PENSION INSURANCE
CORPORATION GROUP LIMITED

Guaranteed pensions, purposeful investments

Pension Insurance Corporation Group Limited
Annual Report and Accounts 2020

Guaranteed pensions, purposeful investments

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.

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Financial Statements

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

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

Our clients include

Our privately-sourced debt counterparties include

Our 2020 awards

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

£4,964m

2019

£3,874m

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

Number 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 risk reinsured

2020
84%

2019
81%

Gender pay gap

2020
12.1%

2019
17.2%

£750m of new equity raised from existing shareholders

2020
£750m

Strategic Report

LOFTUS GARDEN VILLAGE: ONE OF THE HOUSING DEVELOPMENTS BUILT BY POBL GROUP.
In November 2020, PIC invested £65 million in Welsh housing association Pobl, following an initial £35 million investment in 2013, as part of a long-term partnership.

www.poblgroup.co.uk/our-developments/loftus-garden-village/

Purpose, culture and values

Our purpose

The purpose of PIC is to pay the pensions of our current and future policyholders.

Guaranteed pensions for our growing policyholder base are backed by a purposeful investment strategy. This strategy prioritises the management of key risks, including Environmental, Social and Governance ("ESG"), as integral to paying the pensions of our policyholders over the coming decades.

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing and national infrastructure are socially beneficial outcomes of our focus on our purpose. Excellence in customer service and balanced stakeholder relationships are fundamental to our approach.

Key outcomes of our purpose

Policyholders: Guaranteed pensions for life; excellence in customer service

Employees: Stimulating, fair and rewarding workplace

Economy: Significant investments in urban regeneration, social housing and areas that balance intergenerational equity

Society: Active engagement in public policy debates around purposeful, long-term investment in the economy and stakeholder capitalism

Environment: Increasing investments into renewable energy, with concurrent reduction in exposure to carbon-producing industries

Key suppliers: Partnership model of engagement

Capital providers: Growing store of value expected to provide secure, long-term returns

Our strategic objectives

Growth and focus
Grow the value of the business on a focused, secure and sustainable basis

Reputation and conduct
Ensure that our behaviours reflect our values through the delivery of market-leading customer service

Cost and capital efficiency
Maintain a scalable business model that optimises internal and external resources

Returns
Deliver attractive risk-adjusted total shareholder returns

Our culture

OUR CUSTOMERS ARE OUR PRIORITY

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

Our values

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

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

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

Striving to be the best
We provide sector-leading expertise, operating at a level of excellence in everything we do. We listen carefully, are not afraid to learn and challenge ourselves and deliver a consistently high-quality offering

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

Creating social value by delivering on our purpose

Pension risk transfer

OLD BRITISH STEEL PENSION SCHEME BUYOUT
October 2020

PIC signed a £2 billion pension insurance buyout with the Trustee of the Old British Steel Pension Scheme (the "Scheme" or "OBSPS"), guaranteeing future pension payments for all of the more than 30,000 members at, or above, Pension Protection Fund ("PPF") levels of compensation.

The Scheme entered PPF assessment in 2018 following the restructuring of Tata Steel UK Limited. The deal will enhance members' benefits above those payable by the PPF for any members who lost out as a result of entering the PPF assessment.

"This transaction will eventually see OBSPS members receive benefits either at the same PPF level as those currently provided or, for many members, an uplift above that amount.

OBSPS members can take comfort that their benefits will be looked after by an insurer which is authorised and regulated by the Prudential Regulation Authority and regulated by the Financial Conduct Authority, as well as being committed to the highest levels of customer service."

Jonathan Hazlett
Managing Director of Open Trustees Ltd

£2bn
transaction size

Urban regeneration

PIC'S FIRST BUILD TO RENT PROJECT: NEW VICTORIA, MANCHESTER
September 2020

PIC acquired a prime city-centre site in Manchester as the location for its first Build to Rent project, investing £130 million to fund the construction of 520 residential apartments, over 6,000 square feet of commercial space and 102 car parking spaces. Muse Developments, a part of the Morgan Sindall Group, is the developer.

The construction project, which has full planning consent, will deliver high-quality homes and help regenerate a key part of the city centre. It is expected to create 40 new jobs and employ 650 people during the construction phase, with completion due in 2024.

"Reaching completion on the forward funding deal with PIC is a significant milestone for all partners, as we bring forward the first phase of this innovative gateway development."

David Burkinshaw
Development Director at Muse Developments

650
jobs secured

Funding affordable homes across the UK

LONG-TERM PARTNERSHIPS
November 2020

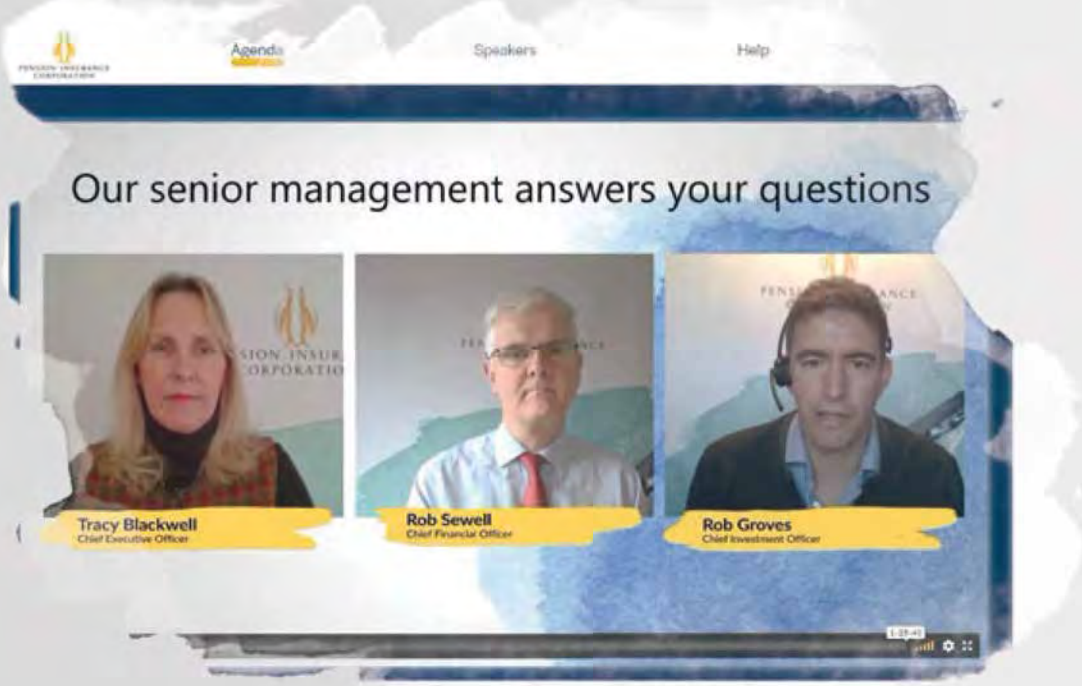
PIC signed new borrowing agreements with housing associations Livin and Pobl in 2020, following initial transactions in 2019 and 2013 respectively. This builds on a long history of working with the sector.

The funds are being used to refinance existing long-term debt, allowing for further growth and the development of more social housing stock.

"We are delighted to have secured this funding which will help us achieve our ambition of creating 10,000 new homes for Wales over the next ten years. PIC is a valued partner following our initial transaction in 2013 and having the opportunity to work again with a team that has such a strong understanding of the social housing sector makes for an efficient and successful process. We valued PIC's flexibility, including the ability to defer drawdown."

Wayne Fox
Director of Corporate Finance at Pobl

10,000
new homes planned in Wales in the next ten years



Accountable and transparent customer service

PIC'S POLICYHOLDER HOUR
December 2020

Speaking to and meeting with the people whose pensions we guarantee has always been a key part of our ethos.

In a typical year we arrange complimentary events so that our policyholders can learn more about the way we do business. We are proud to be the only financial services company to offer these types of events.

With the Covid-19 pandemic putting these kinds of large-scale events on hold, we wanted to ensure that policyholders continued to receive the level of information they have come to expect from us about PIC's performance.

We therefore moved the events to virtual policyholder engagement sessions, re-named "Policyholder Hour". Policyholders were invited to attend a live session featuring presentations by PIC's CEO and senior management about the Company, its strategy and customer service, and our approach to safeguarding the funds that back our policyholders' pensions. Policyholders also took part in a senior management question & answer session.

> I thought it was brilliant! Already looking forward to the next one. Very useful information to help understand the Company's strategy."
>
> **Policyholder Hour attendee**

> I am very confident in your Corporation and expect that to continue as long as I am a policyholder. You are doing a fantastic job in all areas; long may you continue to flourish."
>
> **Policyholder Hour attendee**

The policyholder journey

From pension scheme member...

Our policyholders, all former members of UK defined benefit pension schemes or their dependants, are central to our business.

Everything we do is designed to provide guaranteed pensions for them. They become our policyholders following a buyout transaction agreed by the trustees of their pension scheme.

The Trustee signs a buyout transaction, which transfers all risks, assets and policyholder obligations to PIC.

WHAT DIFFERENTIATES US
The quality of service PIC provides to transitioning pension fund members is a key focus for the PIC management team. The transition includes the development of a specific communication schedule so that members are kept fully informed about their impending transfer.

“PIC provided us with a tailored risk transfer solution and I am grateful for their flexibility and dedication in achieving this outcome.”

Peter Docking
Trustee Chair of two WPP pension schemes (£250 million transaction covering two WPP schemes announced in March 2020)

2

...via a transition period...

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

WHAT DIFFERENTIATES US

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

“Unexpectedly pleasant, helpful staff who stand out from the crowd. I couldn’t be more satisfied.”

PIC policyholder 2020

3

...to PIC policyholder

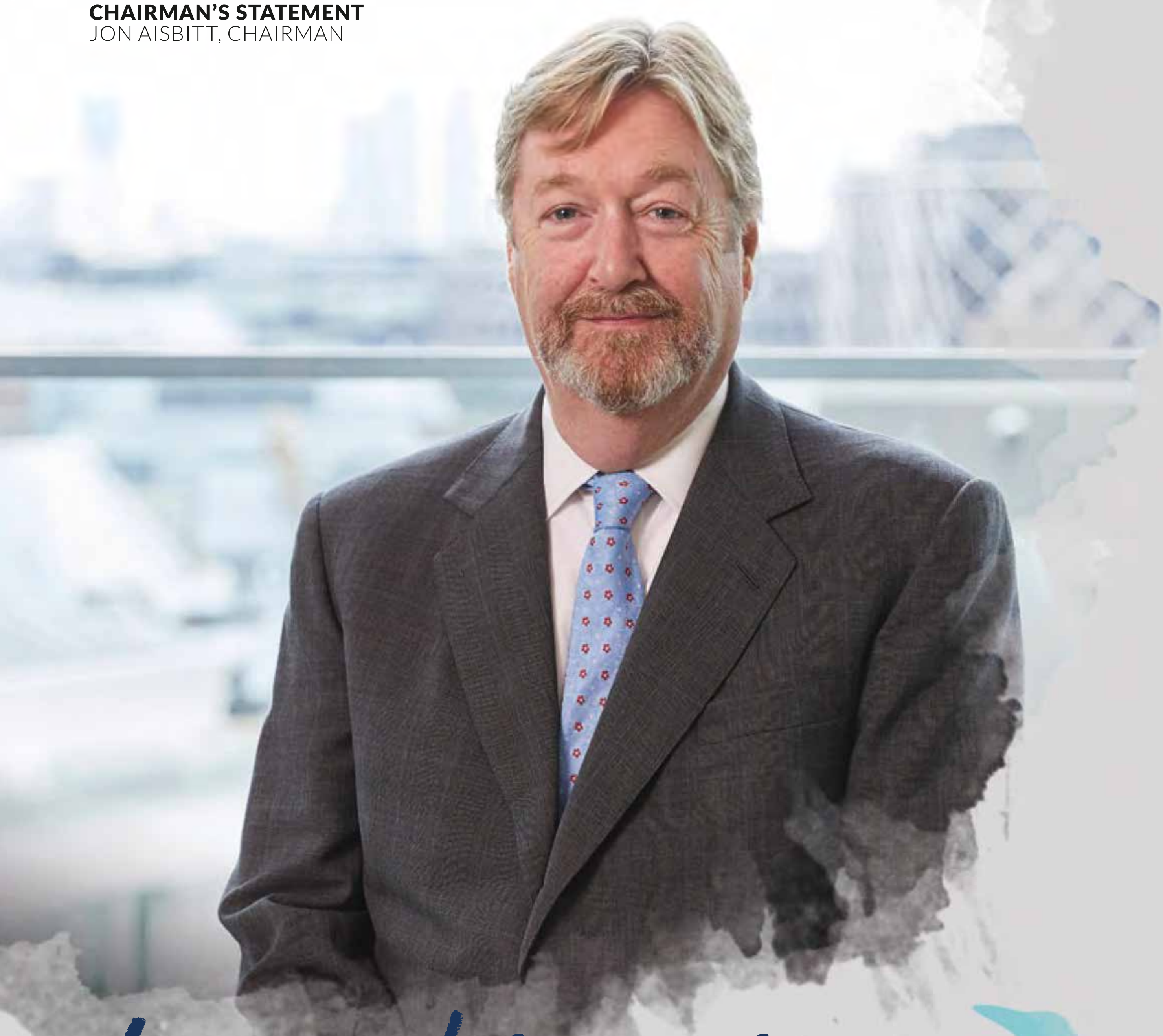
We genuinely seek to do things better for our policyholders.

WHAT DIFFERENTIATES US

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

“All staff that I spoke to were competent, helpful and knowledgeable. Even in this current Covid-19 environment it was easy to get to speak to a real person.”

PIC policyholder 2020



Investing in the business

£1,487m
Total pensions paid in the year

95%
of employees believe PIC will be successful in the next 2-3 years

We remain strong and profitable, have supportive shareholders and continue to provide excellent customer service."

The crisis wrought by the pandemic has, as we are all aware, had significant health and social costs, as well as major political and economic impacts. Our thoughts are with those policyholders who have lost their lives to Covid-19 or otherwise suffered from the impact of the pandemic.

The Group has been fortunate: our business has not been adversely affected in any significant way by the pandemic. We remain financially strong and profitable; have supportive shareholders; and continue to provide excellent customer service to our policyholders. So the underlying theme of 2020 for us has been to continue investing in our infrastructure as the business grows, and to ensure that we continue to provide a financially strong and resilient business over the medium term.

But first, I would like to pay tribute to our committed employees, who have worked so conscientiously for us and for our stakeholders during this very difficult period. Notwithstanding the disruption caused by lockdowns and disrupted work patterns, they were able to respond effectively to the crisis, ensuring that our policyholders continued to receive exceptional service; that our payments systems to policyholders received the necessary additional oversight the circumstances demanded, and that they operated as we expected, with no issues; that our portfolio was carefully managed; that our wider stakeholders, whether that be shareholders, debt investors or our regulators were constructively supported where required; and that everyone pulled together as a team, drawing on our culture and values as we focused on our purpose.

This cohesive, immensely professional response resulted in what I can only regard as an exceptional year for the business. PIC now guarantees the benefits of 273,500 pensioners, increasing by 48,400 during the year, backed by an investment portfolio of £49.6 billion, which has grown by £8.7 billion during the year. This growth follows transactions worth £5.6 billion, with clients including the Old British Steel Pension Scheme, the Co-op Pension Scheme and the Merchant Navy Officers Pension Fund. We now have 311 employees, having taken on, and seamlessly integrated into the business, an additional 82 during the year.

The Group's balance sheet has remained strong during the year, despite the volatility of the financial markets. In January, well before the crisis broke, we announced a capital raise of £750 million of new equity from existing shareholders, to support future growth.

We also took the opportunity to issue two tranches of debt capital, amounting to £700 million in total, in May and October. This new capital will also be used to support the business. The £400 million issuance, completed in October, achieved the lowest sterling coupon cost for Tier 2 hybrid debt issued by an insurer to date. This is a tremendous vote of confidence in our business by the financial markets.

The Board's focus has been split between managing the business in the context of the national crisis and long-term development plans for the business. Our immediate focus has been around ensuring that the business continues to deliver excellent customer service and that the financial performance of the business has remained satisfactory. On both counts the Board is more than satisfied with the results to date. Further information relating to how the Board has made decisions to promote the success of the Company can be found within the Section 172 statement of the Strategic Report on pages 22 to 24.

The Board has also kept a keen focus on the long term, ensuring that we continued to develop our operating model in response to the pandemic and the strong growth of the business. I am pleased to say that this work has progressed well, giving us confidence in the future development of the business.

We have seen a step change in growth over the past couple of years and our investment focus now reaches into areas of the economy that will be extremely important as the country seeks to recover from the pandemic. For example, the £130 million Build to Rent investment we made in Manchester, announced in September, is securing or creating 650 jobs for the next three years. Within this context, the issue of Environmental, Social and Governance ("ESG") investing has remained a focus for the Board.

As the Government considers its reforms of Solvency II it is crucial for the country that our industry is incentivised to invest in these types of long-term, socially beneficial projects, whilst helping corporates de-risk and providing guaranteed pensions to our policyholders.

This is a long-term business. Our trustee clients rely on us to be able to pay the pensions of our policyholders for decades to come, the reason the business exists. This is an obligation we take extremely seriously and the Group's performance during a most difficult year should reassure our policyholders that their pensions really are guaranteed.

Jon Aisbitt
Chairman

A clear and focused strategy

£5.6bn
of new business in 2020

98.7%
Policyholder satisfaction

> I am proud and delighted at how the business has responded to the crisis.”

It is at times of crisis when you can really see whether the long-term investments made in the business, and the priorities established over years, were worthwhile.

Over the last few years the Group has invested in the systems and processes which enabled us to efficiently and effectively work remotely. But perhaps more importantly, we have also focused the business around a very specific purpose, to pay the pensions of our current and future policyholders, whilst providing excellent customer service and balancing our stakeholder relationships. This has enabled us to motivate and empower existing employees during this challenging year, whilst seamlessly integrating an additional 82 new joiners as the business continues to grow. It is the cornerstone of our success.

Like many others, we started the year optimistically, even as we had one eye on the emerging Covid-19 news from China. In January, we announced that our existing long-term, supportive shareholders had agreed to invest £750 million of additional equity capital to support new business, and by mid-February we had already completed almost £3 billion of new business.

By the end of February we were actively implementing our business continuity plans, and nearly all employees were working from home by 16 March, ahead of the formal lockdown, because we felt that was best from an employee welfare perspective. It has been apparent since that first hectic period that this crisis is a marathon and not a sprint, and we have urged employees to take care of themselves both mentally and physically. How we help them do this has been a major challenge for our HR team and for our managers.

But I am proud and delighted at how the business has responded to the crisis. I want to thank our employees for their resilience, flexibility and sheer hard work in unfamiliar, and sometimes challenging, personal circumstances. Each team quickly focused on the new priorities and on providing high levels of service for, and engagement with, their stakeholders, including our policyholders, trustees in transition, regulators and new business prospects, allowing us to present an excellent set of results.

PIC operates in a structurally huge growth market of real importance to the economy, which saw its second biggest ever year in 2020, with about £30 billion of pension scheme liabilities being insured through pension risk transfer deals.

We completed £5.6 billion of new business this year (2019: £7.2 billion) despite the impact of the pandemic and produced a strong set of results. The overall value of the business as measured by Market Consistent Embedded Value is £4,964 million (2019: £3,874 million), with Adjusted Equity Own Funds of £5,915 million (2019: £4,504 million). The Group's IFRS profit before tax was £276 million (2019: £394 million), the fall in the year is as a result of market volatility and lower new business contributions offset by the benefit of management actions. The investment portfolio grew to £49.6 billion (2019: £40.9 billion), an increase of 21% in the year. This number is affected by the level of new business conducted, market movements, and policyholder payments. PIC's Solvency Ratio stood at 157% at year end, demonstrating a continued robust balance sheet, despite the economic and market turmoil.

Alongside the significant amount of new equity we raised, we also issued £700 million of debt capital, intended to supplement our overall financial strength.

In the normal course of business we take the view that longevity risk is not one we wish to hold, at least with the current make-up of the Solvency II Risk Margin, and our reinsurance programme has continued through 2020 with the reinsurance of £6.6 billion of longevity risk. This brings the total reinsured in aggregate by the Group to 84%. Following an asset-based reinsurance treaty with a global reinsurer in the first half, we have now extended our panel of global reinsurers to 14.

Whilst our systems and processes allowed us to respond decisively to the crisis, confident in the resilience of the business, we have continued to invest for the future. In particular, we have successfully completed the implementation of significant new financial and asset systems during the year as well as upgrading our core IT infrastructure, all whilst working remotely; a remarkable achievement.

Although at times this year we have seen significant volatility in financial markets, we have remained confident in our liquidity and solvency positions, as well as the resilience of the asset portfolio. As I have previously noted, we took risk out of the portfolio during the course of 2019, because of the uncertain economic and political environment. This move has been fully vindicated, even though we did not anticipate the Covid-related events of this year. This means that we entered the crisis with a secure portfolio, and have continued de-risking it during the year. We had zero defaults and limited downgrades to sub-investment grade, with only £110 million, or 0.4% of the credit portfolio (excluding gilts), moving into sub-investment grade.

As Environmental, Social and Governance ("ESG") investment metrics have risen up the political agenda, so we have evolved the integration of ESG in our investment process. These factors are linked firmly back to our purpose. The effect of this is that during 2020 we reduced our exposure to oil & gas by £600 million and committed to divest from thermal coal. At the same time we invested £587 million in renewable energy. Our portfolio of renewable energy assets is now larger than our fossil fuel asset portfolio.

We have continued to invest in privately-sourced debt. Many of these types of assets have socially beneficial outcomes, such as social housing, in which we have invested £463 million during the year, and the UK's universities. The flows of capital coming from PIC and our peers will help smooth the transition to a greener economy and provide a measure of intergenerational fairness.

One of the things I am most proud of this year is the way that we have continued to provide first-class service to our policyholders. Our relationship with Capita, our outsourcing provider, was critical in our response to the crisis, when we worked hand in glove with them to make our dedicated call centre virtual. This move actually saw our call-handling response times improve from an already impressive level. Our overall policyholder satisfaction score of 98.7% demonstrates the effectiveness of this relationship.

But perhaps better, the Institute of Customer Service conducted a survey of our policyholders as part of our re-application for ServiceMark with Distinction, following the natural conclusion of the previous time-limited award. The results showed that in the eyes of our policyholders we far outclass other UK insurance companies, and UK companies in general, in terms of customer service. We scored particularly well on overall experience, emotional connection, ethics and customer ethos. A remarkable achievement.

I was also delighted to take part in our first ever online Policyholder Hour in December, a replacement for our existing programme of in-person Policyholder Days, which we couldn't hold this year for obvious reasons.

Finally, I am pleased that we were able to take part in important public policy debates during the year, including on pension superfunds, which we continue to believe are a badly-conceived idea, and reform of Solvency II, which will enable capital to be deployed to create jobs, develop much needed infrastructure and provide greener energy.

I will just finish by reiterating my earlier point about the inherent strength of PIC's purpose, which has provided a focal point for the entire business during a year which none of us would choose to repeat. In summary, I am immensely proud that the Company has remained financially strong throughout a turbulent year, with an enhanced reputation for customer service, and with a motivated and energetic employee base. This is a strong foundation for continued success.

Tracy Blackwell
Chief Executive Officer

"The results showed we scored particularly well on overall experience, emotional connection, ethics and customer ethos."

£587m

invested in renewable energy in 2020

Engaging through Covid-19

INTRODUCTION

The Group responded early and proactively to the emerging Covid-19 crisis. As the timeline demonstrates, the Crisis Management Team ("CMT") was convened on 29 January to discuss the Group's options and prepare for what might come. These preparations were facilitated because the Group had increased investment in its business resilience systems and capabilities after a 2015 fire shut the office for two weeks, and as a response to increased social risk, including cyber crime. This planning also included extensive preparations with our key outsourcing providers and suppliers, so we were confident in their resilience and therefore our ability to maintain high service levels for all our stakeholders.

As a result of this long-term, detailed business continuity planning, the Group had strong foundations to ensure that it was able to continue fulfilling PIC's purpose of paying the pensions of its current and future policyholders. For example, all employees had been issued with laptops suitable for home working from 2017 onwards, allowing the Group to bring in home working for all employees ahead of the national lockdown on 23 March. The Group had also invested in the necessary cyber security measures to protect the working from home environment.

In this section we provide some insight into how the business approached the challenges presented by the Covid-19 crisis, and how we maintained our partnerships with all our stakeholders.

POLICYHOLDERS

The existing governance framework for our relationship with the Group's administration partner, Capita, which includes a PIC-ringfenced call centre team, meant that our crisis management response was agile and effective. PIC worked extremely closely with Capita to ensure continuity and excellence of service for our policyholders, including daily calls with, and engagement from, Capita senior management. This ensured that the move to a fully remote call centre happened without interruption of service.

The Group's processes and systems for policyholder payments proved robust and Covid-19 did not impact policyholder payments. The funding for trustee accounts held by our buy-in clients continued as normal and was unaffected by the working from home arrangements.

We are proud that during the pandemic our policyholder service not only remained fully operational but also, in many areas, actually exceeded our usual high performance levels:

— PIC's policyholder helpline achieved an average response time of four seconds, with 99% of calls answered within 20 seconds.

— Policyholder payments made correctly and on time.

— Answered >98% of policyholder requests within three days.

Covid-19 response timeline

IMMEDIATE RESPONSE

29 January
First Crisis Management Team ("CMT") meeting on Covid-19.

3 February
Business Continuity ("BC") planning with Capita starts.

6 February
PIC's CMT moves forward Covid-19 BC plans.

13 February
PIC Town Hall with Covid-19 update to staff.

14 February
PIC undertakes BC exercise with all staff working from home.

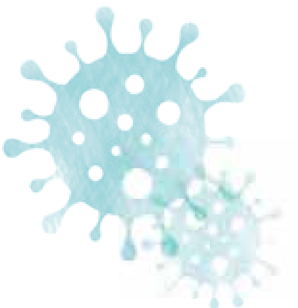
> We are proud that during the pandemic our policyholder service not only remained fully operational but also, in many areas, actually exceeded our usual high performance levels.”

EMPLOYEES

Alongside the focus on our outsourcing partners and technology, employee welfare has been a key focus in our response to the pandemic. The Group was therefore able to be proactive in its approach to employee welfare from the start of the crisis, prioritising it and helping employees to continue to deliver over a sustained and challenging period. This has included providing access to counselling where needed.

During the first lockdown, the Group consulted extensively with employees about the re-opening of the office and the measures undertaken to protect them once that decision was taken. The office was subsequently opened, in line with Government and health service recommendations, for employees most in need during August, and remained open when lockdown regulations allowed.

The key findings of the annual employee survey, which PIC concluded in Q2 2020, show the effectiveness of management's approach. For more information on these key findings, please turn to page 42.



PIC'S SOLVENCY AND LIQUIDITY POSITIONS

During 2019 the Group had taken an increasingly conservative, risk-averse position within the credit portfolio due to concerns about the overall economic and political outlook. So, going into the crisis, PIC held considerable positions in government securities (mainly gilts), investment grade corporate bonds, and had very low exposures to individual counterparties. In fact, no single counterparty, other than the UK Government, represented more than 2.3% of the Group's portfolio at year-end 2019. Whilst we saw significant market volatility in March and April 2020, we had ample liquid resources to fund our liabilities, as well as strong solvency. As a consequence, we experienced zero defaults and saw only approximately 0.4% of the credit portfolio (excluding gilts) moving from investment grade to non-investment grade during 2020.

At year-end 2019, PIC had a solvency ratio of 164%, which was bolstered over 2020 with a capital raise from our existing shareholders of £750 million, to support expected new business growth during the year. PIC subsequently raised a further £700 million in the debt markets during 2020, further bolstering the balance sheet.

2 March
Daily Covid-19 BC plan calls between PIC and Capita senior management.

9 March
Employees affected by school closures allowed to work from home.

16 March
Prime Minister advises against all non-essential travel and social contact.

16 March
All staff advised to work from home, with daily check-in.

23 March
Lockdown announced by the Prime Minister.

25 March
Capita PIC team 100% working from home.

25 March
Implemented enhanced policyholder quality assurance checks.

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, 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 23 to 27 and within the Corporate Governance Report on page 99.

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 (see more on pages 6 to 7 and 42). 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 94 on Directors' training and induction.

Key engagement activities are detailed on pages 99 of the Corporate Governance Report.

Further information on our approach to stakeholder engagement and s.172(1) matters can be found here:

Consequences of key decisions in the long term	Our business	See page 6
	Business model	See page 28
	Chairman's statement	See page 15
Employees	Our culture and values	See page 42
Fostering the Company's business relationships with suppliers, customers and others	Customer care	See page 38
	Engaging with our stakeholders	See page 26 and 99
Community	Engaging with our stakeholders	See page 26 and 99
Environment	Our Environmental, Social and Governance ("ESG") approach	See page 56
High standards of business conduct	Chairman's introduction	See page 83
	Whistleblowing	See page 95
	Modern Slavery Act	See page 95
	Anti-bribery and corruption	See page 95
Investors	Engaging with our stakeholders	See page 26 and 99

In 2020, the Board made decisions in respect of a wide variety of topics. The following are some examples of how the Board considers the s.172 principles in its deliberations.

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 ("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 (see page 38 for more detail). 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 a 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 a 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 £49.6 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 its strong track record and focus on ESG, it 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 2013.

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 cash flows in the public bond 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 likely 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 the Pobl Welsh housing association and the funding will be split into two tranches and this was announced in November 2020.

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 though reinvesting assets. The Board acknowledged that investing in renewable energy, such as the solar bonds, did promote the long-term success of the Company. The cash flows over the full term are well matched to PIC's long-term liabilities, providing cash flows 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 £467 million 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.

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.

PRIVATELY-SOURCED DEBT COUNTERPARTIES

Why we engage

— 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

How we engage

— 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

2020 update

— 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 or securing 650 jobs for the next three years

POLICYHOLDERS

Why we engage

— 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

How we engage

— 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

2020 update

— The Institute of Customer Service ("ICS") 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 an online Policyholder Hour in place of the Covid-19 disrupted in-person events we have held for almost ten years

DEFINED BENEFIT PENSION SCHEME TRUSTEES

Why we engage

— Defined benefit trustees are the stakeholder group that entrust PIC with responsibility for paying the pensions of their members for life

— Transactions with trustees are how the business grows, by increasing numbers of policyholders and clients

How we engage

— 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

2020 update

— PIC won three industry awards based on the transactions we have structured and completed

SHAREHOLDERS AND DEBT HOLDERS

Why we engage

- 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

How we engage

- 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

2020 update

- 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

Why we engage

- 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

How we engage

- PIC conducts an annual employee survey, managed by a specialist third party organisation, as well as surveying employees as part of the 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

2020 update

- 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

Why we engage

- Demonstrating our understanding and management of our risks to the regulators is key to fulfilling PIC's purpose and strategy
- Strong relationships with policymakers help them understand the importance of a purposeful finance sector and allow 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

How we engage

- 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

2020 update

- Engaged on key public policy issues, including pension superfunds, and the Government's consultation on Solvency II

KEY SUPPLIERS

Why we engage

- 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

How we engage

- 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

2020 update

- 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 staff. 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

Long-term returns

PIC consolidates UK defined benefit pension schemes through either a pension buy-in or buyout, operating exclusively in the pension risk transfer market.

The key steps in securing pensions and generating long-term shareholder returns are below.

WHAT WE DO

Pension risk transfer

PIC's financial strategy is to manage the assets associated with the defined benefit pension scheme liabilities and to make a consistent margin on these assets over the very long term. The liabilities that we take on are in respect of the obligations to pay the pensions of members or former members of pension schemes. As these obligations can be made highly predictable (by hedging the interest rate, inflation and longevity risk) and the majority are non-callable, we are able to invest in assets with a very long time horizon.

This process:

- Secures pension benefits to the highest level, within the insurance regulatory framework
- Removes risk from those companies responsible for defined benefit pension funds, increasing shareholder value
- Recycles investment back into the economy

Visit the 'What we do' section of the PIC website for descriptions of a buy-in and buyout.

HOW WE DO IT

Pension scheme

1. MANAGE OUR LIABILITIES
As pension scheme liabilities (or projected pension scheme payments) are usually uncertain in both timing and amount, where possible, we hedge the scheme liabilities for inflation and interest rates by using either derivatives or other assets.

2. MANAGE OUR RISKS
Longevity risk is also reinsured to transfer the risk to a third party, create certain liability cash flows and optimise PIC's capital deployment.

3. REINVEST OUR ASSETS
Pension scheme assets received are reinvested to optimise returns on a cash flow matched and risk-adjusted basis, taking into account a variety of risk factors including ESG considerations.

4. MANAGE OUR CAPITAL RESOURCES
We ensure capital is committed for the full term of the liabilities.

5. DELIVER EXCELLENT CUSTOMER SERVICE
We ensure that we pay our policyholders and trustees accurately and on time. Please also refer to pages 38 to 41 for further information on the customer service we provide.

PIC'S OUTCOME FOR POLICYHOLDERS AND CAPITAL PROVIDERS

Liabilities – best estimate liability net of reinsurance and prudent margins

2020

£38.6bn

2019

£32.4bn

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

2020

£47.5bn

2019

£39.0bn

Excess assets are allocated to cover solvency risk and prudent margins that will generate future cash flows for reinvestment as well as returns for capital providers (debt and equity)

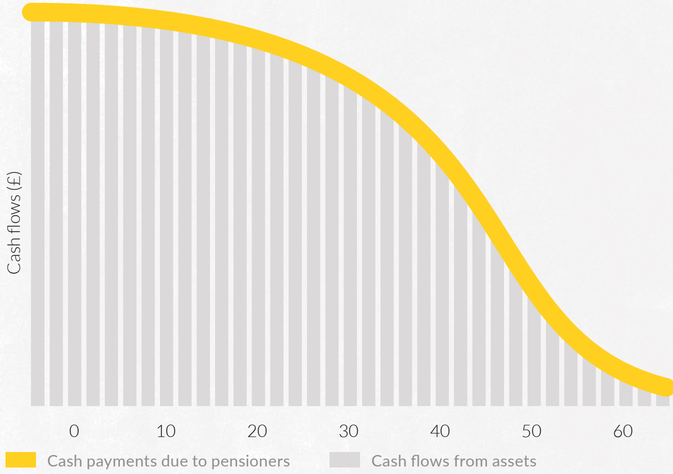
2020

£8.9bn

2019

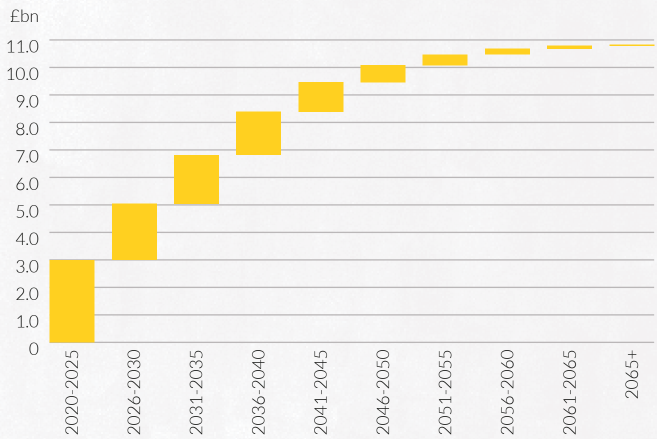
£6.6bn

Best estimate liabilities are made more certain with reinsurance and liabilities are cash flow matched with high-quality assets to back future pension payments



Returns for our capital providers are generated by PIC on the assets held in excess of those needed to pay future pension payments. They are returned, or reinvested, as policyholder liabilities (including the prudent margins held within policyholder liabilities) run off.

Illustrative profile of future cash generation from the current in-force business (FY 2020)



Measuring our progress

Our strategic objectives are designed to fulfil our purpose to pay the pensions of our current and future policyholders, resulting in a purposeful investment strategy, and value creation for our capital providers.

Eight key performance indicators ("KPIs") are used to measure the performance of PIC across four strategic objectives: growth and focus, reputation and conduct, cost and capital efficiency, and returns. These metrics are reviewed annually to ensure they continue to reflect our strategic objectives.

Growth and focus

STRATEGIC OBJECTIVE

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

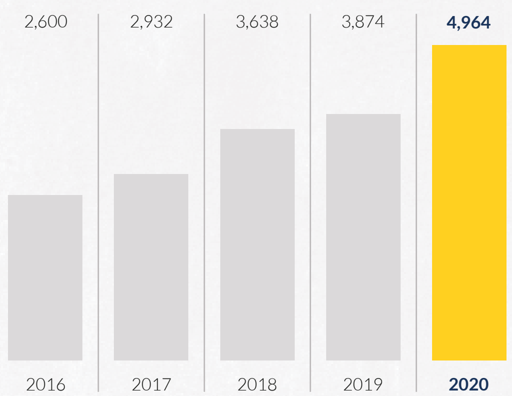
ACHIEVEMENTS IN 2020

- PIC continues to be a leader in the UK pension risk transfer ("PRT") market, with a long-term market share of 24%.
- £5.6 billion of new business premiums written in 2020 with seven pension schemes.
- At FY 2020 financial investments were £49.6 billion, growing from £1.9 billion in 2008, a compound annual growth rate of 31%.
- At year-end PIC had reinsured over 84% of its total longevity exposure expanding its reinsurance panel to 14 highly rated reinsurance counterparties.

KPI TO MEASURE PROGRESS

Embedded value ("EV") (£m)

This measure is one of the metrics used by the Board to measure the value of the business. It is the present value of future after-tax profits plus adjusted net asset value less an allowance for the cost of capital.

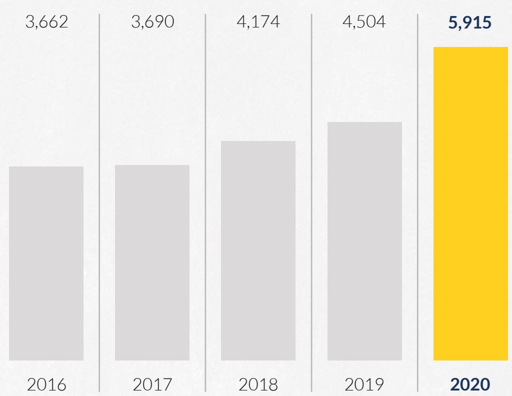


Comments

The Group's EV increased by 28% to £4,964 million (2019: £3,874 million) driven by the equity raise and market movements during the year.

PIC Adjusted Equity Own Funds ("AEOF") (£m)

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



Comments

PIC's AEOF rose by 31% to £5,915 million (2019: £4,504 million) mainly due to the equity raise and market conditions during the year.

Reputation and conduct

STRATEGIC OBJECTIVE

Ensure that our behaviours reflect our values through market-leading customer service

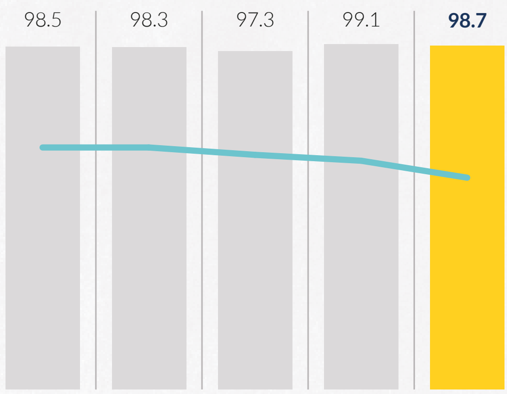
ACHIEVEMENTS IN 2020

- Continued commitment to provide excellent customer service to our policyholders. 98.7% of policyholders expressed overall satisfaction with our service levels.
- Awarded Risk Reduction Provider of the Year at the UK Pension Awards 2020, Risk Management Provider of the Year at the Pension Age Awards 2020 and Pensions Insurance Firm of the Year at the European Pension Awards 2020.
- Successfully completed third year of mentoring programme for female actuaries, in conjunction with the Institute and Faculty of Actuaries ("IFoA").

KPI TO MEASURE PROGRESS

Policyholder satisfaction (%)

Policyholders are asked to provide a satisfaction rating for PIC's customer service through telephone and paper surveys. We monitor this metric to ensure we continue to focus on the purpose of the business.



Comments

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

Customer focus (%)

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

2020

92.0%

2019

98.0%

Comments

These figures show the percentage of employees who believe PIC is customer focused. Refer to page 42 for more details.

Cost and capital efficiency

STRATEGIC OBJECTIVE

Maintain a scalable business model that optimises internal and external resources

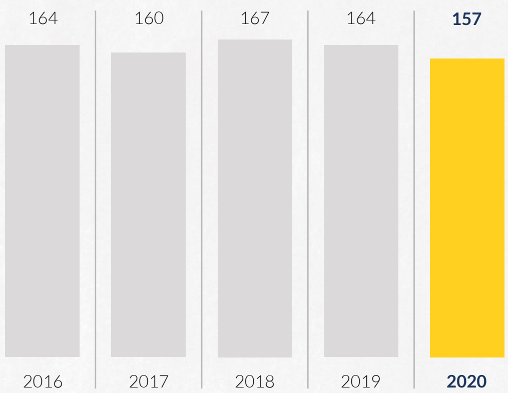
ACHIEVEMENTS IN 2020

- PIC maintained a robust solvency ratio of 157%.
- Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (strong) and long-term Insurer Default Rating at 'A'.
- Raised £750 million of new equity from our shareholders and £700 million of hybrid capital from the debt markets.
- Operating expense ratio reduced from 0.42% in 2015 to 0.37% in 2020.

KPI TO MEASURE PROGRESS

PIC solvency ratio (%)

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

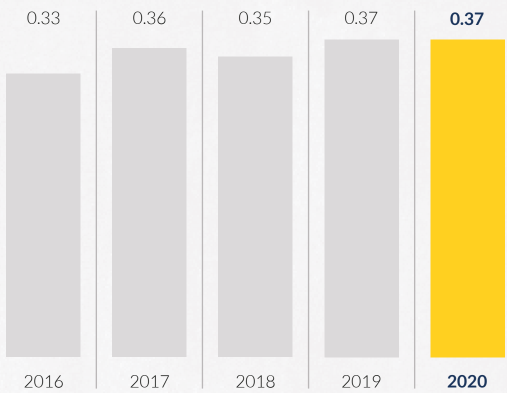


Comments

PIC's solvency ratio remained strong at 157% with significant new business volumes and adverse market movements being offset with the capital raised in the period.

Expense ratio (%)

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



Comments

Expense ratio has remained in line with 2019 with increased spending being offset with an increase in financial investments.

*Operating expenses include investment management fees but exclude ERM origination fees

Returns

STRATEGIC OBJECTIVE

Deliver attractive risk-adjusted total shareholder returns

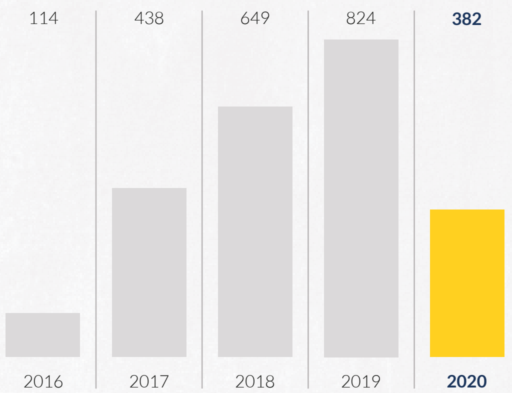
ACHIEVEMENTS IN 2020

- Focused, disciplined pricing, consistent with long-term Internal Rate of Return targets.
- £8.9 billion of assets (2019: £6.6 billion) held in excess of best estimate of liabilities ("BEL").
- Return on equity was 6.8%.

KPI TO MEASURE PROGRESS

Adjusted operating profit before tax ("AOPBT") (£m)

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

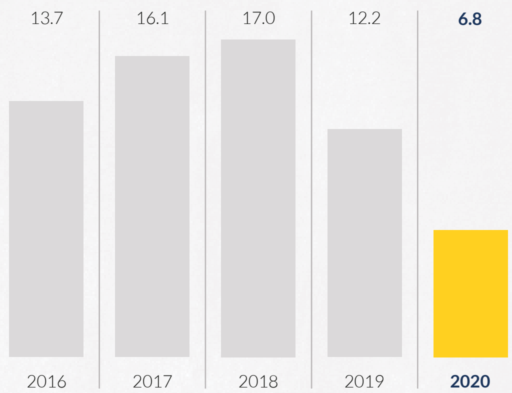


Comments

AOPBT decreased by 54% due to lower impacts for new business, reinsurance and assumption changes.

Return on equity (%)

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



Comments

The return on equity decreased to 6.8% in 2020 from 12.2% in 2019 due to lower after tax profits and an increase in equity due to the £750 million equity raise.

The pension risk transfer market

Assets held within UK defined benefit pension schemes[1]

2020

£1.7tn

2019

£1.6tn

Gilts and fixed income assets to match liabilities[1]

2020

£1.2tn

2019

£1tn

Life expectancy age 65[2]

2020

22.0 male

24.4 female

2019

21.9 male

24.2 female

Total defined benefit pension liabilities insured through buyouts and buy-ins since 2008[3]

2020

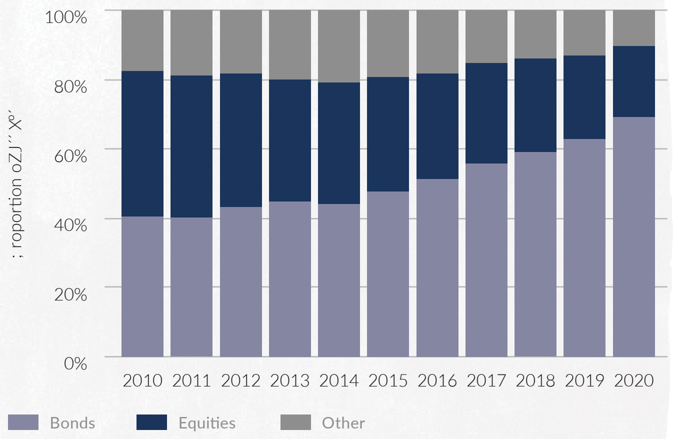
£175bn

2019

£145bn

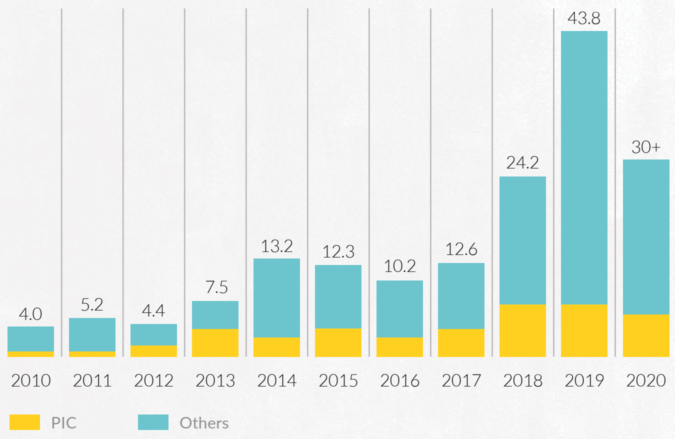
1 PPF Purple Book 2020.
2 CMI working paper 119.
3 PPF Purple Book 2020 and Company estimate.

Asset allocation of defined benefit pension schemes (%)



Source: PPF's Purple Book 2020

Buy-in and buyout volumes since 2010 Premiums (£bn)



Source: LCP, Willis Towers Watson and Company estimate.

Market drivers

SCHEME FUNDING

2020 was a year of uncertainty for many, as trustees dealt with the market volatility resulting from the Covid-19 pandemic. While a few processes were somewhat delayed in the first half of the year, this did not impact on the overall appetite for derisking with transaction volumes remaining robust. The steps taken by trustees in previous years, including a shift in asset allocation towards bonds and increasingly hedged asset portfolios, helped to mitigate some of the downside of the Covid-19 crisis and maintain the pace of de-risking transactions.

PIC has worked closely with trustees and sponsors to help them achieve their de-risking goals in the unprecedented climate of 2020. As a result we have continued to write new business, demonstrating flexibility and agility in fast-moving and challenging markets, with a strong pipeline of business as we look ahead to 2021.

MORTALITY ASSUMPTIONS

Mortality assumptions refers to assumptions on how long scheme members are expected to live for. Mortality assumptions have not been overly impacted during the year, despite the deaths resulting from the Covid-19 pandemic. The long-term effects of Covid-19 on mortality trends will not be visible for a number of years.

During the year PIC concluded £6.6 billion of longevity reinsurance transactions working with 14 reinsurance counterparties.

This included reinsuring £1.5 billion of longevity risk relating to deferred members, a growing area of interest for the reinsurers.

INSURANCE PRICING

The risk transfer market has remained competitive, with many schemes taking advantage of insurer pricing.

Insurers and schemes worked together to secure deals across the whole market, with average deal sizes of just under £400 million covering full and partial buyouts and buy-ins. Improved planning, preparation and data cleansing allowed trustees to secure strong pricing with confidence in completing deals efficiently. At PIC we remain focused on our core areas of expertise:

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

Working with pension scheme trustees

PIC's approach to pension risk transfer includes close collaboration with pension scheme trustees and the corporate sponsors of the schemes. Every defined benefit pension scheme is unique. PIC creates bespoke proposals, taking into consideration the multiple factors that go into providing pensions for individual members of the scheme. This includes consideration of the assets held by the scheme, the nature of the liabilities that fall due, and the demographic profile of the scheme members as well as other factors.

At PIC, there is no one-size-fits-all transaction and we have a track record of providing flexible and innovative risk transfer structures for unusual features. Our tailored and customer focused approach has led to us winning three industry awards during 2020: The UK Pension Awards "Risk Reduction Provider of the Year"; the Pensions Age "Risk Management Provider of the Year" award; and the European Pensions "Insurance Firm of the Year" award.

Working with trustee boards

Transition management is a critical part of the post-buyout or buy-in process.

WHAT IS TRANSITION MANAGEMENT?

The team works closely with trustee boards and their advisers after signing to help define a shared plan to achieve the trustees' goals and ensure an excellent member experience.

The Transition Management team's formal involvement starts at the point of contract and runs until the members transition to become our policyholders. Once the plan is agreed, the PIC team will establish the required governance to monitor and report on progress to the trustees, bringing to bear the experience of a long-established team that have transitioned over 200 pension schemes to PIC. The team's focus is on working collaboratively with the trustees and their advisers, as well as coordinating all PIC workstreams, with one point of contact.

The transition process can take anywhere from a few weeks to several years, depending on the client's specific circumstances, complexity of the pension scheme, and the requirements of our clients. However, throughout this time the PIC Transition team will continue to work closely with trustees to deliver their plans and most importantly that all the pensions continue to be funded.

Once the transition process is complete, and the scheme members have received their individual annuity policies, responsibility for them passes to the Administration team (see page 38 for further details). The Transition Management team also manage the relationship with trustees for long-term buy-ins.

WHAT ARE THE KEY ASPECTS OF THE TRANSITION MANAGEMENT TEAM'S WORK?

- Manage the transition of schemes to PIC, including building relationships with PIC's clients, their advisers and internal departments.
- Ensure that PIC and its clients meet their objectives as set out in the buyout contract.
- Ensure PIC adapts the funding of members' pensions following any benefit changes made by the trustee.
- Guide trustees, company representatives, consultants and administrators through the post-contract transition process.
- Manage relationships with all stakeholders and PIC's third-party suppliers to ensure a successful scheme transition, within agreed timescales and budget.
- Work with the scheme's trustees to ensure that the scheme's members (and PIC's future policyholders) receive an excellent experience throughout the transition, based on clear, timely communications, management of deadlines, and proactive, high-quality customer service.
- Ensure that data transitioned into PIC's operating model is accurate and complete.

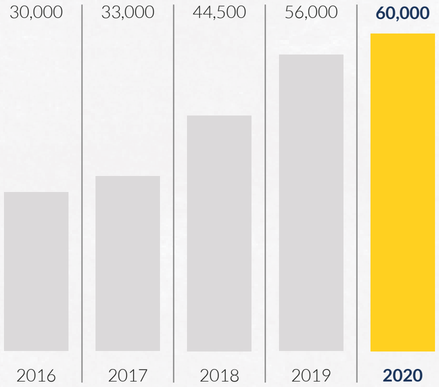
HOW MUCH OF A PRIORITY IS TRANSITION MANAGEMENT FOR PIC?

The quality of service PIC provides to transitioning pension fund members and our long-term buy-in trustee policyholders is a key focus for the PIC management team, and is formally reported on at every PIC Board meeting.

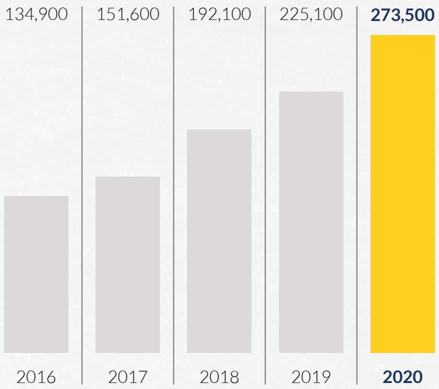
Transition management at PIC

IN NUMBERS

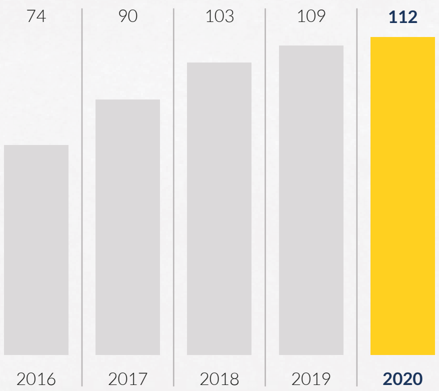
Number of members transitioned to become PIC policyholders



Total number of policyholders



Number of schemes that have transitioned to full buyout



IN THE WORDS OF OUR CLIENTS

“It has been an absolute pleasure working with the PIC transition team. At all times they have been highly professional, pragmatic, understanding and appropriately challenging. They understand both the Trustee and Company needs and have worked hard to ensure delivery of a very challenging project in these particularly unique times. Our scheme is complex and we have had some scheme specific issues to resolve. At all times PIC have worked well with us to resolve these issues. All parties, including incumbent administrators, actuaries, trustees and PIC have worked together as one team and that is because PIC have ensured we work collaboratively and transparently. PIC exceeded my expectations!”

Rentokil Trustee 2020

“Co-op Pensions Department have partnered with Pension Insurance Corporation (PIC) on a number of significant buy-in transactions in the last couple of years. During this period we have built strong relationships with the team at PIC, and have found the PIC team to be professional, collaborative and culturally a good fit with the Co-op. PIC have provided valuable insight and expertise at each stage of the projects, with a flexible operating model, robust governance and regular engagement throughout.”

Co-op Trustee 2020

3,000
members: Largest scheme transitioned

125
members: Smallest scheme transitioned

three
weeks: Fastest transition process

Delivering good customer outcomes

PIC's purpose is to pay the pensions of our current and future policyholders. This is the heart of everything we do. This is especially true throughout the Covid-19 pandemic.

Our culture and values flow from our purpose, and are central to the Group's efforts to be market leaders in customer service.

OUR SERVICE PRINCIPLES

— Respond to each customer's individual needs including where they are vulnerable and need additional support

— We make it quick and easy for our customers to deal with us

— We focus on the quality of the outcome

We continue to be ambitious and innovative in finding solutions that provide good outcomes for our policyholders. This is evidenced by our Institute of Customer Service ("ICS") ServiceMark with Distinction accreditation, which we were re-awarded in December 2020, with the work on this award being done at the height of the first lockdown.

The ServiceMark is the UK's largest cross-sector customer service benchmarking study and Distinction is the highest level attainable. PIC was the first financial services company to achieve this and is one of only 16 companies to hold it. As part of the reassessment, the ICS spoke to our policyholders about their experience of PIC. It also included an employee survey, which looked at, amongst other things PIC's leadership, and the behaviours and values of its employees. 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.

HOW WE WORK WITH OUR ADMINISTRATION PARTNER – CAPITA EMPLOYEE BENEFITS

Capita Employee Benefits (Capita) are the Group's appointed administration partner.

PIC and Capita have invested considerable time and resource into developing a working relationship that fits with our aim of delivering the best customer service. The resulting model is best-in-class with many service and contract aspects unique to us.

At Capita, PIC has a specific team of advisers that are solely dedicated to working with our 273,500 individual policyholders. Normally based at the Darlington centre of excellence, they work as an extension of the PIC Operations team, although the call centre was run on a remote basis for most of the year. PIC has input and oversight into the recruitment of all team members, who are assessed on their compatibility with PIC's values and purpose above and beyond the technical requirements of the roles. The PIC operations team has comprehensive controls in place in order to monitor and maintain the excellent levels of service the Company expects. These include full access to all systems and full file and call checks and reviews.

PIC continued, and expanded our close relationship with Capita during the crisis phase of the first lockdown, to ensure continuity and excellence of service for our policyholders. This included daily calls with, and engagement from, Capita senior management, ensuring that the move to a fully remote call centre happened without interruption of service.

98%
of policyholders' requests answered within three days

For PIC, it is vital that our policyholders have an opportunity to get to know the company that looks after their pension."

ENGAGING WITH OUR POLICYHOLDERS

PIC holds annual policyholder events, where policyholders meet staff and PIC's executive team face-to-face. These events provide our customers with an opportunity to find out more about the company that looks after their pensions and help to engender a feeling of community with fellow policyholders. PIC's first event was held in 2011 and the Policyholder Days continue to be an important aspect of our customer service promise. For PIC, it is vital that our policyholders have an opportunity to get to know the company that looks after their pension. For many policyholders the move from the sponsoring company pension scheme, to an insurance company, can seem daunting and for PIC it is vital that they can be comfortable and secure in their knowledge of the Company.

During 2020, PIC responded to the Covid-19 pandemic by moving its usual in-person events into virtual Policyholder Hours. The sessions were accessible by all of PIC's policyholders, either by joining the virtual event, or by watching it in their own time through the member website. The events included presentations from management on the Company's performance during the year and the steps that were taken to ensure their pensions remained safe. PIC management also took part in a Q&A session, giving policyholders the opportunity to raise any questions they had about the Company.

Communication during Covid-19 was not limited to the virtual events.

We are proud that during the pandemic our policyholder service not only remained fully operational but also, in many areas, actually exceeded our usual high-performance levels.

- PIC's policyholder helpline achieved an average response time of four seconds, with 99% of calls answered within 20 seconds
- Policyholder payments continued without interruption and on time

The virtual Policyholder Hour is the most positive outcome of Covid-19."

Policyholder Hour attendee

I really like PIC, who are the best provider out of several pensions that I am now drawing."

Policyholder Hour attendee

The Policyholder Hour gave me a level of confidence in the business."

Policyholder Hour attendee

I was most impressed with the set-up. Every person involved is no doubt really committed to the job."

Policyholder Hour attendee

I thought the online meeting was great and very reassuring in these uncertain times."

Policyholder Hour attendee

Serving our customers

I came to be a policyholder as a consequence of having my pension with NCR Ltd. I had worked for them for several years. My existing pension remained with the company until it was transferred seamlessly to PIC, I believe in around 2015. With so many changes occurring to my pension over the years, it was nice to have security. PIC is doing an excellent job in paying my pension. The capital they have backing the Company offers a great deal of security.

From the start, their customer service has been commendable, but particularly so during the current pandemic. I believe PIC's customer service is different from other financial services because of their friendliness and ease of communication. They seem to have my interests at heart rather than those of the company as a whole and alleviate any concerns by taking issues on board and finding a solution.

I find PIC very easy to interact with by phone, web or email although I have not had need to interact regularly because the documentation and updates I receive are comprehensive and easy to understand. If I have any queries or concerns I can telephone them or email as appropriate.

The policyholder events were new to me and I have attended whenever I've had the opportunity. They are fantastic events that I enjoy, something that is not offered by other financial services companies.

I would describe PIC as responsible, caring and helpful, ensuring that your pension is protected with no need for concerns. I would like to say thank you to the Company for all that you have done for me, making me feel confident in the way my pension is handled and paid, and for the regular information I receive in how the Company is performing. I would have no hesitation in recommending PIC to anyone whose scheme is moving to them.

Mike Sanford
Former member of the NCR Ltd Pension Scheme and proud PIC policyholder

"My experience with PIC has given me full confidence in them… I would have no hesitation in recommending them."

82%
of attendees at the virtual Policyholder Hour were likely to attend again

POLICYHOLDER SATISFACTION

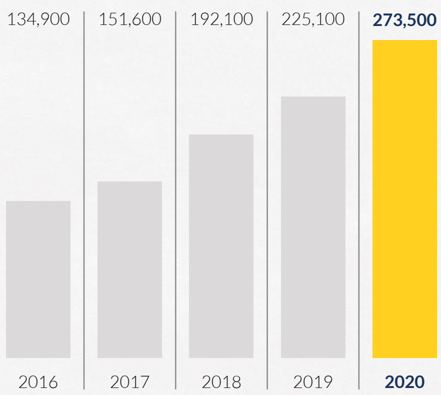
We want to understand our policyholders' views of PIC and therefore we regularly assess policyholder satisfaction levels through the course of the year. We believe this is an important part of improving our performance and staying abreast of our policyholders' requirements. We do this by:

- Monitoring satisfaction levels via telephone and paper surveys;
- Comprehensive monitoring of numbers of complaints, and root cause analysis;
- Stringent oversight of our administrator, Capita, including:
  - monthly file and call review;
  - regular site visits;
  - weekly operational catch-ups; and
  - formal monthly service reviews;
- Personal feedback at our policyholder events, both virtual and face-to-face (although these have been run virtually during 2020 see page 39);
- ICS ServiceMark accreditation; and
- Complaints reviewed by senior management and the Board.

Customer service in figures

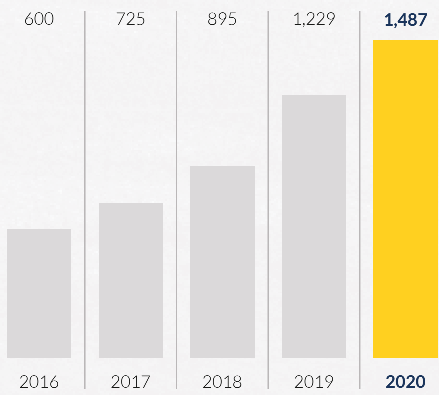
Number of pensioners insured (000)

The number of pensioners insured increased by 22% in 2020.



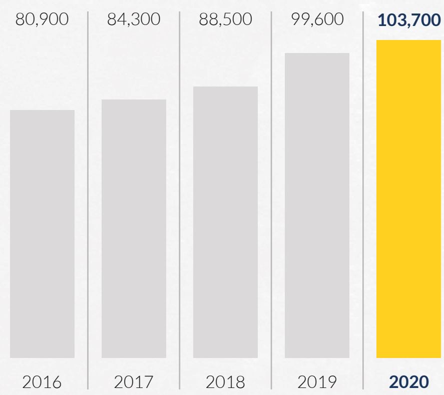
Pensions paid (£m)

Payment of annuities increased by 21% in 2020.



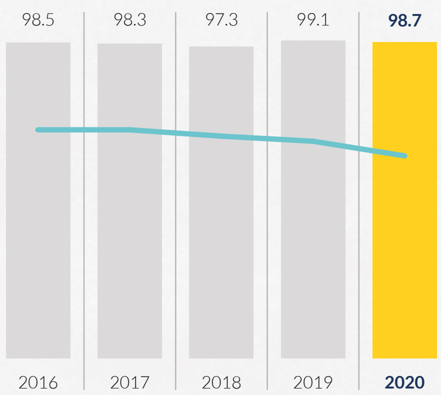
Individual policies in issue

At the end of 2020, PIC had 103,700 current individual policies in issue in respect of 112 pension schemes. This compared with 99,600 in respect of 109 schemes in 2019.



Policyholder satisfaction

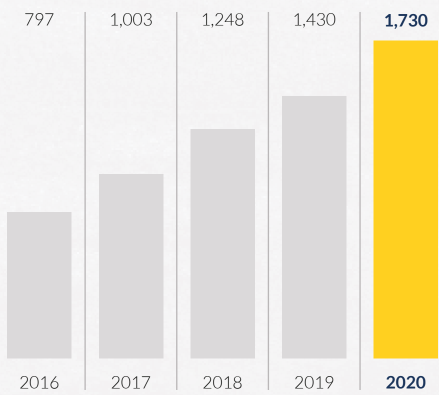
We have extremely high levels of customer satisfaction. We have maintained over 97% overall satisfaction in the last nine years.



— Percentage of policyholders who awarded maximum score

Total pensions, lump sum and other payments

Total pensions, lump sum and other payments to policyholders were £1,730 million (2019: £1,430 million) an increase of 21% due to an increased number of policyholders.



Stimulating, fair and rewarding workplace

OVERVIEW

PIC's workforce is made up of highly skilled people centred around the Company's purpose, reinforced by PIC's values and culture. We recognise that the Company can only be as successful as the individuals we employ, and we therefore invest in making PIC an attractive and rewarding place to work.

We have been proactive in creating a purposeful and stimulating working environment, where individual contributions are recognised within a collaborative, team-based effort. Despite the unprecedented working environment, PIC has continued to grow, with 82 new employees joining the Company during 2020. We are proud to have welcomed them to PIC, ensuring they were still able to experience the collegiate, flexible and entrepreneurial culture PIC is known for.

The switch to working from home, just before formal lockdown in March, was seamless. We were proactive in our approach to our people's welfare, prioritising it as an integral part of fulfilling our purpose. This has included providing access to counselling where needed and a newly created wellbeing section on the intranet.

Communications from management have helped bring transparency to the Group's strategy during the crisis and have helped employees to deliver strong business performance over a sustained and challenging period.

All of this is evidenced by our consistently high employee engagement scores, measured through internal and external surveys, by the high retention rate, and the common belief in our leadership.

Employee survey results (May 2020)

PIC conducts an annual employee engagement survey to help us understand how deeply our values and culture are embedded throughout the organisation. The survey is run by Korn Ferry, a leading, international management consulting firm. In 2020, PIC had a record 80% of employees respond to the invitation to share their views.

These scores relate to areas including: providing a high-quality customer experience; having the right strategic priorities and goals; showing care and concern for employees; motivating people to go above and beyond; and evidence of the improvements in communication of our strategy and purpose.

92%

of employees believe that PIC is customer focused (always seeking to understand and meet customer needs)

95% **of employees believe PIC will be successful in the next 2-3 years**

94% **of employees believe the Company has a clear and promising direction**

88% **of employees feel proud to work for PIC**

In the words of our employees

"I think our senior leadership's response to the Covid-19 crisis has been everything you could have wished for. Communications are frequent, clear and well timed."

PIC employee 2020

"The people, the challenges and the opportunities to be part of a purposeful journey."

PIC employee 2020

"The whole structure and strategy of the Company is based on paying our policyholders and ensuring they are well looked after. Makes me proud to work for PIC, this is key to everything we do."

PIC employee 2020

"I'm very proud to be part of a growing, customer-centric organisation."

PIC employee 2020

"The culture and values at PIC are like no other that I have known."

PIC employee 2020

A RESILIENT AND ADAPTABLE CULTURE

The Covid-19 pandemic imposed an entirely new way of working for companies.

Many of the initiatives that contribute to our open and friendly culture were adapted to fit into a remote working environment. Sessions for staff to have informal group conversations with senior management were moved to online events and a regular, comprehensive programme of video updates from the executive team and the CEO was implemented, with twice weekly updates for all staff on business developments. Importantly the messages in these videos were focused on providing access to support and retaining the sense of community within PIC, at a difficult time for many individuals and families. Throughout this time, our strong purpose provided staff with a common cause, with a tangible and meaningful outcome to their work. We were also able to move all our learning and development programmes to a virtual format, including PIC's Management Development Programme, Aspiring Managers Programme and Mentoring Programme.

During the period we performed a display screen equipment ("DSE") assessment on all of our employees to try and make sure their home environment was as comfortable as possible to work in. We sent out as much office equipment as was needed to support our staff during this period.

We were cognisant that for many, working from home allowed them to better balance work and home life, whereas for others it was a solitary and lonely experience. We invested in making the office at Cornhill Covid-safe and available for anyone struggling to work from home when permitted.

This was evidenced by the strong results of our employee surveys, which took place during April and May, with a subsequent survey conducted by the Institute of Customer Service during September and October.

REWARDING OUR EMPLOYEES

We want our employees to be appropriately rewarded for their outstanding work and PIC offers competitive remuneration packages and a generous range of benefits. These include the following:

— Competitive pension contributions

— Private medical cover

— Travel insurance

— Season ticket loans

— Access to 24/7 mental health support through an employee assistance programme

In order to build a sense of ownership in the business and incentivise individuals to grow the business in the right way, we operate a Save as You Earn scheme. The scheme has been in place since 2013 and allows employees to build up blocks of shares in the Company. The scheme is open to all employees on an annual basis. This is unusual for a private company, but we believe it lays the foundations for a sustainable and successful Company with employees enabled to share in the growth of the business over the long term.

Joining PIC during the pandemic

During the year PIC has had 82 new employees. The majority of new joiners joined in a working from home capacity, which is a very different experience from a normal joiner

Adam Sawyer – Compliance Monitoring Manager

I joined PIC in May 2020 as Compliance Monitoring Manager within the Legal and Compliance function. I was fortunate to have attended the office and met my management group in person during the pre-lockdown interview process. However, circumstances had since changed, and I started as a 100% 'home-worker'.

On my first day, I had a call from IT and we ran through logging in to my (recently couriered) laptop and some key systems and all worked straight away. For me, this was a good omen and testament to PIC's business continuity setup as, in my experience elsewhere, this level of preparation is unusual enough even when not in lockdown.

Next up was my HR induction, all via videocall which worked very well. I was then allocated to a group of new starter colleagues and we were all given introductory talks from different areas of the business. This was really useful and provided a valuable opportunity both to get to know some of the people I would soon be working with and to ask some early questions and improve my understanding of how things are done here at PIC. I also found the weekly CEO and senior management videos to be a real advantage to me in my understanding of the culture and approach here at PIC.

To feel isolated at this time would have been easy. However, my team made me feel very welcome from day one and I am thankful for that. Every day I have a catch-up with my line manager and a team meeting where we are all encouraged to discuss not just work events but also how we are and what we are up to. For me, all of this has been invaluable and, in my opinion, showed great insight from my manager, and PIC as an organisation, to maintain a healthy working environment.

In summary, whilst being a new starter in any role has its challenges, lockdown has brought a whole new dimension to this. The great efforts made by everyone at PIC has reinforced my belief that it is a great place to work and I have been made to feel truly welcome, valued and proud to be 'part of the team'.

" The great efforts made by everyone at PIC has reinforced my belief that it is a great place to work and I have been made to feel truly welcome, valued and proud to be part of the team."

Adam Sawyer
Compliance Monitoring Manager

82

new joiners in 2020

DIVERSITY AND INCLUSION ("D&I") AT PIC

Diversity of thought is critical to PIC's success, helping us to deliver our purpose in an innovative and entrepreneurial way. PIC demonstrably values individuals regardless of background or experience. It is important for us that our people can discuss cultural and other issues that are important to them in a respectful and engaging way.

PIC has a Diversity and Inclusion Forum that meets regularly to discuss and implement activities including internal events, guest speakers and sponsorship of key diversity initiatives. The Forum has three aims, which are to:

- **Engage** – Demonstrate that PIC is a good corporate citizen by supporting worthwhile initiatives which align with our values and role model best practice
- **Educate** – Educate, inform and inspire at all levels on how D&I contributes to a successful business, and promote PIC's D&I approach externally to attract talent
- **Enable** – Enable our current and future people to reach their full potential by providing opportunities and removing barriers

In July 2020, PIC became one of the first 20 founding members of LGBT Great, a global membership organisation that specialises in developing LGBT+ diversity and inclusion within the savings and investment industry. As part of this, PIC's CEO, Tracy Blackwell has been recognised as one of the Top 100 Executive Allies within the industry.

PIC is also continuing its sponsorship of the cross-industry Actuarial Mentoring Programme for the fourth year, which is designed to help recruit and retain females within the actuarial profession. This scheme, of which PIC is the founding sponsor, in partnership with the Institute and Faculty of Actuaries, complements our internal mentoring programme available to all staff.

As well as organisational memberships, PIC is part of other initiatives such as #1000blackinterns, a programme initially aimed at recruiting 1,000 black students or recent graduates into paid internships within the asset management industry. This initiative has since expanded to 10,000 interns over the next five years and will cover other sectors. We have also sponsored the Social Capital Network, another mentoring and networking scheme for young BAME professionals. Both of these initiatives are aimed at improving levels of BAME employees in senior front-office roles.

Aspiring Managers Programme

In 2020, PIC launched an Aspiring Managers Programme which uses a blended learning approach of formal training, mirroring PIC's existing Management Development Programme, and 1-2-1 coaching. For our first cohort, we had a 50/50 gender split, which supports our wider aims for diversity and inclusion of enabling people to reach their full potential through PIC's development programmes.

"The programme gave me structure to learn the various elements of being a manager – emotional intelligence, providing feedback, coaching and managing different personality styles. The additional 1-2-1 coaching sessions also made the programme feel personalised to me."

Neha Arora
Risk Manager – Strategy and ERM Lead, who was a participant in the first cohort

Working with our charity partners

PIC is committed to supporting our charity partners and to help raise the funds that really make a difference to the critical work that they do.

In 2020, with the Covid-19 pandemic placing unprecedented strain on the charitable sector, PIC made significant donations to both of our chosen charities – Independent Age and Rethink Mental Illness, together with a contribution to the Association of British Insurers ("ABI") Coronavirus Support Fund. PIC and its employees donated more than £2 million during the year comprising:

— £1.5 million to the ABI Covid Support Fund;

— £250,000 to Independent Age; and

— £250,000 to Rethink Mental Illness.

In addition to the financial contributions, our employees were invited to actively volunteer their time to provide support work to our charity partners. This included providing 'talking support' that builds a trusting relationship with isolated and vulnerable elderly people in association with Independent Age. The spaces available were filled within 24 hours of inviting our employees to participate.

PIC ran a variety of fundraising efforts over the course of the year, including taking part in challenges, (individual) marathons and events.

We also support our employees in taking two days a year paid leave to work on volunteering projects of their choosing.

£2 million+

donated by PIC and its employees during the year

Our charity partners

RETHINK MENTAL ILLNESS

Rethink Mental Illness is a charity with over 40 years' experience of supporting people severely affected by mental illness.

Tens of thousands of people rely on their support every year to help them get through crises, live independently and realise they are not alone. The Rethink Advice and Information Service offers practical information and support about any aspect of mental health and has produced a whole range of factsheets, which are downloadable for free via the link below.

www.rethink.org/advice-and-information

INDEPENDENT AGE UK

Independent Age UK is a charity founded over 150 years ago offering advice and support for people in old age.

They operate throughout the UK and provide advice and support across a range of areas including money, housing, health, personal life, support and care and future planning. Their guides and factsheets are downloadable for free via the link below.

www.independentage.org/information/advice-guides-factsheets-leaflets

Gender pay gap reporting

The gender pay gap is a measure of the difference between the average pay of men and women across the Company. It does not take into account the ratio of men and women, different levels of seniority or those working part-time.

Since 5 April 2018, UK businesses with more than 250 employees have been required to report their gender pay gap. This is the first year Pensions Services Corporation ("PSC"), the Group subsidiary that employs all staff, have been required to publish, but we have done so previously as part of our commitment to equality, diversity and transparency.

Our gender pay gap* was driven by three primary factors:

- Only 36% of our 266 employees were women.
- Only 25% of employees in the upper pay quartile were women.
- 22% of female employees joined PSC from 1 October 2019 so were not eligible for a bonus.

* Figures from 5 April 2020

2020 HIGHLIGHTS

12.1%

PSC's gender pay gap for 2020, down 5.1% on the prior year, and down by 16.9% in the last two years

5%

The percentage of women in the upper quartile has increased by 5%

→|←

Pay gap figures are narrower than competitors across all measures

↑

High percentage of women engaging in development opportunities

Mean salary pay gap (2020)

The Government suspended mandatory reporting of the gender pay gap for 2020 due to the pandemic, so industry figures are indicative. PSC's figure of 12.1% is below the indicative national average (13.7%) and far below the financial services indicative average (23.1%).

*As gender pay gap reporting was not mandatory for the 2019 reporting year, industry figures are indicative, as not all companies reported.

Financial services

23.1%*

All UK companies

13.7%*

PSC (2020)

12.1%

PSC (2019)

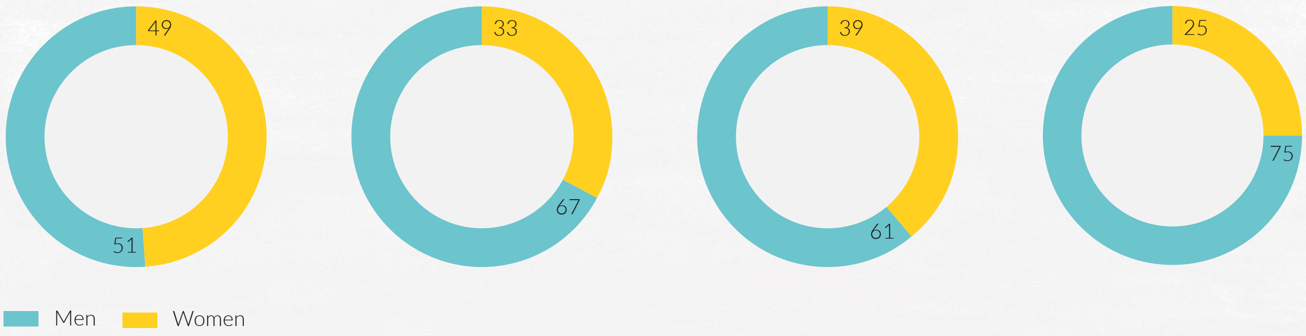
17.2%

	2018	2019	2020	Changes in last 12 months
Mean salary	29.0%	17.2%	12.1%	5.1%↓
Median salary	15.5%	15.6%	11.8%	3.8%↓
Mean bonus	25.7%	19.8%	10.7%	9.1%↓
Median bonus	39.8%	25.0%	42.9%	17.9%↑

Percentage of women at each quartile

An increase of women in the upper quartile (5%) has had a positive impact on our gender pay gap. All other quartiles have seen an increase in women of between 3 and 5%. Overall, women make up 36% of PSC employees (up 3%).

Lower quartile % **Lower middle quartile %** **Upper middle quartile %** **Upper quartile %**



WHY IS DIVERSITY IMPORTANT?

- Diverse businesses create better outcomes for customers
- Diverse businesses create better business returns
- Diverse teams are more innovative and create more value
- Diverse firms are more attractive to potential and existing employees
- Companies which genuinely have diversity and inclusion as a business priority are more highly regarded

MEDIAN BONUS PAY GAP

The mean bonus pay gap is 10.7% (down 9.1%), but the median bonus pay gap is 42.9% (up 17.9%).

The reporting for the bonus pay gap must include all one-off payments which are subject to PAYE. This includes cash bonuses and shares at the point of exercise, rather than award.

	Official figure	Cash bonus	Cash bonus and share award
Mean bonus gap	10.7%	23.4%	18.2%
Median bonus gap	42.9%	42.5%	43.4%

Employees in the upper quartiles tend to have a higher target bonus percentage and share awards as part of their compensation package and, unusually for a private company, PIC runs a share scheme for all employees. As share exercise is a personal decision, this contributes to the variability of PSC's bonus pay gap each year.

These figures represent the actual bonus and shares awarded within the reporting period, so we are better able to track progress in closing our bonus pay gap.

ACTIONS WE ARE TAKING TO ADDRESS THE GENDER PAY GAP

	Current approach	Future developments
Recruiting talent	We require at least 30% of CVs from recruitment agencies to be from women	Track recruitment stages to ensure the 30% target is met throughout
Developing talent	A wide range of development opportunities available to all employees, including mentoring programmes	Develop career pathways for the different professions across PIC and offer wider mentoring opportunities
Developing managers and leaders	Our Management Development Programme is for all people managers. Our Aspiring Managers Programme has a 50/50 split	Leadership Development Programme to continue to have gender split which represent PIC population

PIC is the founding sponsor of the Actuarial Mentoring Programme ("AMP"), the highly successful mentoring scheme for female actuaries, run in conjunction with the Institute and Faculty of Actuaries ("IFoA"). Now in its fourth year, the AMP has provided mentoring for hundreds of female actuaries, with the aim of retaining them longer in the profession, improving diversity at senior levels of the profession, and helping to naturally close the gender pay gap within companies which have large numbers of actuaries, like PSC.

Weatherproof portfolio

£11.4bn
Total value of socially beneficial investments

£1.3bn
Total invested in renewable energy

£951m
Total invested in the UK's education system

The portfolio is a high-quality, low-risk pool of assets built for the long term."

The year has been dominated by the Covid-19 pandemic and the political and monetary responses to it. Despite this extraordinary background, the portfolio was resilient, with no defaults and only 0.4% of the credit portfolio (excluding gilts) being downgraded to sub-investment grade.

This sound performance reflects the cautious approach the team has taken, proactively reducing our exposure to high-risk sectors over the last few years.

PORTFOLIO HIGHLIGHTS OF THE YEAR

Our total portfolio increased by 21% to £49.6 billion, reflecting strong demand for pension risk transfer transactions. We continue to take a cautious approach to public credit markets and directly source high-quality direct debt investments that provide the cash flows to match our long-term pension payments.

- £1.8 billion of direct debt investments in the year, including:
  - £463 million in social housing; and
  - £587 million in renewable energy.

MARKET OVERVIEW

The pandemic and subsequent lockdowns have caused extreme market volatility, affecting the price and availability of secure, long-term assets across the globe, but this has been offset by the supportive measures from policymakers on an unprecedented scale.

The route to Brexit played a role in the volatility, as well as the heavily-contested US election.

PIC has continued its low-risk approach to managing the portfolio and the team had, in the last few years, been proactively reducing our exposure to high-risk sectors. The impact of Covid-19 created challenges during the first half of the year, however, the de-risking actions taken prior to 2020, including selling out of expensive, high-risk assets such as investments in more cyclical credit assets, resulted in a robust performance with no significant detrimental overall effect.

This approach meant we were well prepared for the challenges and market volatility and the portfolio has performed in line with its key purpose, which is to generate the long-term stable cash flows to pay our policyholders.

We have a strategic approach to the portfolio designed to deliver cash flows over the long term and withstand short-term macro-economic turbulence regardless of any specific external events or micro-economic factors including fluctuating interest rates, supply and demand. We call this approach "weatherproofing". The portfolio is therefore a high-quality, low-risk pool of assets built for the long term.

RISK MANAGEMENT – CASH FLOW MATCHING

Our purpose means that we have liabilities that stretch out over the next 30, 40 and even 50 years. These are the guaranteed pension payments we make to our policyholders, so the assets we hold need to be secure, reliable, and matched to pay these pensions as they fall due. PIC's portfolio is therefore selectively and carefully built to closely match these liabilities, whilst minimising risk.

As an insurer we operate within the Solvency II regulatory framework, which means that we are almost exclusively a fixed income investor, predominantly invested in government and investment grade corporate securities. Our short-term liabilities are backed by the small proportion of cash and liquidity funds we hold in the portfolio.

Our need for secure, predictable cash flows means that we are a risk-averse investor – we need to ensure that we are going to get a certain cash flow, rather than looking for growth. Our investments can be held for a long time – decades – so certainty and security are fundamental to the portfolio. While we have experienced considerable daily fluctuations in the price of our underlying assets during the year, these have little bearing on our overall performance because we have invested in instruments with stable cash flows, matched to our liabilities.

DEFAULTS AND DOWNGRADES

Our prudent portfolio selection has meant we have experienced no defaults and only 0.4% of the credit portfolio (excluding gilts) being downgraded to sub-investment grade. Our downgrade experience has been favourable compared to the overall market in 2020, as we have shielded the portfolio from high-risk cyclical sectors impacted by lockdown.

The credit portfolio is composed of 99% in investment grade credit, with 63% within the A and triple A range of rated securities (2019: 61%) and only 36% within the B to triple B rated securities (2019: 38%).

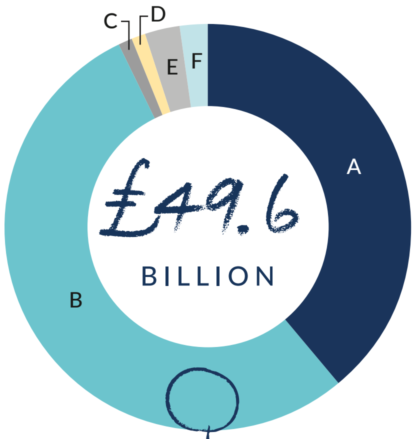
PIC AS A RESPONSIBLE INVESTOR

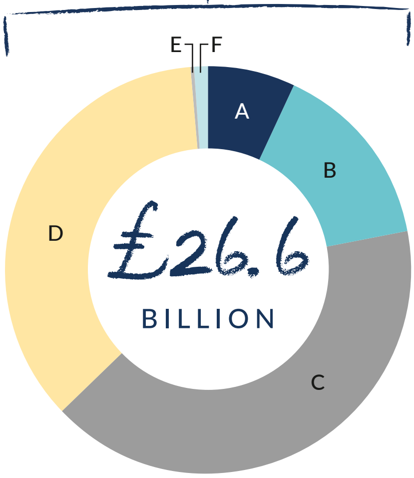
We continued to increase our focus on integrating Environmental, Social and Governance ("ESG") investment factors into our investment process. ESG risks have always been an inherent part of the credit investment process when assessing the suitability of long-term investments, and are a natural consequence of a focus on our purpose. In 2020, the Group invested a further £587 million in renewable energy and has committed to divesting from coal producers. We now have more invested in renewable energy than in oil & gas. See section on ESG on page 56.

PORTFOLIO BY SECTOR

The pie charts show the composition of our portfolio at year-end 2020. There has been little change in the overall weighting to each asset class, with 93% in government and corporate bonds. No single counterparty represents more than 1.7% (2019: 2.3%) of our total investments, except for the UK Government, which accounts for 18%. Within our directly-sourced, private placements, we hold 4% in UK social housing, and 3% in renewable energy. Around 2% is invested in the higher education sector.

We continue to manage most of our assets in-house, including gilts, supranational bonds and private debt. During the year we appointed an additional external asset manager, Wellington Management, with a £700 million US Municipal bond mandate. Wellington Management joins Schroders Investment Management, Janus Henderson Investors and JPMorgan Asset Management in looking after the portfolio backing our annuity liabilities across US, UK and emerging market debt.





Corporate securities by country/region of issuance

Country	Market value 2020 (£m)	Market value 2019 (£m)	2020 %	2019 %
UK	**12,979**	10,990	**49**	50
US	**9,034**	6,884	**34**	32
Europe (ex UK)	**3,057**	2,349	**11**	11
Rest of world	**1,569**	1,445	**6**	7
Total	**26,639**	21,668	**100**	100

Corporate securities by currency

Currency	Market value 2020 (£m)	Market value 2019 (£m)	2020 %	2019 %
GBP (£)	**15,473**	12,733	**58**	59
USD ($)	**10,436**	8,741	**39**	40
EUR (€)	**730**	194	**3**	1
Total	**26,639**	21,668	**100**	100

Corporate securities split by industry sector

Sector	Market value 2020 (£m)	Market value 2019 (£m)	2020 %	2019 %
Financial	**6,743**	5,606	**25.3**	25.8
Utilities	**3,676**	2,878	**13.8**	13.2
Consumer, non-cyclical	**3,102**	2,430	**11.6**	11.2
Communications	**2,714**	1,877	**10.2**	8.7
Energy	**791**	1,441	**3**	6.7
Consumer, cyclical	**631**	645	**2.4**	3.0
Industrial	**918**	775	**3.4**	3.6
Basic materials	**512**	493	**1.9**	2.3
Technology	**1,722**	1,227	**6.5**	5.7
Diversified	**67**	62	**0.3**	0.3
Quasi-Government	**35**	34	**0.1**	0.2
Other	**5,728**	4,200	**21.5**	19.3
Total	**26,639**	21,668	**100**	100

PIC'S PRIVATE INVESTMENTS

Overview

PIC has a long and successful track record of investing in secure, long-term, privately-sourced debt that matches our liabilities in years when publicly available debt is scarce. Our dedicated in-house team of sector specialists works with borrowers to tailor financing arrangements that suit the long-term requirements of those seeking credit, and most importantly match the pension payments due to our policyholders.

To date, PIC has made £9.4 billion of these types of investments in areas covering renewable energy, social housing, education and the not-for-profit sector, helping green the economy, regenerate our cities and provide low-cost housing. These investments have a lasting impact on current and future generations.

The quality of our investments is extremely important, and PIC takes a thorough approach to assessing the credit-worthiness of each deal, giving due consideration to the risk profile, including ESG factors (see section on page 56), and how these are likely to play out during the decades-long period that the lending agreements typically cover. Our ongoing relationships are supported by a dedicated credit research team that manages the relationships once the initial investment is agreed.

As always, we are focused on the quality of the cash flows, rather than the relative performance of the investment.

Helping green the economy

The ability to source private investments has a crucial role to play in pricing pension risk transfer transactions. During 2020, we made £1.8 billion high-quality, secure direct debt investments. These investments will underpin the generation and our Build to Rent development in Manchester (see page 9 for details) is preserving, or creating, 650 jobs for the next three years, as a key part of the city centre undergoes regeneration. Our investments in privately-sourced debt make up 19% of our total portfolio.

2020 investments:

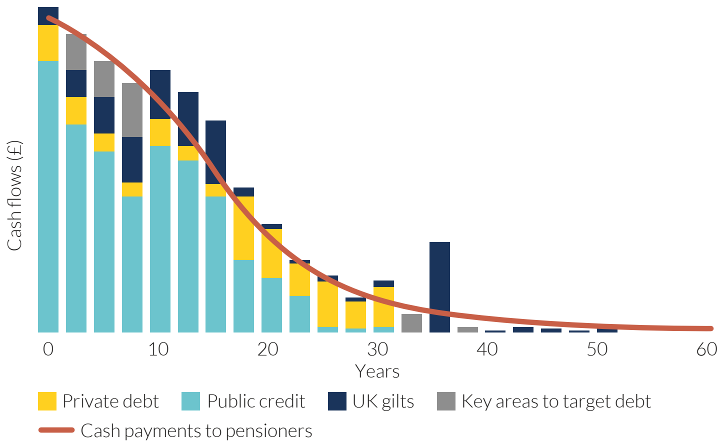
- £587 million in renewable energy debt.
- £40 million investment in the Royal College of Surgeons of England (see case study on page 55).
- £65 million in Trident Housing Association, and further loans to Pobl and Livin as part of long-term partnerships (see case study on page 10).
- In total, we completed 27 transactions.

PIC's experience and flexibility in structuring these transactions make us the lender of choice for many counterparties, some of whom are embarking on their first non-bank lending arrangement, and increasing numbers of whom are coming back to market for further funding tranches following an initial transaction. To date PIC has secured multiple lending deals with over 25 of our borrowers.

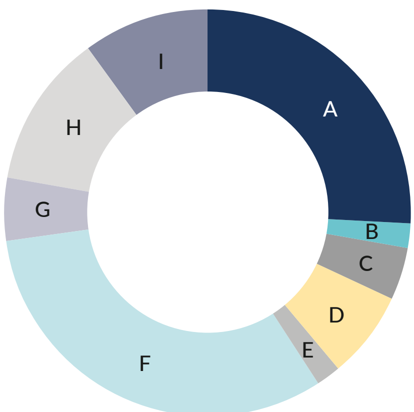
Borrowers enjoy the increased flexibility PIC can offer, including deferred drawdowns and bespoke terms. PIC has the advantage of being able to precisely match the maturity to our liabilities in years where cash flows are not readily available in the public bond markets. This helps to increase the security of the overall portfolio.

PRIVATE INVESTMENTS

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

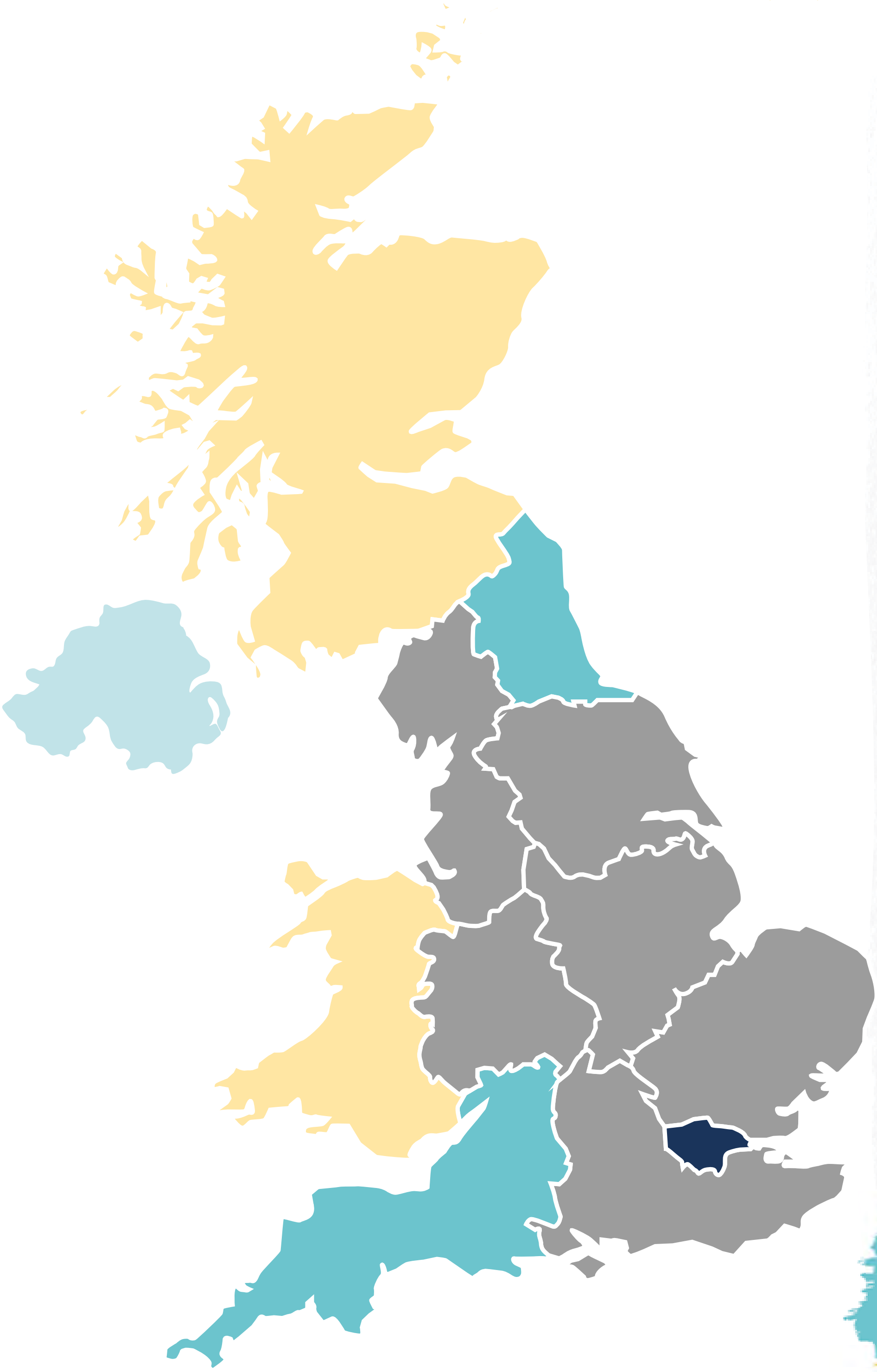


Breakdown by sector of private investments (2020)



- A Social housing: 26%
- B Financial: 2%
- C Education: 4%
- D Utilities: 7%
- E Not for Profit: 2%
- F Project Finance in renewable: 32%
- G Autos: 5%
- H Government Guaranteed: 12%
- I Commercial property: 10%

UK private investments mapped



PIC is a long-term investor in UK infrastructure. This map shows the total value of PIC's direct debt investments across the UK*.

INVESTMENT PER REGION

- £0–250m
- £250m–500m
- £500m–750m
- £750m–1bn
- £1bn+

SECTORS INVESTED IN INCLUDE

- Education
- Not for profit
- Project finance
- Renewable energy
- Social housing
- Student accommodation
- Utilities
- Other

* This map includes our UK direct investments in core sectors where we can clearly identify the contribution to the UK.

£9.4bn
total investment to date

£1.8bn
total investment in 2020

Royal College of Surgeons of England debt investment

In November 2020 PIC invested £40 million in debt issued by the Royal College of Surgeons of England, to finance the final stages of the redevelopment of its flagship headquarters in Lincoln's Inn Fields, London.

The Grade II listed Barry Building is being redeveloped to create a fit-for-purpose building which reflects its function as a centre for surgical excellence. This investment, which benefits from a solid social purpose with activities undertaken by the College being of national importance and providing considerable public benefit, will transform the building into a state-of-the-art headquarters for training the next generation of surgeons, and help them to achieve and maintain the highest standards of surgical practice and patient care.

"We are pleased to have secured this funding from PIC. The redevelopment will see the building transform from a sprawling warren of corridors, built in the aftermath of WWII, to a state-of-the-art training centre for future generations of surgeons, whilst retaining its historical significance.

It is the first time we have worked with an institutional investor and the PIC team showed great understanding and knowledge in structuring this investment to meet our needs."

Professor Neil Mortensen
President at the Royal College of Surgeons of England

30-year
investment term

Purposeful investments

What drives investments at PIC

- Focusing on our purpose, to pay the pensions of our current and future policyholders, means the consideration of Environmental, Social and Governance ("ESG") risk is integral to the investment process.
- The greater the socially beneficial outcomes of an investment, the higher likelihood of long-term stability, needed to back future pension payments.
- PIC now has more invested in renewable energy than in oil & gas.
- At a corporate level climate change risk has been incorporated into PIC's risk taxonomy covering physical, transition and liability risks.

Who is responsible for oversight of ESG risks at PIC?

PIC's Chief Investment Officer ("CIO") is the senior manager responsible for our ESG portfolio considerations.

To ensure that the risks and opportunities arising from climate change are adequately managed, PIC has appointed its Chief Risk Officer ("CRO") as the senior manager with responsibility for climate change.

Both the CIO and the CRO report to the CEO.

The Head of Fixed Income, who has overall responsibility for PIC's investments in investment grade corporate bonds, is responsible for the implementation of ESG by ensuring that these considerations are included in the overall investment process. At individual transaction level, responsibility for ESG considerations is owned by the Head of Credit Research and the external portfolio managers.

£1.3bn

total invested in renewables (2012-2020)

As PIC's portfolio continues to grow, the Company has an increasingly visible and important role to play within the economy and society. The investments we make to secure the pensions of our policyholders for decades to come help green the economy, provide social housing, regenerate our cities, support our universities and benefit younger, and future, generations.

These are socially beneficial outcomes of an investment strategy tied closely to our purpose, which is to pay the pensions of our current and future policyholders. This means we need long-term, secure cash flows: the starting point for addressing all opportunities and risks within our asset portfolio, including those associated with Environmental, Social and Governance ("ESG") factors.

PIC's portfolio consists of £37.1 billion invested in listed debt, with £9.4 billion of the portfolio invested in private debt, which we have sourced directly. PIC only invests in debt, in order to match its pension liabilities, a function of the insurance regulatory framework, Solvency II, and we consequently do not hold any equities.

This is a significant differentiating factor when reviewing the investment and ESG strategies of life insurers, like PIC, compared to other asset owners, such as pension schemes.

All of PIC's key external asset managers are signatories to the United Nations' Principles for Responsible Investment ("UNPRI"). PIC is also a signatory in its own right. Figure 1 on page 58 shows the UNPRI's introduction to responsible investment. Using this table as a guide, and as resolved by PIC's Board, PIC's ESG strategy is to "integrate" ESG risks into investment decisions and "engage" with our investments in the bilateral debt portfolio.

Our approach has always been to have our expert credit analysts do the detailed risk analysis for credit-investment decisions, because they have the most knowledge of specific issuers. These analysts consequently have responsibility for considering ESG risks alongside other risks. However, every member of the Investments team is expected to consider ESG factors when reviewing an investment opportunity. This means our analysis process is forward looking, and takes into consideration the risks to potential investments over many decades.

PIC also retains a leading independent consultant, Sustainalytics, to provide a risk-based methodology with which to assess investments on ESG criteria.

It is worth noting that there are variations in ESG methodologies, frameworks and reporting, which lead to inconsistencies and difficulties in measuring and comparing non-financial performance and this is something we are seeking to resolve within the portfolio.

PRI Principles for Responsible Investment

FIGURE 1

CONSIDERING ESG ISSUES WHEN BUILDING A PORTFOLIO (known as: ESG incorporation)			IMPROVING INVESTEES' ESG PERFORMANCE (known as: active ownership or stewardship)	
ESG issues can be incorporated into existing investment practices using a combination of three approaches: integration, screening and thematic			Investors can encourage the companies they are already invested in to improve their ESG risk management or develop more sustainable business practices	
Integration	**Screening**	**Thematic**	**Engagement**	**Proxy voting**
Explicitly and systematically including ESG issues in investment analysis and decisions, to better manage risks and improve returns	Applying filters to lists of potential investments to rule companies in or out of contention for investment, based on an investor's preferences, values or ethics	Seeking to combine attractive risk return profiles with an intention to contribute to a specific environmental or social outcome. Includes impact investing	Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors	Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues

https://www.unpri.org/an-introduction-to-responsible-investment/an-introduction-to-responsible-investment-screening/5834.article

HOW INTEGRATION AFFECTS PORTFOLIO DECISIONS

PIC's integration approach, anchored in our purpose, has meant an increasingly risk-averse stance to certain sectors within the portfolio over the past couple of years, and a consequent evolution of the portfolio away from certain carbon intensive industries, including automotive, oil & gas and thermal coal. Indeed, we committed to divest from thermal coal during the year (see case study on page 61), and this will have reduced the portfolio's carbon footprint.

At the same time, the integration approach has also led to a more positive approach to other carbon-friendly sectors, such as renewable energy. For example, PIC invested £467 million in solar in 2020, building on a number of previous transactions, including the first ever UK publicly listed solar finance bond, in 2012.

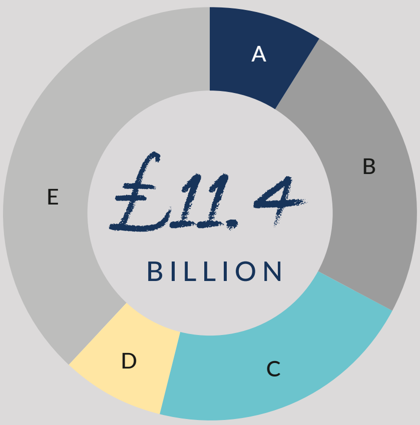
PIC has increased its investment in renewable energy in 2020, not because we have specific allocations to any sectors, but as an outcome of focusing on our long-term liabilities and integrating ESG risks into the investment process.

This strategy helps us navigate the challenges faced by long-term investors with fixed liabilities:

- The cost of exiting specific positions matched to future liabilities (transition risk) is a factor that needs careful consideration as part of a dynamic strategy.
- The global energy transition will be disruptive and costly. If the UK is to reduce all greenhouse gas emissions to net zero by 2050, then a significant, proactive response is required from asset owners and regulators.

Overlying these factors will be considerations of market dynamics and relative market value, specifically the cost of exiting these positions and the risk of maintaining the same positions, and the regulatory factors that make it hard for us to invest in new, emerging technologies. For example, it is difficult to access direct exposure to new technologies via investment grade bonds.

Breakdown of socially beneficial investments



- A Renewable energy 9%
- B Social housing 24%
- C Education 21%
- D Not for profit 8%
- E Utilities 38%

INTERNALLY MANAGED PORTFOLIO

We manage two parts of our portfolio internally: risk free assets and bilateral, or privately-sourced, debt investments. ESG factors are fundamental considerations for our privately-sourced debt investments, because they are very long term in nature.

The Head of Credit Research is responsible for the implementation of ESG integration for these assets. We engage with the management of these investments to understand their ESG risks and help them manage a variety of potential long-term disruptions, as well as encouraging better governance and transparency in reporting. There are specific initiatives in which we are involved on this front, such as the Good Economy's "Building a Sector Standard Approach for ESG Reporting" for social housing. PIC is a founding member (see case study on page 63).

Engagement can also include considerations of how the borrower balances the needs of all stakeholders, including employees; the composition of the borrower's board and senior management team; its ability to develop and execute short-and long-range plans; their approach to enterprise risk management and oversight based on business complexity; how it approaches issues related to climate change; and the borrower's ability and willingness to measure performance and implement change based on internal objectives or shifts in the competitive landscape.

Considerations about the viability of the borrower over the coming decades also require us to consider the impact of climate change on their ability to repay the debt. For example, exposure to flood risk and the carbon emissions of their housing stock are key considerations for social housing providers.

Our bilateral, long-term relationships with these borrowers allow us to engage with them extremely closely to understand their ESG awareness.

> This is another significant investment in renewable energy by PIC and it signals their confidence in us and in the strength of the underlying asset. We continue to be impressed by PIC's flexibility and thorough understanding of the market."

Manuel Espinosa
from Q-Energy, a leading European investor and asset manager in the renewable energy sector, following a £277 million investment in eight solar parks located in Spain, June 2020

Purposeful investments

PIC NOW HAS INVESTED MORE IN RENEWABLE ENERGY THAN IN OIL & GAS

The changing shape of the portfolio demonstrates that the integration of ESG considerations into the selection and management of assets, as a consequence of a focus on a wider purpose, can evolve a portfolio in line with the changing needs of society.

In practice this means that we have taken an increasingly risk-averse stance to certain carbon-intensive sectors over the past couple of years, such as automotive and oil & gas, as well as an increasingly positive stance to greener investments, like renewable energy in response to developing policy and market signals:

- During 2020 we reduced our exposure in the portfolio to oil & gas by £500 million.
- During 2020 we increased our investments in renewable energy by £587 million.
- PIC also put a plan in place to divest from thermal coal (see next case study).

This is partly being driven by the potential economic impact: the desire for a rapid transition away from carbon fuels is now driving government policy in the UK and around the world. In anticipation of this shift, investors are selling down positions, so tipping the relative market balance towards investments in greener sectors and technologies. Sourcing investment grade bonds in new technologies remains a challenge.

Long-term investors face challenges:

- The cost of exiting specific positions matched to future liabilities (transition risk) is a factor that needs careful consideration as part of an overall integration strategy.
- What is clear is that the global energy transition will be disruptive and costly. If the Paris Agreement goal of limiting global temperatures to a two degree rise relative to the pre-industrial average is to be met, then significant action is required.

£587m

increase in investments in renewable energy

Environment

DIVESTMENT FROM THERMAL COAL

During 2020 we informed our investment managers that they should divest our remaining holdings in companies which rely on either the extraction or the burning of coal for more than 10% of turnover, by the end of 2025.

This policy is rooted in PIC's purpose: we believe that coal is not viable in the long term as a source of energy due to its high pollution levels, and therefore there is a real risk that cash flows generated from coal extraction or burning will not be sustainable over the long term, and as a consequence bonds issued by the sector might perform poorly.

The factors that we considered as part of this decision were as follows:

1) Potential carbon taxes on coal-burning companies. This is a growing possibility as the cost of climate change is increasingly factored into energy production.

2) The potential for legal action taken against companies by activists and others. For example, the New York City Pension Funds filed a lawsuit in 2018 against the five largest investor-owned fossil fuel companies as measured by their contributions to global warming, for the "billions of dollars the city will spend to protect New Yorkers from the effects of climate change".

3) The likelihood of other investors selling down positions. As ESG considerations become more urgent there will be changes to the supply and demand dynamic, causing downgrades or defaults in corporate debt linked to the sector.

Taken together, these considerations mean that these cash flows cannot be guaranteed and are therefore not able to help us meet our purpose. We are also delighted that this action has a positive impact on climate change.

Social

SUPPORTING OUR DIRECT BORROWERS THROUGH THE CRISIS

In June 2020, at the height of the crisis over university admissions and questions about the viability of university business models as a result of the pandemic, PIC wrote to those universities to which we have lent money on a long-term basis, to reassure them that: "In line with our wider stakeholder responsibilities, we will do everything we can to help where a high-quality borrower is willing and able to pay its debt…in the interests of students, the wider university sector, our policyholders and our wider stakeholders."

PIC's rationale for this approach is based on the following key points:

— We are a long-term investor with a buy and hold approach and a desire to foster and maintain strong relationships, so are keen to invest time and effort working with partners in the sector to ensure long-term stability, which is in the interests of students, the university sector, our policyholders and other stakeholders, and society more generally.

— We remain satisfied that the institutions to which we have lent money remain high-quality, and that long-term demand for their offering will remain strong.

— We are a growing business, keen to deploy more capital in the higher education space to highly rated universities. We have invested about £2 billion in the sector to date, financing the development of better teaching facilities and student accommodation.

Governance

DEVELOPING STANDARDS OF GOVERNANCE ACROSS THE SOCIAL HOUSING SECTOR

PIC has invested in social housing debt since 2012, and has worked with more than 40 housing associations, lending more than £2 billion in aggregate, managed as part of our internal portfolio. In 2020, PIC was a sponsor of the Good Economy's "Building a Sector Standard Approach for ESG Reporting" for social housing and was a member of the working group that developed this report.

ESG risk factors have been fundamental considerations for us, and other debt investors, when considering privately-sourced debt investments, such as social housing, especially because they are long-dated and illiquid. So, as more long-term investors have worked with the sector, housing associations have been encouraged through the due diligence process to develop their strategies and business models, looking in detail in particular at areas like governance.

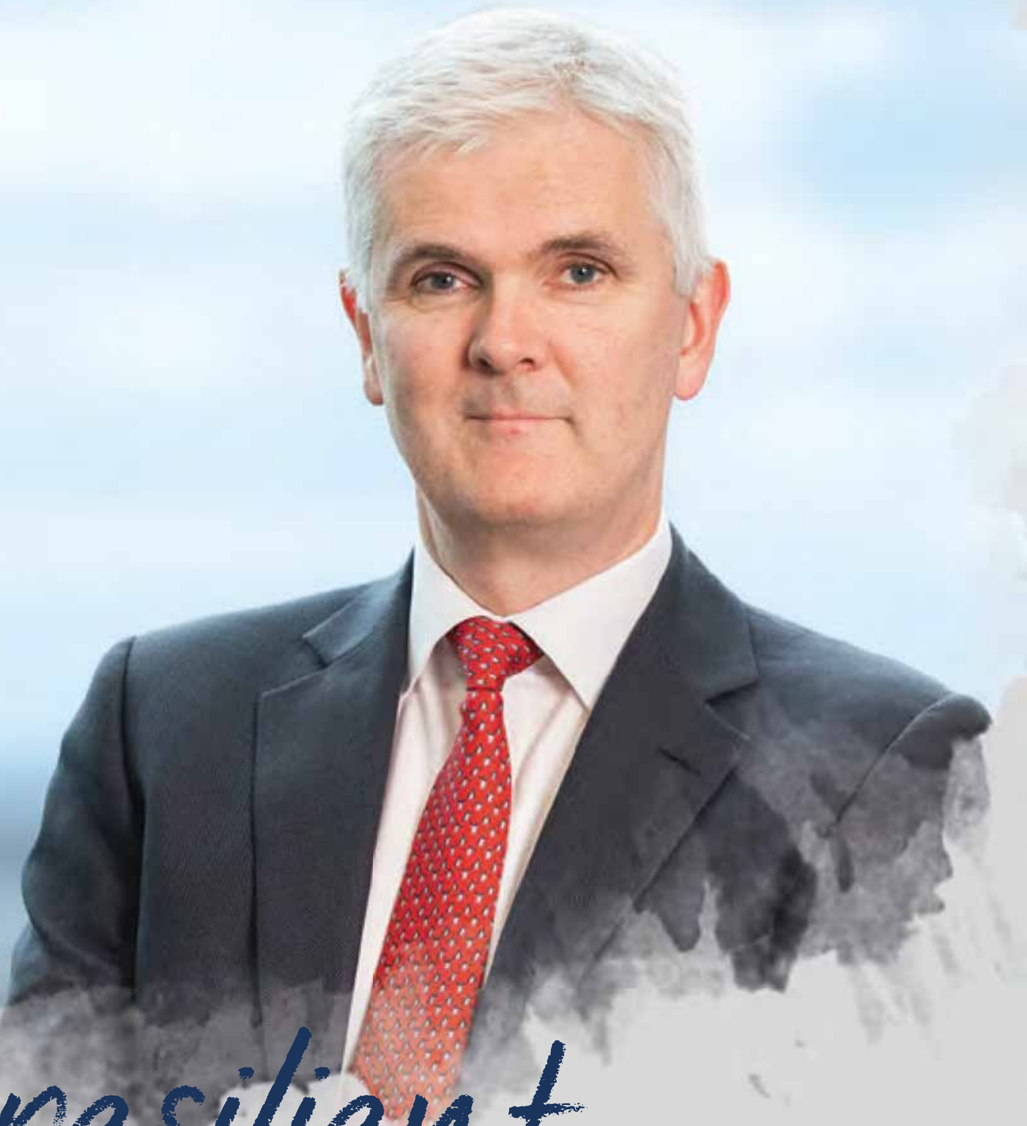
In both 2019 and 2020, PIC surveyed all the housing associations to which we have lent money on a bilateral basis. The results of these surveys show that these housing associations have been working to strengthen their corporate governance, not least because they are increasingly aware of the risks presented by climate change, and are starting to set out their long-term objectives and plans.

This increased due diligence is beneficial for the sector as a whole, although it is not uniform across all housing associations. Improved levels of governance make the sector more focused on tenant outcomes and the needs of stakeholders, and therefore better equipped to attract future funds.

Typical areas of focus when reviewing a housing association's ESG arrangements are:

- the composition of an obligor's board and senior management team;
- the challenges faced in ensuring the Group achieves its objectives while maintaining its social responsibility;
- how it assesses climate risk in its decision making; and
- the obligor's ability and willingness to measure performance (both financial and non-financial) and implement change based on internal objectives or shifts in the competitive landscape.

PIC was delighted therefore to be a sponsor of the Good Economy's initiative and to be part of the working group which brought together a range of banks, investors and housing associations to build a consensus over ESG reporting in the sector. Standardisation of ESG reporting allows housing associations to bring transparency, consistency and comparability to their ESG credentials. The Good Economy's aim for the sector "has been to unlock a new wave of investment to enable the sector to deliver high-quality, affordable social housing", an aim we fully support.



A resilient financial performance

£49.6bn
Financial investments

157%
Solvency II ratio

	2020 £m	2019 £m
Gross premiums written	**5,649**	7,186
Adjusted operating profit before tax	**382**	824
Profit before tax	**276**	394
Solvency II ratio (%)	**157%**	164%
Embedded value	**4,964**	3,874
Financial investments	**49,648**	40,886

I am pleased to present the financial results of the Group for what has been an extraordinary and challenging year, both financially and non-financially. 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

On 27 January 2020, the Group announced its intention to raise £750 million of new equity capital from its existing shareholders. This was successfully completed in the year with two drawdowns of £450 million in February and £300 million in September. This demonstrated a strong belief in the Group's vision, purpose and business model with our policyholders at the forefront of what we do.

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 the Group's regulated subsidiary, Pension Insurance Corporation PLC's ("PIC"), Insurer Financial Strength Rating at 'A+' (Strong) and Long-Term Issuer Default Rating at 'A'. Both outlooks were affirmed at 'Stable'.

FINANCIAL HIGHLIGHTS

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	**(194)**	(157)
Finance costs	**(73)**	(61)
Total claims and expenses	**(8,947)**	(9,805)
Profit before taxation	**276**	394
Tax charge	**(54)**	(75)
Profit after tax	**222**	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 £194 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
Financial investments	**49,648**	40,886
Derivative assets	**21,936**	14,626
Reinsurance assets	**2,773**	2,598
Gross insurance liabilities	**(44,835)**	(37,663)
Derivative liabilities	**(24,340)**	(16,731)
Total equity	**4,167**	3,215

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 £952 million mainly due to the £750 million equity raise completed in the year and after-tax profits during the year.

Alternative profit measures

In addition to the statutory results presentation outlined on page 65, the Group also chooses to analyse its IFRS results on an alternative performance metric, 'Adjusted Operating Profit', which is a non-GAAP measure of performance intended to provide an appropriate assessment of the long term nature of the business. This basis better reflects the long-term trading activities of the Group than the IFRS reported profit before taxation.

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

The following table takes all the items in the IFRS income statement and apportions them between various categories which the Group believes gives a better alignment with the activities of the business.

The Group's adjusted operating profit before tax was £382 million, a decrease of £442 million from 2019. This was primarily due to a lower contribution from new business written in 2020 compared with 2019, updates to historic policy data and lower one-off reserve releases from changes to valuation assumptions compared with 2019.

More detail on the main components of Adjusted operating profit are set out below.

	2020 £m	2019 £m
Return from operations	**274**	301
New business and reinsurance surplus	**31**	245
Net release from operations	**305**	546
Changes in valuation assumptions	**292**	358
Experience and other variances	**(97)**	12
Finance costs	**(73)**	(61)
Project costs	**(45)**	(31)
Adjusted operating profit before tax	**382**	824
Investment related variances	**(106)**	(430)
Profit before taxation	**276**	394

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

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

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

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

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

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

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

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

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

Prudent margins
There exist significant prudent margins within the IFRS basis in respect of key underlying assumptions such as longevity, asset defaults and expenses and the discount rate applied to liabilities. These prudent margins represent the difference between the policy liabilities as measured under IFRS and those as measured under the Solvency II regulations. Notwithstanding the changes to assumptions made in 2020 resulting in a release of reserves, there remains total prudent margins of £3.2 billion at 31 December 2020 (31 December 2019: £2.5 billion).

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

Experience and other variances
Experience variances, which reflect both the actual claims experience in the period compared to the expected amounts and the impacts of data updates on underlying policyholder information, gave rise to a loss of £97 million in 2020 (2019: gain of £12 million). The data updates variance (£46 million) primarily relates to the automation of data extracts from source systems for one particularly large and complex scheme. This is expected to be a one-off impact in 2020.

Finance costs and other costs
Finance costs of £73 million in 2020 were £12 million higher than 2019. This was due to the two new Tier 2 debt issues in 2020 of £300 million in May and £400 million in October by the Group's subsidiary, PIC.

Project costs in 2020 totalled £45 million (2019: £31 million). This increase reflects the increased spend in the period on IFRS 17 and other business-wide projects.

Investment related variances

Investment related losses were £106 million in the year compared to a loss of £430 million in 2019.

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

The Group carefully manages its risk to market and other economic factors and enters into derivative hedging contracts to manage these exposures in accordance to its risk appetite. The Group's hedging strategy is primarily designed to manage risk in the solvency balance sheet, and there exists a mismatch between this hedging strategy and the IFRS balance sheet. This mismatch, and the resulting volatility, is included within the investment related variance line. The impact of downgrades and management actions which were taken to improve the resilience of the balance sheet are also both included here.

Expense ratio

The expense ratio is a measure of the operating efficiency of the Group and reflects operating expenses as a percentage of closing financial investments. This metric is a key performance indicator (KPI) which aligns to one of the strategic objectives of the Group, to maintain a scalable business model that optimises internal and external resources.

The expense ratio at 31 December 2020 was in line with the ratio at the end of 2019 at 0.37% (2019: 0.37%). Higher project spend reflecting the continued investment in the business and an increase in operating expenses reflecting business growth were broadly in line with the growth in financial investments in the year.

Return on equity

Return on equity is a measure of the after tax profits on a 12 month rolling basis in relation to average equity (excluding Restricted Tier 1 capital). This metric is another one of the Group's KPI's which aligns to the strategic objective of delivering attractive risk-adjusted total shareholder returns.

Return on equity at 31 December 2020 decreased to 6.8% (2019: 12.2%) reflecting the lower profit in 2020 compared to 2019 coupled with the increase in equity over the period.

CAPITAL AND SOLVENCY

As mentioned above the Group successfully completed a £750 million equity raise from existing shareholders 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, the regulated subsidiary of the Group, is required to comply with the Solvency II regulatory framework. Solvency II requires firms to follow either a prescribed approach to calculating required regulatory capital (the standard formula approach), or to apply to the PRA to use an "internal model" developed by the company but subject to comprehensive review and approval by the regulator.

PIC has 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 21 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.

PIC Solvency	Dec 2020 unaudited £m	Dec 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%

PIC Adjusted equity own funds	Dec 2020 unaudited £m	Dec 2019 £m
Own Funds	**6,710**	4,844
Deduct RT1 and Tier 2 own funds	**(2,148)**	(1,447)
Shareholder equity own funds	**4,562**	3,397
Add net Risk Margin	**1,353**	1,107
Adjusted equity own funds	**5,915**	4,504

Adjusted equity own funds ("AEOF") is another KPI of the Group. This metric is a measure of the strategic objective to grow the value of the business on a focused, secure and sustainable basis. AEOF increased to £5,915 million at 31 December 2020 from £4,504 million at 31 December 2019. This increase was primarily due to additional equity capital, market movements and surplus emerging in the year.

The risk margin is a regulatory component of the Solvency II balance sheet that is intended to reflect the potential cost of transferring unhedged or unhedgeable insurance obligations to a third party. The Transitional Measures on the introduction of Solvency II, allowed insurers to smooth the impact of the introduction of Solvency II rules over a 16 year period from 1 January 2016, subject to periodic recalculation.

The net Risk Margin comprises a Risk Margin of £2.4 billion (31 December 2019 £2.0 billion) less the impact of Transitional Measures of £1.1 billion (31 December 2019 £0.9 billion).

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:

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

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

Notes:
1. For the interest rate and credit spread sensitivities, due to the nature and size of the impact, the recalculation of the TMTP results in a different test biting and causes asymmetry of the results.
2. Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be traded to the original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
3. Equivalent to a 0.4-year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.

EMBEDDED VALUE (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.

At 31 December 2020, the Group's EV increased to £4,964 million from £3,874 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.

	Dec 2020 £m	Dec 2019 £m
Adjusted net worth	**6,737**	4,866
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	**6,044**	4,750
Frictional cost of capital	**(243)**	(208)
Cost of residual non-hedgeable risks	**(837)**	(668)
EV net of cost of capital	**4,964**	3,874

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	46,229	1,589	29	(11)				(225)	4	47,615
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	4,167	1,589	29	(11)	(1,353)	3,295	(769)	(225)	4	6,726

Solvency II to EV reconciliation

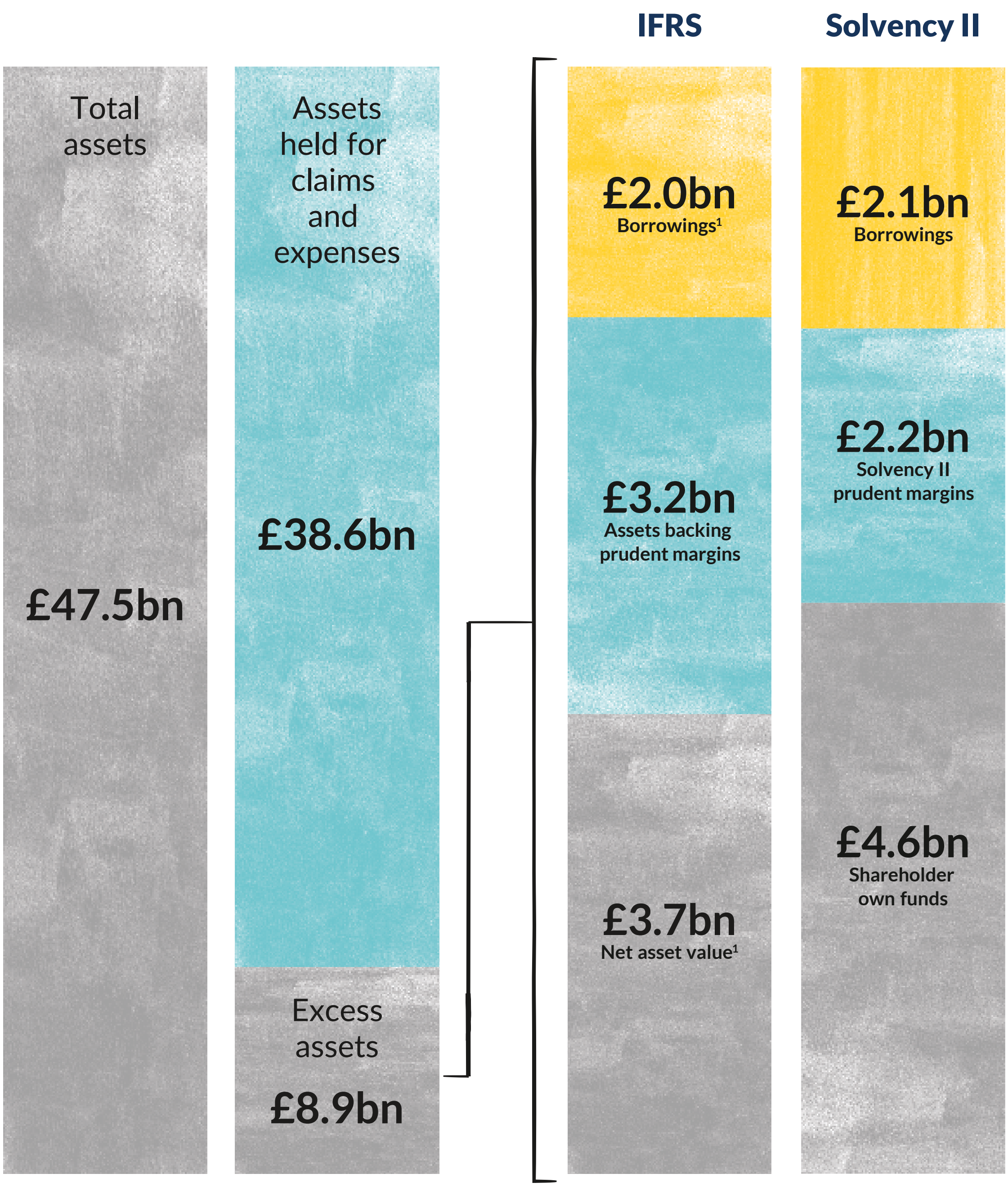
31 December 2020 (£m)	Unaudited Solvency II balance sheet	Allow for differences between Solvency II and EV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	EV (£m)
Total assets less other liabilities	47,615	11						
BEL net of reinsurance assets	(39,536)							
Risk margin net of transitionals	(1,353)							
Solvency II Own Funds/ Adjusted net worth	6,726	11						6,737
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								4,964

OUTLOOK

2020 was undoubtedly a challenging year, both operationally and financially, with a number of issues, amongst them Brexit, the US election and the on-going Covid-19 pandemic, creating market volatility throughout the year. Despite these challenges, we demonstrated our resilience by writing £5.6 billion of new business, maintaining market share, remaining profitable and maintaining financial strength through careful management of our financial investments and the continued belief in our business model from shareholders and debt investors.

Whilst there continues to be uncertainty in the financial markets, we will continue to monitor and safeguard our portfolio and remain disciplined in our pricing and deployment of capital when making new business decisions. The Pension Risk Transfer market remains a strong growth market and we continue to be a leading player and are confident in our ability to achieve attractive returns within our risk appetite. We end 2020 in a strong position with a robust balance sheet which we believe is well positioned to withstand future risks. We have a solid pipeline of new business and we consider that we are ideally placed to take advantages of the opportunities ahead whilst also providing excellent financial security for our existing policyholders.

PIC SOLVENCY II AND IFRS



1 Restricted tier 1 debt is excluded from the Net asset value and included in the borrowings number.

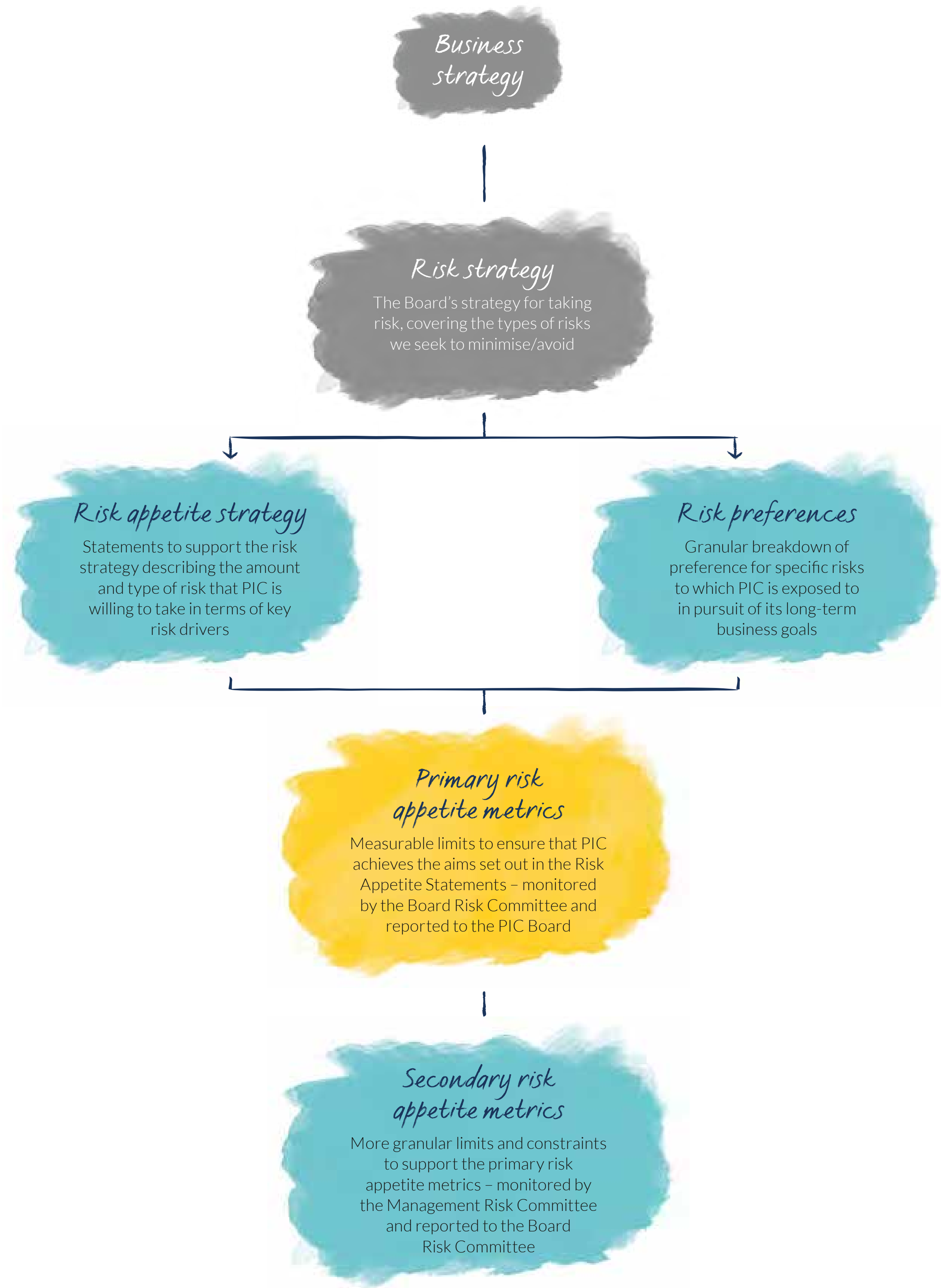
Our approach to risk management

84%
total longevity exposure reinsured

14
reinsurance counterparties

RISK APPETITE FRAMEWORK

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



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

ENTERPRISE RISK MANAGEMENT FRAMEWORK

Risk management is integrated into the business via the Enterprise Risk Management Framework, comprising our systems of governance, our policies, our Risk Appetite Framework and the application of the Risk Management System:

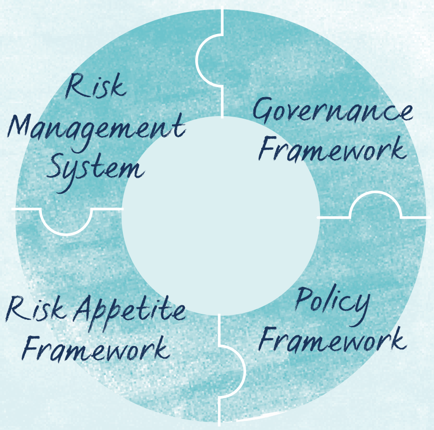
— the Governance Framework within which risk management responsibilities are delegated and governed, including the Three Lines of Defence model;

— the Policy Framework through which risk management expectations and requirements are embedded and consistently monitored across the business;

— the Risk Appetite Framework within which the Company's risk exposures are controlled and monitored in line with the Board's risk preferences and risk appetite; and

— the Risk Management System by which risks are identified, assessed, mitigated, monitored and reported throughout the Company.

Enterprise Risk Management Framework



Risk spotlight – Covid-19

2020 proved to be a very unusual and challenging year for many people and organisations. Successfully transitioning PIC's operations to a remote working environment in response to Covid-19 restrictions introduced new operational risks with an increased reliance on IT systems and processes and a need to ensure PIC's control environment continued to function effectively when operated remotely. Overall, PIC was well positioned to manage these risks through prior contingency planning and work carried out to strengthen controls including streamlining and automating processes and reducing reliance on manual controls.

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

A key risk focus over the year has been in relation to culture and conduct risks. These apply both to policyholders and to our staff. For policyholders, our demographic is particularly vulnerable to the impact of Covid-19 due to their age and stage of life, increasing both loneliness and susceptibility to the virus. Additionally, deferred policyholders experiencing redundancy or furlough can experience temporary financial vulnerability and may look to transfer out of their PIC pension to access cash due to redundancy or be more susceptible to pension transfer scams.

The impact of remote working on staff has been mixed, with varied personal experience of the impact of the virus. Working environments and family circumstances vary significantly which have a knock-on impact on the level of loneliness, isolation and subsequent mental health risks. The risks to the culture of remote working include a drop in cross-team collaboration, idea generation and creative problem solving. While reduced commutes may have been very welcome, the extra workload arising from the pandemic has increased the risk of staff spending excessive amounts of their time at a screen leading to risk of burnout and subsequent mental health issues.

RISK STRATEGY AND PREFERENCES

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

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

These principles are:

We should actively seek risks that:

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

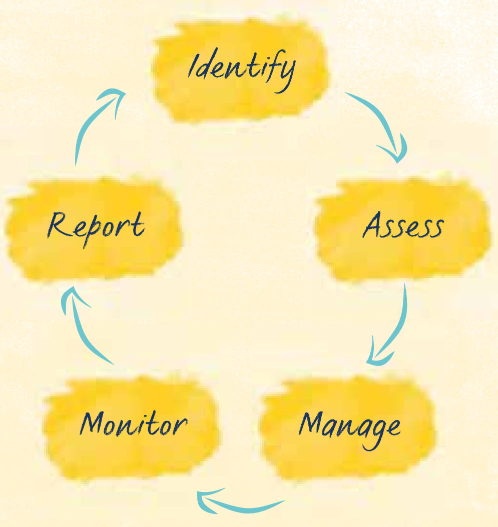
We should accept and take measured amounts of risks that:

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

We should minimise risks which:

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

Risk Management System



RISK MANAGEMENT SYSTEM

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

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

RISK APPETITE

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

OWN RISK AND SOLVENCY ASSESSMENT

The ORSA assessment provides an ongoing process to identify, assess, monitor and manage the risks to PIC's business plan and solvency over both the near term and the five-year business planning horizon. The ORSA activities include:

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

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

MANAGEMENT INFORMATION

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

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 16 to the financial statements.

	POLITICAL RISK	MARKET RISK	DEFAULT RISK	COUNTERPARTY RISK
Risk 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 UK's 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 51-52 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 the Covid-19 shock, however the impact on the credit quality of these counterparties has been manageable. While there exist risks to these counterparties from the future path of the pandemic, the 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 cyber crime. 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.	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 seven to eight years, with the slowdown in mortality improvements considered to be a change in trend as opposed to a one-off event. The drivers of the slowdown are believed to include the increased strain on the NHS and social care budgets, a tailing off of the mortality improvements seen for conditions such as cardiovascular disease, a change in morbidity prevalences including influenza and dementia, offset by changes in lifestyle and health monitoring as technology continues to provide new opportunities. 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 to 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 wellbeing, which could have an indirect impact on customer outcomes.	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 risks are 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 wellbeing and mental health with a "Ways of Working" project underway to manage the risks associated with remote working in the future.	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 1 to 79 was approved by the Board and signed on its behalf by:

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

Corporate Governance

THE ROYAL COLLEGE OF SURGEONS OF ENGLAND HEADQUARTERS IN LINCOLN'S INN FIELDS, HOLBORN, LONDON

In November 2020, PIC invested £40 million in debt issued by the Royal College of Surgeons of England, to finance the final stages of the redevelopment of its flagship headquarters in Lincoln's Inn Fields, London.

High standards of behaviour start with the Board

Our strong governance framework has been key in maintaining the Board's effective oversight of the Group's operations during the pandemic."

It is my pleasure to present our Corporate Governance Report which explains our current governance framework, how we have applied the provisions of the UK Corporate Governance Code 2018 (the "Code") and discharged our duties under s.172 of the Companies Act 2006, and includes Committee reports from the Audit, Risk, Investment and Origination, and Nomination and Remuneration Committees.

A strong governance framework combined with a commitment to the highest standards of corporate governance in line with the main principles of the Code, and backed with effective Board oversight, is essential in order that we fulfil our purpose. First, it ensures that the long-term success of the Group is based on the prudent and effective identification and management of risk. It also reflects the responsibilities we have to our policyholders and all our stakeholders. The Company's purpose and strategy, supported by an open culture and strong values, are therefore discussed regularly by the Board.

Our strong governance framework has been key in maintaining the Board's effective oversight of the Group's operations during the pandemic. During the first lockdown, the Board increased our communications with management, including weekly meetings at the peak of the crisis. This allowed effective challenge and support, as well as helping ensure balance between our stakeholders' interests, which is always front of mind for the Board, and our business. More detail on how the Board took into account the views of our stakeholders, the impact of our decisions on them and the actions taken as a consequence can be found on pages 96 to 99 of this section which complements our s.172 statement in the Strategic Report on pages 22 to 27.

Our more frequent interactions with management also allowed oversight of the Group's considerable investment in the long-term success of the Company, which is discussed on page 22 in this Annual Report.

The Board has continued to focus on sustainability and the increasing contribution that the Group makes to the economy and to society. This included time spent on Environmental, Social and Governance ("ESG") considerations within the portfolio, as well as more specific discussions on the impact of climate change. The Board also ensured the Group remained appropriately resourced and secured additional capital through shareholder capital and debt raises during 2020.

The Board completed an external Board effectiveness review during 2020 to ensure it also evaluates its own performance. More information on the process, the conclusions and the recommendations can be found on page 94 of this Annual Report.

THE BOARD

The Board of Directors of PICG consists of 11 Directors and the Board of PIC consists of 13 Directors, of whom seven are independent, four are shareholder nominations, and two are executive management. This is an appropriate balance that ensures independent decision making, but allows active involvement by committed, long-term shareholders. Directors have the appropriate balance of skills, experience, independence and knowledge of the Company to oversee the strategy of the Group, review management performance and set the Company's values and standards to ensure that its obligations to its shareholders and other stakeholders are met. Further information about our Directors and the experience they bring to the Company is set out on pages 84 to 87 of this Annual Report.

Jon Aisbitt
16 March 2021

BOARD OF DIRECTORS

N O R

JON AISBITT
PICG & PIC Director
Chairman of the Board

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

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

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

Current and external roles
Jon is Chairman of New Forests Company Holdings (East African sustainable forestry and timber processing), Bailey Caravans Ltd. (Bristol-based manufacturer of caravans) and Ascension Healthcare plc (biotechnology).

TRACY BLACKWELL
PICG & PIC Director
Chief Executive Officer

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

Background and career
Tracy joined PIC as Chief Investment Officer at the Company's inception in 2006, with responsibility for managing PIC's asset and liability management strategy. Prior to joining PIC, Tracy held a variety of roles at Goldman Sachs. She served as a Non-Executive Director at United Trust Bank from 2013 to 2019.

Areas of expertise
Tracy has 30 years' experience in insurance and asset management, including a deep knowledge and understanding of the regulatory landscape. Areas of particular interest include: "The Purpose of Finance", a project seeking to redefine the social contract with financial services; and diversity of thought in financial services.

Current and external roles
Tracy is a member of Wellcome Trust's Investment Committee; Trustee and Honourable Treasurer of the Elton John Aids Foundation; a Board member of the Association of British Insurers; and an Advisory Council member on the Diversity Project.

ROB SEWELL
PIC Director
Chief Financial Officer

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

Background and career
Rob has spent over 30 years working in financial services, primarily in life assurance. Prior to joining PIC he spent six years as Finance Director for Legal & General Group's UK businesses, and before that was Chief Executive of National Westminster Life Assurance. Rob is a Fellow of the ICAEW.

Areas of expertise
Rob has significant knowledge of insurance financial and capital management and regulatory affairs, and has extensive Board level experience of regulated businesses.

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

Ri A

SALLY BRIDGELAND
PIC Director
Independent Non-Executive Director

Date of appointment
Sally was appointed to the Board in January 2021.

Background and career
Sally's previous roles include Chief Executive Officer of BP Pension Fund where she had responsibility for the strategic, regulatory and operational matters of the £19 billion UK pension fund. Sally spent seven years in this executive role and stepped down in 2014. She has extensive investment consulting experience and has also served as a Trustee Director of Lloyds Banking Group Pension Trustee Limited, where she stepped down in 2020, and has also held Ministerial appointments for the Nuclear Liabilities Fund and NEST Corporation. Sally is a Fellow of the Institute of Actuaries and in 2020 she received the Award of Honour from the Worshipful Company of Actuaries.

Areas of expertise
Sally is an actuary and has over 30 years' experience in the UK pensions industry gained from executive and non-executive roles.

Current and external roles
Sally is Chair of Local Pensions Partnership Investments Limited and Impax Asset Management plc as well as a Non-Executive Director of Local Pensions Partnership Limited and Royal London Mutual Insurance Society Ltd. She also holds a number of advisory, trustee and voluntary roles.

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

R N Ri

JUDITH EDEN
PICG & PIC Director
Independent Non-Executive Director

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

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

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

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

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

TIM GALLICO
PICG Director
Non-Executive Director Shareholder nominated by CVC

Date of appointment
Tim was appointed to the Board in August 2020.

Background and career
Tim is Senior Managing Director at CVC Capital Partners, based in London and focused on the Strategic Opportunities investment platform. Prior to joining CVC in 2005, he worked for Bain & Co. Tim holds a degree in Social and Political Sciences and Management Studies from the University of Cambridge.

Areas of expertise
Tim has over 15 years' experience in the investment industry as well as experience as a director of both regulated and unregulated companies.

Current and external roles
Tim represents CVC and currently sits on the board of Asplundh Tree Expert LLC, and is director of several entities of the RAC Group. He also acts as a Trustee of the London Youth Games Foundation.

A Ri

STUART KING
PICG & PIC Director
Independent Non-Executive Director

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

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

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

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

O Ri

ARNO KITTS
PICG & PIC Director
Independent Non-Executive Director

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

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

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

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

N R

JOSUA MALHERBE
PICG Director
Non-Executive Director Shareholder nominated by Reinet

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

Background and career
Josua qualified as a chartered accountant in South Africa in 1984 having worked at a predecessor firm to PricewaterhouseCoopers. He became Chief Executive Officer of VenFin Limited in 2000 until 2006 when he held the position of Deputy Chairman. VenFin Limited was acquired by Remgro Limited and Josua now serves as a Director of Remgro. He holds BCom LLB from the University of Stellenbosch and a CTA from the University of Cape Town, and holds the professional qualification CA(SA).

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

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

A Ri

ROGER MARSHALL
PICG & PIC Director
Senior Independent Director

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

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

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

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

ELOY MICHOTTE
PIC Director
Non-Executive Director Shareholder nominated by Reinet

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

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

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

N O R

JÉRÔME MOURGUE-D'ALGUE
PICG & PIC Director
Non-Executive Director Shareholder nominated by Luxinva

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

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

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

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

KEY

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

R N O

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

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

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

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

Current and external roles
Peter represents CVC and is a director of Newday, Domestic & General, Paysafe and TMF.

A Ri

STEVE SARJANT
PIC Director
Independent Non-Executive Director

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

Background and career
Steve spent 20 years at Towers Watson (previously Watson Wyatt) in a number of roles including London practice leader and member of the global management team for Watson Wyatt's insurance and financial service practice. Prior to joining Towers Watson, Steve worked at Criterion Assurance Group and National Provident Institution in a variety of roles. From 2015 until the end of 2020, Steve was Non-Executive Director and Chair of the Actuarial Committee for Vitality Health and Vitality Life, and an independent member of the With Profits Committee of Liverpool Victoria Friendly Society. He graduated from the University of Bristol with a BSc in Mathematics in 1982 and subsequently trained as an actuary. Steve is a Fellow of the Institute and Faculty of Actuaries.

Areas of expertise
Steve has over 35 years' experience in the financial services industry including 20 years spent as an actuarial consultant at Towers Watson, where he was a Managing Director in its Risk and Financial Services segment and Global Leader, Mergers and Acquisitions.

A N R

MARK STEPHEN
PICG & PIC Director
Independent Non-Executive Director

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

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

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

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

Ri O

WILHELM VAN ZYL
PICG & PIC Director
Non-Executive Director Shareholder nominated by Reinet

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

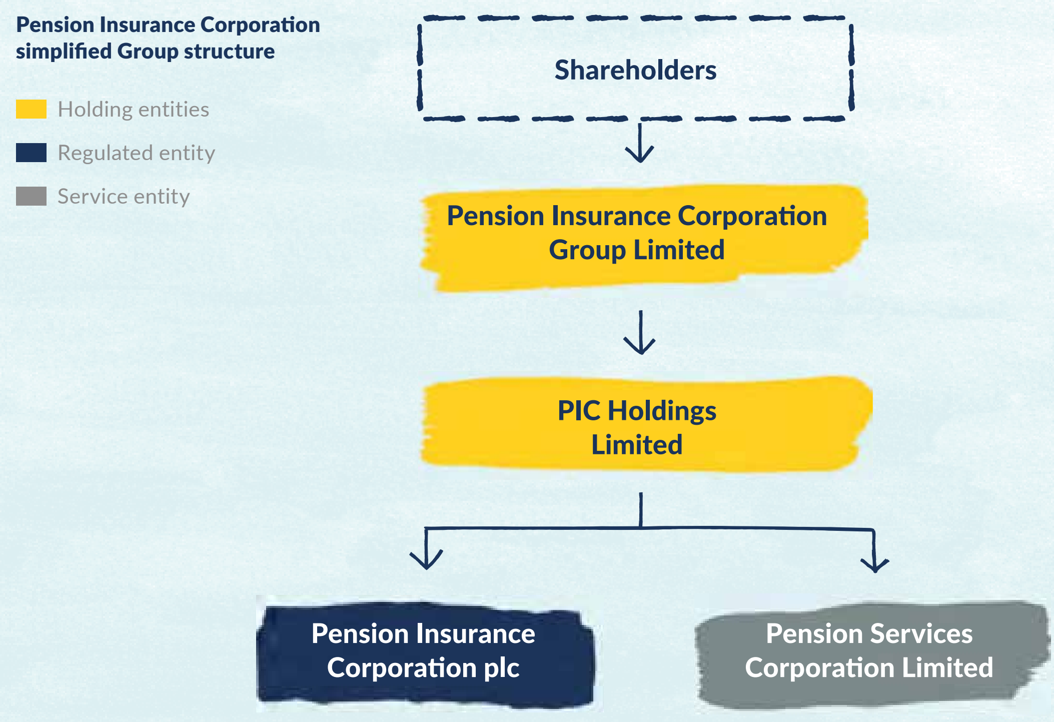
Background and career
Wilhelm is the Chief Executive of Reinet Investments Manager S.A. and Reinet Fund Manager S.A. Prior to this he was group actuary of the financial services group Metropolitan Holdings from 2001 and headed up its corporate business from 2006. In 2008 he was appointed as Chief Executive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

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

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

GOVERNANCE CODE COMPLIANCE

The Board is committed to the high standards of corporate governance across the Group 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. The Code can be accessed on the Financial Reporting Council's website at www.frc.org.uk and the table on page 89 provides signposting to how we have complied with the Code.



LEADERSHIP

Pension Insurance Corporation Group Limited ("PICG" or the "Company") and Pension Insurance Corporation plc ("PIC") are each led by a Board of Directors (the "Board") who are appointed pursuant to the Articles of Association. There is an overlap of Directors between the Boards as shown on the attendance table on page 93. The simple corporate structure of the Group means that discussions on PICG may directly impact PIC and having an overlap of Directors ensures that both Boards are aware of all relevant matters. Any mention to the Board in this report refers to the PICG Board, unless stated otherwise. The Directors have the benefit of the Company's Directors' and Officers' indemnity and insurance policy.

The current Board members, details of their experience and the date of their appointment are set out on pages 84 to 87.

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". The Board sets the "tone from the top" through ongoing dialogue with management and employees, reviewing the employee survey, reviewing reports from the Assurance Functions and overseeing implementation of their recommendations; as well as monitoring the right behaviours and attitudes through an appraisal process. The Board 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, 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 22 of this Annual Report and pages 98 and 99 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 PICG Board comprises 50% independent NEDs ("INEDs") including the Chairman. The PIC Board comprises a majority of INEDs including the Chairman.

All the Directors bring strong judgement to the Board's deliberations and this is reflected in our Directors having the right skills and experience to exhibit the right behaviours. During the year the Board was of sufficient size

Code Principles explanation references

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

Principle reference	
1. Board Leadership and Company Purpose	
A	page 88
B	page 88
C	page 101
D	page 26-27, 99
E	page 42
2. Division of Responsibilities	
F	page 90
G	page 90
H	page 94
I	page 90
3. Composition, Succession and Evaluation	
J	pages 93, 107
K	page 83-87
L	page 93-94
4. Audit, Risk and Internal Control	
M	page 102
N	page 102
O	page 105-106
5. Remuneration	
P	pages 107-110
Q	pages 107-110
R	pages 107-110

and the balance of skills and experience was considered appropriate for the requirements of the business. The Board uses a skills matrix to assess the balance of skills on the Board and, where there are gaps, training is provided. A Board evaluation exercise is carried out annually, covering both the Board and its Committees, and every three years such evaluation is carried out by an external consultant. In 2020 an external evaluation took place and the results indicated that the Board has a broad and appropriate range of skills with which to properly challenge management, as well as the skills and experience needed to meet stakeholder expectations. One area where the Board recognises it needs to do more is in respect of diversity, recognising the limitations that arise as a result of shareholders' ability to nominate directors. The Board has a clear aim in this area which they are working hard to deliver. More detail on the Board effectiveness review is included on page 94.

THE BOARD AND ITS RESPONSIBILITIES

The Board has collective responsibility for setting the Group's strategic goals and providing leadership to put them into effect through the management of the Group's business within the Company's governance framework. It does this by setting Group strategy, ensuring appropriate standards, controls and resources are in place for the Company to meet its obligations and reviewing management's performance. Part of this process is ensuring that the right resources are in place to ensure these can be delivered. This includes the necessary financial and human resources, in terms of the right levels of capital to underwrite new business as well as the appropriate team of people needed to run a growing business whilst managing our risks. The main priorities for the Board in 2021 are to ensure that it remains effective and has all the relevant skills and experience to continue to provide strong direction and leadership as the Group navigates its way through any impacts of the Covid-19 pandemic. The Board is also very focused on ensuring that, as PIC is a high-growth business, it maintains an appropriate focus on operational effectiveness and controls.

In order to ensure there is a clear division of responsibilities between the Board and the running of the business, the Board has a formal schedule of matters specifically reserved for its decision which is reviewed on an annual basis. These reserved matters include the Group's strategic aims; objectives and commercial strategy; governance and regulatory compliance; structure and capital; financial reporting and controls; internal controls and risk management; major capital commitments; major contracts and agreements; shareholder engagement; remuneration of senior executives; material corporate transactions; and any changes to this schedule of reserved matters.

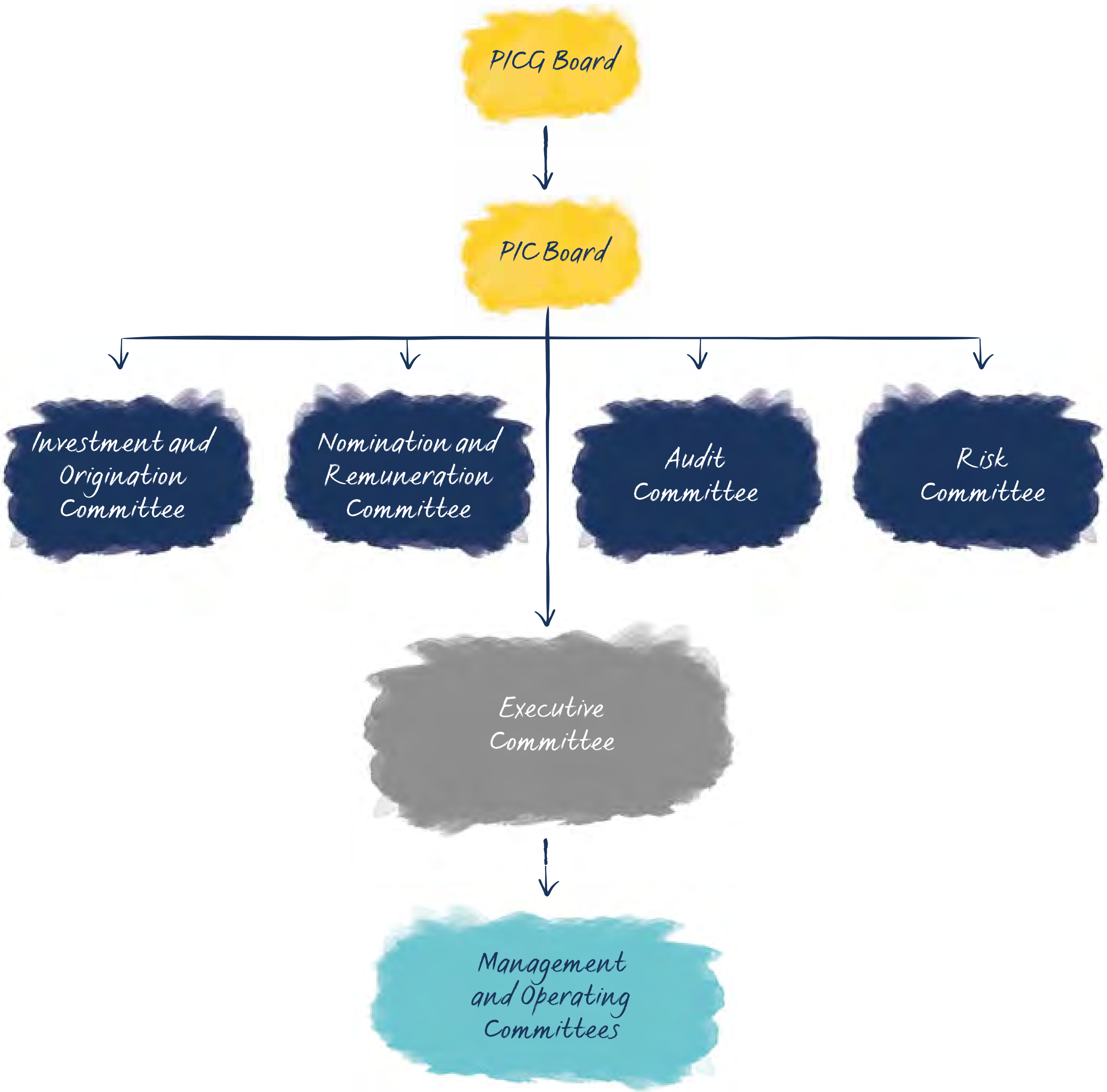
The Board's primary focus is on the Group's purpose, which is to pay the pensions of its current and future policyholders. The Board promotes the long-term sustainable success of both PIC and PICG within a framework of prudent and effective controls which enable risks to be assessed and managed. The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

The Board acknowledges its collective responsibility for setting the Group's strategic aims, ensuring that the necessary financial and human resources are in place and reviewing management performance. The principal responsibilities of the Board are included in its terms of reference, which also list matters specifically reserved for decision by the Board. The Board agrees the responsibilities of the Directors and the Company Secretary and these are set out further below:

Roles and names	Responsibilities
Chairman Jon Aisbitt	Jon focuses on providing strong and effective leadership to the Board, ensuring the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy, overall commercial objectives and promoting a culture of openness and constructive debate among the Directors. He also leads on the development of culture by the Board as well as the development and monitoring of the effective implementation of policies and procedures for the succession planning, induction, training and development of Directors. In conjunction with the CEO and Company Secretary, he ensures that the Board receives accurate, timely and clear information. He ensures that the performance of individual Directors and of the Board as a whole and its Committees is evaluated regularly. Jon also plays an important role in ensuring PIC maintains effective communication with shareholders and other stakeholders.
Chief Executive Officer ("CEO") Tracy Blackwell	Tracy leads the executives in the day-to-day management of the business and effective implementation of the Board's decisions. Tracy with her leadership team proposes and develops the Group's strategy and overall commercial objectives in close consultation with the Chairman of the Board, and with regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders. Tracy consults regularly with the Chairman and the Board on matters which may have a material impact on the Group. She is responsible for the Group's performance of its obligations, adoption of the culture set by the Board, outsourcing arrangements and the Group's obligations in respect of individual conduct rules for training and reporting. In conjunction with the Chairman and Company Secretary, she ensures the Board receives accurate, timely and clear information. The CEO is supported by a strong and experienced Executive Committee chaired by the CEO.
Senior Independent Director ("SID") Roger Marshall	Roger acts as a sounding board for the Chairman and a trusted intermediary for the other Directors and shareholders. In addition to acting as a sounding board for the Chairman, the role and responsibilities of the SID include being available to shareholders if they have concerns which contact through the normal channels of Chairman, CEO or CFO has failed to resolve or for which such contact is inappropriate; Chairing the Nomination Committee when it is considering succession to the role of Chairman of the Board; and meeting with the NEDs at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate. Additionally, in his role as the Whistleblowing Champion he guards the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing.
Chief Financial Officer ("CFO") Rob Sewell	Rob is responsible for the financial and actuarial matters of the Group, including management, allocation and maintenance of capital, funding and liquidity. He also manages and oversees the production and integrity of the Group's financial information and its regulatory reporting.
Non-Executive Directors ("NEDs") Sally Bridgeland Judith Eden Tim Gallico Stuart King Arno Kitts Josua Malherbe Eloy Michotte Jérôme Mourgue D'Algue Peter Rutland Steve Sarjant Mark Stephen Wilhelm van Zyl	Along with the Chairman and Executive Directors, the NEDs are responsible for ensuring the Board and its Committees fulfil their responsibilities. The NEDs combine broad business and commercial experience, in particular in the financial services and insurance sectors, with independent and objective judgement as well as providing independent challenge to the Executive Directors. The balance between NEDs and Executive Directors enables the Board to provide clear and effective leadership across the Group's business. NEDs are required to ensure they are able to provide sufficient time to meet their Board responsibilities.
Company Secretary Louise Inward	Louise, through the Chairman, is responsible for advising the Board on all governance matters, ensuring the Board has the right procedures, policies, processes and resources it needs to function effectively. She makes sure there is a good information flow between the Board, its Committees, senior management and NEDs. In conjunction with the Chairman and the CEO, she ensures the Board receives accurate, timely and clear information.

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 100 to 112.

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 reference. 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; and 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 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 Group is executing the business plan, policyholder administration, including details of how we meet our obligation to treat policyholders fairly, the new business pipeline and associated investments, and Risk's review of current and emerging risks. The 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 pages 96 and 97.

ATTENDANCE BY DIRECTORS AT BOARD AND COMMITTEE MEETINGS

In 2020, there were seven scheduled PIC Board meetings and seven ad hoc meetings. The PICG Board held six scheduled meetings and six ad hoc meetings. The PIC and PICG Boards held joint Board meetings 11 times, with three of those meetings being designated as strategy sessions and five being ad hoc meetings.

The table below shows the attendance by Directors for both the PICG and PIC Boards, as well as the Board Committees, for all scheduled meetings. The table does not cover ad hoc meetings but these were also well attended by all Board members.

Director	PICG Board	PIC Board	Nomination and Remuneration Committee	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 Board meetings due to personal reasons.
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.

BOARD COMPOSITION AND EFFECTIVENESS

The PIC Board is currently composed of a Chairman, CEO, CFO and ten Non-Executive Directors, six of whom are independent and four who have been nominated by major shareholders of the Group. The PICG Board comprises the same Chairman and CEO, as well as nine Non-Executive Directors, five of whom are independent and four nominated by major shareholders. There were no changes to the PIC Board membership during 2020; however, a search was conducted to find a new Chair of the Risk Committee who would replace Steve Sarjant on his planned retirement in March 2021. Sally Bridgeland was identified and appointed on 28 January 2021. She will replace Steve on the PIC Board and as Chair of the Risk Committee. Peter Rutland stepped down from the PICG Board on 31 July 2020 and was replaced by a CVC nominated Director, Tim Gallico, whose appointment commenced on 1 August 2020. Peter remains a Director of PIC. Eloy Michotte resigned from the PIC Board on 31 December 2020.

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

The Board is structured to provide the Company with an appropriate balance of skills, experience, knowledge and independence to enable it to discharge its duties and responsibilities effectively. Given the nature of the Group's business, insurance, actuarial and accounting experience as well as experience of the financial services sector is clearly of benefit and this is reflected in the composition of the Board and its Committees.

Decisions at Board meetings are taken by a majority of the Directors and in the case of an equality of votes the Chairman has the casting vote. The Board considers that no single Director can dominate or unduly influence decision making. During the year, the Chairman and the NEDs met without the Executive Directors, and the NEDs met without the Chairman present. The Board is aware that it currently does not meet best practice initiatives regarding the percentage of women on the Board and needs to improve the ethnic diversity on the Board. The Board intends to take steps where possible to rectify this as its refreshment programme progresses.

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 two inductions in 2020, to Tim Gallico and Sally Bridgeland. The inductions involved meetings with each function within the Group and attending the first Board Committee meetings following their appointment in order to allow new Directors to be aware of all the current issues facing the Company. Specific training, that has been identified during the induction process, is then provided to new Directors to enable them to properly challenge the Executive Directors.

Training sessions are regularly provided to Directors for each round of Board and Committee meetings. Usually, there is a training session scheduled for each Board meeting and after each Investment and Origination Committee and Risk Committee meeting. 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, IFRS 17, counterparty risk capital, reinsurance contracts, pricing process and vulnerable customers and their relevance to PIC.

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 their profiles on pages 84 to 87. 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 a 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.

PERFORMANCE EVALUATION

The Board conducts an evaluation of its effectiveness each year in order to identify areas for development. Every three years the evaluation is facilitated by an external consulting firm. In 2020 such external evaluation was conducted by Clare Chalmers Limited, which was considered to have appropriate experience and understanding of similar firms and regulated regimes. The process entailed a series of interviews with Board Directors and management.

As part of the evaluation, the following strengths and areas for development were identified:

Board strengths:

- Committed and diligent Board.
- Open and constructive debate amongst the Directors with everyone having the opportunity to contribute and challenge.
- Board Committees work well and benefit from a depth of specialist skill set and good challenge. They are invaluable support to the Board as a whole.
- The Board has a good mix of competencies and experience, including knowledge of the business.

Areas for development:

- Further improve the Board's gender and ethnic diversity including consideration of adding a Board member with large business operations experience.
- Further review mechanisms and processes around executive succession planning, and individual performance and feedback.
- Review the annual Board programme focusing on a more thematic agenda.
- Further improve linkage between Investment and Origination Committee and Risk.
- Dedicate more time on the Risk Committee agenda to discuss emerging risks.

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

Areas for Board development from 2019 evaluation	Actions taken during 2020
Progress against Board's Diversity Policy.	A search was conducted to find a new Chair of the Risk Committee who would replace Steve Sarjant on his planned retirement in March 2021. Sally Bridgeland was appointed on 28 January 2021 and will replace Steve on the PIC Board and as Chair of the Risk Committee. Further work is needed on PICG Board diversity and ethnic diversity of both the PIC and PICG Boards.
The Nomination Committee to be mindful of the number of Directors appointed to the Board and to factor this into the Board succession planning.	This continued to be a challenge given the current provisions of the Articles of Association of PICG and shareholder agreement which gives rights to major shareholders to nominate directors to the Board. The Board is large in order to remain majority independent.
Continue to develop the strategy that is well balanced between the views of management and shareholders.	Three strategy sessions were held during 2020 at which the Board agreed on the long-term strategy for the Group.
Reduce operational considerations and review backward looking updates and focus on strategic matters.	Work has been done on reducing backward looking executive reports with more focused management information. With the long-term strategy agreed, the Board continues its focus on the oversight of the business and to ensure it remains stable and robust as it grows.

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.

ACCOUNTABILITY

The Board, through the Audit and Risk Committees, receives reports regarding the Company's risk management and internal control systems and has reviewed the Company's financial and business reporting, the effectiveness of the Group's systems of risk management and internal control, and the Company's relationship with its auditors, the details of which are set out in the Audit and Risk Committees' Reports on pages 100 to 106.

MODERN SLAVERY ACT 2015

The Group 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: www.pensioncorporation.com/about-us/modern-slavery-statement/.

PIC commits to support the aims of the Modern Slavery Act 2015 and seeks to ensure that modern slavery or human trafficking do not feature in any part of its business or supply chains. It has a zero-tolerance approach to any form of slavery and human trafficking within the Group or its suppliers and acts responsibly and ethically in business relationships to ensure human trafficking and slavery do not appear anywhere in its business operations.

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 ended 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.

REMUNERATION

Details of the Directors' remuneration and the work of the Remuneration Committee can be found on pages 107 to 110.

BOARD ACTIVITIES

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 of the Companies Act 2006 as outlined on page 22. The key deliberations are listed below:

Employees and remuneration

- Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, working arrangements during the pandemic and adjustments made to PIC's offices and working in the post-pandemic world.
- Approved the launch of the Company's share schemes for the year as an important way for the Company to engage with its employees.
- An employee survey was completed with the Board discussing the results and what their significance is on the Company's culture and strategy as well as the future ways of working in the post-pandemic reality.
- Received a 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 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.

Board activities

Financial reporting and controls

- Approved the full year Annual Report and Account.
- 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 high standards of business conduct.

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 26 and 27 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(1) of the Companies Act 2006 is included in further sections below and on page 99.

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 covered in examples on pages 23 and 24 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 on page 98 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 92.

EMBEDDING STAKEHOLDER INTERESTS WITHIN OUR CULTURE

Through informed discussion at Board level, our executive team carries forward stakeholder consideration into and throughout the business as described on pages 26 and 27. 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.

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 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 the 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 23.

SHAREHOLDERS & DEBT HOLDERS

— The Annual Report, Half-Yearly Results, 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 a formal consultation process or through meetings. Where appropriate, consulting in advance with the regulators 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 its 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 for its policyholders.

ROGER MARSHALL
Chair of the Audit Committee

COMMITTEE MEMBERS

The membership as at the date of this report together with attendance record for the year ended 31 December 2020 are set out below:

Roger Marshall (Chair)

Sally Bridgeland (member from 28 January 2021)

Stuart King

Steve Sarjant

Mark Stephen

The role of the Audit Committee during 2020 has been more important than ever with its increased focus on the Company's internal controls and external reporting.

The Committee held most of its meetings remotely via video conference due to the Covid-19 pandemic. The Committee continued with its planned annual programme which included a report from the Head of Internal Audit on the effectiveness of the Group controls, risk management and governance processes, updates on outcomes of any significant audits, and proposed improvements and mitigating actions agreed with management, as well as oversight of financial reporting, related methodologies and underlying assumptions.

In performance of its role the Committee was cognisant of the impact of the Covid-19 pandemic and challenges that it posed for the Company. It meant that the Committee increased its focus on the risk management and internal control frameworks to ensure these kept up with the growth of the Group, and remained robust and resilient during the pandemic. It also made sure that any impact of the pandemic was appropriately captured in the external reporting.

As in previous years the Committee spent a considerable amount of time on oversight of the major projects such as policy data, third party risk management and the Finance Change Programme which also covers IFRS17 implementation. The efficiency and integrity of the Company's financial reporting depend on the efficiency and integrity of these projects.

More detail on the Committee's activities is included in further sections of this report.

MEETING ATTENDANCE

The table below shows the attendance by Committee members for all scheduled meetings.

Roger Marshall	5/5
Stuart King	5/5
Steve Sarjant	5/5
Mark Stephen	5/5

THE COMMITTEE

The Board of the Company has established the Audit Committee to ensure that there is strong and responsible leadership at the head of the Company, together with an appropriate range of skills, knowledge and experience. The Committee was in place throughout the financial year ended 31 December 2020, and chaired by Roger Marshall. It comprises only INEDs of the Company, all of whom are considered to be free of any relationship that would affect their impartiality in carrying out their responsibilities and were independent as required under the Code. In addition to these members, regular attendees include the Chairman of the Board, CEO, CFO, Chief Risk Officer, General Counsel, Head of Internal Audit and Wilhelm van Zyl, a shareholder nominated Director. Other relevant people from the Company may also be invited to attend all or part of a meeting to provide deeper insight into the Company and its issues. The Board considers that all Committee members have the appropriate financial expertise, as required by the Code, and details of their experience are included within their individual biographies which can

> ...the Committee increased its focus on the risk management and internal control frameworks to ensure these kept up with the growth of the Group, and remained robust and resilient during the pandemic."

be found on pages 84 to 87. Members of the Committee are appointed by the Board, upon the recommendation of the Nomination and Remuneration Committee and in consultation with the Chair of the Committee. There were no changes made during the year to the membership of the Committee.

The Chair of the Committee reports to subsequent meetings of the Board and the Board receives a copy of the minutes of each Committee meeting once these have been approved by the Committee.

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 Group and the Company are required to do under the regulatory reporting obligations.
- Review of any applicable material which the Committee is required to review under the 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 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 Group'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 Group is 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 Group's solvency position, are determined and monitored.

Compliance – this includes reviewing the Group's compliance policies and procedures to ensure that the Group complies 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 Group'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 Group'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 Group.

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 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 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 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 Group. The Committee also receives regular financial performance reports. In addition to these regular reports, this year the Committee considered the matters below.

Financial reporting:

- Reviewed the accounting issues and significant judgements related to the financial statements.
- Reviewed the process and stress testing undertaken to support the Group's viability and going concern statements.
- Reviewed the appropriateness of the Group's accounting policies.
- Reviewed 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 the 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 Group'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 auditor.
- Reviewed the Internal Model Consolidated Annual Validation Report.
- Received Internal Audit opinion on the effectiveness of the Group 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.
- Reviewed 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 Group'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 updated technology, reporting and analytical tools.
IFRS 17 methodology	The Committee reviewed progress made in IFRS 17 preparation and progress on the technical 1development 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.

PERFORMANCE EVALUATION

An external evaluation of the Board and its Committees was carried out during 2020. Each Committee member and executives who regularly attend meetings were interviewed. The results found the Committee was well chaired with good participation from well-prepared Committee members and attendees.

COVID-19

The Committee discussed in detail the potential impacts of the Covid-19 pandemic, on both the viability of the business and the valuation of its assets and liabilities at the reporting date. The Committee is satisfied that there is no material impact on the valuation of assets or liabilities, and that the outbreak, while presenting operational challenges across the industry, does not currently have a material impact on our conclusion as to the viability and going concern of the business. The Committee also recognises that the effects of the pandemic are ongoing and the outcomes remain uncertain, and while PIC has not adjusted the base mortality assumptions the Committee continues to review and assess these.

AREAS OF FOCUS FOR 2021

The Committee's focus will primarily continue to be on the quality of the Group's external reporting; ensuring the effectiveness of the external auditor, Internal Audit and Compliance functions; and considering the effectiveness of the Group's internal controls. The Committee will also continue to assist the Board in providing direction and leadership as the Group navigates its way through any impacts of the Covid-19 pandemic.

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

On behalf of the Audit Committee

Roger Marshall
Chair of the Audit Committee

16 March 2021

STEVE SARJANT
Chair of the Risk Committee

COMMITTEE MEMBERS

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:

Steve Sarjant (Chair)

Sally Bridgeland (member from 28 January 2021)

Judith Eden

Stuart King

Arno Kitts

Roger Marshall

Wilhelm Van Zyl

As you will have seen reported by my fellow Committee Chairs, 2020 has presented some challenges to the Group which were brought by the unfolding uncertainty of the Covid-19 impact. Despite that, the Group continued to grow and evolve with significant organisational and operational changes progressing throughout the year.

The Risk Committee (the "Commitee") played a key role in assisting the Board with oversight of the Group, identifying and assessing emerging risks and their potential impact on the Group. The Committee held most of its meetings remotely via video conference and continued with its planned annual programme which focused on oversight and advice to the Board on the Group's current and likely risk exposures, risk appetite, risk management and risk policies, procedures and risk controls. The Committee continued to monitor PIC's solvency, capital and liquidity management. It also maintained significant attention on PIC's banking and reinsurance counterparties given market volatility and the Covid-19 impact on the economy in general.

The Committee also provided detailed input into the discussions around the work on stress and scenario testing and review of the Risk Appetite Framework. It also received regular updates on PIC's regulatory engagement to ensure transparency and cooperation with the regulators was maintained during the pandemic.

More detail on the Committee's activities and the focus for the coming year is covered in further sections of this report.

MEETING ATTENDANCE

The table below shows the attendance by Committee members for all scheduled meetings.

Steve Sarjant	5/5
Judith Eden	5/5
Stuart King	5/5
Arno Kitts	5/5
Roger Marshall	5/5
Wilhelm Van Zyl	5/5

> We have kept a close eye on operational risks and overall operational resilience."

THE COMMITTEE

The Board of the Company has established the Risk Committee to ensure that there is strong and responsible leadership at the head of the Company, together with an appropriate range of skills, knowledge and experience. The Committee provides oversight and advice to the Board in relation to current and future risk exposure of the Group and this includes providing oversight of the future risk strategy, including the determination of risk appetite and tolerance and the effectiveness of the risk management framework and (in conjunction with the Audit Committee) internal controls required to manage risk. The Committee was in place throughout the financial year ended 31 December 2020 and was chaired by Steve Sarjant. It comprises a majority of independent NEDs of the Company, who are considered to be free of any relationship that would affect their impartiality in carrying out their responsibilities and were independent as required under the Code. Membership is strengthened by Roger Marshall, who is Chair of the Audit Committee, as well as Stuart King's and Steve Sarjant's membership of the Audit Committee. The Committee is also well linked to the Investment and Origination Committee (the "IOC") through the membership of Arno Kitts and Wilhelm Van Zyl who are the Chair and a member of the IOC respectively.

In addition to these members, regular attendees include the Chairman of the Board, CEO, CFO, CRO, General Counsel and Head of Internal Audit. Members of the Committee are appointed by the Board, upon the recommendation of the Nomination and Remuneration Committee and in consultation with the Chair of the Committee. There were no changes made during the year to the membership of the Committee. It is planned that Steve Sarjant will retire in March 2021 and will be replaced by Sally Bridgeland as the Chair of the Committee.

The Chair of the Committee reports to subsequent meetings of the Board and the Board receives a copy of the minutes of each Committee meeting once these have been approved by the Committee.

The Committee's role and responsibilities:

- Working closely with the Audit Committee, the Committee provides oversight and advice to the PIC and PICG Boards on the Group'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 Group is 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 Group.
- Reviewing and overseeing the interactions between the 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 Group'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 theUK'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 Group's principal risks, the Group's management of these risks and its internal controls, making appropriate recommendations to the Board. This year, the Committee reported to the Board that it was happy with the procedures in place to monitor and manage risks, and that the internal controls in place are fit for purpose. The Committee receives the following regular reports at each meeting: 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 UK'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; and

— Together with the Audit Committee, reviewed the ERM securitisation proposals and 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 teference 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.

PERFORMANCE EVALUATION

An external evaluation of the Board and its Committees was carried out during 2020. Each Committee member and executives who regularly attend meetings were interviewed. The results found members and attendees contribute well to the meetings, and good effort is made to link with other Board Committees.

COVID-19

The Committee discussed in detail the potential impacts of the Covid-19 pandemic, on both the viability of the business and the valuation of its assets and liabilities at the reporting date. The Committee provided detailed input into the Board discussions around the Covid-19 stress and scenario testing. The Committee is satisfied that there is no material impact on the valuation of assets or liabilities, and that the outbreak, while presenting operational challenges across the industry, does not currently have a material impact on our conclusion as to the viability and going concern of the business. The Committee also recognises that the effects of the pandemic are ongoing and the outcomes remain uncertain and the Committee will continue to review and assess these.

AREAS OF FOCUS FOR 2021

The Committee will continue to focus on ensuring that the Company has appropriate risk management procedures, processes and controls in place as the business continues to grow; keep the Company's risk appetite under review; monitor emerging risks to the business including the growing risk from climate change and oversee the relationship between the Company and its regulators. The Committee will also continue to assist the Board in providing direction and leadership as the Group navigates its way through any impacts of the Covid-19 pandemic.

On behalf of the Risk Committee

Steve Sarjant
Chair of the Risk Committee

16 March 2021

NOMINATION AND REMUNERATION COMMITTEE REPORT

JON AISBITT
Chair of the Nomination Committee

JUDITH EDEN
Chair of the Remuneration Committee

COMMITTEE MEMBERS

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. Below is also the membership as at the date of this report together with the attendance record for the year ended 31 December 2020.

Jon Aisbitt (Chair of the Nomination Committee)

Peter Rutland (Chair of the Remuneration Committee) (until 14 October 2020)

Judith Eden (Chair of the Remuneration Committee) (from 15 October 2020)

Eloy Michotte (member until 31 December 2020)

Jérôme Mourgue D'Algue

Mark Stephen

Josua Malherbe (member from 1 January 2021)

MEETING ATTENDANCE

The table below shows the attendance by Committee members for all scheduled meetings.

Jon Aisbitt	5/5
Peter Rutland	5/5
Judith Eden	5/5
Eloy Michotte[1]	4/5
Jérôme Mourgue D'Algue	5/5
Mark Stephen	5/5

1 Eloy Michotte did not attend the meeting held in November 2020 due to personal reasons.

The Committee has continued to focus on Board composition, succession planning and the management incentive programmes this year. The Committee reviewed and recommended to the PICG Board appointment of Tim Gallico as a NED. Tim, a Senior Managing Director at CVC, is a Director nominated by one of our large shareholders, and brings a wealth of experience from the investment industry. As part of the PIC Board succession planning, the Committee identified Sally Bridgeland as the right candidate to join the PIC Board (subject to regulatory approval) and to take on the role of the Risk Committee Chair on Steve Sarjant's planned retirement in March 2021. Sally will also join the Audit Committee. Sally has a depth of experience in both pensions and investment industries which will further strengthen the PIC Board.

The Committee has been further addressing Board diversity and whilst it increased female representation on the PIC Board, the Committee identified that more work is needed, in particular with regard to ethnic minorities' representation on the Boards. The Board is limited in its ability to affect Board diversity as there are four shareholder nominated Directors on the Board, and while the Company discusses the need for diversity with our shareholders, these nominations are ultimately made by our shareholders.

Alongside diversity, the Committee continued making the Board's succession plans more visible with the Board so that all Directors, and not just the members of the Committee, are aware of what these plans are and how they affect the Company's strategy. When deciding on a pipeline of talent to support the succession plans, the Committee considers diversity and the Directors' skills matrix to ensure we have a Board with the skills and diversity to deliver the Company's purpose and strategy. This year an external Board effectiveness assessment was undertaken to assess their strengths and areas of development; more detail can be found on page 94.

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

Much of the Committee's focus has been on benchmarking the remuneration structure to listed peers and regulatory expectations to determine the appropriate structure in order to incentivise and reward long-term performance. The review covers the entire incentive framework and external adviser, Deloitte, has been engaged to assist the Committee with this review.

More detail on the Committee's activities is included in further sections of this report.

THE COMMITTEE

The Board of the Company has established a Nomination and Remuneration Committee to ensure that there is strong, responsible leadership at the head of the Company. The Committee ensures that appropriate plans are in place for orderly succession to both Board and senior management positions, as well as to oversee the development of a diverse pipeline for succession, ensuring an appropriate range of skills, knowledge, and experience are considered, to make recommendations in respect of appointments, for approval by the Board. The Committee also oversees the establishment and implementation of a remuneration policy for employees and directors, designed to support long-term business strategy and values of the Group as a whole, as well as promote effective risk management and comply with applicable legal and regulatory requirements. It reviews performance and approves remuneration arrangements as set out within its terms of reference.

The Committee was in place throughout the financial year ended 31 December 2020. Nomination matters were chaired by Jon Aisbitt and remuneration matters were chaired by Peter Rutland until 14 October 2020 when he handed over the Chair role to INED, Judith Eden. The Committee does not have an independent majority as required by the Code. It comprises six Directors, three of whom are independent and who are considered to be free of any relationship that would affect their impartiality in carrying out their responsibilities and were independent as required under the Code. In particular, the INEDs, Judith Eden and Mark Stephen, create a strong link between this Committee and the Audit and Risk Committees respectively, so that a strong risk mindset is maintained when discussing remuneration and nomination matters. The non-independent Directors are nominated by major shareholders and allow these shareholders to safeguard and have oversight of the sustainable growth of the Company through Board appointments and to ensure remuneration is in line with regulatory requirements and has regard to shareholders' and other stakeholders' interests, as required by s.172 of the Companies Act 2006.

In addition to these members, regular attendees include the Chief Executive and the Chief People Officer. The Chief Risk Officer attends periodically to assist the Committee in determining whether the Company has performed within its risk profile before making decisions relating to remuneration. Chair of the Risk Committee and the SID are also invited to attend specific meetings on relevant agenda items where change to remuneration policy is considered; consultation on those plans also take place at Board level. Risk Committee input to bonus pool and material risk takers' performance is also sought. Members of the Committee are appointed by the Board, upon the recommendation of the Committee. There were two changes during the year: Eloy Michotte retired from the Committee effective from 31 December 2020 and was replaced by Josua Malherbe effective from 1 January 2021; and as mentioned before, Peter Rutland handed over chairing remuneration matters to INED Judith Eden, effective from 15 October 2020. Peter remains a member of the Committee.

The Chairs of the Committee report to subsequent meetings of the Board.

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 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, and 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.

— Review of the Board and Committee Composition including the balance of skills and experience on the Board and considered 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 expectations to determine the appropriate structure to incentivise and reward long-term performance going forward.

— Reviewing and approving the grant of bonus share options; exercise and liquidity events, and SAYE launch.

— Discussing and setting the share valuation for the Company's share schemes.

— 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.

— 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.

PERFORMANCE EVALUATION

An external evaluation of the Board and its Committees was carried out during 2020. Each Committee member and executives who regularly attend meetings were interviewed. The Committee navigated well through the year of changes and challenging discussions and will continue those discussions under the new Chair of the Committee. The evaluation results pointed out that the Committee should continue increasing its focus on executive succession and strategic workforce planning.

REMUNERATION POLICY

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

A description of the different remuneration elements for 2020 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive taking into account the individual's skills, as well as the size and scope of their role and that of the Group. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Group to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all permanent employees: private health cover; annual travel insurance; interest-free loans (up to £10,000) for season tickets; and participation in the Save As You Earn scheme.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Group's contribution that otherwise would have been made under the Stakeholder Pension arrangement.
Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All employees are eligible to be invited to participate in the plan. Awards are based on the achievement of annual objectives. At all levels within the Group, individual performance metrics include compliance with standards relating to risk and compliance set by the Board. Other performance metrics assess alignment with the Group's values, which include good conduct both within the firm and in dealings with customers. For material risk takers, individual bonus payments are determined by the Nomination and Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. Performance is assessed against both financial and non-financial criteria. Financial performance is reviewed against a basket of financial metrics agreed at the beginning of the year. Non-financial criteria consider metrics such as compliance with risk appetite, compliance breaches, customer service measures and conduct, and findings of Risk, Compliance and Internal Audit reviews.

	The CRO, with input from the Chair of the Board Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all of the above measures is assessed by the Remuneration Committee in the round. For staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil-cost options. While the cash element of the bonus is paid upfront, for material risk takers at least 40% of annual bonuses is in the form of nil-cost options which are subject to deferral over a three-year period using the Deferred Bonus Share Plan ("DBSP"), as detailed below.
Deferred Bonus Share Plan	The DBSP seeks to align the long-term interests of the Group for all senior management and other key individuals through bonus deferral. Under the DBSP, bonuses comprise a cash element awarded annually at the end of the financial year and paid in March of the next year. The deferred element is awarded in the form of nil-cost options which vest after three years. For Solvency II Identified Staff a minimum of 40% of any bonus award is deferred. Prior to vesting, the Committee can make adjustments to awards under the malus and clawback provisions. The Committee has the ability to reduce or extinguish the level of any award or require amounts to be reclaimed from individuals. This may be the case in the event of: — significant financial losses or material misstatement of the accounts for the Group or any Group company; or — material failure of risk management for any period that the Committee reasonably considers is relevant; — discovery of a material error in relation to the assessment of annual performance on which an award was based; and/or reasonable evidence of any act or omission by the participant which in the opinion of the Committee: has contributed to material losses or serious reputational damage to the Group or any business area; or has amounted to serious misconduct, fraud or misstatement (whether by exaggeration of financial performance or mismarking the valuation of any asset or otherwise).
2017 Growth Share Plan	Growth Share awards were granted in 2017 to certain senior employees and Executive Directors. No further grants will be made under this plan. Grant levels were determined based on an assessment of individual performance and future potential as determined at the time. These Growth Share awards vested on 1 January 2021, depending on growth in value of the Group over the four-year performance period from 1 January 2017. Participants receive a portion of the growth in the Group's value above a hurdle. The level of reward at vesting is dependent on the growth achieved and can be zero if the growth in the Group's value is less than the hurdle rate. The proportion of growth above the hurdle allocated to participants reduces once the growth rate exceeds the upper end of expected performance. Prior to vesting, the Committee can make adjustments to awards under the malus provisions; clawback provisions also apply following vesting.

AREAS OF FOCUS FOR 2021

The Committee's focus will remain on ensuring the effective composition of the Board; progressing the Board's diversity agenda; and ensuring robust executive succession planning. The Committee will complete its review of the remuneration structure and will oversee implementation of the incentivisation programme ensuring that it meets the objective of a more rigorous evaluation process and clearer links between performance and pay to better incentivise desired behaviours.

On behalf of the Nomination and Remuneration Committee

Jon Aisbitt
Chair of the Nomination Committee

Judith Eden
Chair of the Remuneration Committee

16 March 2021

INVESTMENT AND ORIGINATION COMMITTEE REPORT

ARNO KITTS
Chair of the Investment and Origination Committee

COMMITTEE MEMBERS

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:

Arno Kitts (Chair)

Jon Aisbitt

Eloy Michotte (member until 5 March 2020)

Jérôme Mourgue D'Algue

Peter Rutland

Wilhelm Van Zyl (member from 5 March 2020)

The Group continued to grow throughout 2020 despite market volatility and the uncertainty brought by the Covid-19 pandemic. During the year, the Committee discussed a variety of standing matters and areas of particular investment focus considering the impact of Covid-19 and any Environmental, Social and Governance ("ESG") implications leading to more responsible investing within its portfolio. In turn, the Committee has continued to receive training on ESG matters which has helped its members to develop a more comprehensive approach to ESG to better manage risk and generate sustainable, long-term returns.

MEETING ATTENDANCE

The table below shows the attendance by Committee members for all scheduled meetings.

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

1 Wilhelm Van Zyl did not attend the meeting held in May 2020 due to commitment prior to his appointment to the Committee.

The Committee spent considerable time providing oversight of the existing portfolio to ensure the right quality and diversification within the portfolio and to protect it to the extent practicable from market stresses and volatility. This has meant a lot of attention has been given to its hedging approach and how best to adjust it to the Group's needs.

The Diversified Capital Fund strategy and composition have been reviewed further and the Committee continued monitoring the development of the Real Assets strategy. In addition to scheduled meetings, the Committee met three times during the year on an ad hoc basis and attended to matters by written resolutions to either consider large deals or provide expert oversight of the asset strategies for deals being considered by the Board. The Committee remains diligent in scrutinising investment outcomes versus assumptions included in pricing to ensure that these are realistic and optimal for the Group and therefore good for policyholders.

More detail on the Committee's activities is included in further sections of this report.

THE COMMITTEE

The Board of the Company has established the Investment and Origination Committee to ensure that there is strong and responsible leadership at the head of the Company together with an appropriate range of skills, knowledge and experience. The Committee was in place throughout the financial year ended 31 December 2020 and was chaired by Arno Kitts. It comprises five NEDs, two of whom are INEDs of the Company, who are considered to be free of any relationship that would affect their impartiality in carrying out their responsibilities and were independent as required under the Code. Membership is strengthened by Arno Kitts and Wilhelm Van Zyl who are also members of the Risk Committee and their membership ensures there is good collaboration between the two Committees. In addition to these members, regular attendees include the Chairman of the Board, CEO, CFO, Chief Risk Officer and General

"The Committee remains diligent in scrutinising investment outcomes versus assumptions included in pricing to ensure that these are realistic and optimal for the Group and therefore good for policyholders."

Counsel. Members of the Committee are appointed by the Board, upon the recommendation of the Nomination and Remuneration Committee and in consultation with the Chair of the Committee. There was one change during the year; Eloy Michotte stood down from the Committee and was replaced by Wilhelm Van Zyl effective from 5 March 2020.

The Chair of the Committee reports to subsequent meetings of the Board and the Board receives a copy of the minutes of each Committee meeting once these have been approved by the Committee.

The Committee's role and responsibilities:

- Overseeing the management of all aspects of investment policy and strategy.
- Providing oversight of the operation of the Group's investment portfolios.
- Overseeing all aspects of the Group'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:

- Performance updates of PIC's portfolio.
- Reviewing of hedging, updates on managing the surplus assets of the Group, 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 Finance Transaction 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 ERM; and
- Carrying out the regular review of performance by PIC's external investment managers.

PERFORMANCE EVALUATION

An external evaluation of the Board and its Committees was carried out during 2020. Each Committee member and executives who regularly attend meetings were interviewed. The results found that the Committee was well chaired and continued to work very well after combining oversight of Origination and Investments which took place at the end of 2018. The Committee will continue its focus on linking its activities with the Risk Committee.

COVID-19

The Committee discussed in detail the potential impacts of the Covid-19 pandemic, on both the viability of the business and the valuation of its assets and liabilities at the reporting date. The Committee is satisfied that there is no material impact on the valuation of assets or liabilities, and that the outbreak, while presenting operational challenges across the industry, does not currently have a material impact on our conclusion as to the viability and going concern of the business. The Committee also recognises that the effects of the pandemic are ongoing and the outcomes remain uncertain, and will continue to assess these.

AREAS OF FOCUS FOR 2021

In 2021, the Committee will continue with the focus on oversight of embedding ESG factors into investment decision making; reviewing proposals for the Company investing in new asset classes that came out of the Investments team strategy day, as well as the development of plans to ensure the Investments team is resourced sufficiently to match the growth of the Company; and assessing plans for new technology and further automation. The Committee will also continue to assist the Board in providing direction and leadership as the Group navigates its way through any impacts of the Covid-19 pandemic.

On behalf of the Investment and Origination Committee

Arno Kitts
Chair of the Investment and Origination Committee

16 March 2021

CORPORATE GOVERNANCE STATEMENT

The Board and the executive management are committed to the Principles and high standards of the Corporate Governance Code as they believe these underpin the success of the Company and are for the benefit of its shareholders and stakeholders, including policyholders. For this reason, the Company applies all the principles of the 2018 Corporate Governance Code. In addition, the Group's subsidiary, Pension Insurance Corporation plc, has listed securities in issue and complies with the applicable sections DTR7.1 and DTR7.2 of the Financial Conduct Authority ("FCA") Handbook. Further information on the Company's governing body and its Committees is included in the Corporate Governance Report on pages 81 to 112.

PICG DIRECTORS AND THEIR INTERESTS

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

Name	Position	Appointed/Resigned
Jonathan Aisbitt	Chairman	
Roger Marshall	Senior Independent Director	
Tracy Blackwell	Chief Executive	
Judith Eden	Director	
Timothy Gallico	Director	Appointed 1 August 2020
Stuart King	Director	
Arno Kitts	Director	
Josua Malherbe	Director	
Jérôme Mourgue D'Algue	Director	
Peter Rutland	Director	Resigned 31 July 2020
Mark Stephen	Director	
Wilhelm van Zyl	Director	

One Director who held office during the financial year is a beneficiary of the Company's share-based award schemes, details of which are given in Note 7 to the financial statements. This Director received 497,250 ordinary shares of the Company upon vesting of certain schemes during the year (2019: one Director received a total of 561,612 ordinary shares).

SHARE CAPITAL AND MAJOR SHAREHOLDERS

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 18 to the financial statements. The following are the major shareholders of PICG as at 31 December 2020:

Shareholder	No of ordinary shares held as at 16 March 2021	% of the issue ordinary share capital as at 16 March 2021	No of ordinary shares held as at 31 December 2020	% of the issue ordinary share capital as at 31 December 2020
Reinet PC Investments (Jersey) Limited on behalf of Reinet investment S.C.A.	658,792,700	49.50	619,776,306	46.57
Luxinva S.A. on behalf of ADIA	242,192,115	18.20	242,192,115	18.20
Blue Grass Holdings Limited on behalf of CVC	231,825,290	17.42	231,825,290	17.42

OWN SHARES

At 31 December 2020, 7,843,544 ordinary shares of the Company were held in an Employee Benefit Trust (2019: 10,258,058), in accordance with the accounting policy in Note 7 to the financial statements.

CAPITAL RAISE AND ISSUE OF DEBT

On 27 January 2020, the Group announced its intention to carry out an equity raise of £750 million of new equity from existing shareholders to support the continued growth of the business in the Pension Risk Transfer ("PRT") market. The offered shares were issued on a partly paid basis, with 60% paid on 20 February 2020 and the remaining 40% paid on 25 September 2020.

In May 2020 the Group's main trading entity Pension Insurance Corporation plc 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%. See Note 15 to the financial statements for further details.

DIVIDENDS

The Directors of the Company do not recommend a dividend for the year (2019: nil).

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 22 to 27.

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.

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 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 11 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 an indirect subsidiary of Pension Insurance Corporation Group Limited, continued to provide management, staff, IT and office services to the Group under a defined service agreement.

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 Group 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 work effectively. The plan, which is effected by the Internal Audit, Compliance, Risk and Actuarial functions within the Group, 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.

Financial reporting	Responsibility
Delegated authority	An established management structure operates across the Group with clearly defined levels of responsibility and delegated authorities.
Financial reporting	The Group 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 executive management review the Group'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 Group has formal written procedures and controls in operation 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 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 executive management 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 Group'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 auditor provides further independent assurance on the internal control environment, as described in its reporting to the Audit Committee. Furthermore, the Audit Committee reviews and monitors the independence of the statutory auditor and considers the relationship with the Group as part of its assessment, including provision of non-audit services.
Risk management framework (more information is included on pages 74 to 79	The Board has established a risk management and compliance system which includes a process for identifying, evaluating and managing the risks faced by the Group. The Risk Committee works closely with the Audit Committee and provides oversight and advice to the Board with regard to the Group's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance, and its risk policies, procedures and risk controls. All Board members receive minutes of the Risk Committee meetings. Procedures are in place to ensure 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.

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 Group'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 Group's auditor is aware of that information.

AUDITOR
In accordance with section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed and KPMG LLP will therefore continue in office.

EMPLOYEE ENGAGEMENT
The Company is committed to keeping employees well informed of the performance of PIC and this is achieved through regular updates from the CEO and senior management.

PIC also operates an annual Save As You Earn scheme ("SAYE") to encourage greater employee involvement. The scheme is available to all employees are provides the opportunity to acquire the Company's shares at a favourable price. Further information can be found on page 42.

DIVERSITY AND INCLUSION
PIC's Diversity and Inclusion Policy is to promote a consistent and fair approach to employment and this stems from our values and capability framework. All of our training and learning and development policies are in place for all employees to access regardless of gender, race, age or disability. PIC is committed to providing a working environment free from harassment and discrimination and a place where our employees are proud to work.

As our approach is to go beyond the requirements of the Equality Act 2010, PIC wants to ensure everyone has the opportunity to develop and progress in their career with the Company. PIC recruits and promotes the best person for each role, based on objective job related criteria with due regard for their qualifications and experience. PIC is also committed to making reasonable adjustments for the hiring of employees with disabilities and having regard to their particular aptitudes and abilities.

PIC actively encourage all employees to take advantage of the learning and development opportunities available to help maintain, develop or increase knowledge, for the purpose of maintaining a high standard of professional practice. All employees are required to complete a minimum of ten hours of Continuing Professional Development ("CPD") every 12 months.

In January 2020, PIC established the Diversity and Inclusion Forum which is made up of employees and has HR representation. The Forum meets on a regular basis and its key objective is to organise learning events on diversity and inclusion topics and represent employees in making recommendations to senior management on potential changes to policy.

EMPLOYEES WITH DISABILITIES
In the event that an employee becomes disabled during employment, PIC will actively make reasonable adjustments to the working environment and/or practices so anyone can be supported in carrying out their role and responsibilities to their full potential.

In some instances, PIC may seek third party advice around how the Company can make these reasonable adjustments; this could include the use of an occupational health provider.

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 we are required to report on our greenhouse gas emissions ("GHG") including our UK energy use and carbon emissions.

The information in the table below represents our GHG and energy use for which PIC is responsible:

	2020 reporting year (UK and offshore)	Previous reporting year (UK and offshore)
Total energy consumption used to calculate emissions in kWh	1,012,564	1,051,412
Emissions from combustion of gas in tCO_2e (Scope 1)	94.3	83.6
Emissions from purchased electricity in tCO_2e (Scope 2, location-based)	116.5	152.5
Total gross tCO_2e based on above	210.8	236.1
Intensity ratio: gross tCO_2e/floor area	0.04	0.06
Intensity ratio: gross tCO_2e/full time equivalent	0.7	0.9

Reporting terminology definitions:
Scope 1: Direct emissions that are owned and controlled by the Company

Scope 2: Emissions that are a consequence of the operations of the Company

Intensity ratio: GHG impact per unit of physical activity or unit of economic value.

Reporting period:
Our GHG reporting period is the same as our financial year: 1 January 2020 to 31 December 2020.

Methodologies

To calculate our GHG, we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard along with the UK Government GHG Conversion Factors for 2020 Company Reporting. Any estimates included in our totals are derived from actual data in the same reporting period which have been extrapolated to cover any missing periods. We do not have any fuel used for Company travel to report.

Actions

We have consciously implemented a number of workplace initiatives, where possible, to reduce our GHG for example, we have installed LED lights with PIR throughout our office premises as well as our employees using energy efficient laptops. Due to Covid-19 pandemic, we have not implemented any specific energy efficiency measures in the reporting period.

LONGER-TERM VIABILITY STATEMENT

1. The assessment process

The longer-term viability process is primarily carried out by strategic and financial planning. The Group’s strategy (see pages 17 to 32), and year-on-year activities, combined with a focus on material factors which may impact the Group in the foreseeable future, are central to the assessment that the Group can be reasonably expected to continue in operation and meet its liabilities as they fall due. The Group’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 Group over the period. The plan is designed within the Group’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 Group by the Board. This includes a number of stress scenarios, which consider the Group’s resilience and capacity to respond to relevant stresses and shock events, which may potentially impact the Group. The Group also evaluates various management actions designed to maintain and restore key capital and solvency metrics to within the Group’s approved risk appetite over the planning period and takes into account the cost of these actions to the Group and their potential impact on the Group’s Market Consistent Embedded Value and IFRS profits.

2. The assessment period

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

3. Assessment of viability

The Directors have carried out an assessment by reference to the Group’s current position and strategy, the Board’s risk appetite and the Group’s financial forecasts from December 2020 to December 2025. The Directors discussed the strategy and draft business plan at the strategy session days 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 Group’s principal risks and how these are managed, as detailed on pages 78 and 79. 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 Group 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 Group’s prospects and viability, the Directors confirm that they have a reasonable expectation that the Group 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

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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 Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company 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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company 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 Group and parent 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 Group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent 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 Group 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.

Financial Statements

FIRST BUILD TO RENT PROJECT: NEW VICTORIA, MANCHESTER

In September 2020, PIC acquired a prime city-centre site in Manchester as the location for its first Build to Rent project, investing £130 million to fund the construction of 520 residential apartments, over 6,000 square feet of commercial space and 102 car parking spaces. For more information, please read our case study on page 9.

Opinion

We have audited the financial statements of Pension Insurance Corporation Group Limited ("the company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the group's 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 2006;
- the parent company financial statements have been properly prepared in accordance with International Financial Reporting Standards in conformity with the 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 have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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 or to cease their operations, and as they have concluded that the group and the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the group's 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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern 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 or the company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the group or the 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 companies' high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the companies' 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.

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.

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

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior management, those including specific words based on our risk criteria, those journals which were unbalanced, those posted to unusual accounts, those posted at the end of the period and/or post-closing entries with little or no description and unusual journal entries posted to either cash or borrowings.
- 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 management, and from inspection of the Company's regulatory and legal correspondence, and discussed with management the policies and procedures regarding compliance with laws and regulations.

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

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

Firstly, the Company 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 Company 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. We identified the following areas as those most likely to have such as effect: liquidity and certain aspects of company legislation recognizing the financial nature of the Company's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operation regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect a breach.

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

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

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

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

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion 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 knowledge. Based solely on that work:

- 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.

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.

Directors' responsibilities

As explained more fully in their statement set out on page 117, the directors are responsible for: the preparation of the financial statements and for 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.

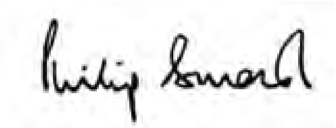
Auditor's responsibilities

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
Chartered Accountants

15 Canada Square
Canary Wharf
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	14	**5,649**	7,186
Outward reinsurance premiums	14f	**(517)**	(50)
Net premium revenue earned		**5,132**	7,136
Investment return	2	**4,090**	3,062
Commissions earned		**1**	1
Total revenue (net of reinsurance premiums)		**9,223**	10,199
Expenses			
Claims paid – gross	14	**(1,730)**	(1,430)
Reinsurers' share of claims paid	14f	**47**	42
		(1,683)	(1,388)
Increase in insurance liabilities – gross		**(7,172)**	(8,943)
Increase in reinsurers' share of insurance liabilities	14f	**175**	744
		(6,997)	(8,199)
Acquisition expenses	3	**(75)**	(66)
Other operating expenses	4	**(119)**	(91)
Finance costs	15	**(73)**	(61)
		(267)	(218)
Total expenses		**(8,947)**	(9,805)
Profit before taxation		**276**	394
Tax charge	8	**(54)**	(75)
Profit and total comprehensive income for the year		**222**	319

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 126 to 155 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			
Property, plant and equipment		2	1
Right of use assets	9	20	22
Investment properties	10	91	81
Financial investments	11	49,648	40,886
Derivative assets	12	21,936	14,626
Deferred tax assets	13	3	3
Current taxation		3	–
Reinsurers' share of insurance liabilities	14	2,773	2,598
Prepayments		107	95
Receivables and other financial assets	11	283	276
Cash and cash equivalents	11	214	83
Total Assets		75,080	58,671
Equity			
Share capital	18	2	2
Share premium	20	870	120
Treasury shares	20	(25)	(32)
Merger reserve	20	34	34
Tier 1 notes	19	444	445
Capital reduction reserve	20	1,055	1,055
Share-based payment reserve	20	14	15
Retained profit	20	1,773	1,576
Total Equity		4,167	3,215
Liabilities			
Gross insurance liabilities	14	44,835	37,663
Borrowings	15	1,589	892
Lease liabilities	9	22	23
Derivative liabilities	12	24,340	16,731
Deferred tax liabilities	13	2	3
Current taxation		–	42
Insurance and other payables	11	20	17
Accruals	11	105	85
Total Liabilities		70,913	55,456
Total Equity and Liabilities		75,080	58,671

The accounting policies and notes on pages 126 to 155 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:

Tracy Blackwell
Director

Registration number: 09740110

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**	**Treasury shares £m**	**Merger reserve £m**	**Tier 1 notes £m**	**Capital reduction reserve £m**	**Share-based payment reserve £m**	**Retained profit £m**	**Total £m**
At beginning of year		**2**	**120**	**(32)**	**34**	**445**	**1,055**	**15**	**1,576**	**3,215**
Total comprehensive income										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**222**	**222**
Transactions with owners										
Tier 1 note coupon	19	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33)**	**(33)**
Tier 1 coupon tax relief	8	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Tier 1 additional costs	19	**–**	**–**	**–**	**–**	**(1)**	**–**	**–**	**–**	**(1)**
Equity raise		**–**	**750**	**–**	**–**	**–**	**–**	**–**	**–**	**750**
Exercise of share-based payment schemes	20	**–**	**–**	**8**	**–**	**–**	**–**	**(8)**	**–**	**–**
Share-based payment charge	7, 20	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**–**	**7**
Share scheme purchases and contributions	20	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**2**	**1**
At end of year		**2**	**870**	**(25)**	**34**	**444**	**1,055**	**14**	**1,773**	**4,167**

31 December 2019	Note	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Tier 1 notes £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year		2	120	(24)	34	–	1,055	14	1,256	2,457
Total comprehensive income										
Profit for the year		–	–	–	–	–	–	–	319	319
Transactions with owners										
Tier 1 note issuance	19	–	–	–	–	445	–	–	–	445
Adoption of IFRS 16		–	–	–	–	–	–	–	2	2
Exercise of share-based payment schemes	20	–	–	7	–	–	–	(6)	(1)	–
Share-based payment charge	7, 20	–	–	–	–	–	–	7	–	7
Share scheme purchases and contributions	20	–	–	(15)	–	–	–	–	–	(15)
At end of year		2	120	(32)	34	445	1,055	15	1,576	3,215

The accounting policies and notes on pages 126 to 155 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		**222**	319
Adjustments for:			
Interest income recognised in profit or loss	2	**(1,027)**	(923)
Other investment return	2	**47**	(13)
Finance costs		**73**	61
Depreciation charged on right of use asset	9	**2**	3
Tax expense	8	**54**	75
Equity settled share-based payments	7	**7**	7
		(844)	(790)
Changes in operating assets and liabilities			
(Increase)/Decrease in investment properties	10	**(10)**	15
Increase in property, plant and equipment		**(1)**	(1)
Increase in financial investments including derivative assets		**(16,072)**	(14,384)
Increase in reinsurers' share of insurance liabilities	14	**(175)**	(744)
Increase in prepayments		**(12)**	(34)
Decrease in receivables and other financial assets		**3**	31
Increase in accruals		**20**	13
Increase in insurance liabilities	14	**7,172**	8,943
Increase in financial liabilities including derivative liabilities		**7,609**	5,428
Increase in insurance and other payables		**3**	3
		(1,463)	(730)
Cash flows used in operating activities		**(2,085)**	(1,201)
Interest income received		**1,017**	895
Other investment return		**(47)**	13
Taxation paid		**(93)**	(69)
Net outflow from operating activities		**(1,208)**	(362)
Cash flows from financing activities			
Proceeds from issue of Tier 1 notes	19	**–**	450
Payment of lease liabilities	9	**(2)**	(3)
Proceeds from issue of subordinated debt	15	**700**	–
Proceeds from issue of equity		**750**	–
Share scheme purchases and contributions		**1**	(15)
Interest paid on subordinated debt	15	**(72)**	(61)
Coupon on Tier 1 notes	19	**(33)**	–
Equity and debt issue costs	15, 19	**(5)**	(5)
Net inflow from financing activities		**1,339**	366
Net increase in cash and cash equivalents		**131**	4
Cash and cash equivalents at beginning of year		**83**	79
Cash and cash equivalents at end of year		**214**	83

The accounting policies and notes on pages 126 to 155 form an integral part of these financial statements.

1 Some presentational inconsistencies in the treatment of lease and 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 have 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 78 to 79. The key stress tests, scenarios and sensitivities 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 Chief Financial Officer's review on page 64.

In publishing its own financial statements here together with the Group financial statements, the Company 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 14 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 19 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 14 for further details.

Financial Instruments

Where an active market does not exist for a financial instrument, the Company uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets 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 11.

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]	**283**	**–**	276	–
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 16.

2. 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

3. 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

4. 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	7	7
Other expenses	38	29
	119	91

5. AUDITOR'S REMUNERATION

	2020 £000	2019 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	21	27
Fees payable to the Group's auditor and its associates for other services:		
Audit of accounts of subsidiaries	571	408
Audit-related assurance services	150	159
All other services	135	145
Total fees paid to the auditor	877	739

6. DIRECTORS' REMUNERATION, EMPLOYEE COSTS AND HEADCOUNT

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.

The cost 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 twelve Directors (2019: eleven) who served in the Company during the year received total remuneration of £0.2 million (2019: £0.2 million) for their services to the Company.

The amount of remuneration received by the highest paid Director was £1 million (2019: £1 million). This includes £1 million (2019: £1 million) in respect of services provided to other Group companies. In addition, the highest paid Director received 497,250 ordinary shares on maturity of certain share plans during 2020.

No Directors had money paid to money purchase pension schemes on behalf of the Company during the year (2019: £nil). One Director had money paid to a money purchase pension scheme and was provided a cash alternative where their lifetime or annual allowance limit had been reached in respect of services provided to other Group companies.

One Director of the Company was awarded share options during their tenure (2019: one). One Director of the Company received a total of 497,250 ordinary shares of the Company upon vesting of Share Plans during the year (2019: one Director received a total of 561,612 ordinary shares).

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	2020 Number	2019 Number
Employees	280	221
Directors	11	10

7. SHARE-BASED PAYMENT ARRANGEMENTS

Equity settled share-based payment transactions

The fair value on the grant date of equity settled share-based payment awards granted to Directors and employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount recognised as an expense is based on the number of awards that meet the relevant service conditions and non-market performance conditions at vesting date.

Any ordinary shares required to fulfil entitlements under the share-based payment awards are provided by the Pension Insurance Corporation Group Employee Benefit Trust ("EBT"). The EBT is treated as a branch. Any shares purchased by the EBT to fund these awards and held at a period end date are accounted for as treasury shares within the Company and Group shareholders' equity.

When the awards vest and new shares are issued, the proceeds received, net of transaction costs, are credited to share capital (par value) and the balance, if any, to share premium. Where the shares are already held by the EBT, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the share-based payments reserve is then credited to retained earnings.

Analysis of expense recognised in the Statement of Comprehensive Income

	2020 £m	2019 £m
Equity settled share-based payment transactions		
Deferred Performance Share Plan	7	7
Total expense recognised for equity settled share-based payments	7	7

All schemes contain clawback provisions which allow the PIC Nominations and Remuneration Committee to reduce or extinguish awards in certain specified circumstances.

Share Growth Plan 2017

The commercial objective of this plan is to deliver to participants (Directors and senior management of Group companies) a proportion of growth in value of the Company above the value of the Company on implementation of the Plan ("Initial Company Value"):

- 4.25% of the growth in the value of the Company between Hurdle 1 (10% p.a.) and Hurdle 2 (12% p.a.);
- 5.525% of the growth in the value of the Company between Hurdle 2 and Hurdle 3 (15% p.a.);
- 1.4% of the growth in the value of the Company between Hurdle 3 and Hurdle 4 (20% p.a.); and
- 0.85% of the growth in the value of the Company above Hurdle 4.

The Growth Shares (issued as C shares) vest four years from acquisition date, 1 January 2017 (the "Vesting Date"), subject to certain provisions. Following the Vesting Date of 1 January 2021, the value of the Growth Shares will be determined and the Growth Shares will be converted into ordinary shares of equal value.

Participants will only be able to sell their ordinary shares received from this plan in years 4, 5 and 6 in equal amounts, i.e. these shareholders will be able to sell a third each year after the growth plan vests.

The fair value of the Growth Plan at inception was calculated to be £1.6 million, which was fully paid by the participants. As a result, no expense has been recognised in the Statement of Comprehensive Income in respect of this plan.

Deferred Performance Share Plan ("DPSP") (previously known as Performance Share Plan)

This plan is designed to incentivise key individuals to grow the business and build a sustained and successful future for the Group by rewarding and retaining them through a long-term incentive arrangement. The plan has been in place since 2013 and awards are made on an annual basis, at the Company's discretion.

The awards under the DPSP are in the form of a nil cost option over a number of the Company's ordinary shares.

	2020 Number of options	2019 Number of options
Outstanding at 1 January	**7,756,148**	7,795,314
Awarded	**2,264,142**	2,573,389
Lapsed/forfeited	**(115,909)**	(73,762)
Exercised	**(2,171,145)**	(2,538,793)
Remaining at 31 December	**7,733,236**	7,756,148
Weighted-average share price at grant/exercise (£)	**3.05**	3.20
Weighted-average remaining contractual life (years)	**7.92**	7.99

During the year to 31 December 2020, awards under DPSP were made on 31 March 2020. As these are nil cost options with no specific performance criteria, the key input to determine the fair value of the awards for the IFRS 2 share-based payment charge is the share price at grant date of £3.05.

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		
Corporation tax payable for the current year	54	75
Prior year adjustment	1	–
Total current tax	55	75
Deferred taxation		
Tax transitional adjustment	(1)	–
Total deferred tax	(1)	–
Tax charge	54	75

The effective current tax charge for the period is marginally higher than (2019: same) the standard rate of corporation tax in the United Kingdom of 19% (2019: 19%). The differences are explained below:

	2020 £m	2019 £m
Reconciliation of total income to the applicable tax rate		
Profit before taxation	276	394
Corporation tax at 19% (2019: 19%)	53	75
Effects of:		
Prior year adjustment	1	–
Tax charge	54	75

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 Group's tax charge is primarily based on the profits of PIC. 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. LEASES

The Group applied IFRS 16 from 1 January 2019. On transition, the Group elected to use the practical expedient to apply IFRS 16 only to contracts that were identified as leases under IAS 17.

The Group recognises a right of use asset and a lease liability at the lease commencement date. Right of use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received.

A right of use asset is depreciated on a straight line basis over the lease term.

Non-financial assets that are measured at amortised cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

A lease liability is initially measured as the value of expected future lease payments, discounted using the Group's incremental borrowing rate. The incremental borrowing rate is determined using interest rates from various external financing sources, which are adjusted to reflect the terms of the lease.

Lease liabilities are measured at amortised cost using the effective interest method.

The Group leases consist of office buildings and office equipment. Information about the leases for which the Group is a lessee is presented below.

Right of use assets

	2020 Office buildings £m	2019 Office buildings £m
Balance at 1 January	22	20
Additions	–	5
Depreciation charge for the year	(2)	(3)
Balance at 31 December	**20**	22

The Group leases office space and office equipment to enable it to carry out its operations. The leases for the office space include options to renew the leases for an additional period at the end of the contractual term. The extended period is included in the calculation for the right of use asset and lease liability as the Group is reasonably certain that these options will be exercised.

Lease liabilities

	2020 £m	2019 £m
Balance at 1 January	23	20
Additions	–	5
Cash outflow for lease payments	(2)	(3)
Interest on lease liabilities	1	1
Balance at 31 December	**22**	23
Expenses relating to low-value leases	–	–

Maturity analysis- contractual undiscounted cash flows	2020 £m	2019 £m
Less than one year	3	3
One to five years	15	14
More than five years	8	11
Total undiscounted lease liabilities at 31 December	**26**	28
Balance at 31 December	**22**	23

10. INVESTMENT PROPERTIES

Investments in properties are not for occupation by the Group, but 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	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 £13.80 – £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 2.

11. 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).

11. FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)
Group

	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	–	17	–	13
Accrued interest	–	261	–	251
Total receivables and other financial assets	–	283	–	276
Cash and cash equivalents	–	214	–	83
Total financial assets	71,584	497	55,512	359
Financial liabilities				
Derivative liabilities	24,340	–	16,731	–
Creditors arising out of reinsurance operations	–	16	–	15
Other creditors	–	4	–	2
Insurance and other payables	–	20	–	17
Borrowings	–	1,589	–	892
Accruals	–	105	–	85
Total financial liabilities	24,340	1,714	16,731	994

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 12, 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 or its counterparty 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 right or intention to settle on a net basis and 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.

11. 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 quoted 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 142.

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.

11. 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 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 are 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 are 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	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	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

11. 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 instruments 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")	+/- £10m increase 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")	+/- £10m increase in EL	79	10	(10)
			4,181	881	(521)

12. 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)

13. DEFERRED TAX

Deferred tax is provided on temporary differences between the carrying amount 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 of 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	Asset £m	Liability £m	Total £m
Timing differences	**3**	**(2)**	**1**
31 December 2019			
Timing differences	3	(3)	–

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

	2020 £m	2019 £m
At beginning of year	–	–
Reduction of deferred tax liability on temporary timing differences	1	–
At end of year	**1**	–

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

14. 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.

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.

14. INSURANCE CONTRACTS AND RELATED INSURANCE LIABILITIES (continued)

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.

(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.

14. INSURANCE CONTRACTS AND RELATED INSURANCE LIABILITIES (continued)

(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.

15. 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, the Group's main subsidiary entity, PIC, issued £300 million subordinated loan notes due 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 tranche of £250 million subordinated loan notes due 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 tranche of £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.

16. 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.

16. 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	22	283
Cash and cash equivalents	–	–	–	214	–	–	214
	25	47	83	319	1	21,958	22,433

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	25	276
Cash and cash equivalents	–	–	–	83	–	–	83
	22	42	83	186	1	14,651	14,985

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.

16. 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	4	4	–	–	–	4
Accruals	105	105	–	–	–	105
Borrowings	1,589	88	631	1,603	–	2,322
Derivative liabilities	24,340	176	802	3,182	20,180	24,340
	26,054	389	1,433	4,785	20,180	26,787

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	2	2	–	–	–	2
Accruals	85	85	–	–	–	85
Borrowings[1]	892	59	537	758	–	1,354
Derivative liabilities	16,731	134	515	1,873	14,209	16,731
	17,725	295	1,052	2,631	14,209	18,187

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.

17. RELATED PARTY TRANSACTIONS

Loans to certain Directors and key management personnel

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

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

This comprises:

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

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

The Group had no other transactions with related parties during the period other than awards made under the Share Growth Plan which are detailed in Note 7.

18. SHARE CAPITAL

	2020		2019	
	Number of shares	**£m**	Number of shares	£m
Ordinary Shares				
Authorised, issued and fully paid				
At beginning of year	**1,085,093,439**	**2**	1,085,093,439	2
Shares issued in the period	**245,901,638**	**–**	–	–
Shares at the end of the period	**1,330,995,077**	**2**	1,085,093,439	2
C Shares				
At beginning and end of year	**2,000**	**–**	2,000	–

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 premium of £750 million and an increase in the number of shares issued of 245,901,638.

The rights attaching to each class of shares existing at 31 December 2020 are as follows:

Ordinary shares

Voting rights are only conferred on the holders of ordinary shares, except when a resolution relates to a change of rights or privileges of convertible deferred shares or the winding up of the Company. Ordinary shares are the only class entitled to dividends or distributions of income unless otherwise determined by the Board.

C shares

2,000 C shares were issued at a subscription price of £815 per share and a nominal value of £0.00161678179673884 per share on 29 June 2017 to satisfy the requirements of the 2017 Share Growth Plan awarded to certain members of the Company's Executive Management team.

C shares are fully paid up and subscribed by the share plan participants.

18. SHARE CAPITAL (continued)

C shares (continued)

C shares can be converted into Ordinary shares on 1 January 2021, under the terms set out in the Company's Articles.

On winding up of the Company the holders of C shares have the right to receive in priority to the holders of Ordinary shares an amount equal to the lower of the C share value on the date the Royal Court makes a compulsory winding up order in respect of the Company and the C Share original cost.

The Board in its absolute discretion may recommend a dividend in respect of C shares.

19. 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.

20. RESERVES

Group

31 December 2020	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m
At beginning of year	120	(32)	34	1,055	15	1,576
Total comprehensive income	–	–	–	–	–	222
RT1 Coupon	–	–	–	–	–	(33)
Tax on RT1 coupon	–	–	–	–	–	6
Equity raise	750	–	–	–	–	–
Exercise of share-based payment schemes	–	8	–	–	(8)	–
Share-based payment charge	–	–	–	–	7	–
Share repurchases and contributions	–	(1)	–	–	–	2
At end of year	870	(25)	34	1,055	14	1,773

31 December 2019	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m
At beginning of year	120	(24)	34	1,055	14	1,256
Total comprehensive income	–	–	–	–	–	319
Exercise of share-based payment schemes	–	7	–	–	(6)	(1)
Adoption of IFRS 16	–	–	–	–	–	2
Share-based payment charge	–	–	–	–	7	–
Share scheme repurchases and contributions	–	(15)	–	–	–	–
At end of year	120	(32)	34	1,055	15	1,576

Treasury shares relate to the shares purchased by the EBT in respect of the Company's share-based payment awards.

A Capital Reduction reserve was established on 21 October 2016, when the Company reduced the nominal value of its ordinary shares from £1 to £0.00161678179673884 in accordance with the relevant Special Resolution.

The Group carried out a group reorganisation in December 2015, which led to a recognition of a merger reserve of £34 million in respect of the amount by which the book value of the Pension Corporation Group Limited ("PCG") exceeded the nominal value of shares issued by PICG to acquire the PCG Group.

Share-based payment reserve is recognised in respect of the equity settled share-based payment awards in accordance with the accounting policy in Note 7. The relevant disclosures in respect of the share-based payment schemes are provided in Note 7.

21. 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.

The Group's main subsidiary, 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 15 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.

	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%

PIC'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 PIC'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.

Under Solvency II, PIC uses an internal model to set its statutory solvency capital requirement. 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 PIC 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.

22. FINANCIAL COMMITMENTS AND CONTINGENCIES

Other 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 5 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

At 31 December 2020, the Group's maximum commitment under contractual obligations to construct investment property is £113 million.

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 considers that there were no other events which could lead to contingencies in the ordinary course of business.

PARENT COMPANY FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION FOR THE COMPANY

AS AT 31 DECEMBER 2020

	Note	2020 £m	2019 £m
Assets			
Investments in subsidiaries	1	**1,952**	1,202
Receivables and other financial assets	2	**29**	19
Cash and cash equivalents	2	**–**	2
Total Assets		**1,981**	1,223
Equity			
Share capital		**2**	2
Share premium		**870**	120
Treasury shares		**(25)**	(32)
Merger reserve		**34**	34
Capital reduction reserve		**1,055**	1,055
Share-based payment reserve		**14**	13
Retained profit		**25**	27
Total Equity		**1,975**	1,219
Liabilities			
Other payables	2	**6**	4
Total Liabilities		**6**	4
Total Equity and Liabilities		**1,981**	1,223

The accounting policies and notes on pages 159 to 160 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:

Tracy Blackwell
Director

Registered number: 09740110

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

31 December 2020	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year	**2**	**120**	**(32)**	**34**	**1,055**	**13**	**27**	**1,219**
Total comprehensive income								
Profit for the year	–	–	–	–	–	–	–	–
Transactions with owners								
Equity raise	–	750	–	–	–	–	–	750
Exercise of share-based payment schemes	–	–	8	–	–	(8)	–	–
Share-based payment charge	–	–	–	–	–	7	–	7
Share repurchases and contributions	–	–	(1)	–	–	–	2	1
Alignment of Share-based payment reserve	–	–	–	–	–	2	(4)	(2)
At end of year	**2**	**870**	**(25)**	**34**	**1,055**	**14**	**25**	**1,975**

31 December 2019	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year	2	120	(24)	34	1,055	12	29	1,228
Total comprehensive income								
Loss for the year	–	–	–	–	–	–	(1)	(1)
Transactions with owners								
Exercise of share-based payment schemes	–	–	7	–	–	(6)	(1)	–
Share-based payment charge	–	–	–	–	–	7	–	7
Share repurchases and contributions	–	–	(15)	–	–	–	–	(15)
At end of year	2	120	(32)	34	1,055	13	27	1,219

The accounting policies and notes on pages 159 to 160 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	Restated 2019[1] £m
Cash flows from operating activities		
Loss for the year	–	(1)
Changes in operating assets and liabilities		
(Increase)/Decrease in debtors	(10)	14
Increase/(Decrease) in other payables	2	(5)
	(8)	9
Cash (outflow)/inflow from operating activities	(8)	8
Financing activities		
Share repurchases and contributions	1	(15)
Financing of share-based payment schemes	5	7
Increase in investment in subsidiaries	(750)	–
Proceeds from issue of equity	750	–
Cash inflow/(outflow) from financing activities	6	(8)
Net decrease in cash and cash equivalents	(2)	–
Cash and cash equivalents at beginning of year	2	2
Cash and cash equivalents at end of year	–	2

The accounting policies and notes on pages 159 to 160 form an integral part of these financial statements.

1 Some presentational inconsistencies in the treatment of financing of share-based payment recharges have been corrected in the comparative figures.

PARENT COMPANY FINANCIAL STATEMENTS
NOTES TO THE FINANCIAL STATEMENTS OF THE COMPANY
FOR THE YEAR ENDED 31 DECEMBER 2020

1. INVESTMENTS IN SUBSIDIARIES
Investments in subsidiary companies are carried at cost less impairment in the Company's accounts.

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

	2020 £m	2019 £m
Cost		
At start of year	1,202	1,202
Additions	750	–
At end of the year	1,952	1,202
Net book value		
31 December	1,952	1,202

PICG owns 100% of the equity capital of all the following companies. All subsidiaries have been consolidated in the accounts.

Subsidiary Undertakings	Principal Activity	Country of incorporation	Registered address	Share class
PIC Holdings Limited[1]	Holding Company	England	14 Cornhill London EC3V 3ND	Ordinary shares
Pension Insurance Corporation plc	Bulk Annuity Insurance	England	14 Cornhill London EC3V 3ND	Ordinary shares
Pension Services Corporation Limited	Service Company	England	14 Cornhill London EC3V 3ND	Ordinary shares
PIC ERM 1 Limited	Investment activity	England	14 Cornhill London EC3V 3ND	Ordinary shares
PIC Properties GP Limited	General Partner	England	14 Cornhill London EC3V 3ND	Ordinary shares
PIC New Victoria GP Limited	General Partner	England	14 Cornhill London EC3V 3ND	Ordinary shares
PIC New Victoria Nominee Limited	Nominee Company	England	14 Cornhill London EC3V 3ND	Ordinary shares
PIC Properties Limited Partnership	Investment Holding Entity	England	14 Cornhill London EC3V 3ND	Partnership
PIC New Victoria Unit Trust	Investment activity	Guernsey	Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 1EJ	Unit trust
PIC New Victoria Limited Partnership	Investment activity	England	14 Cornhill London EC3V 3ND	Partnership

1 Denotes investment held directly by the Company at 31 December 2020.

2. FINANCIAL ASSETS AND FINANCIAL LIABILITIES
All of the Company's financial assets and liabilities are valued at amortised cost as detailed below:

	2020 Amortised cost £m	2019 Amortised cost £m
Financial Assets		
Receivables and other financial assets	29	19
Cash and cash equivalents	–	2
Total Financial Assets	29	21
Financial Liabilities		
Other payables	6	4
Total Financial Liabilities	6	4

Included within receivables and other financial assets are amounts totalling £3 million (2019: £2 million) due to be received after more than one year. All amounts relating to other payables are expected to be settled within one year.

3. RELATED PARTY TRANSACTIONS

a) Transactions with certain Directors and key management personnel

Share scheme transactions with the key management personnel are detailed in the Group financial statements.

b) Balances with subsidiary companies

During the year the Company had the following balances with subsidiary companies:

	Transactions during the year		Balance at 31 December	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Amounts owed by group undertakings	**8**	(9)	**20**	12

c) Capital transactions with subsidiary companies

During the year the Company had the following capital transactions with subsidiary companies:

	2020 £m	2019 £m
Equity investment in subsidiary undertakings	**(750)**	–
Share-based payment charge recharged to subsidiary undertakings	**7**	7

GLOSSARY

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

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

COST OF RESIDUAL NON-HEDGEABLE RISKS ("CRNHR")
Under the Market Consistent Embedded Value ("MCEV"), allowance for the cost of holding capital in respect of non-hedgeable risks. Market risks are assumed to be hedgeable and so no cost is allowed for any capital that might be held under the regulatory solvency regime. Longevity risk in respect of deferred annuities is treated as non-hedgeable except to the extent that it has actually been hedged, typically using reinsurance. Pensioner longevity is treated as reinsurable and hence hedgeable regardless as to whether it has actually been reinsured or not.

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

DERIVATIVES
Derivatives are securities that derive their value from an underlying asset or benchmark. 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.

FINANCIAL INVESTMENTS
Represents all assets actively managed or administered by or on behalf of the institution including those assets managed by third parties.

FRICTIONAL COST OF REQUIRED CAPITAL ("FCOC")
The cost associated with the assets used to support required capital under MCEV, principally in respect of investment management fees and tax on investment income.

MINIMUM CAPITAL REQUIREMENT ("MCR")
The lower of the two capital levels required by Solvency II. It represents the minimum level of capital required to be held by an insurer before ultimate regulatory intervention is triggered.

PIC'S INTERNAL MODEL
A risk management system developed by PIC to analyse its overall risk position, to quantify risks and to determine the capital required to meet those risks. PIC has obtained appropriate approval from the PRA to use its internal model to calculate its solvency capital requirement under Solvency II.

PRESENT VALUE OF FUTURE PROFITS ("PVFP")
Represents the present value, after tax, of the future release of regulatory margins, such as risk margin.

PRUDENTIAL REGULATION AUTHORITY ("PRA")
The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.

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

SOLVENCY II
An EU-wide regulatory regime which intends to align solvency capital to an insurers' risk profile. Solvency II was implemented on 1 January 2016.

SOLVENCY CAPITAL REQUIREMENT ("SCR")
The SCR represents the capital that the Company needs to hold in order to be able to survive a 1-in-200 year risk event over the 12 months following the balance sheet date. PIC calculates its SCR using a Company-specific model (the internal model) which has been approved by the PRA. The main components of the SCR for PIC are market risk and insurance risk, but the internal model also covers counterparty default risk, expense risk and operational risk.

STANDARD FORMULA
A risk-based mathematical formula used by insurers to calculate their solvency capital requirement under Solvency II. The standard formula is intended for use by most EU insurers, although they may use an internal model instead, subject to regulatory approval.

TECHNICAL PROVISIONS ("TP")
The value of technical provisions on the Solvency II basis is equal to the sum of a BEL and an RM.

TRANSITIONAL MEASURES ("TMTP")
PIC uses a transitional measures deduction on technical provisions in its Solvency II balance sheet. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example in having to set up the risk margin. The TMTP only applies in respect of business that was in force at 31 December 2015, and it runs off linearly to zero over 16 years.

VALUE OF IN-FORCE ("VIF")
This is the discounted value of after-tax profits expected to emerge from the in-force business over time, and is used in the embedded value calculation.

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