Creating long-term social value.

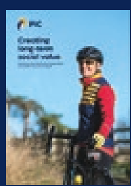
Pension Insurance Corporation Group Limited
Annual Review 2021

Rachel Fennell, PIC Policyholder
See inside front cover for more details

About PIC

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

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



The front cover image is of PIC policyholder Rachel Fennell, who recounted her newly discovered passion for cycling in one of a series of inspirational stories by PIC policyholders, shared during the 2021 Policyholder Hour.

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.

Highlights

Delivering for our stakeholders.

	2021	2020
Solvency II ratio	168%	157%
Adjusted operating profit	£533m	£349m[1]
Financial investments	£51.1bn	£49.6bn
Premiums	£4,702m	£5,649m
Policyholder satisfaction	99.6%	98.7%
Environmental, Social and Governance ("ESG") assets	£10.9bn	£10.1bn
Employee pride in working for PIC	90%	73%
Gender pay gap	18.4%	25.3%

Fitch rating

In May 2021 Fitch Ratings affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

A+

1 2020 adjusted operating profit has been restated to include the Restricted Tier 1 coupon in operating profit.

Find out more at **www.pensioncorporation.com**

Generating social value across the UK.

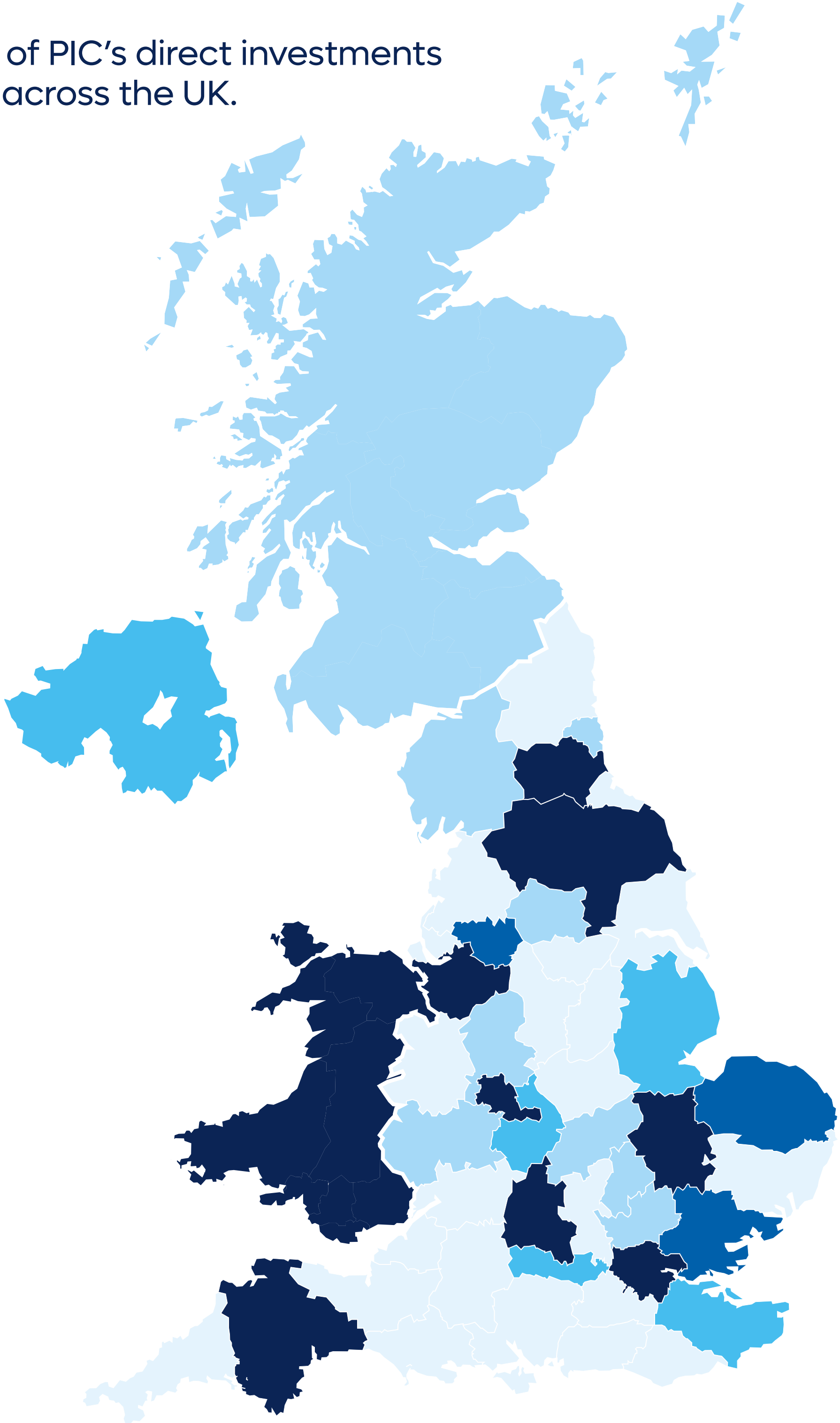
Our investments, which have a lasting impact on current and future generations, are socially beneficial outcomes of our purpose.

These maps show the value of PIC's direct investments and policyholder payments across the UK.

Investments

£10bn

Total direct investments*



Scale (£m)

- 1–50
- 51–100
- 101–150
- 151–200
- Over 200

Sectors invested in include:

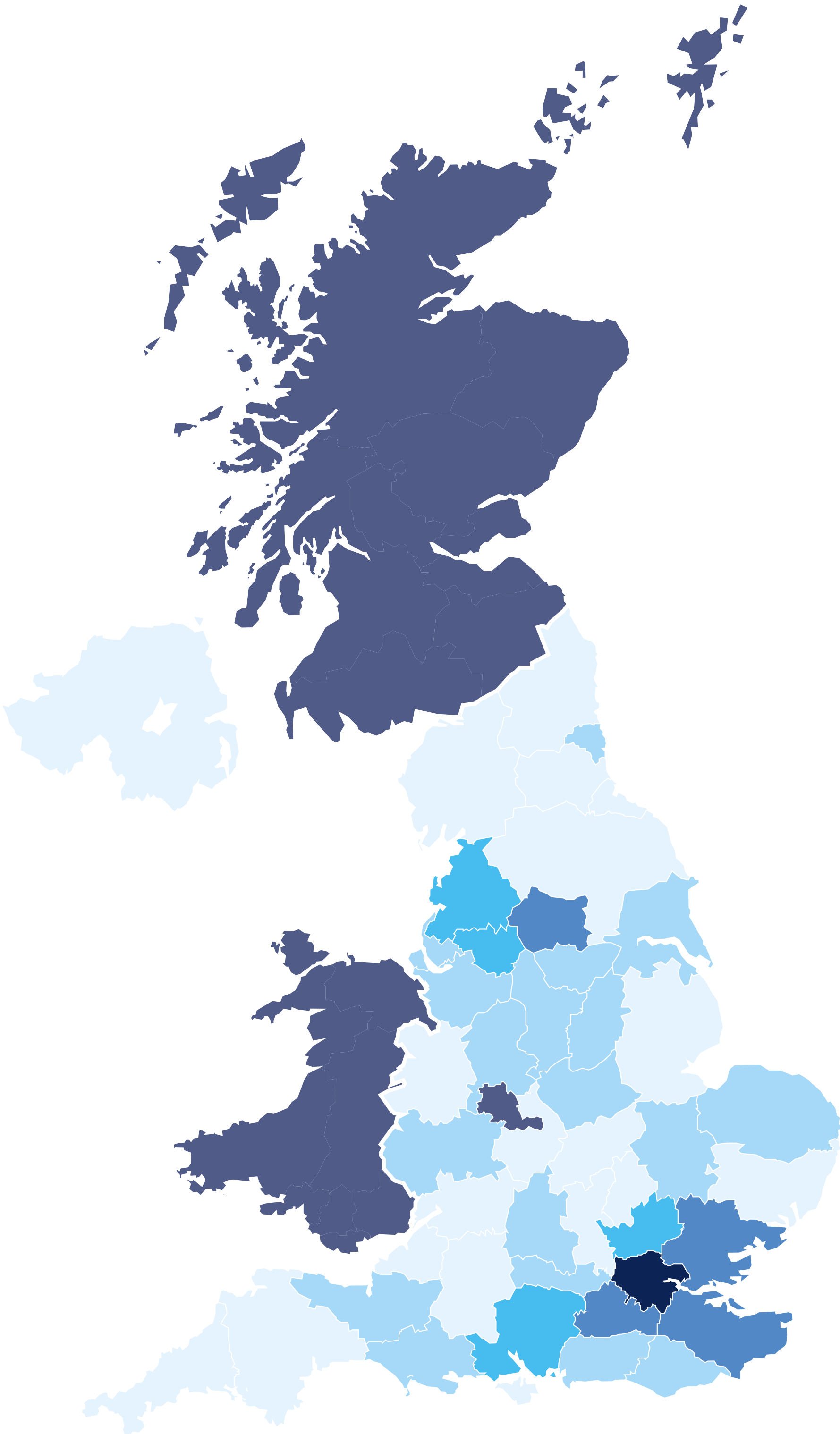
- Renewables
- Social housing
- Education
- Student accommodation
- Urban regeneration
- Build-to-Rent

* Investments in the UK from 2012–2021.

Pensions paid

£8bn

Total pensions paid**



Scale (£m)

- 1–100
- 101–200
- 201–300
- 301–400
- 401–500
- Over 500

** Pensions paid from 2008–2021.

Stakeholder case studies

Creating social value by delivering on our purpose.

300

affordable properties purchased outright

Funding emergency accommodation in Bromley

After a number of years of moving from one temporary home to another, a mother and her two children moved into a beautifully refurbished three-bedroom house in Bromley in November 2021, thanks to PIC's £67 million investment in an innovative affordable housing deal with the London Borough of Bromley. The funds were used to purchase 300 affordable properties outright, significantly reducing the Council's cost of emergency nightly accommodation.

For more information see our Investments section on **p28-33**

We are delighted to have completed this deal, which will allow us to help families in genuine need whilst better managing Bromley's budget. I'd like to thank the team at PIC for their flexible and innovative approach to structuring this deal, which is positive news as we seek to proactively tackle the blight of temporary homelessness."

Peter Morgan
Bromley's Executive Councillor for Renewal, Recreation and Housing

Investing £130 million in the North West of England

PIC's £130 million investment in a new waterfront neighbourhood, Wirral Waters One ("WWO"), is the anchor project of Peel L&P's Wirral Waters, the UK's largest urban regeneration project and a key part of the levelling up agenda. The Wirral Waters scheme is a central Government-supported project to redevelop a brownfield site into a new waterfront neighbourhood, creating up to 20,000 permanent jobs, as part of the regeneration of Wirral, which sits within the Liverpool City Region.

Working in close partnership with regeneration specialist Peel L&P and Wirral Metropolitan Borough Council ("WMBC"), PIC is the sole investor for the development of a Build-to-Rent scheme, comprising 500 one- and two-bedroom apartments, with an affordable housing component of 100 homes. Rents on the affordable units will be a maximum of 80% of open market value, delivering significant social impact. The deal closed in January 2022.

For more information, see our Investments section on **p28-33**

The council has worked closely with both Peel L&P and PIC to bring forward this project, which will be delivering jobs and affordable housing for people in Wirral. It is also another key moment in the continuing wider regeneration in the borough, tying in with the work well underway in Birkenhead to drive forward the town's renaissance and showing the increasing confidence of investors in the plans for Wirral's future."

Councillor Tony Jones,
Chair of Wirral Council's Economy,
Regeneration & Development Committee

Manchester one year on... £2 million a week injected into Manchester's economy during the first year of New Victoria development.

In September 2020 PIC invested £130 million in the Company's first private rental sector ("PRS") project, New Victoria, in central Manchester.

During the first year of construction of the award-winning development, which is helping regenerate a key part of the city centre, £50 million was injected into Greater Manchester's economy through local employment and the sourcing of materials, by our development partners. A further £65 million was spent with small businesses supplying materials for the project as part of the wider supply chain across the North West. The development is employing 550 people during the construction phase.

Once complete, New Victoria will comprise of 520 new residential apartments and 5,000 square feet of commercial space. The development will include 460m² of new landscaped space, the first time this site has had any green space in over 100 years.

The cash flows from the rental apartments will be used to pay the pensions of PIC's policyholders for decades to come.

For more information on our high environmental standards in the design of the New Victoria development, see **p53**

We are very pleased and proud to have brought so much social value to the North West through this award-winning project. As an outcome of this purposeful investment, hundreds of millions of pounds are being spent over the course of the project in the local economy, supporting jobs, helping the environment and benefitting the Government's wider levelling up agenda.

I would like to see development projects like this in every region and city of the UK, a new golden era of urban regeneration and job creation, helping pay our policyholders' pensions and creating real social value that will also benefit future generations."

Tracy Blackwell
Chief Executive Officer of PIC

Strategic Report.

Purpose, culture and values.

Our purpose

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

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.

Our culture.

Our customers are our priority

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

For more information see 'Our people and culture' section **p54–59**

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 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

A purposeful approach.

> Our strong presence in areas like social housing, renewable energy and now in the private rental sector, means that we are becoming ever more visible stewards of the economy."

£533m
Adjusted operating profit

2050
Net Zero carbon emission target

Wind turbines in the Walney Extension Offshore Windfarm, one of PIC's investments in renewable energy.

In essence, PIC is a simple business: we take on assets transferred from defined benefit pension schemes and we then pay our policyholders' pensions, which is the Group's purpose.

This very specific focus has stood us in good stead as the pandemic continues to work its way through society and the economy, and we report a solvency ratio of 168% at year end (FY2020: 157%), with an adjusted operating profit, the Group's preferred assessment of the long-term nature of the business, of £533 million (FY2020: £349 million). The Group has been successful in managing our risks, developing our capabilities, and creating long-term value.

The Board has continued the evolution of the Group's strategy this year based on the long-term outlook for the business and the significant, and growing, market in which we operate. However, the risks and opportunities thrown up by the pandemic on society, on the economy and on markets, are inevitably shaping the short- and medium-term business response and Board focus.

Risk management

The impact of Covid-19 across society has raised many questions for businesses. For the Group this includes keeping a close eye on how Covid-19 affects the economy and society. But the wider effects of lockdown on the population's mental health and choice of career has led to a greater focus on flexible working and social value. It's not yet clear how these will affect the Group and as we have a strong purpose and culture, so far they have been muted. As with many companies at this time we are continuing to evolve our approach and have provided greater flexibility to employees through hybrid working.

The economic effects of the pandemic, and whether there is an increased likelihood of corporate defaults, the main risk to our portfolio, has been discussed at length during Board meetings.

The defensive nature and proactive management of the portfolio mean that so far we have seen no defaults and limited downgrades.

The third impact has been the market volatility, extremely compressed credit spreads, and increased inflation that we have successfully managed by focusing on balance sheet resilience. By contrast, pension scheme funding levels have been affected, consequently lowering risk transfer affordability. I am confident that the long-term de-risking pension schemes have undertaken means that our market has very strong prospects, and certainly we go into the new year with a very full pipeline of potential new business.

Social value

Rather more positively, we have been pleased to support the continued rise of Environmental, Social and Governance ("ESG") considerations. The Board sets the Group's overall approach to ESG, recognising that issues such as climate change, human rights violations and corruption all have detrimental social and financial effects and that, as a significant asset owner, we are increasingly well placed to positively influence societal outcomes. Climate change in particular cuts across every area of the business and for this reason we instituted an ESG Committee, consisting of the Chairs of every other Board Committee to consider the wider implications. The Board was also pleased to commit to the Group to be carbon neutral as a business by 2025 and to be Net Zero by 2050 across all sources of emissions, including within our £50 billion investment portfolio. It's important to note that we are very aware of the social value of our investments and other business activities and, as a long-term business, what makes sense for society helps us fulfil our purpose over decades. As such, the Board has also focused on the evolution of our asset origination capabilities. Our strong presence in areas like social housing, renewable energy and now in the private rental sector, means that we are becoming ever more visible stewards of the economy. This includes working increasingly closely with local councils to help them tackle previously intractable problems, such as homelessness (see Bromley case study on page 4) and the regeneration of urban centres (see Wirral case study on page 5).

Board changes

There have been a number of changes to the Board this year. We were pleased to welcome Sally Bridgeland, Julia Goh, Jake Blair and Dom Veney onto the Board. Sally has taken over as Chair of the Risk Committee, Julia joins us as an Independent Non-Executive Director and Jake joins as a shareholder nominated Non-Executive Director, following HPS Investments' acquisition of more than 10% of the Group's ordinary share capital. Dom joins as an Executive Director following his appointment as Group CFO in December 2021.

I also want to thank our two departing Board members. Steve Sarjant retired in March, after six years on the Board, stepping down from his role as Chair of the Risk Committee at the same time. Rob Sewell, PIC's former CFO, retired from the Board and the Group in December. Rob was PIC's longest-serving Director, having joined in 2008, playing a key role in the development of the business over that period. I especially want to thank him for his efforts during that long tenure.

Finally, in January 2022, the Group announced my decision to step down as Chairman, once a successor has been identified. I took this decision in the best interests of the Group because, as we look forward over the next few years, we are expecting a period of significant growth in the pension risk transfer market and at the same time we will need to oversee several key Board appointments. Under the Financial Reporting Council's ("FRC") nine-year rule for Board members, I would have had to step down in 2025, part way through this expected period of change. I will of course remain in place as long as needed to ensure a smooth transition process.

2021 was another strong year for the Group, building on past success and continuing our investment in the business to ensure we are able to capitalise on future opportunity.

Jon Aisbitt
Chairman

Chief Executive Officer's review

Tracy Blackwell Chief Executive Officer

Long-term value creation.

"As we back the pensions of older generations, our investments fund the vital infrastructure needed by younger and future generations."

168%
Solvency ratio

£51.1bn
Overall portfolio size

99.6%
Policyholder satisfaction

It is extremely important that emphasis in a business such as PIC with a clearly defined purpose – to pay the pensions of our current and future policyholders – is squarely on resilience and long-term value creation.

The centrality of our policyholders to our business model dictates the importance of protecting our balance sheet to ensure we remain a strong, profitable company; the evolution of our purposeful investment strategy; the way we approach and manage risk; and our approach to continually investing in customer service to provide the service levels our policyholders should expect from us today and throughout their lives.

This focus has served us well over the past 15 years from when the business was established and has allowed us to publish a set of results for 2021 that demonstrate a resilient business with a considerable and rapidly increasing presence across the economy, as the geographic footprint map on pages 2 and 3 of this Annual Report shows.

Group highlights

At year end, PIC had a solvency ratio of 168% (FY2020: 157%), demonstrating a robust balance sheet, and had an adjusted operating profit, the Group's preferred assessment of the long-term nature of the business, of £533 million (FY2020: £349 million).

Our policyholders gave us an overall satisfaction score of 99.6% (FY2020: 98.7%), proving the success of our continued investment in customer care throughout the pandemic. Focusing on our investment strategy, we significantly increased our ability to invest in the UK's private rental sector ("PRS"), announcing two transactions, including our cornerstone investment in the UK's largest urban regeneration project, in Wirral.

Finally, we were delighted to join the UN-convened Net Zero Asset Owner Alliance, announced our intention to be net zero by 2050, and early in 2022 published our first Task Force on Climate-Related Financial Disclosures ("TCFD") report, which mapped the carbon footprint of our portfolio.

Pension Risk Transfer market

The year started slowly in the pension risk transfer ("PRT") market, a consequence of several factors including the Covid-19 related disruption to trustee meetings during 2020. However, the second half of the year saw significant increase in demand for de-risking from schemes, driven by much better funding positions due to appreciating asset values.

Of the £4.7 billion of new business that we completed during the year, more than £4.3 billion was completed in the second half. About half of our new business premiums came from one scheme, the £2.2 billion buyout with the Metal Box Pension Scheme, in what was the largest transaction of the year across the market.

Alongside increased demand from trustees, there has been increased competition within the PRT market, but nothing we haven't seen before. We are happy to be selective on new business, as we have always been, and certainly do not chase annual market share. Our focus is on long-term value creation, alongside value for our customers. This approach is as good for trustees as it is for the providers of our capital: profitable, stable businesses are reliable partners for the long term.

The centrality of our policyholders to our business model dictates the importance of protecting our balance sheet to ensure we remain a strong, profitable company."

For more information see 'Our strategic objectives' section **p18-21**

Chief Executive Officer's review continued

Asset management

When sourcing assets to back these pension liabilities, our philosophy is to only take risk where we are able to generate excess returns on a risk adjusted basis, otherwise we hold risk-free assets, such as UK government bonds. Secondly, we have a regulatory requirement to match the future pension payments with high-quality assets.

Finally, the more social value there is in the assets we hold, the more likely they are to be good long-term investments and support our pension payments for decades to come.

As a cautious, risk-averse investor, we started reducing our exposure to higher-risk investments – primarily those related to cyclical consumer industries – in 2018, because we were concerned about the potential for some sort of economic or credit downturn and we wanted to protect the portfolio. I'm very pleased that we saw no defaults at all in the portfolio and very limited downgrades (less than 0.1% of corporate and private investments) to sub-investment grade.

Environmental, Social and Governance ("ESG")

Of our total portfolio of £51.1 billion (FY2020: £49.6 billion), at year end we held ESG assets to the value of £10.9 billion (FY2020: £10.1 billion). During the year we invested £2,273 million in privately sourced debt, including in social housing and renewable energy, our highest ever annual total.

We were particularly pleased to announce an innovative £67 million debt investment in the London Borough of Bromley to help alleviate local emergency homelessness. The funds will allow the Council to purchase up to 300 affordable properties outright, significantly reducing the cost of emergency nightly accommodation.

These types of assets help regenerate our cities, create jobs, help fund the Race to Net Zero and support levelling up. Indeed, as we back the pensions of older generations, our investments fund the vital infrastructure needed by younger and future generations.

Of the £4.7 billion of new business that we completed during the year, more than £4.3 billion was completed in the second half."

Houses on Salter Lane, Sedgefield, owned by Livin Housing. PIC has invested a total of £95 million with Livin Housing.

PIC's CEO Tracy Blackwell and other senior members of the team visit PIC's Manchester New Victoria development one year into the build. The development is providing £2 million a week for Manchester and the local economy during the construction phase.

Social value

Our investments in the private rental sector now total £300 million (FY2020: £130 million). This sector creates long-term social value from ground-breaking, through the construction phase, and into operation. For example, since we broke ground on our award-winning first private rental sector investment, the £130 million New Victoria development in central Manchester, in September 2020, £2 million a week has been injected into Greater Manchester's economy through local employment and the sourcing of materials, with a further £65 million being spent with small businesses in the supply chain across the North West.

The development is providing full-time employment for 550 people during the construction phase and will have provided more than 3,000 apprentice weeks by the end of the project. The development is also the first time this site has seen the creation of any green space for more than 100 years.

Finally, I want to thank our employees for their commitment and hard work in producing these results in what has been an intense year, which started in lockdown and has seen a transition to much more flexible ways of working. We continue to focus on their wellbeing, and also on diversity and inclusion initiatives. In particular, I was delighted that we launched the PIC Academy, which will help us develop diverse talent pipelines over the long term, and that we were able to successfully participate in the #10000BlackInterns mentoring scheme.

As ever, our entire focus remains on protecting our policyholders' benefits through balance sheet resilience and a low-risk portfolio. The generation of social value as an outcome of our business activities means that we have a business that is a good long-term investment for the providers of our capital. I am delighted that we have produced such a strong set of results, which lay the foundations for success in 2022 and over the coming years.

Tracy Blackwell
Chief Executive Officer

Delivering value for our stakeholders.

The purpose of PIC is to pay the pensions of our current and future policyholders. The key steps in securing pensions and generating long-term shareholder returns are shown below.

Key steps

Manage our capital resources

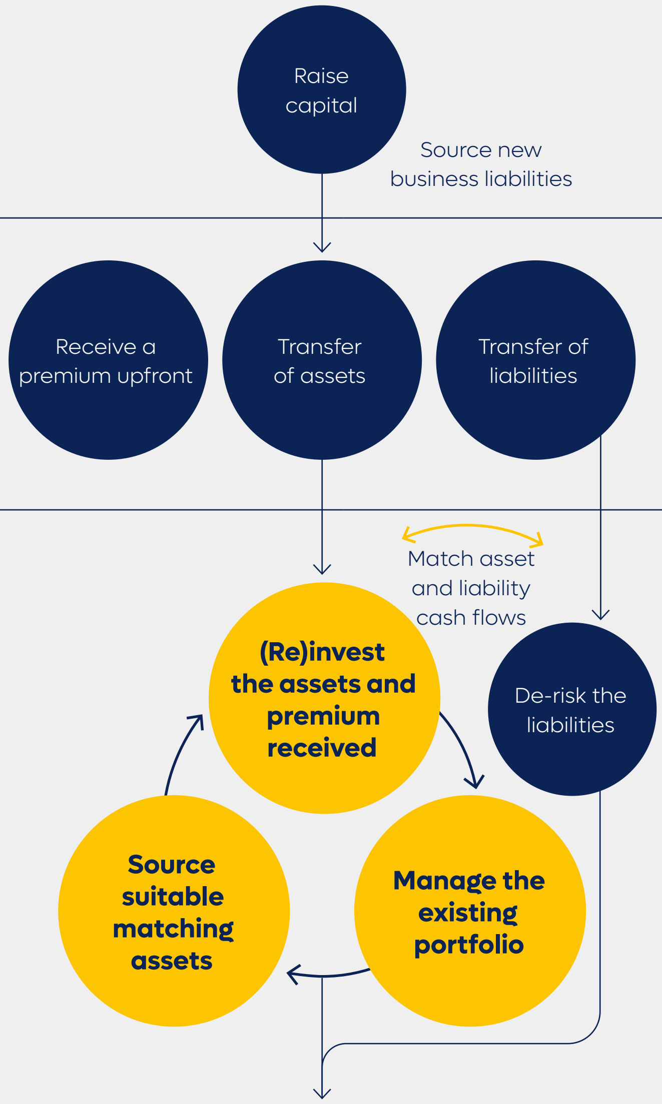
- New business requires capital, which is raised from equity and debt investors or reinvested from our existing business.
- We maintain a capital buffer above PIC's pension liabilities, protecting policyholder pensions.

Source defined benefit ("DB") pension liabilities (through either a pension buy-in or buyout)

- PIC receives a premium for taking on the risk associated with pension liabilities.
- Pension liabilities taken on are variable, due to longevity, interest rate and inflation uncertainty.

Manage our risks and (re)invest our assets

- Where possible, liability cash flows are fixed to make them more certain, allowing a more specific asset strategy. This means that:
  - longevity risk is reinsured to a third party; and
  - liabilities are hedged (on a solvency basis) for interest rate and inflation exposure, using derivatives and other assets.
- The assets received as premiums (typically gilts and cash) are reinvested.
- Our purposeful investment strategy means we seek secure assets that match liabilities for decades to come.



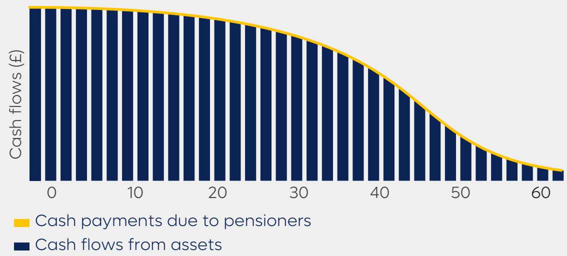
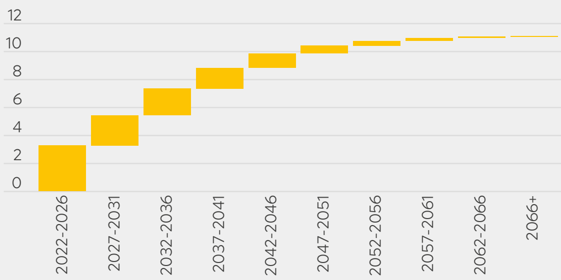
Pay the pensions of our policyholders

- Ensure that we pay our policyholders and trustees accurately and on time.
- Once pensions are paid, any surplus capital and any profit generated is released back to our capital providers (debt holders and shareholders), and/or reinvested back into the business to source DB pension liabilities.

1. Pay the pensions of our policyholders

2. Distribute returns to our capital providers and/or reinvest surplus capital back into the business

Visit the 'What we do' section of the PIC website for descriptions of a buy-in and buyout at **www.pensioncorporation.com**

Stakeholder	Outcome of our business model for our stakeholders	
Policyholders	Best estimate liabilities, made more certain with reinsurance and hedging, are matched with assets to back future pension payments for our policyholders.	
Trustees, Advisers and DB pension scheme sponsors	PIC seeks to be innovative and flexible in pension risk transfer transactions with trustees, sponsors and their advisers.	PIC won three industry awards in 2021 based on the transactions we have structured and completed.
Society	Significant investment in urban regeneration, social housing and renewable energy, as part of our purposeful investment strategy, all areas which balance intergenerational equity. The assets PIC invests in have real social value, because what makes sense for society helps the Company achieve its long-term aims. Climate change considerations are increasingly integrated throughout the organisation's decision-making processes.	£10.9 billion of ESG assets held at 31 December 2021. £3.2 billion* invested in the UK's social housing sector. £1.3 billion* invested in renewable energy. £2.9 billion* invested in the UK's education system, including student accommodation. £500 million invested in urban regeneration. PIC has committed to be Net Zero across all sources of emissions by 2050 and our own emissions by 2025.
Regulators	We seek to maintain open and constructive relationships with our regulators and policymakers. We have continued to actively engage with the PRA on the Solvency II review.	Please read more in the 'Stakeholder engagement' section on pages 44 to 47.
Counterparties	We have a partnership model of engagement with our outsourced providers and key suppliers.	Please read more in the 'Stakeholder engagement' section on pages 44 to 47.
Employees	We provide the opportunity for our employees to work in a stimulating, fair and rewarding workplace. We strive to create a diverse and collaborative workforce focused on our purpose.	90% of our employees feel proud to work for PIC. Please read more in the 'Our people and culture' section on pages 54 to 59.
Capital providers (debt and equity)	Returns for our capital providers are generated over the long term. As policyholder liabilities (and the prudent margins held above them) run off, excess capital is returned to our capital providers or reinvested back into the business for future growth. £9.1 billion of excess assets are held to cover solvency and prudent margins that will generate future cash flows for reinvestment and returns.	**Illustrative profile of future cash generation from the current in-force business (£bn – FY2021)** 

* Value as at 31 December 2021.

Measuring our progress.

Our strategic objectives are designed to support the business and to fulfil our purpose, which is to pay the pensions of our current and future policyholders.

This means we prioritise a strong balance sheet, long-term value creation and a purposeful investment strategy.

We maintain four strategic objectives: financial strength and cost efficiency; returns; reputation and conduct; and growth and focus. Eight key performance indicators ("KPIs") are designed to measure PIC's progress against its strategic objectives. These are reviewed annually to ensure that they remain appropriate as we fulfil our purpose amidst a changing economic and regulatory environment.

Strategic objective

Financial strength and cost efficiency

Maintain a scalable business model that optimises internal and external resources

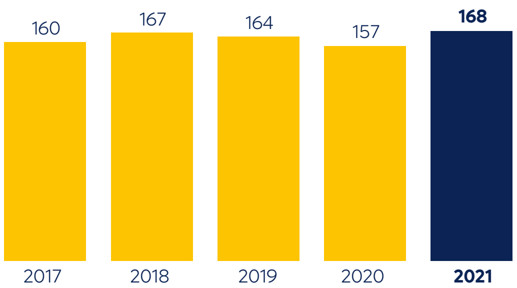
Link to stakeholders Regulators | Capital providers | Trustees

Performance in 2021

- PIC continues to be a leader in the UK pension risk transfer market, with a long term market share of 22%.
- PIC maintained a robust solvency ratio of 168%, with surplus funds of £2.7 billion in excess of solvency capital requirements.
- £9.1 billion of assets held in excess of best estimate of liabilities.
- Operating expense ratio 0.39%.
- In May 2021, Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (strong) and long-term Insurer Default Rating at 'A'. Both outlooks were affirmed as 'stable'.

KPI to measure progress

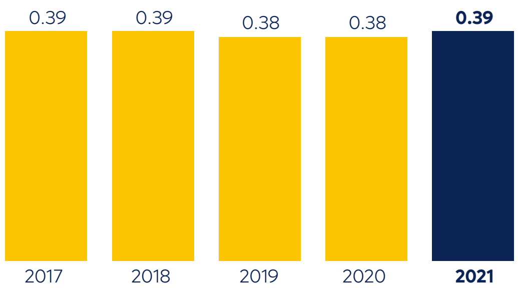
Solvency II ratio (%)
The Solvency II ratio is a regulatory capital measure that demonstrates the Company's financial strength.



Comments
PIC's solvency ratio improved to 168% (2020: 157%) in a challenging environment due to management actions taken and the return from the in-force book. We utilise hedging to provide protection for our solvency balance sheet against adverse economic fluctuations which has been particularly important given the market volatility of the last few years.

Expense ratio (%)
The expense ratio is a measure of the operating efficiency of PICG and reflects operating and investment expenses as a percentage of closing financial investments.

This ratio has been redefined to include the cost of our equity release mortgage ("ERM") origination fees which were previously excluded. The prior year comparatives have been restated accordingly.



Comments
The expense ratio of 0.39% at 31 December 2021 was slightly higher than 0.38% at 31 December 2020, driven by ERM origination fees as we have increased the size of our ERM portfolio. This is partly offset by lower operating costs and an increase in financial investments.

Strategic objective

Returns

Deliver attractive risk-adjusted total shareholder returns

Link to stakeholders Capital providers Employees

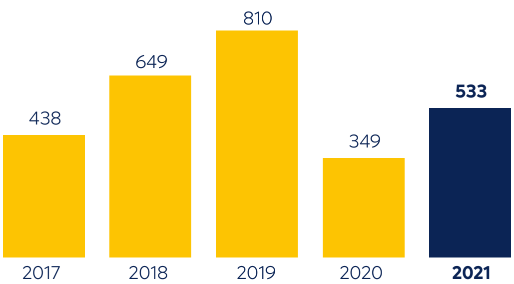
Performance in 2021

- Focused on disciplined pricing, consistent with long-term Internal Rate of Return targets.
- 7.3% return on equity.
- Adjusted operating profit before tax £533 million.

KPI to measure progress

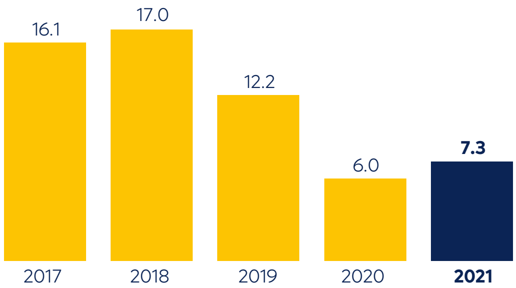
Adjusted operating profit before tax ("AOPBT") (£m)
AOPBT is the IFRS profit assessed on a long-term basis excluding investment-related variances.

AOPBT has been redefined to include the cost of the Restricted Tier 1 ("RT1") interest within finance costs. This is to align the reporting across all bases and reflects the way management and rating agencies view these financing costs. The treatment for the statutory IFRS statement of comprehensive income remains unchanged. The prior year comparatives have been restated accordingly.



Comments
AOPBT increased by 53% to £533 million (2020: £349 million) primarily due to management actions and assumption changes and lower negative experience variances.

Return on equity (%)
Return on equity is a measure of the rolling 12 months after tax profits in relation to average equity (excluding our Restricted Tier 1 ("RT1") notes). This ratio has been redefined to deduct the RT1 interest from profit after tax. The prior year comparatives have been restated accordingly.



Comments
Return on equity increased to 7.3% in 2021 (2020: 6.0%) due to the higher profit generated this year as we start to deploy the capital raised in 2020.

Our strategic objectives and key performance indicators continued

Strategic objective

Reputation and conduct

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

Link to stakeholders Policyholders Regulators Trustees

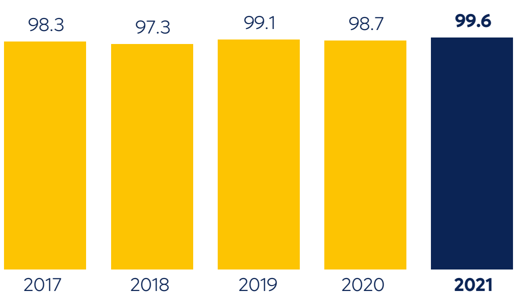
Performance in 2021

- Continued commitment to provide excellent customer service to our policyholders. 99.6% of our policyholders expressed overall satisfaction with our service levels.
- Increased attention on vulnerable customers throughout the pandemic and working ever more closely with our charity partners.
- Awarded "Pensions Insurance Firm of the Year" at the European Pensions Awards, "Risk Reduction Provider of the Year" at the UK Pensions Awards and the "Customer Focus" award at the Institute of Customer Service awards.

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 our purpose.

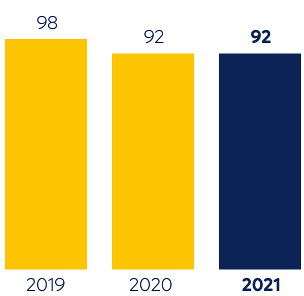


Comments

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, and in line with our purpose, one of our key internal measures is our customer focus. Employees are asked, as part of an employee engagement survey, whether they believe PIC is "always seeking to understand and meet customer needs", ensuring our customers continue to remain our priority. We began measuring this KPI from 2019.



Comments

These figures show the percentage of employees who believe PIC is customer focused. See pages 36-39 for more details.

Strategic objective

Growth and focus

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

Link to stakeholders Capital providers Employees

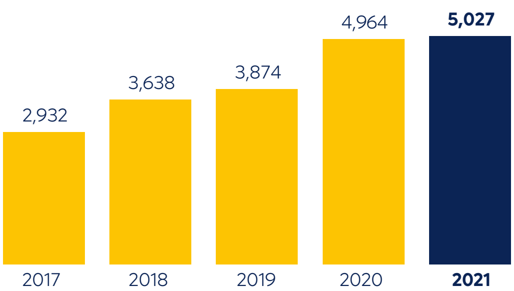
Performance in 2021

- Completed £4.7 billion of new business premiums over 2021.
- £51.1 billion of financial investments, growing from £1.9 billion in 2008, a compound annual growth rate of 29%.
- 85% of total longevity reinsured to 14 highly rated reinsurance counterparties.

KPI to measure progress

Market Consistent Embedded value ("MCEV") (£m)

MCEV is a measure of the present value of future after-tax profits plus adjusted net asset value less an allowance for the cost of capital.

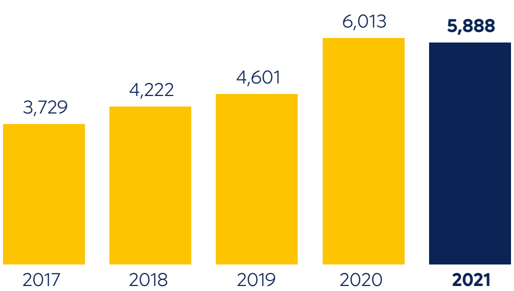


Comments

MCEV increased to £5,027 million (2020: £4,964 million) primarily due to profits generated from writing new business and expected return from the in-force book, partially offset by the future tax rate change from 19% to 25%, which was granted Royal Assent in June 2021.

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. This metric has been redefined to deduct the notional value of the hybrid debt rather than the fair value. The prior year comparatives have been restated accordingly. This metric relates to PIC.



Comments

AEOF has decreased to £5,888 million (2020: £6,013 million) primarily due to the increase in GBP risk-free rates partially offset by the benefit of writing £4.7 billion of new business and higher inflation over 2021.

The policyholder journey.

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 pensions for them. They become our policyholders following a buyout transaction agreed by the trustees of their pension scheme.

1

From pension scheme member...

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.

The focus, dedication and passion for delivering great customer service has only increased since the last accreditation three years ago. We have been continually impressed with the lengths they [PIC] go to in order to ensure excellence in customer service.”

Jo Causen
CEO of the Institute of Customer Service
February 2021

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.

For more information visit **www.pensioncorporation.com**

Your customer telephone response time is outstanding! A quality service from a quality company."

PIC policyholder 2021

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.

I am very impressed with the PIC business model, with its focus on responsibility and sustainability, and using investment power to drive important changes and generate excellent long-term returns. Thanks to the whole team."

PIC policyholder 2021

Origination market
Jay Shah Chief Origination Officer

Pension Risk Transfer Market.

The UK Pension Risk Transfer ("PRT") market has been robust in the face of the Covid-19 pandemic."

Operationally, everyone – trustees, insurers, reinsurers and all their advisers – continued to operate remotely, and this worked well. With the odd exception, transactions continued to complete smoothly and more and more pension schemes chose to insure. Insurance pricing remained attractive despite market volatility – spreads on corporate bonds, for example, reaching both highs and lows over 2020 and 2021.

Having said that, 2021 started quietly. The severity of the Autumn 2020 Covid-19 wave meant that some trustee groups paused and took stock for a short while, which meant that more 2021 business was pushed into the second half of the year, which saw a significant pick-up in activity. Of the £4.7 billion of new business we wrote in the year (2020: £5.6 billion), more than £4.3 billion was completed during the second half. This included a £2.2 billion buyout with the Trustee of the Metal Box Pension Scheme, guaranteeing the benefits of the scheme's 10,300 pensioners and 2,200 non-pensioner members, in the largest transaction of the year.

2021 market trends[1]

Assets held within UK defined benefit pension schemes

2021
£1.7tn

2020
£1.7tn

Gilts and fixed income assets to match liabilities

2021
£1.2tn

2020
£1.2tn

Life expectancy age 65[2]

2021
22.0
Male
24.4
Female

2020
22.0
Male
24.4
Female

1 PPF Purple Book 2021.
2 CMI's working paper 147, using the CMI 2020 Model.

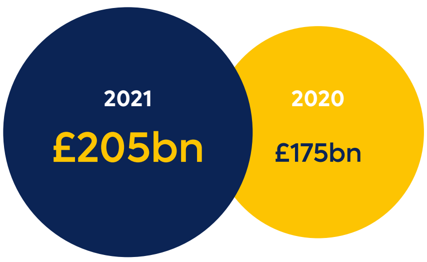
Market drivers

We have worked increasingly closely with trustees and their advisers to monitor the market and set appropriate triggers to lock in insurance pricing. PIC's approach is to be flexible and innovative in recognising scheme needs, and we have always sought to provide the highest levels of customer service and communication."

Looking further out, the liability profile of schemes is maturing, they continue to receive employer contributions, and they are de-risking their asset portfolios. The chart at the top of page 26 shows that defined benefit pension schemes now have more than 70% of their portfolios invested in bonds, as a result of de-risking, which is a near 75% increase in allocation to this asset class over the past ten years or so. As a result of these factors, more and more schemes are approaching being fully funded on a buyout basis, creating greater demand for PRT.

At least one consultant survey showed that buyout is now the most preferred option of all potential outcomes for trustees over coming years, even more than scheme self-sufficiency. The outlook for 2022 is very positive, and we have a strong pipeline of new business going into the new year.

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



Scheme funding

- In the last ten years, the proportion of liabilities that relate to pensioner members has remained relatively stable at around 40%[1].
- The liability profile of schemes is maturing and we expect the proportion of pensions to grow.
- Funding ratios are higher among more mature schemes[1].

Longevity risk management

- Whilst Covid-19 has of course impacted mortality rates through the pandemic, long term trends in life expectancy remain uncertain.
- During the year PIC concluded £4 billion of longevity reinsurance transactions, and now works with 14 reinsurance counterparties.
- At year end, we had reinsured 85% of our longevity risk (2020: 84%).

Insurance pricing

- The PRT market performed strongly in the second half of the year.
- There has been a trend towards repeat transactions.
- Pensioner pricing remains favourable relative to credit spreads, based on historic trends.

1 PPF Purple Book 2021.

Origination market continued

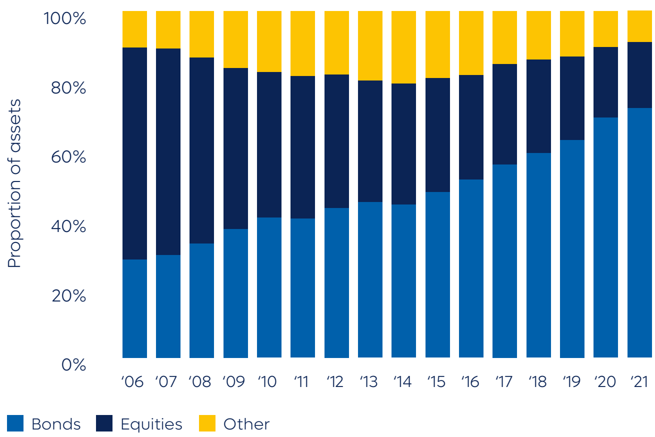
We have worked increasingly closely with trustees and their advisers to monitor the market and set appropriate triggers to lock in insurance pricing. PIC's approach is to be flexible and innovative in recognising scheme needs, and we have always sought to provide the highest levels of customer service and communication. For example, PIC is well known for its in-person policyholder days where our policyholders are able to meet with our management team. Even through the pandemic we have been able to have that personal communication through online events. So it is pleasing once again to be named "Pensions Insurance Firm of the Year" at the European Pensions Awards, and "Risk Reduction Provider of the Year" at the UK Pensions Awards.

Finally, we have also continued to work closely with our longevity reinsurance partners, and now have a panel of 14 global reinsurers with whom we are able to transact. At year end, we had reinsured 85% of our longevity risk (2020: 84%).

Despite the pandemic, the PRT market performed strongly in the second half, with a good outlook for 2022. I look forward to a busy and productive year, insuring the pensions of thousands more scheme members.

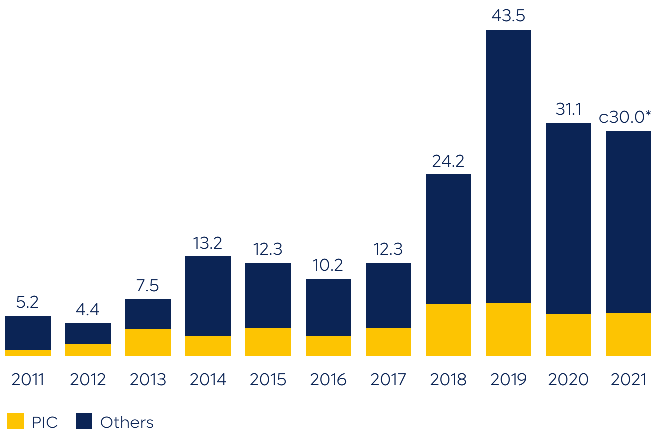
Jay Shah
Chief Origination Officer

Asset allocation of defined benefit pension schemes (%)



Source: PPF's Purple Book 2021.

Buy-in and buyout volumes since 2011 Premiums (£bn)



* PIC estimate.
Source: LCP, Willis Towers Watson and Company estimate.

Metal Box Pension Scheme Buyout

In October 2021, PIC signed a £2.2 billion pension insurance buyout with the Trustee of the Metal Box Pension Scheme, insuring the benefits of the scheme's 10,300 pensioners and 2,200 non-pensioner members. The transaction removed the scheme liabilities from the balance sheet of the scheme sponsor, Crown Packaging Manufacturing UK Limited, a subsidiary of Crown Holdings Inc, which is listed on the NYSE.

The buyout was the single largest pension risk transfer deal in 2021 and we are pleased to welcome each of the 12,500 scheme members as our policyholders.

For more information visit
www.pensioncorporation.com

We are delighted to have reached this position of securing our members' benefits in full following a thorough selection process. Working alongside the Company and our respective advisers, we selected PIC based on their proven customer service standards and strong financial credentials. This has been the culmination of a successful journey over many years, supported by the Company."

Gary Fishlock
Chair of Trustees of the Metal Box Pension Scheme

Rob Groves Chief Investment Officer

A weatherproof portfolio.

PIC has been a significant investor for over a decade in social housing, renewable energy and the UK's universities."

At the heart of PIC's investment strategy is our focus on achieving PIC's core aim: to provide and secure the cash flows to pay our policyholders' pensions over the coming decades.

This makes us naturally cautious investors and explains the construction of a portfolio that is resilient and durable enough to withstand whatever storms blow up in the markets from year to year, an approach we call weatherproofing, but which also creates long-term value.

One of the great joys of working in a business like this is the constant flow of new pension business. As we reinvest the assets we take on to match pension liabilities, we understand that the investments most suited to paying your long-term pensions are also those which have good long-term outcomes for society. The resulting purposeful investment strategy is a source of great pride within the team as it can help develop and build the infrastructure that benefits younger and future generations.

£51.1bn
Overall portfolio size

£10.9bn
Total value of ESG assets

£2.9bn*
invested in the UK's education sector

* Value as at 31 December 2021.

Market overview

During 2021 the markets continued to be driven by the policy response to the pandemic, with Government and listed investment grade debt, which make up the majority of our investment portfolio, remaining hostage to the supernormal monetary policy response we saw in the first half of 2020.

One of the other key trends this year has been the continued, inexorable rise of Environmental, Social and Governance ("ESG") considerations up the political and regulatory agendas. Our outlook has always been that the best way to secure future cash flows is by investing in assets that have lots of social value, and these assets have lower risk over the long term as they make sense for society. In this way ESG thinking has always been integrated into our investment process as we assess the suitability of the long-term cash flows we need to back future pension payments.

Over the past few years this has led to a natural re-shaping of the portfolio, including a decrease in our investments in Oil from 3.7% of the portfolio in 2019 to just over 1% in 2021.

However, of all the ESG considerations, 2021 has been dominated by the "E for Environment" – the drive to manage climate risk which has manifested itself in the Race to Net Zero. During the year we committed to being Net Zero by 2050 across the portfolio, and we joined the UN-convened Net Zero Asset Owner Alliance. We have formalised investment restrictions into conventional fossil fuels as we seek to decarbonise the portfolio and have almost completed divestment from those companies which derive over 10% of their revenue from thermal coal, well in advance of our 2025 target. We also spent a considerable amount of effort mapping the carbon footprint of our portfolio during 2021 and published our first TCFD report in January 2022.

In terms of our private rental sector investments, we have set minimum "ESG Baseline Credentials" which we use to screen all of our potential property investments, which go further than the current regulatory standards. We choose our development partners extremely carefully, only working with similarly minded companies which care about the social value of their buildings. For example, there are very high environmentally-sympathetic design features in our development in Manchester, going much further than that required by building regulations (see case study on page 53). We believe this is also good risk management as building regulations are only likely to get more stringent.

PIC and all of our key external asset managers have been signatories to the United Nations' Principles of Responsible Investment ("UNPRI") for some time.

More details about our ESG efforts can be found in the ESG section of this Annual Report on pages 48 to 59, and in the separate ESG Report we have published alongside it.

In public corporate bond markets, credit spreads have been compressed so much that it has become increasingly difficult to find assets that represent good long-term value, and we have refused to take poorly rewarded risks. We seek to hold investments for the long term, so the spread available is our cushion in case of a future market dislocation. However, we have found more value in privately sourced debt, which we discuss later in this report.

This cautious strategy (risk discipline) has served us well, and we have seen zero defaults in the portfolio for several years – with less than 0.1% of the credit portfolio (including private investments but excluding gilts) being downgraded to sub-investment grade in the year.

PIC invested £128 million in student accommodation at the University of Birmingham to transform its Pritchatts Park site into a 1,230 room, low-carbon residential facility.

Investments continued

Financial investments

At year end, the portfolio stood at £51.1 billion (2020: £49.6 billion), the majority of which is invested in investment grade corporate and UK Government debt as well as liquidity portfolios. Of the portfolio, 94% (2020: 95%) was rated investment grade. 54% (2020: 54%) of the portfolio was invested in corporate debt and private investments, of which 99% (2020: 99%) was rated investment grade. Given the macro-economic and financial context, we maintained our investment levels in financial, utilities and non-cyclical consumer industries, which together represent 49.3% (2020: 50.4%) of the portfolio, as they provide defensive qualities which we think a prudent investment at this point in the economic cycle. We have remained very cautious on consumer cyclical industries and only have a limited exposure to this sector of 2.6% of the portfolio (2020: 2.3%). No single counterparty, other than the UK Government, represented more than 1.5% of the portfolio (2020: 1.7%).

Corporate securities and private investments split by industry sector

Sector	**Market value 2021 (£m)**	Market value 2020 (restated)* (£m)	**2021 %**	2020 (restated)* %
Financial	**7,039**	6,804	**25.5**	25.3
Utilities	**3,669**	3,676	**13.3**	13.6
Consumer, non-cyclical	**2,899**	3,102	**10.5**	11.5
Communications	**2,567**	2,714	**9.3**	10.0
Energy	**534**	791	**1.9**	2.9
Consumer, cyclical	**727**	631	**2.6**	2.3
Industrial	**817**	918	**3.0**	3.4
Basic materials	**500**	512	**1.8**	1.9
Technology	**1,547**	1,722	**5.6**	6.4
Diversified	**60**	67	**0.2**	0.2
Quasi-Government	**127**	125	**0.5**	0.5
Other	**7,162**	5,948	**25.8**	22.0
Total	**27,648**	27,010	**100**	100

Corporate securities and private investments split by country/region of issuance

Country	**Market value 2021 (£m)**	Market value 2020 (restated)* (£m)	**2021 %**	2020 (restated)* %
UK	**14,058**	13,133	**50.9**	48.6
US	**8.013**	9,034	**29.0**	33.4
Europe (ex UK)	**3,797**	3,208	**13.7**	11.9
Rest of world	**1,780**	1,635	**6.4**	6.1
Total	**27,648**	27,010	**100**	100

* Comparatives have been restated to include an additional £371 million of private investments.

Corporate securities and private investments split by currency

Currency	**Market value 2021 (£m)**	Market value 2020 (restated)* (£m)	**2021 %**	2020 (restated)* %
GBP (£)	**17,270**	15,628	**62.5**	57.9
USD ($)	**9,400**	10,591	**34.0**	39.2
EUR (€)	**923**	730	**3.3**	2.7
CHF	**55**	61	**0.2**	0.2
Total	**27,648**	27,010	**100**	100

Financial investments by asset class (31 December 2021)

Debt securities – Government	**35.1%**
Debt securities – Corporate	**36.5%**
Debt securities – Private investments	**17.7%**
Equity release mortgages	**2.1%**
Mortgage backed and other asset backed securities	**0.6%**
Participation in investment schemes	**6.4%**
Deposits with credit institutions	**1.6%**

Corporate securities and private investments by rating

AAA	**7%**
AA	**17%**
A	**38%**
BBB	**37%**
BB	**0%**
Unrated	**1%**

Our assets are primarily managed in-house, which includes our holdings in gilts, supranational bonds and privately sourced debt, all of which represent 59% of our portfolio. Our UK, US and emerging market listed debt, as well as our US municipal bond investments, are managed by our asset management partners, Janus Henderson Investors, Schroders Investment Management, JPMorgan Asset Management, Wellington Management and Macquarie Asset Management.

Private investments

PIC has been a significant investor for over a decade in secure, long-term, privately sourced debt, such as social housing, renewable energy and the UK's universities. These investments provide the cash flows we need to match our liabilities in maturities when publicly available debt is simply not available (see illustrative chart below). Borrowers benefit from the flexibility in funding we are able to offer, for example, deferred drawdown and bespoke terms.

This year we worked ever more closely with existing borrowers, but also sought to diversify the portfolio by seeking new issuers and exploring new geographies.

In February we announced a second debt investment, totalling £30 million, in County Durham-based housing association Livin Housing Limited ("Livin"), taking our total investment to £95 million. Our partnership with Livin is funding the development of 450 new homes in the North East. This close working relationship is part of an increasing trend we are seeing in the sector, and includes other similar transactions, including with Heart of Medway.

In April we announced the appointment of Macquarie Asset Management to manage a new US privately sourced debt mandate. By year end we had invested £225 million in US opportunities, providing more diversity to the portfolio, and we expect to continue to find good risk and return opportunities in the $60 billion US private placement market.

In August we announced a £67 million debt investment with the London Borough of Bromley ("LBB"), to help alleviate local emergency homelessness. The investment means LBB can purchase outright up to 300 affordable properties, helping to significantly reduce the cost of emergency nightly accommodation. The long-dated funding matures in 2071, helping us match our very long-dated pension liabilities.

In total, we have invested £3.2 billion** in social housing, £1.3 billion** in renewable energy and £2.9** billion in the UK's education sector.

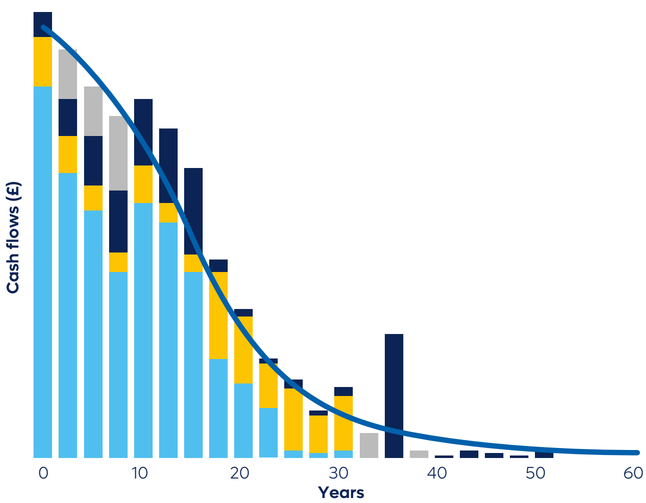
At December 2021, 17.9% (£9.2 billion) of our portfolio including investment properties, is now invested in secure, long-term assets, that are privately sourced (FY2020: 15.7%, £7.8 billion).

Breakdown by sector of private investments for the year (2021)

Autos	8%
Financials	23%
Not for profit	4%
Project finance	18%
Social housing	14%
Student accommodation	11%
US privately sourced debt	10%
Utilities	5%
Other	7%

Privately sourced debt investments*

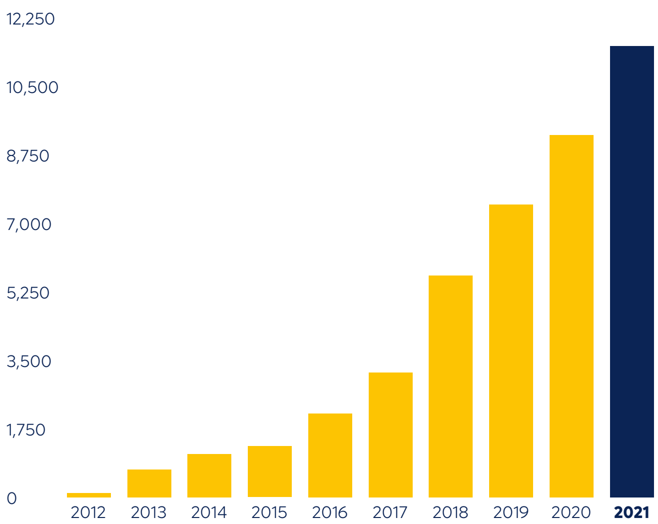
Finding cash flows for years with low levels of listed bonds in issuance



* Illustrative chart.
** Value as at 31 December 2021.

Investments continued

PIC's total investments in private debt (£m)



During the year we continued to source ERMs, which are another good match for our long-term liabilities, help diversify the portfolio and, when approached sympathetically, generate social value by helping pensioners unlock capital whilst remaining in their homes. At year end we had invested £1.1 billion (FY2020: £0.5 billion) in ERMs through supporting existing funding partners and by investing in two existing portfolios. This led to us more than doubling the portfolio over 2021.

We also announced our second Build-to-Rent investment, with £90 million forward funding a 15-storey, 278-apartment development in Ealing, West London, following our £130 million development in Manchester, on which we broke-ground in September 2020. 35% of rooms within the £90 million Art Deco style building, named The Wiltern, will be affordable housing, with the rest for private rent.

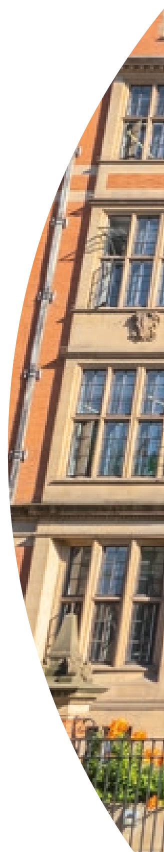
Another notable investment is a £130 million development 'Wirral Waters One', which we are investing in as part of the wider regeneration of the Wirral Waters scheme, which signed after year-end. The Wirral Waters scheme is a central Government-supported project to redevelop a brownfield site into a new waterfront neighbourhood, creating up to 20,000 permanent jobs as part of the regeneration of Wirral, which sits within the Liverpool City Region.

Outlook

The outlook remains uncertain. There is a wall of international money printed to support economies through Covid-19, chasing yield, helping to keep credit spreads compressed. This is driving inflation, as are surging global energy prices and workforce shortages. There are increasing geopolitical tensions and there is the ongoing uncertainty about the future impact of Covid-19.

That being said, we have a robust, weatherproof portfolio and a purposeful investment strategy which will ensure we remain able to pay the pensions of our policyholders over coming decades and generate considerable social value. I look forward to meeting the investment challenges and opportunities of 2022.

Rob Groves
Chief Investment Officer



Investing in student accommodation for the London School of Economics and Political Science ("LSE")

In December 2021, PIC invested £129 million in the LSE to fund the development of a 676-bed student residence in Southwark, London.

The newly constructed student accommodation will be located on Glengall Road, Southwark, and provide additional housing primarily for postgraduate students of the LSE. It will comprise a 15-storey hall of residence, as well as communal spaces, a gym, three roof terraces, a cinema room and two courtyard gardens. The rooms will be marketed at a discount to other options in the LSE's residential portfolio and over a third of the rooms in the residence will specifically benefit from the London Plan's affordable student housing requirements, enabling access to good quality housing for lower income students.

One of the priorities in LSE's 2030 strategy is to Develop the LSE for Everyone. For Residential Services this means guaranteeing an offer of accommodation to all first-year students. The Glengall Road development takes us a significant step towards that goal by providing 676 affordable rooms for our graduate students."

Ian Spencer
LSE Director of Residential Services

Working with our trustee clients.

What is transition management?

A key part of any pension risk transfer transaction is the transition process, which starts following contract signing. This is the process through which pension scheme members become PIC policyholders and is managed by the Transition Management team. They also manage the relationship with trustees for long-term buy-ins, frequently working on repeat buy-in transactions with the same Trustee Board.

Guaranteed Minimum Pension Equalisation and multiple insurance arrangements are part of an increasingly challenging landscape of issues to grapple with for trustees approaching buy-out. Effective transition management involves close collaboration between PIC's experienced team, the trustees and their advisers in a process which, depending on the size of the scheme and specific contract requirements, can take anything from a few months to several years.

Once the plan is agreed, the PIC team will establish the required governance to monitor and report on progress to the trustees. This involves coordinating all PIC workstreams and implementing a seamless experience for members, ensuring that, above all, individual pensions continue to be funded and members are clearly informed throughout the process. To date, the team has transitioned over 119 pension schemes to PIC, onboarding more than 85,500 pensioners to become PIC policyholders.

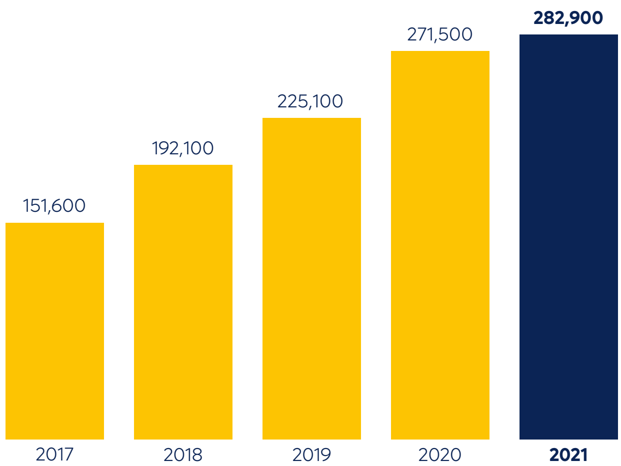
What are the key aspects of the Transition Management team's work?

- 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, complete and appropriately protected.

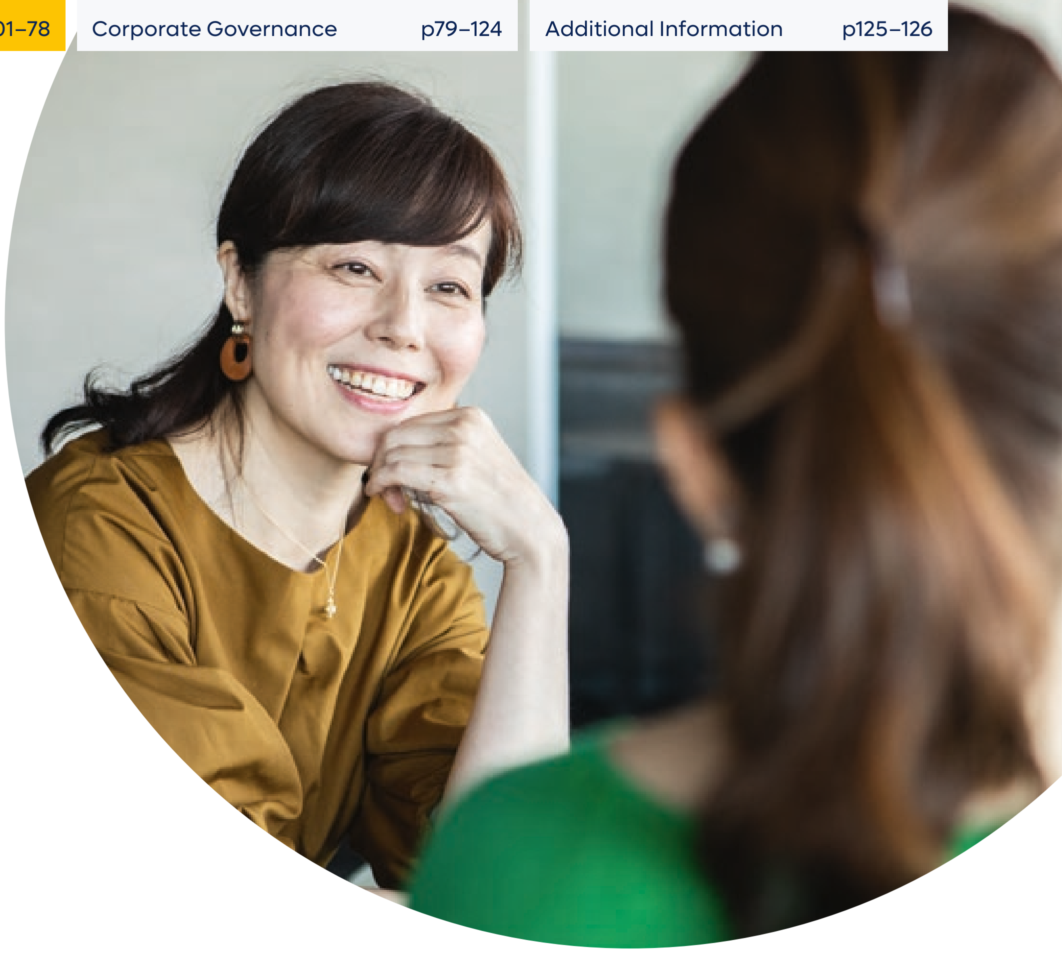
We are pleased to have secured this second insurance agreement with PIC, which guarantees the pension payments for many more of our members. We have been impressed with PIC's commitment to excellent customer service since the first transaction and this was an important factor in our decision to transact with them again."

Graeme Munro
Chairman of the British American Tobacco UK Pension Fund

Total number of policyholders insured[1]



1 Cumulative figures.



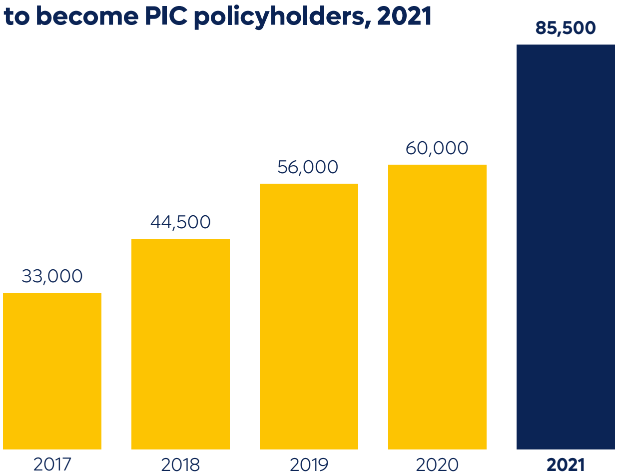
Making transition management a priority

Our purpose is to pay the pensions of our current and future policyholders and therefore the experience of trustees and pension scheme members during this crucial phase is a key focus for PIC and its management team. Progress on each scheme's transition is formally reported on at every PIC Board meeting and we are proud that trustees rate PIC's customer care, service and management highly.

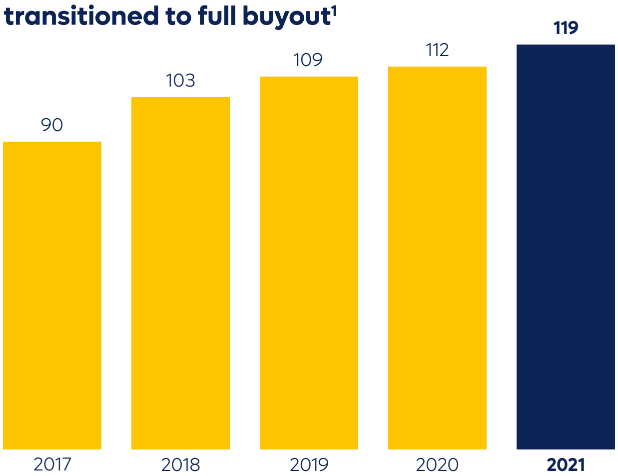
PIC have got a really slick process. We've been through that process four times and it has worked really well."

Trustee feedback from PIC stakeholder research, 2021

Number of members transitioned to become PIC policyholders, 2021



Number of schemes that have transitioned to full buyout[1]



1 Cumulative figures.

Our focus is always on customer outcomes.

Delivering first-class customer service and the best outcomes is integral to our purpose of paying the pensions of our current and future policyholders. It is at the heart of everything we do. During 2021, we continued to provide market-leading customer service while completing the operational transition to a hybrid working environment, all without sacrificing the high standards and focus on outcomes we set ourselves.

The focus, dedication and passion for delivering great customer service has only increased since the last accreditation three years ago..."

Institute of Customer Service ServiceMark Assessment Report

This focus underpins our actions and we remain ambitious and proactive in finding ways to continually improve on the service we offer. In recognition of this, in February 2021, we were delighted to announce that we were re-awarded the Institute of Customer Service's ServiceMark with Distinction. The ServiceMark is the UK's largest cross-sector customer service benchmarking study and Distinction is the highest level attainable. As one of only 16 companies nationally to hold this accolade, PIC has been assessed as having the highest level of customer service, with a firm-wide commitment to upholding these demanding standards.

Our service principles

Respond to each customer's individual needs, taking into account vulnerabilities and need for additional support

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

We focus on the quality of the outcome

Working with our administration partner, Capita Employee Solutions ("Capita")

Our customer-focused employees, both at PIC and the team at our administration partner, Capita, have shown great dedication and focus to continuing to deliver a great policyholder experience.

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

At Capita, PIC has a specific team of advisers that are solely dedicated to working with our 282,900 individual policyholders. Normally based at the Darlington centre of excellence, they work as an extension of the PIC operations team. 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.

The success of the partnership was once again recognised by our win at the Institute of Customer Service awards, where we won the Customer Focus award. This award recognises organisations that place the customer at the centre of their operations and strategies. This is the second time we have won the Customer Focus award and the fourth award we have won from the Institute of Customer Service ("ICS") in five years. In addition, we are incredibly proud to report that:

- our overall satisfaction score from more than 7,000 policyholders was 99.6%; and
- we're answering all calls, with a human at the end of the line, with an average time of seven seconds.

PIC's policyholder helpline

7 seconds
Average response time

99%
of calls answered within 20 seconds

Vulnerable customers

In particular, during 2021 we have looked at how we can further address the needs and requirements of vulnerable customers. This has always included accommodating specific needs by, for example, providing letters in large font when requested and making appropriate arrangements at our policyholder events. But we know vulnerability can affect individuals in a myriad of ways, from bereavement to short- and long-term health conditions, and we recognise that rather than considering vulnerable customers as a segregate group, our processes and operations need to actively and accurately be tailored to factor in these requirements as standard. This includes providing our customers with up-to-date information about pension scams, while looking at our own operations to make sure we do everything we can to protect them from scammers.

This year we've welcomed an additional 25,500 new policyholders and we're looking forward to welcoming more new policyholders from other completed transactions such as British Steel and Metal Box. As our family of policyholders grows, our commitment to continually invest in customer service to provide the expected service levels remains as strong as ever.

Engaging with our policyholders

We are proud to be the only insurance company in our sector to hold policyholder events, which allow us to meet the people whose pensions we look after. These events are part of the PIC culture and are in keeping with our purpose and values. Due to ongoing uncertainty and restrictions caused by the pandemic, we decided to once again host a virtual event, so our policyholders remain informed about PIC and how we secure their pensions. We look forward to resuming our popular face-to-face events next year, circumstances allowing, while keeping the online version to reach those policyholders that are unable to attend in person.

1,500 policyholders registered for the event, which included presentations from our senior leadership team, led by our CEO, Tracy Blackwell. We were pleased to answer questions on a wide range of topics, including how we approach Environmental, Social and Governance ("ESG") considerations within our investment process.

We know from our policyholders that one of the things they value from our in-person policyholder days is the sense of community that these events bring. We therefore invited policyholders to share some of their own inspirational stories with the wider group, highlighting the positive and fulfilling experiences many of our members enjoy.

Policyholder quotes

PIC is a company you can trust. They are professional, serious, clear. Clarity of communication is excellent."

PIC policyholder, 2021

PIC has real integrity. Tracy Blackwell comes across really well and PIC is professional with smart people. They seem to genuinely care about their policyholders. I hope to live a long life, so outside of my wife and children, PIC is the other most important thing in my life!"

PIC policyholder, 2021

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

PIC policyholder, 2021

Very good service and I cannot fault them at all. I would recommend them to all my family and friends."

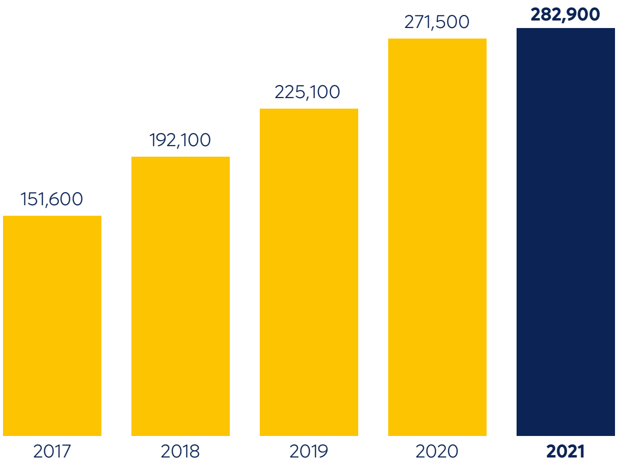
PIC policyholder, 2021

Customer care continued

Customer service in figures

Number of policyholders insured[1]

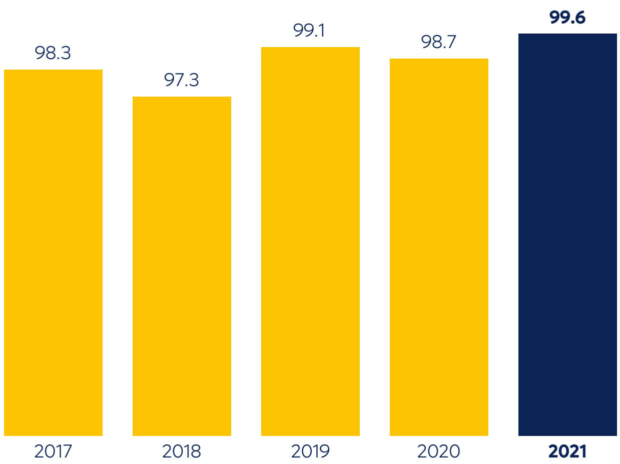
The number of pensioners insured increased by 4% in 2021.



1 Cumulative figures.

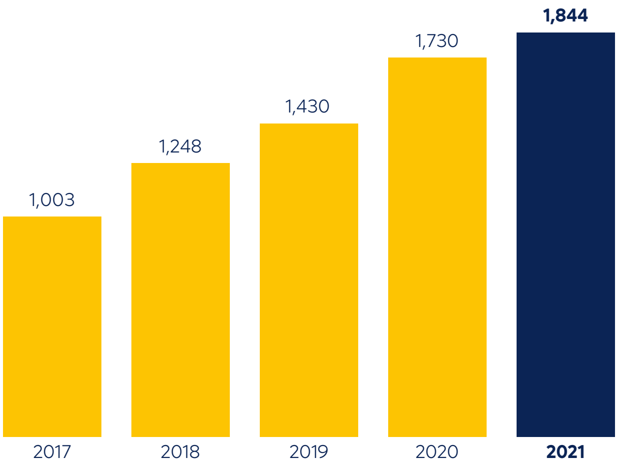
Policyholder satisfaction (%)

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



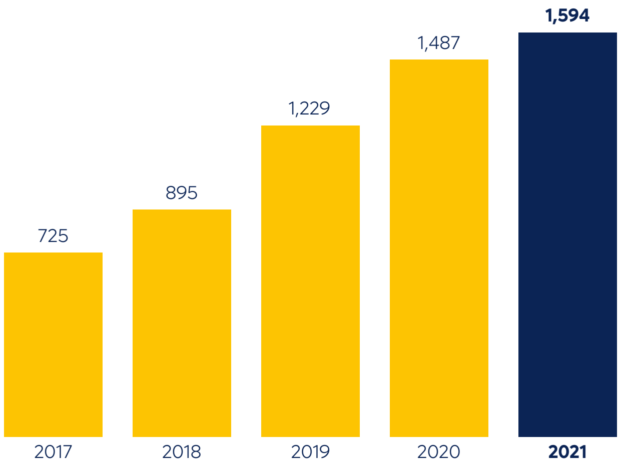
Total claims paid (£m)

Total pensions, lump sum and other payment to policyholders were £1,844 million (2020: £1,730 million), an increase of 7% due to an increased number of policyholders.



Total pensions paid to policyholders (£m)

PIC has paid £1,594 million to policyholders in 2021. This is an increase of 7%.



My pension transfer to PIC

When I first heard that my pension was being transferred, I felt apprehensive and quite concerned.

My pension provider was a German state-owned institution and as such its obligations were guaranteed by the Federal Republic of Germany, one of the world's best credit risks. Naturally, moving to an unknown name and entity was a shock. Having a financial background, my initial research suggested PIC to be a high-quality company, with a sound financial position and good reputation. Information provided by PIC at that time was extremely helpful in explaining much about the company and, should anything untoward happen to PIC, how my pension would still be safe. As a pensioner the safety of one's pension is paramount and all the information provided was reassuring.

The transition to PIC was relatively straightforward and problem free. I had some dealings with Mercers during the transition period, whilst informative correspondence with PIC's customer service team was both helpful and straightforward. Overall, my pension transfer was trouble free and efficient, and all communications and correspondence with PIC have been excellent. Letters were professionally written, easy to understand and problem free.

My experience with PIC's customer service has been particularly good, as on the very few occasions in which I have spoken to them, they have been courteous, polite and professional.

My experience with PIC's customer service has been particularly good, as on the very few occasions in which I have spoken to them, they have been courteous, polite and professional."

If I had to sum up my experience of PIC, I would say it is professional in striving to maintain a sound financial position but also in the way that it proactively engages with policyholders like myself. I've found communications to be transparent and really respect the company for the effort it takes to keep policyholders informed and reassured as to its financial position and strength, to invite feedback, be it good or bad, and to give the strong impression that PIC's focus is on ensuring it enjoys financial strength and a management highly proactive in critical risk assessment.

The annual policyholder meetings suggest management wants to ensure we "sleep well at night" and as such I believe this means all actions, decisions and investments taken by PIC create a strong policyholder "satisfaction" culture within the company. Of course, PIC wants to grow, to attract strong and financially sound shareholders etc, but fostering a positive policyholder satisfaction base is, in my mind, a good way to go about it.

Rhoderick Henderson
Former member of The Portigon UK Pension Plan and a proud PIC policyholder

Section 172 statement

Promoting the long-term success of the Company.

This section describes how our Directors have performed their duty under section 172 (1) of the Companies Act 2006 ("s.172") and also forms the directors' statement required under section 414CZA of the Companies Act 2006. S.172 sets out a series of matters to which the Directors must have regard in performing their duty to promote the success of the Company for the benefit of members and other stakeholders in the long term.

The factors set out in s.172 are not only considered at Board level, they are embedded throughout the culture at PIC (see more on pages 9 and 54 to 59).

Our stakeholders and our engagement

Understanding the needs of our different stakeholders enables the Board to take proper account of stakeholder impacts and interests in decision making. 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 long-term sustainable success of the Company and the Group.

Our Board interacts with stakeholders through direct engagement and an open dialogue, as well as through information provided by senior management. 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 42 and 43 and within the Corporate Governance report on pages 94 and 95.

The Board focuses on the Group'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 92 on Directors' training and induction.

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

Consequences of key decisions in the long term	Our business	**See page 8**
	Business model	**See page 16**
	Chairman's statement	**See page 10**
Employees	Our culture and values	**See pages 9 and 54 to 59**
Fostering the Company's business relationships with suppliers, customers and others	Customer care	**See pages 36 to 39**
	Stakeholder engagement	**See pages 44 to 47**
Community	Stakeholder engagement	**See pages 44 to 47**
Environment	Our Environmental, Social and Governance ("ESG") approach	**See pages 48 to 53**
High standards of business conduct	Corporate Governance introduction	**See page 80**
	Whistleblowing	**See page 93**
	Modern Slavery Act	**See page 93**
	Anti-bribery and corruption	**See page 93**
Investors	Stakeholder engagement	**See pages 44 to 47**

The Board has a duty under Section 172 of the Companies Act 2006 to promote the success of the Company, and in doing so, the Board must have regard to a number of key matters in its decision making.

For more information please see **p42 and 43**

The Executive team receive training on Directors' duties to ensure awareness of the Board's responsibilities

Board papers include a table setting out s.172 factors and relevant information relating to them

Our Board continually engages with key stakeholders

Read more on pages 96 and 97

Board information

S.172 factors considered in the Board's discussions on strategy, including how they underpin long-term value creation

Our Board ensures that there is proper consideration of the potential impacts of its decisions

Board strategic discussion

The Board ensures that s.172 factors are taken into consideration in its decision making

The Executive team provides information on a timely basis and assurance where appropriate

Board decision

The Board is provided with updates and information on the outcomes of its decisions

Actions are taken as a result of Board engagement and dialogue with key stakeholders

Section 172 statement continued

In 2021, 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.

1

Net Zero commitment

Section 172 considerations

The Board has increased its focus on sustainability and integrating climate change considerations throughout the Group's decision-making processes, as well as incorporating wider ESG issues. As a result of that commitment to sustainability, in July 2021 PIC announced its commitment to be Net Zero by 2050 across all sources of emissions, including within its £51.1 billion investment portfolio. PIC also set an interim target of achieving carbon neutrality within its own operations by 2025, in line with the Association of British Insurer's Climate Change Roadmap. At the same time, PIC became a member of the UN-convened Net-Zero Asset Owner Alliance, an international group of institutional investors committed to making their portfolios Net Zero by 2050.

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

PIC's purpose is to pay the pensions of our current and future policyholders and this dictates the decisions the Board takes. PIC's Net Zero commitment secures this purpose by making its investment portfolio more resilient as the economy transitions to Net Zero, as well as supporting international efforts to curb climate change.

Environment and community

PIC believes that companies which actively demonstrate their commitment to sustainability are better placed to maintain secure long-term cash flows. As a long-term business, we want to support the Government in managing this long-term goal, benefitting our policyholders, employees, wider society and other stakeholders. The Board fundamentally believes that achieving Net Zero is the right thing to do for the environment, society and our policyholders alike.

For more information please see **p50-51**

Outcomes and actions

The Board decided to approve the commitment to Net Zero as it was in the best interests of PIC's current and future policyholders, the wider community, the environment and the Company.

2

Bromley Affordable Housing Deal ("Bromley")

Section 172 considerations

The Group completed a unique £67 million transaction with the London Borough of Bromley to help alleviate local emergency homelessness. As part of the transaction, 300 affordable properties were purchased outright to reduce the Council's cost of emergency nightly accommodation.

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

The Group places high importance on securing the pensions for current and future policyholders. The Bromley investment is well matched to PIC's long-term liabilities by providing £67 million of long-dated funding which matures in 2071, and the inflation-linked funds are secured on housing assets.

Environment and community

The Group is committed to ensuring that its investments, where possible, have a social benefit. Bromley provided a unique offering by providing not only emergency relief to the local Council, but by also providing relief for families in need of temporary accommodation.

For more information please see **p4**

Outcomes and actions

The Board has increased its focus on ESG matters, and the decision to invest in the Bromley deal is part of the ESG strategy adopted by the Group. This transaction is in the best interests of PIC's policyholders, promotes the long-term success of the Company, and provides a wider social benefit.

Key to the s.172 principles

- Likely consequences of decisions in the long term
- The interests of the Company's workforce
- The need to foster relationships with suppliers, customers and others
- Impact of operations on the community and environment
- High standards of business conduct
- The need to act fairly between members of the Company

3

Appointment of Macquarie Asset Management ("Macquarie")

Section 172 considerations

The Board considered and approved the appointment of Macquarie to manage a new US privately sourced debt mandate. PIC has £9.4 billion invested in 150 privately sourced debt investments in the UK and Europe, in areas including renewable energy, social housing, education, and the not-for-profit sector.

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

In order to fulfil its purpose, PIC invests in secure, long-term investments, which can be tailored to match PIC's liabilities. Macquarie's appointment allows PIC to invest in new issuers, sectors, and across new geographies, which will diversify the portfolio and provide better risk-adjusted returns, helping trustees more easily secure the pensions of their scheme members.

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 Macquarie can provide bespoke solutions, understands PIC's needs, and can provide good access to the market.

Environment and community

The Board was mindful of the impact this appointment has on PIC's investments. Macquarie is a global asset manager with a significant footprint and a strong ESG focus which is embedded within its risk management framework. This includes a proprietary ESG ratings system as well as drawing on external sources to assess ESG risks in the portfolio. This decision was driven by the Board's increased focus on sustainability and wider ESG issues.

Outcomes and actions

Having gone through a thorough review process, the Board decided to approve the appointment of Macquarie 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.

4

The Board's commitment to ESG

Section 172 considerations

We believe the greater the socially beneficial outcomes of an investment, the higher the likelihood of long-term stability, needed to back future pension payments. The PIC Board approved our ESG strategy which integrates ESG risks into investment decisions and impacts how we operate as a company, for our employees, and the wider community.

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

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. We recognise that issues such as human rights, climate change and corruption can have very real financial implications over the medium to long term. PIC has published its Modern Slavery Statement, which can be found on our website.

The interests of the Company's employees and the wider community

We are transparent on our gender pay gap, which is reported annually, and have made strong efforts towards diversity and inclusion this year. We are focused on balancing gender through recruitment and have an active target of 30% of CVs to be from women. PIC is a member of LGBT Great, with CEO Tracy Blackwell being recognised as one of the Top 100 Executive Allies within the industry for the second year running. We also run an Aspiring Managers Programme, which has a 50/50 gender split, and continued to sponsor the Actuarial Mentoring Programme for a fourth year which is designed to increase the number of female actuaries across the industry. PIC is a member of the #10000BlackInterns programme, and this year we offered one of the interns a full-time position following their experience. We also launched the PIC Academy, which will enable us to develop long-term, diverse talent pipelines.

PIC also has an active charity committee which ensures that charitable actions and giving are part of our firm culture. All employees are encouraged to take up to two volunteer days a year for such activities, and a number of charity events are organised throughout the year in addition to a corporate matched giving scheme.

Outcomes and actions

The Board approved PIC's ESG strategy as it was in the best interests of the Company, its employees, and the wider community.

Our stakeholders.

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

Stakeholders	What matters to them	Why we engage

Policyholders
 	
See more on how we engage with our policyholders during their policyholder journey on **pages 22-23**
	Pensions delivered on time.
	
	Good customer service and good customer outcomes, and a transparent resolution system where a dispute arises or complaint is received.
	
	Backing the pensions of older generations with assets that have a lasting impact on younger and future generations.
		• We engage with our policyholders because:
		  • we want to be open, transparent, and build trust in the company which pays their pensions; and
		  • ongoing engagement is consistent with providing good customer outcomes – we want to understand where and how we can improve our customer service.

Defined benefit pension scheme trustees	That PIC's approach is not transactional, that we offer good customer service and that we are easy to do business with. That PIC treats deals as unique, acknowledging each as the start of a lifelong relationship. That policyholder communications in all forms, including face-to-face, are transparent, clear and meaningful. Transferring pension risk from company balance sheets to specialist companies like PIC allows them to focus on their main line of business.	• Trustees entrust PIC with responsibility for paying the pensions of their members for life. • Transactions with trustees are how the business starts the process of long-term value creation.
Employees Please see more information on employment policies and engagement on **pages 54-57**	An opportunity to gain experience, training and sharing in the success of the Company. Having a strong corporate purpose and an inclusive culture that is aligned to this. The ability to act proactively to meet our customers' needs over the long term and be recognised for excellence. Working with highly-skilled colleagues and encouraged to display market-leading expertise and knowledge.	• PIC's employees are a critical stakeholder group for the future success of the Company. • We seek to recruit, train and motivate the very brightest people in their fields, and who enhance our culture.

How we engage	2021 outcomes
• 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 – held online during the pandemic.	• PIC won the "Customer Focus" award at the Institute of Customer Service ("ICS") awards. • PIC held its second online Policyholder Hour in place of our usual Policyholder Days, with 1,500 policyholders logging in. • Policyholder satisfaction levels have increased in the year to 99.6%.
• Each pension risk transfer transaction is managed by a dedicated team at PIC. • Our approach is to be flexible and innovative in structuring transactions that meet each Trustee Board's needs. • The transition of the scheme members to PIC policyholders is given the same level of care and focus as the original transaction. • Trustees with buy-in policies with PIC receive regular updates, as well as close engagement on ESG issues and PIC's management of climate risk exposure.	• PIC won three industry awards based on our overall approach to pension risk transfer transactions and the care and commitment we have to policyholders. European Pensions Awards 2021 WINNER Pensions Insurance Firm of the Year Professional Pensions UK Pensions Awards 2021 WINNER Risk Reduction Provider of the Year Pension Insurance Corporation The Institute of Customer Service UK Customer Satisfaction Awards 2021 WINNER
• Purpose, culture and values are a key focus for the business, and are embedded throughout our employee engagement touchpoints. • The leadership team engages through regular internal communications channels, including Town Halls. • The Company conducts annual employee surveys to gauge employee sentiment on key issues. • PIC's Diversity and Inclusion Forum help make PIC a place where our employees are proud to work. • PIC has ongoing commitments with LGBT Great, #10000BlackInterns and the PIC Academy. • For the fourth year, PIC has continued to sponsor the Actuarial Mentoring Programme with the Institute and Faculty of Actuaries.	• Our gender pay gap has decreased by 6.9% in the year. • We have recruited 120 employees in the year, and continued our focus on our purpose and culture. • 90% of employees are proud to work for PIC. • 91% of employees strongly believe in the Company's goals and objectives.

Stakeholder engagement continued

Stakeholders	What matters to them	Why we engage
Privately sourced debt counterparties and PRS investment partners	Long-term relationships based on trust, rather than a transactional approach based solely on price. Working in partnership to address key issues such as ESG and climate change risk. The ability to partner with a company that has a strong, shared sense of social purpose.	• We work with debt counterparties and our PRS investment partners to generate cash flows to match specific liabilities in years when it is difficult to meet this need by investing in the public bond markets. • Our investments can provide us with a competitive edge when pricing for new business, as well as increasing the overall security and value of the portfolio.
Regulators and policymakers	Our main regulator, the Prudential Regulation Authority's ("PRA") focus is on policyholder protection. This aligns with PIC's purpose, of paying the pensions of our policyholders. The focus of policymakers has been on reforming the financial services industry to capitalise on Brexit.	• Working closely with the PRA to manage our risks is key to fulfilling PIC's purpose and strategy. • Ongoing engagement with policymakers helps them refine and develop their approach to the unique circumstances of the UK's financial services sector.
Key suppliers	Long-term partnerships with the ability to influence outcomes.	• PIC relies on our outsourced partners to provide business critical services, such as policyholder administration and asset management. • PIC's key suppliers are long-term partners as we fulfil our purpose.
Shareholders and debt holders	A robust balance sheet, with a focus on long-term value creation. Clear and transparent communication with the leadership team. Engagement on key business issues and risks.	• Our equity and debt providers invest the capital that enables the business to grow on a secure, focused basis.

How we engage	2021 outcomes
• Our debt origination team works closely with borrowers to ensure the deals that are structured meet their individual needs, as well as offering us suitable cash flows to match future pension payments. • A partnership approach means ongoing engagement over many years with counterparties and development partners, increasingly resulting in follow-up transactions.	• We completed 42 transactions with a variety of high-quality partners. • 11 existing counterparties extended the scope of their debt agreements, agreeing funding for hundreds of new homes for social rent, as well as renewable energy. • £90 million investment in The Wiltern, PIC's second Build-to-Rent announced as well as cornerstone funding for major urban regeneration project in Wirral.
• PIC seeks to maintain an open, proactive dialogue with regulators. • PIC actively participates in public policy debates affecting the financial services sector, as well as the wider economy.	• PIC responded to the Treasury's call for evidence on Solvency II reform, as well as the Future Regulatory Framework. • PIC subsequently participated in the PRA's review of Solvency II.
• We work closely and collaboratively with our outsourced partners. • Our policy is to pay our suppliers within the payment terms on invoice rather than within 30 business days.	• As at year end, 97.6% (2020: 99.1%) of invoices received during the year from suppliers were paid.
• 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.	• At year end 2021, PIC had a solvency ratio of 168%, with adjusted operating profit of £533 million.

See **pages 96-97** for information on how our Board engages with our stakeholders

A purposeful approach to ESG.

As our business continues to grow, PIC is becoming an increasingly visible presence across the economy and society. The pensions we guarantee through buyout and buy-in mean we are now paying £1,594 million a year in pension payments to our 282,900 policyholders up and down the country.

Our portfolio, now in excess of £51.1 billion, which backs these payments, is invested precisely to secure the pensions of our policyholders for decades to come. The assets we invest in help to make the economy greener, provide social housing, regenerate our cities, support our universities and education system, and benefit younger and future generations.

In this section we outline how our focus on long-term value creation underpins our approach to ESG issues. This includes the steps we are taking at corporate level and within the portfolio to manage our ESG and carbon exposure, how we seek to generate social value through our investments, and the importance we place on having a good workplace culture and making PIC an attractive place to work.

For more information see our **TCFD report** and **ESG report** online at **www.pensioncorporation.com**

The assets we invest in help to make the economy greener, provide social housing, regenerate our cities, support our universities and education system, and benefit younger and future generations."

ESG assets (%)

Social housing	29%
Renewable energy	12%
Education	26%
Not for profit	7%
Utilities	26%

Making a difference.

Our commitment to the environment

We have focused on improving the environmental performance of our own business as well as reducing the environmental impact within our portfolio.

For more information please see **p50–53**

Signatory of:

PRI Principles for Responsible Investment

TCFD Task Force on Climate-Related Financial Disclosures

- PIC has committed to being carbon neutral as a business by 2025, and to being carbon neutral within our portfolio by 2050.
- PIC reduced its scope 1 & 2 emissions by 16% during 2021.
- PIC's portfolio average carbon intensity (tCO_2e/$m revenue) is 204 tCO_2e. We have set ourselves a goal of decreasing our portfolio carbon intensity by 25% from 2019 levels by 2025 and have made strong progress in this respect so far.

The social value we create

Investments:

With a business model based on the creation of long-term value, PIC is inherently focused on the levels of social value in our business and our investments.

The greater the levels of social value created through our investment strategy and by our development partners, the higher the likelihood that our investments will support our pension payments through the decades to come.

- PIC holds £10.9 billion in ESG assets.
- £2 million a week has been injected into Greater Manchester's economy following PIC's £130 million investment.
- First tenants moved into Bromley social housing units, following PIC's £67 million investment to alleviate homelessness.

For more information please see **p2-6 and p28-33**

Our people and culture:

PIC has always invested heavily in making our workplace an attractive and rewarding place to work – the Company can only succeed by employing high-quality individuals and then providing the support mechanisms to allow them to succeed.

- PIC launched the PIC Academy, providing apprenticeship opportunities.
- PIC successfully participated in the #10000BlackInterns mentoring scheme.
- PIC employee survey 2021: 91% of employees strongly believe in the goals and objectives of PIC.
- 6.9% decrease year-on-year in our gender pay gap.

For more information please see **p54-59**

Our commitment to the environment.

- PIC is committed to being carbon neutral as a business by 2025, and to being Net Zero within its investment portfolio by 2050.
- PIC reduced its Scope 1 and 2 emissions by 16% during 2021.
- PIC's single office in central London uses electricity provided by a renewable energy supplier.
- PIC is committed to decreasing its investment portfolio's average carbon intensity (tCO_2/$m revenue) by 50% by 2030 from 2019 levels. PIC has set an interim target of decreasing the average carbon intensity of our investments in publicly listed credit by 25% from 2019 levels by 2025[1].
- The weighted average carbon intensity of PIC's investment portfolio is 204 tCO_2e/$mm revenue, a figure which covers 83% of the portfolio.
- The 'Temperature Alignment' within our publicly-listed credit investments, which quantifies the temperature rise by 2100 from pre-industrial levels is 2.37°C. 60% of PIC's corporate bond exposure (by market value) is on a trajectory of 2°C or below[2].

Commitments

We have focused on improving the environmental performance of our own business as well as reducing the environmental impact within our portfolio in order that we can meet our climate goals:

- PIC has committed to be Net Zero by 2050 across all sources of emissions, including within its investment portfolio which backs the pension payments to our 282,900 policyholders.
- Whilst we have a long-term outlook, we must set short-term targets in order to reach our goals and manage the transition. We have set an interim target of achieving carbon neutrality within our own operations, under Scope 1 and 2 emissions, by 2025, in line with the ABI'S Climate Change Roadmap.

Collective action is crucial to achieving these goals, including engaging with the companies that we invest in and collaborating with sustainability bodies, industry groups and wider sector initiatives to drive action. We are active contributors to policymaker discussions and industry bodies aiming to further push the climate agenda within the insurance industry.

For more information see our **TCFD report** and **ESG report** online at **www.pensioncorporation.com**

Corporate actions

We understand that climate risk is not just an investment concern but impacts every business, including ours. At a corporate level, we are reducing our environmental impact including Scope 1 and 2 emissions. We are pleased to confirm that 100% of the energy we use is provided by a renewable energy supplier, a major factor under Scope 2 emissions. We also believe that a series of small changes and behaviour adaptations are crucial to reaching our ambitious targets. These help foster climate awareness across the firm and improve our environmental performance, and have been positively received by our employees.

The response by Government and asset owners to climate change is one of the defining issues of our age. PIC recognises the urgency of curbing global warming and we believe that achieving Net Zero is the right thing to do both, for society and for our policyholders, as we fulfil our purpose over the coming decades."

Tracy Blackwell
CEO

1 This will take into account the quality and consistency of available data.
2 Pre-industrial levels are defined by the Intergovernmental Panel on Climate Change methodology as the 30 year global average calculation of combined air temperature over land and water temperature at the ocean surface.

Strategy

Climate is embedded into our overall strategy and we are cognisant that we will have an increasing part to play in the economy with the continued de-risking and large projected flow of assets and liabilities out of defined benefit pension schemes and into companies like ours.

PIC's investment strategy reflects the conviction that certain industries, such as oil, will be under increasing stress due to the shift in the energy mix to more sustainable and renewable sources. We have already taken significant measures to reduce the carbon intensity of our portfolio by switching assets into companies and projects which contribute to the transition towards a less carbon-intensive economy.

The transition of our investment strategy is driven by:

- the undeniable negative consequence that climate change is having on the world, including all sectors in which we are directly or indirectly exposed to;
- the potential economic impact caused by a rapid transition away from carbon fuel that is now influencing Government policy in the UK and around the world;
- a tipping in the relative market balance towards investments in greener sectors and technologies; and
- the feasibility and cost of exiting specific positions matched to future liabilities.

We have also applied two sector restrictions on our investment universe:

- **Coal extraction & burning and tar sands:** No new purchases in companies that derive more than 10% of turnover from coal extraction and burning and tar sands. We aim to divest from all of our holdings in these areas by 2025 and have nearly achieved this target already.
- **Oil:** Exclude companies within exploration and production, drilling and field services. We are making no new purchases in companies in these sectors. A company may on occasion be considered for investment if it can demonstrate an ambitious commitment and clear strategy to transitioning its business model towards clean energy.

Taken together, these considerations have a double bottom line impact: a positive impact on climate change and helping us meet our investment objective.

Net Zero Asset Owner Alliance

PIC is proud to be a member of the UN-convened Net Zero Asset Owner Alliance ("NZAOA"), an international group of 69 institutional investors representing c.$10 trillion assets under management committed to making Net Zero a reality within their portfolios by 2050.

£1.3bn
Total invested in renewables

-25%
portfolio average carbon intensity reduction target by 2025

Asset owners have a unique role in the global economy, financial systems and ability to drive decarbonisation and climate-resilience through our investment mandates.

PIC's progress in decarbonising its portfolio to date means that it has joined the NZAOA's Inaugural 2025 Target Setting Protocol, rather than the later 2030 protocol. The protocol commits members to publishing interim carbon-reduction targets every five years.

Our Environmental, Social and Governance approach continued
Our commitment to the environment continued

Financing renewable leader's transition

An example of an ongoing PIC engagement and the development of a strong relationship with a high emitting company with ambitious transition plans was with Orsted. The relationship started in June 2018 as Orsted announced that it had decided to initiate a sale process for its carbon-intensive Danish power distribution and residential customer businesses, as well as its city light business. This followed a strategic review which refocused the company exclusively on renewable energy and offshore wind in particular, where it aimed to become a global leader. Orsted intended to grow installed capacity by expanding into existing and new markets. However, the company needed the backing of institutional investors, like PIC, in order to achieve meaningful scale.

Orsted's new strategic focus aligned with discussions being held internally at PIC about the future of carbon intensive industries and their place in a long-term investment strategy (specifically designed to fulfil our purpose over decades). In practice this meant moving away from carbon intensive assets in favour of low-carbon investments that have more social value in a decarbonising world. PIC was an early investor into Orsted's transition by funding two of its largest UK offshore wind farms. PIC also supported Orsted directly through the purchase of CPI-linked bonds. PIC so far has invested over £350 million directly or indirectly into Orsted since 2018, continuing to enjoy a close relationship with the company and supporting it in maintaining its market-leading position as a renewable energy powerhouse.

PIC has so far invested over £350 million directly or indirectly into Orsted since 2018."

ESG integration

Climate change considerations are integrated throughout the organisation's decision-making processes, as are wider ESG factors.

We believe that companies which demonstrate positive sustainability characteristics are better placed to maintain sustainable cash flows and service their debt over the long term. These characteristics include whether they recognise responsibilities to key stakeholders beyond customers, such as employees, suppliers, society and the environment. In order to meet these responsibilities, it is crucial that they have a long-term focus.

Our approach has always been to have our expert credit analysts do the detailed risk analysis for credit investment decisions, because they have the deepest knowledge of specific issuers. Analysts consider material environmental risks alongside other risks and liaise with our Head of Responsible Investment where concerns arise. Every member of the investment team is responsible for environmental factors when reviewing an investment opportunity. This means our analysis is forward-looking and takes into consideration the risks to potential investments over many decades.

Stewardship

ESG engagement describes the interaction between investors and issuers. Given our very long-term investment horizon, it is important that we work with companies to improve their sustainability practices, helping to ensure they maintain a strong industry positioning, healthy credit ratings and stable cash flows. PIC actively seeks out and engages with high emitters and non-Paris aligned companies to help push for decarbonisation. During 2021 we directly or indirectly engaged with the following companies on specific climate topics:

Year	2021
High emitters	11
Company names	National Grid, Royal Dutch Shell, Rio Tinto, UK Power Network, BHP Group, Glencore, Anglo American, SSE, Engie, Thames Water, Bazalgette
Industries	Metals & Mining, Multi Utilities, Oil & Gas, Materials
Topics	Net Zero ambitions, climate change target setting, climate proposals, phase down, TCFD reporting, "just" transition strategy, renewables, hydrogen, electrification, EV Infrastructure, carbon capture, decarbonising heat and environmental targets, green framework feedback

We also engage closely with our privately-sourced debt investment counterparties on environmental issues. A great example of where we can have influence on the environmental impact of an asset over its lifetime is within some of our property investments.

Metrics and targets

We must look at the impact of our own emissions as well as those of our investment portfolio. Disclosing relevant and transparent metrics and setting meaningful targets to address Scope 1–3 emissions is essential to ensuring progress is made and monitored.

We are reducing our total energy consumption and carbon emissions (Scope 1 and 2) at our offices. This is being effected through a series cumulative actions and bigger changes. For example, all the energy used in our office is now provided by a renewable energy supplier.

In order to understand our total impact, we are making efforts to map carbon emissions across our investment portfolio (Scope 3) with the assistance of third parties such as MSCI and the application of our own methodology for our privately-sourced debt investments.

Details on our carbon metrics can be found within our recently published **TCFD report**.

Targets

Corporate level targets

We understand the importance of setting meaningful goals and demonstrating progress year-on-year. Due to the sustainability efforts enacted across our business, we have managed to reduce our total Scope 1 and 2 emissions by 16% during 2021. We have committed to the target of being carbon neutral as a business by 2025.

Portfolio level metrics

In line with various industry initiatives we are involved with, we have committed to decreasing our portfolio average carbon intensity (on a Scope 1 and 2 basis) by 50% by 2030. We have therefore set ourselves an interim target, in line with guidance from the Net Zero Asset Owner Alliance Target Setting Protocol, of decreasing our public corporate credit portfolio (worth £18.6 billion at FY2021) average carbon intensity by 25% from 2019 levels by 2025. We will endeavour to decrease this section of the portfolio by another 25% (from 2019 levels) in the following five year period – in line with achieving our 50% reduction commitment over a decade.

We have managed to reduce our total Scope 1 and 2 emissions by
16%
in 2021

We have committed to the target of being carbon neutral as a business by
2025

High environmental standards in design of our New Victoria development

PIC's award-winning New Victoria development in central Manchester, will deliver 520 new homes on an inner-city brownfield site by regenerating a key part of the city centre. The development will include 460m² of new landscaped space, which is the first-time this site has had any green space in over 100 years. PIC has partnered with Muse Developments and VINCI Construction UK to deliver the £130 million Build-to-Rent scheme.

PIC has made a high level of environmental standards central to its design during both the construction and operational phases. For example, 99.5% of waste at the New Victoria development will be recycled, reused, or disposed of in more environmentally-friendly ways than landfill. A typical construction project would dispose of 8–10% of waste created through landfill.

This is one of the first developments to be designed to achieve maximum water usage of 100 litres per person per day, which is 25% more efficient than current building regulations require. In addition, all electricity used at the development site during construction is procured through renewable energy suppliers. Finally, virtually all the water used on site is collected, filtered and transformed back into drinkable quality water.

We have also incorporated physical climate risk mitigation into the development. A key Victorian culvert on the River Irk – a major plank of central Manchester's flood defences – has been given enhanced protection as part of the development.

For example, 99.5% of waste at the New Victoria development will be recycled, reused, or disposed of in more environmentally-friendly ways."

Our people and culture.

Attractive, rewarding and stimulating workplace

Overview

PIC employs highly skilled individuals who all work to deliver a common purpose, supported by a culture of innovation and a strong set of values. PIC has always invested heavily in making our workplace an attractive and rewarding place to work – the Company can only succeed by employing high-quality individuals and then providing the support mechanisms to allow them to succeed.

This year 120 new employees have joined our team. Our success in hiring new people is due to our focus on creating a purposeful and stimulating working environment, where individual contributions are recognised within a collaborative, team-based effort.

The switch during the early part of 2021 from working from home following the end of lockdown, to a combination of working from home and working in office, 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 a safe office working environment, team building activities and access to counselling where needed. We are proud to have been able to welcome all of our new employees in person, ensuring they were still able to experience the collegiate, flexible and innovative culture PIC is known for.

We are cognisant that for many this new way of working is yet another big change, particularly for those that are still worried about contracting Covid-19, and so we continue to provide all forms of support to safeguard our employees and their wellbeing.

Throughout the pandemic our leadership team has invested considerable time in a comprehensive internal communications strategy that helped bring transparency to the Group's performance and the challenges we are tackling."

Throughout the pandemic our leadership team has invested considerable time in a comprehensive internal communications strategy that helped bring transparency to the Group's performance and the challenges we are tackling. This has not only ensured a continuity in our culture, but it has helped employees 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 and by the common belief in our leadership.

An adaptable and resilient culture

PIC successfully supported employees during the pandemic as we all made the sudden, unforeseen and prolonged switch to working from home, including a significant focus on wellbeing. As the world started to move out of lockdown during 2021, we concentrated our efforts on bringing our people back into a safe and welcoming working environment, recognising the need for new ways of working to ensure continued effectiveness.

Our hybrid working model is still in its trial phase and allows employees to split their time between working from home or the office, bringing a number of advantages:

- It offers a better balance between creativity and productivity.
- It helps to keep our employees safe during this transition period from complete lockdown to living with Covid-19, with reduced office numbers.
- It allows us to share and reinforce our strong culture and values face to-face with our new starters and existing employees.
- It enables our employees to maintain a work-life balance, which will ultimately increase productivity and job satisfaction.
- As the Company continues to grow and recruit more people, flexible working practices will likely become the norm, and ours will help to attract and retain a more diverse workforce.

To ensure this initiative is as successful as possible and reinforces our inclusive culture and values, managers have been trained specifically on managing in a hybrid working environment. We have continued the development of our entire employee training programmes, including launching a Leadership Development Programme in partnership with Ashridge Business School.

Leadership development is an important part of creating a dynamic culture, especially given the relatively small size of the Company. Whilst our size does have benefits, including flat reporting structures, easy access to senior management, and the ability to have cross-company working, it also means a more proactive approach to people development, and in 2021 we established a Senior Leaders Forum. This consists of representatives from across the business at the level below the Executive Committee, with an agenda designed to provide challenge to Company decisions in a supportive environment. The Forum also provides an important channel for dissemination of important information.

#10000BlackInterns campaign

When I heard about what was then the #1000BlackInterns campaign – and is now the #10000BlackInterns campaign – I was really excited to explore what was on offer. I applied immediately, luckily securing a position as an intern in the investment team, which started in July 2021.

It was strange to start an internship following a prolonged Covid-19 national lockdown, with people coming into the office two to three days a week, and many colleagues still working from home. However, I'd heard a lot about the positive culture at PIC and quickly got to experience this first-hand. Colleagues were helpful, friendly and inclusive. I was given interesting, challenging work and really enjoyed the collaborative atmosphere.

Despite the original internship being designed to last two months, the team asked me to stay on and created a full-time position for me as Graduate Portfolio Analyst. Saying yes was the easiest decision I ever made, even though it meant turning down another internship at a different financial services firm. My experience at PIC has been overwhelmingly positive and it feels great to be working for a company with purpose that cares about delivering on its promises to customers and employees.

I applied immediately, luckily securing a position as an intern in the investment team, which started in July 2021."

Dan Charles
Graduate Portfolio Analyst

Our Environmental, Social and Governance approach continued
Our people and culture continued

Employee engagement
PIC conducts an annual employee engagement survey to help us understand how deeply our values and culture are embedded throughout the organisation and to gather feedback from employees about their experience of working at PIC.

Employees answered questions relating to areas such as customer experience, strategic direction and culture. With over 90% of employees taking part in the 2021 survey, the scores demonstrate how our focus on customer care and purpose is an integral part of the Company culture and ethos.

I believe strongly in the goals and objectives of PIC
91%

PIC is truly customer oriented
92%

I am optimistic about the future at PIC
92%

I am proud to work for PIC
90%

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:

- competitive pension contributions;
- private medical cover;
- travel insurance;
- season ticket loans;
- access to 24/7 mental health support through an employee assistance programme;
- a Cycle to Work scheme and a dedicated secure cycle space at our London office; and
- death in service benefit.

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 ("SAYE") 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 able to share in the long-term value creation of the business.

As well as organisational memberships, PIC is part of other initiatives such as #10000BlackInterns, 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 also 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 longer term the levels of BAME employees in senior front-office roles. We are focused on early careers talent and have launched our PIC Academy. This will enable PIC to develop long-term, diverse talent pipelines.

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 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:

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 2021, PIC continued its membership of LGBT Great, with CEO Tracy Blackwell being recognised as one of the Top 100 Executive Allies within the industry for the second year in a row. PIC ran events to support LGBT history month, and Pride month, including a session on allyship.

PIC continued to sponsor the Actuarial Mentoring Programme for a fourth year. This scheme, of which PIC is the founding sponsor, is in partnership with the Institute and Faculty of Actuaries. Our focus in 2021 has been on early careers talent with the launch of our PIC Academy. This will enable PIC to develop long-term, diverse talent pipelines. We were one of the first companies to support #10000BlackInterns, offering two internships in 2021, one of which has now become permanent. We are looking to offer eight internships for summer 2022. We also created an Apprenticeship Programme, offering 11 apprenticeships for 18 months. This programme is aimed at school leavers and provides them with an opportunity to gain experience in financial services whilst attaining a qualification.

Working with our charity partners

PIC is delighted to continue supporting our charity partners, Independent Age and Rethink Mental Illness, and to help in raising the funds that really make a difference to the critical work that they do. 2021 saw a very welcome return to fundraising activities, such as skydives, the London marathon, and the PIC treasure hunt, which saw employees and staff dress up and follow a series of clues in a hunt across the City of London. Both of our charity partners joined us on the night and everyone had a fantastic, purposeful evening.

We were also pleased to be able to support a vital Christmas programme to feed local homeless people, at our New Victoria development in central Manchester. Our development partners Muse and VINCI were key to bringing this together, once again demonstrating our shared values. In addition to the financial contributions, our employees continued to actively volunteer their time to provide 'talking support' to build trusting relationships with isolated and vulnerable elderly people in association with Independent Age.

PIC has an allowance for each employee to take two days a year paid leave to work on volunteering projects of their choice. In order to facilitate this, in 2021 we arranged volunteering days with Heath Hands, a voluntary organisation that supports the environmental conservation of Hampstead Heath. Other employees used their volunteering days to help with the Covid-19 vaccination rollout.

Rethink Mental Illness helped train 26 of our employees as mental health first aiders. Attendees found the training very helpful. We hope that this will contribute to earlier identification and better understanding and management of mental health and wellbeing.

Our charity partners

Rethink Mental Illness

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

Tens of thousands of people rely on its 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.

It operates throughout the UK and provides advice and support across a range of areas including money, housing, health, personal life, support and care, and future planning. Its guides and factsheets are downloadable for free via the link below.

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

Christmas in the community

PIC and its partners on the New Victoria development in Manchester teamed up with local charity Lifeshare, Manchester's oldest charity that supports homeless and vulnerable people in the city, providing it with a place to host its annual Christmas Project.

PIC, alongside Muse Developments and VINCI Construction, offered Lifeshare the use of its site cabins over the festive period. From there, Lifeshare was able to provide homeless and vulnerable people with hot meals, companionship, medical and personal care and shower facilities in a bid to reduce isolation and bring people together over the Christmas period.

Judith Vickers, Operations Manager at Lifeshare, said: "We cannot explain how amazing this donation is. I was really starting to panic that we had no location to hold this year's Christmas Project – a scheme that helps so many people at what is one of the worst times of the year if you're on the streets. We owe a lot to VINCI and the other parties involved – Muse Developments and Pension Insurance Corporation. I'm really hoping that after the horrendous few years people have had, this Christmas may bring some much needed festive cheer and real, tangible support for those in need."

We owe a lot to VINCI and the other parties involved – Muse Developments and Pension Insurance Corporation."

Judith Vickers
Operations Manager at Lifeshare

Gender pay gap report 2021

The gender pay gap seeks to measure the difference between the average pay of men and women across the Company.

2021 highlights

6.9%
Decrease in PSC's mean gender pay gap

1.1%
PSC's total mean bonus pay gap

7.7%
Decrease in PSC's median bonus pay gap

7.0%
Change in percentage of women in PSC's upper quartile

Mean salary pay gap 2021

The Equality and Human Rights Commission had extended the deadline to report gender pay gap information to 5 October 2021; therefore, industry figures may be indicative.

Pension Services Corporation Limited's ("PSC") figure of 18.4% is below the financial services indicative average (25.2%). PSC's mean gender pay gap across employees of 13.7% (excluding Non-Executive Directors) is below the indicative national average of 14.9%.

	2020	2021	12-month change
Mean hourly	25.3%	18.4%	down 6.9%
Median hourly	14.5%	6.8%	down 7.7%

Our gender pay gap is driven by three primary factors:

1. 35% of total employees are female
2. 29% of employees in the upper pay quartile are female, up 7% in the year
3. The proportion of male Non-Executive Directors

Bonus pay gap

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. 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. PSC's bonus pay gap therefore varies significantly year-on-year due to circumstances beyond our control. For 2021 the median bonus pay gap reduced by 7.7%.

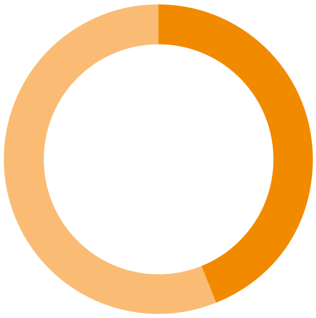
As employees in the upper quartile have higher target bonuses and are more likely to receive share awards, the median bonus gap will remain at a higher level until we have more women in the upper quartile.

	2020	2021	12-month change
Mean bonus	1.6%	1.1%	down 0.5%
Median bonus	31.1%	23.4%	down 7.7%

Percentage of women at each quartile

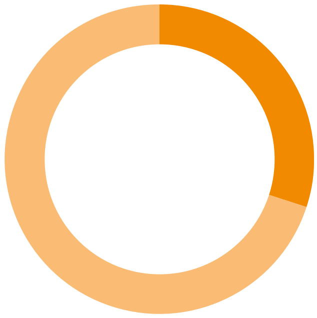
An increase of women in the upper quartile to 29% (a 7% increase) has led to a fall in PSC's gender pay gap. On 5 April 2021, PSC had 349 employees.

Lower quartile



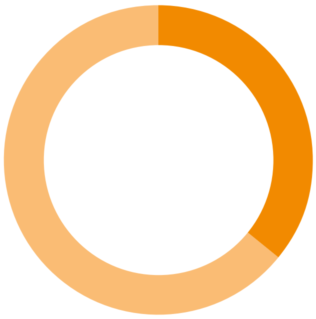
Women	**44%**
Men	**56%**

Lower middle quartile



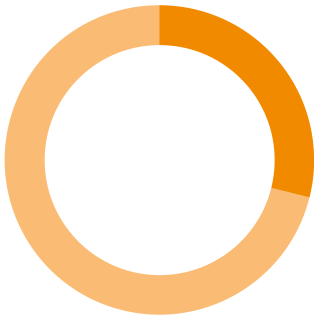
Women	**30%**
Men	**70%**

Upper middle quartile



Women	**36%**
Men	**64%**

Upper quartile



Women	**29%**
Men	**71%**

Actions we are taking to address the gender pay gap

	Approach	2021 update
Recruiting talent	We target 30% of CVs from recruitment agencies to be from women.	36% of PSC hires in 2021 were female.
Early careers*	PIC Academy: requested minimum of 50% of candidates into the Apprenticeship programme to be women.	Hired 64%.
Developing managers and leaders	Our Aspiring Managers Programme is for all people managers.	A high percentage of women overall take advantage of learning and development opportunities. The Aspiring Managers Programme has a 50/50 gender split.

* Whilst focusing on early careers could have a short-term impact on the gender pay gap numbers, we are committed to making sustainable progress at source. For example, this is the fourth year we have sponsored the Actuarial Mentoring Programme (see page 56 for more detail).

A strong financial performance.

A strong set of results, which demonstrate a robust balance sheet and long-term profitability, underpinning our purpose and future growth prospects."

£533m
IFRS operating profit

£393m
IFRS profit before tax

168%
Solvency ratio

Financial highlights	2021 £m	2020 £m
Solvency II ratio (unaudited)	**168%**	157%
Gross premiums written	**4,702**	5,649
Profit before taxation	**393**	276
Adjusted operating profit before tax	**533**	349*
Operating surplus generation	**380**	(92)
Financial investments	**51,143**	49,648

* 2020 adjusted operating profit has been restated to include the RT1 coupon in operating profit.

Introduction

PIC is a long-term business with a clear purpose, which is to pay the pensions of our current and future policyholders. I am therefore delighted to present a set of financial results for the Group, my first as CFO, which demonstrate a strong balance sheet and long-term profitability, underpinning that purpose and our future growth prospects. At year end our unaudited solvency ratio rose to 168% (2020: 157%), with adjusted operating profit before tax, the Group's preferred measure of long-term profitability increasing 53% to £533 million (2020: £349 million). Both metrics benefited from growth in the business alongside management actions taken in the year.

The ongoing effects of the pandemic and the monetary policy response to it once again caused significant periods of market volatility, including gilt yields that continued to touch historic lows, the tightest credit spreads since the 2007-2008 Financial Crisis and, during the second half, the return of inflation. Each of these present challenges and opportunities for the business and our focus for the year has been to manage the challenges so that we are well placed to take advantage of selective short-term opportunities, whilst positioning ourselves for long-term growth.

In terms of new business, the whole pension risk transfer market was muted during the first half of the year, a consequence of the disruption caused by the pandemic which led to a lower number of trustee meetings in 2020 and, as outlined in the Pension Risk Transfer ("PRT") section of this report, fewer PRT transactions being completed by the half year.

At year end, PIC had a portfolio of £51.1 billion of financial investments (2020: £49.6 billion), with which to back our future pension payments. The increase during 2021 was largely due to new business, partially offset by the increase in risk-free rates which decreases the value of investments but also those of our insurance liabilities. Over recent years we have substantially de-risked the portfolio and as a result we have seen both zero defaults and minimal downgrades to sub investment grade in either 2021 or 2020.

The Board continues to assess the performance measures of the Group, ensuring they remain appropriate, as we seek to fulfil our purpose, in the light of a changing economic and regulatory environment. One alternative performance metric, disclosed in this report for the first time, is surplus generation. This measures the surplus being generated by the business which is available to be re-invested in new business or for other purposes, including augmenting the solvency balance sheet and protecting against short term market fluctuations.

Total operating surplus generation of £380 million increased by £472 million in the year to 31 December 2021. The improvement from 2020 was driven by an improved return from the in-force book, less capital-intensive new business written, and positive management actions taken in the year.

IFRS

Statement of comprehensive income – highlights	2021 £m	2020 £m
Gross premiums written	**4,702**	5,649
Net premium revenue earned	**3,856**	5,132
Investment return (including commissions earned)	**210**	4,091
Total revenue	**4,066**	9,223
Net claims paid	**(1,785)**	(1,683)
Change in net insurance liabilities	**(1,601)**	(6,997)
Operating expenses	**(198)**	(194)
Finance costs	**(89)**	(73)
Total claims and expenses	**(3,673)**	(8,947)
Profit before taxation	**393**	276
Tax charge	**(82)**	(54)
Profit after tax	**311**	222

Premiums

A combination of lower activity in the first half of the year and our adherence to our policy of only writing business which meets long-term value targets, led to a reduction in gross premiums written to £4,702 million from £5,649 million in 2020. The Group completed fourteen new business transactions during the year (2020: seven), including the largest single transaction of the year, the £2.2 billion Metal Box buyout. We continue to be selective in underwriting those risks where we expect to generate an adequate return within our risk appetite.

Net premiums earned represent the gross premiums written less premiums ceded to reinsurers. Premiums ceded to reinsurers increased due to the completion of asset backed reinsurance transactions covering approximately £750 million (2020: £385 million) of liabilities. In total, seven (2020: eight) new reinsurance contracts were concluded in 2021.

Investment return

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

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

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

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

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

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

Claims paid

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

Change in net insurance liabilities

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

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

Operating expenses

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

Finance costs

Finance costs represent the interest payable on borrowings and finance lease costs.

Finance costs of £89 million in 2021 (2020: £73 million) represents the full year interest payable on the five (2020: five) subordinated debt securities issued by PIC, the Group's main trading entity. 2021 also includes £1 million (2020: £1 million) in respect of finance lease costs.

The RT1 debt issued in July 2019 has been accounted for as equity under IFRS and as such interest on these notes is not included in finance costs and is instead recognised as dividends when paid.

Our approach to tax

As a UK registered business, the Group pays its full tax liability to HMRC ensuring compliance with UK tax laws, regulations and disclosure requirements.

The Group ensures transparency in its tax disclosures and seeks a constructive relationship with HMRC at all times. The Group had an effective corporation tax rate of 21% during 2021 (2020: 19%). During the year, the Group paid a total of £56 million (2020: £118 million) in respect of corporation, payroll related and value added taxes.

The decrease in the year reflects the change to the tax payment date rules last year, resulting in a proportion of the 2019 tax liability and whole of the 2020 estimated tax liability being paid in 2020.

IFRS 17 – Insurance contracts

IFRS 17 – Insurance contracts is a new accounting standard effective for accounting periods on or after 1 January 2023. We are well progressed in our implementation of the new systems and the expected financial implications will be communicated in due course. Further details can be found in note 1 to the financial statements.

Statement of financial position – highlights

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

At the end of 2021, the Group had total financial investments of £51.1 billion, compared with £49.6 billion at the end of 2020. The assets in which the Group invests are carefully chosen in order to match the policyholder obligations that they are designed to pay. 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.

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

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

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

Gross derivative assets and derivative liabilities have both decreased during the year, by £6.9 billion and £7.3 billion respectively. The net increase in the year across all derivative assets and liabilities was £425 million.

The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business.

The decrease in the gross derivative asset and liability balances is a result of market movements, in particular rising interest rates, partially offset by new business written in the year. It should be noted that all derivative contracts are fully collateralised through the use of a custodian, and as such present little credit risk in the event of a derivative counterparty default.

Total equity has increased by £298 million mainly due to after tax profits during the year.

Adjusted operating profit

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

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

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

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

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

The 2020 comparatives have been restated accordingly.

The Group's adjusted operating profit before tax was £533 million, an increase of 53% from 2020 (2020: £349 million). This was primarily due to management actions and assumption changes and a lower adverse experience variance.

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

Adjusted operating profit	**2021 £m**	2020 Restated £m
Expected return from operations	**288**	274
New business and reinsurance profit	**167**	187
Underlying profit	**455**	461
Changes in valuation assumptions	**315**	292
Experience and other variances	**(77)**	(253)
Finance costs	**(122)**	(106)
Project costs	**(38)**	(45)
Adjusted operating profit before tax	**533**	349
Investment related variances	**(173)**	(106)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	33
Profit before taxation	**393**	276

Underlying profit

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

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

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

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

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

Changes in valuation assumptions

The Group 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. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

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

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

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

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

In addition, there were several other smaller assumption changes made in the year which included an update to the reinvestment/disinvestment rate used for the IFRS liquidity premium calculation and an update to the maintenance expense assumption incorporating the latest expense budgets and following a review and update of expense allocations.

In 2020, total reserve releases of £292 million were in respect to changes in assumptions for longevity and expenses.

Prudent margins

There exist prudent margins within the IFRS basis in relation to uncertainty within our best estimate assumptions, including longevity, expenses and the discount rate applied to liabilities. Notwithstanding the changes to assumptions made in 2021 resulting in a release of reserves, there remains total prudent margins of £3.1 billion at 31 December 2021 (31 December 2020: £3.2 billion).

These prudent margins are expected to be released over the long term and recognised as profits, as actual experience materialises and uncertainty over the best estimate assumptions is reduced.

Experience and other variances

Experience variances, which reflect the difference between the assumptions used for pricing within the new business line and those used for reserving, actual claims experience in the period compared to the expected amounts and the impacts of data updates on underlying policyholder information, gave rise to a loss of £77 million in 2021 (2020: loss of £253 million).

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

Finance costs and other costs

Finance and other costs reported under the alternative profit metric include finance costs on Tier 2 debt (see note 15), interest on the RT1 debt (see note 19) and project costs (see note 4).

Investment related variances

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

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

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

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

Expense ratio

The expense ratio is a measure of the operating efficiency of PICG and reflects operating and investment 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. This ratio has been redefined to include the cost of our ERM origination fees which were previously excluded. The prior year comparatives have been restated accordingly.

The expense ratio of 0.39% at 31 December 2021 was slightly higher than 0.38% at 31 December 2020, driven by ERM origination fees as we have increased the size of our ERM portfolio. This is partly offset by lower operating costs and an increase in financial investments.

Return on equity

Return on equity is a measure of the rolling 12 months after tax profits in relation to average equity (excluding our RT1 notes). This ratio has been redefined to deduct the RT1 interest from the profit after tax and the FY 2020 comparative has been restated accordingly. 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 increased to 7.3% in 2021 (2020: 6.0%) due to the higher profit generated this year as we start to deploy the capital raised in 2020.

Capital and solvency

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 II Capital Requirements under Solvency II as set out in the relevant PRA rules throughout the year (see Note 21 to the financial statements).

Solvency Ratio

At 31 December 2021, PIC's unaudited Solvency II ratio improved to 168% (2020: 157%) and it had surplus funds of £2,701 million (31 December 2020: £2,449 million) in excess of its Solvency II Capital Requirements ("SCR") as calculated by the internal model.

The solvency ratio has improved in a challenging environment due to management actions taken and the return from the in-force book. We utilise hedging to provide protection for our solvency balance sheet against adverse economic fluctuations which has been particularly important given the market volatility of the last few years. This positions us well to take advantage of future market opportunities.

PIC solvency	2021 Unaudited £m	2020 Unaudited £m
Own funds	**6,669**	6,710
Solvency II capital requirements	**(3,968)**	(4,261)
Solvency II surplus	**2,701**	2,449
Solvency ratio (%)	**168%**	157%
Matching adjustment (%)	**1.040%**	1.062%

Surplus generation (PIC) (unaudited)

Surplus generation	2021 £m	2020 £m
Opening Surplus	**2,449**	1,890
Expected surplus generation from in-force book	**400**	329
New business (net of reinsurance)	**(33)**	(221)
Management actions and other operating variances	**171**	(50)
Financing and project costs	**(158)**	(150)
Operating surplus generation	**380**	(92)
Economic and other non-operating variances	**(128)**	(793)
Change in capital	**0**	1,444
Total surplus generation	**252**	559
Closing Surplus	**2,701**	2,449

As mentioned earlier, surplus generation is a key alternative performance metric of the business and measures the amount of Solvency II surplus capital (i.e. own funds less SCR) generated in the period. The key components are the expected surplus generated from the business written in previous periods and management actions taken in the year. These elements are used to fund the capital requirement of writing new business in the year and to pay coupons to our debtholders. The impact of market movements are included in economic and other non-operating variances.

Expected surplus generation from the in-force book

Expected surplus generation comprises the

- Investment return on the capital assets (non-matching fund assets);
- Margins earned on the matching fund assets;
- Release of the in-force risk margin and SCR; and
- Amortisation of the Transitional Measure on Technical Provisions ("TMTP").

In 2021, expected surplus generation increased to £400 million (2020: £329 million). This was due to a larger in-force book and capital assets following £5.6 billion of new business written in 2020.

New business (net of reinsurance)

New business (net of reinsurance) is the day one impact on surplus of writing new business, based on the pricing assumptions, plus the impact of reinsurance of in-force business. Typically, new business is reinsured at outset, but where there are timing delays in entering into reinsurance, any differences between the new business assumptions and the reserving basis are reported as experience variances within other operating variances.

New business strain (net of reinsurance) was £33 million on £4.7 billion of premiums in 2021 (2020: new business strain of £221 million on £5.6 billion of premiums). The reduction in strain reflects a number of items, including the use of quota share reinsurance, not all of which is expected to repeat next year.

Management actions and other operating variances

Management actions and other operating variances comprise actions taken by the business, assumption changes and operating variances. Operating variances represent the difference between actual non-economic experience and the non-economic assumptions used in pricing new business and used in expected surplus generation.

Management actions and other operating variances increased to £171 million in 2021 compared to a reduction in surplus of £50 million in 2020. During 2021, we took action to reposition our capital and following our annual review of the assumptions used in the business, we made changes which led to an overall reduction in capital requirements.

In addition, we have seen a reduction in the SCR following a review of how market and longevity risks interact. The change in the correlation assumptions between these risks has increased the surplus.

Since the global financial crisis in 2007–2008, the number of underlying LIBOR transactions have reduced resulting in LIBOR being a less reliable benchmark for GBP risk-free rates. In March 2021, the FCA confirmed that LIBOR would cease immediately after 31 December 2021. This led to the transition from LIBOR to a more robust alternative – SONIA. However, in transitioning to the new benchmark and applying the new GBP risk-free rate, the solvency surplus has reduced by c. £150 million.

Several other smaller assumption changes were made in the year including those for investment management expenses, maintenance expenses and inflation.

2020 included adverse experiences variances relating to a higher initial expense strain than was assumed in new business pricing. This was partially offset by a release of reserves for longevity and expenses.

Financing and project costs

Financing and project costs reflect the accrued interest paid on the RT1 and Tier 2 debt issues coupled with project costs in the period.

Financing costs of £120 million (2020: £105 million) reflects the full year cost of the two debt raises in May 2020 and October 2020. Project costs of £38 million decreased in 2021 (2020: £45 million) reflecting a lower spend on business wide initiatives.

Economic and other non-operating variances

Operating surplus generation is based on expected 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 technical provisions and the SCR. Actual investment returns in the year, on a mark to market basis, will differ from the expected returns due to short term impacts from market movements. The difference between the actual and the expected rates of return, coupled with the impact of changes in economic assumptions on technical provisions and the SCR, along with any 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 non-operating variances, outside of operating surplus generation.

Economic and other non-operating variances had a negative impact on capital of £128 million in 2021 (2020: negative impact of £793 million) primarily relating to changes in inflation, risk-free rates and asset trading in the period.

Change in capital

Capital movements include debt and equity capital raised in the period net of the costs of issue.

Capital increased by £1,444 million in 2020. This comprised two debt raises of £300 million in May 2020 and £400 million in October 2020 coupled with an equity raise of £750 million. Issue costs of £6 million were incurred. In 2021, there were no further debt or equity raises.

There were no dividends paid in either period.

Adjusted equity own funds

PIC adjusted equity own funds	**2021 Unaudited £m**	2020 Unaudited Restated* £m
Own funds	**6,669**	6,710
Deduct RT1 and Tier 2 own funds	**(2,050)**	(2,050)
Shareholder equity own funds	**4,619**	4,660
Add Risk Margin net of TMTP	**1,269**	1,353
Adjusted equity own funds	**5,888**	6,013

* Shareholder equity own funds and adjusted equity own funds have been redefined to deduct the notional value of RT1 and Tier 2 debt (previously the fair value). The 2020 comparatives have been restated accordingly.

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 was £5,888 million at 31 December 2021 compared to £6,013 million at 31 December 2020. This change was primarily due to the increase in GBP risk-free rates partially offset by the benefit of writing £4.7 billion of new business and higher inflation over 2021.

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 Risk Margin net of TMTP comprises a Risk Margin of £2.0 billion (31 December 2020: £2.4 billion) less the impact of Transitional Measures of £0.7 billion (31 December 2020: £1.1 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 2021, the MA was 1.040% (2020: 1.062%). The decrease in the year is primarily driven by narrowing credit spreads partially offset by the LIBOR to SONIA change.

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:

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

All sensitivities allow for a TMTP recalculation.

Notes:

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

2 Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be traded to the original credit rating, so the impact is primarily a reduction in own funds from the loss of value on downgrade.

The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.

3 Equivalent to a 0.4-year increase in life expectancy from 22.9 years to 23.3 years for a typical male aged 65.

Market Consistent Embedded Value ("MCEV") results

The Group prepares an MCEV 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 2021, the Group's MCEV increased to £5,027 million from £4,964 million at the end of 2020. The increase is primarily due to new business profits, the expected return from the in-force book and management actions taken to incorporate amendments to the capital methodology. This was partially offset by the change in corporation tax rate from 19% to 25% in 2023 which was announced by the government in March 2021 and granted Royal Assent in June 2021. This change resulted in a reduction in MCEV of £262 million. In addition, net adverse interest rate and inflation variances reduced. We do not seek to make profits from these economic risks – rather we look to hedge them, but this is done on a solvency basis, and given the extreme economic volatility over 2021, this has had a negative impact on the MCEV results.

MCEV	2021 £m	2020 £m
Adjusted net worth	**6,710**	6,737
Value of in-force business after tax	**1,796**	1,812
MCEV fair value of Tier 1 and Tier 2 debt instruments	**(2,381)**	(2,505)
MCEV before cost of capital	**6,125**	6,044
Frictional cost of capital	**(359)**	(243)
Cost of residual non-hedgeable risks	**(739)**	(837)
MCEV net of cost of capital	**5,027**	4,964

Reconciliation of PICG IFRS, Solvency II and MCEV balance sheets

IFRS to Solvency II reconciliation table

31 December 2021 (£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	**48,128**	**1,590**	**29**	**(11)**	**–**	**–**	**–**	**(214)**	**(6)**	**49,516**
Insurance liabilities/Best estimate liabilities (BEL) net of reinsurance assets	**(43,663)**	**–**	**–**	**–**	**–**	**2,731**	**(616)**	**–**	**–**	**(41,548)**
Risk margin net of transitionals	**–**	**–**	**–**	**–**	**(1,269)**	**–**	**–**	**–**	**–**	**(1,269)**
IFRS net assets/ Solvency II own funds	**4,465**	**1,590**	**29**	**(11)**	**(1,269)**	**2,731**	**(616)**	**(214)**	**(6)**	**6,699**

Solvency II to MCEV reconciliation table

31 December 2021 (£m)	Unaudited Solvency II balance sheet	Allow for differences between Solvency II and MCEV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	MCEV (£m)
Total assets less other liabilities	**49,516**	**11**						
BEL net of reinsurance assets	**(41,548)**							
Risk margin net of transitionals	**(1,269)**							
Solvency II own funds/Adjusted net worth	**6,699**	**11**	**–**	**–**	**–**	**–**	**–**	**6,710**
Present value of future profits (PVFP)	**–**	**–**	**–**	**–**	**1,269**	**1,125**	**(598)**	**1,796**
Cost of residual non-hedgeable risks (CRNHR)	**–**	**–**	**–**	**–**	**(739)**	**–**	**–**	**(739)**
Frictional cost of required capital (FCoC)	**–**	**–**	**–**	**(359)**	**–**	**–**	**–**	**(359)**
Subordinated debt	**–**	**–**	**(2,381)**	**–**	**–**	**–**	**–**	**(2,381)**
Solvency II own funds/MCEV	**6,699**	**11**	**(2,381)**	**(359)**	**530**	**1,125**	**(598)**	**5,027**

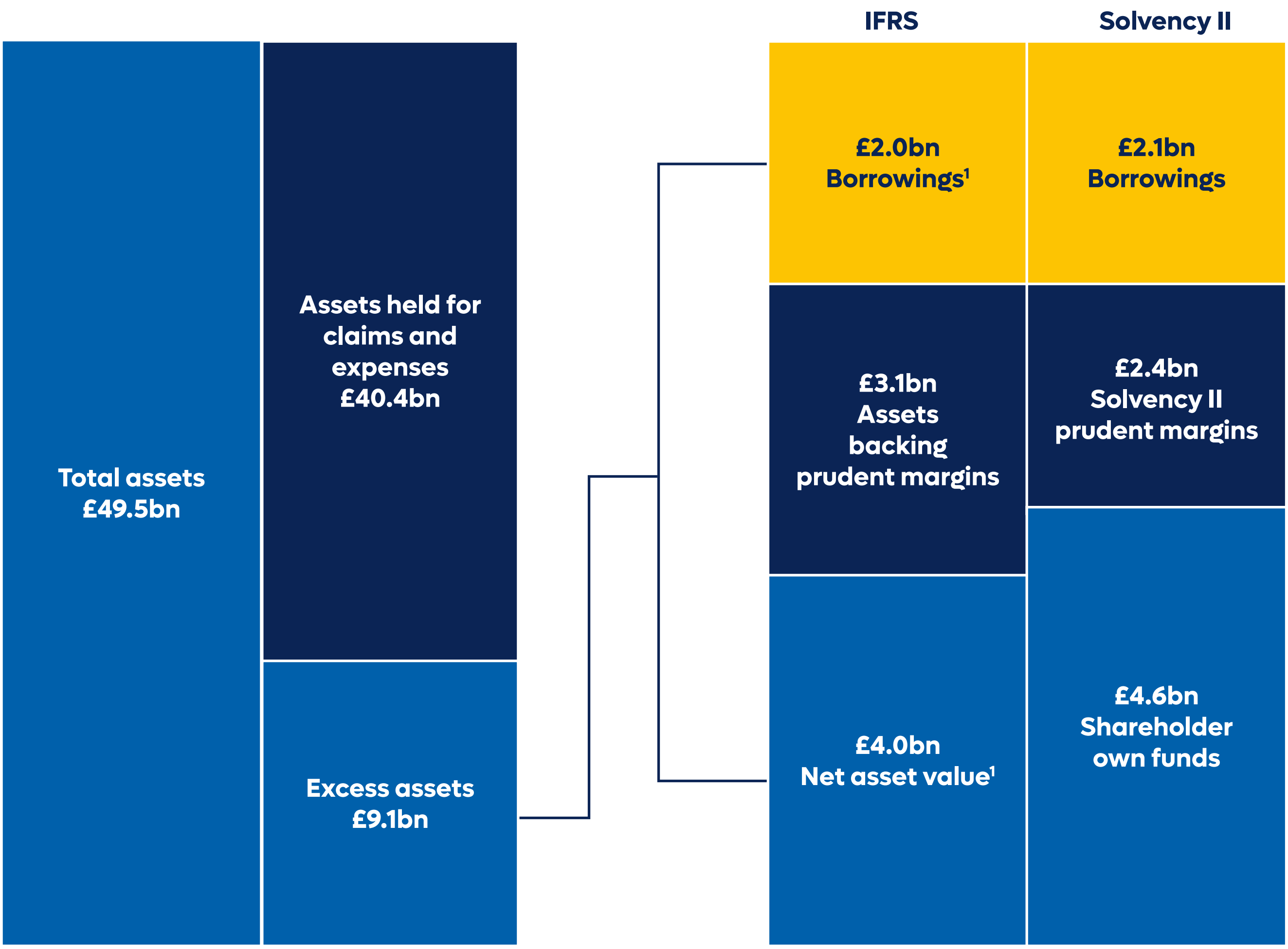
Outlook

As described elsewhere in this Report and Accounts, the Group is focused on long-term value creation as we seek to fulfil our purpose. 2021, like 2020, presented some challenges to the Group as a result of the pandemic and the monetary policy response to its economic impact. However, the business performed in line with expectations as we protected the Solvency balance sheet, positioning ourselves for long-term growth and value creation. In terms of short-term opportunities, we wrote sustainable new business, and successfully evolved our investment strategy, including significant investments in areas like social housing and urban regeneration, all of which create significant social value. Our financial strength at year end gives us a strong platform to take advantage of future opportunities, whilst having the security of being able to withstand any potential shocks.

All this means that the business is very well positioned to compete effectively for the large number of buyouts and buy-ins expected over the coming years and grow on a sustainable basis. I very much look forward to supporting the business achieve its long-term aims in my new role as CFO, as well as managing the more immediate challenges and opportunities of 2022.

PIC solvency II (unaudited) and IFRS

The following table shows the excess assets held to meet solvency and risk margins.



1 RT1 debt is excluded from the Net asset value and included in the borrowings number.

Our approach to risk management.

A significant focus for the business has been on maintaining a strong balance sheet to ensure we are able to fulfil our purpose."

Introduction

2021 continued much as 2020 ended, with the key risk management challenge for the year being to manage the consequences of the global pandemic. The key focus was on retaining a robust balance sheet able to withstand the market volatility, with a particular emphasis on the outlook for defaults and downgrades given the significant effect the pandemic continued to have on the worldwide economy. We also devoted effort to maintaining the resilience of our business functions during unusual times as we moved between office and home working, ensuring that we were at all times able to provide a good level of service to our policyholders.

In the second half of the year we spent more time looking forward to what effect the pandemic might have over coming years and how we as a business might need to adapt to manage changes to the long-term environment.

Maintaining a strong balance sheet in 2021 meant using a more dynamic hedging strategy to protect our solvency ratio with interest rates proving unpredictable and credit spreads remaining compressed. Whilst our solvency ratio remained our core focus, we developed our systems and capabilities over the year to be able to better manage all balance sheet metrics relevant to long-term value creation.

Our focus on business resilience also meant managing the additional risks resulting from the pandemic. We closely monitored operational and conduct risk as we moved between office and remote working. As can be seen from the information in this Annual Report, we successfully navigated the uncertainty and continued to offer a high-quality service to our policyholders.

PIC uses a three-pillar approach to manage its risks, allocating these in relation to their impact on the following strategic aims:

1. **Sufficient Financial Resources**
2. **Effective and Resilient Operations**
3. **Meeting External Expectations**

To see our principal risks section please see **p72-77**

A further consequence of the pandemic has been an increase in IT and cyber risk. The Group has had no significant issues to date, due primarily to significant risk mitigation work carried out over several years prior to the pandemic. This has ensured that we have robust, flexible service in place, allowing us to manage cyber risk effectively, whilst operating in both a remote and hybrid environment. However, cyber risk continues to pose a significant threat to all businesses, and we will continue to develop our capabilities to mitigate these risks through 2022.

Looking forward, one of the key developing risks over the year related to our staff. With an increase in resignations across the market resulting from what the press is calling the 'Great Resignation', we increased our monitoring and oversight of capacity and capability. As a growing business, attracting and maintaining talent is key to our success. We successfully recruited a significant number of new staff over the year which significantly reduced this risk. However, this risk will continue to be monitored closely in 2022.

We have spent time considering what the long-term consequences of the pandemic will be on working arrangements. There are a number of risks to balance, in particular seeking an approach that facilitates innovation and collaboration, whilst maintaining sufficient flexibility to attract and retain talent. Given the uncertainty of the pandemic, no long-term decisions were made over the year, and work will continue on this in 2022. We will undertake further work to ensure that our risk and control framework is optimised for the longer-term working arrangements.

A significant amount of risk development work has been carried out over the year, including a review of risk appetite metrics and statement, and embedding climate change risks into our framework. Work in both of these areas will continue in 2022.

The pandemic has clearly had profound effects on society, not least the tragic number of deaths. However, it is too early to tell how longer-term mortality trends might change as a result of Covid-19. We have carried out extensive investigations into this area, but it is soon to draw any firm conclusions. Our main retained longevity risk exposure is to younger policyholders who have in the main been less affected by Covid-19.

As a result, we will continue to monitor mortality risk closely into 2022 and consider changes to assumptions and methodologies as more data becomes available.

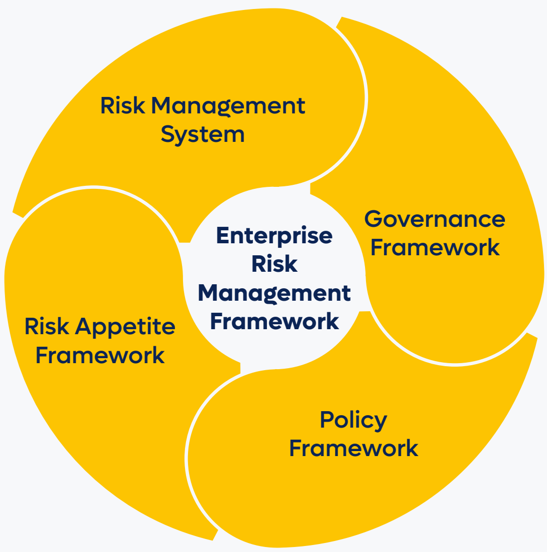
We have been closely following the trajectory of the Solvency II reform debate, as well as wider financial services legislation. There are potential risks, but the overall direction of travel seems positive, and we are actively working with stakeholders to manage our risk exposure. We have been developing our internal credit model over 2021, which has been a significant piece of work for several areas of the business, and we are keen to ensure our developments align with any future legislative reform.

As in previous years, we have continued our horizon-scanning exercise looking at future risk. The key areas we have reviewed are the potential for the reversal of supernormal monetary policy and how this might cause continued market volatility and uncertainty. This could potentially increase the pressure on markets and lead to downgrades and defaults, as well as sustaining increased inflation. We will continue to monitor the situation as it evolves, but I am comfortable with the defensive nature of the portfolio.

It has been pleasing to see that, despite the additional risk and uncertainty from the pandemic, we have maintained a good level of service to our policyholders and successfully navigated uncertain markets. During 2021, we carried out significant risk development work and this puts us in a strong position to manage whatever might come next – I hope a return to more normal times!

Giles Fairhead
Chief Risk Officer

Sound risk management is key to PIC's business strategy."



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.

Risk management continued

Mitigating our key risks

The principal risks to the business and its strategy for managing those risks are set out below to page 77 for each risk group. More details are also included in Note 16 to the financial statements.

Sufficient Financial Resources
The risk that PIC does not have sufficient funds to meet its business objectives. This includes making sure the Company:

- maintains a strong capital position with target solvency cover to ensure appropriate levels of policyholder protection, consistent with an investment-grade rating and in line with peers;
- manages individual cash flow timings and maintains an appropriate liquidity buffer to ensure liquidity is available to meet its financial obligations; and
- has additional funds available to back its strategic growth aims as a leader in the UK Pension Risk Transfer market.

Key risks to maintaining sufficient financial resources

	Market risk
What this risk means to us	Market and/or economic volatility changes the value of our assets and liabilities with a corresponding impact on our capital position.
Risk trend and outlook	We expect the trend of uncertainty and volatility in the financial markets to continue into 2022. The clear need for the global economies to address climate change is also driving global economic uncertainty. The outlook for UK economic growth remains uncertain, with ongoing pressure driven by the Covid-19 pandemic, including a re-tightening of lockdown measures in the UK, our developing trade relationship with the EU post-Brexit, and expected higher inflation driven by energy prices and supply constraints. A similar picture exists at a global level where a range of risk drivers continue to sow uncertainty including further Covid-related restrictions, geopolitical risks from protectionist measures, social unrest, the Ukraine conflict, and advanced economies' governments' inability to deliver a significant fiscal stimulus to revive economic growth.
How we are managing this risk	During 2021, we have been cautious in our credit portfolio, focused on consolidating the portfolio into 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. The business holds a significant amount of risk-based capital to protect against market movements.

Default risk	Counterparty risk	Longevity risk
Any default of credit/debt assets in our portfolio directly reduces the capital we have available to maintain our solvency position.	Any failure of counterparties and their ability to meet their contractual financial obligations would be expected to result in a loss or the need for PIC to recapture amounts previously reinsured, weakening the solvency position.	PIC's insured policyholders may live longer than was originally assumed when pricing new business.
PIC has historically experienced very low levels of default in the portfolio (see pages 29 and 30 for historical experience). Default risk continues to be significant for PIC given the ongoing global economic uncertainty and potential pressures from climate change described under 'Market risk'.	PIC's reinsurance and swap counterparties have weathered the Covid-19 shocks with the impact on the credit quality of these counterparties having been manageable. While there exist risks to these counterparties from the future path of the pandemic, their strong liquidity and capital positions along with support from fiscal and monetary policy to the markets are likely to limit any adverse impact.	PIC is exposed to factors that may lead to increases in future life expectancy, such as improvements in medical science beyond those anticipated. While life expectancy has improved over the past 40 years in the UK, improvements have started to slow down over the past decade. 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, and a change in morbidity prevalence including influenza and dementia, offset by changes in lifestyle and health monitoring as technology continues to provide new opportunities. The Covid-19 pandemic has introduced more uncertainty about future life expectancy. Industry consensus is that it is too early to determine the overall impact of the pandemic at this stage, given there are some pressures potentially reducing life expectancy (the ongoing pandemic and associated pressures on the NHS) and some potentially increasing it (for example mask hygiene resulting in lower deaths from flu).
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.	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 2021, PIC had reinsured 85% of its total longevity exposure.

Risk management continued

Effective and Resilient Operations

The risk that PIC does not deliver its objectives due to failures in the way the business is run. These objectives include:

- delivering its purpose by paying its customers and managing its assets and liabilities;
- achieving its strategic aims by maintaining a scalable and sustainable business model that optimises resources;
- acting in line with its values by providing high-quality and secure service to its customers, operating at a level of excellence;
- ensuring an operationally resilient organisation that is able to recover and maintain its core services following periods of stress;
- respecting and valuing its people, and creating a culture and environment that is purposeful, safe, diverse, and inclusive; and
- adhering to its purpose and values, including those for ESG.

Key risks to maintaining effective and resilient operations

	Operational risk
What this risk means to us	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Risk trend and outlook	Given the continued growth in PIC's balance sheet, it is important to ensure that the process and control environment keeps pace. If the controls and processes 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 level of remote working placing heightened reliance on remote and automated systems and processes. This trend looks set to continue into 2022 and beyond. While the initial transition to a remote environment could have increased 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.
How we are managing this risk	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. 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. Work continues to fully embed operational resilience across the organisation in line with regulatory expectations. This will ensure that PIC understands its core business services and is able to recover these within acceptable timeframes should incidents occur.

Cyber risk	Culture and behaviour risk	Model and data risk
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's culture or behaviour impacts our ability to deliver our purpose and business plan or leads to poor customer outcomes and reduces staff morale and retention.	The risk of loss or other detriment arising from the inappropriate design, implementation, operation or use of models or management of data.
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 in terms of both number and value.	Prolonged remote and hybrid working can lead to a loss of cross-team collaboration, increased time to complete tasks and an impact on staff mental health and wellbeing, due to the psychological distance felt when working remotely. This can impact staff morale, particularly when expectations remain high and interpersonal relationships are strained. PIC has experienced higher than usual turnover, as part of the "Great Resignation". Staff have had time to consider work-life balance and priorities and have taken advantage of a "hot" recruitment market, which in turn impacts staff morale as team members leave and remaining staff pick up additional work and recruit and train new staff.	As PIC continues to grow, there is an increasing reliance on models, supported by good underlying data, to deliver PIC's purpose and strategic aims. This has been observed over 2021 with the development of models in a number of key areas such as PIC's Internal Model, hedging and portfolio optimisation. With the increased pace of change there has also been a proportionate increase in controls and independent validation of models and data to help mitigate the risk. This trend is expected to continue into 2022 and beyond.
PIC maintains a robust IT environment to ensure the protection of its data and the 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.	Management continue to focus on staff wellbeing with online resources as well as investment in mental health first aid training. Conduct training focuses on culture and psychological safety with further work planned to articulate and develop our culture in 2022. Appraisals include a behaviour rating and HR are currently developing career pathways to see how staff are able to progress.	PIC maintains a robust framework to help mitigate model and data risk. This includes the identification and risk assessment of all models and data used within the business. The framework also sets out standards around the design, implementation, operation and use of models and their supporting data, including requirements for ongoing testing and a centralised change process which is overseen by the Risk function.

Risk management continued

Meeting External Expectations

The risk that PIC does not meet the expectations of external stakeholders resulting in it not achieving its strategic growth aims or adhering to its values. Expectations include the following:

- Customers expect PIC to pay their pensions, protect their personal data, provide market-leading customer service, act with integrity and operate in a way which is consistent with its values.
- Regulators expect PIC to manage risk and provide long-term stability and financial security for its customers in line with the regulatory framework.
- Equity investors want PIC to deliver attractive risk-adjusted shareholder returns and pay dividends, and bond holders want PIC to pay coupons on time.

Key risks to meeting external expectations

	Climate change
What this risk means to us	Climate change presents a number of significant risks across our stakeholder group, including loss of value due to asset impairment as a result of climate change factors, operational disruption and reputational consequences arising from any failure in evidencing our long-term climate actions. These could lead to reduced asset values, increased cost of capital and reduced new business volumes.
Risk trend and outlook	Climate change is an area of significant priority for the public, insurers, and regulators alike, alongside the risks and opportunities it presents. There are a number of risk drivers that PIC needs to consider: Physical risks emerging from the impacts of climate change, which may lead to increasingly acute weather catastrophes, longer term changes to resource availability and societal changes. These impacts are thought to emerge if globally we fail to hit documented emissions and temperature targets, leading to potential reductions in the value and availability of assets PIC invests in, and disruption to PIC's operations. Transitional risks are likely to emerge from the transition to a low carbon economy, and may entail extensive policy, legal, technology, and market changes to address climate change mitigation and adaptation requirements. This may impact PIC's asset portfolio, counterparties and operations. Legal and reputational risks – The recent COP26 summit has greatly increased focus on the challenges facing governments and economies transitioning to Net Zero in a meaningful timescale, and this issue is a key focus of PIC's stakeholders. There is a risk therefore that PIC does not keep pace with developments, impacting customer sentiment, business volumes and reputation.
How we are managing this risk	We are continually assessing how our business may be impacted by the above risks. Importantly, we have developed our risk management approach to identify, manage and report climate related risks to our ESG Board sub-committee, and ultimately our Board. For our systems and processes, we include adaptation or operational disruption caused by physical and transition risk associated with climate change in our risk analysis and have actively started engaging with our external providers. For the assets we invest in, we seek to manage the level of transition risk and minimise the physical risk. For example, we assess the effect of climate change on timely receipt of expected cash flows from investments, third parties and collateral arrangements; and the cost of maintaining the balance against the excess cost of obtaining additional liquidity, in both base and stress scenarios. 2022 is the first year PIC has produced a TCFD report, which outlines our approach to managing climate change across four key areas: strategy, metrics and targets, risk management and governance.

Political and regulatory risk	Conduct risk	Market conditions
The risk of political and/or regulatory intervention which may reduce PIC's value proposition or result in PIC's business model becoming unviable.	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 that adverse conditions, particularly in the credit markets, and the overall level of competition in the UK Pension Risk Transfer market mean that PIC does not meet external value expectations.
The financial services industry continues to see a significant level of regulatory focus. HM Treasury continues to review the future regulatory framework for financial services, which includes the Solvency II review. As a focused insurer, Matching Adjustment and Risk Margin reform is of key importance to PIC's business model. PIC remains engaged with this topic, monitoring the direction of travel and remaining active in lobbying. The PRA has also conducted a Quantitative Impact Study to inform Solvency II reform and policy, which will influence the calculation of the Solvency II balance sheet. The emergence of the Defined Benefit Consolidator regime for pension superfund could become a key issue for the Defined Benefit pension de-risking market, dependent on the final rules and supervisory approach of the The Pensions Regulator. Whilst defined benefit pensions remained on the political and regulatory agenda during 2021 with the pensions bill being passed, the medium to longer term outcomes from Brexit are more likely to be material to PIC.	**Policyholder outcomes:** Key risks include failure to pay policyholders correctly, to the right account and the right amount in a timely manner, and failure to communicate fairly and clearly and in a timely manner. Remote working has heightened these risks. The Financial Conduct Authority ("FCA") has published a discussion paper on the "New Consumer Duty" which places a higher expectation on firms to be more proactive in communicating with customers and ensuring they receive good outcomes. **Vulnerable customers: regulatory focus continues:** Vulnerabilities our policyholders may experience include hearing and sight impairments, bereavements, caring responsibilities and financial hardship, many of which have been exacerbated by Covid-19.	Credit risky assets are currently expensive to purchase, relative to historical levels. Additionally, the level of competition in the UK Pension Risk Transfer market remains at a high level, with all market participants actively pursuing new deals. Taken together, this presents increasing challenges for PIC to achieve the business plan.
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.	A robust conduct risk framework enabled PIC to monitor and mitigate the risk of poor outcomes throughout remote and hybrid working. Assurance activity continues to monitor and assess outcomes for policyholders. A project has been set up to enhance our vulnerable customer offering, including a full update of the website and written communications. PIC continues to ensure that we proactively manage customer vulnerabilities in line with FCA guidance. Further training was carried out with our outsourcers to ensure PIC is properly identifying and managing our policyholders with vulnerabilities.	PIC's business plan is a long term one and is not focused solely on 2022, as this is considered more useful for managing PIC's long-term business. Delivery of the business plan requires focus across a number of areas: **Sourcing assets:** PIC maintains a strong focus on sourcing new high-quality assets over the period, as well as maintaining sufficient controls, oversight and optimising the management of the growing in-force portfolio. This includes developing in-house expertise in relation to bilateral asset origination and maintenance. **Operations:** maintaining our focus on protecting the interests of existing and new policyholders; ensuring that our systems and controls continue to be of the highest quality, and scale as the business grows; and finally ensuring that our operational model can continue to manage our business-as-usual workload as well as our growth ambitions. **Maintaining pricing discipline:** we will continue to only seek new business that meets our internal financial metric hurdles rather than chasing volumes for new business. This is particularly important when credit risk assets are expensive, as they are currently. **Talent retention:** we aim to retain the individuals who have driven innovation and value creation through our growth to date while recognising that we need to add resource to meet the challenges of operating a company which is significant in scale and continues to grow.

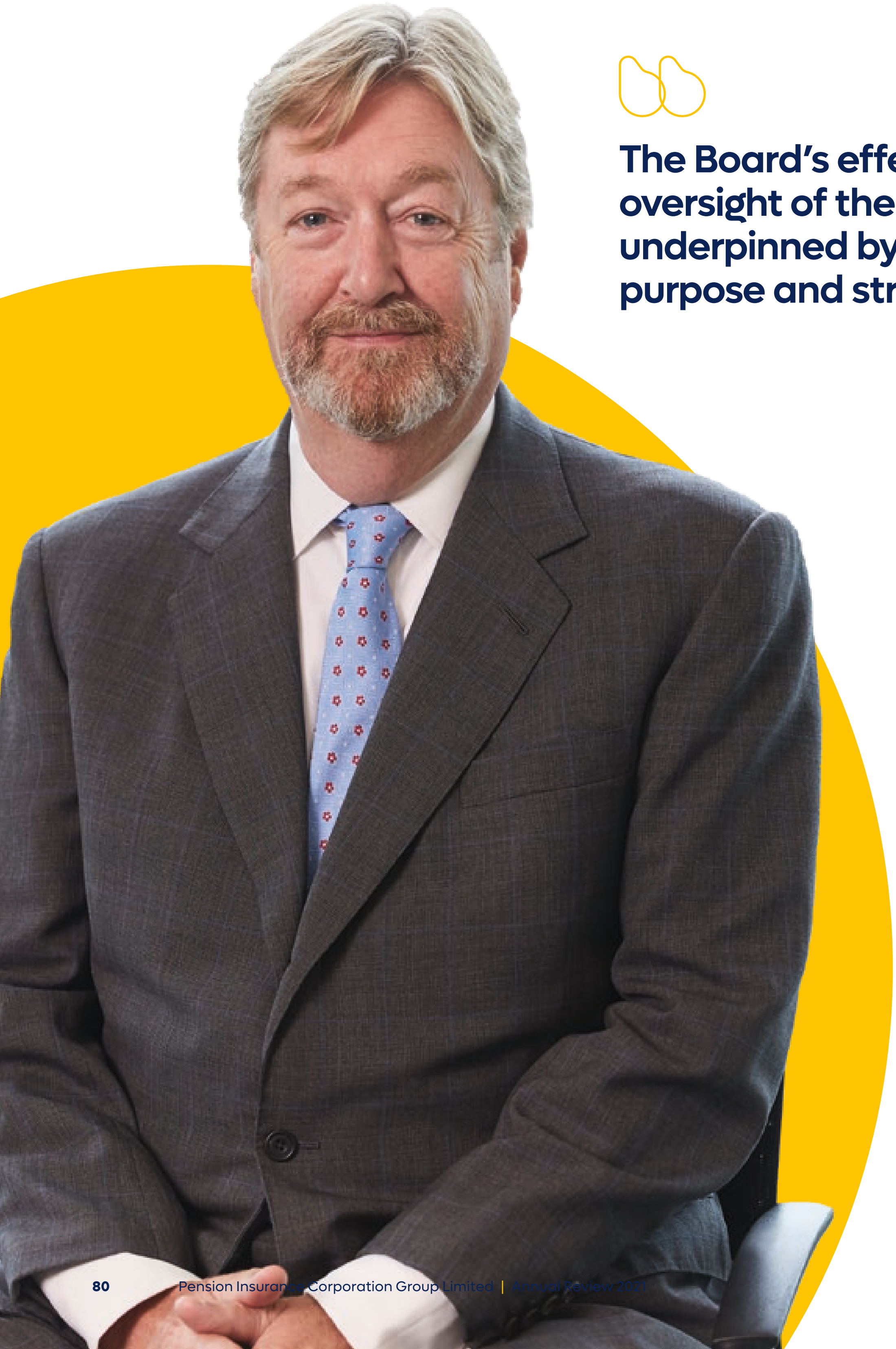
The Strategic Report on pages 1 to 78 was approved by the Board and signed on its behalf by:

Jon Aisbitt
Chairman
14 Cornhill, London, EC3V 3ND
11 March 2022

Corporate Governance.

Jon Aisbitt Chairman

Robust corporate governance is key to long term success.



The Board's effective oversight of the Group is underpinned by a strong purpose and strategy."

£1,594m
Total pensions paid in the year

98%
of employees believe PIC will be successful in the next 2-3 years

I am delighted to introduce the Group's Corporate Governance report, which details our commitment to the highest standards of corporate governance.

A robust governance framework combined with close Board oversight of the business ensures that the long-term success of the Group is based on the prudent and effective identification and management of risk.

In the following pages we explain our approach to applying the provisions of the UK Corporate Governance Code 2018 (the "Code") and how we discharge our duties under s.172 of the Companies Act 2006, including the responsibilities we have to our policyholders and all our stakeholders. The report includes Committee reports from the Audit, ESG, Investment and Origination, Nomination, Remuneration, and Risk Committees.

The Board's effective oversight of the Group is underpinned by a strong purpose and strategy. It is supported by an open culture and strong values, which are discussed regularly at Board meetings.

The Board has regular communication with management, which allows close scrutiny of the Group's focus on long-term value creation. It also allows constructive challenge and support to ensure the Group is effectively balancing stakeholder interests, a key priority for the Board. More detail on how the Board takes 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 and 97 of this section, which complements our s.172 statement in the Strategic Report on pages 40 to 43.

The increasing contribution that the Group makes to the economy and to society as a whole remains a key consideration for the Board, not least because of the increased focus on ESG factors. In December 2021, we established a new Board Committee, the ESG Committee, which I also chair. This Committee is intended to oversee and bring together the Group's ESG priorities in a coherent way, complementing the work of other Committees. In addition, the Board and its Committees spent considerable time in 2021 on ESG considerations within the portfolio, as well as more specific discussions on the impact of climate change.

The Board completed an internal Board effectiveness review during 2021 to ensure it also evaluates its own performance. More information on the conclusions and the recommendations can be found on pages 91 to 93 of this Annual Report.

The Board

The Board of Directors of PICG consists of 13 Directors, of whom seven are independent, five are shareholder nominated, and one is the Chief Executive Officer. The Board of PIC consists of 14 Directors, of whom eight are independent, four are shareholder nominated, 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 82 to 85 of this Annual Report.

Jon Aisbitt
Chairman
11 March 2022

Board of Directors

Jon Aisbitt
PICG & PIC Director
Chairman of the Board

N E IO R

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 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 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.

Dom Veney
PIC Director
Chief Financial Officer[1]

Date of appointment: Dom was appointed to the Board as an Executive Director in December 2021.

Background and career: Prior to joining PIC, Dom spent more than 15 years with PwC working across many leading Life insurers including Phoenix, Prudential, Legal & General, Standard Life, Swiss Re and HSBC Life. Dom also led on a number of regulatory driven projects most recently related to the introduction of IFRS 17, for which he coordinated PwC's global response.

Dom is a Fellow of the Faculty and Institute of Actuaries and holder of an AFH/Reviewing Actuary Practising certificate since 2011. He holds a degree in Mathematics from Warwick University.

Areas of expertise: Dom has over 20 years' experience in the life insurance sector and has an in-depth knowledge of insurance financial and capital management, and regulatory affairs. He also has significant experience in finance restructuring projects.

Current external roles: Dom serves in an advisory capacity to the Financial Reporting Council.

1 Rob Sewell retired from the Board as of 9 December 2021.

Sally Bridgeland
PIC Director
Independent Non-Executive Director

Ri A E

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 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, Royal London Mutual Insurance Society Ltd and Royal & Sun Alliance Insurance. Sally is an Honorary Group Captain in 601 Squadron of the Royal Auxiliary Air Force.

Key

- Chair
- N Nomination Committee
- R Remuneration Committee
- E Environmental, Social and Governance Committee
- A Audit Committee
- IO Investment and Origination Committee
- Ri Risk Committee

Jake Blair
**PICG & PIC Director
Independent
Non-Executive Director
Shareholder nominated by HPS**

IO

Date of appointment: Jake was appointed to the Board in June 2021.

Background and career: Jake is a Managing Director at HPS Investment Partners. Prior to joining HPS in 2007, he served as a Vice President in General Electric's Commercial Finance Distressed Debt Group, where he invested in distressed leveraged loans and was involved in numerous workouts on behalf of GE Capital. In 2000, Jake founded CampInteractive, a Bronx-based non-profit, where he served as Executive Director for four years.

Jake holds a BA from Washington & Lee University and an MBA from Columbia Business School.

Areas of expertise: Jake has over 20 years' experience in the financial services industry, in particular in investment management with an in-depth focus on credit.

Current external roles: Jake is a Managing Director at HPS Investment Partners and represents HPS as a board member of Acra Lending Holdings, Spectrum Automotive Holdings, and Canaccord Genuity Wealth Management UK.

Judith Eden
**PICG & PIC Director
Independent
Non-Executive Director**

R Ri E

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

Julia Goh
**PICG & PIC Director
Independent
Non-Executive Director**

IO

Date of appointment: Julia was appointed to the Board in October 2021.

Background and career: Julia has over 25 years of broad-based financial services experience in London. She was a Managing Director at Barclays Investment Bank from 2010 to 2018 in various senior front-office positions including as Chief Operating Officer of Global Markets, and was also Chair of the Barclays Women's Initiative Network. Prior to that, she was a Managing Director and the Global Head of Prime Services Risk at Credit Suisse for 11 years, where she was also Chair of the Equities Diversity Advisory Council. Julia started her Markets career at Nomura International as a risk manager. A Singaporean, she came to London in 1987 for her BSc at the LSE, followed by five years with PwC in corporate tax, qualifying as a chartered accountant, before obtaining her MSc in Mathematical Trading and Finance. She is a member of ICAEW and has a Certificate in Company Direction from the Institute of Directors.

Areas of expertise: Julia has significant senior front-office experience with specific expertise in Markets (Sales & Trading), Hedge Funds, Structured Products, Risk Management and Internal Controls, especially at times of business transformations and change.

Current external roles: Julia is an independent Non-Executive Director of Schroder AsiaPacific Fund plc, a director of the charity Children of the Mekong and is board adviser of the Handbag Clinic.

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 a Partner at CVC Capital Partners, based in London and is 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 external roles: Tim represents CVC and currently sits on the boards of entities of the following groups: Asplundh Tree Expert LLC, the RAC Group and Riverstone International. He also acts as a Trustee of the London Youth Games Foundation.

Board of Directors continued

Stuart King
PICG & PIC Director
Independent
Non-Executive Director

A Ri N R

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 the 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 external roles: Stuart remains an external adviser for financial services firms. He is also a trustee to Emerge Advocacy, a charity which works with young people with mental health difficulties and provides mentoring to them.

Arno Kitts
PICG & PIC Director
Independent
Non-Executive Director

IO Ri E

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

Josua Malherbe
PICG Director
Non-Executive Director
Shareholder nominated by Reinet

N R

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 PwC. 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 external roles: Josua is Deputy Chairman of Compagnie Financière Richemont S.A. and is a director at Remgro Limited and Reinet Investments S.C.A.

Roger Marshall
PICG & PIC Director
Senior Independent
Director

A Ri E

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

Background and career: Roger 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. He was Chair of the Accounting Standards Board and a director of the Financial Reporting Council. He also served on the board of the European Financial Reporting Advisory Group and was interim President. He is a Fellow of the ICAEW and Honorary Fellow of the Chartered Institute of Internal Auditors.

Areas of expertise: Roger's career at PwC and his subsequent non-executive roles have given him substantial skills and experience in accounting, risk management, compliance and audit in the financial services industry.

Key

Chair
N Nomination Committee
R Remuneration Committee
E Environmental, Social and Governance Committee
A Audit Committee
IO Investment and Origination Committee
Ri Risk Committee

Jérôme Mourgue D'Algue
PICG & PIC Director
Non-Executive Director
Shareholder nominated by Luxinva

N IO

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. He became Head of Financial Services in the Private Equity Department in 2017 and is now Head of EMEA and Americas for Private Equity.

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

Current 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.

Peter Rutland
PIC Director
Non-Executive Director
Shareholder nominated by CVC

R IO

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 external roles: Peter represents CVC and is a member of boards representing the following groups: Newday, Domestic & General, Paysafe, TMF and Riverstone International.

Mark Stephen
PICG & PIC Director
Independent Non-Executive Director

A N R

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

Background and career: Mark has worked in the insurance industry for over thirty years. He currently has a portfolio of independent non-executive director roles across the industry. Following a degree and research career in life sciences he qualified as a chartered accountant before joining Price Waterhouse. As a partner at PwC he led the insurance consulting business and latterly was UK Insurance Industry leader. Throughout his career he maintained a strong client focus and worked with many of the leading insurers in the UK, Switzerland and South Africa. He retired from the partnership in 2013.

Areas of expertise: Mark's experience is in advising and working with insurance company boards on many aspects of business performance, including how they adapt to the changing regulatory and business landscape. He has extensive experience of financial and actuarial transformation and has worked with both outsourcers and insurance companies on structuring and improving outsourcing arrangements.

Current external roles: Mark serves as a director of TransRe London Limited and Chairs the Investment Committee, he also Chairs the Audit and Remuneration Committees at Howden Group Holdings Limited. In 2021 he was appointed to Openwork Holdings Limited where he Chairs the Audit Committee.

Wilhelm Van Zyl
PICG & PIC Director
Non-Executive Director
Shareholder nominated by Reinet

Ri IO

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

Corporate Governance report

Governance Code compliance

The Board is committed to 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 Group was compliant with all of the principles of the Code during the financial year ended 31 December 2021. However, as the Group is a private company it does not comply with a number of provisions of the Code and some are not applicable. The Group is continuing to work towards full compliance with the provisions of the Code, where applicable. A copy of the Code can be found on the Financial

Reporting Council's website at www.frc.org.uk and the table on page 87 provides signposting to how we have complied with the Code.

Leadership

Pension Insurance Corporation Group Limited ("PICG" or the "Group") 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 in the attendance table on page 91. 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 of the Board in this report refers to the PICG Board, unless stated otherwise. The Directors have the benefit of the Group'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 82 to 85.

The Board believes that good governance, strong values and the right culture enables the Group to do what is right for our policyholders, employees, shareholders and other stakeholders. The Board looks to and applies the principles of the Code as the basis of how the Group should be governed.

The primary role of the Board is to provide effective leadership, to ensure that the Group is appropriately managed and delivers long-term shareholder value, while making a contribution to wider society. A key responsibility of the Board is to define, promote and monitor the Group's culture and values. The right culture enables the delivery of the Group's strategy and business model by promoting attitudes and behaviours of high ethical standards and integrity, as set out in the Group's values. The Board sets the tone through ongoing dialogue with management and employees and holds senior management to account where there is a misalignment of the existing culture with the Group's purpose and values.

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 all of the Group's stakeholders, as well as its broader duties under s.172 of the Companies Act 2006. The Group's formal s.172 statement can be found on pages 40 to 43 of this Annual Report and pages 96 and 97 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 the Code. The PICG Board and PIC Board are both comprised of a majority of independent NEDs ("INEDs") including the Chairman.

All 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. 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. An external evaluation took place in 2020, so for 2021 the Board conducted an internal evaluation.

The process entailed the completion of a questionnaire for the Board and each Committee, with the results being discussed by the Nomination Committee and then the Board. 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. More detail on the Board effectiveness review is included on pages 91 to 93.

Code Principles explanation references

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

Principle reference	
1. Board Leadership and Company Purpose	
A	page 87
B	page 87
C	page 99
D	pages 44-47, 96-97
E	pages 54-59
2. Division of Responsibilities	
F	page 88
G	page 88
H	page 92
I	page 88
3. Composition, Succession and Evaluation	
J	pages 91, 106-107
K	pages 82-85, 91-92
L	pages 92-93
4. Audit, Risk and Internal Control	
M	page 99
N	pages 99-100
O	pages 114-116
5. Remuneration	
P	pages 109-113
Q	pages 109-113
R	pages 109-113

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 Group's governance framework. It does this by setting Group strategy, ensuring appropriate standards, controls and resources are in place for the Group to meet its obligations and reviewing management's performance. Part of this process is ensuring that the right resources are in place to enable these to 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 2022 are to ensure that it remains effective and has all the relevant skills and experience to continue to provide strong direction and leadership and maintains an appropriate focus on operational effectiveness and controls as the Group continues to grow and evolve.

The Board maintains a formal schedule of matters specifically reserved for its decision, to ensure there is a clear division of responsibilities between the Board and the running of the business, 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 the Board and 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 PICG and PIC 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 Group are aligned so that it is successful in achieving its purpose, whilst at the same time generating value for shareholders and contributing to wider society.

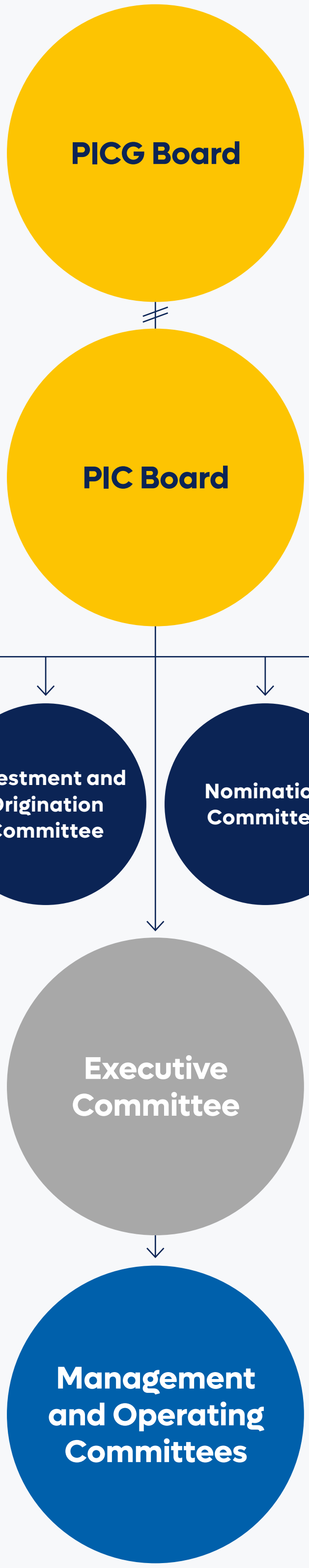
The Board agrees the responsibilities of the Directors and the Company Secretary, and these are set out further below:

Roles and names	Responsibilities
Chairman Jon Aisbitt	Jon is responsible for the leadership and effectiveness of the Board. 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, as well as evaluating their performance. Together with the CEO and Company Secretary, he sets the agenda for Board meetings, and he facilitates open and constructive dialogue during those meetings. Jon also plays an important role in ensuring the Group 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 is supported by a strong and experienced Executive Committee, and together with her leadership team Tracy proposes and develops the Group's strategy and overall commercial objectives 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, and outsourcing arrangements.
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. He is also available 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. Roger, in his capacity as SID, meets 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") Dom Veney	Dom 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 Jake Blair Sally Bridgeland Judith Eden Tim Gallico Julia Goh Stuart King Arno Kitts Josua Malherbe Jérôme Mourgue D'Algue Peter Rutland 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.
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 good information flow between the Board, its Committees, senior management and NEDs.

Governance and control framework

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

The membership of the Committees is carefully determined by the Board on recommendation from the Nomination Committee to ensure there are the right skills, experience and knowledge on each Committee but there is also a cross membership between the Committees. Such approach facilitates appropriate oversight of the entire business and a good information flow between the Committees.



Corporate Governance report continued

Delegation

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

- the Audit Committee;
- the Risk Committee;
- the Nomination Committee;
- the Remuneration Committee;
- the Investment and Origination Committee; and
- the Environmental, Social and Governance 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 98 to 118.

The Investment and Origination Committee considers matters specific to PIC. The five remaining Committees consider matters concerning both PICG and PIC, as per the delegations in their terms of reference. Members of the Committees are appointed by the Board on recommendation of the Nomination 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 senior management with business management and oversight of the Group 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. There is also regular communication and interaction with management, including monthly updates. Prior to each meeting, the Chairman and Company Secretary ensure that the Directors receive accurate, clear and timely information, to facilitate focused, robust and informed discussions and to aid the decision-making process.

Board meetings follow a clear agenda that is agreed in advance by the Chairman, in conjunction with the CEO and Company Secretary. At each meeting the Board receives updates from the CEO and CFO, as well as from other members of the senior management. 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 94 and 95.

Attendance by Directors at Board and Committee meetings

In 2021, there were seven scheduled PICG Board meetings and two ad hoc meetings. The PIC Board held eight scheduled PIC Board meetings and six ad hoc meetings.

The table below shows the attendance by Directors of 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 and Committee members.

Director	PICG Board	PIC Board	Audit Committee	ESG	Investment and Origination Committee	Nomination Committee	Remuneration Committee	Risk Committee
Jon Aisbitt	7/7	8/8	–	1/1	4/4	5/5	5/5	–
Tracy Blackwell	7/7	8/8	–		–	–	–	–
Dom Veney[1]	–	–	–		–	–	–	–
Jake Blair[2]	4/4	4/4	–		–	–	–	–
Sally Bridgeland[3]	-	7/7	5/5	1/1	–	–	–	4/4
Judith Eden	7/7	8/8		1/1	–	5/5	5/5	5/5
Tim Gallico	7/7	–	–		–	–	–	–
Julia Goh[4]	1/1	1/1	–		–	–	–	–
Stuart King	7/7	8/8	5/5		–	–		5/5
Arno Kitts	7/7	8/8	–	1/1	4/4	–	–	5/5
Josua Malherbe	7/7	8/8	–		–	5/5	5/5	–
Roger Marshall	7/7	8/8	5/5	1/1	–	–	–	5/5
Jérôme Mourgue D'Algue	7/7	8/8	–		4/4	5/5	5/5	–
Peter Rutland[5]	–	7/8	–		4/4	5/5	5/5	–
Steve Sarjant[6]	–	2/2	2/2		–	–	–	2/2
Rob Sewell	–	8/8	–		–	–	–	–
Mark Stephen	7/7	8/8	5/5		–	5/5	5/5	–
Wilhelm Van Zyl	7/7	8/8	–		4/4	–	–	5/5

1 Dom Veney was appointed to the PIC Board on 10 December, and during the year attended all Board, Audit, Investment and Origination, and Risk Committee meetings in his role as Chief Actuary.
2 Jake Blair was appointed to the PICG and PIC Boards on 7 June 2021.
3 Sally Bridgeland was appointed to the PIC Board on 28 January 2021 and succeeded Steve Sarjant as Chair of the Risk Committee on 1 April 2021.
4 Julia Goh was appointed to the PICG and PIC Boards on 1 October 2021.
5 Peter Rutland did not attend the PIC Board meeting in March 2021 due to prior commitments.
6 Steve Sarjant retired from the PIC Board and as Chair of the Risk Committee on 31 March 2021.

Board composition and effectiveness

The PICG Board comprises the same Chairman and CEO, as well as 11 Non-Executive Directors, six of whom are independent and five nominated by major shareholders. The PIC Board is currently composed of a Chairman, CEO, CFO and 11 Non-Executive Directors, seven of whom are independent and four of whom have been nominated by major shareholders of the Group. In March 2021 Steve Sarjant retired from the PIC Board and was succeeded on the PIC Board by Sally Bridgeland and as the Chair of the Risk Committee. Jake Blair was appointed a Director of the PICG and PIC Boards as an HPS Investment Partners nominated Director in June 2021. In October 2021, Julia Goh was appointed a Director of the PICG and PIC Boards. On 9 December 2021, Rob Sewell retired as the Chief Financial Officer and Director of the PIC Board, and was succeeded by Dom Veney from 10 December 2021.

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 Group 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, accounting and financial services sector experience is clearly of benefit, and this is reflected in the composition of the Board and its Committees.

Corporate Governance report continued

During the year, the Chairman and the NEDs met without the Executive Directors, and the NEDs met without the Chairman present. The Board has increased its diversity in terms of gender and ethnicity following recent Director appointments, but it remains aware that it currently does not meet best practice initiatives regarding the percentage of women on the Board. The Board will continue to take steps where possible to increase its diversity.

Induction and ongoing training and development

The Board has developed an induction programme for all new Directors to be undertaken upon joining. This programme is monitored by the Chairman and is the responsibility of the Company Secretary. The programme is tailored to the new Director's qualifications and experience, and includes presentations, briefings, and meetings with Board members, senior management and external advisers. 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 and senior management.

The ongoing professional development of the Directors is regularly reviewed by the Board and its Committees. The Chairman reviews and agrees training and development needs with each of the Directors annually. Directors also 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.

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. 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, climate change risk, emerging risks, the Diversified Capital Fund, IFRS 17, hedging and inflation, and the pricing process.

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 Group to discharge their responsibilities effectively. The external commitments of the Chairman and the other Directors are indicated in their profiles on pages 82 to 85 and the Company Secretary maintains a record of all external appointments held by the Directors. In addition, Directors are required to consult with the Chairman as early as possible on any new external appointment. 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 annual evaluation of its effectiveness in order to identify areas for development. Following the external evaluation in 2020 by Clare Chalmers Limited, the 2021 evaluation was conducted internally.

The following strengths and areas for development were identified from the 2021 evaluation:

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 skills and good challenge. They provide 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, ethnic and wider diversity.
- Increase the time spent on people and the cultural aspect of the business.
- Further review mechanisms and processes around executive succession planning.
- Incorporate technical topics into the Board's training programme which were highlighted in the review.

The Board ensures that the culture and values of the group are aligned so that it is successful in achieving its purpose, whilst at the same time generating value for shareholders and contributing to wider society.”

Areas for Board development from 2020 evaluation	Actions taken during 2021
Progress against Board's Diversity Policy	Three new Directors have been appointed during 2021, two INEDs and one shareholder nominated Director. The appointments have increased the Board's gender and ethnic diversity.
Improve mechanisms for performance review and feedback	The Chairman holds regular one-to-one meetings with the other Directors to discuss performance review and provide feedback.
Review executive succession	The Nomination Committee has focused on this area and has held a number of sessions on succession planning, both at Board and executive level.

Conflicts of interest
The Board has established a procedure to deal with Directors' conflicts of interest which complies with the Group's Articles and the provisions in s.175 of the Companies Act 2006. Schedules of a Director's actual or potential conflicts are compiled based on disclosures made by the Director and reviewed on an annual basis. Additionally, any conflicts or potential conflicts are considered at the beginning of all Board and Committee meetings.

Accountability
The Board, through the Audit and Risk Committees, receives reports regarding the Group's risk management and internal control systems. It has reviewed the Company's financial and business reporting, the effectiveness of the Group's systems of risk management and internal control, and the Group's relationship with its auditors, the details of which are set out in the Audit and Risk Committees' Reports on pages 98 to 102 and 114 to 116.

Modern Slavery Act 2015
The Group has a Modern Slavery Statement, which is reviewed and approved by the Board annually. The Modern Slavery Act Statement is available on the Group's website: www.pensioncorporation.com/about-us/modern-slavery-statement/.

The Group 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 Group operates an Anti-Bribery and Corruption Policy to prevent and prohibit bribery, in line with the Bribery Act 2010. The Group 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 2021. 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 Group; and
- the consequences of any breaches of the policy.

Whistleblowing arrangements
The Group has a policy which enables and encourages employees to report in confidence any possible improprieties in either financial reporting or other matters. The SID guards the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing.

Remuneration
Details of the Directors' remuneration and the work of the Remuneration Committee can be found on pages 109 to 113.

Board activities.

The Board has led the business's ongoing response to the Covid-19 pandemic and in addition to the regular matters that the Board discusses at each meeting, there were several key strategic and operational topics the Board considered during regular and ad hoc Board meetings. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006 as outlined on pages 40 to 43. The key deliberations are listed opposite:

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.
- New business transactions above a defined threshold require Board approval, and the Board considered and approved a number of new business transactions during 2021.
- Discussed culture in the context of how it affects the Group's strategy.
- Approved the Group's new brand and corporate identity.
- Approved the Group's Net Zero commitment and signed up to the Net Zero Asset Owner Alliance.
- Considered the Group's pricing assumptions against investment outcomes.
- Approved the Credit Model Change application to the PRA.
- Continued to provide oversight of the Group-wide, comprehensive programme 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, management information and technology.

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.
- Closely oversaw PIC's 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 Own Risk and Solvency Assessment.
- Provided oversight of the implementation of the Group's hedging strategy including the establishment of a specialist Capital Planning and Hedging Committee by management.
- Regular reports were made to the Board on the progress of regulatory 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.
- Continued its focus on conduct risk and vulnerable customers.
- Continued its focus on PIC's regulatory engagement.
- Approved the updated recovery and resolution plan.

Employees and remuneration

- Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, working arrangements and adjustments made to PIC's offices and working in the post-pandemic world.
- Approved the launch of the Group's share schemes for the year as an important way for the Group to engage with its employees.
- An employee survey was completed with the Board discussing the results and what their significance is for the Group's culture and strategy as well as the future ways of working.
- Received a report on the gender pay gap.
- Approved annual remuneration parameters, NED and senior management remuneration, taking into account all stakeholders' interests and business priorities.

Financial reporting and controls

- Approved the full year Annual Report and Accounts.
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee.
- Monitored the Group's progress in respect of the implementation of IFRS 17.
- Approved the Whistleblowing Policy and reviewed the Whistleblowing report.
- Approved the Modern Slavery Statement.
- Reviewed the Annual Opinion from the Head of Internal Audit on the effectiveness of the Group controls, risk management and governance processes, and culture.

Corporate governance

- Approved the appointments of an additional independent Non-Executive Director and a Non-Executive Director on recommendation of the Nomination Committee to the PIC and PICG Boards.
- With assistance from the Nomination Committee, undertook a search for a new CFO to succeed Rob Sewell, and approved the appointment of Dom Veney as the new CFO.
- Discussed the composition of the Board and Committees, which resulted in changes to the Committees' membership.
- Considered the results of an internal Board effectiveness review in 2021 as disclosed in this report.

Corporate Governance report continued

Stakeholders and the Board

PIC's aim is to provide secure and stable retirement incomes through best-in-class 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.

Pages 44 to 47 of the Strategic Report set out who our stakeholders are, how we have engaged with them as a business, and how stakeholder needs are at the core of our decision making.

Further detail on how the Board engaged with our stakeholders during the year to fulfil its duties under s.172 of the Companies Act 2006 is included in further sections below and on pages 40 to 43.

Supporting the Board's commitment to stakeholders

PIC takes the views of its stakeholders seriously, especially when taking business decisions. In particular, 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 42 and 43 in the s.172 statement of this Annual Report.

The Company has a schedule of matters reserved for the Board which ensures 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 pages 87 and 88 in the section "The Board and its responsibilities".

Combined with a robust agenda-setting process and annual planner, this schedule helps the Group to make sure that decisions are made at the right level and that stakeholder impacts are an intrinsic part of the decision-making process. The Board is supported in its work by six Board Committees, whose responsibilities are delegated by the Board and are described on page 90.

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 44 to 47. 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 Group 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 the utmost importance on our stakeholders and takes an active role in engaging with them, including at our Policyholder days, which continue to be held virtually. The Board and PIC employees are looking forward to being able to hold these days in person once more. The main activities of the Board with regard to stakeholder engagement are shown below.

Stakeholder	Outcome of our business model for our stakeholders
Suppliers	The Board recognises the importance of 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.
Shareholders and debt holders	The Annual Report, Half Yearly Results, Solvency and Financial Condition Report, Task Force on Climate-Related Financial Disclosures Report, the Environmental, Social and Governance Report, and RNS updates are available throughout the year and these provide information on the Company's activities and financial information. The Board and its Committees are part of the process ensuring this information is accurate, fair, balanced and accessible to our stakeholders. Major shareholders' views are voiced to the Board and management through their nominated Directors on the Board. Further, the Board has ongoing interactions with employees who are the largest group by number of shareholders.

Stakeholder	Outcome of our business model for our stakeholders
Regulators and policymakers	PIC is subject to regulation and supervision by regulatory authorities in the UK, most notably the FCA and the PRA. The Board and its Committees are kept updated on PIC's interactions with the regulators and receive 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 the 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, but due to the ongoing pandemic we could not hold these events in person in 2021. This year we held a live "Policyholder Hour" event online, hosted by the CEO who spoke with PIC employees about how we look after our policyholders. There was also a panel discussion on PIC's investment strategy, including responsible investing, ESG and climate change issues. During the hour, we invited policyholders to submit their questions for the PIC management panel to answer. The event also included videos from our policyholders, who shared their inspiring stories of what they have been up to in their retirement. The Board continued to receive regular reports on vulnerable customers and how PIC acts 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 continued attending 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 employees at Board and Committee meetings and engagement outside of meetings on a variety of initiatives. The CEO has recorded a number of conversations with our Non-Executive Directors which have been shared with PIC employees. These conversations cover a wide variety of topics, including how the Board assesses risk, the ESG challenges we face, the current economic conditions and challenges these bring for PIC, why our major shareholders have invested in PIC, and what's important to them, as well as personal stories from the Directors. The Board receives regular updates from the Chief People Officer, which includes any employee issues as well as updates on the results of the annual employee survey. The views and feedback are taken into account by the Board in its decisions affecting employees, e.g., in respect of remuneration and benefits, approval of the budget and the business plan, and the planned return to the workplace.
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 variety of social housing counterparties and provides financing to them which enables the development of new homes for social rent. PIC also provides financing to counterparties who are involved in the development of renewable energy projects. The Board is part of the approval of any new strategies and the ongoing oversight of direct investments to ensure they provide good outcomes for communities, for PIC and for its policyholders.

Audit Committee report
Roger Marshall Chair of the Audit Committee

… we continued our heightened focus on the Group's risk management and internal control frameworks to ensure these were not adversely impacted by remote working, and to ensure these remained resilient during times of uncertainty caused by the ongoing pandemic."

I am pleased to present this year's Audit Committee report, which gives insights into the work carried out by the Audit Committee (the "Committee") and our discussions during 2021.

We welcomed Sally Bridgeland as a member from 28 January 2021. She replaced Steve Sarjant following his planned retirement; although Steve remained on the Committee until 31 March to see us through the year end process.

The Committee met five times in 2021; we held our meetings remotely in the first half of the year and resumed meeting in person in the second half. We followed our planned annual programme which included a report from the Head of Internal Audit on the effectiveness of the Group's controls, risk management and governance processes, on outcomes of any significant audits, and proposed improvements and mitigating actions agreed with management. We provided oversight of financial reporting, related methodologies and underlying assumptions, and received regular updates from our External Auditor, KPMG LLP.

During the year we met in private sessions with both the Head of Internal Audit and the External Auditor. These meetings allow for open dialogue around any issues covered by the Committee. There were no significant concerns raised by either of them.

Unsurprisingly, we continued our heightened focus on the Group's risk management and internal control frameworks to ensure these were not adversely impacted by remote working, and to ensure these remained resilient during times of uncertainty caused by the ongoing pandemic.

A considerable amount of time and focus has been given to the oversight of transformational projects such as the Finance Change Programme I mentioned last year and which continued in 2021, and progress made in relation to the IFRS 17 implementation. Due to the technical nature of the IFRS 17 work, we decided that it needed more of our time and attention and we have established a sub-committee of the Audit Committee to closely oversee progress. Further sections of this report explain more about the sub-committee composition and scope.

Roger Marshall
Chair of the Audit Committee

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

Roger Marshall (Chair)	**5/5**
Sally Bridgeland	**5/5**
Stuart King	**5/5**
Mark Stephen	**5/5**

Steve Sarjant stepped down as Committee member and retired from the PIC Board on 31 March 2021. Prior to stepping down, Steve attended 2/2 scheduled meetings.

Sally Bridgeland became a Committee member on 28 January 2021.

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year end 31 December 2021 is set out in the table on page 98.

Other regular attendees at Committee meetings during 2021 included: Chairman of the Board, CEO, CFO, Chief Risk Officer, Chief Actuary, Actuarial Function Holder, General Counsel, Head of Internal Audit and Wilhelm Van Zyl, a shareholder nominated Director.

The Committee was in place throughout the financial year ended 31 December 2021, and was 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. Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. On 28 January 2021, Sally Bridgeland joined the Committee as a member and succeeded Steve Sarjant, who retired from the Committee and the PIC Board on 31 March 2021. There were no further changes to the Committee membership during the year.

For more information on the Committee members please see **p82–85**

The Chair of the Committee reports to subsequent meetings of the Board on key areas of focus. The Board also receives a copy of the minutes of each Committee meeting.

Responsibilities of the Committee

The Board has established the Committee in fulfilling its responsibilities regarding financial reporting, the effectiveness of internal controls and risk management systems, processes and compliance matters. The Board has delegated to the Committee the responsibility for overseeing the following key areas:

Financial reporting

- Monitoring and, where necessary, challenging the Group's financial reporting processes including key accounting issues and judgements as well as methods and assumptions used in the valuation of the technical provisions under Solvency II and suggested basis including prudential margins for the technical provisions under IFRS.
- Reviewing and, where necessary, challenging all material information presented in the Annual Report and Accounts before these are approved by the Board.
- Providing oversight of progress towards implementation of IFRS 17 and the financial impact on the Group's reporting.
- Reviewing the Group's assessments of going concern, longer-term prospects and viability of the business and reviews of any applicable material which the Committee is required to review under the Group's and the Company's Reporting and Disclosure Policy.

Internal controls and risk management systems

- Overseeing and assessing the framework, effectiveness and adequacy of the Group's systems of internal control, including key financial, operational and compliance controls. The Committee meets regularly with management, the Chief Risk Officer, the General Counsel and the Head of Internal Audit to ensure management take action to address any issues arising from this review.
- Overseeing the validation process of the regulatory balance sheet and jointly with the Risk Committee making appropriate recommendations to the Board.
- Liaising closely with the Risk Committee, ensuring that there are steps to identify and mitigate any significant risk to the Group.

Compliance, Financial Crime and Whistleblowing

- Reviewing the Group's compliance policies and procedures as part of oversight of the Group's compliance with relevant regulatory and legal requirements, including the arrangements in place for the reporting and investigation of concerns and for ensuring fair customer outcomes.
- Reviewing the adequacy of the Group's whistleblowing policies and procedures ensuring that such arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- Reviewing the Group's procedures for detecting fraud, systems and controls for prevention of bribery and market abuse.

Internal Audit and External Audit

- Overseeing and monitoring the role and effectiveness of the Group's Internal Audit function including approving the annual internal audit plan, monitoring the reports arising from internal audits and the status of actions resulting therefrom.
- The appointment or removal of the Head of Internal Audit.
- Managing the relationship with the External Auditor, monitoring and reviewing its independence, objectivity and performance, and leading the tender process or Senior Statutory Auditor change.
- Considering and making recommendations to the Board on the appointment of the External Auditor (including approving the remuneration and terms of appointment) as well as reviewing the External Auditor's annual audit programme and the results therefrom.
- Reviewing the policy on non-audit services carried out by the External Auditor.

Activities during the year

During the financial year, the Committee held five meetings. 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 appropriateness of the Group's key accounting policies, issues and significant judgements related to the financial statements as well as half year and year end valuation basis and assumptions.
- Reviewed the process and stress testing undertaken to support the Group's viability and going concern statements.
- 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, understandable and provide the necessary information for the shareholders to assess the Company's position, performance, and its business model and strategy.
- Provided oversight of and reviewed the process of valuation of financial assets, subject to internal valuation, and investment property.
- Received reports and updates from the Actuarial Function Holder in respect of validation of technical provisions and year end basis and assumptions.
- Approved the PICG half year report, and the Solvency and Financial Condition Report.
- Reviewed the Transitional Measures and Technical Provisions recalculation assessment.

Internal controls and risk management

- Continued its heightened focus on the Group's control environment, being cognisant of the impact of the Covid-19 pandemic and ongoing remote working.
- Reviewed the Internal Model Consolidated Annual Validation Report.
- Received the annual 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, the Finance Change Programme and progress made towards the implementation of IFRS 17.
- Received a comprehensive update on the Group's strategy and approach to cyber risk and associated IT control environment.

Internal Audit effectiveness review process

Tailored online questionnaire

The questionnaire is based on the Internal Audit Code of Practice

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Stakeholders

- Members of the Audit and Executive Committees
- Stakeholders liaising with Internal Audit as part of internal audits

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Results

The report was shared with the Committee and discussed in a private session

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Outcome

The Committee reviewed the results and concluded that the Internal Audit function is effective and that its strategy is in line with best practice.

Compliance, financial crime and whistleblowing:

- Received and reviewed regular reports from the Compliance function in relation to financial crime, whistleblowing, and data protection. The Committee discussed the controls and mitigating actions which have been deployed to support the Group's compliance culture and strategy.
- Approved the 2022 annual Compliance Monitoring Programme and reviewed the Money Laundering Reporting Officer's report.
- Received updates on regulatory interactions.

Other matters

- Reviewed and approved its terms of reference and annual programme.
- Reviewed and approved various policies within the Committee's remit and approved the Group's Tax Strategy.

Internal Audit and Integrated Assurance Plan

The Committee monitors the activity, role and effectiveness of the Group's Internal Audit function and is responsible for the appointment or removal of the Head of Internal Audit. The Committee meets regularly with management, the Chief Risk Officer, the General Counsel and the Head of Internal Audit to review the effectiveness of internal controls, risk management and compliance processes. Each year an annual integrated assurance plan which covers the internal audit plan, the Compliance Monitoring Programme and Risk reviews, is presented to the Committee, which reviews and challenges, if necessary, before recommending it to the Board for approval. The annual integrated assurance plan helps the Board in discharging its responsibilities of oversight of the Group's systems of controls and risk management. The Committee reviewed and approved the 2021 Internal Audit Plan and 2021 Compliance Monitoring Programme; it also recommended the 2022 Integrated Assurance Plan to the Board.

Internal Audit effectiveness review

Each year the Committee reviews the effectiveness of the Internal Audit function. The process is based on the Internal Audit Code of Practice and is conducted by a tailored online questionnaire which is completed by relevant stakeholders. The Committee considered the results of the review and is satisfied that the quality, experience and expertise of the Internal Audit function is appropriate for the Group, and was pleased to see that progress was made during the year in recruiting additional Internal Audit resources to keep up with the growth of the PIC Group.

External Auditor

KPMG has been the auditor for the Group for the last 15 years, with a tendering process completed in 2016. The Committee annually reviews the performance of the External Auditor and in 2021 continued to monitor progress against any actions arising from the review conducted in Q4 2020. It further assessed that it was satisfied with the quality of the audit work completed and that the challenge from the External Audit team was at a satisfactory level.

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

KPMG has reported to the Committee regularly and has provided assurance that there has not been a detrimental impact to audit resourcing arising from Covid-19 on the 2021 audit.

During the year, the Committee 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.

Audit Committee report continued

Significant issues throughout the year

One of the key focuses and significant issues dealt during the year has been continued oversight of the Finance Change Programme and progress towards implementation of IFRS 17. The Committee has established a sub-committee whose scope was to review judgements, accounting policy choices and methodology for IFRS 17, provide oversight of the IFRS 17 implementation progress, including both short and long-term implementation challenges; and review and approve required quantitative and qualitative disclosures arising from the implementation of IFRS 17, and their impact on the Group's financial reporting.

The sub-committee was chaired by Roger Marshall; members included Mark Stephen and Sally Bridgeland. Stuart King and Wilhelm Van Zyl also attended the meetings. Other regular attendees included: the Chief Actuary, the Chief Financial Controller, the Chief Risk Officer and the IFRS 17 technical actuaries and accountants.

Performance evaluation

An internal evaluation of the Board and its Committees was carried out during 2021. Each Committee member and executives who regularly attend meetings completed a tailored online survey. The results found the Committee was well chaired with good participation from well-prepared Committee members and attendees. The technical nature of the Committee was recognised and a request was made for training on various specific topics.

Areas of focus for 2022

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, and the Internal Audit and Compliance functions, and considering the effectiveness of the Group's internal controls. The Committee will also continue to oversee progress of IFRS 17 implementation and will assist the Board in providing direction and leadership as the Group continues to navigate its way through any impacts of the Covid-19 pandemic.

Furthermore, time will be dedicated to overseeing any improvement initiatives undertaken by the Finance function which will focus on bedding in the new systems and processes implemented as part of the Finance Change Programme.

Other disclosures

The Chair of the Committee meets periodically with the Group's regulator, the PRA.

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 focused on transformation of Finance and updated technology, reporting and analytical tools. The programme completed in 2021 but further improvement work will continue in 2022.
IFRS 17 methodology and calibration	The Committee reviewed progress made in IFRS 17 preparation and progress on the technical development of IFRS 17 methodology and calibration. It also assessed high-level financial impacts on PIC's plans.
Valuation basis and assumptions	The Committee continued to review and approve the valuation basis and assumptions for financial reporting. In-depth discussions were held on the longevity and impact of the Covid-19 pandemic, and economic assumptions such as discount rates and inflation.
IFRS operating profit and Solvency II surplus generation	A review was carried out to ensure that both measures, IFRS operating profit and Solvency II capital surplus, are relevant and reliable, and to eliminate any inconsistencies and shortcomings.

Investment and Origination Committee report

Arno Kitts Chair of the Investment and Origination Committee

Great progress has been made towards the Group's ESG strategy, and throughout the year, the Committee supported the Board in the ESG work and its Net Zero commitment."

Meeting attendance

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

Arno Kitts (Chair)	**4/4**
Jon Aisbitt	**4/4**
Jérôme Mourgue D'Algue	**4/4**
Peter Rutland	**4/4**
Wilhelm Van Zyl	**4/4**

As of 1 January 2022 the Committee membership was refreshed with Jake Blair and Julia Goh becoming Committee members.

I am pleased to present the Investment and Origination Committee (the "Committee") report for the year ended 31 December 2021.

A key focus for the Committee during the year was to monitor market risks arising from the ongoing Covid-19 pandemic and how these affect the Group's portfolio. We have given a lot of attention to our hedging position and how best to adjust it to reflect the volatility of the external environment and the Group's needs. The Committee was central in strengthening governance in respect of hedging. It played a key role in establishing the Capital Planning and Hedging Committee, as a management committee, to empower management to make timely and informed decisions in overseeing and managing the risks to the Group's balance sheet from its hedging strategy.

Despite the slower start to the year, the portfolio has continued to grow, and the Committee provided oversight of and challenge to origination projects in the pipeline. The Committee remained diligent in scrutinising investment outcomes versus assumptions and received an update on pricing assumptions relating to the transition from LIBOR to SONIA (see page 134 for more detail).

As the year progressed, our focus turned to inflation risk and its impact on the Group. The Committee members, together with the entire Board, attended a training session on inflation to better understand this risk in the context of the Group's portfolio and overall performance.

The Committee also approved the implementation of the Group's Strategic Asset Allocation framework with the aim of balancing risk and reward, whilst supporting the Group's primary objective of ensuring that all policyholder obligations are met.

Great progress has been made towards the Group's ESG strategy, and throughout the year the Committee supported the Board in the ESG work and its Net Zero commitment. The Committee and the Board fully support the continuing development of ESG and climate change factors that are integrated in responsible investing decisions and this will continue to be a focus of the Committee for 2022. The Committee has continued to receive training on ESG and climate change matters.

Arno Kitts
Chair of the Investment and Origination Committee

Investment and Origination Committee report continued

Committee members

The membership of the Committee at the date of this report together with the attendance record for the year end 31 December 2021 are set in the table on page 103.

Other regular attendees at Committee meetings during 2021 included: CEO, CFO, CRO, Chief Investment Officer, Chief Origination Officer and the General Counsel.

Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. On 1 January 2022, the Committee membership was refreshed with Jake Blair and Julia Goh becoming Committee members.

The Committee's membership comprises seven NEDs, three of whom are regarded as independent pursuant to the Code and whom the Group considers to be free of any relationship that would impact their impartiality in carrying out their responsibilities. The remaining four NEDs are shareholder nominated.

For more information on the Committee members please see **p82–85**

The Committee membership is strengthened by Arno Kitts and Wilhelm Van Zyl who are also members of the Risk Committee. Strengthening the linkages and collaboration between the Committee and the Risk Committee has been an area of focus during the year. At each meeting, the Committee is provided with a verbal update on the Risk Committee matters as well as there being a standard report on the agenda on 'Investment and Counterparty Risk'.

The Chair of the Committee reports to subsequent meetings of the Board on key areas of focus. The Board also receives a copy of the minutes of each Committee meeting.

Responsibilities of the Committee

The Board of the Company has established the Committee to oversee the management of all aspects of the operation of PIC's investment portfolios, PIC's new business and reinsurance origination, and the integration of ESG risk into its investment decision-making process. In accordance with its terms of reference, the Board has delegated to the Committee responsibility for overseeing the following key areas:

Strategic matters

- Reviewing and approving the Investment Policy.
- Reviewing any specific major investment strategy proposal.
- Reviewing and approving the Origination and Reinsurance strategy.

Transaction and deals

- Approving entry into significant new origination transactions and the supporting asset strategy.
- Reviewing investment arrangements resulting in significant contracts or their termination.

Oversight, monitoring and controls

- Reviewing the overall performance, management and optimisation of the investment portfolio.
- Monitoring ESG risks and their impact on asset holdings.
- Reviewing the disposition and performance of the investment portfolio.

Governance

- The Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

Activities during the year

During the financial year, the Committee held five meetings, four of which were scheduled meetings and one was an ad hoc meeting. The Committee members also attended training sessions on ESG, climate change, inflation impact on the Group's portfolio and deep dive on the Diversified Capital Fund ("DCF").

The Committee receives the following regular reports at each meeting: Chief Investment Officer's Report, Chief Origination Officer's Report, Chief Actuary's Report, Capital Planning and Hedging Update, updates on projects, Investment Breaches and a report on Investment and Counterparty Risk. In addition to these regular reports, this year the Committee considered the matters below:

- Approved the implementation of the Strategic Asset Allocation as required by the PRA's Prudent Person Principles.
- Reviewed the value metrics for assessing pricing decisions for new business.
- Reviewed DCF performance estimates, activity and pipeline, and the DCF new business allocation.
- Reviewed the analysis of pricing assumption and how these compared with the investment outcomes, including pricing allowances versus reinsurance fees.
- Reviewed ratings migration within the investment portfolio and any downgrades.
- Recommended to the Board for approval that PIC should commit to Net Zero. The Committee was also supportive towards the long-term decarbonisation of the investment portfolio.
- Received regular reports from the Capital Planning and Hedging Committee, and reviewed the hedging strategy, exposures and market developments of macro-environmental factors that could impact the Group.
- Monitored and, where necessary, provided challenge on ongoing projects and initiatives such as enhancements to investment data management and asset origination capabilities.
- Considered the annual review of PIC's liability-matching external managers against each mandate and the service provided to the Group.

Performance evaluation

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

The members of the Committee are comfortable with the information flow between the Committee and the Board and other Committees, and are also satisfied that there is a good level of expertise amongst Committee members, and that they have the right information to make informed decisions.

The performance evaluation highlighted additional training topics that would be useful to the Committee and these will be added to the 2022 training programme.

Areas of focus for 2022

The Committee will continue to focus on the assessment of ESG factors in investment decisions, as well as the technology to enhance investment data management and asset origination capabilities.

Nomination Committee report

Jon Aisbitt Chair of the Nomination Committee

During the year, the Committee has been focused on addressing Board diversity, not only in terms of increasing the female representation on the Board, but also increasing social and ethnic backgrounds."

Meeting attendance

The table below shows the attendance by Committee members for all scheduled meetings as at 31 December 2021.

Jon Aisbitt (Chair)	**6/6**
Peter Rutland	**6/6**
Judith Eden	**6/6**
Josua Malherbe	**6/6**
Jérôme Mourgue D'Algue	**6/6**
Mark Stephen	**6/6**

As of 1 January 2022 the Committee membership was refreshed. Judith Eden and Peter Rutland stepped down and Stuart King became a Committee member.

During the year, the Nomination Committee (the "Committee") has been focused on addressing Board diversity, not only in terms of increasing the female representation on the Board, but also increasing social and ethnic backgrounds. As part of our annual review of the Board Diversity Policy, we discussed the importance of the Policy, and our achievement against our diversity targets, and we also set ourselves a new target that at least five Directors must meet the wider diversity criteria, of whom at least three should be female. We remain committed to ensuring that our pool of potential candidates includes at least 50% female representation and a variety of social and ethnic backgrounds.

We have also continued to focus on Board composition and succession planning. The Committee spent considerable time discussing the balance of characteristics, experience and attributes required for future Board members and, taking into account feedback from last year's externally facilitated Board effectiveness review, we identified and recommended to the PIC Board the appointment of Sally Bridgeland, who joined as an INED from 28 January 2021. Sally has a wealth of experience from a long and varied career as an actuary, adviser and expert in pensions and investments. In addition, the Committee recommended to the Board for approval the appointment of Jake Blair from 7 June 2021 onto the PICG and PIC Boards as a shareholder nominated Director on behalf of HPS Investment Partners. Jake has extensive investment experience. More recently, Julia Goh was appointed from 1 October 2021 onto the PICG and PIC Boards as an INED. Julia has significant senior front-office operational experience within the financial services industry at managing director and executive level. Her previous experience will be highly valuable to the Group and will complement the existing skill set on the Board.

We also refreshed the membership of the Risk and Audit Committees when Sally succeeded Steve Sarjant as Chair of the Risk Committee and also became a member of the Audit Committee.

As part of our succession plans for the Chief Financial Officer, we undertook a comprehensive internal and external search for Rob Sewell's successor. The Committee recommended to the Board that Dom Veney succeeds Rob as Chief Financial Officer. Dom joined the Group in 2018 as Chief Actuary and has over 25 years' experience in the UK life insurance industry, including as a partner at PwC. On behalf of the Board, I would like to thank Rob for his contribution to the Group over the last 13 years and I wish him every success for his retirement.

Our focus on a sufficient pipeline of talent remained broader than the Board and its Committees. We focused on succession plans for Executive Directors, senior management, NEDs, SID, CEO and the Chairman of the Board. Where possible, we are committed to developing talent internally for succession roles.

Jon Aisbitt
Chair of the Nomination Committee

Committee members

The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 is set out in the table on page 106.

Other regular attendees at Committee meetings during 2021 included: CEO and Chief People Officer.

Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. Other than the planned succession of Josua Malherbe following Eloy Michotte's retirement, there were no further changes to the Committee membership during the year. However, the Committee membership was refreshed on 1 January 2022 with Judith Eden and Peter Rutland stepping down and Stuart King becoming a Committee member.

In 2021 the Committee did not have an independent majority as required by the provisions of the Code. It comprised the Chairman of the Board and five NEDs two of whom are independent pursuant to the Code and who the Group considers to be free of any relationship that would impact their impartiality in carrying out their responsibilities. The remaining three NEDs are shareholder nominated and their membership allows these shareholders to safeguard and have oversight of the sustainable growth of the Group through Board appointments.

For more information on the Committee members please see **p82-85**

The Chair of the Committee reports to subsequent meetings of the Board on the key areas of focus.

Responsibilities of the Committee

The Board of the Company has established the 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. In accordance with its terms of reference, the Board has delegated to the Committee responsibility for overseeing the following key areas:

Board composition and succession planning

- Developing robust succession plans for Executive Directors, Non-Executive Directors, senior management, CEO and Chairman of the Board.
- Ensuring there is a sufficient pipeline of talent to achieve the Group's strategy and risk appetite.
- Reviewing annually the succession of senior management.
- Recommending to the Board the appointment or removal of senior managers.
- Evaluating the balance of skill, knowledge, experience and diversity on the Board.
- Ensuring that arrangements are in place for a formal induction for new appointees to the Board and identifying ongoing training needs.
- Continually reviewing the strategic issues facing the Group and requesting that any relevant training is provided to the Board.

Non-Executive Directors

- Recommending to the Board the appointment of any INED, including the SID and NEDs.
- Recommending to the Board the re-appointment of any NED at the conclusion of their specified term and having regard to their performance and ability to contribute effectively to the Board and Committees.
- Reviewing annually the time commitment required by the NEDs.
- Approving the job descriptions for NEDs.

Board evaluation

- Overseeing the Board evaluation process by which the Board, its Committees and individual Directors assess their effectiveness.
- Reviewing the results of the Board evaluation process that relate to the composition of the Board.

Governance

- Reviewing annually the Board Diversity Policy and recommending to the Board for approval.
- Reviewing annually the Fit and Proper Persons Policy for approval.
- Annually reviewing the composition of Board Committees to best utilise the experience and knowledge of all Directors.
- The Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

Nomination Committee report continued

Board composition as at 31 December 2021

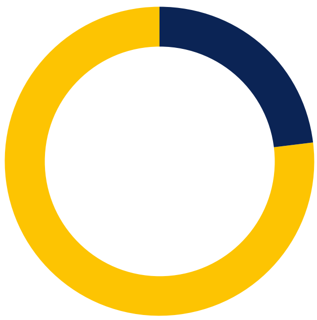
The PICG Board of Directors consists of 13 Directors, and the PIC Board consists of 14 Directors.

Gender diversity

PIC

Women	**4 = 28.6%**
Men	**10 = 71.4%**

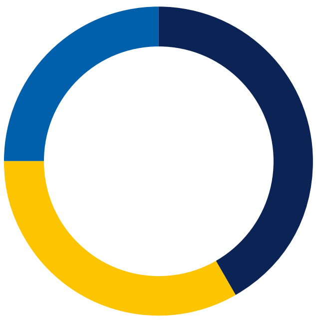
PICG



Women	**3 = 23.1%**
Men	**10 = 76.9%**

Non-Executive Director tenure

PIC



0 – 3 years	**5**
3 – 6 years	**4**
6 – 9 years	**3**

PICG

0 – 3 years	**5**
3 – 6 years	**4**
6 – 9 years	**3**

Activities during the year

During the financial year, the Committee held six scheduled meetings and two ad hoc meetings. The Committee members also attended Board training sessions on ESG, Diversified Capital Funds and inflation.

During the year the Committee considers the matters below:

Board composition and succession planning

- Discussed the composition of the Board and considered the orderly succession of current INEDs and the skills, knowledge, experience, diversity and attributes required of future INEDs.
- Discussed Julia Goh's candidacy and recommended Julia to the Board for appointment as an INED.
- Discussed Jake Blair's candidacy as a shareholder nominated Director on behalf of HPS Investment Partners and recommended Jake to the Board for approval.
- Reviewed the Board tenure of NEDs and recommended to the Board for approval that Jérôme Mourgue D'Algue, Stuart King, Arno Kitts and Judith Eden's contracts are extended for a further three years.
- Set new Board diversity targets: 1) at least five Directors should meet the diversity criteria as described in the Board Diversity Policy, of whom at least three should be female representatives on the PIC and PICG Board over time where that is consistent with other skills and diversity requirements, and 2) to continue to develop a pool of potential Board candidates with at least 50% of potential candidates being female, which would include candidates without NED experience as well as considering candidates from a variety of ethnic backgrounds.

Non-Executive Directors

- Considered the independence of each NED, taking into account any circumstances that are likely to impair their independence. The Committee concluded that all NEDs were deemed independent.
- Reviewed the time commitments required by the NEDs.
- Reviewed ongoing training requirements of NEDs.

Governance

- Recommended the Board Diversity Policy to the Board for approval.
- Recommended the Gender Pay Gap Results to the Board for approval.
- Approved the Fit and Proper Persons Policy.

Performance evaluation

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

The members of the Committee are happy with the information flow between the Committee and the Board and other Committees and are also satisfied that there is a good level of expertise amongst Committee members and that they have the right information to make informed decisions.

The performance evaluation highlighted that splitting the Nomination and Remuneration Committees would allow the Nomination Committee's purpose to be more clearly defined.

Areas of focus for 2022

The Committee will continue to focus on increasing diversity on the Board and within senior management and will agree additional diversity targets. The Committee will also focus on succession planning across the Group and at the Board.

Remuneration Committee report
Judith Eden Chair of the Remuneration Committee

The Committee's focus this year has been on benchmarking the remuneration structure to listed peers and regulatory expectations, and finalising the appropriate structure in order to incentivise and reward long-term performance."

I am pleased to present the Remuneration Committee report for the year ended 31 December 2021.

It has been a challenging year for many of us and the Remuneration Committee's (the "Committee") deliberations have been extensive, to ensure that colleagues are remunerated in an appropriate way for the outstanding work that they have done in dealing with the ongoing impacts of the Covid-19 pandemic and ensuring the right decisions are taken for the long-term benefits of our policyholders.

With this in mind, the Committee reviewed remuneration packages for senior management including for the newly appointed CFO, and made recommendations to the Board for approval.

Much of the Committee's focus this year has been on benchmarking the remuneration structure to listed peers and regulatory expectations; and finalising the appropriate structure to incentivise and reward long-term performance and discourage excessive risk taking. This year was particularly key as a previous long term incentive plan (the Growth Plan) for certain senior executives vested as at December 2020. We have been assisted by Deloitte with this review and, as a result, the Committee recommended to the Board a new Long Term Incentive Plan ("LTIP") as well as rigorous annual bonus scorecards covering financial and non-financial measures. These steps are designed to link pay to company performance more closely.

The Committee also carefully considered the valuation of the Group for share based incentive awards, exercise and liquidity purposes. This is an important exercise and we sought input from independent advisors to support our recommendations to the Board. Share ownership is something we view as important for engagement and alignment of our employees with our long-term strategy.

We have also reviewed and approved various policies within the Committee's remit to ensure these continue to be updated for legislative and regulatory changes and remain reflective of the current practices within the Group. The Committee also made proposals to the Board in respect of the Board remuneration. Additionally, we have closely monitored management information on headcount and turnover of staff, capacity and capability, and diversity and inclusion initiatives. These topics remain very important as the Group continues to grow and evolve.

The Committee also rebalanced its membership to make progress towards compliance with the Code; from January 2022 the Committee has a majority of independent members.

Judith Eden
Chair of the Remuneration Committee

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

Judith Eden (Chair)	**6/6**
Jon Aisbitt	**6/6**
Josua Malherbe	**6/6**
Jérôme Mourgue D'Algue	**6/6**
Peter Rutland	**6/6**
Mark Stephen	**6/6**

As of 1 January 2022 the membership was rebalanced with Jérôme Mourgue D'Algue (shareholder nominated Director) stepping down and Stuart King (INED) joining the Committee.

Remuneration Committee report continued

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 are set out on page 109.

Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee.

During 2021 the Committee was not fully independent as required by the Code, comprising three shareholder nominated Directors and three INEDs. Having shareholder nominated Directors on the Committee allows these shareholders to monitor and safeguard the sustainable growth of the Group through remuneration oversight and ensuring the remuneration is not encouraging excessive risk taking but promotes the long-term success of the Group. The Committee decided to make progress towards compliance with the Code and rebalanced its membership; from 1 January 2022 it is majority independent.

For more information on the Committee members please see **p82-85**

Other regular attendees at Committee meetings during 2021 included: The Chief Executive and the Chief People Officer. The Chief Risk Officer (the CRO) also attends periodically to assist the Committee in determining whether the Company has performed within its risk profile before making recommendations relating to remuneration. The Risk Committee's input to bonus pool and material risk takers' performance is also sought. The Chairs of the Risk Committee and Audit Committee are also invited to attend specific meetings on relevant agenda items where change to remuneration policy is considered; approval then takes place at Board level.

The Chair of the Committee reports to subsequent meetings of the Board on key areas of focus.

Responsibilities of the Committee

The Board of the Company has established a Remuneration Committee which 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. To assist the Committee in fulfilling its responsibilities, it regularly receives reports from the Chief People Officer.

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:

Remuneration

- Recommending to the Board the Group's Remuneration Policy including for all Solvency II Identified Staff and overseeing its implementation.
- Reviewing the ongoing appropriateness and relevance of the Remuneration Policy and other workforce policies so that they support the long-term strategic goals of the Group, they do not encourage excessive risk taking and take account of the Group's values and standards, alignment to culture and behavioural aspects, as well as shareholder interests.
- Determining the framework for the remuneration of the Company's Chairman, NEDs and senior management.
- Approving the remuneration and share incentives of all senior management and reviewing material risk takers' salaries as part of the annual remuneration review.

Share schemes

- Reviewing the design of all share incentive plans for approval by the Board and our largest shareholder, taking advice from the Risk Committee and the CRO on risk management and seeking input from the chair of the Audit Committee.
- Determining the market value of the Company and recommending the valuation to the Board for approval when determining the share price in relation to the Group's share schemes and the senior management incentive plans.

Governance

- The Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

Advice to the Committee

During the year, the Committee was assisted in its deliberations on the management incentive programme by Deloitte, and on the valuation of the Group for vesting of various Group share schemes and management incentive plans by PwC.

Activities during the year

During the financial year, the Committee held six scheduled meetings and four ad hoc meetings. The Committee members attended Board training sessions as described on page 92 of the Corporate Governance report and also received relevant training on the Long Term Incentive Plans from Deloitte.

Supporting our staff during the Covid-19 pandemic

The Covid-19 pandemic has had a devastating impact across the world, and we were very mindful of the effect it had or could have on our staff, not only from a financial perspective but from a general wellbeing point of view. We have made a lot of effort as a Group to prioritise our staff's well-being and have implemented various initiatives. We talked about these more in our Annual Report 2020. We did not access UK Government support schemes and we have not furloughed any of our employees who have continued to be remunerated in the usual fashion.

Remuneration

- Reviewed Board remuneration and made recommendations to the Board. It ensured that levels of remuneration for the Chairman and the NEDs reflect the time commitment and responsibilities of their roles. NEDs do not receive any share options or other performance-related elements within their remuneration.
- Carried out a review of the final annual remuneration proposals taking into account the Group's performance including financial and non-financial KPIs; and made relevant recommendations to the Board. The review covered: overall pay increases, cash bonuses, Deferred Bonus Share Plans proposal, a review of individual compensation for all senior management and material risk takers.
- Spent a considerable amount of time on the new remuneration structure, which was implemented in 2021. Introduced a redesigned annual bonus scorecard for financial, customer service and risk management metrics, which established clearer links between performance and pay, and a new LTIP to incentivise long term performance and better desired behaviours.

Share schemes

- Reviewed the grant of bonus share options, exercise and liquidity events, and the 2021 launch of the SAYE scheme.
- Held a number of discussions in relation to the share valuation for the vesting of various Group share schemes, including the Growth Plan for senior management, and recommended a level to the Board for approval.

Governance and other matters

- Reviewed the results of the gender pay gap analysis and the associated reporting.
- Reviewed policies within the Committee's remit, namely the Remuneration Policy, the Remuneration Policy Statement, malus and clawback clauses, and the NEDs'
- Expense Policy, and made relevant recommendations to the Board for approval.
- Reviewed and approved the Committee's terms of reference and an annual programme.
- Received reports from the Chief People Officer, which particularly focused in 2021 on headcount and turnover of staff, capacity and capability, and diversity and inclusion initiatives. The Committee considers these topics of particular importance given the Group's growth.

Remuneration Committee report continued

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 2021 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive, taking into account the individual's skills, 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; Cycle to Work scheme and participation in the SAYE 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 assessed against financial, customer service and risk management measures. For material risk takers, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. For Solvency II staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The CRO, with input from the Chair of the 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. 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. 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.
Long Term Incentive Plan	Selected senior individuals are invited, at the discretion of the Remuneration Committee, to receive LTIP share awards. These individuals are those tasked with delivering PIC's long-term strategic goals and to generate long-term shareholder value. LTIP awards vest after a three-year period, subject to the achievement of performance conditions, and a solvency and risk management underpin. Awards to the Executive Committee members would also have a further retention period of up to two years.

Malus, clawback and in-year adjustment	Any bonus including annual bonus, deferred bonus share plans and the LTIP can be adjusted by the Remuneration Committee by applying malus, clawback and in-year adjustment provisions as determined in the rules. This includes, but is not limited to • an event of significant financial losses or material misstatement of the accounts; • material failure of risk management; • discovery of a material error in relation to the assessment of annual performance on which an award was based; or • reasonable evidence of any act or omission by the participant which 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.

Performance evaluation

An internal evaluation of the Board and its Committees was carried out during 2021. Each Committee member and executives who regularly attend meetings completed a tailored online survey. No major concerns were highlighted, and positive comments were made on the improving quality of papers. It was noted that consideration should be given to making progress towards full compliance with the Code and adjusting the Committee's membership so that the Committee is majority independent. This recommendation has been adopted.

Areas of focus for 2022

The Committee's focus will be primarily to review the measures for the LTIP and annual bonus and to expand the application of the scorecard across the Group. The Committee will undertake a review and benchmarking of wider benefits offered to employees to maintain a total reward approach to employee reward, and to continue to focus on the link between pay and performance (financial and non-financial), including the continued improvement of the risk adjustment framework.

Risk Committee report
Sally Bridgeland Chair of the Risk Committee

A key focus for the Committee throughout the year has been to mitigate the challenges to the Group arising from the aftermath of the Covid-19 impact."

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

Sally Bridgeland (Chair)	**4/4**
Judith Eden	**5/5**
Stuart King	**5/5**
Arno Kitts	**5/5**
Roger Marshall	**5/5**
Wilhelm Van Zyl	**5/5**

Steve Sarjant retired on 31 March 2021 and stepped down as Committee Chair. Prior to stepping down, Steve attended 2/2 scheduled meetings.

Sally Bridgeland became a Committee member on 28 January 2021 and was appointed Committee Chair on 1 April 2021.

As the new Chair of the Risk Committee, I am pleased to present the Risk Committee (the "Committee") report for the year ended 31 December 2021. I would like to thank Steve Sarjant for the comprehensive handover I received, and I wish him every success during his retirement.

A key focus for the Committee throughout the year has been to monitor the Group's solvency, capital, and liquidity. We have spent a considerable amount of time on the oversight of the development of the credit module and other refinements to the internal model. The Committee attended a technical teach-in, received regular updates and provided effective challenge before the changes were proposed to the Board for approval.

The Committee has continued to oversee management's work to mitigate the challenges to the Group arising from Covid-19 and the continued operational risks and market volatility. The Committee provided input to the work to incorporate post Covid-19 scenarios into the Group's financial and operational stress and scenario testing, which has been used to assist the Committee and management in managing areas of vulnerability. Identification and oversight of emerging risks remained a priority and the Committee attended an externally facilitated training session to develop its approach.

The Committee also assisted the Remuneration Committee with regard to their recommendation to the Board on the remuneration process. The Committee ensured that risk management was properly considered in the setting of performance objectives within the incentive structure and properly taken into account in the remuneration policy and awards.

Further enhancements have been made to the Group's Risk Appetite Framework in order to ensure it remains fit for purpose in line with the Group's planned growth. The Committee reviewed updates to the risk appetite statements and to primary and secondary risk appetite metrics, and recommended necessary changes to the Board for approval. This work will continue in 2022 to further embed the Group's use of risk appetites in governance and decision-making.

Additional information on PIC's approach to Risk Management can be found on pages 70 to 77.

Sally Bridgeland
Chair of the Risk Committee

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 is set out in the table on page 114.

Other regular attendees at Committee meetings during 2021 included: Chairman of the Board, CEO, CFO, CRO, Chief Investment Officer, General Counsel, Chief Actuary, Actuarial Function Holder and Head of Internal Audit.

Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. Other than the planned succession of Sally Bridgeland becoming Committee Chair following Steve Sarjant's retirement, there were no further changes to the Committee membership during the year.

Sally attended two meetings before joining the Committee as a member and also received a comprehensive handover from Steve Sarjant prior to becoming Committee Chair. During the year, the Committee attended deep dive training sessions on key emerging risks that the Group faces, one of which was externally facilitated by Storm Guidance. In addition, and as part of the credit model development project, PwC attended two scheduled Committee meetings, as well as the Committee technical teach-in on the credit model. Deloitte also attended one Committee meeting as part of the project.

The Committee's membership comprises a majority of INEDs, who are regarded as independent pursuant to the Code and who the Group considers to be free of any relationship that would impact their impartiality in carrying out their responsibilities.

For more information on the Committee members please see **p82–85**

The Committee membership is strengthened by Roger Marshall who is Chair of the Audit Committee as well as Stuart King's and Sally Bridgeland's membership of the Audit Committee. The Committee is also well linked to the Investment and Origination Committee ("IOC") through the membership of Arno Kitts who is the Chair of the IOC, as well as Wilhelm Van Zyl's IOC membership. Strengthening the linkages and collaboration between the Committee and the IOC has been an area of focus during the year. At each meeting, the Committee is provided with a verbal update on IOC and Audit Committee matters.

The Chair of the Committee reports to meetings of the Board on key areas of focus. The Board also receives a copy of the minutes of each Committee meeting.

Responsibilities of the Committee

The Board of the Company has established the Committee to provide oversight and advice to the Board on the current and future risk exposure of the Group including oversight of the future risk strategy; determination of risk appetite and tolerance; and internal controls required to manage risk and the effectiveness of the risk management framework, in conjunction with the Audit Committee. In accordance with the Committee's terms of reference, the Board has delegated responsibility for the following key areas:

Risk Strategy, Appetite and Policy

- Reviewing and recommending to the Board for approval, the design and implementation of the Risk Management Framework and measurement strategies.
- Reviewing the Risk Appetite and Tolerance Schedule to ensure they remain appropriate and evolve with the changing external environment.
- Reviewing the Integrated Assurance Report to help ensure that the systems of risk management and internal controls are appropriate, as well as the limits set for various counterparties.
- Reviewing the Own Funds and Solvency Assessment ("ORSA") before approval by the Board.

Risk Oversight and Monitoring

- Reviewing the Group's overall risk identification, assessment and management of processes that inform the Board's decision making.
- Reviewing the Internal Model Validation Report and Internal Model Consolidation Annual Report to make a recommendation to the Board.
- Overseeing the Risk Appetite Framework and measurement strategies for the Group, and the procedures for monitoring the adequacy and effectiveness of those processes.
- Reviewing the Risk Register to ensure that all quantifiable risks are reflected in the Internal Model.
- Reviewing the emerging risks which can potentially affect the Group but at the same time bring opportunities, and this is assessed.

Governance

- Reviewing the Risk Function and Actuarial Function Mandate to ensure that the Risk Function has adequate resources and appropriate access to information.
- Reviewing its terms of reference annually and recommends these to the Board for approval.
- Ensuring that its planned cycle of activities address its responsibilities throughout the financial year.

Risk Committee report continued

Activities during the year

During the financial year, the Committee held nine meetings, five of which were scheduled meetings, two were ad hoc meetings and two were training sessions. Each year, the Committee carries out a robust assessment of the Group's 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 risk and that the internal controls in place are fit for purpose.

The Committee receives the following regular reports at each meeting: CRO Business Overview (including the Risk Appetite Dashboard, Enterprise Risk Dashboard and a Risk Incident Report); Integrated Assurance Report, Counterparties Report and a Regulatory update. In addition to these regular reports, this year the Committee:

Risk Strategy, Appetite and Policy

- Reviewed PIC's capital Risk Appetite Framework and made recommendations to the Board.
- Received an overview of emerging risks and undertook a deep dive training session on new emerging risks that the Group could face.
- Reviewed stress and scenario testing including economic, operational and conduct risk scenarios.
- Reviewed the ORSA macro-economic scenario testing and approved the ORSA stress and scenario testing plan.
- Reviewed the incorporation of Covid-19 scenarios into the Group's financial and operational stress and scenario testing.
- Recommended to the Board the Resolution and Recovery Plan.
- Reviewed risk incidents to see if there were any systemic issues which could compromise the integrity of the risk management systems and internal controls. It established that there were no such issue and the integrity of those systems has not been compromised.

Risk Oversight and Monitoring

- Reviewed the Internal Model Validation Report and the Internal Model Consolidated Annual Report.
- Reviewed and provided challenge to the updates to the Internal Model Change Policy.
- Approved the calibration changes to the Internal Model Validation Activities.
- Reviewed the Internal Model drift analysis to ensure PIC's Internal Model does not weaken over time or no longer reflects the risks to which PIC is exposed.
- Reviewed the Actuarial Function's opinion on the 2021 Underwriting Policy.
- Provided oversight and challenge of the development work of the credit module and other refinements to the internal model.
- Received regular updates on PIC's material outsourcing to counterparties.
- Reviewed the Actuarial Function's opinion on the adequacy of the 2021 reinsurance arrangements of PIC's insurance undertaking.

Governance

- Reviewed the performance of the Risk Function and the CRO and was satisfied that both the CRO and the Risk function continue to operate effectively and in accordance with the Risk Function Mandate.
- Reviewed the Committee's terms of reference and recommended them to the Board.
- Approved the Risk Function Mandate, Actuarial Function Mandate and various policies which are within the Committee's remit and are subject to annual review.

Performance evaluation

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

The members of the Committee are happy with the information flow between the Committee and the Board and other Committees and are also satisfied that there is a good level of expertise amongst Committee members. The meeting times can be stretched with the number of items on the agenda and the remit of the Committee will be assessed during 2022.

The performance evaluation highlighted additional training topics that would be useful to the Committee and these will be added to the 2022 annual cycle.

Areas of focus for 2022

The Committee will continue to focus on the development of the credit module of the Group's internal model, as well as further development of risk appetite metrics, stress and scenario testing, and the increasing risks associated with climate change.

Other disclosures

Interaction with the Chief Risk Officer: The Chair of the Committee meets individually with the CRO between formal Committee meetings. These meetings allow for an open discussion for any matters relating to issues arising from the Committee's formal discussions.

During the year, the Committee also held three private members-only meetings, which the CRO and Chairman of the Board attended.

Risk function resourcing: The Committee has sought and received assurance that the Risk Function is adequately resourced to perform its function effectively. The Committee's discussions included an overview of the Risk Function's Self-Assessment.

Interaction with regulators: The Chair of the Committee meets periodically with the Group's regulators, the PRA, as well as the FCA.

Environmental, Social and Governance Committee report

Jon Aisbitt Chair of the Environmental, Social and Governance Committee

The Committee's priorities for 2022 will be to embed climate change risk within all aspects of the business, as well as its investment portfolio."

Meeting attendance

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

Jon Aisbitt (Chair)	1/1
Sally Bridgeland	1/1
Judith Eden	1/1
Arno Kitts	1/1
Roger Marshall	1/1

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

The Chair of the Committee reports to subsequent meetings of the Board on key areas of focus. The Board also receives a copy of the minutes of each Committee meeting.

Committee membership

The membership of the ESG Committee (the "Committee") at the date of this report together with the attendance record for the year end 31 December 2021 is set out in the table below.

Other regular attendees at Committee meetings: Chief Investment Officer, Chief Risk Officer, General Counsel, Head of Responsible Investing, and Head of Regulatory Risk Affairs.

Responsibilities of the Committee

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

Strategy, policy and disclosures

- Ensuring the Group embeds the risks from ESG and climate change considerations in its governance arrangements, financial risk management practice investment processes, and overall strategy.
- Overseeing the establishment of a strong foundation for the evolution of ESG and climate change considerations in light of the Group's Net Zero commitment.
- Ensuring that the Group monitors and reviews current and emerging ESG trends, relevant international standards and legislative requirements, to enable the Group to set appropriate strategic goals and associated targets related to ESG matters.
- Ensuring that the information the Group provides in respect of ESG to its stakeholders is clear, transparent and appropriate.
- The Committee will work closely with the Board and its other Committees to oversee the identification and mitigation of risks relating to ESG, as well as opportunities related to ESG matters.

Environmental, Social and Governance Committee report continued

Governance

- The Committee reviews its terms of reference annually and recommends these to the Board for approval.
- The Committee also has a planned cycle of activities to ensure that it has addressed its responsibilities throughout the financial year. The cycle is updated annually.

Activities during the year

At its first meeting in December 2021, the Committee received reports from the Investments and Risk functions. In addition to these, the Committee discussed the significant volume of work undertaken during the year in respect of ESG to improve the Group's strategic positioning, including the investment portfolio which had been rated as comprising over 85% low risk category assets and under 3% high or severe risk assets. During the year, extensive work had been carried out to improve the modelling capability of the group in respect of ESG and climate change scenarios. A Group-wide quarterly ESG forum had also been established to drive collaboration across all functions to embed ESG into the Group's operations.

The Committee also discussed the regulatory environment, including the outcomes and publications from COP26, noting the challenges that lay ahead for the Group and the sector as a whole. The Committee stressed the importance of the Group's culture and purpose as key proponents of a successful ESG approach, with a strong and consistent tone from the Board and senior management which considers the social consequences of the shift to a Net Zero economy.

Areas of focus for 2022

The Committee's priorities for 2022 will be to embed climate change risk within all aspects of the business, as well as its investment portfolio, and to articulate the Group's Net Zero transition strategy in line with the ABI and Net Zero Asset Owner Alliance. On 11 February 2022, the Committee approved the Group's Task Force on Climate Related Financial Disclosures ("TCFD") report. During the year it will also be adopting a Stewardship Policy and making an application to become a signatory to the Stewardship Code. The Committee will also receive regular training on ESG matters as part of its annual programme.

Directors' Report

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 FCA Handbook. Further information on the Company's governing body and its Committees is included in the Corporate Governance report on pages 80 to 118.

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
Jon Aisbitt	Chairman	
Roger Marshall	Senior Independent Director	
Tracy Blackwell	Chief Executive	
Jake Blair	Director	Appointed 7 June 2021
Judith Eden	Director	
Tim Gallico	Director	
Julia Goh	Director	Appointed 1 October 2021
Stuart King	Director	
Arno Kitts	Director	
Josua Malherbe	Director	
Jérôme Mourgue D'Algue	Director	
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 892,472 ordinary shares of the Company upon vesting of certain schemes during the year (2020: one Director received a total of 497,250 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 2021:

	No of ordinary shares held as at 31 December 2021	% of the issue ordinary share capital as at 31 December 2021
Reinet PC Investments (Jersey) Limited on behalf of Reinet Investments S.C.A.	658,792,700	49.37
Luxinva S.A. on behalf of ADIA	242,192,115	18.15
Blue Grass Holdings Limited on behalf of CVC	231,825,290	17.37
MP 2019 K2 Aggregator, L.P. on behalf of HPS	136,508,422	10.23

Own shares

At 31 December 2021, 5,261,772 ordinary shares of the Company were held in an Employee Benefit Trust (2020: 7,843,544), in accordance with the accounting policy in Note 7 to the financial statements.

Dividends

The Directors of the Company do not recommend a dividend for the year (2020: 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 discharged their duty under s.172 of the Companies Act 2006 is included in the Strategic Report on pages 40 to 43.

Any payments to suppliers are made through the service company 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 (2020: £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, 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 systems 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.

Financial reporting	Responsibility
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 the Group's internal controls, risk management, governance processes and culture. The annual opinion is informed by the control attestations which require each Executive Committee member to confirm compliance of their business areas with the Group's risk and control framework and provides information to the Executive Committee, Audit Committee and the Board on management's opinion on the application of the framework, risk management, control effectiveness, monitoring and information and compliance with key policies.
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 effectiveness, independence and objectivity 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 70 to 77)	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 2021 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 SAYE scheme 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 56.

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 encourages 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.

Directors' Report continued

PIC's Diversity and Inclusion Forum which is made up of employees and HR representatives continued to work in 2021. 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:

	Current reporting period (UK and offshore)	2020 reporting period (UK and offshore)
Total energy consumption used to calculate emissions in kWh	893,748	1,012,564
Emissions from combustion of gas in tCO_2e (Scope 1)	81.9	94.3
Emissions from purchased electricity in tCO_2e (Scope 2, location-based)	94.8	116.5
Total gross tCO_2e based on above	176.7	210.8
Intensity ratio: gross tCO_2e/floor area	0.04	0.04
Intensity ratio: gross tCO_2e/full time equivalent	0.5	0.7

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 to 31 December 2021.

Methodologies
The data detailed in this table represent emissions and energy use for which Pension Insurance Corporation Group Limited are responsible. To calculate our emissions we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard along with the UK Government GHG Conversion Factors for Company Reporting 2021. We have calculated our emissions for 2021 year in line with our financial years. Any electricity estimates included in our totals are derived from actual data in the same reporting period which have been extrapolated to cover any missing periods. Natural gas consumption is estimated based on our floor area and the Real Estate Environmental Benchmark from the Better Buildings Partnership. 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. We have replaced two AHUs with two VRF units in our offices as an energy efficiency measure in the reporting period detailed above. We we have already undertaken a significant number of measures, there are limited options for savings in the building. More information on the actions the Group takes more broadly on the ESG and climate risk related matters can be found throughout the report and in the Taskforce for Climate related Financial Disclosures report available on www.pensioncorporation.com/the-purpose-of-finance/thought-leadership.

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 16 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's Solvency Surplus 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 2026, which has been chosen as appropriate because it reflects the Group's business model and the dynamics of the pension risk transfer market as covered by the Group's five-year business plan.

3. Assessment of viability

In considering the viability of the Group, the Directors have assessed the key factors relating to the Group's business model, strategy and the basis upon which its regulatory capital stress tests are carried out. This has included consideration of the ongoing impact of Covid-19, the uncertainty surrounding the macro-economic environment and its potential impact on the Group and the potential impact of climate change related risks. It also takes into account the ongoing regulatory change affecting the financial services industry. The Directors have also carried out an assessment by reference to the Group's risk appetite and financial forecasts from December 2021 to December 2026. The Directors discussed the business strategy, market opportunity and potential future strategic objectives at the Board strategy day on 24 September. They considered the draft business plan at the Board meeting held on 2 December 2021 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 70 to 77. 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:

- PIC's ability to source high quality assets with appropriate yields to support PIC's pricing model, and access to capital and reinsurance;
- risks from markets around downgrades, spread risks, rates and inflation risks as well as regulatory changes and increased scrutiny by the regulators as PIC grows;
- risks to PIC's operations if the plan is successfully achieved focusing among others on operational resilience in terms of resourcing and processes, stakeholder, climate change, reputation and various other risks.

This year the Board also continued to assess impacts arising from the ongoing economic uncertainty caused by the pandemic combined with geopolitical risks. The Board discussed 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 discussed these risks throughout 2021 and management incorporated their considerations into the business planning. The Board also continued to assess 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 cloud-based systems, PIC's diversity and inclusion strategy and a talent shortage impacting ability of PIC to maintain or recruit sufficient levels of skilled resource.

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
11 March 2022

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 in conformity with the requirements of the Companies Act 2006 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 International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and applicable law;
- 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.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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.

Additional Information
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.

Solvency II 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.

Carbon Neutrality
The focus on not increasing carbon emissions and of achieving carbon reduction through offsets.

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.

MSCI
Finance company and global provider of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.

Net Zero
The focus on actively reducing greenhouse gas emissions to the maximum possible level so that the residual emissions can be neutralized by carbon offsetting as a last resort. Offsetting is used to counteract remaining emissions after all reduction initiatives have been implemented.

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.

Scope 1 emissions
Emissions that are directly generated by the company.

Scope 2 emissions
Emissions that are created by the generation of the electricity or heat needed by the company to sell its main products or provide its main services (indirect emissions).

Scope 3 emissions
Emissions caused by the entire value chain (indirect emissions).

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.

Additional Information
Glossary

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 the BEL and a RM.

Temperature alignment
The projected temperature rise by 2100 from pre-industrial levels.

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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www.pensioncorporation.com