Generating social value across the UK.

Pension Insurance Corporation PLC
Annual Report and Accounts 2022

From purpose to social value

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.

PIC has been a significant investor for over a decade in areas like social housing, renewable energy and the UK's universities. These investments, which are typically sourced privately, provide the cash flows we need to match our liabilities at maturities when publicly available debt is simply not available.

Strategic Report

1 Highlights
2 Strategic report
14 Stakeholder engagement
16 Section 172
20 Our Environmental, Social and Governance approach
22 Principal risks and uncertainties

Directors' Report

28 Directors' report
42 Statement of Directors' responsibilities

Financial Statements

43 Independent auditor's report to the members of Pension Insurance Corporation plc
50 Statement of comprehensive income for the Group
51 Statement of financial position for the Group
52 Statement of changes in equity for the Group
53 Statement of cash flows for the Group
54 Notes to the financial statements
84 Statement of financial position for the Company
85 Statement of changes in equity for the Company
86 Statement of cash flows for the Company
87 Notes to the financial statements of the Company

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

Highlights

Key financial highlights

Solvency II ratio

225% 2022

168% 2021

Premiums

£4,095m 2022

£4,702m 2021

Market consistent embedded value

£5,591m 2022

£4,996m 2021

IFRS profit before tax

£1,241m 2022

£394m 2021

Financial investments

£41.0bn 2022

£51.1bn 2021

Assets held to meet solvency and risk margins

£8.8bn 2022

£9.1bn 2021

Other highlights

Policyholder satisfaction

99.6% 2022

99.6% 2021

Total value of sustainable assets[1]

£10.3bn 2022

£13.8bn 2021

Employee pride in working for PIC

89% 2022

90% 2021

Gender pay gap

10.2% 2022

18.4% 2021

In May 2022, Fitch Ratings affirmed PIC's A+ (Strong) Insurer Financial Strength rating.

Recent awards:

Our clients include:

1 PIC's Sustainable Assets represent c.25% (£10.3 billion) of our overall portfolio. We define Sustainable Assets as those assets which demonstrate a balance between economic growth, environmental care, and social well-being.

Strategic report
For the year ended 31 December 2022

The Directors present the Strategic Report, Directors' Report and the audited consolidated financial statements for Pension Insurance Corporation PLC ("PIC" or the "Company"), registered number 05706720, for the year ended 31 December 2022.

Principal activity

The principal activity of Pension Insurance Corporation PLC and its subsidiaries (the "Group") is the provision of pension risk transfer contracts to UK defined benefit occupational pension funds and their members (also known as "pension insurance" or "bulk annuities").

Business review

Background

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

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

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

PIC is the primary operating subsidiary of PIC Holdings Limited of which Pension Insurance Corporation Group Limited ("PICG"), is the ultimate parent company.

Strategy

The purpose of PIC is to pay the pensions of our current and future policyholders. As we secure pensions, one outcome is the generation of long-term shareholder returns.

How we create and deliver value for our stakeholders:

- We strive to pay our policyholders accurately and on time and provide the highest levels of customer service.
- Capital is raised from equity and debt investors. Having paid our policyholder commitments, surplus capital is released back to the capital providers, or is reinvested. We seek to provide attractive risk-adjusted returns while retaining a healthy buffer in excess of regulatory requirements.
- Liabilities are taken on from defined benefit pension scheme trustees and sponsors. PIC liaises with trustees, understands the scheme, and determines a price for which PIC takes on the scheme liabilities. We receive a premium for taking on the liabilities. We hedge the longevity, interest rate, and inflation variability to establish more certain outgoings, which we then match with purposeful public and privately sourced assets, funded by the premium paid.
- Working with our investment partners through our purposeful investment strategy, we seek secure assets that create social value and match our liabilities for decades to come.
- Through our Third Party Management and partnership model, we maintain strong relationships with our key suppliers.
- We seek to maintain open and constructive relationships with regulators and policymakers.
- Our employees are fundamental to the successful operation of our business. Exhibiting the PIC values, we provide innovative solutions, comprehensive risk management, and deliver excellent customer service.

The escalating financial costs of pension provision to pension schemes and their sponsors, volatility in asset performance and economic conditions, increases in life expectancy and the need to match assets more closely with liabilities have caused pension fund trustees and corporate sponsors to look at the benefit of transferring the risks associated with their defined benefit pension funds to the security of a regulated insurance company such as PIC, which is well-placed to manage and mitigate these risks and provide policyholder security over the long term. Accordingly, the size of the pension risk transfer market in which PIC operates, continues to broaden and widen. The market opportunity at the end of 2022 was significantly enhanced by higher gilt yields and their effect on the funding levels of DB schemes.

Accordingly, the size of the pension risk transfer market in which PIC operates, continues to broaden and widen, and is influenced by the affordability of the insurance offering.

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 Section 172 (1) of the Companies Act 2006 ("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 16 to 19 in the s.172 statement of this Annual Report.

Strategic objectives and key performance indicators

Our strategic objectives are designed to guide the business to fulfil our purpose, which is to pay the pensions of our current and future policyholders. This means we prioritise excellent customer service, underpinned by a strong balance sheet, long-term value creation, and a purposeful investment strategy. During 2022, we reviewed our strategic objectives to ensure that they reflected our culture and values as we seek to fulfil our purpose. Subsequently, the Board approved an evolution of PIC's strategic objectives from, "financial strength and cost efficiency", "returns", "reputation and conduct", and "growth and focus" to, "secure and sustainable business"; being a "responsible corporate citizen"; and ensuring "long-term value growth".

Our three strategic objectives highlight our ambition for long-term value growth, ensuring that we behave as a responsible corporate citizen in pursuit of this ambition, and provide a secure and sustainable business for our stakeholders.

In pursuit of these strategic objectives, PIC follows a three-pillar approach to our strategic risk management aims of providing "sufficient financial resources"; "effective and resilient operations"; and "meeting external expectations". More information on these strategic aims can be found in our risk management section, pages 22 to 27. We use key performance indicators ("KPIs") to measure our progress in pursuit of our strategic objectives. We keep our KPIs under constant review to ensure they remain relevant and informative. Our current KPIs are set out below.

PIC's three strategic objectives are:

1. Secure and sustainable business: Optimise internal and external resources
2. Responsible corporate citizen: Ensure our behaviours reflect our values
3. Long-term value growth: Generate attractive returns over the lifetime of the business

PIC has 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.

Key performance indicators	Solvency ratio %	Adjusted equity own funds £m	Return on equity %	Adjusted operating profit before tax £m	Market consistent embedded value £m	Expense ratio %	Policyholder satisfaction %	Customer focus %
2022	**225**	**5,852**	**21.9**	**389**	**5,591**	**0.60**	**99.6**	**91**
2021	168	5,888	7.4	534	4,996	0.39	99.6	92

PIC solvency ratio[1]

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

Adjusted equity own funds[1] ("AEOF")

AEOF is a shareholder view of PIC Solvency II Own Funds after deducting hybrid debt and removing the impact of transitional measures on technical provisions and risk margin.

Return on equity[2,3]

Return on equity is a measure of the rolling 12-month IFRS profit after tax as a percentage of average IFRS equity (excluding our Restricted Tier 1 ("RT1") notes).

Adjusted operating profit before tax[2,3] ("AOPBT")

AOPBT reflects the IFRS result relating to core business activities, alongside certain management choices and decisions around those activities, which includes the writing and management of pension insurance contracts and the management of risk through reinsurance. This metric excludes investment related variances.

Market consistent embedded value[1] ("MCEV")

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 and the market value of debt.

Expense ratio[2,3]

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

Policyholder satisfaction

Policyholders are asked to provide a satisfaction rating for PIC's customer service. This metric shows the percentage of customers surveyed who gave PIC a satisfied or very satisfied rating. We monitor this percentage to ensure we continue to deliver outstanding policyholder service.

Customer focus

Employees are asked, as part of an annual employee engagement survey, whether they believe PIC is "always seeking to understand and meet customer needs".

1 Unaudited.
2 We will be refreshing our IFRS-based KPIs in 2023 to reflect the introduction of IFRS 17. Our 2022 KPIs are published on the existing IFRS 4 basis.
3 Alternative performance metrics ("APMs") are discussed in more detail in the Trading statement.

Strategic report continued
For the year ended 31 December 2022

Trading during the year

Financial highlights	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Solvency II ratio (unaudited)	**225%**	168%
Financial investments	**40,951**	51,143
IFRS profit before tax	**1,241**	394
Adjusted operating profit before tax	**389**	534
Market consistent embedded value (unaudited)	**5,591**	4,996

Introduction

2022 was a year of extreme market volatility, characterised by rising interest rates, inflation and the prospect of recession. Despite this, PIC has delivered strong results, further strengthening our balance sheet, measured by our Solvency II ratio which increased to 225% (from 168%). We wrote £4.1 billion of new business premiums and significantly grew IFRS profit before tax. This strong performance positions us well for the market opportunity to grow the business further and supports us in fulfilling our purpose: to pay the pensions of our current and future policyholders.

2022 was a strong year for new business with £4.1 billion of premiums written (2021: £4.7 billion). The outlook for the UK pension risk transfer market remains very positive as higher interest rates have helped reduce defined benefit scheme deficits, and this improvement in funding positions will see an acceleration of schemes looking to de-risk. We are well-placed to take advantage of these growth opportunities thanks to our robust financial fundamentals, operational expertise, and market-leading policyholder satisfaction.

At the end of the year our SII ratio increased to 225% (2021: 168%) with a £4.0 billion surplus (2021: £2.7 billion) mainly driven by economic performance. Our capital and liquidity positions have proven resilient during the turbulent market conditions. We continue to take a prudent approach to capital management supported by an active hedging strategy.

IFRS profit before tax of £1,241 million (2021: £394 million) benefitted from favourable investment variances. Our hedging strategy is primarily calibrated to stabilise our solvency position rather than the IFRS balance sheet. This better reflects how we manage the business but can cause short-term volatility within the IFRS result. Operating profit remained strong at £389 million (2021: £534 million). Underlying profit grew by 44% to £654 million (2021: £455 million) from higher returns on surplus assets and new business profits, but this was more than offset by £315 million of favourable assumption changes which increased AOPBT in 2021 but which were not repeated in 2022.

At year end our portfolio of financial investments stood at £41.0 billion (2021: £51.1 billion) and we had insurance liabilities of £33.0 billion (2021: £47.0 billion), with the decrease on both sides of the balance sheet mainly driven by rising interest rates. Our defensive positioning ensured that our asset portfolio performed well despite economic volatility with limited downgrades, no defaults for the tenth consecutive year and c.99% of our debt securities rated investment grade. We continue to manage our exposures carefully.

MCEV was £5,591 million at the end of 2022 (2021: £4,996 million), with the rise driven by new business, returns from the in-force book, and net favourable market movements.

IFRS 17, the new accounting standard for insurance contracts, became effective from 1 January 2023. We have made significant progress in ensuring technical compliance, embedding new systems, and establishing the required operational capability for the implementation of this standard. Our 2022 results are published on the existing IFRS 4 basis, but from 2023, we will report under IFRS 17. IFRS 17 introduces the concept of deferring new business profits at inception, resulting in a significant store of future value that will unwind over time. The new standard represents an accounting change, so does not affect the underlying profitability or business model of the Group, nor does it impact our solvency ratio or our ability to generate capital.

There has also been progress on the UK Government's review of Solvency II legislation. While we welcome the degree of clarity received from the Government so far on the future direction of travel, we expect that there will be considerable work to follow over 2023 once the detail of the proposal is finalised.

In light of our long-term financial and operational strength, the Board has proposed a first dividend to the holding company, PIC Holdings ("PICH"), of £100 million. This will support the ultimate dividend from Pension Insurance Corporation Group ("PICG") to the Group's shareholders of £100 million, which is equivalent to 7.50 pence per ordinary share.

Looking ahead, while the volatile market conditions and evolving regulatory environment are expected to persist in the short term, our disciplined approach to underwriting, prudent investment strategy and robust financial position mean that we are well positioned for the upcoming market opportunities. We have made a strong start to 2023, having recently completed the UK's single largest PRT deal to date for estimated premiums of £6.5 billion. Following full implementation of the transaction, PIC's long-term solvency ratio would remain above 200%, based on economic conditions at 30 December 2022.

We will continue to focus on growing the value of the company safely and selectively, through sensible and proactive financial management, underpinned by our purpose of paying the pensions of our current and future policyholders.

IFRS commentary

Our 2022 results are presented on an IFRS 4 basis, consistent with prior years.

Statement of comprehensive income – highlights	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Net premium revenue earned	**4,021**	3,856
Investment return (including commissions earned)	**(12,396)**	210
Total revenue	**(8,375)**	4,066
Net claims paid	**(1,881)**	(1,785)
Change in net insurance liabilities	**11,833**	(1,601)
Operating expenses	**(246)**	(198)
Finance costs	**(90)**	(88)
Total claims and expenses	**9,616**	(3,672)
Profit before taxation	**1,241**	394
Tax charge	**(229)**	(81)
Profit after tax	**1,012**	313

Premiums

Gross premiums were £4,095 million in the year across 21 transactions (2021: £4,702 million across 14 transactions). 2022 was another strong year for new business, with the reduction in premium levels reflecting the impact of higher interest rates.

Net premiums earned represent the gross premiums written less premiums ceded to reinsurers. Premiums ceded to reinsurers decreased mainly due to the comparative including the impact of asset backed reinsurance transactions, which did not reoccur in the current year. In total, eight (2021: seven) new reinsurance contracts were concluded in 2022.

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.

The net movement in the fair value of assets, including realised and unrealised items, was a loss of £13,813 million compared with a loss of £1,029 million in 2021. Total investment income increased to £1,416 million in 2022 (2021: £1,238 million). The 2022 net investment loss was largely driven by significant increases in interest rates during the year.

It is important to note that because our assets and liabilities are broadly matched, the rise in interest rates has also materially reduced our insurance liabilities, a change also reflected in the income statement.

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 to £1,881 million (2021: £1,785 million), mainly reflecting the increase in pensioner numbers due to new business.

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 impact of market movements, principally the increase in interest rates, partially offset by the net increase in the number of policies by 20,600 to 310,200 (2021: 289,600).

Operating expenses

Total operating expenses were £246 million (2021: £198 million). This includes project spend of £58 million (2021: £38 million) reflecting a higher spend on business-wide initiatives.

Excluding these project costs, the remaining increase in spend mainly reflects higher maintenance costs to support the larger book of business.

Finance costs

Finance costs represent the interest payable on borrowings. Finance costs of £90 million (2021: £88 million) reflect the interest payable on the five (2021: five) subordinated debt securities issued by the Company.

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 His Majesty's Revenue and Customs ("HMRC") ensuring compliance with UK tax laws, regulations and disclosure requirements.

The Group ensures transparency in its tax disclosures and always seeks a constructive relationship with HMRC. The Group had an effective corporation tax rate of 18% during 2022 (2021: 21%). During the year, the Group paid a total of £256 million (2021: £56 million) in respect of corporation, payroll-related and value added taxes. The increase compared to the prior year reflects the increase in IFRS profits, and a higher headcount leading to higher payroll taxes.

The 2022 tax charge includes £6 million in respect of tax relief on our Restricted Tier 1 debt, in accordance with IAS12 Income Taxes. Previously this had been recognised directly within the Statement of changes in equity. No adjustment has been made to the 2021 tax result due to it not being material.

Statement of financial position – highlights	**2022 £m**	2021 £m
Financial investments	**40,951**	51,143
Derivative assets	**22,451**	15,018
Reinsurance assets	**1,199**	3,350
Gross insurance liabilities	**(33,029)**	(47,013)
Derivative liabilities	**(25,348)**	(16,997)
Borrowings	**(1,592)**	(1,590)
Other net assets	**776**	518
Total equity	**5,408**	4,429

At the end of 2022, the Group had total financial investments of £41.0 billion (2021: £51.1 billion). Our investment strategy is to select assets that generate cash flows to match our future claims payments in both timing and amount. Therefore, although the size of the portfolio has decreased primarily due to the impact of rising interest rates, the value of our insurance liabilities has also fallen, and they now stand at £33.0 billion (2021: £47.0 billion). Note that our hedging strategy is primarily designed to stabilise our solvency position, as noted previously, and consequently there may be some short-term volatility in the IFRS result, particularly given recent volatile economic conditions.

The credit quality of our investment portfolio is actively managed and remains strong, ensuring that the Group did not experience any defaults for the tenth consecutive year. This demonstrates the resilience of our investment strategy, which continues to prioritise the management of key risks to protect the pensions of our policyholders over the coming decades.

The decrease in the reinsurance assets during the year primarily reflects the lower levels of insurance liabilities due to interest rate rises. In 2022, the Group reinsured longevity exposure on £2.8 billion of reserves (2021: £4.0 billion), and at 31 December 2022, 87% of the Group's gross longevity related reserves had been reinsured (2021: 85%). The Group has 14 reinsurance counterparties, all of which have a credit rating of A or above.

The Group uses derivatives to hedge certain market risks associated with both new and existing business. Gross derivative assets and derivative liabilities have both increased during the year, leading to an increase in the net liability position of £918 million (2021: movement of £425 million).

The net increase is a result of market movements, in particular rising interest rates. It should be noted that a significant proportion of our derivative contracts are collateralised through the use of a custodian, and as such present little credit risk in the event of a derivative counterparty default.

As a result of the above movements, total equity has increased by £979 million (2021: £286 million).

Adjusted operating profit before tax

In addition to the statutory results presentation outlined above, the Group also chooses to analyse its IFRS results on an alternative performance metric ("APM"), AOPBT. It reflects the Group's activities which are core to our business alongside certain management choices and decisions around those activities. This includes the writing and management of pension insurance contracts and the management of risk through reinsurance.

AOPBT for the year decreased to £389 million (2021: £534 million). Whilst underlying profits have increased to £654 million (2021: £455 million) mainly due to the benefit from higher returns on surplus assets and writing new business, this was more than offset by favourable assumption changes which increased AOPBT in 2021 but which were not repeated in 2022.

More detail on the main components of AOPBT and the reconciliation to profit before tax are set out below.

Adjusted operating profit – highlights	**2022 £m**	2021 £m
Expected return from operations	**426**	288
New business and reinsurance profit	**228**	167
Underlying profit	**654**	455
Changes in valuation assumptions	**(6)**	315
Experience and other variances	**(78)**	(77)
Finance costs	**(123)**	(121)
Project costs	**(58)**	(38)
Adjusted operating profit before tax	**389**	534
Investment related variances	**819**	(173)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	33
Profit before tax	**1,241**	394

Expected return from operations

Expected return from operations reflects the expected returns arising from the management of the Group's assets and liabilities. This is derived by using assumptions about returns on the underlying investment portfolio backing liabilities, and on the surplus assets of the Group. Expected returns of £426 million were above the prior year (2021: £288 million), mainly driven by the increase in interest rates and higher levels of surplus assets.

New business and reinsurance profit

New business and reinsurance profit represents 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. New business and reinsurance profit was £228 million (2021: £167 million), resulting from the £4.1 billion of new business premiums written.

Changes in valuation assumptions

Our focus remains 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 reviews these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

As part of management's regular review of assumptions in 2022, we updated several assumptions resulting in a total charge of £6 million.

In the year we have made changes to the way we model pension revaluation increases, which contributed to a release of reserves of £62 million.

For longevity, we adopted CMI_2021, which is the latest version of the Continuous Mortality Investigation's ("CMI") projections model, to generate future mortality improvements. We also removed the impact of Covid-19 from the derivation of current mortality rates. These changes lowered Management's view of average life expectancies, and consequently generated a reduction in reserves of £60 million.

We increased our cash commutation take-up rate to reflect more recent economic conditions and PIC's new longevity assumptions. This generated a reserve release of £30 million.

Following an in-depth review in the year, we increased our reserves by £106 million to reflect Management's latest view of maintaining the cost of our Limited Price Index ("LPI") inflation linked obligations.

Finally, we have updated our maintenance expense assumptions to reflect the latest expense budget and policy count information. This increased reserves by £52 million. In addition, there were several other smaller assumption changes made in the year, including an update to our ERM valuation, reinsurance, investment expense and project costs assumptions.

In 2021, we updated several assumptions including those in respect of credit defaults, maintenance expenses, investment management fees, inflation and the IFRS liquidity premium rate, which together resulted in a total reserve release of £315 million.

Experience and other variances
Experience variances gave rise to a loss of £78 million in the year (2021: loss of £77 million). The loss in the current period largely reflects differences between assumptions used for pricing and reserving on new business. In 2021, the loss largely related to experience variances on new business, actual claims experience compared to expectation and the impacts of data updates from underlying policyholder information.

Finance costs
Finance costs reported as part of AOPBT reflect interest costs on both the Restricted Tier 1 and Tier 2 debt. The small increase compared to the prior year reflects the unwind of the carrying amount.

Investment related variances
Investment related variances include the differences between the expected long-term investment return and the actual investment return earned in the period; changes in economic assumptions on liabilities and the differences between the short-term actual asset mix against the expected long-term asset mix on new business transactions.

We carefully manage our risk to market and other economic factors and enter into derivative hedging contracts to manage these exposures in accordance with our risk appetite. Our hedging strategy is primarily designed to actively manage risk over the long-term in the solvency balance sheet, and there exists a mismatch between this hedging strategy and the IFRS balance sheet. This mismatch, and the resulting volatility, is included within the investment related variance line. The impact of changes in credit ratings and timing variances for asset purchases backing new business are also included here.

Investment related variances resulted in a gain of £819 million (2021: loss of £173 million), largely from favourable market movements and management actions to optimise the risk profile of our portfolio. The year-on-year improvement was mainly driven by higher interest rates, rising inflation and wider credit spreads.

Expense ratio
The expense ratio is an APM that measures the operating efficiency of PICG and reflects annualised operating and investment expenses as a percentage of closing financial investments.

The ratio increased to 0.60% (2021: 0.39%). Most of the increase was driven by the 20% reduction in asset values because of higher interest rates, alongside the increase in the expense base to support growth .

Return on equity
Return on equity is a further APM which measures the rolling 12-month IFRS profit after tax as a percentage of average IFRS equity (excluding our RT1 notes).

Return on equity improved to 21.9% over the year (2021: 7.4%) due to the higher profit after tax. This was driven by higher new business profit and returns on surplus assets, as well as favourable investment related variances, partly offset by favourable assumption changes which increased profit after tax in 2021 but which were not repeated in 2022. Our hedging strategy is principally designed to stabilise our solvency position, and this can lead to short-term volatility in the IFRS result.

IFRS 17
IFRS 17 – Insurance contracts is a new accounting standard effective for accounting periods on or after 1 January 2023. The standard provides a comprehensive approach for accounting for insurance contracts, including measurement, income statement presentation and disclosure. It is expected to have a significant impact on the reporting of the Group's IFRS based metrics. However, it is an accounting change, so does not affect the underlying profitability or business model of the Group.

As at the date of this publication, the Group is in the process of finalising the calculation of the opening balance sheet and the production of 2022 comparative information. For this reason, it is not currently practicable to accurately quantify the impact of adopting IFRS 17, but the expected impact on equity as at 1 January 2022 is estimated to be a decrease of between £100 million and £300 million.

Key differences between the measurement of insurance contracts under IFRS 4 and IFRS 17 include the deferral of new business profits at inception as a Contractual Service Margin ("CSM"), which are then recognised over the lifetime of the contract, alongside the release of the Risk Adjustment ("RA"), being the compensation that the Group requires for taking on non-financial risk. These offset prudent margins previously recognised under IFRS 4. For a growing business such as PIC's, this means that profit recognition is slower under IFRS 17 than IFRS 4. The Group expects to recognise a net of reinsurance pre-tax CSM plus RA of between £2.6 billion - £2.8 billion on 1 January 2022, which are expected to be released to profit over time.

Profit under IFRS 17 is sensitive to short-term investment volatility (noting that PIC bases its hedging on a Solvency, rather than IFRS, position) with the impact differing from that seen under IFRS 4. For this reason, the Group will continue to analyse its results on an adjusted operating profit basis. Due to the slower recognition of profit, the Group AOPBT and profit before tax are expected to initially be lower under IFRS 17 than under IFRS 4.

Capital and solvency

PIC, as a regulated company, is required to comply with the Solvency II regulatory framework. Solvency II requires firms to follow either a prescribed approach to calculating required regulatory capital (the standard formula approach), or to apply to the PRA to use an "internal model" developed by the Company but subject to comprehensive review and approval by the regulator. PIC has 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 as set out in the relevant PRA rules throughout the year (see Note 22 of the financial statements).

On 17 November 2022, His Majesty's Treasury published the results of its consultation on Solvency II, signifying the introduction of reforms to the solvency regulatory regime and providing a degree of clarity on the future UK regulatory environment. Review is ongoing to assess the potential impacts before updates are put into UK legislation and reflected in the PRA Rulebook.

Solvency Ratio

At 31 December 2022, PIC's unaudited Solvency II ratio increased to 225% (2021: 168%), with surplus funds of £4,011 million (2021: £2,701 million) in excess of the solvency capital requirement ("SCR"). The increase in the year was largely driven by favourable market movements and returns from the in-force book, partly offset by the impact of writing new business. The result is net of a recalculation of the Transitional measure on technical provisions ("TMTP") performed at 30 June 2022.

PIC solvency	2022 Unaudited £m	2021 £m
Own Funds	**7,210**	6,669
Solvency II capital requirements	**(3,199)**	(3,968)
Solvency II surplus	**4,011**	2,701
Solvency ratio (%)	**225%**	168%
Matching adjustment (%)	**1.637%**	1.040%

Surplus generation (unaudited)

Surplus generation	2022 £m	2021 £m
Opening Surplus	**2,701**	2,449
Expected surplus generation from in-force book	**568**	400
New business (net of reinsurance)	**(160)**	(33)
Management actions and other operating variances	**(211)**	171
Financing and project costs	**(180)**	(158)
Operating surplus generation	**17**	380
Economic and other non-operating variances	**1,293**	(128)
Total surplus generation	**1,310**	252
Closing Surplus	**4,011**	2,701

Surplus generation measures the amount of Solvency II surplus capital generated in the year, being the excess of Own Funds over SCR. The key components are the expected surplus generated from the business written in previous periods and management actions taken in the year, which are used to fund the capital requirement of writing new business, alongside paying coupons to our debtholders and dividends to our shareholders. Within economic and other non-operating variances are the impacts of market movements, alongside management actions relating to our portfolio, and variances between the actual asset mix on new business compared to that which was assumed in pricing.

Total surplus generation in the year amounted to £1,310 million (2021: £252 million). The improvement compared to 2021 was primarily driven by more favourable economic variances and higher returns from capital assets, partially offset by favourable management actions which increased surplus generation in 2021 but did not repeat in 2022, and higher new business strain as we invested in more credit assets. For further details of the movements please refer to the below analysis.

Expected surplus generated from the in-force book

Expected surplus generation comprises the:

- Expected investment return on 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.

In 2022, the expected surplus generation increased to £568 million (2021: £400 million). This was mainly due to higher interest rates driving a higher return on capital assets.

Strategic report continued
For the year ended 31 December 2022

New business (net of reinsurance)
New business (net of reinsurance) is the expected impact on surplus of writing new business based on pricing assumptions, alongside the impact of reinsuring the in-force book. Any differences between the actual reserving requirements and the pricing basis, including the timing of reinsurance, are reported as experience variances within other operating variances.

New business (net of reinsurance) consumed capital of £160 million in 2022 (2021: capital consumed of £33 million). This increase reflects greater investment in credit assets in 2022 as spreads widened. 2021 also benefitted from a number of one-off items including the use of quota share reinsurance which did not repeat this 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.

In aggregate, management actions and other operating variances led to a reduction in surplus of £211 million in 2022 compared to an increase of £171 million in 2021. The reduction in the current year includes adverse expense experience on new schemes and timing variances from not yet having reinsured certain new schemes, alongside the impact of updating management's assumptions including those related to longevity, expenses, cash commutations and the cost of inflation-linked obligations.

In the prior year, there was a benefit from actions to reposition our capital following our annual review of the assumptions used in the business, leading to an overall reduction in capital requirements. This was partially offset by the impact of applying the Sterling Overnight Index Average ("SONIA") as the new benchmark GBP risk-free rate.

Financing and project costs
Financing and project costs reflect the accrued interest paid on the Restricted Tier 1 and Tier 2 debt issues coupled with project and other regulatory costs in the year. This increase is primarily driven by the higher project expenditure on business-wide initiatives.

Economic and other non-operating variances
Economic and other non-operating variances include the difference between actual economic movements and the economic assumptions within expected surplus generation, differences between actual asset mix on new business compared to the pricing assumption, alongside tax impacts. The 2022 result also includes the impact from the recalculation of the TMTP performed at 30 June 2022.

Economic and other non-operating variances generated surplus of £1,293 million in 2022 (2021: consumed surplus of £128 million). This includes the impact of favourable market movements, particularly changes in inflation and interest rates, partly offset by economic variances on asset purchases backing new business. In 2021, this primarily related to movements in inflation, interest rates and asset trading in the year.

Adjusted equity own funds

PIC – Adjusted equity own funds £m	2022 Unaudited £m	2021 £m
Own funds	**7,210**	6,669
Deduct notional RT1 and Tier 2 own funds	**(2,050)**	(2,050)
Shareholder equity own funds	**5,160**	4,619
Add risk margin net of transitionals	**692**	1,269
Adjusted equity own funds	**5,852**	5,888

AEOF is another APM of the Group and is a shareholder view of PIC Solvency II Own Funds after deducting hybrid debt and removing the impact of transitional measures on technical provisions and risk margin. AEOF was broadly flat at £5,852 million at 31 December 2022 compared to £5,888 million at 2021. This was due to the benefit from writing new business and higher returns from the in-force book being largely offset by the impact of economic movements.

Shareholder equity own funds, which only deducts hybrid debt from PIC Solvency II Own Funds, benefits from the reduction in risk margin primarily related to rising interest rates and consequently increased to £5,160 million (2021: £4,619 million).

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 II balance sheet are exposed, and their impact on the reported solvency ratio, are shown below:

£m	2022	2021
As reported	**225%**	168%
100 bps increase in interest rates[1]	**16.1%**	12.9%
100 bps reduction in interest rates[1]	**(12.3)%**	(23.1)%
100 bps increase in credit spreads[1]	**20.1%**	9.4%
100 bps reduction in credit spreads[1]	**(5.5)%**	(19.1)%
10% increase in house price index	**0.0%**	n/a
10% decrease in house price index	**0.0%**	n/a
20% credit downgrade[2]	**(14.2)%**	(7.9)%
5% reduction in base mortality[3]	**(4.0)%**	(7.1)%

All sensitivities reflect the impact of the TMTP being notionally recalculated in both the base and stress positions.

Notes:
1 For the interest rate and credit spread sensitivities, due to the nature and size of the impacts the notional recalculation of the TMTP contributes significantly to the 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 immediately traded back 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 depends upon the market levels of spreads and the asset mix of the portfolio at the balance sheet date.
3 Equivalent to a 0.4 year increase in life expectancy from 22.7 years to 23.1 years for a typical male aged 65.

Dividend

In recognition of the continued financial strength of the business, the Board has decided, for the first time, to propose a dividend to the holding Company, PICH, of £100 million. This will support the ultimate dividend from PICG to the Group's shareholders of £100 million, which is equivalent to 7.50 pence per ordinary share. The dividend is driven by financial performance in 2022 but will be reflected in the Group's results in 2023.

The Group's overall dividend policy is to retain sufficient capital to invest in future growth opportunities of the UK PRT market, whilst paying regular dividends to shareholders, based on the current and future projected capital position of the business. The implications for solvency, leverage and liquidity are all considered when considering the appropriateness of dividend payments.

Strategic report continued
For the year ended 31 December 2022

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

At 31 December 2022, the Group's embedded value increased to £5,591 million from £4,996 million at the end of 2021. The increase is largely due to the benefit from writing new business, returns from the in-force book and favourable economic variances.

MCEV	2022 £m	2021 £m
Adjusted net worth	**7,221**	6,680
Value of in-force business after tax	**1,183**	1,796
MCEV fair value of Tier 1 and Tier 2 debt instruments	**(1,883)**	(2,381)
MCEV before cost of capital	**6,521**	6,095
Frictional cost of capital	**(575)**	(359)
Cost of residual non-hedgeable risks	**(355)**	(740)
MCEV net of cost of capital	**5,591**	4,996

IFRS reconciliation to solvency II

31 December 2022 (£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 balance sheet (£m)
Total assets less other liabilities	**37,238**	**1,592**	**30**	**(11)**	**–**	**–**	**–**	**(142)**	**(120)**	**38,587**
Insurance liabilities/Best estimate liabilities ("BEL") net of reinsurance assets	**(31,830)**	**–**	**–**	**–**	**–**	**1,205**	**(60)**	**–**	**–**	**(30,685)**
Risk margin net of transitionals	**–**	**–**	**–**	**–**	**(692)**	**–**	**–**	**–**	**–**	**(692)**
IFRS net assets/Solvency II own funds	**5,408**	**1,592**	**30**	**(11)**	**(692)**	**1,205**	**(60)**	**(142)**	**(120)**	**7,210**

Solvency II to EV reconciliation

31 December 2022 (£m)	Unaudited Solvency II balance sheet (£m)	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 of matching adjustment margins	Tax on the present value of future profits	MCEV (£m)
Total assets less other liabilities	**38,587**							
BEL net of reinsurance assets	**(30,685)**							
Risk margin ("RM") net of transitionals	**(692)**							
Solvency II Own Funds/Adjusted net worth	**7,210**	**11**	**–**	**–**	**–**	**–**	**–**	**7,221**
Value of in-force business after tax	**–**	**–**	**–**	**–**	**692**	**885**	**(394)**	**1,183**
Cost of residual non-hedgeable risks ("CRNHR")	**–**	**–**	**–**	**–**	**(355)**	**–**	**–**	**(355)**
Frictional cost of required capital ("FCoC")	**–**	**–**	**–**	**(575)**	**–**	**–**	**–**	**(575)**
Subordinated debt	**–**	**–**	**(1,883)**	**–**	**–**	**–**	**–**	**(1,883)**
MCEV	**7,210**	**11**	**(1,883)**	**(575)**	**337**	**885**	**(394)**	**5,591**

Our stakeholders.

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

Policyholders

What matters to them
- Secure pensions
- Pensions paid on time
- Clear, honest communications
- High-quality customer service and transparent outcomes
- That the assets backing their pensions create social value and benefit younger and future generations

Why we engage
- Policyholders are our key stakeholder group, yet they do not sign the initial transactions – we therefore work hard to build trust in our Company. Ongoing engagement is consistent with providing good customer outcomes and helps us continue to improve our customer service

How we engage
- Our policyholders are able to engage with us through the communication method which suits them best
- All relevant communications are Crystal Marked by the Plain English Campaign
- Our policyholders are invited to unique, complimentary events, where they can meet and question PIC’s management in a relaxed and enjoyable setting – now back in-person

2022 outcomes
- Institute of Customer Service feedback based on policyholder feedback places PIC as the most highly rated insurer in the country for customer service
- Shortlisted for two Institute of Customer Service Awards
- 25,000+ people have attended a PIC Policyholder Day since our first one in 2011

Defined benefit pension scheme trustees

What matters to them
- Long-term thinking and a partnership approach
- Focus on social value
- Ability to transact in difficult markets
- Innovative and flexible approach

Why we engage
- Trustees are the stakeholder group who transact with PIC, ensuring security for their members’ pensions

How we engage
- Each pension risk transfer transaction is managed by a dedicated team at PIC
- We seek to structure transactions that solve the specific issues faced by each Trustee Board
- The transition of scheme members is given the same level of care and attention as the original transaction
- PIC’s buy-in trustee clients receive regular updates, as well as close engagement on key issues, such as ESG

2022 outcomes
- Since our first deal, PIC has insured the lives of over 390,000 scheme members
- Trustee clients have returned to insure 75 deals with us.
- These deals have covered the benefits of over 90,000 scheme members and liabilities of £15 billion

Regulators and policymakers

What matters to them
- Policy makers have been engaged in the process of legislative and regulatory reform for financial services
- Our main regulator, the Prudential Regulation Authority’s (“PRA”) primary objective is policyholder protection, closely aligned to PIC’s purpose

Why we engage
- Ongoing engagement with policymakers helps them understand the issues faced by financial services companies and develop their approach, especially around investment in productive assets that create social value
- Working closely with the PRA is key to fulfilling PIC’s purpose and strategy

How we engage
- PIC actively participates in public policy debates affecting the financial services sector, as well as the economy more generally
- PIC seeks to maintain an open, proactive dialogue with regulators

2022 outcomes
- PIC has engaged extensively with the Treasury and other Parliamentary stakeholders on the issues of Solvency II reform, as well as Superfunds, and the Financial Services & Markets Bill
- PIC has also engaged with the PRA on Solvency II reform, including on their QIS exercise

Employees

What matters to them
- A stimulating and engaging workplace
- Recognition for teamwork and individual excellence
- A strong purpose and the creation of social value
- The ability to act proactively to meet customer needs
- Ability to develop knowledge and skills alongside expert colleagues

Why we engage
- PICG Group's employees are a critical stakeholder group for the success and future growth of the Company
- Investing in our people, including in early-stage careers, is a key focus for management

How we engage
- Purpose, culture, and values are a strong focus at PIC and are embedded in all employee communications
- Regular business updates, including Town Halls, and the PIC Company Away Day focusing on culture
- Annual employee surveys, both internal and conducted by third parties, such as Investors in People
- Ongoing commitment to #10000BlackInterns and LGBT Great

2022 outcomes
- PIC awarded "Investors in People – Silver" during 2022
- Almost 5% of PIC employees are part of our early careers' programmes, including apprentices, interns and graduates
- Our gender pay gap figure of 10.2% is below the financial services indicative average of 26.5%[1]
- We have recruited 156 employees in the year
- 89% of employees took part in the 2022 survey with results demonstrating that our customer focus remains the number one priority for our people

Privately sourced debt counterparties and the private rental sector investment partners

What matters to them
- Long-term partnership approach, including addressing key challenges, such as environmental standards
- Ability to partner with a lender which shares a strong purpose and focus on the creation of social value

Why we engage
- We work closely with debt counterparties and other investment partners to source secure, long-term cash flows to back pension payments over decades
- These investments help provide competitive pricing for pension risk transfer transactions, as well as increasing the overall security and value of the portfolio

How we engage
- We seek to shape transactions that meet specific needs
- A partnership approach means ongoing engagement over many years with counterparties and development partners, increasingly resulting in follow-up transactions

2022 outcomes
- In 2022 over 20% of our privately-sourced debt investments were to our existing partners

Key suppliers

What matters to them
- Long-term partnership approach

Why we engage
- We work with closely with our outsourced partners to deliver the right outcomes across our stakeholder base
- Our partners provide business critical services, such as policyholder administration, and asset management services

How we engage
- We work closely and collaboratively with our outsourced partners
- We maintain a close focus on paying invoices within 30 business days

2022 outcomes
- 89% of invoices received during the year from suppliers were paid within 30 business days (FY2021: 92%)

Shareholders and debt holders

What matters to them
- A purposeful business, focused on protecting the balance sheet and long-term value creation
- Timely, transparent communication with the leadership team
- Ongoing engagement on key business issues and risks

Why we engage
- Our equity and debt providers invest the capital that enables the business to grow on a secure, focused basis

How we engage
- We provide clear, transparent and timely communications that help investors understand our purpose, strategy and business model
- Business updates are communicated regularly to providers of capital, including via the Regulatory News Service ("RNS") and on our website
- Key shareholders nominated directors sit on the Board
- We meet and speak regularly with debt holders and have an annual debt holder conference call

2022 outcomes
- At year end 2022, PIC had a solvency ratio of 225%, with adjusted operating profit of £389 million

1 Industry-wide figures as at October 2021, latest available.

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 its 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. More detail on the overall culture of PIC Group can be found in the Pension Insurance Corporation Group Limited 2022 Annual Report and Accounts on pages 50 to 55.

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. As a result of this approach, PIC has a strong focus on the social benefit of its investments.

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 18 and 19 and within the Directors' report on pages 34 and 35.

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 they stay at the forefront of the Board's attention.

The Board has a duty under s.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 **p18-19**

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 14-15

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 2022, 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.

Customer programme

S.172 considerations

In July 2022 the FCA published its new "Consumer Duty" Rules and Guidance applicable from July 2023, which introduce a new consumer principle, new cross-cutting rules and four new customer outcome expectations. The Board and management had put in place a project team which is focusing on the implementation of the new Consumer Duty.

The need to foster relationships with suppliers, customers and others

Customers always were, and continue to be, at the heart of all Board considerations. Moreover, customer experience and good customer outcomes are at the forefront of PIC's decisions and in our purpose. The new Consumer Duty rules will impact activities across PIC and our policyholder operations and the Board decided to have an overarching Customer Programme which will cover the already existing initiatives around Vulnerable Customers, Policyholder Communication and any further improvements arising from the new Consumer Duty rules.

High standards of business conduct

The Customer Programme demonstrates that customers always were and continue to be at the heart of PIC's purpose and all Board's considerations. The Board recognises the importance of this programme. It approved an implementation plan for the new Consumer Duty in October 2022, and is providing close oversight and scrutiny of its implementation. Regular updates were given to the Board and this work will continue in 2023. Additionally, the Board appointed Stuart King as the new Consumer Duty Champion. Stuart has already formed a group of Independent Non-Executive Directors who will collaborate closely with Management on the implementation of the new Consumer Duty.

Outcomes and actions

The Customer Programme will ensure that PIC continues and can evidence that it delivers good outcomes for our policyholders at each stage of the customer journey. It will ensure that steps are taken to identify and mitigate foreseeable harm in what we do and it will ensure that PIC has a culture and governance framework that align PIC behind these objectives. Furthermore, the programme will deliver an improved service proposition for Vulnerable Customers and overall improved policyholder communications to ensure these are understood and helpful for policyholders in taking their decisions.

Retirement community in St Albans

S.172 considerations

Senior Living Investment Partners, a partnership between PIC and specialist real estate lender and investor Octopus Real Estate, has made its first retirement community investment via a joint venture with Elysian Residences. The joint venture has acquired a nine-acre site with planning consent to develop 124 residences in an Integrated Retirement Community, in How Wood, in St Albans, Hertfordshire.

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

PIC has a purposeful investment strategy, through which the Company backs the pensions of its policyholders over decades with secure, long-term assets. As part of that strategy, in March 2022, the Board approved the addition of a 'Senior Living Proposal' as an appropriate new asset class and subsequently, PIC committed £115 million to building the retirement community in St Albans.

Senior Living Investment Partners aims to invest in retirement communities which will house up to 2,000 people in the coming years across ten integrated developments.

Environment and community

The Group is committed to ensuring that its investments, where possible, have a social benefit. This means that the Company has invested significant sums in sectors which seek to address the lack of accommodation in the UK across the demographic spectrum. This includes addressing the need for temporary accommodation to aid those at risk of homelessness, providing social housing, and Build-to-Rent, as well as retirement living.

Outcomes and actions

This investment will serve local community and at the same time will promote the long-term success of the Company and will provide security to PIC's policyholders. The communities developed will have strong ESG credentials, targeting a 'BREEAM' Excellent rating and delivering apprenticeship opportunities to local young people.

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

Independent Age

S.172 considerations

The cost-of-living crisis means that pensioners living in poverty will struggle even more. The Group is committed to giving back to society and making a positive contribution to communities for a social benefit, especially as we can assist those in our policyholder demographic who are more likely to be severely impacted by the crisis as they are not easily able to increase their income.

Environment and community

In September 2022, the Board agreed to make a substantial donation of £1.5 million to our charity partner Independent Age, with £500,000 used to fund new roles over the next two years, and £1 million to match the Crisis Fund of £1 million, allowing Independent Age to help 50 organisations in total.

As part of this decision, the Board was provided with information and data relating to the cost-of-living crisis and the increased demand for Independent Age's services. The Board understood how Independent Age would use the funding to reach those most in need, but also how the decision supported the Group's responsible investment strategies.

The likely consequences of any decision in the long term

Independent Age already works hard to tackle poverty and the inequalities resulting from poverty across the UK. Its dedicated helpline, kite marked information and advice, community services, grants fund and policy, and influencing work combine to address the issues of inadequate income, the shock of unexpected costs, the lack of community connection, and the dangers of inadequate housing.

Through our donation, Independent Age will be able to help older people in the local communities through the cost-of-living crisis, but also via helplines through increasing the number of advisers taking calls and therefore reducing phone waiting times.

The Board considered the long term-sustainability of such a donation in relation to the financial targets of the Group, but also assured by Executive Management, upon review of Independent Age's latest Annual Report, that the donation remained appropriate.

Outcomes and actions

The long-term consequence of donating £1.5 million to Independent Age would help a minimum of 20,000 older people and therefore benefits the wider community. For our policyholders, we ensure we signpost Independent Age helpline number which provides bespoke advice on a number of areas, including benefits, which can make a real long-term difference.

Insourcing capabilities

S.172 considerations

PIC's rapid and significant growth over recent years has allowed the Group to start realising scale benefits and increase its capabilities in support of its ambitious long-term goals. As part of the long-term strategy, the Board, through the Investment and Origination Committee approved the insourcing of the GBP corporate bond portfolio that was previously managed by an external investment manager.

The likely consequences of any decision in the long term

The insourcing of PIC's external GBP credit portfolio will enable PIC to access larger asset opportunities given the Company's larger presence in the bond markets and the ability to better risk manage the portfolio by being able to react to opportunities at speed and at scale, which would be valuable to dealers looking to place larger blocks of bonds.

As part of the decision, the directors reviewed the proposal and agreed that PIC could improve the decision-making process during market downturn, thus facilitating a more sustainable company. The directors scrutinised the information in relation to the operational and system impact as well as the financial impact on the balance sheet.

Interests of the Company's employees

The insourcing arrangement has provided PIC employees within the Investment team with new opportunities to use their existing skills by creating a clearer career path as employees have the opportunity to be involved in the public side of credit.

A larger and well-structured research team with access to both public and private markets will enable the Group to attract and retain the right talent in an increasingly competitive market.

Foster relationship with suppliers

PIC had fostered a positive relationship with the external manager over many years and both parties agreed that the insourcing arrangement was in the best interest of the Group whilst the external manager can continue to provide support and specialist advice as and when required.

Outcomes and actions

PIC has created several recruitment opportunities, retained talent within the existing team and has also increased its capabilities to react quickly to market conditions.

Our Environmental, Social and Governance approach

PIC's approach to Environmental, Social, and Governance ("ESG") issues is closely aligned to our purpose of paying the pensions of our current and future policyholders. The long-term nature of our business, including the consideration of risks as they apply to our stakeholders, are intrinsic to a responsible ESG strategy.

With a portfolio of £41 billion, the investments we make to secure the pension payments to our policyholders means we must consider the impact and value of our investment decisions from both a financial and non-financial perspective.

Detailed information on our approach to ESG can be found in the PICG Annual Report and Accounts, our 2022 ESG report, and detailed information on our climate disclosures is published in PIC's 2022 Task Force on Climate related Financial Disclosures ("TCFD") report.

TCFD disclosures

We confirm that our TCFD disclosures are compliant with the requirements under Chapter 2 of the FCA ESG Handbook. We have made our detailed disclosures in a separate TCFD report due to the granular nature of the metrics disclosed.

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

PIC's climate strategy

The projected growth of the Pension Risk Transfer ("PRT") market means large flows of assets and liabilities will move from defined benefit pension schemes into insurance companies like ours. As an owner of these funds, we will have an increasing part to play in driving sustainable growth in the economy and at PIC this is done through a focus on our purpose. Our approach to climate risk, which forms part of our investment strategy, looks at how some of the risks posed by climate change may affect the stability and certainty of our investment cash flows. We look at industry-wide macro trends to determine long-term viability, for example, with oil and car manufacturers. Within this approach, our analysis focuses on the willingness and ability for individual companies to transition to a low carbon economy.

In the short-term, in order to understand our total climate impact, we are mapping carbon emissions across our investment portfolio (Scope 3: Financed Emissions) with the assistance of third parties such as MSCI and the application of methodology based on PCAF (Partnership for Carbon Accounting Financials) recommendations for our privately sourced debt investments. We are continuing our efforts to reduce our total energy consumption and carbon emissions (Scope 1 & 2) at our offices.

PIC's climate targets and achievements

Carbon neutral as a business by

2025

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

Net Zero across all emissions by

2050

We have committed to being Net Zero across all emissions by 2050

Reduced Scope 1 and 2 emissions intensity by

18%

During 2022 PIC reduced its Scope 1 and 2 carbon emissions per Full Time Employee ("FTE") by 18%

Target

50%

decrease by 2030 from 2019 levels

PIC is committed to decreasing the investment portfolio's average carbon intensity (tons CO_2/£m revenue) by 50% by 2030 from 2019 levels

Target

25%

decrease by 2025 from 2019 levels

PIC set an interim target of decreasing the average carbon intensity of investments in publicly-listed corporate credit by 25% from 2019 levels by 2025

Weighted Average Carbon Intensity ("WACI")

175

tons CO_2e/£m revenue

weighted average carbon intensity of investment portfolio

The weighted average carbon intensity of PIC's portfolio represents 78% of investments and this is a 14% decrease compared to 2021

Temperature alignment of

2.08°C

for public corporate credit portfolio

PIC's public corporate credit portfolio is aligned to a 2.08°C temperature rise, with 70% of reporting corporates on a trajectory of 2°C or below

Principal risks and uncertainties

Mitigating our key risks

We closely manage all risks within our business. The key risks to the business and its strategy for managing those risks are set out below to page 27. More details are also included in Note 15 to the financial statements.

Risk and what it means to us	Current impact	Outlook	How we are managing this
Risk Pillar: **Sufficient Financial Resources** Objective: **Long-term value growth**			
1. **Financial markets** **Risks associated with changes in values of assets and liabilities caused by market movements, downgrades and defaults.**	**Change in year** The global economic outlook has weakened further through 2022 due to high inflation and low growth rates. Central banks globally are increasing interest rates to combat inflation, which is exacerbated by energy and food price shocks. Geopolitical risks are high across the globe, and in particular the Russian invasion of Ukraine continues, which has worsened Europe's energy security. The impacts on PIC of these conditions can be both positive and negative. On the negative side, the current market conditions have resulted in higher risk of credit downgrades and defaults, and heightened risk overall. Rising yields improve the funding position of pension schemes, which accelerates their ability to move to buyout, which in turn increases new business opportunities. Higher yields also improve PIC's solvency position.	High inflation levels are expected to persist in the short term and there is a potential for further interest rate increases. This, together with the recessionary environment, could mean increased credit risk and a downward pressure on credit ratings. Sustained levels of downgrades and defaults would impact PIC's solvency position. We expect the economic outlook to remain weak in the short to medium term.	We constantly monitor market conditions and have risk appetite limits set for PIC's exposure to market risks. This year, in the current high-risk environment we have also: • assessed how potential public credits may respond in a recessionary environment; • assessed the potential solvency impact for a UK sovereign downgrade; and • assessed our private credit exposure under the poor macro-economic outlook. PIC also holds capital to protect the business against market movements, downgrades and defaults, and we continue to refine our methodology for calculating the amount of capital to hold.
2. **Longevity** **Risks associated with the pension related liability payments that PIC makes being greater than PIC expects to pay due to policyholders living longer than expected.**	**Change in year** If PIC's policyholders live longer than was originally assumed when pricing new business, PIC's liabilities will increase. There has been increased uncertainty in relation to life expectancy due to Covid-19, although the level of uncertainty has reduced compared with 2021. PIC generally seeks to transfer longevity risk via reinsurance contracts, which substantially reduces our exposure to this risk. Where PIC has retained longevity risk, this is weighted more heavily to younger policyholders, a demographic which has so far been less overtly affected by Covid-19 than older populations.	The outlook for longevity risk and therefore the cost of reinsurance is uncertain, driven by impacts of the Covid-19 pandemic, and compounded by the cost-of-living crisis and reductions in public spending.	We aim to retain less than 40% of our longevity risk through reinsurance (at FY2022, 87% of longevity exposure was reinsured). This reduces the risk to PIC of policyholders living longer than expected as the increase in liabilities is shared between PIC and the reinsurers. In addition, PIC regularly compares actual longevity experience with what was expected to ensure its assumptions remain appropriate, and continually seeks to enhance its understanding of changes to policyholder life expectancy. PIC also holds capital to protect the business against potential increases in longevity.

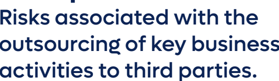
Key Increased Stable Decreased

Risk and what it means to us	Current impact	Outlook	How we are managing this
3. **Financial counterparties** **Risk associated with the failure of one or more of PIC's banking or reinsurance counterparties.**	**Change in year** A failure of one of PIC's counterparties could result in financial loss to PIC or to an increase in the capital that PIC is required to hold, weakening PIC's balance sheet. PIC's counterparties continue to demonstrate strong capital positioning and diverse business lines, with generally resilient balance sheets. There are no material counterparty default concerns with our banking counterparties despite the recent volatility in markets. While 2022 saw a high level of natural catastrophe activity, our reinsurance counterparties have remained resilient.	PIC expects limited negative change to the credit ratings of our banking counterparties in the near term given the credit strength of these counterparties. Despite some capital erosion during 2022, rating agencies expect that the reinsurance sector will remain well capitalised due to a combination of disciplined underwriting, increasing investment income, prudent capital management and sophisticated risk management.	We monitor the strength of our counterparties on a daily basis, and can decide to temporarily stop adding risk exposure with a counterparty if we view them as high risk. Approval from the PIC Board is required before we transact with any new banking or reinsurance counterparties. We also hold capital to protect the business against counterparty defaults.
4. **Liquidity** **Risk associated with PIC's ability to meet its financial obligations as they fall due without incurring excessive cost. This includes risks stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimise a loss.**	**Change in year** PIC's balance sheet is sensitive to movements in long-term interest rates, as well as the dollar/sterling exchange rate. Both interest and exchange rates have been volatile throughout 2022, particularly during September and October, when markets experienced significant movements due to the 'mini-budget'. As a result, PIC had to post significant liquid assets as collateral for some of our derivative positions that are used to hedge certain market risks. However, PIC has significant liquidity, and can withstand shocks well in excess of our liquidity risk appetite. As a result, PIC managed through the market disruption well.	Given the Government has signalled its fiscal policies, a repeat of the September/ October market conditions is not expected in the near term. However, markets remain volatile and other events (e.g. an escalation of the Russia/Ukraine war or another change in UK Government) could drive further market volatility and heighten PIC's liquidity risk.	Markets remain more volatile than in prior years, resulting in an increased level of risk. We constantly monitor our liquidity position and will increase frequency if market conditions warrant it. Following the September and October stress event, a 'lessons learned' exercise was undertaken and an action plan implemented to further increase PIC's business resilience to these types of shocks.

Risk Pillar: **Effective and Resilient Operations**
Objective: **Responsible corporate citizen**

Risk and what it means to us	Current impact	Outlook	How we are managing this
1. **Business processes** **Risks associated with the adequacy of the design and implementation of PIC's business processes and controls.**	**Change in year** This risk relates to PIC's internal processes and controls failing or not scaling effectively as the business grows. During 2022, we made control process improvements throughout PIC as the business has continued to grow. For example, operational resilience and change management.	As PIC's operations continue to grow in size and complexity, this risk is expected to increase in the medium term, but will be offset by the continuing improvement in controls.	We continuously monitor the effectiveness of and risks associated with our key processes, making enhancements where necessary. We have continued to build out our operational resilience framework which focuses on the maintenance and recovery of our business processes, increasing our overall resilience to both internal and external events and overall process effectiveness.

Principal risks and uncertainties continued

Risk and what it means to us	Current impact	Outlook	How we are managing this
2. **Talent retention and recruitment** **Risks associated with a failure to attract, train and retain knowledgeable and skilled staff.**	**Change in year** The employee market over 2022 has been very competitive, driven partially by the current economic climate, and the risk of failing to attract and retain the staff required to drive the business forward has remained a key risk for PIC to manage. PIC faces specific challenges in sourcing appropriate candidates with niche skills and/or product knowledge, in a timely manner for the appropriate rate. This risk is exacerbated by the current buoyancy of the bulk annuity market, creating new business opportunities but with the risk of resource stretch and drop in morale amongst existing staff. We have undertaken a review of our culture, and listened and acted on staff feedback. We have taken action to manage the Risks around getting to know new joiners and developing teamwork in a hybrid working environment, including our all PIC staff away day.	The recruitment market is expected to continue to be challenging during 2023, with candidates looking for inflation-beating salaries and market-leading benefits. This could, however be tempered by the recession forecast, in that the candidate market may soften as other organisations may potentially reduce headcount.	We continue to review benefits to make PIC an attractive place to work and offer flexible working as standard. Where resource is stretched, we recruit temporary cover where necessary. Our HR team is focused on strategic and tactical workforce planning in areas of stretch. We continue to focus on and invest in staff development and wellbeing.
3. **Third parties**  **Risks associated with the outsourcing of key business activities to third parties.**	**Change in year** Third party administrators play a critical role in PIC's interactions with its policyholders. They help ensure we pay our policyholders the right amount at the right time and deal with key communications and customer service. Other key business processes are also outsourced to third parties. If PIC's third parties fail to deliver, PIC runs the risk of financial loss, policyholder detriment, regulatory breaches and reputational damage. A key risk in the current third party landscape is that many of PIC's third parties are also facing a tight recruitment market, and are facing similar challenges to PIC in the face of a buoyant bulk annuity market.	Third parties will continue to be of critical importance to the delivery of PIC's policyholder solutions and related activities, particularly as our portfolio expands. The recruitment market remains buoyant and the new business opportunities show no sign of abating, meaning that these risks could continue to increase over the course of the year.	We maintain a robust third party oversight and on-boarding processes and monitor third party performance against KPIs. We also undertake regular reviews of third parties and the activities they undertake, and work with the third party to implement improvement areas. We work closely with our key outsourced administrators on resourcing and optimal staff mix and, where issues are identified, work closely together to resolve these.

Key Increased Stable Decreased

Risk and what it means to us	Current impact	Outlook	How we are managing this
4. **Cyber** **Risk arising from the unauthorised access to PIC's information systems and data.**	**Change in year** A successful cyber attack on PIC's information systems could result in financial loss, operational disruption and/or reputational damage. The primary development in the cyber threat landscape this year is the war between Russia and Ukraine, given Russia's reputation for cyber warfare. Our new Chief Information Security Officer is expanding PIC's information security resourcing, to improve our security position to keep pace with the evolving threats and business growth.	As we continue to grow and increase our use of cloud services, our cyber security risks will evolve and our cyber risk management will need to adapt in line with this.	We maintain awareness of the latest threats and how these might impact PIC by engaging with external advisers. We maintain a robust IT environment to ensure the protection of our data and the security of our systems and those of outsourced or third parties that we work with. The IT environment is regularly tested internally and externally to check the effectiveness of our security controls, including our incident response capability.

Risk Pillar: **Meeting External Expectations**
Objective: **Secure and sustainable business**

Risk and what it means to us	Current impact	Outlook	How we are managing this
1. **Policyholder information** **The risk that PIC's business practices, culture or behaviour lead to unfair or poor outcomes for customers.**	**Change in year** This risk could materialise by PIC failing to pay a policyholder the correct amount, to the correct account and at the correct time. Communications to policyholders in our letters, on our website, or in telephone calls could also be unclear or untimely. There is also a risk of vulnerable customers not receiving as good an outcome as all other customers. These risks have increased due to market volatility experienced in 2022 and cost-of-living crisis as our policyholders are increasingly concerned about their finances. This year we have also focused on meeting the needs of all policyholders and workshops have been conducted to enhance our response to policyholders, who may be experiencing vulnerability.	The new Consumer Duty is placing increased importance on ensuring firms act to deliver good outcomes for customers. PIC sees this new regulation as an excellent opportunity to review our policies, procedures, and the customer journey to ensure that all our policyholders, including those exhibiting traits of vulnerability, receive good outcomes. The regulation introduces a higher standard for our communications. As well as being 'fair, clear and not misleading', we must ensure that communications are likely to be understood by all our customers.	The project and plan for completion and implementation of the New Consumer Duty regulations has been approved and is underway. We will be reviewing all our letters to ensure they are clear and easy to understand and help policyholders make decisions in their own best interest. We also continue to collect, listen to and act on feedback from policyholders.

Principal risks and uncertainties continued

Risk and what it means to us	Current impact	Outlook	How we are managing this
2. **Regulatory and political environment** **Risk associated with the regulatory and political environments in which PIC operates, including the ability of PIC to keep pace with changes in these environments.**	**Change in year** Regulatory change, supervision and political changes in policy may reduce PIC's value proposition or result in PIC's business model becoming unviable. The financial services industry, and the PRT market, continues to see a significant level of regulatory focus and change, alongside fluctuations caused by political events. This has in part been driven by the various risk events that the Financial Services Industry has experienced during 2022, as regulators look to firms for both prudential resilience, and giving customers a good outcome and continuing growth forecasts for the PRT market. During the year, regulatory change and supervisory risk has increased, driven by regulatory reforms (e.g., Solvency II reform), political events driving uncertainty (e.g. the September "mini-budget", and the Conservative leadership re-election) and regulatory responses to market volatility. Specifically, as a focused insurer for the pension risk transfer market, PIC continues to assess and contribute to Matching Adjustment and Risk Margin reform as part of the HMT and PRA's Solvency II work.	We expect this risk to remain relatively high over the next three years, given the General Election, Solvency II regulatory reform, the new Consumer Duty implementation and other key regulatory changes.	We maintain an open dialogue with regulators and policymakers, closely monitoring discussions and scanning the horizon for potential regulatory political risks to the business. PIC continues to ensure prompt delivery of regulatory information to assist in supervisory activities and engage in relevant consultations. Where changes which pose a risk to the business are identified through horizon scanning and risk identification, 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.
3. **Competitive landscape** **Risks associated with the execution of PIC's business strategy arising from the marketplace in which PIC operates.**	**Change in year** 2022 has been a challenging year in which to write new business, with increased competition for deals reducing prices and making return targets harder to achieve. Given the long-term nature of PIC's business, the absolute risks to PIC of lower new business volumes and returns in a given year are minimal.	PIC's pipeline of new business going into 2023 is strong and the supply of new business across the wider market is expected to increase significantly as higher interest rates have meant that buy-ins and buyouts have become affordable for more pension schemes. Whilst competition for new business is expected to remain strong, the increase in demand may push up prices and make returns targets more obtainable.	We continue to maintain strong pricing disciplines, allowing us to retain capital for transactions where we believe we are likely to be competitive and also achieve our return targets. Maintaining this discipline will be increasingly important in the context of a market where demand for buy-ins and buyouts is increasing.

Key

Risk and what it means to us	Current impact	Outlook	How we are managing this
4. Climate change **The potential for adverse consequences arising from the impacts of climate change, including physical risks arising from climate driven events, and transitional risks arising from the process of adjustment to a low-carbon economy.**	**Change in year** Climate change continues to be an area of priority for the public, insurers and regulators alike. Climate change may reduce the value of PIC's assets, increase the cost of capital, affect new business volumes, cause operational disruption and have a negative reputational impact. 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, could lead to potential reductions in the value and availability of assets PIC invests in, and disruption to PIC's operations and counterparties. The transition to a low-carbon economy 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. In 2022, the treatment of climate change risk was a focus area; we reviewed and enhanced our risk appetite statements and metrics for climate risk.	The focus on climate change and related sustainability risk will remain high given the continued focus from key stakeholders.	We have made progress over the past year to manage the potential risks arising from climate change, including the formalised approach to achieving Net Zero and further enhancement of the climate risk approach, including monitoring. The ESG Committee and Risk Committee regularly discuss climate related risk issues and policies, including climate risk scenario testing, which also includes climate and ESG related horizon scanning.

The Strategic Report on pages 1 to 27 was approved by the Board and signed on its behalf by:

David Weymouth
Chairman
14 Cornhill, London, EC3V 3ND
15 March 2023

Directors' Report

Corporate Governance Statement

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

PIC has listed securities in issue and complies with the applicable sections DTR7.1 and DTR7.2 of the FCA handbook. The Company does not have a Premium Listing and therefore is not required to adopt the UK Corporate Governance Code (the "Code"). However, the Board is committed to high standards of corporate governance and supports the principles laid down in the Code, as issued by the Financial Reporting Council and which is available at www.frc.org.uk.

The Board considers that the Company was compliant with all of the principles of the Code during the financial year ended 31 December 2022 but it does not comply with a number of provisions of the Code and some are not applicable. Detailed disclosures on how the PICG Group complied with the Code, and a table showing provisions which the PICG Group does not apply is included in the Pension Insurance Corporation Group Limited 2022 Annual Report and Accounts (the "PICG Annual Report and Accounts").

Simplified PICG Group structure

- Holding entities
- Regulated entity
- Service entity

Shareholders
↓
Pension Insurance Corporation Group Limited
↓
PIC Holdings Limited
↓
Pension Insurance Corporation plc | Pension Services Corporation Limited

The Board's commitment to robust governance means that we continue to work towards full compliance with the provisions of the Code, where applicable. Additional information on the Company's governing body and its Committees is included in this Directors' Report.

Leadership and Company Purpose

The Company is led by a Board of Directors (the "Board") who are appointed pursuant to the Articles of Association. There is an overlap of Directors between the PIC Board and the Board of PIC's ultimate parent, Pension Insurance Corporation Group Limited ("PICG") as shown in the table on page 29. The Group continues to benefit from a simple corporate structure, as depicted below, and composition of the Boards is designed to ensure there is an overlap of Directors between the Boards, as shown in the attendance table on page 31 and that both Boards are aware of relevant matters which affect either PICG or PIC. Any mention of the Board in this report refers to the PIC Board, unless stated otherwise. The Directors have the benefit of the Group's Directors' and Officers' indemnity and insurance policy.

The Board believes that good governance, strong values and the right culture enables the Company 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 Company should be governed.

The role of the Board is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board also plays a key role in establishing the Company's purpose, which is to pay the pensions of its current and future policyholders. In order to achieve that long-term sustainable success and fulfil the Company's purpose, the Board ensures that the Company and its subsidiaries operate within a framework of prudent and effective controls which enable risks to be assessed and managed. The Board also plays a key role in setting the Company's culture and monitoring how it is being embedded so that it is aligned with the Company's values and purpose. The right culture enables the delivery of the Company's strategy and business model by promoting attitudes and behaviours of high ethical standards and integrity, as set out in the Company's values. The Board 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 Company's purpose and values.

The Board has collective responsibility for setting the Company's strategic goals and providing leadership to put them into effect through the management of the business within the Company's governance framework. It does this by setting strategy, ensuring appropriate standards, controls, and monitoring and reviewing management's performance. Part of this process is ensuring that the right resources are in place to enable the Company to deliver on its strategic goals and to meet its obligations. This includes both financial and human resources, ensuring the right levels of capital are held as well as the appropriate team of people needed to run a growing business whilst managing the risks.

The main priorities for the Board in 2023 will be to continue to build on the work carried out to date by the Board, ensuring that Directors and executive management have the relevant skills and experience to continue to provide strong direction and leadership for the Company as it continues to grow and evolve. The Board will continue to work to progress PIC as a resilient and effective organisation.

The independence of the Non-Executive Directors ("NEDs") is reviewed annually in accordance with the criteria set out within the Code. The Board comprises of a majority Independent Non-Executive Directors ("INEDs") including the Chairman.

Division of responsibilities

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 executive management, which is reviewed on an annual basis. These reserved matters include the Company'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.

More detail on the Board's responsibilities, composition and effectiveness can be found on pages 82-85 of the PICG Annual Report and Accounts.

Board of Directors

The Directors who served during the period and up to the date of approval of these financial statements are listed in the table below. Details of their experience can be found in their biographies in the PICG Annual Report and Accounts.

Director	Position	Executive/Non-Executive	Date of appointment
David Weymouth*	Chairman	Independent Non-Executive	1 October 2022
Roger Marshall	Senior Independent Director	Independent Non-Executive	1 September 2015
Tracy Blackwell	Chief Executive	Executive	7 July 2011
Dom Veney	Chief Financial Officer	Executive	10 December 2021
Jake Blair		Non-Executive	7 June 2021
Sally Bridgeland		Independent Non-Executive	28 January 2021
Judith Eden		Independent Non-Executive	1 August 2019
Julia Goh		Independent Non-Executive	1 October 2021
Stuart King		Independent Non-Executive	1 January 2019
Arno Kitts		Independent Non-Executive	1 July 2016
Jérôme Mourgue D'Algue		Non-Executive	20 November 2018
Peter Rutland		Non-Executive	5 May 2017
Mark Stephen		Independent Non-Executive	19 November 2014
Wilhelm Van Zyl		Non-Executive	1 May 2015

* David Weymouth was appointed to the Board on 1 October 2022 and became Chairman on 19 December 2022 following approval of his appointment by the Regulator.

** Jon Aisbitt stepped down from the Board on 31 October 2022.

Directors' Report continued

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 and that there is also a cross membership between the Committees. Such an approach facilitates appropriate oversight of the entire business and ensures a good information flow between the Committees.

Board
The role of the Board is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The Board also plays a key role in establishing the Company's purpose, which is to pay the pensions of its current and future policyholders. Matters reserved for the Board are described on page 29

Audit Committee
Assists the Board in its oversight of the financial reporting process, the internal and external audit process, the system of internal controls and compliance with law and regulations.

ESG Committee
Assists the Board with oversight of the Group's ESG strategy and activities, the embedding and monitoring of ESG matters. Recommends and reviews ESG policies and initiatives.

Investment & Origination Committee
Assists the Board with oversight of the investment policy and strategy, operation of PIC's investment portfolio and origination of new business and reinsurance.

Nomination Committee
Assists the Board with a review of the Board composition and succession planning for the Board and executive management.

Remuneration Committee
Recommends to the Board the framework and broad policy for the remuneration of the Company's Chair, Non-Executive Directors, the Executive Directors and other members of the executive management.

Risk Committee
Assists and advises the Board in relation to the current and potential risk exposure and future risk strategy and risk appetite. Responsible for the overall monitoring of the effectiveness of the Risk Management Framework including oversight of the Internal Model.

Chief Executive Officer
Under authority delegated from the Board responsible for management of the Company.

Executive Committee
Assists the Chief Executive Officer in the overall day to day management of the Company. Proposes strategy and business plan to the Board and ensures there are sufficient resources to deliver those. Implements the Board approved strategy, operational plans, policies, procedures and budgets. Ensures the Group has appropriate systems and controls in place. Monitors operating and financial performance of the Company.

Management and Operating Committees
Specialist committees assisting the executive management in discharging their responsibilities.

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 Environmental, Social and Governance Committee;
- the Investment and Origination Committee;
- the Nomination Committee;
- the Remuneration Committee; and
- the Risk Committee.

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

For detailed reports of the Board Committees, please refer to pages 94-111 in the PICG Annual Report and Accounts.

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 the new Consumer Duty, and overall conduct.

Board and Committee meetings

The Board meets formally on a regular basis and also 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 PIC is executing the business plan, policyholder administration, including details of how we meet our obligation to policyholders, 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 34-35.

Attendance by Directors at Board and Committee meetings

In 2022, there were six scheduled PICG Board meetings and seven ad hoc meetings. The PIC Board held seven scheduled PIC Board meetings and eight 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.

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

1 David Weymouth was appointed as Director to the PICG and PIC Boards on 1 October 2022. He became the Chairman on 19 December 2022 following approval of his appointment by the Regulator.
2 Jon Aisbitt stepped down from the PICG Board on 1 October 2022 and from the PIC Board on 31 October 2022.

Key
- Meetings attended (first figure)
- Scheduled meetings (second figure)

Strategic Report p1–27
Directors' Report p28–42
Financial Statements p43–91

Directors' Report continued

Board composition and effectiveness

The Nomination Committee regularly reviews the size, structure and composition of the Board and its Committees and makes appropriate recommendations to the Board. 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 PIC'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.

The PICG Board comprises the same Chairman and CEO as PIC, 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. Jon Aisbitt stepped down from the PICG Board on 1 October and from the PIC Board on 31 October. He was succeeded by David Weymouth who joined the PICG and PIC Boards on 1 October 2022. David assumed the role of Chairman on 19 December 2022 following approval of his appointment by the PRA and FCA.

During the year, the Chairman (Jon and his successor David) and the NEDs met without the Executive Directors, and the NEDs met without the Chairman present. Whilst the Board increased its diversity in terms of gender and ethnicity following Director appointments in 2021, 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.

Time commitments

As part of the appointment process and their annual review, each NED confirms 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 in the PICG Annual Report and Accounts 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.

Induction and ongoing training and development

Following appointment, all Board members receive a tailored induction programme, which is monitored by the Chairman and is the responsibility of the Company Secretary. The programme is bespoke and takes into account the new Director's qualifications and experience. It 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.

Ongoing learning of the Board

In addition to the mandatory compliance, conduct risk and anti-money laundering training, the Directors have been provided with thematic teach-in sessions and deep dives on the operational resilience, the new Consumer Duty, the Credit Model, ESG considerations in investments, emerging risks, IFRS 17, hedging and inflation, diversity and inclusion, and cyber risk.

Performance evaluation

The Board conducts an annual evaluation of its effectiveness in order to identify areas for development. Every three years the evaluation is conducted by an external consultant. The last external evaluation was in 2020, therefore in 2022 the evaluation was carried out internally. The internal evaluation is implemented by way of a survey which in 2022 covered five areas of consideration as shown on the chart below. The Board and standing attendees were asked to answer 31 questions using the scale: 1- Strongly Disagree, 2- Disagree, 3- Agree, 4- Strongly Agree. The Committees used the same method but with fewer questions tailored to their activities. In addition to using the scale, each section offered Directors and standing attendees an opportunity to provide additional 'free-text' commentary on any other issues.

The following strengths and areas for development were identified from the 2022 evaluation:

Board strengths:

- The Board continued to be effective, committed with the right balance of skills and experience
- There are clearly defined roles and responsibilities between the Board and its Committees
- The Board understands well PIC's culture, its stakeholders and is well-informed, therefore able to make high-quality decisions
- The Board is supported by effectively functioning Committees which benefit from a depth of specialist skills and they provide invaluable support to the Board as a whole

Areas for development:

- Increase the time spent on the strategic and cultural aspect of the business
- Further focus on succession planning
- The Committees to continue increased oversight on the embedding of ESG matters in the day to day business activities

Areas for Board development from 2021 evaluation	Actions taken during 2022
Further improve the Board's gender, ethnic and wider diversity	Three new Directors were appointed in 2021, two INEDs and one shareholder nominated Director. The appointments have increased the Board's gender and ethnic diversity. In 2022 the Company appointed its new Chairman. Whilst this appointment did not increase the gender or ethnic diversity of the Board, it has increased the diversity of experience, skills and knowledge.
Increase the time spent on people and the cultural aspect of the business	The cultural aspect of the business has been discussed at several Committee and Board meetings. This continues to remain an area of focus in particular with regard to culture measuring and monitoring.
Further review mechanisms and processes around executive succession planning	The Nomination Committee and the Board has spent a lot of time in 2022 on succession which led to the appointments of the new Chairman of the Board, the Interim Chief People Officer, and the Chief Operating Officer. Succession will remain on the Board's agenda to ensure orderly succession for INEDs who are coming to the end of their nine year term.
Incorporate technical topics into the Board's training programme which were highlighted in the review	The Board and its Committees benefited from several technical training sessions which are mentioned on page 86 of the PICG Annual Report and Accounts.

Board activities.

Each year the Board approves an annual Board calendar of matters which it considers important to oversee, debate and review. The table below shows these regular matters; the topics which were of particular focus in 2022 are highlighted at the top of the table. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006 as outlined on pages 16 to 19.

Strategy	Customers/ Policyholders	Risk management and Internal Model
Key highlights from Board activities in 2022		
• Approved refreshed strategic objectives and KPIs. • Approved PIC Sustainability Strategy, and updated the ESG Policy.	• Approved PIC's Operational Resilience Self-Assessment including Important Business Services and Impact Tolerances in respect of PRA PS6/21 and FCA PS21/3. • Considered implications of the new Consumer Duty for the Group and approved the implementation plan.	• Carried out increased oversight and monitoring of PIC's liquidity and solvency position, ensuring that it was robust and resilient to exceptional market conditions.
Routine matters considered as part of the annual Board calendar		
• Approved the five-year business plan. • Considered the Company's strategy and further opportunities for growth. • Approved new asset classes to be added to PIC's portfolio. • New business transactions above a defined threshold require Board approval, and the Board considered and approved a number of new business transactions. • Continued to discuss PIC's culture in the context of how it affects PIC's strategy. • Considered the PIC's pricing assumptions against investment outcomes. • Continued to provide oversight of the Company-wide, comprehensive programme of change focusing on the initiatives being handed over to business as usual.	• Continued to closely oversee PIC's operations with particular focus on outsourced administration services outsourced to ensure excellent service provided to PIC's policyholders. • Redefined the various customer initiatives into an overarching Customer Programme which covers: the new Consumer Duty, policyholder communications and vulnerable customers.	• Closely oversaw PIC's portfolio and received regular updates on any de-risking carried out by the Investments team. • Approved risk appetite with particular focus on climate change. • Approved the Own Risk and Solvency Assessment. • Provided oversight of the implementation of the hedging strategy. • Received reports 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. • Received an annual report on the Internal Model validation. • Continued its focus on PIC's regulatory engagement. • Approved the updated recovery and resolution plan. • Received an annual cyber security benchmark.

Employees and remuneration	Financial reporting and controls	Corporate governance

Key highlights from Board activities in 2022

Employees and remuneration

- Worked closely with the Nomination Committee on executive succession and approved the appointments of the new Chief Operating Officer, and the interim Chief People Officer.
- Approved annual bonus and Long Term Incentive Plan scorecards metrics and ranges.

Financial reporting and controls

- Approved the full year Annual Report and Accounts.
- Monitored the PIC's progress in respect of the implementation of IFRS 17.

Corporate governance

- With assistance from the Chair Search Committee established by the Nomination Committee and an external recruitment consultant, undertook a search for a new chair of the Board, and approved the appointment of David Weymouth as the new Chairman.

Routine matters considered as part of the annual Board calendar

Employees and remuneration

- Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, and evolving working arrangements.
- Endorsed the launch of the Group's share schemes for the year as an important way for the Company to engage with its employees.
- An employee survey was completed with the Board discussing the results and what their significance is for the PIC'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

- Regularly received and reviewed the Company's performance reports.
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee.
- 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 Company controls, risk management and governance processes, and culture.

Corporate governance

- Reviewed the composition of the Board and Committees.
- Considered the results of an internal Board effectiveness review in 2022 as disclosed in this report.
- Monitored any governance actions which had arisen from the 2021 Board evaluation.

Strategic Report p1–27
Directors' Report p28–42
Financial Statements p43–91

Directors' Report continued

Stakeholders and the Board

The Board recognises that effective engagement with, and participation from, shareholders and other stakeholders is fundamental to promoting the Company's long-term sustainable success and to fulfilling its purpose of paying pensions of the current and future policyholders. When making decisions, the Board has regard to the interests of all of the Company's stakeholders, as well as its broader duties under s.172 of the Companies Act 2006. The Company's formal s.172 statement can be found on pages 16 to 19 of this Annual Report and pages 14 and 15 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.

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 14 and 15 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 16 to 19.

Supporting the Board's commitment to stakeholders

PIC ensures that the interest of its stakeholders are embedded and intrinsic to any decisions made by the Board, Executive Committee and senior management. Board papers include a section outlining how the interests of stakeholders are affected by a particular decision to assist Directors take s.172 factors into consideration in their decision making. 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 40 to 43 in the s.172 statement of the PICG Annual Report and Accounts.

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 details on the matters reserved for the Board can be found on page 82 of the PICG Annual Report and Accounts in the section "Division of responsibilities".

Embedding stakeholder interests within our culture

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

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 in person and virtually. The main activities of the Board with regard to stakeholder engagement are shown on pages 14 and 15.

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 and Half Yearly Reports, 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. Views of the PICG Group major shareholders 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 PICG shareholders.
	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. Throughout the year Directors and management met with the PRA, with management providing 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 meet with policyholders during the Company's policyholder events which this year included one Policyholder Hour, four Policyholder lunches and one Policyholder Day. PIC's Policyholders were also part of the Lord Mayor's Show in London attended by PIC and participated in the topping out ceremony of Manchester New Victoria. The Board continued to receive regular reports on PIC's customers, and considered an overarching Customer Programme which covers vulnerable customers, policyholder communications and the new Consumer Duty. A number of NEDs attended workshops which focus on the implementation of the new Consumer Duty.
	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 Executive Board members hold regular Town Halls with all employees which facilitate a two way dialogue between the Executives and PIC's workforce, and feedback is communicated back to the Board. There is also a Senior Leadership Forum which provides channels of communication between the Executives and the wider employee group. 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 and sponsors	The relationship PIC 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 numerous counterparties and provides financing for variety of projects which enable the development of new homes for social rent, and development of renewable 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. The projects PIC invests in create opportunities for local communities through funding of the projects but also additional initiatives such as funding of local charities, and opportunities for younger generations to work in the construction industry via apprenticeships.

Directors' Report continued

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

Issue of shares and debt
The Company had 1,226,385,310 ordinary shares of £1 each in issue and these were subscribed by PIC Holdings Limited, the immediate parent company. To date, the Company has issued £2,050 million of debt, comprising of £450 million of Restricted Tier 1 bonds and £1,600 million of Tier 2 bonds. During the year, the Company did not issue any subordinated debt.

Dividends
The Directors of the Company proposed a dividend for the year of £100 million (2021: nil).

Political contributions
The Company made no political contributions during the year (2021: £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 10 to the financial statements.

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

Material contracts
During the year, 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.

Section 172 Statement on the Company's business relationships with suppliers, customers and others
Information on how the Directors have had regard to the need to foster effective business relationships with suppliers, customers and others including detail on how they have discharged their duty under s.172(1) of the Companies Act 2006 is included in the Strategic Report on pages 16 to 19.

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

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

Auditor
In accordance with section 489 of the Companies Act 2006, the auditor was re-appointed at the Annual General Meeting (the "AGM") of the Company held on 23 March 2022. The Board proposes the re-appointment of KPMG LLP and subject to approval by shareholders at the AGM, KPMG LLP will continue in office.

Conflicts of interest
The Board has established a procedure to deal with Directors' conflicts of interest which complies with the Company's Articles and the provisions in 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.

Internal controls and risk management system

The Board has overall responsibility for the system of risk management and internal controls, and for reviewing its effectiveness. The Company has a risk management and internal controls system in place which is designed to manage and reduce rather than eliminate the risk of failing to achieve business objectives. It can only provide the Board with reasonable, and not absolute, assurance against material misstatement or loss. The Board has delegated responsibility to the Audit Committee and the Risk Committee for monitoring this system and reporting on its effectiveness to the Board. Each year, the Board approves an integrated assurance plan which is intended to provide the Board with assurance that the internal controls and risk management 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 PIC with clearly defined levels of responsibility and delegated authorities.
Financial reporting	PIC 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 PIC'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	PIC has formal written procedures and controls in operation which are designed to facilitate effective and efficient business operation, robust financial reporting and compliance with laws and regulations. Procedures, processes and controls are updated regularly to ensure they are effective and in compliance with best practice. As part of the requirements of DTR 7.1.3 of the FCA Handbook, the Board, in line with the delegated authority to the Audit Committee, specifically monitors the financial reporting process and the statutory audit of the annual financial statements through reporting provided by management and reporting received from the Audit Committee. The Audit Committee meets regularly with members of executive management and the internal and external auditors to review the annual financial information and internal control matters, and to satisfy themselves that the internal control systems are operating effectively. The Audit Committee also reviews any follow-up actions to correct identified weaknesses. All Board members receive minutes of the Audit Committee meetings.
Internal Audit assurance	The Audit Committee oversees PIC'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 Company'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 Company as part of its assessment, including provision of non-audit services.
Risk management framework (more information is included on pages 22 to 27)	The Board has established a risk management and compliance system which includes a process for identifying, evaluating and managing the risks faced by PIC. The Risk Committee works closely with the Audit Committee and provides oversight and advice to the Board with regard to the Company's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance, and its risk policies, 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 2022 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.

Directors' Report continued

Modern Slavery Act 2015

The Company 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 Company fully supports 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 PIC 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.

There were no instances of modern slavery reported during the year and the Company, through its robust approach to internal policies and their implementation, continued to manage its suppliers through a robust third party management processes. The Company expects the same high standards from all of its contractors, suppliers and other business partners. As part of its contracting processes, it includes specific obligations to comply with modern slavery and anti-bribery legislation and to have appropriate policies and procedures, and it expects that its suppliers will hold their own suppliers to the same high standards. PIC undertakes ongoing due diligence to identify potential risk areas in its supply chains and ways to mitigate the risks. Modern slavery and other human rights issues are also considered as part of PIC's investment process.

Anti-bribery and corruption

The Company operates an Anti-Bribery and Corruption Policy to prevent and prohibit bribery, in line with the Bribery Act 2010. The Company will not tolerate any form of bribery by, or of, its employees, agents or consultants or any person or body acting on its behalf, and no such incidents occurred in the financial year ended 31 December 2022. 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 Company has a policy which enables and encourages employees to report in confidence any possible improprieties in either financial reporting or other matters. The Senior Independent Director guards the independence, autonomy and effectiveness of the Company's policies and procedures on whistleblowing.

Overseas branches

PIC does not have any branches outside the United Kingdom.

Greenhouse gas emissions

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

1. The assessment process

The longer-term viability process is primarily carried out by strategic and financial planning. The Company's strategy (see pages 2 and 3), and year-on-year activities, combined with a focus on material factors which may impact the Company in the foreseeable future, are central to the assessment that the Company can be reasonably expected to continue in operation and meet its liabilities as they fall due. The Company's business plan is prepared annually and covers a five-year period on a rolling basis. The plan covers projected performance and related profitability, cash and value generation and the capital position of the Company over the period. The plan is designed within the Company's Risk Appetite Framework, which forms an integral part of the business planning process. The plan is tested against the risk appetite set for the Company by the Board. This includes a number of stress scenarios, which consider the Company's resilience and capacity to respond to relevant stresses and shock events, which may potentially impact the Company. The Company also evaluates various management actions designed to maintain and restore key capital and solvency metrics to within the Company's approved risk appetite over the planning period and takes into account the cost of these actions to the Company's Solvency Surplus and their potential impact on the Company's Market Consistent Embedded Value and IFRS profits.

2. The assessment period

The Directors have assessed the viability of the Company by reference to the five-year planning period to December 2027, which has been chosen as appropriate because it reflects the Company's business model and the dynamics of the pension risk transfer market as covered by the Company's five-year business plan.

3. Assessment of viability

In considering the viability of the Company, the Directors have assessed the key factors relating to the Company's business model, strategy and the basis upon which its regulatory capital stress tests are carried out. This has included consideration of the uncertainty surrounding the macro-economic environment and its potential impact on the Company, the potential impact of climate change related risks and the ongoing regulatory change affecting the financial services industry. The Directors have also carried out an assessment by reference to the Company's risk appetite and financial forecasts from December 2022 to December 2027. The Directors discussed the business strategy, market opportunity and potential future strategic objectives. They considered the draft business plan which was supported by the assessment of key risks to the successful execution of the business plan. The Directors also considered the Company's principal risks and how these are managed, as detailed on pages 22 to 27.

The risk assessment included stress testing of key assumptions, and horizon scanning to consider the key risks to the business over the business planning horizon and the potential impact of these on the business plan objectives. The key risks considered in the risk assessment included:

- The risks to PIC's operations if the plan is achieved, focussing on the adequacy of PIC's systems, processes and controls, and on the risks relating to recruiting and retaining the staff required to grow the business in line with plan;
- PIC's ability to source high quality assets with appropriate yields to support PIC's pricing model, and access to capital and reinsurance;
- The risks arising from the external environment, including ongoing volatility in the financial markets, regulatory change, and increased scrutiny from regulators as PIC grows.

This year the Board also continued to assess impacts arising from the ongoing economic uncertainty caused by instability in the geopolitical environment. 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 2022 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 Company of those actions.

As well as risks arising from the macro-economic environment, a number of operational scenarios were performed during 2022. These considered the impacts of a cyber security ransomware attack, a data theft event from an internal threat actor, and a terrorist attack on the City of London.

4. Viability statement

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

On behalf of the Board

David Weymouth
Chairman
14 Cornhill, London EC3V 3ND
15 March 2023

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 Annual Report, Strategic Report, the Directors' Report and the Group and parent Company 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 accounting 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 the Group's 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 accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

On behalf of the Board

David Weymouth
Chairman
14 Cornhill, London EC3V 3ND
15 March 2023

Independent auditor's report
To the members of Pension Insurance Corporation plc

1 Our opinion is unmodified

We have audited the financial statements of Pension Insurance Corporation Plc ("the Company") for the year ended 31 December 2022 which comprise the Group statement of comprehensive income, the Group and parent Company statement of changes in equity, the Group and parent Company statement of financial position, the Group and parent Company statement of cash flows, and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the parent Company financial statements have been properly prepared in accordance with UK- adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

We were first appointed as auditor by the shareholders in 2006. The period of total uninterrupted engagement is for the 17 financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non- audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

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

Valuation of Insurance Contract Liabilities (2022: £33,029 million (Group and Company); 2021: £47,013 million)

This risk is the same as prior year.

Refer to page 56 (accounting policy) and pages 71 to 76 (financial disclosures).

The risk

The Group has significant insurance contract liabilities representing 55% (2021: 71%) of the Group's total liabilities.

Subjective valuation

This is an area that involves significant judgement over uncertain future outcomes, due to economic and operating assumptions which feed into the ultimate total settlement value of these liabilities.

Operating and economic assumptions

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

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

Our response

We used our own actuarial specialists in order to assist us in performing procedures over methodology choice and assumptions in this area.

Controls:

We performed the tests as noted below rather than seeking to rely on the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

Methodology choice:

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

- Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;

The risk

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

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

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

Estimation uncertainty

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

Our response

- Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted / updated during the year; and
- Comparing changes in methodology to our expectations derived from market experience including the potential impact of COVID-19 on the observed policyholder experience.

Historical comparisons:

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

Benchmarking assumptions and sector experience:

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

Assessing transparency:

- We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs.

Our results

- We found the valuation of insurance contract liabilities to be acceptable (2021: acceptable)

Valuation of hard to value investments (2022: £4,114 million (Group and Company); 2021: £7,013 million)

The risk is the same as prior year.

Refer to page 56 (accounting policy) and pages 63 to 70 (financial disclosures)

The risk

The Investment portfolio contains private investments and participation in investment schemes, which contain subjective valuation and make them hard to value.

Subjective valuation

Harder to value investments make up 6% (2021: 10%) of the Group's total assets (by value) as at year end 2022. These include unquoted debt securities and alternate investment schemes. For these investments, application of expert judgement in the valuation is required.

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

Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The key inputs into the valuation of the bilateral loans, from an estimation uncertainty perspective, are the internally generated credit rating, the selection of the reference bond portfolio and any adjustments made to determine the total spread over risk free.

Where an instrument is neither traded on an active market or internally modelled, the Group uses valuations provided by independent fund managers. For the alternative investments there is a key management judgement about the reliability of the most recently available fund statements.

Estimation uncertainty

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

Our response

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

Controls:

We tested the design and implementation of key controls over the valuation process for the investments that require judgement, including testing the operating effectiveness of controls over the approval of internally assigned credit ratings.

Methodology choice:

We assessed the appropriateness of the methodologies used to determine internally assigned credit ratings with reference to relevant external rating agency methodologies, as well as industry practice for harder to value investments.

Benchmarking of assumptions and sector experience:

We involved our valuation specialist to assess pricing model methodologies and management chosen inputs and assumptions into the models against industry practice, valuation guidelines and Group's historical experience. We also compared the company's credit spreads with those evident in similar observable markets.

Test of details:

We engaged credit ratings specialists to assess the appropriateness of the internally assigned credit rating, where relevant, for unquoted debt securities.

We performed independent price checks using our own pricing services to assess the total spread over risk free.

We agreed the valuations for the alternate investment schemes to the most recent Fund statements / reports. To assess reliability of these statements / reports we compared to prior year audited financial statements of the funds, where available, to perform a retrospective test over fund valuations

Assessing transparency

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

Our results

We found the valuation of hard to value investments to be acceptable, (2021: acceptable).

Pre-transition IFRS17 Insurance contract disclosures (2022: Expected impact on equity as at 1 January 2022 is estimated to be a decrease of between £100 million to £300 million. Expected net of reinsurance pre-tax CSM plus RA of between £2.6 billion to £2.8 billion on 1 January 2022 2021: n/a)

IFRS17 is a new accounting standard being implemented in the 2023 financial statements. Disclosure of the impacts required by IAS8 has been provided in the 2022 financial statements

Refer to page 56 (accounting policy)

The risk

There is a requirement under IAS 8 to disclose in the 2022 financial statements the expected impact of the forthcoming adoption of IFRS 17.

The Group is disclosing ranges for the estimated impact on shareholders' equity and the expected impact on pre-tax net CSM and RA, along with the key methodology judgements made.

The disclosures are dependent upon these judgements, particularly the application of the fully retrospective approach, fair value methodology applied to business pre-2016, discount rates and the definition of directly attributable expenses. These are all highly subjective and can have a significant impact on the pre-transition disclosures.

Subjective valuation

Assessment of application of the fully retrospective approach

In determining the estimated CSM on transition in the pre-transition disclosures, the Group has applied the fully retrospective approach unless impracticable. For contracts entered into prior to 2016, retrospective application has been judged to be impracticable and the Group has applied the fair value approach to determine CSM on transition. The consideration of impracticability is subjective and requires an assessment of the use of hindsight and the level of approximation applied in making fully retrospective calculations.

Assessment of fair value methodology

The fair value methodology and assumptions are calibrated to estimate the premium a participant in the bulk annuity market would expect to receive for new business at 31 December 2021. The groups of contracts subject to fair value measurement on transition are larger than the size of deals in the bulk annuity market in 2021, meaning judgement is required as to the appropriateness of a pricing basis and the adjustments to be made to the pricing basis to estimate the assumptions of a market participant.

Subjective valuation

Discount rate methodology and credit default adjustment

The group discounts the fulfilment cash flows in order to calculate the best estimate of liabilities, both at the transition date to calculate remaining future liabilities, and at the inception of an insurance contract in order to calculate the contractual service margin recognised on transition. The group's discount rate is derived by adjusting a reference asset portfolio for risks not present in the related insurance liabilities, in particular credit risk, such that the discount rate includes a yield above the risk-free rate that appropriately reflects the risks in the liabilities, in particular the illiquid nature of the liabilities. The method applied to determine the credit risk deduction is judgmental and small changes in this can have a significant impact on the inception CSM and best estimate of insurance liabilities at transition.

Our response

We performed the tests below rather than seeking to rely on any of the group's controls because the nature of the various effects disclosed is such that we would expect to obtain audit evidence primarily through the detailed procedures described.

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

Assessment of application of the fully retrospective approach

Accounting analysis: we have assessed the compliance of management's interpretation of impracticability with IFRS 17.

Test of detail:

We have assessed the aspects of the fulfilment cash flows where hindsight would be required to perform fully retrospective calculations for contracts entered into prior to 2016.

We have evaluated the subjectivity and financial significance of approximations made in making fully retrospective calculations.

Assessment of fair value methodology

Accounting analysis: we have assessed the compliance of the fair value methodology with IFRS 13.

Test of detail: we have compared the fair value model and assumptions to PIC's own pricing model and assumptions and assessed the appropriateness of adjustments made to approximate a market participant.

Test of detail: we have compared the fair value model and assumptions to PIC's own pricing model and assumptions and assessed the appropriateness of adjustments made to estimate those of a market participant.

Benchmarking of fair value results: we have benchmarked the fair value liability as a proportion of the IFRS 17 fulfilment cash flows and as a proportion of Solvency II best estimate liability.

Discount rate methodology and credit default adjustment

Accounting analysis: We have assessed whether management's proposed methodology for determining the credit deduction and reference portfolios is consistent with the requirements of IFRS17.

The risk	Our response
Subjective judgement **Attribution of certain expense types** Expenses are only considered directly attributable to the fulfilment cash flows of a contract if they are incurred for the clear purpose of selling and fulfilling obligations under insurance contracts. The Group has judged that dealing and hedging costs are attributable which is a subjective interpretation of the standard. **Estimation uncertainty** The effect of these matters is that, as part of our risk assessment, we determined that the quantitative disclosures in the IFRS17 transition disclosures have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	**Independent reperformance:** We have recalculated the credit deductions through our own methods and models. **Attribution of certain expense types** Accounting analysis: we have assessed whether management's treatment of dealing and hedging costs is consistent with the requirements of IFRS 17. **Assessing transparency** We have assessed the adequacy of the group's IFRS 17 transition disclosures for compliance with the requirements of IAS 8. **Our result** We found the IAS 8 disclosure in relation to expected impact of IFRS 17 to be acceptable, (2021: n/a).

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

Materiality for the Group financial statements was set at £59.5m (2021: £45.6m) and parent company financial statements at £58.6m (2021: £44m), determined with reference to a benchmark of Net Assets (of which it represents 1.1% (2021: 1.1%) of the Group and Company's Net Assets). We consider net assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax.

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

Performance materiality was set at 65% (2021: 75%) of materiality for the financial statements, which equates to £38.6 million (2021: £34.2 million) for the Group and £38.1m (2021: £33m) for the parent company. We applied this percentage in our determination of performance materiality due to changes in operational processes and ongoing operational change projects within the entity.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2.6m (2021: £2.3m) for Group and £2.5m (2020: £2.1m) for parent in addition to other identified misstatements that warranted reporting on qualitative grounds for Group and parent company's financial statements.

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

The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Group's internal control over financial reporting.

4 Going concern

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

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

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

We also considered less predictable but realistic second order impacts such as failure of counterparties who have transactions with the Group (such as reinsurers) to meet commitments and a sudden and significant increase in policyholders seeking to transfer their policies to other providers that could give rise to a negative impact on the Group's financial position and increased illiquidity.

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we have nothing material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for the going concern period, and we found the going concern disclosure in note 4 to be acceptable.

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

5 Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

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

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because there is not significant management judgement or estimation involved in recording the revenue streams and the amounts are contractually derived.

We also identified fraud risks related to the valuation of insurance contract liabilities and harder to value (level 3) investments in response to the potential for management bias.

In order to address the risk of fraud specifically as it relates to the valuation of insurance contract liabilities and the valuation of harder to value investments, we involved specialists to assist in our challenge of the directors as per the procedures mentioned in Key Audit Matter (KAMs). Further detail in respect of these procedures is set out in the audit response to the risks associated with the key audit matters in section 2 of this report.

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

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised users, approved by unauthorised approvers, those posted and approved by the same user, those including specific words based on our risk criteria, those journals which were unbalanced, those with no descriptions or user IDs, those posted to seldom used accounts, unusual journal entries posted to cash accounts.
- assessing significant accounting estimates for bias

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

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

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

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

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

Secondly, the Group is subject to many other laws and regulations where the consequences of non- compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's license to operate. We identified the following areas as those most likely to have such as effect: regulatory capital and liquidity requirements, GDPR compliance, Health and Safety legislation, Employment and Social Security legislation, Fraud, corruption and bribery legislation, Misrepresentation Act, Environmental protection legislation, including emissions trading & Climate Change Act 2008 and certain aspects of company legislation recognizing the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operation regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect a breach.

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

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

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

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

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

Strategic report and directors' report

Based solely on our work on the other information:

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

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the Directors' Report page 41 that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the directors' explanation in the assessment of viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Group's and Company's longer-term viability.

Corporate governance disclosures

We are required to perform procedures to identify whether there is a material inconsistency between the directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Group's risk management and internal control systems.

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

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

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

We have nothing to report in these respects.

8 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 42, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities

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

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

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

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

James Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square, London, E14 5GL

15 March 2023

Statement of comprehensive income for the Group for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Revenue			
Gross premiums written		**4,095**	4,702
Outward reinsurance premiums	12	**(74)**	(846)
Net premium revenue earned		**4,021**	3,856
Investment return	2	**(12,397)**	209
Commissions earned		**1**	1
Total net revenue		**(8,375)**	4,066
Expenses			
Claims paid – gross		**(1,919)**	(1,844)
Reinsurers' share of claims paid	12	**38**	59
		(1,881)	(1,785)
Decrease/(increase) in insurance liabilities – gross		**13,984**	(2,178)
(Decrease)/increase in reinsurers' share of insurance liabilities	12	**(2,151)**	577
		11,833	(1,601)
Acquisition expenses	3	**(76)**	(77)
Other operating expenses	4	**(170)**	(121)
Finance costs	13	**(90)**	(88)
		(336)	(286)
Total net expenses		**9,616**	(3,672)
Profit before taxation		**1,241**	394
Tax charge	7	**(229)**	(81)
Profit and total comprehensive income for the year		**1,012**	313

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 56 to 85 form an integral part of these financial statements.

Statement of financial position for the Group as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Investment properties	9	**244**	173
Financial investments	10	**40,951**	51,143
Derivative assets	11	**22,451**	15,018
Reinsurers' share of insurance liabilities	12	**1,199**	3,350
Prepayments		**105**	98
Receivables and other financial assets	10	**478**	283
Cash and cash equivalents	10	**199**	192
Total Assets		**65,627**	70,257
Equity			
Share capital	16	**1,226**	1,226
Share premium	18	**524**	524
Other reserves	18	**60**	60
Tier 1 notes	17	**444**	444
Retained profit	18	**3,154**	2,175
Total Equity		**5,408**	4,429
Liabilities			
Gross insurance liabilities	12	**33,029**	47,013
Borrowings	13	**1,592**	1,590
Derivative liabilities	11	**25,348**	16,997
Deferred tax liability	14	**–**	1
Current taxation		**30**	37
Insurance and other payables	10	**176**	155
Accruals	10	**44**	35
Total Liabilities		**60,219**	65,828
Total Equity and Liabilities		**65,627**	70,257

The accounting policies and notes on pages 56 to 85 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 March 2023 and were signed on its behalf by:

Dominic Veney
Director
Registration number: 05706720

Statement of changes in equity for the Group
for the year ended 31 December 2022

31 December 2022	**Note**	**Share capital £m**	**Share premium £m**	**Other reserves £m**	**Tier 1 notes £m**	**Retained profit £m**	**Total £m**
At beginning of year		**1,226**	**524**	**60**	**444**	**2,175**	**4,429**
Total comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**1,012**	**1,012**
Transactions with owners							
Tier 1 note coupon	**17**	**–**	**–**	**–**	**–**	**(33)**	**(33)**
At end of year		**1,226**	**524**	**60**	**444**	**3,154**	**5,408**

31 December 2021	Note	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year		1,226	524	60	444	1,889	4,143
Total comprehensive income							
Profit for the year		–	–	–	–	313	313
Transactions with owners							
Tier 1 note coupon	17	–	–	–	–	(33)	(33)
Tier 1 tax relief	7	–	–	–	–	6	6
At end of year		1,226	524	60	444	2,175	4,429

The accounting policies and notes on pages 56 to 85 form an integral part of these financial statements.

Group statement of cash flows
for the year ended 31 December 2022

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year		**1,012**	313
Adjustments for:			
Investment income	2	**(1,416)**	(1,238)
Finance costs	13	**90**	88
Tax expense	7	**229**	81
		(1,097)	(1,069)
Changes in operating assets and liabilities			
Increase in investment properties	9	**(71)**	(82)
Decrease in financial investments including derivative assets		**2,759**	5,423
Decrease/(increase) in reinsurers' share of insurance liabilities	12	**2,151**	(577)
(Increase)/decrease in prepayments		**(7)**	4
Increase in receivables and other financial assets	10	**(184)**	(4)
Increase in accruals		**9**	5
(Decrease)/increase in insurance liabilities	12	**(13,984)**	2,178
Increase/(decrease) in financial liabilities including derivative liabilities		**8,351**	(7,343)
Increase in insurance and other payables		**21**	46
		(955)	(350)
Cash flows used in operating activities		**(1,040)**	(1,106)
Interest income received		**1,208**	1,060
Other investment return		**197**	184
Taxation paid		**(237)**	(36)
Net inflow from operating activities		**128**	102
Cash flows from financing activities			
Interest paid on subordinated debt		**(88)**	(88)
Coupon on Tier 1 notes	17	**(33)**	(33)
Net outflow from financing activities		**(121)**	(121)
Net Increase/(decrease) in cash and cash equivalents		**7**	(19)
Cash and cash equivalents at beginning of year		**192**	211
Cash and cash equivalents at end of year		**199**	192

The accounting policies and notes on pages 56 to 85 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2022

1. Accounting policies

Basis of preparation

Pension Insurance Corporation plc is a private limited company incorporated and domiciled in the United Kingdom. Both the Company's financial statements and the Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006.

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

In making the going concern assessment, management reviewed the forecast solvency and liquidity positions, stress and scenario testing of key assumptions, and horizon scanning to consider the key risks to the business and the potential impact of these risks on the business plan objectives. Mitigating actions were also considered and are set out in the Risk management section of the Directors' Report on pages 22 to 27. The key stress tests, scenarios and sensitivities include a change in interest rates, an increase in inflation, widening of credit spreads, downgrades and defaults, liquidity stresses, and reinsurance and capital availability. The principal sources of forecast information were the 2023 business plan and the Group's Own Risk Solvency Assessment ("ORSA"), both of which are expected to be approved by the Board in March 2023. Details on our financial position and solvency can be found in the Strategic Report on page 2 to 13.

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

The Group has applied all IFRS and interpretations that are adopted by the UK and are effective for accounting periods beginning on or after 1 January 2022.

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

Revenue concentration items have not been disclosed because the nature of the Group's business is that it conducts a relatively small number of one-off individual transactions each year.

In preparing the financial statements, climate change has not been a significant area of accounting judgement or estimation; please refer to Note 15(f) for further details.

Basis of consolidation

The consolidated financial statements comprise those of the Company and its subsidiary companies. For the purposes of consolidation, the accounting policies of subsidiary companies have been aligned with those of the Company.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences to the date that control ceases. Intra-group transactions and outstanding balances are eliminated in the preparation of the consolidated financial statements of the Group and any non-controlling interests in the net assets of subsidiaries are identified separately from the Group's equity.

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

Critical estimates and judgements

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

Judgements:

Contract classification

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

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

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

Financial instruments
Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discounts them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment. Where an instrument is neither traded on an active market or internally modelled, the Group uses valuations provided by independent fund managers. For equity release mortgages ("ERMs"), key inputs also include assumptions relating to property prices and credit spreads. The relevant fair value disclosures are set out in Note 10.

Investment properties
The market value of the investment properties held at fair value is determined based on a valuation approach which applies an investment yield to the rental income. Please refer to Note 9 for further details.

Changes in accounting policies
The Group has consistently applied its accounting policies to all periods presented in these financial statements. The application, in 2022, of "Reference to the Conceptual Framework" (Amendment to IFRS 3), "Property, Plant and Equipment – Proceeds before Intended Use" (Amendment to IAS 16), "Cost of Fulfilling a Contract" (Amendment to IAS 37), and "Annual Improvements to IFRS Standards 2018–2020" have had no impact on the Group.

Significant new standards or amendments to standards which are not yet effective
The following standards are only mandatory for accounting periods beginning on or after 1 January 2023 and have not been adopted early by the Group:

IFRS 17 "Insurance Contracts" – effective for accounting periods beginning on or after 1 January 2023
The Group is required to adopt IFRS 17 for its financial year beginning on 1 January 2023.

The standard provides a comprehensive approach for accounting for insurance contacts, including measurement, income statement presentation and disclosure. It is expected to have a significant impact on the Group's metrics. Under IFRS 17, insurance contracts are aggregated into groups for recognition and measurement purposes.

The key differences between measurement of insurance contracts under IFRS 4 and IFRS 17 are as follows:

	IFRS 4	IFRS 17
Fulfilment cash flows	Insurance contracts are measured at the present value of future cash flows plus a margin for prudence. Acquisition costs are expensed.	Insurance contracts are measured at the present value of future cash flows plus an allocation of insurance acquisition cash flows and an explicit Risk Adjustment ("RA") for non-financial risk.
Profit at initial recognition	Any day one profit (i.e. excess of premium over fulfilment cash flows) is recognised immediately in profit and loss.	Any new business profits at inception are deferred as a contractual service margin ("CSM") on the Statement of Financial Position. If a group of contracts is onerous (i.e. the fulfilment cash flows exceed the premium payable), a loss is recognised immediately.
Measurement subsequent to initial recognition	The impact of all assumption changes are recognised immediately in profit and loss.	The CSM is released into the Statement of Comprehensive Income as Revenue over time as services are provided. The impact of financial assumption changes (e.g. interest rates, inflation, liquidity premiums) are recognised immediately and have no impact on the CSM. To the extent that contracts remain profitable, non-financial assumption changes (e.g. longevity and expenses) are spread over time via the CSM.

Notes to the financial statements continued
for the year ended 31 December 2022

1. Accounting policies continued

IFRS 17 discloses more quantitative and qualitative information than IFRS 4, including the reconciliations of CSM, RA and present value of future cash flows.

IFRS 17 - key methodology and accounting policies

Given the long-term nature of our business, the Group will be applying the General Measurement Model to all contracts in scope of the standard. The Group's insurance contracts will not include any distinct investment components requiring separation as a financial instrument under IFRS 9. The Group will also elect to continue to account for ERM contracts as financial instruments under IFRS 9.

On transition to IFRS 17, the Group will apply the fully retrospective approach unless impracticable. For contracts entered into prior to 2016, retrospective application is impracticable and therefore the Group will apply the IFRS 17 fair value approach for these contracts at 1 January 2022. Under the fair value approach, the CSM is determined as the difference between the fair value of a group of insurance contracts, measured in accordance with IFRS 13, and its fulfilment cash flows at the transition date.

Under IFRS 17, only cash flows that will be directly related to the fulfilment of an insurance contract will be included within fulfilment cash flows, which will generally be narrower than the view currently taken for internal costs under IFRS 4. However, under IFRS 17, the Group will also amend its accounting policy in relation to the treatment of dealing and hedging costs related to financial investments. These are currently presented within investment return under IFRS 4, but will be treated as insurance acquisition costs under IFRS 17 if they relate to assets backing insurance liabilities, or other expenses if they relate to other assets. Expenses will only be considered directly attributable if they are incurred for the clear purpose of selling and fulfilling obligations under insurance contracts, including performing investment activity (e.g. origination, claims handling and policy administration, investment acquisition and servicing costs). Support function and other overheads will also be included when they are incurred to directly support these acquisition and maintenance activities.

The rate used to discount the present value of future cash flows will be set using the top-down method, based on a portfolio of assets that match the liabilities (excluding prudent margins). The IFRS 17 discount rate will be calculated using the yield on this portfolio of assets, adjusted for the impact of credit risk and any remaining cash flow mismatches. This is similar to the approach taken under IFRS 4. The Group has taken the accounting policy choice to recognise all finance income or expense in profit or loss, rather than disaggregate the income or expense that relates to financial assumptions into other comprehensive income.

The RA, reflecting the compensation the Group requires for taking non-financial risk (predominantly longevity and expense risk) will be set as a percentile, representing the probability that the fulfilment cash flows could increase by the amount of the RA over the next year.

For contracts where the fair value approach will be applied, the fair value will be calculated based on the estimated bulk annuity market premium that would be paid to accept the insurance liabilities and related reinsurance at the transition date. The approach to calculate the premium will be based on PIC's internal pricing models, adjusted to reflect the perspective of wider market participants. Key assumptions include consideration of how much Solvency capital is required to be set aside and the pricing of the business to earn an appropriate return.

The CSM will be recognised as revenue based on the number of coverage units provided in the period, in line with annuity payments made to policyholders and amounts that represent the benefits that the Group is providing to policyholders that have not yet retired (i.e. an investment return service and potential spouse annuities that might come into payment).

IFRS 17 – impact

As at the date of this publication, the Group is in the process of finalising the calculation of the opening balance sheet and the production of 2022 comparative information. For this reason, it is not currently practicable to accurately quantify the impact of adopting IFRS 17, but the expected impact on equity as at 1 January 2022 is estimated to be a decrease of between

£100 million to £300 million. This is net of the recognition of a deferred tax asset for the reversal of previously taxed profits on transition. Relief for these losses is then spread over a ten year period. The Group expects to recognise a net of reinsurance pre-tax CSM plus RA of between £2.6 billion to £2.8 billion on 1 January 2022, which is expected to be released to profit over time.

PIC's profit recognition will be slower under IFRS 17 than IFRS 4, due to recognition of the CSM, and is less sensitive to non-financial assumption changes. Profit under IFRS 17 is sensitive to short-term investment volatility (noting that PIC bases its hedging on a Solvency, rather than IFRS, position), with the impact differing from that seen under IFRS 4. For this reason, the Group will continue to choose to analyse its results on an "adjusted operating profit" basis. Due to slower recognition of profit, the Group adjusted operating profit and profit before tax are expected to be lower under IFRS 17 than under IFRS 4.

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

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

As at 31 December 2022, the Group met the eligibility criteria and will defer the adoption of IFRS 9 to 1 January 2023.

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

	As at 31 December 2022		As at 31 December 2021	
	Financial assets passing SPPI test[1] £m	**All other financial assets £m**	Financial assets passing SPPI test[1] £m	All other financial assets £m
Receivables and other financial assets[2, 3]	**478**	**–**	283	–
Financial investments	**–**	**40,951**	–	51,143
Derivative assets	**–**	**22,451**	–	15,018

1 For financial assets which passed the SPPI test as at 31 December 2022, there was a change in the fair value in the year of £nil (2021: £nil).
2 For the credit rating split of receivables and other financial assets, please see Note 15.
3 Includes £267 million (2021: £256 million) of accrued interest on financial investments that will be reclassified from other receivables to the related financial investment balance on the adoption of IFRS 9. This is considered to be a more appropriate presentation, as the interest receivable is considered to be an integral part of the financial investment managed at fair value.

2. Investment return

Investment return comprises all interest income on financial investments and derivatives at fair value through profit and loss, rental income and unrealised and realised gains and losses.

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

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

	2022 £m	2021 £m (restated)*
Investment income		
– Investments designated as fair value through profit or loss on initial recognition	**1,271**	1,064
– Investments classified as held for trading	**143**	166
– Rental income	**2**	8
Total investment income	**1,416**	1,238
Net realised (losses)/gains on investments		
– Investments designated as fair value through profit or loss on initial recognition	**(1,428)**	442
– Investments classified as held for trading	**992**	(135)
Net realised (losses)/gains	**(436)**	307
Net unrealised (losses)/gains on investments		
– Investments designated as fair value through profit or loss on initial recognition	**(12,467)**	(1,757)
– Investments classified as held for trading	**(901)**	409
Net unrealised losses	**(13,368)**	(1,348)
Net realised and unrealised (losses)/gains on investment properties	**(9)**	12
Investment return	**(12,397)**	209

* Realised and unrealised gains/(losses) have been restated to separate out investment properties from investments designated as fair value through profit or loss on initial recognition.

3. Acquisition expenses

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

As acquisition expenses relate to single premium business, with all revenue recognised immediately on initial recognition of the contract, a deferred acquisition cost asset has not been established in the Statement of Financial Position.

	2022 £m	2021 £m
Acquisition expenses	**76**	77

4. Other operating expenses

Investment charges and related expenses comprise:

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

	2022 £m	2021 £m
Investment charges and related expenses	**58**	42
Project costs	**58**	38
Share-based payments[1]	**13**	12
Other expenses	**41**	29
	170	121

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

5. Auditor's remuneration

	2022 £000	2021 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**2,154**	410
Fees payable to the Group's auditor and its associates for other services:		
– Audit of accounts of subsidiaries	**87**	119
– Audit related assurance services	**168**	153
– All other services	**66**	150
Total fees paid to the auditor	**2,475**	832

During the year, audit fees of £1.4 million were incurred in relation to the implementation of IFRS 17 (2021: £nil).

6. Directors' remuneration, employee costs and headcount

Employee benefits

Defined contribution plans

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

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

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

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

	2022 £m	2021 £m
Wages and salaries	**58**	48
Social security costs	**8**	6
Other pension costs	**3**	3
	69	57

The 15 Directors (2021: 16) who served in the Company during the year received total remuneration of £4 million (2021: £4 million) for their services to the Group. All Directors were employed by or contracted by the Group's service provider.

Two Directors were provided a cash alternative in relation to a money purchase pension scheme where their lifetime or annual allowance limit had been reached (2021: Three).

The amount of remuneration received by the highest paid Director was £1.6 million (2021: £1.4 million). These amounts relate solely to the services provided by the Directors to the Company and do not include any payments due for services provided with regard to other Group entities.

7. Corporation tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the Statement of Financial Position together with adjustments to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes.

The Group's tax charge for the year is:

	2022 £m	2021 £m
Current taxation		
Corporation tax payable for the current year	**230**	75
Prior year adjustment	**–**	7
Total current tax	**230**	82
Deferred taxation		
Tax transitional adjustments and timing differences	**(1)**	(1)
Total deferred tax	**(1)**	(1)
Tax charge	**229**	81

The effective tax charge for the period of 18% (2021: 21%) is lower than the standard rate of corporation tax in the United Kingdom of 19% (2021: 19%). The differences are explained below:

	2022 £m	2021 £m
Reconciliation of total income to the applicable tax rate		
Profit before taxation	**1,241**	394
Corporation tax at 19% (2021: 19%)	**236**	75
Effects of:		
Prior year adjustment	**–**	7
Tier 1 coupon tax relief	**(6)**	–
Deferred taxation movement	**(1)**	(1)
Tax charge	**229**	81

Factors that may affect future tax charges

Current taxation is provided on taxable profits at the corporation tax rate ruling in the year they are earned. The current UK corporation tax rate is 19%. From 1 April 2023, the rate of corporation tax will increase to 25%.

8. Dividends

Final dividends on ordinary shares are recognised as a liability in the period in which they have been approved by shareholders of the Company.

On 15 March 2023, the Board proposed a final dividend for 2022 of 8.15 pence per ordinary share (2021: nil). Subject to approval by shareholders, the dividend will be paid on or around 11 May 2023. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2023 and is not included as a liability in the Group Statement of Financial Position as at 31 December 2022.

9. Investment properties

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

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

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

	2022 At cost £m	**2022 At fair value £m**	**2022 Total £m**
At beginning of year	**47**	**126**	**173**
Additions	**82**	**60**	**142**
Disposals[1]	**–**	**(74)**	**(74)**
Transfer of properties under construction from cost to fair value	**(74)**	**74**	**–**
Change in fair value during the year	**–**	**3**	**3**
At end of year	**55**	**189**	**244**

1 Relating to a portfolio of retail properties disposed of in the year. The loss on disposal, net of transactions costs, was £14 million.

	2021 At cost £m	2021 At fair value £m	2021 Total £m
At beginning of year	19	72	91
Additions	75	–	75
Transfer of properties under construction from cost to fair value	(47)	47	–
Change in fair value during the year	–	7	7
At end of year	47	126	173

The Group's holdings in investment properties relate to retail, office and residential properties held via Guernsey registered property unit trusts ("GPUTs") or UK-based limited partnerships. All properties are located in the United Kingdom.

The market value of the investment properties held at fair value is determined based on a valuation approach which applies investment yield to the rental income. The investment yield is derived from available transactional evidence of similar rental units considering the property-specific factors such as its location, the unexpired term, current rent, size of the unit and other factors. For investment properties under construction, the estimated valuation upon completion is adjusted for future costs to complete and a risk margin. Due to the unobservable inputs, investment properties are classified as Level 3 in the fair value hierarchy.

Significant assumptions used in the valuation of our investment properties include:

	2022	2021
Investment yield	**Range from 5.46% to 6.04%**	Range from 4.25% to 9.75%
Rental value per square foot	**Range from £27.40 to £31.63**	Range from £14.85 to £31.95

The following table shows the effect of assumption changes on the fair value of investment properties.

	2022		2021	
Sensitivity	**Change in fair value £m**	**Change in fair value £m**	Change in fair value £m	Change in fair value £m
+/- 50 bps change in investment yield	**(35)**	**43**	(18)	23
+/- 10% change in rental value per square foot	**31**	**(32)**	14	(14)

Rental income received in relation to these properties of £2 million (2021: £8 million) is shown within investment return in Note 2.

10. Financial assets and financial liabilities

Financial instruments

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

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

Joint ventures are entities in which the Group has an investment where it, along with one or more other shareholders, has contractually agreed to share control of the business and where the major decisions require the unanimous consent of the joint partners. Investments in joint ventures that are managed at fair value as part of the Group's portfolio of financial investments, and are unrelated to the Group's core insurance business, are classified as financial investments at FVTPL.

Assets held as collateral

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

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

Recognition and derecognition of financial instruments

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

Cash and cash equivalents

Cash and cash equivalents consist of cash balances that are repayable on demand and are integral to the Group's cash management, including any overdrawn balances, and deposits held at call with banks with less than 90 days' maturity from date of acquisition. As at 31 December 2022, the total balance in overdraft was £nil (2021: £nil).

10. Financial assets and financial liabilities continued

	2022		2021	
	Fair value through profit and loss £m	**Amortised cost £m**	Fair value through profit and loss £m	Amortised cost £m
Financial assets				
Financial investments				
Debt securities				
– Government bonds	**13,119**	**–**	17,965	–
– Corporate bonds	**15,071**	**–**	18,627	–
– Private investments	**6,557**	**–**	9,021	–
MBS and ABS	**259**	**–**	328	–
Equity release mortgages	**1,013**	**–**	1,082	–
Deposits with credit institutions	**901**	**–**	824	–
Participation in investment schemes	**4,031**	**–**	3,296	–
Total financial investments	**40,951**	**–**	51,143	–
Derivative assets	**22,451**	**–**	15,018	–
Loans and receivables and other financial assets				
Debtors arising out of direct insurance operations	**–**	**126**	–	6
Other debtors	**–**	**85**	–	21
Accrued interest	**–**	**267**	–	256
Total receivables and other financial assets	**–**	**478**	–	283
Cash and cash equivalents	**–**	**199**	–	192
Total financial assets	**63,402**	**677**	66,161	475
Financial liabilities				
Derivative liabilities	**25,348**	**–**	16,997	–
Insurance and other payables	**–**	**176**	–	155
Borrowings	**–**	**1,592**	–	1,590
Accruals	**–**	**44**	–	35
Total financial liabilities	**25,348**	**1,812**	16,997	1,780

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

	2022 £m	2021 £m
Financial assets designated as fair value through profit or loss	**58,183**	61,586

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

Deposits with credit institutions

Deposits with credit institutions include £22 million (2021: £22 million) in two bank accounts operated by PIC which are designated fee collateral bank accounts. These accounts were established under deeds of charge dated 9 July 2012 and 11 December 2012 between PIC and Münchener Rückversicherungsgesellschaft ("Munich Re") in respect of longevity reinsurance agreements. The amount deposited in each account represents a proportion of PIC's liability for the payment of fees due over the life of each agreement ("fee collateral amount") and is subject to annual review by each party.

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

Assets pledged as collateral

Derivatives and lending arrangements

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

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

The Group retains substantially all the risks and rewards of ownership in respect of financial assets which have been pledged as security under the terms of derivative contracts and consequently none of these assets have been derecognised in the financial statements. The Group also does not acquire substantially all the risks and rewards of ownership in respect of the transferred assets received as collateral and consequently none of the assets are recognised in the financial statements.

Under securities lending arrangements, the Group lends/borrows an agreed debt security to a counterparty and receives/pledges collateral in the form of eligible, investment grade debt securities as a security against potential counterparty default. In all cases, the Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements. The Group is also not exposed to the risks and rewards of ownership of any assets received and, consequently, none of these assets have been recognised in the financial statements.

At 31 December 2022, the Group pledged assets of £9,388 million (2021: £4,224 million) and received £5,041 million (2021: £1,854 million) in debt securities and cash as collateral. None of the collateral held was repledged (2021: £nil million).

Buy-ins

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

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

Collateral is returned to PIC as it services the insured pension liabilities under the policy. This, in theory, exposes PIC to counterparty credit risk, which is, however, fully mitigated as PIC has a contractual right to offset its obligation to pay under the policy in the event of default by the Trustee. PIC retains substantially all the risks and rewards of ownership in respect of the transferred assets and accordingly PIC continues to recognise the assets which it has pledged under title transfer security in its financial statements. At 31 December 2022, this totalled £1.1 billion (2021: £1.6 billion).

Reinsurance

In 2022, the Group has £507 million of financial assets which have been pledged as collateral under the terms of certain reinsurance contracts (2021: £795 million). At 31 December 2022, the Group had pledged cash of £27 million (2021: £31 million) as collateral under the terms of certain reinsurance contracts. The Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements.

Offsetting of financial assets and financial liabilities

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

The Group has no financial assets and financial liabilities that have been offset in the Statement of Financial Position as at 31 December 2022 (2021: £nil).

10. Financial assets and financial liabilities continued

The table below contains disclosures related to financial assets and financial liabilities that are subject to enforceable master netting arrangements or similar agreements as required by IFRS 7. Securities lending arrangements do not result in the derecognition/recognition of assets exchanged and are not included in the tables below.

31 December 2022	**Gross amounts of recognised financial assets/ (liabilities) £m**	**Amounts offset in accordance with IAS 32 £m**	**Net amounts as recognised in the Statement of Financial Position £m**	**Related amounts not offset in the Statement of Financial Position**			**Net amount £m**
				Financial instruments (received)/ pledged* £m	**Cash collateral (received)/ pledged* £m**	**Derivative (liabilities)/ assets £m**	
Financial assets							
Derivatives	**22,451**	**–**	**22,451**	**(732)**	**(509)**	**(19,574)**	**1,636**
Financial liabilities							
Derivatives	**(25,348)**	**–**	**(25,348)**	**189**	**4,934**	**19,574**	**(651)**

31 December 2021	Gross amounts of recognised financial assets/ (liabilities) £m	Amounts offset in accordance with IAS 32 £m	Net amounts as recognised in the Statement of Financial Position £m	Related amounts not offset in the Statement of Financial Position			Net amount £m
				Financial instruments (received)/ pledged* £m	Cash collateral (received)/ pledged* £m	Derivative (liabilities)/ assets £m	
Financial assets							
Derivatives	15,018	–	15,018	(431)	(657)	(14,106)	(176)
Financial liabilities							
Derivatives	(16,997)	–	(16,997)	3,453	–	14,106	562

* Not all collateral received/pledged is recognised in the Statement of Financial Position. See the Derivatives section of this note for further information.

Measurement of financial assets and liabilities

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

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

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

(a) Investments in debt securities

The fair value of debt securities is determined by reference to their quoted bid price at the reporting date. Instruments quoted on a recognised stock exchange are generally considered to be Level 1 and instruments priced based on recent broker quotations and alternative pricing sources in reasonably transparent markets are generally considered to be Level 2.

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

The credit spreads used to derive the discount rates for the private investments portfolio ranged from 0.0% to 6.4% (2021: 0.2% to 5.7%).

(b) MBS and ABS

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

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

(c) Equity release mortgages

ERMs are loans secured against property that are repayable on death or entry into long-term care of the borrower. The fair value of ERM assets is determined using a mark-to-model approach based on discounting projected future cash flow arising from the loans. In addition to market observable inputs (such as interest and inflation rates), key inputs to the model also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity and early repayment rates, which are not market observable. Due to the significant estimation uncertainty involved in deriving the values, the ERMs are classified as Level 3 assets within the fair value hierarchy. Principal assumptions underlying the valuation of ERM assets are set out below and sensitivities of the valuations to changes in the key unobservable inputs are disclosed on page 70.

- The loan-by-loan equivalent spread is solved at the point of each loan's inception to equate the present value of the expected cash flows to its face value. Subsequently each loan's equivalent spread is updated in line with changes in the spread of a reference corporate bond index.
- Projected property values reflect future property growth in line with the Retail Price Index and property volatility of 15% (2021: 15%). These assumptions affect whether the No Negative Equity Guarantees ("NNEG") bite, which restrict the amount recoverable by the Group on repayment of the mortgage to the net sale proceeds of the property.
- Early repayment rates are assumed to be between 2% and 6.5% p.a. (2021: 0.5% and 9%) depending on the projection term, and the loan's term since inception.
- Mortality assumptions are derived using the Continuous Mortality Investigation ("CMI") 2021 mortality improvements (2021: CMI_2019 mortality improvements) and a multiple of the PXA16 mortality tables (2021: PXA08 mortality tables).
- The valuation model allows for dilapidation and sales costs, both of which are set as a combined assumption of 12% (2021: 12%) of the value of the property at the point of sale.

(d) Deposits with credit institutions

The fair value of deposits held with credit institutions represents their cash value in current terms. All deposits are short term and consequently no discounting adjustment has been made at the year end. Deposits with credit institutions are classified as Level 1 within the fair value hierarchy.

(e) Participation in investment schemes

Investment schemes are valued based on fund manager statements and classified as either Level 1, Level 2 or Level 3 depending on the classification of the underlying asset.

Participation in investment schemes includes an investment in a retirement living joint venture with a carrying value of £22 million at 31 December 2022 (2021: £nil). The investment is categorised as a joint venture as, whilst the Group has a majority stake, the key relevant activities that influence returns require unanimous consent of the joint partners. Both partners also have significant variable returns and are acting as principal in their decision making. The investment has been classified within financial investments on the basis that it is managed at fair value as part of the Group's portfolio of financial investments.

The fair value of the joint venture is based on the underlying fair value of the retirement living property assets and, due to unobservable inputs, it is classified as Level 3 within the fair value hierarchy.

10. Financial assets and financial liabilities continued

Measurement of fair value

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

31 December 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities				
– Government bonds	**9,391**	**3,728**	**–**	**13,119**
– Corporate bonds	**–**	**15,024**	**47**	**15,071**
– Private investments	**–**	**3,080**	**3,477**	**6,557**
MBS and ABS	**–**	**259**	**–**	**259**
Equity release mortgages	**–**	**–**	**1,013**	**1,013**
Deposits with credit institutions	**901**	**–**	**–**	**901**
Participation in investment schemes	**1,953**	**1,441**	**637**	**4,031**
Financial investments	**12,245**	**23,532**	**5,174**	**40,951**
Derivative assets	**–**	**22,451**	**–**	**22,451**
Financial assets	**12,245**	**45,983**	**5,174**	**63,402**
Derivative liabilities	**–**	**(25,348)**	**–**	**(25,348)**

31 December 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities				
– Government bonds	10,772	7,193	–	17,965
– Corporate bonds	–	18,543	84	18,627
– Private investments	–	2,698	6,323	9,021
MBS and ABS	–	328	–	328
Equity release mortgages	–	–	1,082	1,082
Deposits with credit institutions	824	–	–	824
Participation in investment schemes	1,614	992	690	3,296
Financial investments	13,210	29,754	8,179	51,143
Derivative assets	–	15,018	–	15,018
Financial assets	13,210	44,772	8,179	66,161
Derivative liabilities	–	(16,997)	–	(16,997)

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

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

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

Transfers between levels of the fair value hierarchy

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

Transfers between Level 2 and Level 3

During the year, £171 million of financial investments were transferred from Level 2 to Level 3 (2021: £92 million) and £1,616 million of financial investments were transferred out of Level 3 to Level 2 (2021: £384 million).

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

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

31 December 2022	**Debt securities £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Opening balance	**6,407**	**1,082**	**690**	**8,179**
Unrealised gains or losses	**(1,860)**	**(345)**	**6**	**(2,199)**
Acquisitions in year	**462**	**276**	**33**	**771**
Transfers into Level 3	**171**	**–**	**–**	**171**
Transfers out of Level 3	**(1,583)**	**–**	**(33)**	**(1,616)**
Disposals in year	**(73)**	**–**	**(59)**	**(132)**
Closing balance	**3,524**	**1,013**	**637**	**5,174**

31 December 2021	Debt securities £m	ERM £m	Participation in investment schemes £m	Total £m
Opening balance	5,754	534	463	6,751
Unrealised gains or losses	(256)	(13)	(77)	(346)
Acquisitions in year	1,338	561	304	2,203
Transfers into Level 3	92	–	–	92
Transfers out of Level 3	(384)	–	–	(384)
Disposals in year	(137)	–	–	(137)
Closing balance	6,407	1,082	690	8,179

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

2022	**Debt securities £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Investment income	**94**	**87**	**26**	**207**
Realised gains or losses	**4**	**(78)**	**47**	**(27)**
Unrealised gains or losses	**(1,860)**	**(345)**	**6**	**(2,199)**
Investment return on Level 3 assets	**(1,762)**	**(336)**	**79**	**(2,019)**

2021	Debt securities £m	ERM £m	Participation in investment schemes £m	Total £m
Investment income	93	46	–	139
Realised gains or losses	1	(62)	105	44
Unrealised gains or losses	(256)	(13)	(77)	(346)
Investment return on Level 3 assets	(162)	(29)	28	(163)

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

10. Financial assets and financial liabilities continued

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

31 December 2022	Sensitivity	Current fair value £m	Change in fair value £m	Change in fair value £m
Debt securities	+/- 100 bps credit spread	**3,524**	**(500)**	**637**
ERM	+/- 100 bps credit spread	**1,013**	**(103)**	**118**
	+/-5% change in mortality assumption	**–**	**4**	**(4)**
	+/-20% change in property prices	**–**	**11**	**(20)**
	+/- 1% change in property growth assumption	**–**	**10**	**(14)**
	+/-10% change in voluntary redemption assumption	**–**	**6**	**(6)**
Participation in investment schemes	+/-10% change in valuation assumptions	**637**	**64**	**(64)**
		5,174	**(508)**	**647**

31 December 2021	Sensitivity	Current fair value £m	Change in fair value £m	Change in fair value £m
Debt securities	+/- 100 bps credit spread	6,407	(1,067)	1,405
ERM	+/- 100 bps credit spread	1,082	(111)	79
	+/-5% change in mortality assumption	–	–	–
	+/-20% change in property prices	–	27	(50)
	+/- 1% change in property growth assumption	–	4	(8)
	+/-10% change in voluntary redemption assumption	–	–	(1)
Participation in investment schemes	+/-10% change in valuation assumptions	690	69	(69)
		8,179	(1,078)	1,356

11. Derivative financial instruments

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

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

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

	31 December 2022		31 December 2021	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps	**18,485**	**(19,388)**	11,906	(13,640)
Inflation swaps	**3,329**	**(2,357)**	2,026	(1,800)
Credit default swaps	**12**	**(15)**	14	(30)
Currency swaps	**522**	**(3,339)**	959	(1,509)
Foreign exchange forward contracts	**36**	**(13)**	12	(7)
Total return swaps	**67**	**(236)**	101	(11)
Total derivative position	**22,451**	**(25,348)**	15,018	(16,997)

12. Insurance contracts and related insurance liabilities

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

Policyholder contracts which do not transfer significant insurance risk to the insurer are classified as investment contracts. The Group has classified all its policyholder contracts as insurance contracts and does not unbundle and separately account for any investment components of these contracts.

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

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

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

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

No taxes or duties are payable on premiums.

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

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

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

	2022 £m	2021 £m
Future policyholders' benefits		
Gross	**33,029**	47,013
Reinsurance	**(1,199)**	(3,350)
Net	**31,830**	43,663

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

12. Insurance contracts and related insurance liabilities continued

(a) Terms and conditions of insurance contracts

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

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

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

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

Mortality assumptions

The base mortality assumptions as at 31 December 2022 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S3 series mortality tables published by the CMI, a research body with strong links to the Institute and Faculty of Actuaries in the UK.

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

The assumption for future improvements to mortality is modelled using the CMI_2021 model (2021: CMI_2019 model).

Mortality improvements tables for rolling up mortality rates to the valuation date, and for projecting future mortality rates, were updated in 2022. No changes were made to the base mortality tables.

Valuation rate of interest ("VRI")

The VRI is derived from the yield on the assets held to back insurance contract liabilities and includes an allowance for risks, including credit risk, associated with holding these assets which are not reflective of risks in the liabilities. The risk adjustment is applied via a fixed basis points default allowance by asset, based on historic levels of default and downgrade with prudent margins.

The rate calculated in accordance with these adjustments as at 31 December 2022 was 5.08% for both index-linked liabilities and non-linked liabilities (2021: 1.77% combined rate).

Inflation

The assumption for expected future Retail Price Index ("RPI") inflation is based on a curve derived from the market prices of inflation-linked swap contracts. The Consumer Price Index ("CPI") inflation assumption is also derived from this curve but additionally allows for the expected gap ("wedge") between CPI inflation and RPI inflation. For Limited Price Index ("LPI") linked annuities, which are subject to maximum and minimum percentage annual increases, a mark-to-model approach is used to allow for the inherent optionality, as there is currently no deep and liquid market in appropriate swap contracts. Around three quarters of our gross benefit payments are linked to inflation, of which the substantial majority have a cap or floor on indexation.

Expenses

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

(c) Movements

The following table analyses the movement between the net insurance liabilities at the beginning and the end of the year into its major components. The main reasons for the decrease are the changes in underlying economic assumptions, particularly due to higher interest rates, which more than offset the impact of new business written in the year.

2022	Gross £m	Reinsurance £m	Net £m
At beginning of year	**47,013**	**(3,350)**	**43,663**
Increase in liability from new business	**4,343**	**–**	**4,343**
Impact of reinsurance entered into in the year	**–**	**(93)**	**(93)**
Reduction in liability from claims	**(1,979)**	**87**	**(1,892)**
Impact of investment volatility	**(16,734)**	**1,834**	**(14,900)**
Changes in valuation assumptions	**(326)**	**315**	**(11)**
Other movements	**712**	**8**	**720**
At end of year	**33,029**	**(1,199)**	**31,830**

2021	Gross £m	Reinsurance £m	Net £m
At beginning of year	44,835	(2,773)	42,062
Increase in liability from new business	5,088	–	5,088
Impact of reinsurance entered into in the year	–	(998)	(998)
Reduction in liability from claims	(1,886)	113	(1,773)
Impact of investment volatility	(251)	200	(51)
Changes in valuation assumptions	(410)	48	(362)
Other movements	(363)	60	(303)
At end of year	47,013	(3,350)	43,663

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

Impact of investment volatility

Valuation interest rates and projected cash flows are affected by the movement in long-term interest rates, inflation expectations and credit spreads.

The main drivers of the movements are higher interest rates and the widening of credit spreads which reduced net liabilities, partly offset by higher inflation which increased net liabilities.

Changes in valuation assumptions

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

- Longevity assumptions were updated to reflect the latest version of the CMI projections model (CMI_2021) which generated a release of reserves. The impact of Covid-19 has been removed from the derivation of current mortality rates.
- Maintenance expense assumptions were updated to reflect current budgets and business volumes, leading to an overall small increase in reserves.
- The allowance for the cost of LPI-linked obligations was updated following an in-depth review, leading to an overall increase in reserves.
- The approach to modelling pension revaluation increases was also updated during the year, leading to a release of reserves.
- Cash commutation assumptions were updated following a review of the assumptions in light of changes in economic conditions, generating a release of reserves.
- All other assumptions were reviewed and updated where necessary to reflect current operating conditions.

Other movements

Other movements primarily comprise the unwind of the valuation rate of interest (increasing reserves) and the reduction in reserves from expected expenses and fees, all partially offset by the impact of asset trading and transfers (reducing reserves via an increase to the yield on assets backing reserves) and minor one-off data and other changes that reduced reserves.

Notes to the financial statements continued
for the year ended 31 December 2022

12. Insurance contracts and related insurance liabilities continued
(d) Analysis of expected maturity of gross and net insurance contract liabilities

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

	Within 1 year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Deferred annuities					
Gross	**89**	**794**	**2,058**	**3,661**	**6,602**
Reinsurance	**(11)**	**(59)**	**(204)**	**(607)**	**(881)**
As at 31 December 2022	**78**	**735**	**1,854**	**3,054**	**5,721**
Annuities in payment					
Gross	**1,887**	**6,585**	**11,043**	**6,912**	**26,427**
Reinsurance	**63**	**187**	**–**	**(568)**	**(318)**
As at 31 December 2022	**1,950**	**6,772**	**11,043**	**6,344**	**26,109**

	Within 1 year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Deferred annuities					
Gross	93	793	2,447	7,344	10,677
Reinsurance	(17)	(89)	(333)	(1,658)	(2,097)
As at 31 December 2021	76	704	2,114	5,686	8,580
Annuities in payment					
Gross	1,773	6,768	14,196	13,599	36,336
Reinsurance	54	159	(136)	(1,330)	(1,253)
As at 31 December 2021	1,827	6,927	14,060	12,269	35,083

(e) Sensitivity analysis

In accordance with IFRS 4 and IFRS 7 "*Financial Instruments: Disclosures*", the Directors have considered the effect on profits and equity at 31 December 2022 resulting from changes in a number of key assumptions. The effect of each of the assumption changes is considered in isolation on the basis that all other key assumptions remain unaltered. The net impact of this sensitivity analysis on financial instruments and insurance contract liabilities is set out in the table below.

	2022		2021	
31 December	**Pre-tax change in profit £m**	**Post-tax change in profit and equity £m**	Pre-tax change in profit £m	Post tax change in profit and equity £m
100 bps increase in interest rates	**(53)**	**(43)**	100	81
100 bps decrease in interest rates	**(35)**	**(28)**	(369)	(299)
50 bps increase in inflation	**27**	**22**	(227)	(184)
50 bps decrease in inflation	**31**	**25**	321	260
Base mortality	**(72)**	**(59)**	(193)	(157)
Mortality improvements	**(31)**	**(25)**	(98)	(80)
Renewal expenses	**(125)**	**(102)**	(169)	(137)
Exchange rates	**2**	**1**	(10)	(8)
Credit spreads increase of 100 bps	**(192)**	**(155)**	13	11
House price index increase of 10%	**2**	**2**	n/a	n/a

The movement in the sensitivities compared to the prior year primarily reflects the much higher interest rates as at 31 December 2022 compared to 31 December 2021, as well as other economic conditions and the different asset portfolios. In particular, the interest rate and inflation sensitivities are the net result of significant and broadly offsetting movements in liabilities, assets backing liabilities and surplus assets. PIC hedges the Solvency II position rather than the IFRS result, so the positioning of the hedging portfolio at a given point-in-time can lead to consequential volatility in the IFRS result.

The base mortality sensitivity is based on a 5% reduction in the base mortality rates. This is equivalent to a 0.4 year increase in life expectancy from 22.7 years to 23.1 years for a typical male aged 65.

The mortality improvements sensitivity is based on a 0.1% increase in annual mortality improvement rates. This is equivalent to a 0.2 year increase in life expectancy from 22.7 years to 22.9 years for a typical male aged 65.

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

The exchange rate sensitivity is based on the weakening of the US dollar and Euro against sterling by 1%. The impact on assets and liabilities is broadly linear to further weakening of the exchange rates.

The sensitivities to credit spreads and the house price index as at 31 December 2022 are broadly symmetric to the equivalent decrease in credit spreads and the house price index.

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

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

Strategic Report p1–27
Directors' Report p28–42
Financial Statements p43–91

12. Insurance contracts and related insurance liabilities continued

(f) Reinsurance results

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

All reinsurance entered into by the Group is with external counterparties.

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

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

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

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

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

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

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

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

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

	2022 £m	2021 £m
Outward reinsurance premiums	**(74)**	(846)
Reinsurers' share of claims paid	**38**	59
Changes in reinsurers' share of insurance liabilities	**(2,151)**	577
Net effect of reinsurance contracts on profit before taxation	**(2,187)**	(210)

The reinsurers' share of insurance liabilities decreased during the year, mainly due to changes in underlying economic assumptions, particularly due to higher interest rates. Reinsurance premiums decreased because there were no contracts entered into during the year that required premiums to be paid upfront.

13. Borrowings

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

Loan notes	2022 Carrying value £m	2022 Fair value £m	2021 Carrying value £m	2021 Fair value £m
£300m notes maturing 2024	**299**	**299**	298	333
£250m notes maturing 2026	**249**	**259**	249	317
£350m notes maturing 2030	**348**	**316**	347	418
£300m notes maturing 2031	**299**	**251**	299	332
£400m notes maturing 2032	**397**	**302**	397	410
Total	**1,592**	**1,427**	1,590	1,810

On 3 July 2014, the Group's main subsidiary entity, PIC, issued £300 million subordinated loan notes due 2024 with a fixed coupon of 6.5% paid annually in arrears. The notes were issued at 99.107% of par.

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

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

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

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

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

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

Finance costs mainly comprise of the interest expense on borrowings, which is calculated using the effective interest method. For the year ended 31 December 2022, transaction and interest expenses of £90 million (2021: £88 million) were recognised in the Statement of Comprehensive Income in respect of the notes.

14. Deferred tax

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

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

At 31 December 2022, the Group's deferred tax balances calculated in accordance with IAS 12 "Income Taxes" were as follows:

31 December 2022	**Liability £m**	**Total £m**
Tax transitional adjustment	**–**	**–**

31 December 2021	Liability £m	Total £m
Tax transitional adjustment	(1)	(1)

14. Deferred tax continued

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

	2022 £m	2021 £m
At beginning of year	**(1)**	(2)
Change in net deferred tax asset due to temporary timing differences	**1**	1
At end of year	**–**	(1)

Following the January 2013 change in the taxation regime for insurance companies, the benefit of the differences between IFRS retained earnings and taxable profits as at 31 December 2012 reversed over a period of ten years. Consequently, ten years later, the Group no longer has a deferred tax liability at 31 December 2022 (2021: £1 million) as there is no longer a timing difference (2021: £4 million).

The Group has £nil other timing differences or tax losses carried forward as at 31 December 2022 (2021: £nil) which may give rise to reduced tax charges in future periods.

The corporation tax rate will increase from 19% to 25% from 1 April 2023, as per the Finance Act 2021. The Group has considered when the timing differences are expected to reverse and used the appropriate tax rate in calculating the deferred tax.

15. Risk management

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

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

Insurance risk is implicit in the Group's business and mainly arises from exposure to longevity in respect of annuity payments. Reinsurance is recognised as a key tool in managing this risk to an appropriate level.

Regulatory risk stems principally from the risk of changes to the regulatory environment in which PIC operates. The main reputational risks relate to the need to maintain a good reputation with trustees of pension schemes and their advisers in order to attract new business and with its own policyholders through treating them fairly and delivering good customer outcomes. Maintaining a good internal culture is recognised as a key tool in mitigating these risks.

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

The management and control of the Group's risks is a significant focus area for the Board, as an uncontrolled and unmanaged development in various risks may affect the Group's performance and capital adequacy. The Group's risk preferences define the Board's appetite towards taking different types of risks which the Group may be exposed to in pursuit of its strategic objectives. Risks are categorised as those the Group actively seeks, those the Group accepts and those the Group seeks to minimise. The Group aims to minimise its exposure to risks such as interest rate risk and inflation risk, which are expected to carry little reward for the Group over the long term.

The Group uses derivatives for the purpose of efficient portfolio management or to reduce risk in aspects of the Group's investment activities such as the implementation of tactical asset allocation changes around the strategic benchmark, the hedging of cash flows and the control of the risk profile of an identified strategy.

The Group uses cross currency-swaps, forward exchange contracts and futures for these purposes. It also uses interest and inflation rate swaps for the purpose of matching assets and liabilities, and credit default swaps to manage credit risk.

(a) Market risk

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

The Group is exposed to interest rate risk through mismatches in the value of, or income from, specific assets and liabilities that arise from changes in interest rates. The Group's exposure to changes in interest rates is concentrated in the investment portfolio and its insurance obligations.

Inflation risk is the risk of fluctuations in the value of, or income from, specific assets and liabilities that arise from changes in the rate of inflation. Exposure to inflation occurs in the Group's assets and liabilities with index linkages.

Credit spread risk is the risk of fluctuations in the value of the Group's debt investment portfolio, arising from changes in market perception of default, downgrade and illiquidity risk.

Currency risk arises from fluctuations in the value of, or income from, assets denominated in foreign currencies, from relative or absolute changes in foreign exchange rate. Exposure to currency risk arises from the Group's investment in non-sterling denominated assets.

Property risk arises from fluctuations in property prices. Exposure to property risk arises from direct holdings in investment property and indirect exposure through the provision of ERMs. ERMs are indirectly exposed to residential house prices through the NNEG. The NNEG provides that upon maturity borrowers do not have to repay more than the value of the property against which their loan is secured. PIC's ERM portfolio is therefore exposed to the risk of long-term house price growth being below expectations. This risk is managed through underwriting criteria and by restricting loan sizes relative to the value of the underlying property (Loan To Value - ("LTV")). PIC typically writes very low LTV loans, and as such, has a relatively low exposure to residential property prices. At 31 December 2022, the average LTV for PIC's portfolio was 25%.

Short-term investment property risk is mitigated by entering into long-term lease arrangements. The Group performs regular reviews of both the movement in the property market specific to these properties and the financial status of the tenants.

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

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

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

(b) Credit risk

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

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

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

15. Risk management continued

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

31 December 2022	AAA £m	AA £m	A £m	BBB[4] £m	BB or below £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	**573**	**11,018**	**611**	**917**	**–**	**–**	**13,119**
– Corporate bonds	**1,191**	**1,083**	**5,317**	**7,178**	**42**	**260**	**15,071**
– Private investments	**127**	**2,095**	**2,759**	**1,408**	**160**	**8**	**6,557**
MBS and ABS[2]	**20**	**3**	**212**	**24**	**–**	**–**	**259**
Equity release mortgages	**–**	**–**	**–**	**–**	**–**	**1,013**	**1,013**
Deposits with credit institutions	**–**	**603**	**272**	**–**	**–**	**26**	**901**
Participation in investment schemes[3]	**1,954**	**–**	**–**	**–**	**167**	**1,910**	**4,031**
	3,865	**14,802**	**9,171**	**9,527**	**369**	**3,217**	**40,951**
Other assets							
Derivative assets	**–**	**–**	**–**	**–**	**–**	**22,451**	**22,451**
Receivables and other financial assets	**30**	**41**	**65**	**131**	**2**	**209**	**478**
Cash and cash equivalents	**–**	**–**	**–**	**199**	**–**	**–**	**199**
	30	**41**	**65**	**330**	**2**	**22,660**	**23,128**

1 Within Debt securities there are £130 million AAA rated, £1,552 million AA rated, £2,614 million A rated, £1,454 million BBB rated and £59 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £5 million A rated securities which have been rated using internally assessed credit ratings.
3 Within Participation in investment schemes there are £17 million AAA rated and £167 million BB rated schemes, which have been rated using internally assessed credit ratings.
4 Within the BBB rated financial investments there are £1,083 million of BBB- rated assets.

31 December 2021 (restated)	AAA £m	AA £m	A £m	BBB[3] £m	BB or below[4] £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	693	15,467	718	1,087	–	–	17,965
– Corporate bonds	1,606	1,580	6,820	8,351	13	257	18,627
– Private investments	138	3,250	3,659	1,837	137	–	9,021
MBS and ABS[2]	–	11	287	30	–	–	328
Equity release mortgages	–	–	–	–	–	1,082	1,082
Deposits with credit institutions	–	550	231	–	–	43	824
Participation in investment schemes	1,614	–	–	–	181	1,501	3,296
	4,051	20,858	11,715	11,305	331	2,883	51,143
Other assets							
Derivative assets	–	–	–	–	–	15,018	15,018
Receivables and other financial assets	23	47	74	111	1	27	283
Cash and cash equivalents	–	–	–	192	–	–	192
	23	47	74	303	1	15,045	15,493

1 Within Debt securities there are £138 million AAA rated, £2,516 million AA rated, £3,426 million A rated, £1,967 million BBB rated and £72 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £5 million A rated securities which have been rated using internally assessed credit ratings.
3 Within the BBB rated financial investments there are £1,224 million of BBB- rated assets.
4 BB or below has been restated to include assets rated B or below which were previously included in Unrated.

Although the derivative asset instruments themselves are unrated, the ultimate issuing party for most derivative assets does have a credit rating. Additionally, the derivatives are fully collateralised with highly rated instruments, so as to mitigate any credit or counterparty risk. Applying the issuer rating to the assets held at 31 December 2022 produces the following split:

31 December 2022	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
Derivative assets	**–**	**5,035**	**17,161**	**–**	**–**	**255**	**22,451**

31 December 2021	AAA £m	AA £m	A £m	BBB £m	BB or below £m	Unrated £m	Total £m
Derivative assets	–	3,589	11,350	75	–	4	15,018

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

Reinsurance counterparties

The Group has reinsurance contracts in place with 14 external reinsurers (2021: 14 external reinsurers) with an exposure of £1,199 million at 31 December 2022 (2021: £3,350 million). Measures are in place with respect to the reinsurance contracts to manage counterparty exposure, including collateral arrangements and other protections. The credit rating of each reinsurer is reported to management on a monthly basis. The credit rating of each reinsurer was A- or higher at 31 December 2022 (A or higher at 31 December 2021).

Impaired assets

The Group did not have any impaired or past due date assets at 31 December 2022 (2021: £nil).

(c) Liquidity risk

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

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

The Group's risk policies define a minimum proportion of its assets to be held in highly liquid cash and gilts, which can be readily converted to cash or used as collateral against movements in its derivative contracts. We monitor our liquidity position by reviewing Liquidity Coverage Ratio over various timeframes, and Medium-Term Cash Coverage Ratio on a weekly basis, and more frequently if market conditions warrant it, to ensure that we have sufficient headroom in the level of liquidity we hold above Board risk appetite. Stress testing is also conducted to ensure that there are sufficient liquid assets at all times to meet potential demands from derivative movements under extreme scenarios.

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

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

31 December 2022	Carrying value £m	Within 1 year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Creditors arising out of reinsurance operations	**20**	**20**	**–**	**–**	**–**	**20**
Other creditors	**156**	**156**	**–**	**–**	**–**	**156**
Accruals	**44**	**44**	**–**	**–**	**–**	**44**
Borrowings	**1,592**	**88**	**822**	**1,236**	**–**	**2,146**
Derivative liabilities	**25,348**	**650**	**1,731**	**6,759**	**16,208**	**25,348**
	27,160	**958**	**2,553**	**7,995**	**16,208**	**27,714**

15. Risk management continued

31 December 2021	Carrying value £m	Within 1 year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Creditors arising out of reinsurance operations	19	19	–	–	–	19
Other creditors	136	136	–	–	–	136
Accruals	35	35	–	–	–	35
Borrowings	1,590	88	861	1,285	–	2,234
Derivative liabilities	16,997	178	699	2,717	13,403	16,997
	18,777	456	1,560	4,002	13,403	19,421

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

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

(d) Insurance risk

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

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

Longevity only reinsurance

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

Quota share reinsurance – longevity reinsurance via the transfer of assets

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

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

Mortality assumptions

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

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

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

Risk arising from a specific insurance contract

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

Exposure to changes in financial market conditions

The Group prepares information based upon a range of possible market conditions to assess the potential impacts on the balance sheet and the management actions available to help mitigate these.

(e) Operational risk

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

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

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

(f) Climate change risk

The Group's asset portfolio can be exposed to climate change through both:

- transition risks from moving to a low-carbon economy and the impact this has on the value of the assets and the economy; and
- physical risks from the long-term impact on asset holdings due to severe climate change.

Climate change risk is minimised via integrating climate change considerations throughout the organisation's decision-making processes. Environmental factors are considered when reviewing any investment opportunity and the Group works closely with external asset managers and private debt issuers to ensure climate related risk is actively engaged on.

As the Group's assets are generally valued based on market sourced prices or by qualified external valuers, the valuations reflect current market sentiment in respect of climate risk.

16. Share capital

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

	2022		2021	
	Number of shares	**£m**	Number of shares	£m
Authorised, issued and fully paid				
At beginning of year	**1,226,385,310**	**1,226**	1,226,385,310	1,226
Shares issued in the period	**–**	**–**	–	–
At end of year	**1,226,385,310**	**1,226**	1,226,385,310	1,226

17. Restricted tier 1 notes

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

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

The interest payments arising are recognised in equity upon payment.

	2022 £m	2021 £m
Restricted Tier 1 notes	**444**	444

On 25 July 2019, PIC issued £450 million of RT1 debt capital loan notes with a fixed coupon of 7.375% paid semi-annually in arrears. In 2022, the total coupon paid was £33 million (2021: £33 million).

18. Reserves

	2022			2021		
	Share premium £m	**Other reserves £m**	**Retained profit £m**	Share premium £m	Other reserves £m	Retained profit £m
At beginning of year	**524**	**60**	**2,175**	524	60	1,889
Total comprehensive income	**–**	**–**	**1,012**	–	–	313
RT1 coupon	**–**	**–**	**(33)**	–	–	(33)
Tax on RT1 coupon	**–**	**–**	**–**	–	–	6
At end of year	**524**	**60**	**3,154**	524	60	2,175

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

Notes to the financial statements continued
for the year ended 31 December 2022

19. Capital resources

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and ensure compliance with the relevant financial services regulations, whilst creating shareholder value. The Group's capital resources comprise equity and debt capital. The details of the Group's equity capital resources are provided in Notes 16 to 18. Details of the Group's debt capital resources are provided in Note 13.

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

PIC currently has sufficient capital resources available to meet all its present capital requirements.

	2022 unaudited £m	2021 unaudited £m
Own Funds	**7,210**	6,669
Solvency II capital requirements	**(3,199)**	(3,968)
Solvency II surplus	**4,011**	2,701
Solvency ratio	**225%**	168%

PIC's objectives in managing its capital are:

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

Under Solvency II, PIC uses an Internal Model to set its statutory solvency capital requirement. This evaluates market risk, insurance risk, operational risk, expense risk and counterparty risk. In addition, PIC produces an ORSA report annually, which provides an analysis of the risks facing PIC and its capital resources.

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

PIC focuses on hedging its Solvency II balance sheet through hedging its technical provisions and solvency capital requirement to interest rates and inflation rates. PIC aims to remove all foreign exchange risk through cross-currency hedging. Longevity risk is managed through reinsurance, where 87% of exposure has been transferred as at 31 December 2022, based on best estimate liabilities (2021: 85%).

20. Related party transactions

As at 31 December 2022, the Directors regarded Pension Insurance Corporation Group Limited ("PICG"), a limited Group incorporated in England and Wales, as the Group's ultimate parent and controlling party.

a) Transactions with fellow group undertakings

The Group had the below transactions with its fellow group undertakings. The recharge includes £13 million relating to remuneration of PIC Directors and key management personnel (2021: £14 million).

Income statement	2022 £m	2021 £m
Expense recharges	(210)	(176)
	(210)	(176)

b) Balances with fellow group undertakings

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

	Transactions during the year		Balance as at 31 December	
Balance sheet	2022 £m	2021 £m	2022 £m	2021 £m
Amounts owed by group undertakings	–	2	2	2
Amounts owed to group undertakings	(18)	(131)	(132)	(114)

c) Other related party transactions

On 8 June 2021, PIC subscribed to €150 million 1.48% senior notes in Capital Investors Europe PBI Limited, a company within the CVC Group. Another member of the CVC Group is a significant shareholder of PICG, the ultimate parent of the Company. Investment income during the period amounted to £2 million (2021: £1 million) and the carrying value of the investment at 1 December 2022 was £97 million (2021: £126 million).

PIC holds investments in funds managed by HPS which is a member of a group that is a significant shareholder of PICG. During the period, there were net capital distributions of £33 million (2021: net capital contributions of £12 million) and investment income amounted to £14 million (2021: £7 million). As at 31 December 2022 the carrying value of the investments was £166 million (2021: £176 million).

21. Financial commitments and contingencies

Other commitments

During the year, the Group executed transactions to purchase partly funded securities relating to private investments. The Group expects to pay a further £952 million in the coming years (2021: £571 million), £376 million of this being due within 12 months of the financial reporting date (2021: £389 million).

	2022 £m	2021 £m
Within 1 year	376	389
In 1–5 years	565	182
In 5–15 years	5	–
Over 15 years	6	–
	952	571

At 31 December 2022, the Group's maximum commitment under contractual obligations to construct investment property is £380 million (2021: £216 million). The obligations cover a period of up to approximately four years.

At 31 December 2022, the Group's maximum commitment under joint venture agreements (see note 10(e)) is £4 million.

Contingent liabilities

The Group has certain reinsurance agreements, which include fees that are contingent on occurrence of specific events. Such fees do not meet the definition of a liability, and therefore are not recognised on the Statement of Financial Position. At 31 December 2022, the estimated value of the contingent fees payable was £5 million (2021: £8 million). The Group considers that there were no other events which could lead to contingencies in the ordinary course of business.

22. Parent Company and ultimate controlling party

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

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

Parent Company financial statements
Statement of financial position for the Company as at 31 December 2022

	Note	2022 £m	2021 £m
Assets			
Investments in subsidiaries	2	**304**	162
Financial investments		**41,108**	51,316
Derivative assets		**22,451**	15,018
Reinsurers' share of insurance liabilities		**1,199**	3,350
Prepayments		**105**	98
Receivables and other financial assets		**407**	273
Cash and cash equivalents		**33**	25
Total Assets		**65,607**	70,242
Equity			
Share capital		**1,226**	1,226
Share premium		**524**	524
Other reserves		**60**	60
Tier 1 notes		**444**	444
Retained profit		**3,154**	2,175
Total Equity		**5,408**	4,429
Liabilities			
Gross insurance liabilities		**33,029**	47,013
Borrowings		**1,592**	1,590
Derivative liabilities		**25,348**	16,997
Deferred tax liability		**–**	1
Current taxation		**30**	37
Insurance and other payables		**170**	145
Accruals		**30**	30
Total Liabilities		**60,199**	65,813
Total Equity and Liabilities		**65,607**	70,242

The accounting policies and notes on pages 89 to 91 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 15 March 2023 and were signed on its behalf by:

Dominic Veney
Director
Registered number: 05706720

Parent Company financial statements
Statement of changes in equity for the Company
for the year ended 31 December 2022

31 December 2022	**Share capital £m**	**Share premium £m**	**Other reserves £m**	**Tier 1 notes £m**	**Retained profit £m**	**Total £m**
At beginning of year	**1,226**	**524**	**60**	**444**	**2,175**	**4,429**
Total comprehensive income						
Profit for the year	**–**	**–**	**–**	**–**	**1,012**	**1,012**
Transactions with owners						
Tier 1 coupon	**–**	**–**	**–**	**–**	**(33)**	**(33)**
At end of year	**1,226**	**5,24**	**60**	**444**	**3,154**	**5,408**

31 December 2021	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year	1,226	524	60	444	1,889	4,143
Total comprehensive income						
Profit for the year	–	–	–	–	313	313
Transactions with owners						
Tier 1 coupon	–	–	–	–	(33)	(33)
Tier 1 coupon tax relief	–	–	–	–	6	6
At end of year	1,226	524	60	444	2,175	4,429

The accounting policies and notes on pages 89 to 91 form an integral part of these financial statements.

Parent Company financial statements
Company statement of cash flows
for the year ended 31 December 2022

	2022 £m	2021 £m
Cash flows from operating activities		
Profit for the year	**1,012**	313
Adjustments for:		
Interest income recognised in profit	**(1,219)**	(1,054)
Other investment return	**(197)**	(184)
Interest expense recognised in profit or loss	**90**	88
Revaluation of investment in subsidiaries	**(49)**	(10)
Tax expense	**229**	81
	(1,146)	(1,079)
Changes in operating assets and liabilities		
Decrease in financial investments including derivative assets	**2,775**	5,345
Decrease/(increase) in reinsurers' share of insurance liabilities	**2,151**	(577)
(Increase)/decrease in prepayments	**(7)**	4
(Increase)/decrease in receivables and other financial assets	**(123)**	6
Increase in accruals	**–**	1
(Decrease)/increase in insurance liabilities	**(13,984)**	2,178
Increase/(decrease) in financial liabilities including derivative liabilities	**8,351**	(7,343)
Increase in insurance and other payables	**25**	37
	(812)	(349)
Cash outflow from operating activities	**(946)**	(1,115)
Interest income received	**1,208**	1,060
Other investment return	**197**	184
Taxation paid	**(237)**	(36)
Net inflow from operating activities	**222**	93
Cash flows from investing activities		
Additions to investment in subsidiaries	**(93)**	(65)
Net outflow from investing activities	**(93)**	(65)
Cash flows from financing activities		
Interest paid on subordinated debt	**(88)**	(88)
Coupon on Tier 1 notes	**(33)**	(33)
Net outflow from financing activities	**(121)**	(121)
Net Increase/(decrease) in cash and cash equivalents	**8**	(93)
Cash and cash equivalents at beginning of year	**25**	118
Cash and cash equivalents at end of year	**33**	25

The accounting policies and notes on pages 89 to 91 form an integral part of these financial statements.

Parent Company financial statements
Notes to the financial statements of the Company
for the year ended 31 December 2022

1. Accounting policies
The Company's financial statements have been prepared in accordance with IFRS in conformity with the requirements of the Companies Act 2006. The Company's accounting policies are aligned with those of the Group, as set out in the relevant notes to the Group's financial statements, with the only exception to this being Investments in subsidiaries, which are not relevant at Group level.

Investments in subsidiaries are carried at fair value, based on the fair value of the principal assets of the subsidiaries, which are investment properties. See Note 9 of the Group's consolidated financial statements for valuation judgements in relation to investment properties.

See Note 1 of the Group's consolidated financial statements for other material critical accounting estimates used or judgements made by management in the preparation of these financial statements.

The Company has applied all IFRS and interpretations that are adopted by the UK and are effective for accounting periods beginning on or after 1 January 2022. The Company has also consistently applied its accounting policies to all periods presented in these financial statements. The application, in 2022, of "Reference to the Conceptual Framework" (Amendment to IFRS 3), "Property, Plant and Equipment – Proceeds before Intended Use" (Amendment to IAS 16), "Cost of Fulfilling a Contract" (Amendment to IAS 37), and "Annual Improvements to IFRS Standards 2018–2020" have had no impact on the Company.

See Note 1 of the Group's consolidated financial statements for disclosures in relation to significant new standards which are not yet effective.

Disclosures in relation to the Company's share capital and other reserves are provided in Notes 16 and 18 of the Group's consolidated financial statements.

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

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

	2022 £m	2021 £m
Cost		
At start of year	**162**	87
Additions in the year	**93**	65
Revaluation of Investments in Subsidiaries	**49**	10
At end of the year	**304**	162
Net book value		
31 December	**304**	162

2. Investments in subsidiaries continued

The additions in the year relate to the funding of investment property construction vehicles. Please see Note 9 of the consolidated Group accounts for more details.

Subsidiary Undertakings	Principal Activity	Country of incorporation	% of equity held	Share class
PIC ERM 1 Limited[1,2]	Investment activity	England	100%	Ordinary shares
PIC Properties Limited Partnership[1,2]	Investment holding entity	England	100%	Partnership
PIC Real Estate Limited Partnership[1]	Investment activity	England	100%	Partnership
PIC New Victoria Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC New Victoria Limited Partnership[2]	Investment activity	England	99%	Partnership
PIC Wiltern Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC Wiltern Limited Partnership[2]	Investment activity	England	99%	Partnership
PIC Bowback Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC Bowback Limited Partnership[2]	Investment activity	England	99%	Partnership
PIC One Eastside Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC One Eastside Limited Partnership[2]	Investment activity	England	99%	Partnership
PLE Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
STH Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
TBW Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
TNT Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
WOR Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
BSF Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
CVT Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust
GLS Unit Trust[1]	Investment activity	Guernsey	99.9%	Unit trust

1 Denotes investment held directly by the Company at 31 December 2022.
2 Denotes entities that have claimed exemption from audit by virtue of either section 479A of the Companies Act 2006, or Regulation 7 of the Partnerships (Account) Regulations.
Subsidiaries incorporated in England are registered at 14 Cornhill, London EC3V 3ND.
Subsidiaries incorporated in Guernsey are registered at Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ.

3. Investment in joint ventures

Joint venture	Principal Activity	Country of incorporation	% of equity held	Share class
Senior Living Investment Partners (General Partner) Limited[3]	General partner	England	49%	Ordinary shares
Senior Living Investment Partners Limited Partnership[3]	Investment activity	England	99%	Partnership

3 Registered at 6th Floor 33 Holborn, London, United Kingdom EC1N 2HT

4. Related party transactions

a) Transactions with fellow group undertakings

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

Income statement	2022 £m	2021 £m
Distribution from group undertakings	**5**	5
Expense recharges	**(210)**	(176)
	(205)	(171)

b) Balances with fellow group undertakings

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

	Transactions during the year		Balance as at 31 December	
Balance sheet	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Amounts owed by group undertakings	**(8)**	100	**167**	175
Amounts owed to group undertakings	**(17)**	(31)	**(131)**	(114)

c) Capital transactions with fellow group undertakings

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

Balance sheet	2022 £m	2021 £m
Equity investment in subsidiary undertakings	**(114)**	(65)

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

Pension Insurance Corporation PLC
14 Cornhill, London EC3V 3ND

www.pensioncorporation.com