest method. For the year ended 31 December 2020 an interest expense of £72 million (2019: £61 million), which was calculated using the amortised cost method, was recognised in the Statement of Comprehensive Income in respect of the notes.

14. DEFERRED TAX

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates ruling at the date the timing difference is expected to reverse.

Deferred tax assets are recognised only to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that sufficient future taxable profits will be available against which the asset can be utilised.

At 31 December 2020, the Group's deferred tax balances calculated in accordance with IAS 12 "Income Taxes" were as follows:

31 December 2020	Liability £m	Total £m
Tax transitional adjustment	**(2)**	**(2)**
31 December 2019		
Tax transitional adjustment	(3)	(3)

The movement in the deferred tax balance during the year was as follows:

	2020 £m	2019 £m
At beginning of year	(3)	(3)
Recognition of deferred tax asset on temporary timing differences	1	–
At end of year	**(2)**	(3)

The Group has £nil other timing differences or tax losses carried forward at 31 December 2020 (2019: £nil) which may give rise to reduced tax charges in future periods.

15. RISK MANAGEMENT

As a provider of insurance solutions to defined benefit pension schemes, the Group's business involves the acceptance and management of risk to achieve its strategic objectives.

The principal risk factors which affect the Group's operating results and financial condition include financial risks such as market risk, credit risk and liquidity risk, insurance risk, and other risks such as operational risk, regulatory risk, conduct risk and reputational risk.

Insurance risk is implicit in the Group's business and mainly arises from exposure to longevity in respect of annuity payments. Regulatory risk stems principally from the risk of changes to the regulatory environment in which PIC operates. The main reputational risks relate to the need to maintain a good reputation with trustees of pension schemes and their advisers in order to attract new business and with its own policyholders through treating them fairly. Maintaining a good internal culture is recognised as a key tool in mitigating these risks.

The Directors have overall responsibility for the management of the exposure to these risks. They are supported through the formal committees of the PIC Board including the Investment and Origination Committee, Audit Committee, Nomination and Remuneration Committee and Risk Committee. The membership of these committees is mainly comprised of Non-Executive Directors. Executive Directors and relevant senior management attend meetings as requested. The Board retains direct responsibility for reputational risk. The PIC Board has instigated a co-ordinated approach between the Risk, Compliance, Actuarial and Internal Audit Functions to provide integrated assurance in the monitoring of the internal risk and control environment.

The management and control of the Group's risks is a significant focus area for the Board as an uncontrolled and unmanaged development in various risks may affect the Group's performance and capital adequacy. The Group adopts an integrated view to the management and qualitative assessment of risk under risk acceptance guidelines and policies set by the Board and aims to minimise its exposure to risks such as interest rate risk and inflation risk, which carry little reward for the Group. Risks such as longevity risk are mitigated through reinsurance to the extent that it is economic to do so.

The Group uses derivatives for the purpose of efficient portfolio management or to reduce risk in aspects of the Group's investment activities such as the implementation of tactical asset allocation changes around the strategic benchmark, the hedging of cash flows and the control of the risk profile of an identified strategy. The Group uses cross currency swaps, forward exchange contracts and futures for these purposes. It also uses interest and inflation rate swaps for the purpose of matching assets and liabilities, and credit default swaps to manage credit risk.

15. RISK MANAGEMENT (continued)

(a) Market risk

The Group is exposed to market risk as a consequence of fluctuations in values or returns on assets and liabilities which are influenced by one or more external factors. These include changes and volatility in interest rates, credit spreads, inflation expectations and currency exchange rates.

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

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

The Group is also exposed to risks of movements in the property market through its investment in the GPUTs. The short-term market risk is mitigated by the fact that all eight of its properties are occupied on leases extending to 1 July 2034. The Group performs regular reviews of both the movement in the property market specific to these properties and the financial status of the tenants.

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

(b) Credit risk

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

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

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

The table below sets out the credit risk exposure and ratings of financial assets which are susceptible to credit risk. The ratings used have been sourced from S&P, Moody's or Fitch or have been assigned internally where the ratings from these agencies were not available. The remaining unrated assets are not classified by S&P, Moody's, Fitch or internally.

31 December 2020	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]	2,655	20,951	11,583	10,350	94	289	45,922
MBS and ABS[2]	–	11	318	49	3	6	387
Equity release mortgages	–	–	–	–	–	534	534
Deposits with credit institutions	–	273	221	–	–	–	494
Participation in investment schemes	957	–	–	–	126	1,228	2,311
	3,612	21,235	12,122	10,399	223	2,057	49,648
Other assets							
Derivative assets	–	–	–	–	–	21,936	21,936
Receivables and other financial assets	25	47	83	105	1	23	284
Cash and cash equivalents	–	–	–	211	–	–	211
	25	47	83	316	1	21,959	22,431

1 Within Debt securities there are £223 million AAA rated, £2,227 million AA rated, £2,882 million A rated, £1,188 million BBB rated and £78 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £4 million A rated securities which have been rated using internally assessed credit ratings.

31 December 2019	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]	2,227	15,632	9,616	8,736	156	264	36,631
MBS and ABS[2]	–	19	297	50	–	18	384
Equity release mortgages	–	–	–	–	–	414	414
Deposits with credit institutions	–	310	1,143	–	–	–	1,453
Participation in investment schemes	1,125	–	–	–	–	879	2,004
	3,352	15,961	11,056	8,786	156	1,575	40,886
Other assets							
Derivative assets	–	–	–	–	–	14,626	14,626
Receivables and other financial assets	22	42	83	103	1	26	277
Cash and cash equivalents	–	–	–	76	–	–	76
	22	42	83	179	1	14,652	14,979

1 Within Debt securities there are £261 million AAA rated, £2,062 million AA rated, £2,002 million A rated, £693 million BBB rated and £146 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £4 million A rated securities which have been rated using internally assessed credit ratings.

Although the derivative asset instruments themselves are unrated, the ultimate issuing party for most derivative assets do have a credit rating. Additionally, the derivatives are fully collateralised with highly rated instruments, so as to mitigate any credit or counterparty risk. Applying the issuer rating to the assets held at 31 December 2020 produces the following split:

31 December 2020	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB £m**	**Unrated £m**	**Total £m**
Derivative assets	**–**	**3,600**	**16,423**	**1,913**	**–**	**–**	**21,936**

31 December 2019	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
Derivative assets	–	3,704	9,535	1,387	–	–	14,626

These assets are included with regular stress testing undertaken by the Group which assesses the impact of a number of scenarios on the Group's solvency position.

Reinsurance counterparties

The Group has reinsurance contracts in place with fourteen external reinsurers with an exposure of £2,773 million at 31 December 2020 (2019: £2,598 million). Measures are in place with respect to the reinsurance contracts to manage counterparty exposure, including collateral arrangements and other protections. The credit rating of each reinsurer is reported to management on a monthly basis. The credit rating of each reinsurer was A or higher at both 31 December 2020 and 31 December 2019.

Impaired assets

The Group did not have any impaired or past due date assets at 31 December 2020 (2019: £nil).

(c) Liquidity risk

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

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

The Group's risk policies define a minimum proportion of its assets to be held in highly liquid cash and gilts, which can be readily converted to cash or used as collateral against movements in its derivative contracts. Stress testing is conducted to ensure that there are sufficient liquid assets at all times to meet potential demands from derivative movements under extreme scenarios.

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

15. RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

The following table sets out the contractual maturity analysis of financial liabilities. All amounts for non-derivative liabilities are on an undiscounted basis, including interest where applicable, so will not always reconcile to the amounts disclosed on the Statement of Financial Position. Derivative liabilities relate primarily to inflation rate and interest rate swaps to hedge the Group's solvency position.

31 December 2020	Carrying value £m	Within one year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Creditors arising out of reinsurance operations	**16**	**16**	**–**	**–**	**–**	**16**
Other creditors	**93**	**93**	**–**	**–**	**–**	**93**
Accruals	**30**	**30**	**–**	**–**	**–**	**30**
Borrowings	**1,589**	**88**	**631**	**1,603**	**–**	**2,322**
Derivative liabilities	**24,340**	**176**	**802**	**3,182**	**20,180**	**24,340**
	26,068	**403**	**1,433**	**4,785**	**20,180**	**26,801**

31 December 2019	Carrying value £m	Within one year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Creditors arising out of reinsurance operations	15	15	–	–	–	15
Other creditors	73	73	–	–	–	73
Accruals	17	17	–	–	–	17
Borrowings[1]	892	59	537	758	–	1,354
Derivative liabilities	16,731	134	515	1,873	14,209	16,731
	17,728	298	1,052	2,631	14,209	18,190

1 The borrowings analysis for 2019 has been restated to include cash flows on an undiscounted basis.

All amounts due to other creditors are expected to be paid in the next financial year.

The amounts disclosed in more than 1 year columns in the above table are expected to be settled more than 12 months after the reporting date.

(d) Insurance risk

Longevity risk is the risk that mortality experience of the Group's policyholders is lighter than assumed, thus requiring pensions to be paid for a longer period than anticipated, resulting in a higher than expected cost to the Group.

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

Longevity only reinsurance

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

Quota share reinsurance – longevity reinsurance via the transfer of assets

Under such contracts, in return for an initial single premium, the reinsurer agrees to reimburse the actual cost of future claims to the Group in respect of an agreed set of policyholders. These contracts also transfer the contingent risks relating to eligible dependants of relevant policyholders.

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

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

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

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

Risk arising from a specific insurance contract

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

Exposure to changes in financial market conditions

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

(e) Operational risk

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

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

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

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

16. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Group is:

	2020		2019	
	Number of shares	£m	Number of shares	£m
Authorised, issued and fully paid				
At beginning of year	999,810,351	1,000	999,810,351	1,000
Shares issued in the period	226,574,959	226	–	–
At end of year	1,226,385,310	1,226	999,810,351	1,000

On 13 February 2020, the Group announced its intention to raise £750 million of share capital. This was completed as two draw-downs in 2020 resulting in an increase in share capital of £226 million and share premium of £524 million and an increase in the number of shares issued of 226,574,959.

17. RESTRICTED TIER 1 ("RT1") NOTES

In 2019, PIC issued £450 million RT1 notes. After considering and analysing the terms of the notes against the debt and equity classification requirements of IAS 39, the notes have been classified as equity. It was determined that the notes did not impose any obligation on PIC to deliver cash or other financial assets to the holders of the notes because:

- the notes are perpetual, with no fixed redemption or maturity date;
- interest is payable and cancellable at the sole discretion of PIC; and
- interest is non-cumulative.

The interest payments arising are recognised in equity upon payment.

	2020 £m	2019 £m
Restricted Tier 1 notes	444	445

On 25 July 2019, PIC issued £450 million of new Restricted Tier 1 ("RT1") debt capital loan notes with a fixed coupon of 7.375% paid semi-annually in arrears. In 2020 the total coupon paid was £33 million (2019: £nil). In 2020, the Group incurred additional costs of £1 million (2019: £5 million), in respect of the issue.

18. RESERVES

	2020			2019		
	Share premium £m	Other reserves £m	Retained profit £m	Share premium £m	Other reserves £m	Retained profit £m
At beginning of year	–	60	1,693	–	60	1,374
Total comprehensive income	–	–	223	–	–	319
Tier 1 coupon	–	–	(33)	–	–	–
Tier 1 tax relief	–	–	6	–	–	–
Equity raise	524	–	–	–	–	–
At end of year	524	60	1,889	–	60	1,693

Other reserves comprise £60 million contributed in 2008 by PIC Holdings Limited, the immediate parent of the Group.

19. CAPITAL RESOURCES

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and ensure compliance with the relevant financial services regulations, whilst creating shareholder value. The Group's capital resources comprise equity and debt capital. The details of the Group's equity capital resources are given in the Statement of Changes in Equity.

PIC is required to measure and manage its capital in accordance with the requirements of the EU Solvency II Framework Directive ("Solvency II"), as adopted by the PRA. There are certain valuation differences between the IFRS balance sheet and the Solvency II balance sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. Also, under Solvency II PIC is able to treat the subordinated debt referred to in Note 13 as regulatory capital. PIC has complied with the capital requirements under Solvency II throughout the year.

PIC currently has sufficient capital resources available to meet all its present capital requirements and does not utilise financial reinsurance or securitisation.

	2020 unaudited £m	2019 £m
Net assets held in excess of best estimate liabilities ("BEL")	**8,063**	5,951
Risk margin net of transitionals	**(1,353)**	(1,107)
Own Funds	**6,710**	4,844
Solvency II capital requirements	**(4,261)**	(2,954)
Solvency II surplus	**2,449**	1,890
Solvency ratio	**157%**	164%

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities closely, taking account of the risks inherent in the business;
- to maintain financial strength sufficient to support new business growth in line with the Group's business plan;
- to satisfy the contractual entitlements of its policyholders and the requirements of its regulators;
- to ensure financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth;
- to manage exposure to changes in interest and inflation rates by way of a comprehensive hedging programme; and
- to manage exposure to movements in exchange rates.

The Group currently has sufficient capital resources available to meet all its present capital requirements and does not utilise financial reinsurance or securitisation.

Under Solvency II, PIC uses an internal model to set its statutory solvency capital requirements. This evaluates market risk, insurance risk, operational risk, expense risk and counterparty risk. In addition, PIC produces an Own Risk and Solvency Assessment report annually, which provides an analysis of the risks facing the Group and its capital resources.

PIC manages its business according to the risk strategy, appetite and tolerances set out in its risk policies. In accordance with this, PIC defines risk appetite limits for solvency and a target level of capital that it wishes to maintain, which PIC regularly monitors and reports. Capital volatility is managed through risk management techniques, including the use of inflation rate, interest rate and currency hedging instruments to reduce exposure to potential adverse market movements. PIC is also able to manage its capital position through the level of new business it writes and its broader investment and reinsurance strategies.

PIC focuses on hedging its Solvency II balance sheet through hedging its technical provisions and solvency capital requirement to interest rates and inflation rates. This provides a proxy to IFRS and embedded value sensitivities, although some basis risk remains. PIC aims to remove all foreign exchange risk through cross-currency hedging. Longevity risk is managed through reinsurance, where 84% of exposure has been transferred as at 31 December 2020, based on regulatory liabilities.

20. RELATED PARTY TRANSACTIONS

As at 31 December 2020, the Directors regarded Pension Insurance Corporation Group Limited ("PICG"), a limited Group incorporated in England and Wales, as the Group's ultimate parent and controlling party.

a) Transactions with key management personnel

The group controlled by PICG includes three other companies which the Directors consider to be related parties by virtue of their common control.

The compensation paid to key management personnel is disclosed in Note 7.

During the year, certain share based payment schemes operated by PICG in respect of employees of Pension Services Corporation Limited have vested. Nine of the key management personnel of the Group, including the Directors, were participants in these schemes and received a total of 2,654,633 ordinary shares of PICG upon exercising in line with the scheme rules.

b) Transactions with fellow group undertakings

The Group had transactions with its fellow group undertakings as follows:

Income statement	**2020 £m**	2019 £m
Expense recharges	**(185)**	(151)
	(185)	(151)

c) Balances with fellow group undertakings

The Company had transactions with its fellow group undertakings as follows:

	Transactions during the year		Balance as at 31 December	
Balance sheet	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Amounts owed to group undertakings	**(16)**	(6)	**(83)**	(67)

d) Capital transactions with fellow group undertakings

During the year the Group had the following capital transactions with its fellow group undertakings:

Balance sheet	**2020 £m**	2019 £m
Equity raise	**750**	–

21. FINANCIAL COMMITMENTS AND CONTINGENCIES

Commitments

During the year the Group executed transactions to purchase partly funded securities. The Group expects to pay a further £1,089 million within the next five years (2019: £1,317 million), £797 million of this being due within 12 months of the financial reporting date (2019: £689 million).

	2020 £m	2019 £m
Within 1 year	**797**	689
In 1–5 years	**292**	618
Over 5 years	**–**	10
	1,089	1,317

Contingent liabilities

The Group has certain reinsurance agreements, which include fees that are contingent on occurrence of specific events. Such fees do not meet the definition of a liability, therefore are not recognised on the Statement of Financial Position. At 31 December 2020, the estimated value of the contingent fees payable was £9 million (2019: £9 million). The Group considered that there were no other events which could lead to contingencies in the ordinary course of business.

22. PARENT COMPANY AND ULTIMATE CONTROLLING PARTY

The Company is a wholly owned subsidiary of PIC Holdings Limited ("PICH"), which is incorporated in England and Wales.

The Directors regard PICG, a limited company incorporated in England and Wales, as the ultimate parent and controlling party. PICG is the largest group of which the Company is a member and for which Group financial statements are prepared. The consolidated financial statements of PICG are available to the public and may be obtained from the Company's registered address at 14 Cornhill, London EC3V 3ND.

PARENT COMPANY FINANCIAL STATEMENTS
STATEMENT OF FINANCIAL POSITION FOR THE COMPANY
AS AT 31 DECEMBER 2020

	Note	2020 £m	2019[1] £m
Assets			
Investment in subsidiaries	1	**87**	81
Financial investments		**49,742**	40,886
Derivative assets		**21,936**	14,626
Current taxation		**3**	–
Reinsurers' share of insurance liabilities		**2,773**	2,598
Prepayments		**102**	91
Receivables and other financial assets		**284**	277
Cash and cash equivalents		**118**	76
Total Assets		**75,045**	58,635
Equity			
Share capital		**1,226**	1,000
Share premium		**524**	–
Other reserves		**60**	60
Tier 1 notes		**444**	445
Retained profit		**1,889**	1,693
Total Equity		**4,143**	3,198
Liabilities			
Gross insurance liabilities		**44,835**	37,663
Borrowings		**1,589**	892
Derivative liabilities		**24,340**	16,731
Deferred tax liability		**2**	3
Current taxation		**–**	43
Insurance and other payables		**107**	88
Accruals		**29**	17
Total Liabilities		**70,902**	55,437
Total Equity and Liabilities		**75,045**	58,635

1 PIC restated its investment properties to Investment in subsidiaries, reflecting that they are held indirectly through investment entities.

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 43 to 69 in the consolidated Group accounts, and the Company specific accounting policies and notes on page 73 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 16 March 2021 and were signed on its behalf by:

Rob Sewell
Director

Registered number: 05706720

PARENT COMPANY FINANCIAL STATEMENTS
STATEMENT OF CHANGES IN EQUITY FOR THE COMPANY
FOR THE YEAR ENDED 31 DECEMBER 2020

The profit for the financial year recorded within the accounts of the Company is £223m (2019: £319m). In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate Income Statement and Statement of Comprehensive Income for the Company have not been presented.

31 December 2020	**Share capital £m**	**Share premium £m**	**Other reserves £m**	**Tier 1 notes £m**	**Retained profit £m**	**Total £m**
At beginning of year	**1,000**	**–**	**60**	**445**	**1,693**	**3,198**
Total comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**223**	**223**
Transactions with owners						
Tier 1 coupon	**–**	**–**	**–**	**–**	**(33)**	**(33)**
Tier 1 coupon tax relief	**–**	**–**	**–**	**–**	**6**	**6**
Tier 1 additional costs	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Equity raise	**226**	**524**	**–**	**–**	**–**	**750**
At end of year	**1,226**	**524**	**60**	**444**	**1,889**	**4,143**

31 December 2019	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year	1,000	–	60	–	1,374	2,434
Total comprehensive income						
Profit for the year	–	–	–	–	319	319
Tier 1 note issuance	–	–	–	445	–	445
At end of year	1,000	–	60	445	1,693	3,198

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 43 to 69 in the consolidated Group accounts, and the Company specific accounting policies and notes on page 73 form an integral part of these financial statements.

PARENT COMPANY FINANCIAL STATEMENTS
COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £m	2019 £m[1]
Cash flows from operating activities		
Profit for the year	223	319
Adjustments for:		
Interest income recognised in profit	(1,027)	(923)
Other investment return	47	(13)
Interest expense recognised in profit or loss	72	61
Revaluation of investment in subsidiary	12	15
Tax expense	53	75
	(843)	(785)
Changes in operating assets and liabilities		
Increase in financial investments including derivative assets	(16,166)	(14,384)
Increase in reinsurers' share of insurance liabilities	(175)	(744)
Increase in prepayments	(11)	(33)
Decrease in receivables and other financial assets	3	28
Increase/Decrease in accruals	12	(2)
Increase in insurance liabilities	7,172	8,943
Increase in financial liabilities including derivative liabilities	7,609	5,428
Increase in insurance and other payables	19	16
	(1,537)	(748)
Cash outflow from operating activities	(2,157)	(1,214)
Interest income received	1,017	895
Other investment return	(47)	13
Taxation paid	(93)	(69)
Net outflow from operating activities	(1,280)	(375)
Cash inflow from investing activities		
Additions to investment in subsidiaries	(18)	–
Net outflow from investing activities	(18)	–
Cash inflow from financing activities		
Proceeds from issue of Tier 1 notes	–	450
Proceeds from issue of subordinated debt	700	–
Proceeds from issue of equity	750	–
Interest paid on subordinated debt	(72)	(61)
Coupon on Tier 1 notes	(33)	–
Issue costs	(5)	(5)
Net inflow from financing activities	1,340	384
Net increase in cash and cash equivalents	42	9
Cash and cash equivalents at beginning of year	76	67
Cash and cash equivalents at end of year	118	76

1 Some presentational inconsistencies in the investment in subsidiaries cash flows have been corrected in the comparative figures.

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 43 to 69 in the consolidated Group accounts, and the Company specific accounting policies and notes on page 73 form an integral part of these financial statements.

1. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries relate to the Company's holdings in property and equity release mortgage vehicles.

Investments in subsidiary companies are carried at fair value in the Company's accounts.

The Company's investments in subsidiary undertakings is as follows:

	2020 £m	2019 £m
Cost		
At start of year	**81**	96
Additions in the year	**18**	–
Revaluation of Investments in Subsidiaries	**(12)**	(15)
At end of the year	**87**	81
Net book value		
31 December	**87**	81

The additions in the year relate to the investment in the Manchester New Victoria project. Please see Note 10 of the consolidated Group accounts for more details.

Subsidiary Undertakings	Principal Activity	Country of incorporation	Registered address	% of equity held	Share class
PIC ERM 1 Limited	Investment activity	England	14 Cornhill, London, EC3V 3ND	100%	Ordinary shares
PIC Properties Limited Partnership	Investment Holding Entity	England	14 Cornhill, London, EC3V 3ND	100%	Ordinary shares
PIC New Victoria Unit Trust	Investment activity	Guernsey	Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ	99%	Unit trust
PIC New Victoria Limited Partnership	Investment activity	England	14 Cornhill, London, EC3V 3ND	99%	Partnership

2. RELATED PARTY TRANSACTIONS

a) Transactions with fellow group undertakings

The Company had transactions with its fellow group undertakings as follows:

Income statement	2020 £m	2019 £m
Distribution from group undertakings	**1**	6
Expense recharges	**(185)**	(151)
	(184)	(145)

b) Balances with fellow group undertakings

The Company had transactions with its fellow group undertakings as follows:

	Transactions during the year		Balance as at 31 December	
Balance sheet	2020 £m	2019 £m	2020 £m	2019 £m
Amounts owed by group undertakings	**77**	–	**75**	–
Amounts owed to group undertakings	**(16)**	(6)	**(83)**	(67)

c) Capital transactions with fellow group undertakings

During the year the Company had the following capital transactions with its fellow group undertakings:

Balance sheet	2020 £m	2019 £m
Equity raise	**750**	–
Equity investment in subsidiary undertakings	**(18)**	–

As the Company retains substantially all the risks and rewards of ownership of any equity release mortgages transferred to its equity release mortgage vehicle subsidiary, the assets do not meet the derecognition criteria under IFRS and continue to be presented on the Company's statement of financial position. On this basis, transactions of this nature have been excluded from the disclosures.

PENSION INSURANCE
CORPORATION

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