Unleashing the power of pensions.

Pension Insurance Corporation Group Limited
Annual Report and Accounts 2023

PIC is a specialist insurer and a leader in the UK pension risk transfer market. Our purpose is to pay the pensions of our current and future policyholders.

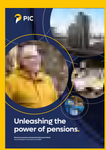
Our 2023 reporting suite

You can find out more about our activities, financial performance, sustainability strategy and our progress to becoming a Net Zero business by 2050 on our website and in our reporting suite.

Watch the results video
pensioncorporation.com/resultsvideo

Listen to the Investor Results Presentation recording
pensioncorporation.com/investors/pic-and-picg-financial-results-and-reports/results

To access the full reporting suite visit
pensioncorporation.com/reportingsuite

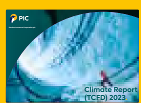


Annual Report and Accounts

In our Annual Report and Accounts, we outline our approach to sustainable business. We comment on how our commercial activities contribute to positive social outcomes. We report in detail the steps we've taken to ensure high standards and quality of governance practices.

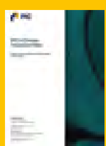
Sustainability Report

Our Sustainability Report dives deeper into our sustainability strategy and how this complements our overall corporate objectives of being a long-term sustainable business and a responsible corporate citizen. It details the progress made on new sustainability initiatives and how we strive to further embed sustainability across all our processes.



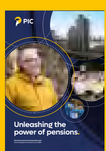
Climate Report (TCFD)

Our Climate Report (TCFD) outlines how PIC reports against the 11 Task Force on Climate-related Disclosures ("TCFD") guidelines. The report discusses our climate related governance, strategy, risk management and decarbonisation targets and metrics.



Transition Plan

PIC's Transition Plan is written in line with the Transition Plan Taskforce ("TPT") guidelines. The report details our objectives to contribute to a global transition towards a low-carbon economy and includes the related business and investment actions we plan on taking to achieve its Net Zero goals.



PIC Company Report

The PIC Company Report outlines our 2023 results on a company basis.

Investor Results Presentation

The Investor Results Presentation provides an overview of the Company's performance in 2023.

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

2023 Highlights

Key financial highlights

Solvency II ratio
211%
2022: 226%

Premiums
£6,949m
2022: £4,095m

Equity own funds
£5,971m
2022: £5,186m

IFRS profit before tax
£303m
2022: £96m

IFRS Adjusted operating profit before tax
£893m
2022: £383m

IFRS Adjusted equity
£6,451m
2022: £5,919m

Financial investments
£46.8bn
2022: £41.2bn

Other highlights

Number of policyholders
339,900
2022: 302,200

Pensions paid
£2.1bn
2022: £1.8bn

Policyholder satisfaction
99.3%
2022: 99.6%

Total UK direct investments to FY2023
£13.0bn
2022: £11.4bn

Employee pride in working for PIC
92%
2022: 89%

In September 2023, Fitch Ratings affirmed PIC's A+ (Strong) Insurer Financial Strength rating
A+

Recent awards:

Our clients include:

Contents

PIC at a glance

PIC is a specialist insurer and a leader in the UK pension risk transfer market because of our focus on our purpose.

For over a decade, PIC has been a significant investor 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 scarce.

Our purpose...

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

We deliver on our strategic objectives...

To continue building a secure and sustainable business

To carry on leading as a responsible corporate citizen

To keep on driving long-term value growth

For more information, see 'Strategic objectives' section
p14-15

...which help to form our values

Resilient
No matter what comes our way, we can handle it.

Adaptable
PIC is capable of thriving in a changing environment.

Loyal
We invest in building lasting relationships.

...and shape our culture.

Our customers are our priority
We value all our stakeholders and work hard to provide exceptional service to them all, including policyholders, trustees and corporate sponsors. We listen and are responsive to their requirements.

Our people ensure we stand out from the crowd
Their skills, dedication and commitment to our customers runs through the organisation and we actively invest in ensuring our work environment is conducive to our collective ambitions as we evolve.

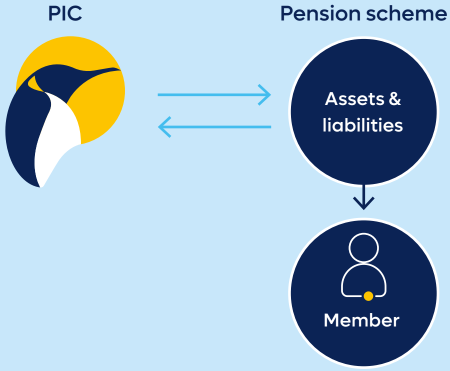
For more information, see 'Our people and culture' section
p44-48

Explanation of a buy-in and buyout

What is a buy-in?

Pension insurance buy-in

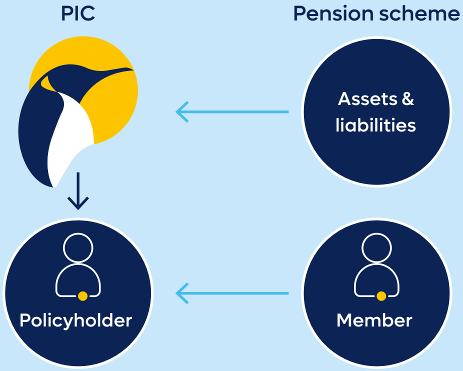
An insurance policy bought by trustees that cover some or all of the scheme's future pension payments. It is held as an asset of the scheme, which remains in place. PIC makes regular payments to the scheme to cover the benefits secured – the administration responsibilities stay with the trustees.



What is a buyout?

Pension insurance buyout

An insurance policy bought by trustees that covers all the scheme's future pension payments. The scheme is wound up, individual PIC policies are issued to the members, and we pay their benefits directly to them. We also take on the future administration.



PIC generates long-term social value.

Our business covers the pension risk transfer ("PRT") and investment industry. Pension fund members of defined benefit ("DB") schemes transfer to insurers like PIC and become our policyholders following a buyout. Alternatively, pension scheme trustees can secure their pension payments to members through a buy-in contract with an insurer.

PIC makes long-term investments, which generate cash flows that match our pensioner liabilities. Our portfolio is primarily invested in publicly available fixed income assets, including government debt and corporate debt. In addition, we invest in secure, long-term, privately sourced debt to match pension payments at maturities in future decades, for example, when public debt is not available.

We take care of our customers...

Total number of policyholders

339,900

Policyholder satisfaction

99.3%

Number of schemes insured

273

...and we invest in areas[1], such as:

Built environment[2]

c.£5.9bn

Student accommodation

c.£1.3bn

Social and affordable housing

c.£2.8bn

1. Amount invested to date is estimated based on available historic data.
2. Built environment is inclusive of student accommodation and social and affordable housing.

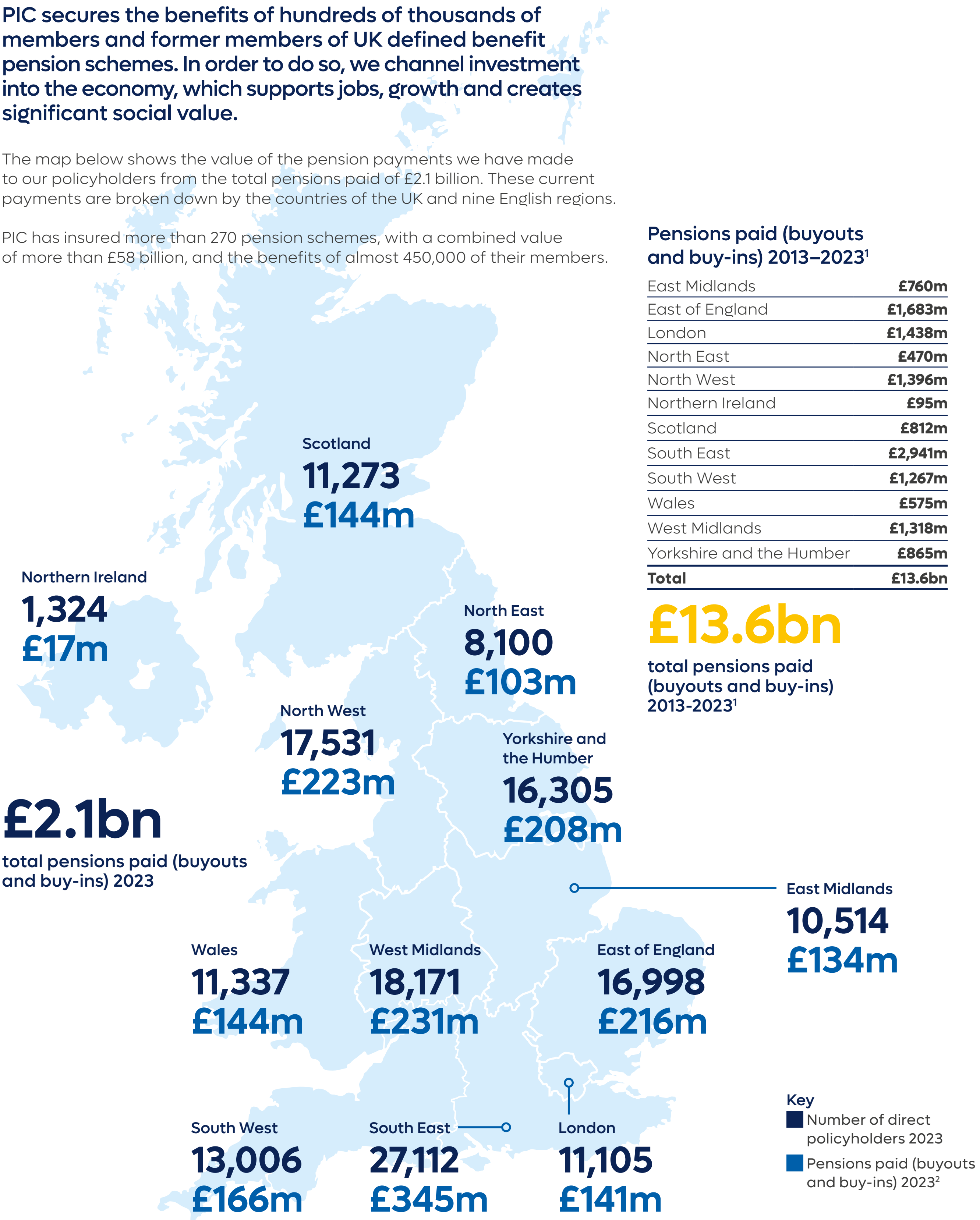
Providing social value across the UK

The social and economic value of pensions.

PIC secures the benefits of hundreds of thousands of members and former members of UK defined benefit pension schemes. In order to do so, we channel investment into the economy, which supports jobs, growth and creates significant social value.

The map below shows the value of the pension payments we have made to our policyholders from the total pensions paid of £2.1 billion. These current payments are broken down by the countries of the UK and nine English regions.

PIC has insured more than 270 pension schemes, with a combined value of more than £58 billion, and the benefits of almost 450,000 of their members.



£2.1bn

total pensions paid (buyouts and buy-ins) 2023

Pensions paid (buyouts and buy-ins) 2013–2023[1]

East Midlands	**£760m**
East of England	**£1,683m**
London	**£1,438m**
North East	**£470m**
North West	**£1,396m**
Northern Ireland	**£95m**
Scotland	**£812m**
South East	**£2,941m**
South West	**£1,267m**
Wales	**£575m**
West Midlands	**£1,318m**
Yorkshire and the Humber	**£865m**
Total	**£13.6bn**

£13.6bn

total pensions paid (buyouts and buy-ins) 2013-2023[1]

1. Total paid to policyholders from 2013 onwards. Amounts paid before 2023 have been adjusted for inflation.
2. Regional distribution of payments is estimated based on the split of policyholders across the country.

Our investments secure more than the pensions of our policyholders.

Our purposeful investment strategy means we are significant investors in UK social infrastructure, including social and affordable housing, urban regeneration, the UK's universities, and renewable energy.

The map below illustrates the extent to which PIC's purposeful investment strategy, which backs the pensions we must pay to our policyholders over coming decades, has a social and economic impact on the UK.

The Company has invested more than £13 billion[1] across the UK.

£13.0bn

total UK direct investments

For more information, visit **pensioncorporation.com/purposeful-investments**

1. Amount invested to date is estimated based on available historic data.

Policyholder journey

Our policyholders are central to our business.

Pension scheme members are welcomed as our policyholders following a buyout transaction agreed by the trustees of their pension scheme.

1 From pension scheme member...

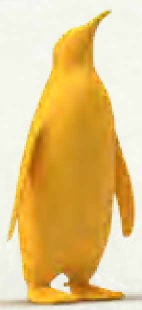
The Trustee signs a buyout transaction, which transfers all risks, assets, and policyholder obligations to PIC.

What differentiates us

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

My first connection with PIC was very good. I'm glad at last our pensions, etc. are sorted. It's been a long time."

PIC policyholder



2 ...via a transition period

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

What differentiates us

All relevant communications are in plain English: we hold the Platinum Crystal Mark from the Plain English Campaign and the ServiceMark with Distinction from the Institute of Customer Service ("ICS").

I was transferred over to PIC due to BHS closing down. The transition was easy, and the staff were very helpful with any questions. I have had a very good service. Thank you."

PIC policyholder

We worked closely with PIC for a period of three years to effect the smooth transition from buy-in to buyout. We found the transition team to be proactive and highly organised, with appropriate levels of governance. PIC were flexible and pragmatic in their approach. PIC's professional approach helped us to complete the buyout process in a timely and efficient manner, ensuring successful member outcomes."

Old British Steel, 2023
PIC Trustee

3 ...to PIC policyholder

We genuinely seek to do things better for our policyholders.

What differentiates us

We hold the Institute of Customer Service ServiceMark with Distinction, the highest attainable award for customer service.

We hold events across the country, where our policyholders can meet with, and question, PIC's senior management.

Every event allows us to directly engage with our policyholders. They include:

- A mixture of entirely free online and in-person events across the UK, packed full of interesting and helpful information
- Updates from our senior leadership team
- Celebrity guest speakers and a choice of complimentary services at our Policyholder Days

We were all very worried when we heard that our pension was being transferred to an unknown company, PIC. How wrong we were! The integrity of PIC goes without saying in that it aims to protect the pensions of present members and also those to come in the future."

PIC policyholder

For more information, see 'Customer care' section **p30-35**

Securing sustainable long-term growth.

It has been an immensely rewarding first full year as Chairman, and our results show that PIC had an outstanding year."

Board priorities 2023

The team have delivered very strong results in 2023. During my first year as Chair, the Board has been focused on ensuring our growth has been safe and sustainable in the context of unprecedented and continuing demand in the pension risk transfer ("PRT") market. At the same time, we have continued to enhance our award-winning customer service.

PIC has a clear, straightforward purpose, which is to pay the pensions of our current and future policyholders. The Board ensures that we prioritise the security of the pension benefits of our current policyholders, whilst supporting the management team in growing the business sustainably.

It's pleasing that despite the struggling economy, geopolitical tensions, market volatility, and high levels of inflation, we have maintained a robust balance sheet, with a year-end solvency ratio of 211% (FY2022: 226%), and delivered strong profitability, with adjusted operating profit of £893 million (FY2022: £383 million).

Whilst the cornerstone of our future growth is a strong balance sheet, the Board also maintains close oversight of our asset sourcing capabilities, the effectiveness of our management team and employees, and ensuring our systems and processes are capable of supporting future growth. We have made good progress in each of these areas during the year.

Customer service

PIC has long been a market leader in how we engage with, and the level of customer service we offer to, our policyholders. PIC holds the Institute of Customer Service's ("ICS") ServiceMark with Distinction, one of only 20 companies in the country to do so, and was the first company in our sector to attain the Crystal Mark, Platinum, from Plain English Campaign, for our policyholder communications.

During the year, the Board spent considerable time reviewing the customer journey for policyholders with vulnerable circumstances and, more generally, how we ensure good outcomes for all of our policyholders, in the run-up to the implementation of the Consumer Duty. This included the creation of a Board Customer Committee.

In November, we were pleased to attain the gold standard for accessible and inclusive customer service – an ISO accreditation and BSI Kitemark (ISO 22458), one of very few companies in the country to hold this accreditation. This was awarded partly on the basis of our incorporation of market-leading Artificial Intelligence ("AI") voice analytics in our call centre. This technology alerts our call centre employees to indicators of vulnerability and customer dissatisfaction, helping us achieve better customer outcomes.

PIC has for many years run events across the country for our policyholders to meet Company management and Directors. I was delighted to present at our Policyholder Day at Twickenham Stadium, a venue I've got to know very well over the years. It's important, especially in an industry where the business is somewhat removed from our end customer until the buyout is signed, for us to meet the people who we ultimately work for.

Looking ahead

With the significant PRT market opportunity before us and a prudent growth plan in place, there is the potential for considerable investment in the economy, as we source in the secure, long-term cash flows that will back our policyholders' pensions over the coming decades. This will also have the happy outcome of ensuring that future generations are able to live fulfilling lives in decent housing and in modern urban environments.

David Weymouth
Chairman

IFRS adjusted operating profit

£893m

Solvency ratio

211%

High standards for all our customers

In November 2023, PIC was awarded the gold standard for accessible and inclusive service to vulnerable customers, an ISO accreditation and BSI Kitemark (ISO 22458). The BSI Kitemark, the first attained by a pension insurance provider and one of very few attained by any UK company, demonstrates that PIC is providing customer service to its policyholders with vulnerable circumstances at a recognised international standard.

The Kitemark is further evidence of PIC's continued focus on ensuring all its customers, including those that have vulnerable circumstances, are given the highest levels of support. PIC already holds the Institute of Customer Service ("ICS") ServiceMark with Distinction, for "Delivery of first-class customer service", one of only 20 companies in the country to do so. PIC was also the first company in our sector to attain Crystal Mark Platinum status from Plain English Campaign, meaning all the applicable policyholder communications are jargon free. To date, PIC has paid £13.6 billion in pensions and has a customer satisfaction rating of 99.3%.

In a recent employee survey, 93% of employees said they believe PIC is "truly customer oriented".

During 2023, PIC invested in enhancing its contact channels and support services for vulnerable customers to include:

- A British Sign Language Service ("BSL"), enabling customers who are deaf or hard of hearing to converse with us through a BSL interpreter.
- Ensuring its website is AA rated against Web Content Accessibility Guidelines ("WCAG"), which means it has a very high standard of general accessibility.
- Adding additional functionality on its website, including Signly, a BSL translation option on all written text, and ReciteMe, a text adjustment tool that enables the user to adjust the text into multiple languages, coloured backgrounds and the spoken word.
- A live web chat channel operated by PIC's UK-based contact centre staff to support customer choice and those that have hearing or speech difficulties.
- Voice analytics technology that alerts call centre staff to indicators of vulnerability and customer dissatisfaction. This industry first technology allows PIC to better meet the needs of our customers and helps us to deliver good outcomes for all our customers.

Natasha Bambridge, Global Consumer Promise Practice Director at BSI, said: "Offering an accessible and inclusive service can bring important benefits, often to the most vulnerable members of society. So, it is brilliant to see PIC being awarded the BSI Kitemark for Inclusive Service to demonstrate their services are fair, flexible and accessible to all regardless of personal circumstance. We congratulate PIC on their achievement, demonstrating the business' willingness to go beyond the requirements of BS ISO 22458 (Consumer Vulnerability) and deliver a truly inclusive service that caters to a diverse range of consumer needs."

bsi Inclusive Service Financial Services KITEMARK™

For more information on Board activities see **p100**

Chief Executive Officer's review

Investments that also benefit future generations.

In total, we have invested £13.0 billion right across the UK economy, creating significant social value."

Watch the Results video with Tracy Blackwell and Dom Veney
pensioncorporation.com/investors/full-year-2023-results-video

2023 was a record year for the pension risk transfer sector in terms of total size of the market, individual transaction size, and the number of transactions completed worth £1 billion or more.

We came into the year following the LDI crisis, where sharp price falls in the bond markets led to a significant spike in interest rates. So we knew that many defined benefit pension schemes had completely turned the corner and were better funded than they had ever been. However, it shouldn't be forgotten that market volatility was heightened. There was also significant risk developing in various asset classes due to higher borrowing costs, later exposed in US regional banks, small cap technology firms, and commercial real estate.

New business transactions

We were delighted, early in the year, to complete the record £6.2 billion transaction which secured two pension schemes sponsored by RSA Group. This was a landmark deal priced amidst significant market volatility. Our team also successfully addressed the issue of illiquid assets within the scheme, setting the standard for other very large schemes which have accelerated their de-risking processes following the rise in interest rates.

Our clear purpose, which is to pay the pensions of our current and future policyholders, meant that we were well placed to secure the pensions of the members of these schemes. This is because everything we do is guided by our purpose, including ensuring we have a robust balance sheet with a strong solvency ratio; our low-risk portfolio, which creates considerable social value; our focus on providing excellent customer service to our policyholders and a partnership model for our wider stakeholders; and the way we manage our risks, especially as we position the business for continued growth.

Group results

We ended the year with a solvency ratio of 211% (FY2022: 226%), as a result of new business volumes of £6.9 billion (FY2022: £4.1 billion) across 14 schemes and covering the pensions of 48,000 scheme members. £0.5 billion of that new business total was completed in the second half of the year. We went into 2024 with a very full pipeline of new business prospects totalling £50 billion, and during the first two months of 2024, we have already completed £1.5 billion of new business with four pension schemes, covering the pensions of 6,000 scheme members.

As at year end 2023, we look after the pensions of 339,900 people (FY2022: 302,200) and have paid total pension benefits of £13.6 billion, including a record amount of £2.1 billion during 2023 (FY2022: £1.8 billion), with a customer service rating of 99.3% (FY2022: 99.6%). We paid our inaugural dividend of 7.50 pence per ordinary share to PICG's shareholders in May 2023.

Investments

At year end our portfolio of assets stood at £46.8 billion (FY2022: £41.2 billion), and we had insurance liabilities of £41.2 billion (FY2022: £33.7 billion). I have previously described how we manage risk in the portfolio, in particular our mix of low-risk assets, avoidance of consumer cyclical industries, and our focus on creating social value through our privately sourced debt and wider built environment investments. Due to the low-risk nature of the portfolio we

Pensions paid

£2.1bn

Overall portfolio size

£46.8bn

Policyholder satisfaction

99.3%

had no defaults and our conservative approach to risk across the economic cycle meant we avoided the problems with US regional banks, commercial real estate, and those caused by the demise of Credit Suisse.

During the year, we invested £1.6 billion in UK infrastructure, including a £50 million investment to fund the UK's first reservoir since 1991, and we invested £268 million in our second Government Property Agency regional hub, following our investment in First Street, Manchester in August 2022. We also welcomed the first residents to New Vic, our private rental sector development in central Manchester, which was 49% occupied as at December 2023.

We have now invested an estimated £5.9 billion[1] in the built environment to date, which includes over £2.8 billion[1] in social housing and circa £1.3 billion[1] in student accommodation. In total we have invested £13 billion[1] right across the UK economy, creating significant social value, for example, we currently have more than 1,000 people working on our construction sites. This type of investment will continue to be a focus for the business as we increasingly work with regional authorities to help them regenerate their areas, providing housing, jobs, and skill development as an outcome of the construction of the infrastructure assets that provide the long-term, secure cashflows that will back the pensions of our policyholders over the coming decades. In addition, we became signatories to the Stewardship Code for the first time, demonstrating our commitment to transparency and accountability in the investment industry.

People

We are proud that PIC is an engaging and supportive environment to work in. The culture of the organisation has been a regular feature of management attention as we continue to grow to meet the increased demand from trustees to secure the pensions of their members. During the year we added another 146 employees, and by year end, had a total of 547. We were delighted to be awarded Investors in People Silver and that 92% of our employees are "proud to work for PIC".

We were pleased to continue our charitable partnerships with Independent Age, Rethink Mental Illness, and continued our volunteering programme with RedSTART Educate.

Customer service

Part of the reason our employees are proud to work for PIC is because they can see that we have an absolute focus on customer service – 93% of them think PIC is "truly customer oriented". We were pleased to have some industry recognition for our efforts as well, winning the Customer Commitment Award from the Institute of Customer Service, alongside a host of other awards in the pensions and property industries.

Regulation

Finally, we look forward to the completion of the final phase of Solvency II reform, following the changes to the risk margin at the end of last year. We also continued our wider work on regulatory reform with the Regulatory Reform Group, which aims to bring accountability and transparency back into regulators across the economy, as well as regional investment through the Purposeful Finance Commission.

Dividend

In line with PICG's dividend policy to retain sufficient capital to invest in the future growth of the UK PRT market, whilst paying regular dividends to shareholders, based on the current and future projected capital position of the business the Board has proposed a second dividend of 11.0 pence per ordinary share to be paid to PICG's shareholders.

2024 has started well for the business and I look forward to a successful year.

Tracy Blackwell
Chief Executive Officer

1. Amount invested to date is estimated based on available historic data.

Delivering value for our stakeholders.

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 value

Operate the business

Our **employees** are fundamental to the successful operation of our business. We provide innovative solutions, comprehensive risk management, and deliver excellent customer service.

Liabilities are taken on from **defined benefit pension scheme trustees and sponsors**. PIC liaises with trustees, understands the scheme, and determines a price to take 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.

Originate and manage investments

Working with our **in-house specialists and our investment partners** through our purposeful investment strategy, we seek secure assets that create social value and match our liabilities for decades to come.

Raise and manage capital

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, while retaining a healthy buffer in excess of regulatory requirements.

Outcomes

We pay the pensions of our **policyholders** and provide the highest levels of customer service, working with partners that are as committed to these outcomes as we are.

We seek to provide attractive risk-adjusted returns through the release of surplus capital following necessary reinvestments back into the business.

Manage third party relationships

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**.

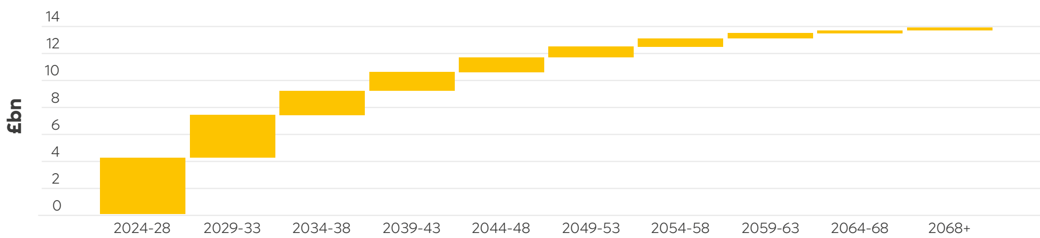
Read more about our strategic objectives on **p14-15**

For more on outcomes for our stakeholders, please see the Stakeholder engagement section on **p36-37** and see the Section 172 statement on **p38-43**

Value delivered for our stakeholders

Policyholders	• We have paid more than £13.6 billion in pension payments and secured the benefits of 339,900 policyholders, with a customer satisfaction rating of 99.3%. • All policyholder communications are Crystal Marked by the Plain English Campaign. We have a dedicated and responsive customer service team and were awarded the gold standard for accessible and inclusive service to customers with vulnerable circumstances (BS ISO 22458).	For more information see pages 30-35
Defined benefit pension scheme trustees and sponsors	• Working with trustees, sponsors and their advisers, we take an innovative and flexible approach to pension risk transfer transactions. • We provide tailored solutions that meet the specific needs of our clients.	For more information see pages 22-23
Society	• In order to fulfil our purpose, we seek long-term secure cash flows, which means we are a significant investor in the economy, in areas like social housing, urban regeneration, and the UK's universities. • These investments create significant social value, as well as providing the necessary infrastructure for younger and future generations.	For more information see pages 16-18
Regulators and policymakers	• We are regulated and authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. • We seek to maintain open and constructive relationships with regulators and policymakers. We have been active participants in the Government's review of insurance regulations (Solvency II), as well as the debate around the pensions industry.	For more information see pages 36-37
Outsourced partners and key suppliers	• Our outsourced partners and key suppliers provide business-critical services to PIC, including policyholder administration, asset management services, and support for our IT systems. • We have a partnership model of engagement with our outsourced partners and key suppliers. We carefully select suppliers who share our focus on customer outcomes and those who are willing to work together on key topics such as climate change.	For more information see pages 36-37
Employees	• Our employees work in a stimulating and rewarding environment. • We value and strive to maintain a collaborative culture, supported by our values and underpinning our purpose. • As at November, 92% of employees said that they are proud to work at PIC.	For more information see pages 44-48
Capital providers (debt and equity)	• Returns for our capital providers are generated over the long term. • As policyholder liabilities (and the prudent margins held above them) run off, excess capital emerges. • At FY2023, we held £9.5 billion of excess assets to cover solvency and prudent margins that will generate future cash flows which can be returned to capital providers or reinvested in the business to fund future growth.	For more information see pages 58-67

Illustrative profile of future cash generation from the current in-force business



Strategic objectives

Designed to fulfil our purpose.

These strategic objectives guide the business as it fulfils its purpose, which is to pay the pensions of its current and future policyholders. We prioritise a strong balance sheet and an investment strategy that creates significant social value, underpinned by our commitment to excellent customer service.

Our three strategic objectives highlight our ambitions: to continue building a secure and sustainable business; to carry on leading as a responsible corporate citizen; and to keep on driving long-term value growth.

Key performance indicators ("KPIs") measure our progress as we pursue our strategic objectives. Over 2023, we reviewed our financial and non-financial KPIs to ensure that they remain relevant and informative. Our KPIs are set out on pages 20-21.

To continue building a secure and sustainable business

Optimise resources.

PIC provides long-term security for our policyholders by being a secure and sustainable business for the duration of our commitments to our policyholders. This means being measured in our approach and conducting business in line with our Board-mandated risk appetites.

Performance in 2023

- Strong capital position with solvency ratio of 211%. Surplus funds of £4.3 billion in excess of solvency capital requirements means we are well positioned to support significant future new business opportunities.
- Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (strong) and PIC's long-term Issuer Default Rating at 'A', both with a 'Stable' outlook.
- At year end, 85% of longevity risk had been reinsured (FY2022: 87%).

Our focus in 2024

- Continue to maintain a robust solvency position and manage investment risk in a volatile market.
- Foster long-term client relationships to support repeat business with our clients and other relevant counterparties.
- Continue to originate and broaden our range of purposeful assets, while generating attractive returns.
- Continue to be an active participant in the ongoing reforms to Solvency II, the insurance regulatory framework, and how these apply to PIC's business model, capital allocation, and solvency.

Link to stakeholders

Key

- Regulators
- Counterparties
- Trustees
- Policyholders
- Employees
- Society
- Capital providers

To carry on leading as a responsible corporate citizen

Ensure our behaviours reflect our values.

At PIC, we are focused on doing the right thing across our stakeholder base. Working constructively and empathetically with our stakeholders decreases business risk, improves our reputation, and enhances returns. Our culture and values provide a framework for employees. We are focused on providing our policyholders with the highest levels of service, clear communications, and the right outcomes. We also actively consider the impact of our activities on society, considering each of our business activities through a sustainability lens.

Performance in 2023

- Provided excellent customer service to our policyholders: 99.3% of our policyholders expressed overall satisfaction with our service levels.
- Rolled out PIC's updated values to better support our purpose and culture.
- Became a signatory to the Financial Reporting Council's UK Stewardship Code. Read more on page 57.
- Developed the work of the Purposeful Finance Commission, which seeks to understand the barriers to regenerating the UK's towns and cities.
- Implemented plans for delivering on the Consumer Duty, alongside establishing a Board-level Customer Committee.
- PIC won the Customer Commitment Award from the Institute of Customer Service and received an accreditation uplift in Investors in People, to Silver. Read more about our customer service on pages 30-35.

Our focus in 2024

- Continue to provide excellent customer service and engage with our policyholders through a 2024 events programme.
- Continue to make progress towards our environmental targets as we work towards achieving Net Zero status.
- Work with local government on their urban regeneration plans and how to overcome barriers to investment.
- Relocate PIC's offices to accommodate the growth of the business and meet our sustainability ambitions.

Link to stakeholders

To keep on driving long-term value growth

Generate attractive returns over the lifetime of the business.

PIC's purpose is to pay the pensions of our current and future policyholders. We do this by investing in secure, long-term investments with high levels of social value, which provide attractive risk-adjusted returns over the long term.

Performance in 2023

- Maintained disciplined pricing, consistent with long-term internal rate of return targets.
- Completed the largest UK pension risk transfer to date: a buy-in with two schemes sponsored by RSA, covering £6.2 billion of liabilities and c.40,000 members.
- Managed our in-force portfolio and experienced no defaults.
- Raised £500 million of Tier 2 debt, with £300 million used to pay off existing debt ahead of schedule.
- £1.6 billion invested in UK infrastructure, including social housing, the UK's first reservoir since 1991, and electric rolling stock.

Our focus in 2024

- Continue to transact with trustees to de-risk their pension scheme liabilities, offering solutions across the full spectrum of pension schemes, from the very large to the very small.
- Continue our partnership model of engagement with trustees, including those of very small schemes, as well as our debt counterparties and other stakeholders.
- Strategically allocate capital where we can generate attractive returns.
- Payment of the second final dividend to the PICG's shareholders of 11.0 pence per ordinary share.

Link to stakeholders

Strategy in action case study

Link to strategic objectives

To keep on driving long-term value growth

Our first-of-a-kind deal with the RSA is a demonstration of how innovation in the market drives long-term value growth.

For more information, see 'Strategic objectives' section **p14-15**

RSA

PIC completes £6.2 billion buy-in with RSA's UK pension schemes.

In February 2023, PIC concluded a buy-in with the Trustees of two schemes sponsored by RSA Group ("RSA"), the Sal Pension Scheme ("SALPS") and the Royal Insurance Group Pension Scheme ("RIGPS") (the "Schemes"), insuring in total c.£6.2 billion of liabilities and covering the pensions of 40,000 members.

This is a landmark deal, being the largest ever bulk annuity transaction from pension schemes to insurer, which addressed significant issues of timing and complexity, paving the way for other very large transactions.

We agreed pricing amidst unprecedented market volatility during the LDI crisis and the improvement in pension scheme funding levels, due to rising gilt yields, created a favourable opportunity for the sponsor to accelerate the Schemes' de-risking, as well as de-risk its own balance sheet, and for the Trustees to enhance member security.

Project highlights

£6.2bn of liabilities insured

40,000 members

> We are delighted to have completed this transaction, securing the pensions for members of both Schemes for the long term. PIC were flexible in their approach, presenting innovative solutions to previously intractable problems, as well as proactively addressing issues which might have derailed the process."

Ray Cox, Chairman of SALPS, and **David Smith**, Chairman of RIGPS

For more information, visit **pensioncorporation.com/rsa**

Strategy in action case study

Link to strategic objectives

To carry on leading as a responsible corporate citizen

Manchester New Vic's leading facilities and service levels are aligned with our position as a responsible corporate citizen, which we believe starts with leading customer service for policyholders and wider stakeholders.

For more information, see 'Strategic objectives' section **p14-15**

Residents move into PIC's first Build-to-Rent project, New Vic, Manchester.

In October 2023, PIC's first Build-to-Rent project, New Vic, reached completion and welcomed its first tenants. The project repurposed a key area adjacent to Manchester Victoria train station into a vibrant new residential community. New Vic has 520 high-quality homes across two towers of 20 and 25 storeys respectively, offering over 17,000 square feet of resident amenities and more than 6,000 square feet of commercial space.

New Vic includes a 24/7 residents experience team which is always available to help, as well as a concierge app, where residents can book amenity spaces, provide feedback and make requests. Amenities include a spacious residents' gym and a cinema room with regular showings of films and sporting events. There is also a regular programme of complimentary events, entertainment and wellness activities. Over the Christmas period, New Vic held plenty of initiatives, including a community tree decorating party, a Christmas film festival and giving personalised letters from Father Christmas to the children who live in New Vic.

Project highlights

520 high-quality homes	**3,000** apprentice weeks run	**40** new jobs created	**550** people employed during construction

We believe that social value is about creating positive change in someone's life, and the value that creates, whether through supporting a person, a community, a local business or improving the area they live in.

"Through our delivery of the exciting New Victoria project, we can and will ensure that we not only deliver a flagship development, but leave a lasting legacy of social, economic and environmental betterment."

Garry Bowker
Regional Director for the North West at VINCI Construction UK

For more information, visit **pensioncorporation.com/newvictoria**

Key performance indicators

Measuring our success.

We maintain three strategic objectives: to continue building a secure and sustainable business; to carry on leading as a responsible corporate citizen; and to keep on driving long-term value growth.

As previously indicated in our HY2023 report and following the implementation of IFRS 17 and the UK Government's ongoing review of insurance legislation, we have reviewed our KPIs and made the following changes:

- Equity own funds ("EOF") has been promoted to a KPI and replaces adjusted equity own funds ("AEOF"), as this is more closely aligned to our view of the value of the business.
- Our solvency ratio and EOF are now reported at a consolidated Group level. As indicated at HY2023, these were previously reported at PIC plc level, our largest entity. This change has a negligible impact on financial numbers, but ensures consistency with other Group metrics.
- IFRS adjusted operating profit before tax has been updated for IFRS 17.
- Fitch Insurer Financial Strength rating and carbon intensity have been promoted to KPIs.
- Market consistent embedded value, customer focus, return on equity and expense ratio have been removed as KPIs but will continue to be monitored internally.

Our six KPIs are aligned to our strategic objectives and will be reviewed annually to ensure they remain an effective measure of progress against our ambitions.

Alternative performance measures

We also use a range of alternative performance measures ("APMs") to assess the financial performance and position of the Group. These APMs are measures which are not defined by IFRS or Solvency II regulations but provide stakeholders with additional information to understand the performance or position of the Group. However, APMs should be viewed as complementary to, rather than as a substitute for, the unadjusted IFRS and Solvency II measures.

The key APMs used by the Group are listed below and reconciliations to their closest IFRS or Solvency II measure are included in the CFO review. The calculation of each APM is consistent with previous periods unless stated otherwise.

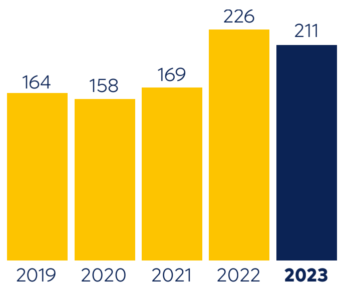
- IFRS adjusted operating profit before tax (see page 61).
- IFRS adjusted equity (see page 59).
- Solvency II equity own funds (see page 65).

1. Solvency II metrics are now reported on a Group basis and as such the solvency ratio and EOF presented are for PICG.
2. Adjusted operating profit before tax has been restated following the adoption of IFRS 17. Comparatives prior to the implementation of IFRS 17 are not available.

For more information on our strategic objectives, see **p14-15**

To continue building a secure and sustainable business

Solvency II ratio[1] (%)



Definition

The Solvency II ratio is a regulatory capital measure that demonstrates the Group's financial strength. It shows the ratio of available capital to required capital, which is defined as our Solvency II Own Funds as a percentage of Solvency Capital Requirement ("SCR").

Performance

PICG's Solvency II ratio remained robust at 211% (FY2022: 226%) despite continued market volatility. The decrease is primarily due to writing £6.9 billion of new business. Our capital position continues to enable us to deliver on our purpose of paying the pensions of our current and future policyholders whilst positioning us well to take advantage of the opportunities in the pension risk transfer market.

Fitch Insurer Financial Strength rating

A+

Definition

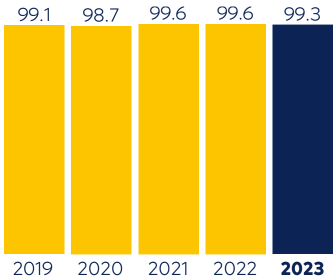
The Fitch Insurer Financial Strength rating provides an external assessment of financial strength, which gives security to our current and future policyholders. It reflects both financial and non-financial metrics and represents the financial strength rating of PIC (the issuer, rather than PICG). This metric was monitored internally in previous periods and has been promoted to a KPI for FY2023.

Performance

In September 2023, Fitch Ratings affirmed PIC's Insurer Financial Strength rating at 'A+' (Strong) and PIC's long-term Issuer Default rating at 'A', both with a 'Stable' outlook. This impartial assessment demonstrates the financial strength of the Company and delivery against our strategic objective, to continue building a secure and sustainable business.

To carry on leading as a responsible corporate citizen

Policyholder satisfaction (%)



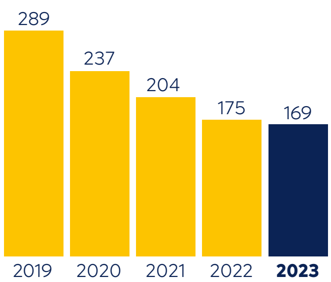
Definition

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.

Performance

We maintain extremely high levels of policyholder satisfaction as demonstrated by overall satisfaction scores being consistently above 98%.

Carbon intensity (tCO_2e/$m revenue)



Definition

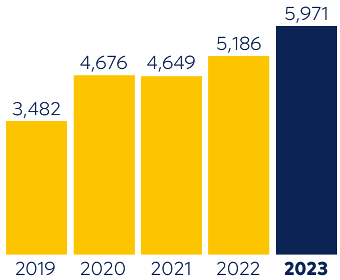
Managing climate risk is firmly embedded into our business and carbon intensity (defined as the Weighted Average Carbon Intensity ("WACI") (Scope 1 and 2) in emissions per $ million revenue) is a key metric, which is monitored by PIC to ensure our externally published emissions targets and ambitions are achieved. The metric aligns with our externally published Net Zero targets. This metric was monitored internally in previous periods and has been promoted to a KPI for FY2023.

Performance

We have taken action to reduce the carbon intensity of the portfolio and we remain on track to meet our 2030 decarbonisation target. The progress is driven by both our engagement with existing issuers to encourage decarbonisation, and our forward-looking investment strategy focusing on issuers committed to transitioning their business.

To keep on driving long-term value growth

Equity own funds ("EOF")[1] (£m)



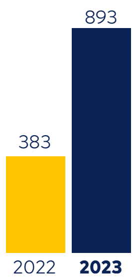
Definition

EOF is a shareholder view of the Group's Solvency II Own Funds after deducting hybrid debt. It replaces Adjusted equity own funds ("AEOF") as a KPI. This metric is aligned to the way the business is managed, was monitored internally in previous periods and has been promoted to a KPI for FY2023.

Performance

EOF increased to £5,971 million at 31 December 2023 (FY2022: £5,186 million) primarily due to the expected own funds emerging from the back book, value generated from new business written and the benefit of risk margin reform, net of the TMTP recalculation.

Adjusted operating profit before tax[2] ("AOPBT") (£m)



Definition

AOPBT reflects the IFRS result relating to core business activities, alongside certain management choices and decisions around those activities, which include the writing and management of pension insurance contracts and the management of risk through reinsurance. This metric reflects the value generated prior to the new business deferral and subsequent in-force release of profit via the contractual service margin ("CSM") and excludes investment related variances.

Performance

AOPBT for the year increased to £893 million (FY2022: £383 million), largely resulting from higher expected returns reflecting higher risk-free rates, the greater volume of new business written in the year and the release of reserves following management's review of assumptions.

Origination, Reinsurance and Transitions

A stand-out year in the pension risk transfer market.

PIC has had a stand-out year in the pension risk transfer ("PRT") market, having written £6.9 billion of new business. This included £6.2 billion with two of RSA's pension schemes – the largest ever bulk annuity transaction in the market.

The RSA deal illustrates the huge shift we have seen. The rise in long-term interest rates over the last few years has led to improved funding levels for most pension schemes and brought them to buyout funding levels sooner than expected. This has resulted in an acceleration in the demand for bulk annuities.

PIC continues to deploy innovative solutions in areas such as asset reinsurance, paving the way for very large transactions to be completed.

We recognise that the increase in demand means that smaller schemes can be crowded out. PIC is one of a small number of insurers that continues to operate in the 'small deals' segment of the market and has designed streamlined processes to make these deals more efficient to implement. In 2023, 13 out of 14 of our transactions were below £200 million.

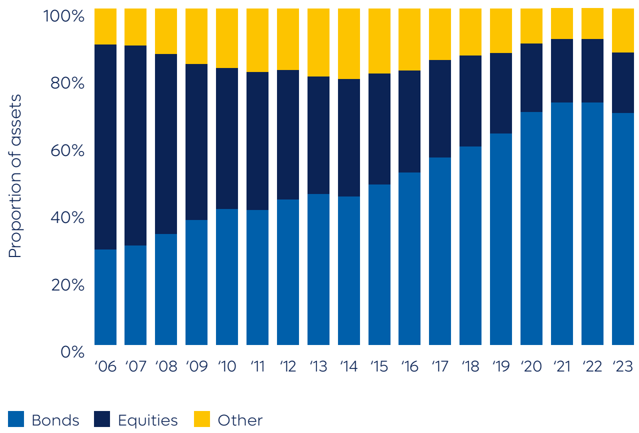
Even large schemes may spread their buy-ins over a number of tranches as part of a longer-term phased approach. PIC has a strong reputation for completing these multiple buy-ins and fostering long-term partnerships. For example, during 2023, we completed the sixth buy-in of c.£175 million with schemes sponsored by IMI plc bringing our total with IMI to c.£1 billion. We also concluded a second buy-in with Qantas Airways' pension scheme.

PIC has completed more than 80 repeat transactions with existing Trustee clients, covering £16 billion of liabilities and the pensions of over 100,000 scheme members.

After almost 16 years at PIC, I will be stepping down from my role as Chief Origination Officer from 31 March 2024. Over that period, PIC has grown from a start-up bulk annuity insurer to one of the leading providers in the market. With our sector set for ever faster growth, I will be handing over to Mitul Magudia, a seasoned and highly respected individual in our market.

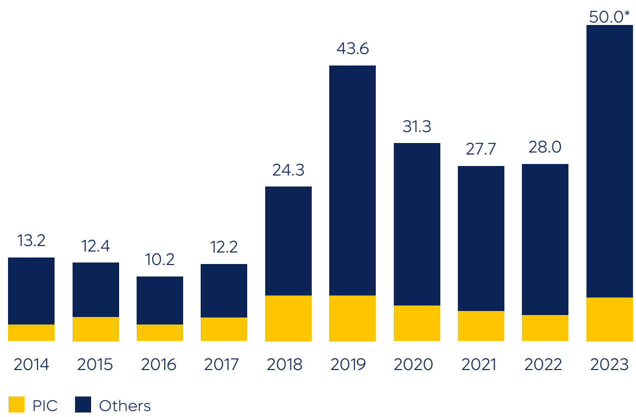
Jay Shah
Chief Origination Officer

Asset allocation of defined benefit pension schemes (%)



Source: PPF's Purple Book 2023.

Buy-in and buyout volumes since 2014 (£bn)



* PIC estimate
Source: Hymans Robertson and Company estimate

Transition and Client Management

What is transition and client management?

Signing a PRT deal means that financial aspects of the pension are immediately transferred to the insurer who then manages the scheme and liabilities. This is followed by a 'transition' process whereby trustees check that member data is complete and accurate and that any changes are agreed. For buy-ins, the team looks after the ongoing relationship with the trustee, which in many cases can cover multiple buy-ins conducted over many years. Building long-term relationships is central to a strong and lasting partnership.

In the case of a buyout, administration is transferred to PIC and individual policies need to be issued to members. It is important the team is flexible as they support the trustees through this complex process to ensure all member pensions are fully secured.

Excelling at customer service

Successfully transitioning a scheme is dependent on several factors, including reconciling and verifying data across the scheme membership, successful collaboration and communication with trustees and their advisers, and strong project management and teamwork. The process, depending on the size and complexity of the scheme, can take from several months to several years.

The priority throughout is ensuring that individual members continue to receive their payments and are fully informed at all stages of the transition. Each transition follows a comprehensive plan, which establishes the required governance and includes regular checkpoints to report on progress.

Adapting to our clients' needs

At PIC, our focus is on fostering long-term client relationships and delivering first-class client experiences. This is evidenced through the number of clients that choose to come back to us for further buy-in transactions.

During 2023, the team completed several transition processes including for the 30,000 members of the Old British Steel Pension Scheme, which to date is the largest number of individual members of a scheme to transfer to an insurer in one phase.

A key tenet of the PIC offering is the ability to listen and respond to the needs of our trustee clients, with one of the trends being an appetite for a faster route to buyout. PIC's expertise in this area has allowed for the transition to buyout of c.9,000 members of the House of Fraser Pension Scheme to be completed in 12 months, and for 5,000 policyholders from the EDS scheme to be completed in seven months.

The quality of these transition processes and the trustee/member experience during this crucial phase is a key focus for PIC and its management team.

PRT market trends

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

c.£283bn

2022: £233bn

Assets held within UK defined benefit pension schemes

£1.4tn

2022: £1.4tn

Decline in defined benefit pension scheme liabilities during 2023

c.40%

91%

of DB pension schemes are closed

£967bn

of gilts and fixed income assets

55%

of trustees looking to buyout

Source: PPF Purple Book 2023

Investments

Purposeful investment to pay pensions over decades.

Our portfolio is well placed to be resilient through economic cycles."

Rob Groves
Chief Investment Officer

Investing in a purposeful manner is key to PIC's strategy as a business. PIC has a clear purpose: to pay the pensions of our current and future policyholders.

Our investment strategy provides the secure, long-dated cash flows we need to pay those pensions. At year end, we had a portfolio of £46.8 billion of assets backing the guaranteed pensions of 339,900 pensioners and insurance liabilities of £41.2 billion.

The investment backdrop for the year was not especially positive – the global economy struggled, inflation remained a concern, and there was considerable market volatility.

Our portfolio
The majority of our portfolio is invested in low-risk investment grade corporate debt and UK Government bonds. 91% of the portfolio, including gilts and government bonds, was rated investment grade (FY2022: 91%).

We continue to have limited exposure to consumer cyclical industries, and 51.1% (FY2022: 50.2%) of the portfolio was invested in financial, utilities and non-cyclical consumer industries. In our view, these sectors are well placed to cope in an economic downturn as we seek to protect value and the cash flows which pay our policyholders' pensions. However, it is important to note that, as long-term buy and hold investors, we invest with the whole economic cycle in mind. This means that over a time horizon of decades we expect to see several recessions, so we select new investments and risk manage the portfolio with these potential future downturns in mind. Furthermore, no single counterparty, other than the UK Government, represented more than 1.9% of the portfolio (FY2022: 3.0%).

We have no direct commercial real estate loans and limited exposure to commercial property more generally, representing less than 2% of the portfolio, with an average rating of A+.

PIC also considers ESG factors as part of its investment strategy as detailed in the sustainability section of this report on pages 49 to 57. Our sustainability strategy's overarching objective is to create long-term social value as we fulfil our purpose.

Key stats

Overall portfolio size	Privately sourced debt investments in 2023	Total UK direct investments
£46.8bn	**£1.8bn**	**£13.0bn**[1]
2022: £41.2bn	2022: £2.1bn	2022: £11.4bn

1. Amount invested to date is estimated based on available historic data.

Financial investments by asset class (31 December 2023)

	2023	2022 (restated[2])
Debt securities – Gilts and Governments Bonds	**36.2%**	32.0%
Debt securities – Corporate	**33.4%**	37.0%
Debt securities – Private investments	**17.8%**	15.9%
Equity release mortgages	**2.4%**	2.5%
Mortgage backed and other asset backed securities	**0.6%**	0.6%
Participation in investment schemes	**8.7%**	9.8%
Deposits with credit institutions	**0.9%**	2.2%

Corporate securities and private investments by rating

	2023	2022 (restated[2])
AAA	**3%**	6%
AA	**15%**	15%
A	**39%**	37%
BBB	**42%**	40%
BB or below	**1%**	1%
Unrated	**0%**	1%

Corporate securities and private investments split by industry sector

Sector	Market value 2023 (£m)	Market value 2022 (restated[2]) (£m)	2023 %	2022 (restated[2]) %
Financial	**6,182**	5,617	**25.8**	25.7
PFI and direct investment loans (unlisted)	**6,695**	5,250	**27.9**	24.0
Utilities	**4,026**	2,989	**16.8**	13.7
Consumer, non-cyclical	**2,038**	2,355	**8.5**	10.8
Communications	**1,808**	1,953	**7.5**	8.9
Consumer, cyclical	**916**	894	**3.8**	4.1
Industrial	**845**	702	**3.5**	3.2
Technology	**578**	1,223	**2.4**	5.6
Energy	**408**	430	**1.7**	2.0
Basic materials	**349**	348	**1.5**	1.6
Diversified	**37**	44	**0.2**	0.2
Government	**96**	33	**0.4**	0.2
Total	**23,978**	21,838	**100**	100

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

Country	Market value 2023 (£m)	Market value 2022 (restated[2]) (£m)	2023 %	2022 (restated[2]) %
UK	**11,909**	9,855	**49.7**	45.1
US	**6,246**	6,758	**26.0**	30.9
Europe (ex UK)	**4,209**	3,534	**17.6**	16.2
Rest of world	**1,614**	1,691	**6.7**	7.8
Total	**23,978**	21,838	**100**	100

Corporate securities and private investments split by currency

Currency	Market value 2023 (£m)	Market value 2022 (restated[2]) (£m)	2023 %	2022 (restated[2]) %
GBP (£)	**14,863**	12,725	**62.0**	58.3
USD ($)	**7,651**	8,260	**31.9**	37.8
EUR (€)	**1,409**	802	**5.9**	3.7
CHF	**55**	51	**0.2**	0.2
Total	**23,978**	21,838	**100**	100

2. 2022 comparatives have been restated following the Group's adoption of IFRS 9 "Financial Instruments.

Investments continued

At 31 December 2023, £11.4 billion (FY2022: £10.3 billion) was invested in sustainable assets, which we define as those that have a positive impact on stakeholders.

Gilt yields remained high in 2023, following from the rise we saw in 2022. For a specialist insurer like PIC, the higher yield on offer made gilts a relatively more attractive risk-weighted investment opportunity. The other significant factor which influenced our investment decisions was a general reduction in credit spreads. As a consequence, we sold down some of our overseas corporate bonds and redeployed the capital into UK gilts for a similar capital adjusted investment return but with lower overall risk.

During the year, we also sourced £71 million of equity release mortgages ("ERMs"), which are another good match for our long-term liabilities, and help diversify the portfolio. At year end, we had £1.1 billion (FY2022: £1.0 billion) invested in ERMs.

Private investment activity

At 31 December 2023, PIC had £8.4 billion invested in private investments including affordable housing, urban regeneration, renewable energy, and the UK's universities. The reason we make these investments is quite straightforward: they are attractive, secure, inflation-linked cash flows to back our pension obligations over the coming decades.

These investments are often a vehicle for intergenerational transfer – backing the pensions of older people with infrastructure used by younger and future generations. The higher the levels of social value we generate through our investments, the lower the likelihood of them being subject to regulatory or political interventions over their lifetime, and so providing the secure cash flows we need over the coming decades.

Despite a significant drop in long-dated private UK debt issuance during the year, due to increased interest rates, PIC deployed over £1.6 billion into the UK market in core sectors such as transportation, infrastructure and utilities. This represents c.88% of all our privately sourced debt origination during the year, an exceptional demonstration of our commitment to the UK economy.

As at year-end, of our total £46.8 billion of public and private assets, £29 billion is invested in the UK.

Built environment

We made privately sourced debt investments of £239 million into the built environment in the year. This included social and affordable housing, with £58 million invested in the period. In total, we have invested over £2.8 billion[1] in social and affordable housing.

To date, we have also invested more than £500 million in Build-to-Rent, and more than £200 million in long income, and have now invested an estimated total of £5.9 billion[1] in built environment projects like these which help regenerate our cities.

At the same time, these types of investments create significant social value. For example, we currently have more than 1,000 people working on our construction sites across the UK, including at Miller's Quay, our £130 million development in the Wirrall. To date, we've funded enough social housing to accommodate more than 130,000 people, equivalent to the population of Watford; and we are driving up sustainability standards for developers, including through our market-leading framework created for our Manchester First Street development.

More than 35% of the £1.8 billion we invested in areas like social housing and urban regeneration last year was with our existing partners, demonstrating the strength of our business partnerships.

In March 2023, we announced our second investment to support the UK's Government Property Agency ("GPA"), investing £268 million in its Croydon hub, the largest ever GPA deal. This investment follows our £105 million investment in 2022 to fund the GPA's Manchester hub.

We continued to progress our Senior Living strategy in our £200 million joint venture with Octopus Real Estate, which completed an investment in Brent Cross Town, in North London, our third investment in integrated retirement communities. The focus of the joint venture with Octopus remains to develop a portfolio of new, high-quality, retirement communities nationwide.

In addition, we completed an investment with Portsmouth Water to finance the UK's first reservoir for over 30 years. This is a major infrastructure project which will play a critical role in ensuring adequate water supply to local communities across the South East of England, and aligns well with PIC's own values and purpose.

We also topped out our development of 500 waterfront apartments at Miller Quay – the £130 million cornerstone investment at Wirral Waters, the UK's largest urban regeneration project.

As we approached the end of the year, we were delighted that our Manchester New Vic Build-to-Rent apartment blocks have now become operational, with about 25% of the buildings leased prior to completion. We're now the proud owners of two environmentally-friendly blocks of 520 residential apartments with over 6,000 square feet of commercial space.

Not only is this development a key part of Manchester's ongoing regeneration, but we were delighted to create significant social value during its construction phase, including providing full-time employment for 550 people and supporting the Government's Kick Start Placements scheme, providing training to young people with the highest risk of unemployment.

Rob Groves
Chief Investment Officer

1. Amount invested to date is estimated based on available historic data.

Breakdown of private investments by sector in 2023

	2023
Financials[1]	**38%**
Utilities	**20%**
Transport	**17%**
Regeneration Leases[2]	**10%**
Project finance[3]	**8%**
Other	**5%**
Social housing	**2%**
Total invested	**£1.8bn**

1. Financials includes but are not limited to banks, asset managers and structured finance
2. Regeneration leases are investments in large scale residential and mixed-use developments
3. Project finance includes infrastructure projects across a range of sectors

The topping out ceremony of Miller's Quay, the cornerstone project of the UK's largest urban regeneration development.

PIC and London Square Group invest £50 million in first affordable and shared ownership homes development.

In November 2023, PIC made its first affordable housing investment of £50 million to develop 125 affordable and shared ownership homes, funded with a combination of internal debt and equity. The development was made possible through a £4.9 million grant from the Mayor of London's Affordable Housing Programme.

The 100% affordable scheme, comprising 125 high-quality affordable rent and shared ownership homes, is being developed on the former Hawks Road Health Clinic site in Kingston upon Thames, Surrey, which became surplus to NHS requirements after health services were moved to other sites in the borough. It will provide 44 apartments to be rented at London Affordable Rent ("LAR") levels and 81 apartments available for shared ownership, with on-site amenities for residents, including play space. The LAR homes will be set at rents that the Mayor of London views as 'genuinely affordable' and will be let to local residents who are most in need.

The shared ownership homes will allow many medium income households to fund the deposit needed for home ownership, something which has proved difficult through traditional routes, despite many having stable employment. London Square is acting as contractor/developer, with Square Roots as the affordable provider. Construction of the main buildings is now underway. The development is expected to be completed in November 2025.

"Our new partnership with long-term investor PIC is excellent news for London Square and Square Roots, enabling us to deliver another 100% affordable scheme, making an important contribution to the housing shortage, and creating homes and communities of the highest quality in a well-connected location where people will choose to live. The scheme will also support the local economy in Kingston, with the creation of jobs during the construction phase and opportunities for apprenticeships and local suppliers."

Adam Lawrence
Chief Executive of London Square

Project highlights

44
apartments to be rented at LAR

81
apartments available for shared ownership

PIC invests £50 million in Portsmouth Water to finance the construction of the UK's first reservoir since 1991.

In March 2023, we invested £50 million in Portsmouth Water to fund the construction of the Havant Thicket Reservoir, the first reservoir to be built in the UK since 1991.

The Havant Thicket Reservoir, situated in Southern Hampshire, is intended to address the significant water resource challenge faced by much of the South East of England and protect Hampshire's rare chalk streams. Portsmouth Water is in a position to help with this major challenge because of the large number of natural springs in the Havant area. These springs deliver a high-quality, sustainable supply of water all year round and are thought to be one of the largest individual sources of spring water in Europe.

In winter, and during periods of high rainfall, there is surplus water in these springs which flows straight out to sea. The purpose of the new reservoir is to store this excess water and use it to facilitate a bulk supply to Southern Water, another regulated water company operating in the South East of England.

The reservoir will provide 8.7 billion litres of raw water storage, retained by an earth embankment dam. It is expected to take six years to design, commission and construct. It will then enable supply of up to 21 million litres of water per day to Southern Water in periods of drought, reducing abstraction from the neighbouring River Itchen and the River Test, and protect the biodiversity of these unique environments.

We are delighted to have secured the investment required to construct Havant Thicket Reservoir. This will be the first large-scale water storage reservoir to be built in the UK since 1991.

It will play a key role in protecting internationally important chalk rivers – the River Test and the River Itchen, by securing a new, sustainable source of water for the region. This is an exciting time for the project. We have recently taken a major step forward in awarding the main reservoir works contract and, with all capital and investment now secured, look forward to work progressing on site."

Bob Taylor
Chief Executive Officer
for Portsmouth Water

Project highlights

£50m
investment

8.7bn
litres of raw water storage

Customer care

How we look after our policyholders.

We are aware of the huge amount of trust policyholders need when their pension is transferred to us via a buyout and we don't take the responsibility lightly. That's why our purpose is to pay the pensions of our current and future policyholders."

At PIC, we place great emphasis on making sure our policyholders' experience of receiving their pension payments is as seamless and worry-free as possible.

We do this by ensuring that their payments arrive accurately and on time, and by working with partners that are as committed to those outcomes as we are. But we don't stop there. From our unique policyholder events, to our 'people first' customer helplines, we keep our policyholders' needs front and centre of our entire business.

All our policyholders can expect to be treated with respect and integrity, regardless of their circumstances, and we are mindful and proactive in helping them navigate the challenges that can arise in later life, as they relate to their retirement income. Our work with customers with challenging circumstances in particular has led to PIC being awarded its first ISO accreditation.

We have also been told by countless customers that being a PIC policyholder means so much more than simply seeing the pension payment in their bank account. It also means our policyholders can have the peace of mind that their pensions are looked after by a reputable and purposeful company that is focused on the long-term stability and security of the assets that generate the future cash flows that they depend on.

We take our relationships with our customers seriously. We are aware of the huge amount of trust policyholders need when their pension is transferred to us via a buyout and we don't take the responsibility lightly. That's why our purpose is to pay the pensions of our current and future policyholders.

Lance DeLuca
Chief Operating Officer

Benchmarking and the ICS ServiceMark with Distinction

PIC works with the Institute of Customer Service ("ICS"), a leading independent professional membership body that assesses customer service and provides its members with market intelligence and cross-industry best practice in the field of customer service.

We hold the ICS ServiceMark with Distinction (accredited in 2017 and re-accredited in 2021) – its highest attainable award. We were the first financial services company to achieve this and only 20 other companies hold this accreditation. We are delighted that, in 2023, our customers gave us a score of 87.1. This is above the ICS's benchmark for distinction (85).

Through the ICS's UK Customer Satisfaction Index (UKCSI), PIC is benchmarked against many household names, both inside and outside of the financial services industry. In a year when the overall UKCSI dropped to its lowest level since 2015, PIC achieved a customer satisfaction score of 99.3%. This achievement is testament to our ambition to be the best at customer service. Our own surveys, conducted after inbound telephone calls and through paper surveys, show that in the last 11 years we consistently achieved above 97% for customer satisfaction.

Policyholder satisfaction surveys

PIC monitors its satisfaction surveys closely

99.3%
of respondents are "satisfied or better" with our service in 2023

84.5%
gave PIC's service the maximum score

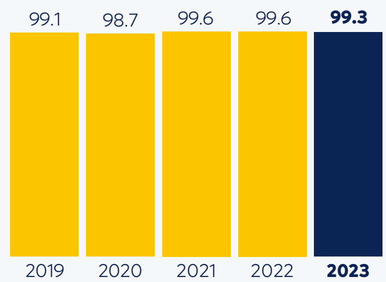
>97%
Our customer satisfaction has remained above 97% for the last 11 years

Customer service principles

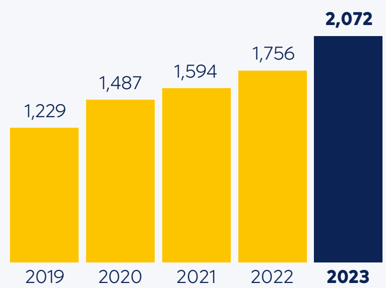
Our service model is simple and based on three principles:

- We respond to each customer's individual needs, including those who need additional support
- We make it quick and easy for our customers to deal with us
- We focus on quality outcomes

Policyholder satisfaction (%) (5 year trend)



Pensions paid to policyholders (£m)



Customer care continued

Administering our policyholder pensions

We partner with Capita Pension Solutions to provide PIC's award-winning customer service. The service model used by our Capita Employee Benefits team is bespoke to PIC and defines industry-leading terms of service.

The team at Capita operates as an extension of PIC's in-house customer service team and provides a dedicated, high-quality customer experience. We work closely with Capita to ensure we have high quality, customer-focused staff, provide training on our high-standards and we have to be satisfied that they understand and are aligned with PIC's purpose and customer service culture. They are proud to work on the PIC team.

Although our administration is outsourced, responsibility is not. The customer service model is PIC's in-house model, which we entrust Capita to deliver.

Our first ISO accreditation

During the year, PIC successfully secured its first ISO accreditation. ISOs are sets of global standards for trusted goods and services, and 'ISO 22458 Consumer Vulnerability' evidences PIC's excellence, at an international standard, in identifying and responding to customers in vulnerable circumstances. These are customers with disabilities, health conditions, life-limiting illnesses and bereavement, as well as customers with accessibility needs. In addition, PIC has also evidenced enhanced focus on accessible and tailored service to secure the BSI Kitemark for Inclusive Service.

More information on the work we did to secure the kitemark and the ISO accreditation can be found on the page opposite.

Spending time with our policyholders

Our much-loved Policyholder Days and lunches are unique to PIC – no other insurers in our sector provide policyholders (and their guests) with the opportunity to meet, and question, the people who are responsible for the payment of their pensions. The events are completely free of charge, and we have welcomed around 27,000 attendees since 2011. These events are key to PIC in building a community and trust with our policyholders. As well as meeting the team, there's the opportunity for customers to socialise with former colleagues.

Members of the Board, Senior Management, customer and non-customer facing staff, and the PIC administration team at Capita all attend (over 100 PIC staff were invited to events this year).

These events are essential to make sure the whole business connects to the importance of customer service and the challenges our policyholders face.

Key stats

51.9
Net promoter score[1]

99.3%
Customer satisfaction rate

1. NPS is a measure of how likely customers are to recommend a company to family and friends.

Service delivery times

>99.1%
of calls answered within 30 seconds in 2023

8 sec
average speed of answer in 2023

Being proactive with complaints

We work closely with our administration team to ensure complaint levels are low

1.15
reportable complaints per thousand policyholders in 2023

Customers in challenging circumstances

PIC has had a focus on meeting the needs of all of our customers for many years, with the specific objective of ensuring that customers are supported to receive the same outcomes no matter their individual circumstances. PIC's approach and continuous improvement of support for customers with vulnerabilities is sponsored by a dedicated Board member, vulnerable customer champions, as well as our Vulnerable Customer Officer.

PIC will support any customer who has indicators or signs of vulnerability to ensure we are meeting the needs of these customers. Our approach is broken down into core thematic areas that ensure great outcomes for these customers:

1. Accessibility

By maximising the opportunities for our customers to engage with us and, where necessary, sharing their vulnerable circumstances and needs, we make sure that no customer is excluded from being able to manage their finances. We find that most of our customers prefer to contact us by phone and can reach us easily at our full service UK-based call centre. During these contacts, we proactively talk about our support offering for all customers in case there are hidden vulnerabilities. Where our trained agents identify indicators of vulnerability, we explore these with the customer directly. In addition, customers who prefer to use British Sign Language can use our specialist video calling feature with sign language translators, as well as email or letter if they prefer. Customers who are more digitally minded can use our webchat feature which, like our telephone line, connects to an agent rather than a bot.

Our website is accessibility compliant, which allows any customers using adaptive technology, like screen readers, to get information on our support services, connect to our online pension dashboard and other relevant information through our member site. Customers who find telephone calls difficult because of poor hearing or speech issues also have the option of using a webform to reach our service team.

2. Services supporting good outcomes

We record our customers' needs where appropriate to ensure that any support that is needed continues beyond the initial customer contact. Due to the sensitivity of this information, we have strong controls in place, including restricted access and reporting, as well as controls on how and when these data are used. Currently,we identify and support approximately 70 new customers with additional needs every month.

PIC provides alternative forms of communications such as large print documentation, Braille documents or audio files for customers that may be struggling with poor eyesight. We also offer a ring and read option where one of our agents can talk through documents or payslips with our customers to support their independence if they can't read or understand the documents we send. Our other services include dedicated processes for bereavement and serious ill health, which focus on the welfare and support of the customers or their next of kin.

Our agents all receive annual training on ensuring good outcomes for customers with vulnerabilities, supported by ad-hoc training and guidance from our Vulnerable Customer Officer, specialist charity groups or from any new support services.

PIC's own services are supported by agent tools which allow quick and easy access to information about types of vulnerability, which services may meet their needs and groups to identify where ongoing support beyond PIC's expertise is required. As we see challenges for customers for example, with the rising cost of living, our agents can act quickly to ensure our customers are safe.

3. Tailoring our customer support to their needs

By understanding our customers, we can meet their needs and develop new services as these needs change. We use our data through a dedicated customer management group, including customer feedback to identify improvement opportunities. We have used this insight to make improvements to how we identify customers who may be vulnerable. This includes PIC's rollout of market-leading Artificial Intelligence ("AI") voice analytics technology to alert call centre staff to indicators of vulnerability and customer dissatisfaction. We are also engaging with our customers, including those that are vulnerable, in a project to refresh the way our written communications look and can be understood.

Policyholder case study

Customer testimonial – Richard Hunter, EDS.

“I became a PIC policyholder via my EDS pension scheme. I was an EDS pension holder from 1994 and, as my retirement was imminent, I was concerned about the transfer of my benefits to another provider. However, the transition could not have gone better.

All written correspondence was clear and concise. Telephone interaction was courteous and professional, with excellent customer service provided.

I was fortunate enough to attend a recent policyholder event at the Balmoral Hotel in Edinburgh. I had concerns that it would be very corporate with lots of financial jargon. However, the event was the opposite. It was fun and informative in equal measure. I had a really interesting afternoon finding out more about PIC and how they invest in the development of renewable energy and providing social housing for local communities. I feel these are really forward-thinking projects which will help future generations as well as pay the pensions of their current and future policyholders.

I have more than one pension provider and, without doubt, PIC have been the easiest and most efficient organisation I have ever dealt with. I cannot thank you enough for the help and assistance you provided during my transition to retirement.”

For more information, visit pensioncorporation.com/policyholders

Richard exploring his passion for Scotland's history and heritage at Blackness Castle, overlooking the Firth of Forth.

Stakeholder engagement

Balancing the needs of our stakeholders.

A key part of fulfilling PIC's purpose is balancing the needs and requirements of all the Company's stakeholders.

Stakeholder	What matters to them	Why we engage
Policyholders See more about the journey from scheme member to PIC policyholder on p6-7	• Security of their pension benefits • Efficient pension payment process • Transparent, easy-to-understand communications • Accountable senior management • Responsive customer service team, focused on the right outcomes • Being associated with a company that creates significant social value	• Our policyholders are at the heart of our purpose, but it is their schemes' trustees which sign the initial transaction. We understand that and work hard to establish an ongoing relationship built on exceptional customer service and the right customer outcomes
Defined benefit pension scheme trustees and sponsors	• Flexibility and innovative thinking to help them achieve their de-risking goals • Long-term partnership approach • A provider that understands the importance of social value creation • Ability to transact in difficult markets • Efficient and thorough transition process • Robust and secure systems and processes	• Trustees are responsible for securing their scheme members' benefits. Ultimately, it is their decision whether to conclude a buyout or buy-in with PIC
Regulators and policymakers	• The Prudential Regulation Authority ("PRA") is PIC's primary regulator and oversees our business and the ways in which we achieve our purpose • The Financial Conduct Authority ("FCA") looks after the interests of our policyholders	• 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 and FCA is key to fulfilling PIC's purpose and strategy
Employees See more about employment policies and engagement on p44-48	• Clear focus on customer outcomes at every level • A challenging, supportive work environment • Working for a company with a strong purpose and demonstrable social value • A collegiate culture and the ability to grow professionally • Competitive rewards and benefits package • Ongoing commitment to diversity of thought and the growth mindset	• PIC's employees are key to the Company's future success and growth
Key suppliers	• Long-term partnership approach • Invoices paid on time	• We carefully select suppliers who share our focus on customer outcomes • Our partners and suppliers can provide business-critical services, including policyholder administration and asset management services
Shareholders and debt holders	• A strong, purposeful business, with excellent prospects and the opportunity for long-term value creation • An accountable leadership team • Clear, timely communication • Ability to engage on key business risks and opportunities	• Our shareholders and debt holders provide the capital we need to complete future pension risk transfer transactions
Privately sourced debt counterparties and investment partners	• 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	• To source secure, long-term cash flows to back pension payments over decades • To help provide competitive pricing for pension risk transfer transactions, and increase the overall security and value of the portfolio

For more information on our stakeholders, please see our Business model on **p12-13** and how the Board engages with our stakeholders on **p101-103**

How we engage	2023 outcomes
• We encourage our policyholders to engage with us through the communication method which suits them best • All relevant communications are Crystal Marked by the Plain English Campaign • Uniquely, our policyholders are invited to meet with and question PIC's senior management at complimentary events we put on across the country each year	• PIC is one of the most highly rated insurers in the pensions industry and country for customer service (Institute of Customer Service ("ICS") Survey) • PIC won the Customer Commitment Award at the ICS Awards • 27,000 people have attended a PIC policyholder event since our first one in 2011
• Each buy-in and buyout is overseen by a dedicated team • Transactions are structured to meet the specific needs of the client • Trustees receive exceptional levels of customer service • We take a partnership approach to our long-term Trustee clients (buy-ins), engaging with them on key issues, such as social value outcomes	• PIC completed the largest ever pension insurance transaction, covering the benefits of 40,000 people and £6.2 billion of liabilities • PIC has insured the benefits of almost 450,000 members of defined benefit pension schemes since our first deal • Our partnership approach means that our trustee clients have completed more than 80 repeat transactions with us, covering the benefits of over 100,000 scheme members and liabilities of £16 billion
• PIC is an active participant in important public policy debates which relate to our market, investment in the economy, and regulatory affairs • PIC's objective is to maintain an open, proactive dialogue with our regulators and other stakeholders on these issues	• PIC has engaged in debate on pensions policy and regulation to ensure it remains focused on the right outcomes for pensioners, including on Solvency II reform • Worked closely with MPs on the issue of how to bring more transparency and accountability into the whole regulatory framework, through the Regulatory Reform Group • PIC has been at the forefront of the debate about reforms to planning to help local areas attract long-term investment to regenerate their areas, through the Purposeful Finance Commission
• Clear, consistent messaging around the Company's purpose • Strong internal communications programme, including Town Halls and all employee days which help embed the Company's culture and values • Annual employee surveys including by third parties, such as Investors in People	• PIC awarded 'Investors in People – Silver' • Our gender pay gap figure of 11.4% is below the financial services indicative average of 22.7% • 90% of employees completed the employee survey in 2023 survey, with 92% of employees saying they are proud to work for PIC
• We work closely and collaboratively with our key suppliers • We focus on paying invoices within 30 business days	• 88% of invoices received during the year from suppliers were paid within 30 business days (FY2022: 89%)
• We seek to provide clear, timely communications that give our investors detailed insight into our purpose, strategic objectives and business model • Regular business updates including press releases, financial updates, market announcements via the Regulatory News Service ("RNS"), and in-person events and meetings • Main shareholders sit on the PICG and PIC Boards	• At year end 2023, PIC's solvency ratio stood at 211%, with customer satisfaction of 99.3% on £2.1 billion of pensions paid in the year • PICG had an adjusted operating profit of £893 million • Inaugural dividend of 7.5p per share paid in 2023
• 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	• In 2023, over 39% of our privately sourced debt investments were to our existing partners

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 factors 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 (see more on pages 2 and 44 to 48).

Our stakeholders and our engagement

Decisions made by the Board must balance the sometimes conflicting needs and priorities of our stakeholders, whilst ensuring they promote the long-term success of the Company. 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 stakeholder engagement processes enable our Board to understand what matters to our stakeholders and to consider the most appropriate course of action that leads to the best outcome for our stakeholders and promotes the long-term success of the Company. 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 40 to 43 and within the Corporate Governance report on pages 99 and 100.

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 additional care to ensure such considerations are documented and they stay at the forefront of the Board's attention.

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

S.172 factor	Further information	Page(s)
(a) the likely consequences of key decisions in the long term	Our business	**2-3**
	Chairman's statement	**8-9**
	Business model	**12-13**
(b) the interests of the Company's employees	Our culture and values	**2, 44-48**
(c) fostering the Company's business relationships with suppliers, customers and others	Customer care	**30-34**
	Stakeholder engagement	**36-37**
(d) the impact of operations on the community and the environment	Stakeholder engagement	**36-37**
	Sustainability	**49-57**
(e) maintaining a reputation for high standards of business conduct	Corporate Governance introduction	**81**
	Whistleblowing	**98**
	Modern Slavery Act	**98**
	Anti-bribery and corruption	**98**
(f) acting fairly between members of the Company	Stakeholder engagement	**36-37**

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 **p40-43**

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

Our Board continually engages with key stakeholders and key stakeholder activity is recorded and included in the Board papers where applicable

Read more on **p102-103**

Board information

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

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

Board strategic discussion

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

The Executive team provides information to the Board on a timely basis and assurance to the Board 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 2023, the Board made decisions in respect of a wide variety of topics. The following are some examples of how the Board considers the matters prescribed in s.172 in its deliberations.

1. Customer Programme – Consumer Duty implementation

Implementation of the FCA's Consumer Duty rules became effective from 31 July 2023. As part of PIC's preparation for implementation of Consumer Duty, the Board, the Executive Committee and the management-level Customer Committee received regular updates on the delivery of PIC's Customer Programme and the plans for implementing Consumer Duty at PIC. Stuart King is the Consumer Duty Champion and he chairs the Board Customer Committee.

In June 2023, the Board approved the creation of a Board Customer Committee and its terms of reference.

Further information about the implementation of Consumer Duty can be found on page 74. Further information about the role and activities of the Board Customer Committee can be found within the Chairman's statement on page 8.

S.172 considerations

The interests of the Company's employees
All PIC employees have undertaken mandatory training on Consumer Duty and what this means for PIC and our customers. The training covered:

- the consumer principle to act to deliver good outcomes for retail customers;
- the cross-cutting rules about how firms should act to deliver good outcomes for retail customers; and
- the four outcomes which are a set of rules in respect of products and services, price and value, consumer understanding and consumer support.

The training also outlined the additional conduct rule for employees who are subject to the FCA Individual Conduct Rules.

PIC also used its intranet to update its employees on the changes under Consumer Duty.

Fostering the Company's relationships with suppliers, customers and others
Delivering a positive customer experience and good customer outcomes are at the forefront of PIC's decision making. PIC initiated a Customer Programme where its activities have focused on the existing initiatives around customers with vulnerabilities, policyholder communication and further improvements arising from the Consumer Duty rules.

Maintaining a reputation for high standards of business conduct
The Customer Programme demonstrates PIC's commitment to its customers and for delivering high standards of business conduct. Ahead of the initial implementation of Consumer Duty, in 2023, the Board received updates from the Operations team and specialist project teams in relation to the highest impact customer journeys, which have identified the key risks to customers with vulnerabilities and the changes required under Consumer Duty, and the Board discussed how PIC could ensure it is delivering good outcomes for its customers pursuant to the new Consumer Duty rules. The Board had a demonstration of new technology being used to assist in the identification of potential vulnerabilities and ensure that these customers are provided with appropriate assistance.

To assist in implementing Consumer Duty, the Board appointed Stuart King as the new Consumer Duty Champion in 2022.

In June 2023, the Board established a Board Customer Committee and Stuart King was appointed Chair of this Committee. The primary purpose of the Board Customer Committee is to assist the Board to discharge its responsibilities under Consumer Duty. The Board Customer Committee has delegated authority from the Board and it provides oversight and advice to the Board in relation to implementation, prioritisation, delivery and embedding of the Consumer Duty requirements into the Company's processes and business activities. It also has oversight of the Company's progress against its delivery plans and provides advice and challenge to embed and maintain a culture focused on delivering good outcomes for customers.

Having successfully implemented the required changes, the Customer Programme is continuing its work to progress the remaining requirements under Consumer Duty ahead of the 31 July 2024 deadline for closed products (those sold before 31 July 2023).

As part of maintaining high standards of business conduct and governance, the Company updated the statement of responsibilities for the Chief Operating Officer in its Senior Managers Certification Regime Management Responsibilities Map to reflect the responsibilities in respect of Consumer Duty.

Outcomes and actions
PIC successfully implemented the required changes under Consumer Duty by 31 July 2023 for new and existing products. PIC has rolled out internal briefings and refreshed the mandatory training to employees in respect of Consumer Duty.

Key to the s.172 factors

- The likely consequences of any decisions in the long term
- The interests of the Company's employees
- Fostering the Company's relationships with suppliers, customers and others
- The impact of operations on the community and the environment
- Maintaining a reputation for high standards of business conduct
- Acting fairly between members of the Company

2. £6.2 billion buy-in of RSA Group schemes

In February 2023, PIC concluded a c.£6.2 billion buy-in with the trustees of the two schemes sponsored by RSA Group.

S.172 considerations

The likely consequences of any decisions in the long term

During 2022 and the first part of 2023, the Board considered a number of papers from the Origination, Investments, Finance, Risk and Legal teams about the proposed structure of the deal and the investment strategy, including detailed analysis of the potential impact of the transaction on PIC's financial position. These papers provided detailed updates on the developments and material issues so the Board was able to consider and assess the proposed contractual terms and the likely consequences in the long term of PIC entering into the contracts.

Fostering the Company's business relationships with suppliers, customers and others

Given the size and complexity of the transaction, PIC engaged with a number of external professional advisers and other parties. The professional manner in which PIC conducted its business during the contractual discussions and negotiations was a reflection of how PIC fosters its business relationships with suppliers, customers and others. The Board was cognisant of the need for PIC to maintain constructive relationships with its existing suppliers and customers during the transaction and the Company worked with them and new external parties in a collaborative and constructive manner, to complete the transaction.

Maintaining a reputation for high standards of business conduct

PIC's purpose is to pay the pensions of its current and future policyholders. PIC has a reputation for adhering to high standards of business conduct and it strives to delivers its purpose whilst ensuring that its investment in long-term assets provides cashflows that match its liabilities.

The Board recognised the importance of this significant transaction for PIC's business and reputation. The Board discussed, debated and scrutinised the updates given at each meeting, prior to approval being given on 30 January 2023. PIC's internal governance and approval processes helped PIC to maintain a reputation for high standards of business conduct within the pension risk transfer market and the wider industry.

Outcomes and actions

Successful completion of this transaction means that PIC will be covering the 40,000 members under the schemes. In line with PIC's purpose, PIC will provide security to these members by paying the pensions of the current and future policyholders. PIC believes that its customers are its priority, and it works hard to provide exceptional service to all its customers (policyholders, trustees and sponsors) and this extends to the new 40,000 members as a result of this transaction.

3. Dividend payment

In March 2023, the Board approved PICG's Dividend Policy and Framework and payment of a £100 million dividend by PICG to its members. This equated to a final dividend of 7.5 pence per ordinary share, based on 1,334,205,407 PICG shares in issue. Teams within Finance, Risk, Strategy, Legal and Company Secretariat outlined the rationale for the dividend framework to the Board and explained why management believed that PICG had sufficient distributable profits available for the proposed payment of the dividend.

Once approved by the Board, the Finance and Company Secretariat teams focused on the process for payment of PICG's first dividend in May 2023.

S.172 considerations

The likely consequences of any decisions in the long term

The Board considered the Group's financial position and whether the Group had sufficient distributable reserves available to pay the proposed dividend. The Board considered the Group's solvency position and the draft 2023 Business Plan, and was comfortable that the Company could meet the Dividend Framework requirements as a result of the following:

- the solvency ratio remained above the Group's risk appetite during the projected business planning horizon;
- the solvency ratio was in excess of the Board-agreed Capital Risk Appetite throughout the business planning period and this demonstrates that the capital resources would remain sufficient following the payment of the dividend;
- the liquidity and leverage metrics were within Board-approved risk appetites; and
- the Company did have sufficient distributable reserves.

Between the date of approval by the Board and payment of the dividend, the Board noted that:

- the solvency and liquidity positions continue to be monitored in line with the risk monitoring processes;
- the payment of the dividend can be revisited in light of any significant deteriorations between the business plan finalisation and the payment of the dividend; and
- the business plan includes a series of management actions that can be deployed should the capital position deteriorate prior to the dividend.

The interests of the Company's employees

The Company considers its employees to be a crucial stakeholder group for the success and future long-term growth of the Company. The Group operates Save-As-You-Earn ("SAYE") share schemes which allow employees to contribute a fixed monthly amount for 36 months and become shareholders of the Company upon the vesting of their share options. This is seen as a positive part of the remuneration and benefits package offered to employees.

Acting fairly between members of the Company

When considering the proposal to pay its first dividend, the Board considered the views of all shareholder nominated Directors as well as other shareholders, including employee shareholders. Pursuant to the Companies Act and the Company's Articles of Association, a majority of the Company's shareholders approved the ordinary resolution authorising the dividend payment.

Outcomes and actions

The payment of the Company's first dividend to its members is an indicator of the financial success of the Company and the Board's commitment to act in a way that promotes the long-term success of the Company for the benefit of its members. Pursuant to the Dividend Policy and Framework, the Board will consider the appropriateness of paying future dividends to the Company's members annually, or at a suitable alternative frequency. Going forward, the Board expects that PIC will continue to grow, therefore, the Board expects to pay a dividend that is sustainable and grows over time.

Key to the s.172 factors

- The likely consequences of any decisions in the long term
- The interests of the Company's employees
- Fostering the Company's relationships with suppliers, customers and others
- The impact of operations on the community and the environment
- Maintaining a reputation for high standards of business conduct
- Acting fairly between members of the Company

4. Move to 22 Ropemaker Street

During the year, the Board discussed the proposed move of the Company's office from 14 Cornhill to a property that was under construction at 22 Ropemaker Street, close to Moorgate station. This property comprises of 23 floors and PIC would be the tenant of the top six floors, giving the Company more space in a modern working environment.

Some of the key drivers for the move from 14 Cornhill to 22 Ropemaker Street are to provide sufficient space for the growing employee base, provide a good hybrid working environment and to ensure PIC is based in an office environment which reflects its commitment to sustainability. 14 Cornhill is an aged and listed building which makes it very difficult to change the fabric of the building and bring it up to current environmental standards or meet future environmental targets.

The Board was provided with detailed papers in January and March 2023, which outlined three options in relation to whether to move premises. The Board was asked to make a choice based on the information provided and the pros and cons of each option.

The Board had a tour of 22 Ropemaker Street after the December Board meeting.

S.172 considerations

The interests of the Company's employees
The Board considered the interests of the Company's employees as part of its discussions about the move from 14 Cornhill to 22 Ropemaker Street. The Board was informed that the new office property is in a well-connected location, it has very good sustainability credentials (EPC A and BREEAM Outstanding), a separate street-level entrance for PIC clients and staff, and state-of-the-art facilities.

The Board discussed employee expectations around hybrid working. 22 Ropemaker Street is a purpose-built office, designed with hybrid working in mind and it is intended to transform our employees' experience and to allow PIC to grow, collaborate and reach its potential in an agile and technologically advanced environment.

A group of employees across the organisation have volunteered to be 'Move Makers' to keep their respective teams informed about the significant milestones and progress with the move to 22 Ropemaker Street.

The impact of operations in the community and the environment
PIC considers sustainability as fundamental to the delivery of our purpose – to pay the pensions of our current and future policyholders. PIC's sustainability strategy was launched in 2022 and the Board is committed to delivery of the sustainability strategy pillars and the Sustainability Target Operating Model.

As outlined above, 22 Ropemaker Street will be a newly built office space and it will deliver a number of sustainability benefits compared with remaining at 14 Cornhill, which is an aged and listed building, and this is expected to reduce the impact of PIC's operations on the environment.

Outcomes and actions
PIC is due to move into 22 Ropemaker Street in late 2024, so prior to this there is significant work to complete including fit-out of the building. Employees will be kept abreast of the progress of the move via a number of means, including updates from the Executive Committee in the Virtual Town Halls, via the Company's intranet and from the Move Makers.

Focusing on the things that matter – our purpose, values and culture.

When you speak to a PIC employee about what they like about working in our Company, the same things come up. The friendliness of fellow colleagues, the openness of the leadership team, the appetite for growth and ambition to make a difference, or the opportunity to work for a purposeful company in a meaningful industry. It always boils down to three things: purpose, values and culture.

PIC has a culture that we are proud of, one that we have nurtured and that has evolved as the Company has grown to be a leader in a dynamic and important industry. An industry that is responsible for channelling billions of pounds into the UK economy and one which our diverse and talented employees are proud to work in. At PIC, our purpose has always been the anchor. Our purpose serves as a guide to where we are heading, aids decisions about what we need to focus on and provides a sense-check on the things we are doing as a company, ultimately serving as a reminder of why we matter.

At the end of 2023, we launched our new values: resilient, adaptable and loyal. These values represent how we enact our purpose and the underlying principles of our culture, or PIC's way of doing things, and synthesise them into simple and straightforward 'rules of behaviour'.

You can read more about our purpose, values and culture and how these link to our strategic objectives in this section on pages 14 and 15.

The Company continues to grow at pace and, during 2023, we welcomed 146 new joiners, significantly expanding most teams across the organisation to allow for the increasing market demand for pension risk transfer solutions. In addition, we have enhanced the employee benefits package to ensure our valued and skilled employee base are appropriately rewarded and their wellbeing prioritised.

Diversity, equity and inclusion ("DE&I") is an area of continued focus, driven by the DE&I Forum, a group made up of employee and leadership team representatives. PIC's view is that a diverse workplace strengthens and enhances every aspect of our business – from decisions taken by the Executive Committee, to ensuring fair customer outcomes and in providing a positive and inclusive place for all employees to thrive. Our pioneering Actuarial Mentoring Programme, continued support of the 10,000 Interns programme and participation in the LDN Apprenticeship scheme are some of the initiatives we've been proud to be part of this year. We continue to be committed to investing in and valuing the contribution our employees make so they have a workplace they can thrive in, and our employee engagement scores are a good reflection of what working life at PIC is like.

Dara McCann
Chief People Officer

Focusing on the things that matter

Purpose: To pay the pensions of our current and future policyholders

Clear and communicated strategic objectives

Values you live

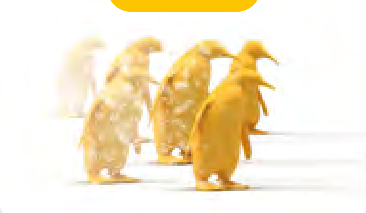
Underpinned by an authentic culture

Our previous values

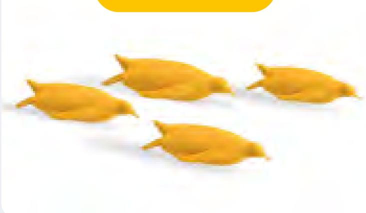
Providing security	Embracing new ideas	Being a team	Striving to be the best	Doing the right thing

Our new values

Resilient



Adaptable



Loyal

Resilient

No matter what comes our way, we can handle it. We do this by managing risk to provide long-term stability and financial security for our customers. Our strong, conservatively managed balance sheet and low-risk portfolio ensure resilience against difficult economic events.

Adaptable

PIC is capable of thriving in a changing environment, doing things differently and evolving our business with innovative solutions and in line with client needs. We listen carefully and are not afraid to learn and challenge ourselves, and we go beyond existing ways of thinking to come up with innovative, personalised solutions.

Loyal

Our policyholders are our customers for life, which is why our strong ethos around doing the right thing is so important to us. We invest in building lasting relationships, proving ourselves to be dependable and dedicated. We know the benefit of working together as a team. We respect, value, reward and nurture our people.

Our people and culture continued

Employee engagement

Employee engagement is the extent to which employees feel connected to and motivated by the work that they do.

Our employees are the heart of our business and we value their views and experience of what life at PIC is like. PIC has a comprehensive employee engagement programme in place to effectively collect the insights of the people that make us the success we are. This includes a formal annual employee engagement survey and monthly all-employee meetings designed to provide employees with key updates from across the business, and regular opportunities at company events for employees to ask questions of their leadership team on any subject, from strategy, operations, career development, or even employee-run clubs.

Rewarding our employees

As one of the leading employers in the pension risk transfer market, PIC offers competitive remuneration packages and a generous range of benefits. For example, PIC is one of a limited number of private companies that offers its people a chance to participate in a company Save as You Earn ("SAYE") scheme. SAYE schemes allow individuals to have a sense of ownership in the business and benefit from its long-term success. The PIC SAYE scheme has been in place since 2013 and provides employees with an opportunity to purchase shares following a set savings period. The scheme is open to all permanent employees and sets the foundations for a successful and sustainable company, with employees able to share in the long-term value creation of the business.

During 2023, we introduced several enhancements to our compensation and benefits including to the employee pension scheme, private medical cover, income protection and the introduction of critical illness cover.

2023 Employee Survey highlights:

PIC is truly customer oriented

93%

(2022: 91%)

I believe strongly in the goals and objectives of PIC

93%

(2022: 93%)

I am proud to work for PIC

92%

(2022: 89%)

I am optimistic about the future at PIC

91%

(2022: 88%)

Helping our employees navigate the pension landscape.

Ashley Roberts – Vulnerable Customer Officer

"I joined PIC as the Vulnerable Customer Officer in August 2022 within the Pensions Operations team. It's been a really interesting time and I love working for a company that is at the forefront of excellence in customer care. What's really great is that PIC aren't just interested in the welfare of our customers, but they genuinely care about employees too."

Over the summer, PIC held a campaign called Pension Power, which aimed to educate people about all aspects of their pension. I took part in many of the activities including the focus groups, the talk by Claer Barrett, the FT's pension expert and the five-day challenge. I found the whole campaign extremely valuable. I am 43 and have three pensions (it turns out!) and prior to Pension Power, I had no idea about what I should be doing with my pension, when I should be looking at it and what it means. This campaign helped me with all of that.

The five-day challenge was a particular highlight. It set me a small task to do every day and enabled me to get on top of my pension admin in an easy way. Now I can actually see my pensions, look into what my options are and see how much I have in my accounts. Simply that, for me, was huge as I got a tangible outcome from it.

I think all employers have a duty to do this and PIC has been proactive in this. There is generally a lot of jargon associated with pensions, but this campaign broke it down for me and made it easier for me to understand the basic things about my pension and what it realistically means for me.

PIC's purpose is to pay the pensions of our current and future policyholders and that in itself is rewarding to know that we're making a difference for those individuals, as a lot of them really do rely on their pensions. The one thing that really stands out for me at PIC is the people. There are a lot of people that are really passionate about the work they do, and you can tell that they care. There is a real sense of cohesion and working together like you're one big team, which is great.

Our people and culture continued

PIC's gender pay gap report 2023

The gender pay gap is a measure of the difference between the average pay of men and women across the Company. The nature of gender pay gap reports mean that the figures presented do not consider the ratio of men and women, different levels of seniority or those working part time.

Our gender pay gap is driven by the below primary factors:

33%

of our employees are women

28%

of our employees in the upper pay quartile are women.

The mean bonus gap is heavily impacted by the exercise of options at Executive Committee ("ExCo") level

Mean salary pay gap

At 11.4%, we are above the indicative national average (8.3%) but below the financial services national average (22.7%). Our gender pay gap figures remain typically narrower than competitors across all measures.

Bonus pay gap

The reporting for the bonus pay gap must include all one-off payments which are subject to PAYE. This includes cash bonuses and shares at the point of exercise, rather than award. For that reason, our bonus pay gap could vary significantly each year due to circumstances beyond our control. For the current reporting period, the median bonus pay gap has increased from 18.2% last year to 23.7% in the last 12 months.

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

Average salary and bonus pay gap

	2021	2022	2023[1]	Changes in last 12 months
Mean salary	18.4%	10.2%	**11.4%**	1.2% (up)
Median salary	6.8%	12.5%	**15.1%**	2.6% (up)
Mean bonus	1.1%	1.0%	**-24.0%**	-25.0% (down)
Median bonus	23.4%	18.2%	**23.7%**	5.5% (up)

	Lower quartile	Lower middle quartile	Upper middle quartile	Upper quartile
Women	45% (45%)	28% (32%)	27% (29%)	28% (29%)
Men	55% (55%)	72% (68%)	73% (71%)	72% (71%)

1. The introduction of a pension salary sacrifice scheme during 2023, plus individuals' exercise of options affects the figures within PIC's gender pay gap report and therefore comparisons are not like for like.

Percentage of women at each quartile

On 5 April 2023, PIC had 502 employees. Whilst the proportion of male and female employees within each pay quartile has remained fairly static, there are marginally less women in the upper and upper-middle quartiles. This has had a negative impact on our mean and median salary gap.

Actions we are taking to address the gender pay gap

PIC continues to target at least 30% of CVs from recruitment agencies to be women. PIC recruited approximately 146 new joiners since 2022 and of these, 43% were women. At PIC, we focus on early career talent to develop talent pipelines including through our Academy programme. 11 apprentices have completed their qualifications since launch and we have seven apprentices currently studying, who are gaining valuable experience, whilst undertaking a qualification supported by PIC.

We remain corporate members of Women in Banking and Finance, which provides female colleagues, at all levels, with access to development and networking opportunities, and the business with channels to recruit more female talent. This is in addition to us sponsoring the successful Actuarial Mentoring Programme for a seventh year.

About the Gender Pay Gap

The gender pay gap is a measure of labour market or workplace disadvantage, expressed in terms of a comparison between men's and women's average (median) hourly rates of pay. It's about pay, but also about other factors, such as occupational segregation, or the fact that in the main it's women who look after children and other dependants.

Gender pay gap reporting doesn't specifically ask who earns what, but what women earn compared with men. It provides a framework within which gender pay gaps can be surfaced, enabling us to constructively consider why they exist and what to do about them.

Gender Pay Gap definition

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

Bonus Pay Gap definition

The mean/median bonus pay gap is the difference between the mean/median bonus pay paid of male relevant employees and that paid to female relevant employees.

Sustainability

Our focus is on being a sustainable long-term business.

Introduction

At PIC, sustainability is fundamental to the delivery of our purpose – to pay the pensions of our current and future policyholders. Our sustainability strategy dives deeper into our corporate strategic objectives of: to continue building a secure and sustainable business; to carry on leading as a responsible corporate citizen and to keep on driving long-term value growth. This year we have a number of achievements to be proud of:

- We surpassed our 2025 portfolio decarbonisation target
- At year end, our portfolio had £11.4 billion invested in sustainable assets which are those assets assessed as having a positive impact on stakeholders
- We have been accepted as signatories to the UK Stewardship Code
- We rolled out a Sustainability Target Operating Model ("TOM") across the organisation
- We have elevated Environmental, Social and Governance ("ESG") responsibilities across the Board and Executive Committee ("ExCo") and appointed a Board-level and an Executive level Sustainability Lead as well as having launched a Sustainability Champions programme constituting of 15 individuals of various seniorities across the business
- Our employees across all levels from Board to apprentices have cumulatively undertaken 644 hours of Continuing Professional Development ("CPD") sustainability training this year.

PIC is a people business and our employees are our most valuable assets. Our customer focused culture underpins both our financial and sustainability strategic success. Our values of adaptability, resilience and loyalty reflect what is important to us. Our people welcome challenge and are encouraged to meet their full potential within a safe and rewarding environment. Our 90% employee engagement score and low (9.9%) employee turnover attests to this approach.

Our 99.3% policyholder satisfaction score reflects our continued dedication to our policyholders, and we are delighted to have once again won the Customer Commitment Award at the Institute of Customer Service Awards and received an accreditation uplift in the Investors in People, to Silver.

We promote transparency and the information contained in this report as well as the rest of our reporting suite demonstrates this.

Simon Abel
Chief Strategy Officer and
ExCo Sustainability Lead

Highlights

Sustainable Assets	Sustainability training hours	Portfolio Weighted Average Carbon Intensity[1]
24% of total portfolio	**644hrs**	**169** tCO_2e/\$m revenue

1. This metric has been subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix B of our Climate Report (TCFD).

Sustainability continued
Our sustainability strategy

Our sustainability strategy's overarching objective is to create long-term social value as we fulfil our purpose, leading to sustainable benefits for the economy, the environment and society. Our strategy impacts all our stakeholders, including the people who rely on us. A secondary drive in pursuing this strategy is to give our policyholders, employees, and others a sense of community and engagement as we all continue to transition to a more green and sustainable way of working.

The strategy has four distinct pillars which, together with our Sustainability Target Operating Model, focuses on delving deeper into our corporate strategic objectives.

1. **Protecting the environment**
2. **Being a responsible investor**
3. **Making communities sustainable, safe and inclusive**
4. **Long-term sustainable business**

PIC's sustainability strategy

Creating long-term value as we fulfil our purpose

Protecting the environment
Focus areas:
- Supporting the economy-wide transition to Net Zero
- Meeting our carbon commitments
- Biodiversity impact of our real assets

Long-term sustainable business
Focus areas:
- Policyholder security and service
- Robust governance process
- Detailed and transparent reporting
- A culture that is inclusive
- Long-term alignment of stakeholders

Being a responsible investor
Focus areas:
- ESG integration
- Stewardship and engagement
- Active participation in ESG industry initiatives
- Sharing knowledge through insightful publications
- Investing in Sustainable Assets and mapping the impact created

Making communities sustainable, safe and inclusive
Focus areas:
- Investing across the UK in assets to provide essential services
- Helping turn brownfield assets into greener alternatives
- Providing local employment and skill development opportunities
- Financial and non-financial charity support

Sustainability Target Operating Model

To meet our sustainability strategy objective, we recognise that sustainability needs to be embedded into our business-as-usual activities and processes. A Sustainability Target Operating Model ("TOM") was established which defines and differentiates sustainability responsibilities across the business.

The TOM has two main components:

1. **The responsible investing activities**
2. **The corporate level sustainability activities**

As shown in the illustration below, each component branches out into respective focus areas for the business, which can be tied back to one of the four pillars of the sustainability strategy. Members of the Executive Committee and/or senior managers have been allocated responsibilities for each branch within their business function. Specific sustainability related objectives have been agreed with a number of relevant ExCo members and these have been embedded into 2024 objective setting.

Sustainability Champions

Sustainability is engrained deep within our culture and incorporated into BAU. Sustainability representatives have been appointed across the business-led by Board-level and Executive Committee representation. In addition, a Sustainability Champions initiative was launched in November 2023 which consists of 15 individuals from across the organisation and of various seniorities.

The initiative's aim is to build momentum around sustainability and help drive sustainable change within the organisation.

Formal sustainability training is offered to our champions, along with opportunities to 'bring external best-practice' into PIC within their respective business areas.

Sustainability representation

At various seniority levels and across the business

Board:
Arno Kitts

Board level Sustainability Champion
- Act to ensure that sustainability matters are considered by the Board
- Escalate any concerns about the Company's sustainability related activities to senior management and the Chairman
- Help Executive Sustainability Champions embed sustainability matters into the Company's culture and policies as well as ensure appropriate external engagement of such matters and reporting from executives to the Board

Chief Strategy Officer:
Simon Abel

Executive Committee Sustainability Lead
- Take Executive leadership for sustainability matters
- Drive and monitor progress for PIC's overall sustainability strategy
- Promote/communicate PIC's sustainability capabilities across all stakeholder groups

Head of Sustainability:
Cléo Fitzsimons

Head of Sustainability
- Set strategic direction for PIC's overall sustainability strategy and ensure alignment with PIC's corporate strategy
- Help ensure sustainability standards set by the Board/Executive Committee are met. Coordinate and oversee the two main streams of PIC's Sustainability TOM: 1) Responsible Investing; and 2) Long-Term Sustainable Business

Sustainability Champions:
Representatives across the business

Sustainability Champions
- Build momentum and help drive sustainable change within the organisation
- Assist Business Function Executive Committee members to embed sustainability within BAU
- Bring outside best-practice information on sustainability within PIC and help spread it across the organisation

Working with our charity partners

PIC is proud of our 2023 partnership with Independent Age and Rethink Mental Illness. We have also supported a number of employee-led initiatives through matched funding. PIC's charity committee, which is entirely volunteer led, organises a series of fundraising activities that take place throughout the year including the PIC Treasure Hunt, an employee and third party event that attracts well over 440 participants on a treasure hunt around the City of London. During 2023, PIC employees raised a total of £250,000 for selected charities across more than 12 events.

In addition, PIC continued its second year of partnership with RedSTART Educate, a financial education charity that delivers continuous educational, interactive and fun workshops to primary school children from Reception to Year 6. Its workshops and school-based activities are complemented by an app which rewards students for completing mental maths challenges, allowing them to accrue interest on their rewards and spend the tokens earned in a real-world environment.

PIC volunteers run RedSTART workshops at Coleridge Primary School, facilitating eight sessions during 2023.

Total donations to charities

£250,000

- Employee participation in fundraising sports events such as the London Marathon, Royal Parks Half Marathon and RideLondon30
- London to Australia step challenge
- Charity quiz
- RedSTART educational workshops
- Jumble sale
- Charity lunch & learns
- PIC Run Club's used shoe collection for Charity JogOn Again
- 12 charities of Christmas, where charity committee members each selected a charity to receive a donation of £1,000 from PIC

Independent Age

Rethink Mental Illness.

CHANGE THE GAME! RED START

Independent Age UK

Independent Age UK is a charity founded over 150 years ago offering advice and support for people in old age. It operates throughout the UK and provides advice and support across a range of areas including money, housing, health, personal life, support and care, and future planning. Its guides and factsheets are downloadable for free via the link below.

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

Sustainability continued
Environment

As a long-term investor with a commitment to pay the pensions of our policyholders, managing climate and environmental risk is fundamental to our strategy. In 2023, we have taken further steps to embed the management of this risk into our business and made strong progress in meeting our carbon commitments.

Our progress against our climate targets

We have made disclosures in line with the TCFD recommendations in our Climate Report (TCFD). This report includes details on our progress against our operational and investment portfolio decarbonisation targets, as well as further detail on how we measure and manage PIC's exposure to climate risk.

PIC's Climate Transition Plan

In 2023, we are proud to have developed our first Climate Transition Plan, detailing our targets and actions to transition towards a lower-carbon economy. This has been drafted in line with the disclosure framework from the Transition Plan Taskforce. The Transition Plan has been developed alongside the relevant business functions to ensure the delivery of the plan is embedded within the business.

Further detail can be found in our Transition Plan, which is available on our website **pensioncorporation.com/transitionplan**

Managing our climate risk exposure

We have made further developments to our process to manage PIC's exposure to climate risk. We have performed a quantitative climate change scenario analysis on our investment portfolio. This was designed to understand the impact of three climate scenarios on PIC's balance sheet. The scenarios were based on those designed by the Bank of England for the Climate Biennial Exploratory Scenario ("CBES"). Further detail on the methodology and results of this scenario analysis can be found in our Climate Report (TCFD) which is available on our webiste **pensioncorporation.com/climatereport(tcfd)**

Summary of the TCFD disclosures

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 Climate Report (TCFD) due to the granular nature of the metrics disclosed. Selected TCFD metrics can be found here.

PIC's climate achievements

Reduced Scope 1 and 2 emissions intensity by

26%

During 2023 PIC reduced its Scope 1 and 2 carbon emissions per Full Time Employee ("FTE") by 26%

Temperature alignment of

1.9°C

for public corporate credit portfolio

PIC's public corporate credit portfolio is aligned to a 1.9°C temperature rise, with 75% of reporting corporates on a trajectory of 2°C or below

Weighted Average Carbon Intensity[1] ("WACI")

169

tons CO_2e/$m revenue

weighted average carbon intensity of investment portfolio

The weighted average carbon intensity of PIC's portfolio represents 75% of investments and this is a 3% decrease compared to 2022

PIC's climate targets

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

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

1. This metric has been subject to independent Limited Assurance under ISAE (UK) 3000 and ISAE 3410. The limited assurance report provided by KPMG can be found in Appendix B of our Climate Report (TCFD).

Sustainable Assets

We map the impact created by our Sustainable Assets to the United Nations Sustainable Development Goals ("UN SDGs"). A company's business model must be meaningfully linked to solving one or more of the UN SDGs as well as demonstrate positive ESG credentials to be considered a 'sustainable asset'.

In addition, we have asset class specific ESG approaches such as within our built environment portfolio, to help promote sustainable characteristics of our investments. Investing in sustainable assets is in line with our strategic priority of maintaining a purposeful investment strategy, helping create significant social value.

PIC distinguishes those assets it assesses as having a lasting positive impact on stakeholders such as the communities in which the Company operates and the environment. We feel the word 'Sustainable' is appropriate for these assets as it considers the balance a company demonstrates between economic growth, environmental care and social wellbeing. PIC believes in a 'just transition' and focuses on achieving good social outcomes as well as good environmental outcomes. Where balance is compromised, we discuss each asset on a case-by-case basis at various forums and, where appropriate, add the company to a focus list for our Engagement Strategy.

In 2023, the proportion of our portfolio invested in Sustainable Assets fell. A contributor to that was the in-specie assets transferred over the course of the year.

Investments in Sustainable Assets

2020:

24%

(£12.1bn)
of total portfolio £49.9bn

2021:

27%

(£13.8bn)
of total portfolio £51.4bn

2022:

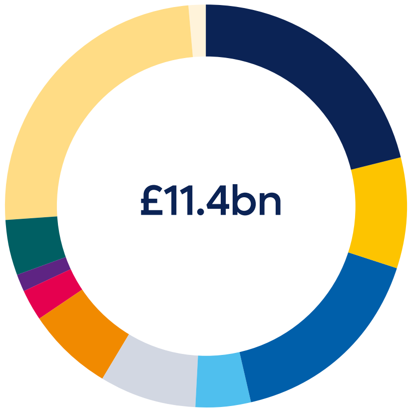
25%

(£10.3bn)
of total portfolio £41.2bn

2023:

24%

(£11.4bn)
of total portfolio £46.8bn



Housing Associations/ Social Housing	21%
Renewable Energy	9%
Education	16%
Not for profit	5%
Healthcare	8%
Municipals	7%
Sustainable Transport (Rail)	2%
Project Finance (funding sustainable initiatives)	1%
Green or Sustainable buildings including Build-To-Rent	5%
Regulated Utilities (Water, Electric and Gas)	25%
Circular Economy	1%

PIC agrees forward purchase of UK Government Property Agency Hub at Ruskin Square, Croydon for £268 million.

In March, we agreed the £267.6 million purchase of 2 Ruskin Square in Croydon, a new 344,940 sq ft Grade A office, next to East Croydon railway station, from the Schroders Capital UK Real Estate Fund ("SCREF"). The building will be let to the Government Property Agency ("GPA"), providing PIC with secure, predicable, long-dated and index-linked cashflows, which are closely aligned to serving PIC's purpose of paying the pensions of our current and future policyholders.

The building, which will be ready for service in August 2024, has been specifically designed for occupation by the Home Office, and will accommodate approximately 3,000 civil servants relocating from locations around Croydon.

Once completed the building aims to deliver a BREEAM rating of 'Outstanding', having been uplifted from a previous target of 'Excellent', along with achieving a 15% reduction in embodied carbon during construction. It is anticipated that the building will operate on a Net Zero Carbon basis, supporting the Government's ambition to reach Net Zero carbon emissions by 2050.

2 Ruskin Square represents PIC's second purchase of a GPA Hub within the past 12 months, following the purchase at First Street, Manchester in August 2022. The site has been developed by existing funders Schroders Capital, Stanhope as development manager, and Lendlease as contractor.

"The 2 Ruskin Square, Croydon, development is part of the Government Hubs Programme which will provide a smaller, better, and greener estate which supports the Government's ambition to reach net zero carbon emissions by 2050."

Clive Anderson
GPA's Director of Capital Projects

Stewardship and engagement

Stewardship

We value the importance of sound stewardship, using it as a tool to deliver on our purpose and create long-term sustainable returns.

PIC's approach to stewardship is aligned with our purpose, investment process, and strategic objectives. Throughout the investment process, PIC is focused on making good-quality long-term investments, which minimise defaults and generate the inflation-linked, predictable long-term cash flows required to pay our policyholders' pensions. PIC has a standalone Stewardship Policy and it applies to all of our investments whilst recognising that the large majority of the investment portfolio is invested in fixed income. We believe that, as bondholders, we can exert influence over management of issuing companies and engage with them as necessary to ensure compliance with our Stewardship Policy, which is available on our website **pensioncorporation.com/ /stewardshippolicy**

PIC is proud to have been accepted as a signatory to the Financial Reporting Council's ("FRC") UK Stewardship Code and our Stewardship report can be found on our website. PIC is also involved in collaborative engagements including ones led by the UN PRI & Advance collaborative engagement on human rights, and an industry-peer-led collaboration with companies within the water industry. In addition, we engage with policymakers on industry-wide topics such as Solvency II, wider pension reforms, and how to help local authorities overcome the barriers to local regeneration. More detailed information on our stewardship activities including case studies can be found in our Sustainability Report which is available on our website **pensioncorporation.com/investors/pic-and-picg-financial-results-and-reports/results**.

Engagement

PIC is a buy-and-hold investor with long-term liabilities, and to make sure our business model remains viable we engage with issuers to ensure more sustainable practices are undertaken within the issuers' firms.

ESG engagement describes the interaction between investors and issuers. PIC has implemented active engagement with investee companies across public credit and private debt investments on material sustainability issues. Active engagement is at the heart of our business as it helps drive long-term value growth and it is a core pillar of our Stewardship approach. It helps drive our wider sustainability strategy to help ensure that ESG-related risks are mitigated where possible and opportunities uncovered. Engagement is done for two main reasons at PIC:

1. **Fact finding:** to understand the company, its stakeholders and performance. To inform our investment decision as part of regular due diligence. This engagement is usually centred around fact-finding through detailed and specific questioning.
2. **Purposeful dialogue:** with a specific and targeted objective to achieve a change in corporate behaviour. This is a two-way dialogue meaning we do not talk at companies, we talk with them. Our approach encourages open and honest dialogue so that a long-term relationship can be better maintained which helps us see out our buy-and-hold investment strategy needed to fulfil that purpose.

PIC is proud to have been accepted as a signatory to the Financial Reporting Council's UK Stewardship Code."

Tracy Blackwell
Chief Executive Officer

Chief Financial Officer's review

Strong performance and well positioned for further growth.

A strong set of financial results representing the continued delivery of our focused strategy despite volatile markets."

Dom Veney
Chief Financial Officer

Introduction
I am delighted that our 2023 financial results continue to show the delivery of our strategy, with growth in new business volumes and strong profits from our in-force book, underpinned by a robust solvency ratio. Most significantly, we completed the UK's largest ever bulk annuity transaction, a buy-in with two schemes sponsored by RSA, with premiums of £6.2 billion and covering around 40,000 members. Our balance sheet remained strong throughout the year, ending with a solvency ratio of 211% (31 December 2022: 226%), despite continued market volatility. We continue to deliver on our purpose of paying the pensions of our current and future policyholders, as well as consolidating our position as a leading player in the pension risk transfer ("PRT") market.

Financial highlights	2023 £m	2022 £m (Restated)
Gross premiums written	**6,949**	4,095
Solvency II ratio (unaudited)	**211%**	226%[1]
Equity own funds (unaudited)	**5,971**	5,186[1]
Financial investments	**46,849**	41,218[2]
IFRS profit before taxation	**303**	96[2]
IFRS adjusted operating profit before tax	**893**	383[2]
IFRS adjusted equity	**6,451**	5,919[2]

1. Now reported at consolidated Group level. These were previously reported at PIC plc level, our largest entity.
2. Restated following the Group's adoption of IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments".

We paid an inaugural final dividend of £100m in May 2023 in respect of the year ended 31 December 2022 and, along with these results are declaring a final dividend of £147 million in respect of the year ended 31 December 2023, to be paid in May 2024. In setting a dividend, the Board considers the balance of recognising the continued strong financial performance of the business and retaining capital to be well positioned to take advantage of the considerable market opportunity which is in front of us.

In November 2023, we issued £500 million of Tier 2 subordinated notes with a coupon of 8.0%. We simultaneously repurchased £300 million of the 2014 and 2016 issuances which were due to redeem in 2024 and 2026 respectively. These transactions help to balance securing our long-term capital resources with providing financial flexibility to effectively manage the business.

Market volatility continued to be high in 2023, with stubbornly high inflation, large swings in UK and international interest rates and narrowing credit spreads. We maintain a prudent investment and hedging strategy that prioritises long-term stability and security for our policyholders, which enabled us to navigate through this volatility.

We successfully completed the implementation of IFRS 17 during the year – the biggest change in global insurance accounting in history. As a result, the 2022 IFRS comparatives have been restated. While a new accounting standard does not change our strategy or business model, we have updated some of our key performance indicators ("KPIs") to reflect the new standard. IFRS adjusted operating profit before tax ("AOPBT"), increased to £893 million (2022: £383 million) primarily due to higher expected returns on surplus assets due to higher opening interest rates, an increase in new business profits and reserve releases in respect of updates to management's view of non-economic assumptions.

IFRS adjusted equity, which is a measure of overall shareholder value, increased by £532 million to £6.5 billion (2022: £5.9 billion) due to significant new business volumes written in the year. This measure is calculated as IFRS equity excluding Restricted Tier 1 ("RT1") debt plus Contractual Service Margin ("CSM")[1]. The CSM, a new item introduced by IFRS 17 which reflects the deferred initial profit on business that has already been written, grew to £2,427 million, net of tax (2022: £1,988 million, net of tax).

Equity Own Funds, a KPI of the Group, increased by £785 million to £6.0 billion over 2023. The increase was driven by profits emerging from the in-force book, value added from new business written, and included the benefit of the long-awaited reform of the Solvency II "risk margin" net of the write down of the Solvency II transitional measure (£340 million net of tax).

Our portfolio of financial investments increased to £46.8 billion (31 December 2022: £41.2 billion) driven by the new business written partly offset by payments made to policyholders in the year. Our defensive positioning ensured that our asset portfolio continued to perform well, and we experienced no defaults for the eleventh consecutive year. Over 99% of the value of our debt securities are rated investment grade and we continue to manage our exposures carefully noting the uncertain economic outlook. We also continue to implement our sustainability strategy, making long-term investment decisions that secure our pension payments for policyholders, and prioritise our obligation to act as a responsible corporate citizen.

Looking forward, the PRT market remains strong with a long pipeline of schemes at or close to the point where they are likely to seek to buyout the pensioner liabilities. By the end of February 2024, we had completed £1.5 billion of further new business deals. Our strong capital position and our ability to onboard large and complex deals, as demonstrated by the deal with RSA, puts us in an excellent place to take advantage of the significant market opportunity.

IFRS 17

From 1 January 2023 we adopted IFRS 17 "Insurance Contracts", the new global insurance accounting standard. This has fundamentally changed how companies account for insurance and reinsurance contracts, including measurement, income statement presentation and disclosure.

Key differences between the measurement of insurance contracts under IFRS 4 and IFRS 17 include the deferral of new business profits at inception via the CSM, alongside the recognition of a Risk Adjustment ("RA"), which represents the compensation that the Group requires for taking on non-financial risk. For a growing business such as PIC, this means that statutory profit recognition is slower under IFRS 17 than IFRS 4. The gross of tax CSM of £3,236 million and RA of £213 million (both net of reinsurance) at 31 December 2023 represent a stock of future profit which will be released into the income statement over the life of the contracts as services are provided and risks expire. These replace prudent margins that were previously recognised under IFRS 4.

With regard to our balance sheet, the impact of IFRS 17 on our opening position at 1 January 2022 was a reduction to equity of £208 million, primarily due to the recognition of the CSM and RA, partly offset by the release of IFRS 4 prudent margins.

1. CSM included in Adjusted equity is quoted net of reinsurance and tax.

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Chief Financial Officer's review continued

Our hedging strategy is designed to manage the impact of economic volatility on the solvency balance sheet, rather than on an IFRS basis. In addition, the CSM does not move in line with interest rates which introduces more interest rate related volatility to the IFRS balance sheet compared to prudent margins under IFRS 4 which were interest rate sensitive. As a result, the substantial increase in interest rates over 2022 led to a significant reduction in profits for the prior year of £730 million compared to the previous IFRS 4 basis. IFRS 17 also requires that new business profits are released over the length of the contract through the use of the CSM, which further reduced prior year profit by £409 million. Our equity at 31 December 2022 under IFRS 17 was lower by £1,064 million compared to IFRS 4, however we also recognised a pre-tax CSM plus RA (net of reinsurance) of £2,852 million, which represents a stock of future value.

The impact on IFRS profit before tax and IFRS equity at 31 December 2022 is set out below:

	£m
2022 IFRS 4 profit before tax	1,240
Adjusted for: Investment related variances	(730)
CSM movements	(409)
Methodology variances	(5)
2022 IFRS 17 profit before tax	96

	£m
IFRS 4 equity as at 31 December 2022	5,439
Adjusted for: Changes in cash flows and removal of IFRS 4 prudent margins	1,437
CSM recognition	(2,651)
RA recognition	(201)
Deferred tax relating to above	351
IFRS 17 equity as at 31 December 2022	4,375

AOPBT is a key profitability measure and consistent with IFRS 4, excludes investment related variances. It also reflects value generated prior to the new business deferral and subsequent in-force release of profit via the CSM. AOPBT for the year ended 31 December 2023 was £893 million (2022: £383 million), with the increase compared to 2022 being driven by an increase in expected returns due to higher opening interest rates, updates to management's view of assumptions and higher new business profits.

IFRS profit before tax was £303 million (2022: £96 million), which is lower than AOPBT primarily due to the deferral of new business profits via the CSM, which will be recognised as revenue in future periods[2].

IFRS

Our full year 2023 results are presented on an IFRS 17 basis and 2022 comparatives have been restated.

IFRS statement of comprehensive income

Statement of comprehensive income – summarised	**2023 £m**	2022 £m (Restated*)
Insurance service result	**202**	211
Net financial result	**365**	120
Other operating expenses	**(173)**	(145)
Other finance costs	**(91)**	(90)
Profit before taxation	**303**	96
Tax (charge)/credit	**(64)**	59
Profit after taxation	**239**	155

* 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts".

Insurance service result

The insurance service result consists of the net revenue and expenses earned from insurance and reinsurance contracts. It is comprised of the release of the CSM based on coverage provided in the period, the release of the RA for expired non-financial risk, as well as any variances between actual and expected claims and insurance related expenses, and any losses and associated reversals on onerous contracts.

The insurance service result for the year was £202 million (2022: £211 million). Despite higher releases of CSM from our growing business, there is an overall small reduction in the result from 2022. The overall reduction is primarily due to economic driven movements in RA over 2022 leading to lower releases of RA in 2023, and 2022 having benefitted from higher reversals of losses on onerous business.

Net financial result

The net financial result includes the net investment return from financial investments as well as finance income and expenses from the Group's insurance and reinsurance contracts. Finance income and expense on insurance contracts is generated by movements in their carrying value due to the time value of money and changes in financial risk assumptions from economic factors such as changes in interest rates, inflation and credit spreads.

The net financial result for the year was £365 million (2022: £120 million). The increase from 2022 primarily reflects net favourable economics over 2023 including higher returns on surplus assets.

Other operating expenses

Other operating expenses consist of project and shareholder costs, plus new business, maintenance and investment costs that are not directly attributable to selling and servicing insurance contracts.

Other operating expenses for 2023 were £173 million (2022: £145 million). This includes project spend of £76 million (2022: £58 million) which has increased since prior year reflecting a higher spend on business-wide initiatives. Other expenses increased in line with growth in the business.

2. Please refer to page 62 for the detailed reconciliation between AOPBT and IFRS profit before tax.

Other finance costs

Other finance costs represent the interest payable on borrowings. In November 2023, PIC issued a £500 million subordinated debt security with a coupon of 8.000%. At the same time, PIC repurchased £97 million of the 2014 debt issue and £203 million of the 2016 debt issue. Finance costs of £91 million (2022: £90 million) reflect the interest payable on the six (2022: five) subordinated debt securities issued by PIC plc, the Group's main trading entity.

The RT1 debt issued in July 2019 is 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.

IFRS statement of financial position

Statement of financial position – summarised	**2023 £m**	2022 £m (Restated*)
Financial investments	**46,849**	41,218
Derivative and other financial assets	**27,977**	22,451
Reinsurance contract assets	**2,321**	660
Insurance contract liabilities – BEL	**(36,008)**	(29,882)
Insurance contract liabilities – RA	**(1,228)**	(1,069)
Insurance contract liabilities – CSM	**(3,970)**	(2,762)
Derivative and other financial liabilities	**(30,830)**	(25,348)
Borrowings	**(1,789)**	(1,592)
Other net assets	**1,146**	699
Total equity	**4,468**	4,375
CSM net of reinsurance and tax	**2,427**	1,988
Exclude RT1 debt	**(444)**	(444)
Adjusted equity	**6,451**	5,919

* 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments".

Financial investments

At 31 December 2023, the Group had total financial investments of £46.8 billion (2022: £41.2 billion) driven by new business written, partly offset by payments to our policyholders. Our investment strategy is to select assets that generate cash flows to match our future claims payments in both timing and amount. Therefore, the value of our assets and liabilities move broadly in tandem as factors such as interest and inflation rates change.

Our investment portfolio is actively managed and we maintain a prudent investment strategy that prioritises long-term stability and security for our policyholders whilst navigating through economic uncertainty. We continue to monitor our exposures carefully and experienced no defaults in 2023 (2022: none). We also continue to implement our sustainability strategy, making long-term decisions that secure our pension payments to policyholders.

Reinsurance contract assets

The increase in reinsurance assets during the period is primarily driven by new business, and at 31 December 2023, 85% (2022: 87%) of the Group's gross benefit reserves had been reinsured. The Group has 14 reinsurance counterparties, all of which have a credit rating of A- or above.

Insurance contract liabilities

Insurance contract liabilities comprise three components. Our best estimate liabilities ("BEL") reflect the present value of future cash flows to fulfil our insurance contracts; the CSM represents the deferred new business profit that we expect to earn from providing insurance services; and the RA is the compensation that the Group requires for taking on non-financial risk.

Total insurance contract liabilities have increased by £7.5 billion in the year, with all three components increasing primarily due to the impact of new business written in the period, partly offset by payments made to policyholders.

Derivative and other financial assets and liabilities

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 primarily as a result of market movements. The net liability position of £2.9 billion is broadly unchanged from prior year. Derivative exposures are collateralised which mitigates against the risk of a derivative counterparty default.

Total equity

Total equity has increased by £93 million to £4,468 million compared to 31 December 2022 (£4,375 million). Adding back the CSM (net of reinsurance and tax) and excluding RT1 debt, adjusted equity has increased by £532 million to £6,451 million (2022: 5,919 million).

Adjusted operating profit before tax

In addition to the statutory results presentation outlined above, the Group also chooses to analyse its IFRS results using an alternative performance metric ("APM"), AOPBT, which has been redefined following the Group's adoption of IFRS 17.

The Group considers this APM to be an important metric for stakeholders as it reflects the Group's operating 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. The operating performance of the Group includes the full value generated from writing new business prior to the new business deferral and subsequent in-force release of profit via the CSM, and excludes investment related variances.

Chief Financial Officer's review continued

AOPBT for the period increased to £893 million (2022: £383 million), largely resulting from higher expected returns reflecting higher risk-free rates, the release of reserves following management's review of assumptions and the greater volume of new business written in the period.

More detail on the main components of AOPBT and the reconciliation of AOPBT to its closest IFRS measure, IFRS profit before tax, are set out below.

Adjusted operating profit	2023 £m	2022 £m (Restated*)
Expected return from operations	**495**	264
New business and reinsurance profit	**444**	329
Underlying profit	**939**	593
Changes in valuation assumptions	**194**	12
Experience and other variances	**(18)**	(19)
Finance costs	**(124)**	(123)
Project and other costs	**(98)**	(80)
Adjusted operating profit before tax	**893**	383
Movement in CSM	**(585)**	(409)
Investment related variances	**(38)**	89
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	33
Profit before tax	**303**	96

* 2022 comparatives have been restated following the Group's adoption of IFRS 17 'Insurance Contracts'.

Expected return from operations

Expected return from operations reflects the long-term expected returns arising from the management of the Group's assets and liabilities. It is based on opening economic assumptions applied to the opening assets and liabilities.

The economic assumptions used are dependent on the nature of the underlying assets and whether the assets are held to back policyholder liabilities or are shareholder assets.

(i) The investment return assumption on assets held to back policyholder liabilities is calculated with reference to the one-year swap rate plus a spread reflecting the nature of the assets backing the liabilities, less the valuation discount rate for liabilities.

(ii) The investment return assumption for shareholder assets is calculated with reference to the ten-year swap rate plus a spread relating to the underlying assets held. The inclusion of the spread reflects management's long-term expectations of asset returns in excess of the long-term risk-free rate and reflects the nature of the assets held.

The rates used are set out in the table below:

	2023	2022
One-year swap	**4.5%**	0.8%
Ten-year swap	**3.7%**	0.9%

The expected spread on fixed interest and index-linked securities held to back policyholder liabilities or included in shareholder assets is set with reference to the average opening yields for the actual opening assets held less an adjustment for credit risk (assessed on a best estimate basis). Expected return also includes the expected run-off of the Risk Adjustment.

The impact on expected return of changes to shareholder assets or the investment portfolio backing liabilities in respect of new business or new reinsurance, capital raises or distributions in the year, and assumption changes, is calculated at the point of transaction.

Any differences between the actual return in the year and the long-term expected return are presented in investment variances outside of AOPBT but are included in profit before tax.

Expected returns of £495 million were above the prior year (2022: £264 million), driven by the increase in opening interest rates.

New business and reinsurance profit

New business and reinsurance profit represents the impact on profit of writing new pension risk transfer contracts and the impact of entering into new reinsurance contracts on the in-force book. The profit is calculated using the economics at the initial recognition date, the locked-in liquidity premium, expected reinsurance, pricing demographic and maintenance expense assumptions, the target asset portfolio mix assumptions and the actual acquisition expenses incurred.

New business and reinsurance profit of £444 million (2022: £329 million) resulted from the £6.9 billion of new business premiums written (2022: £4.1 billion), primarily driven by the RSA transaction.

Changes in valuation assumptions

Our focus remains on long-term profitability and so we set assumptions in respect of the in-force liabilities and new business acquired during the year using our best estimate and applying an adjustment for non-financial risk. Under IFRS 17, the impact of changes in such items is added to the CSM and spread over the future expected duration of the contracts. We show AOPBT before this deferral. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

As part of this review in 2023, we updated several assumptions resulting in a benefit to AOPBT of £194 million.

During the year, for longevity, we adopted CMI_2022, which is the latest version of the Continuous Mortality Investigation's ("CMI") projections model, to generate future mortality improvements. An allowance has also been made for excess mortality arising from Covid-19. These changes have reduced management's view of average life expectancies resulting in a release of BEL and RA reserves of £39 million.

We updated our demographic assumptions by increasing our cash commutation take-up rate to reflect both updated market conditions and the new longevity assumptions, and reducing the proportion married on death assumption to reflect the most recent ONS data. This generated reserve releases of £56 million and £24 million respectively.

We also updated our expense assumptions to reflect the latest expense budget and policy counts resulting in a reserve release of £38 million.

We refined our inflation model to better reflect the cost of our Limited Price Index ("LPI") inflation linked obligations during periods of extreme high or low inflation. In addition, we updated the methodology to take account of more granular market data which is used in producing inflation curves. This resulted in a benefit to AOPBT of £12 million.

Several other smaller assumption changes and model updates resulted in a benefit to AOPBT of £25 million.

In 2022, the release of reserves of £12 million related to changes in demographics and longevity partially offset by the impact of changes in respect of inflation and expense assumptions.

Experience and other variances

Experience and other variances include the variance between the actual non-economic assumptions used in determining IFRS liabilities and the assumptions on a pricing basis which are used in the new business line.

Experience and other variances gave rise to a loss of £18 million in 2023 (2022: loss of £19 million). In 2023, favourable impacts from updates to policy data were offset by differences between the maintenance expense assumptions used for pricing new business compared to those used in the valuation basis; this negative expense variance was partly offset by a reserve release within changes in valuation assumptions.

Finance costs

Finance costs reported as part of AOPBT reflect interest costs on both the RT1 and Tier 2 debt. In November 2023, PIC issued a £500 million subordinated debt security with a coupon of 8.000%. At the same time, PIC repurchased £97 million of the 2014 debt issue and £203 million of the 2016 debt issue. Finance costs of £124 million in 2023 (2022: £123 million) reflect the increase in borrowings for part of the year.

Project and other costs

Project and other costs for the year were £98 million (2022: £80 million). Project spend of £76 million (2022: £58 million) reflects costs associated with other business-wide initiatives, alongside other shareholder and regulatory costs.

Movement in CSM

The movement in CSM comprises the deferral of new business profits on contracts written in the year and interest accretion on the opening CSM, alongside the impact of changes in non-financial assumptions and future cash flows from non-financial experience variances, partly offset by the amortisation of CSM in respect of in-force business.

The following table reconciles the movement in CSM on the IFRS balance sheet.

Movement in CSM (net of reinsurance)	2023 £m	2022 £m
CSM balance at 1 January	**2,651**	2,242
New business CSM recognised	**337**	317
Interest accretion on CSM	**92**	57
Amortisation of CSM	**(181)**	(133)
Other movements	**337**	168
Movement in CSM	**585**	409
CSM balance at 31 December	**3,236**	2,651

During the year, the total increase in CSM was £585 million, net of reinsurance (2022: £409 million). The CSM recognised from new business written in year was £337 million up from £317 million in 2022. This reflects the new business written in the year and represents an increase in the store of future value and the growth in the business. The amortisation of CSM also increased to £181 million from £133 million in 2022 reflecting the increased in-force book.

Other movements represent the impact of non-financial (primarily longevity and other demographic) assumption changes and data update experience variances. The movement in CSM is higher than the profit recognised within AOPBT for assumption changes and data updates, largely because the CSM is measured on discount rates locked-in at the initial recognition dates, whilst the movement in AOPBT is measured on current discount rates, which are generally higher. Additional profit deferral from differences in discount rates will amortise into profit before tax in future periods.

Investment related variances

AOPBT is based on the expected investment returns on opening surplus assets and the expected release of discount rate margins using consistent assumptions. Variances between actual and expected investment return, differences in asset and liability values compared to those at the start of the year, and the impact of changes in credit ratings are disclosed outside of AOPBT.

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.

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Investment related variances resulted in a loss of £38 million in the period (2022: gain of £89 million), largely driven by movements in interest rates and credit spreads partly offset by asset optimisation activities. In the prior year, the benefit predominantly related to favourable market movements, including inflation movements and credit spreads.

Capital and solvency

PIC, the regulated subsidiary of the Group, is required to comply with the Solvency II regulatory framework. Solvency II requires firms to follow either a prescribed approach to calculating required regulatory capital (the standard formula approach), or to apply to the PRA to use an "internal model" developed by the Company but subject to comprehensive review and approval by the regulator. PIC has PRA approval to apply an internal model, which is a better reflection of the risk profile of the Company's business than the standard formula approach. The Company has complied with the Solvency II Capital Requirements as set out in the relevant PRA rules throughout the year (see Note 22 of the financial statements).

Solvency ratio

At 31 December 2023, the unaudited solvency ratio decreased to 211% (31 December 2022: 226%), whilst surplus funds increased to £4.3 billion (31 December 2022: £4.0 billion) in excess of the SCR. The decrease in the ratio in the year was primarily caused by the impact of writing £6.9 billion of new business alongside an increase in SCR from the refinement of our credit risk and hedging models. This was partly offset by expected returns from the in-force book, the impact of risk margin reform and raising new debt net of repurchases of existing debt. The result is net of a recalculation of the Transitional measure on technical provisions ("TMTP") at 31 December 2023.

PICG solvency (unaudited)	2023 £m	2022 £m*
Own funds	**8,221**	7,236
Solvency capital requirements	**(3,890)**	(3,199)
Solvency surplus	**4,331**	4,037
Solvency ratio (%)	**211%**	226%
Matching adjustment (%)	**1.588%**	1.637%

* The results are now reported at consolidated Group level. These were previously reported at PIC plc level, our largest entity.

Surplus generation

Surplus generation (unaudited)	2023 £m	2022 £m (Restated*)
Opening surplus	**4,037**	2,731
Expected surplus generation from in-force book	**613**	568
New business (net of reinsurance)	**(143)**	(160)
Management actions and other operating variances	**170**	(188)
Financing, project and other costs	**(221)**	(203)
Operating surplus generation	**419**	17
Economic and other non-operating variances	**(225)**	1,289
Total surplus generation	**194**	1,306
Increase in Tier 2 debt	**200**	–
Dividend	**(100)**	–
Closing surplus	**4,331**	4,037

* Surplus generation is now reported at a consolidated Group level and as such has been presented for PICG. In addition, shareholder expenses have been reclassified to "Financing, project and other costs". Previously these were included in "Management actions and other operating variances".

Surplus generation measures the amount of solvency 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 shareholders.

Operating surplus generated in the period was £419 million (2022: £17 million). 2023 includes the benefit of risk margin reform (net of TMTP recalculation) which increased own funds by £453 million, gross of tax. Excluding risk margin reform, the change in surplus compared to 2022 primarily reflects higher expected returns from the in-force book and lower new business strain offset by a reduction in surplus due to higher finance, project and other costs and an increase in SCR relating to the refinement of our credit risk and hedging models.

Economic and other non-operating variances includes 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 generated in the period to date amounted to £194 million, a decrease on prior year (2022: £1,306 million). This was primarily due to 2022 benefiting from the impact of favourable market movements. The net increase in Tier 2 debt of £200 million partly offset by the payment of the inaugural dividend of £100 million increased closing surplus by a combined £100 million in 2023.

Expected surplus generated from the in-force book

Expected surplus generation comprises the:

- Expected investment return on shareholder assets (non-matching fund assets);
- Expected margins earnt on the matching fund assets;
- Expected release of the in-force risk margin and SCR; and
- Amortisation of the Transitional Measure on Technical Provisions ("TMTP").

In 2023, expected surplus generation increased to £613 million (2022: £568 million). This was mainly due to higher opening interest rates driving a higher expected return on capital assets.

New business (net of reinsurance)

New business (net of reinsurance) is the expected impact on surplus of writing new business based on pricing assumptions and target asset mix, and the impact of entering into new reinsurance contracts on the in-force book. Any differences between actual reserving assumptions and the pricing basis, including the timing of reinsurance, are reported as experience variances within Management actions and other operating variances.

New business (net of reinsurance) consumed surplus of £143 million in 2023 (2022: £160 million). New business strain of £166 million (2022: £222 million) was favourable despite higher volumes due to economics and reinsurance arrangements. However, this was partially offset by a lower benefit from reinsurance of the in-force book of £23 million (2022: £62 million).

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 assumptions in expected surplus generation, plus the difference between pricing and reserving assumptions.

Management actions and other operating variances generated surplus of £170 million in the period (2022: consumed surplus of £188 million). The 2023 result was driven by the impact of risk margin reform (net of TMTP recalculation) partly offset by updates to management's assumptions mainly relating to an increase in SCR following the refinement of our credit risk and hedging models.

In the prior year, the result was primarily due to adverse expense experience on new schemes, timing variances from not yet having reinsured certain new schemes, alongside the impact of updating management's assumptions.

Financing, project and other costs

Financing, project and other costs reflect the accrued interest due on the RT1 and Tier 2 debt issues, coupled with shareholder expenses and project costs, which include IFRS 17 and other regulatory costs. Financing costs were £123 million (2022: £122 million), whilst project and other costs of £98 million increased in 2023 (2022: £81 million) reflecting a higher spend 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, alongside variances between the actual asset mix on new business compared to that which was assumed in pricing, and tax impacts. The 2022 result also includes the impact from the recalculation of the TMTP at 30 June 2022.

Economic and other non-operating variances consumed surplus of £225 million in 2023 (2022: surplus generated of £1,289 million). This predominantly relates to the impact of market movements and the tax impact of the other movements in the reconciliation which are stated gross of tax. In 2022, the result was caused by the effects of the favourable market movements in the period.

Equity Own Funds

Equity own funds / Adjusted equity own funds (unaudited)	**2023 £m**	2022 £m*
Own funds	**8,221**	7,236
Deduct notional RT1 and Tier 2 own funds	**(2,250)**	(2,050)
Shareholder equity own funds	**5,971**	5,186
Add risk margin ("RM") net of TMTP	**310**	692
Adjusted equity own funds	**6,281**	5,878

* The results are now reported at a consolidated Group level. These were previously reported at PIC plc level, our largest entity.

Equity own funds ("EOF"), a new KPI of the Group, is defined as Solvency II own funds less the notional value of RT1 and Tier 2 debt. EOF increased to £5,971 million at 31 December 2023 (2022: £5,186 million) primarily due to the expected own funds emerging from the back book, value generated from new business written and the benefit of risk margin reform, net of the TMTP recalculation (£340 million net of tax).

Adjusted equity own funds ("AEOF") removes the impact of the risk margin and TMTP from EOF and increased to £6,281 million (2022: £5,878 million). Following the impact of changes to risk margin legislation and the subsequent decrease in TMTP, the impact of RM net of TMTP has reduced to £310 million (2022: £692 million). This comprises a risk margin of £328 million and TMTP of £(18) million at 31 December 2023 (2022: £900 million and £(208) million respectively).

Chief Financial Officer's review continued

Key solvency sensitivities

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

PICG solvency II ratio sensitivities (unaudited)	2023	2022 (Restated*)
As reported	**211%**	226%
100 bps increase in interest rates[1]	**15%**	17%
100 bps reduction in interest rates[1]	**(18)%**	(13)%
100 bps increase in credit spreads[1]	**16%**	20%
100 bps reduction in credit spreads[1]	**(12)%**	(5)%
10% increase in house price index	**0%**	0%
10% reduction in house price index	**0%**	0%
20% credit downgrade[2]	**(10)%**	(14)%
5% reduction in base mortality[3]	**(2)%**	(4)%

* The solvency ratio is now reported at a consolidated Group level and as such has been presented for PICG. Comparatives have also been restated to reflect the IFRS 17 (previously IFRS 4) tax impact on sensitivities. All sensitivities reflect the impact of the TMTP being notionally recalculated in the base and stress positions.

Notes

1. For the interest rate and credit spread sensitivities, the nature and size of the impacts of the notional recalculation of the TMTP, contributes 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 will depend upon the market levels of spreads at the balance sheet date.
3. Equivalent to a 0.4 year increase in life expectancy from 22.5 years to 22.9 years for a typical male aged 65.

Dividend

In recognition of the continued financial and strategic strength of the business, the Board has proposed a second final dividend of 11.0 pence per ordinary share (2022: 7.5 pence) to be paid to PICG's shareholders. The dividend is driven by financial performance in 2023 but will be reflected when paid in the Group's results in 2024.

The Group's dividend policy is to retain sufficient capital to invest in future growth opportunities of the UK pension risk transfer 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.

IFRS reconciliation to solvency II – PICG

31 December 2023 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 subordinated debt	Differences in accrued interest on RT1 notes and Tier 2 subordinated debt	Add back CSM (net of reinsurance)	Change in BEL and RA (net of reinsurance)	Add risk margin net of TMTP	Differences in deferred tax	Differences in other asset values	Solvency II balance sheet
Total assets less other liabilities	**43,353**	**1,789**	**16**	**–**	**–**	**–**	**(694)**	**174**	**44,638**
Insurance liabilities/BEL net of reinsurance assets	**(38,885)**	**–**	**–**	**3,236**	**(281)**	**–**	**–**	**(177)**	**(36,107)**
Risk margin net of TMTP	**–**	**–**	**–**	**–**	**–**	**(310)**	**–**	**–**	**(310)**
IFRS net assets/Solvency II own funds	**4,468**	**1,789**	**16**	**3,236**	**(281)**	**(310)**	**(694)**	**(3)**	**8,221**

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 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 fair value of subordinated loan notes, frictional cost of capital ("FCoC") and cost of residual non-hedgeable risks ("CRNHR") to arrive at a more appropriate quantification of the Group's value.

At 31 December 2023, the Group's embedded value was £6,069 million, which increased from £5,617 million at the end of 2022. This was largely driven by expected in-force returns and the benefit from writing £6.9 billion of profitable new business in the year.

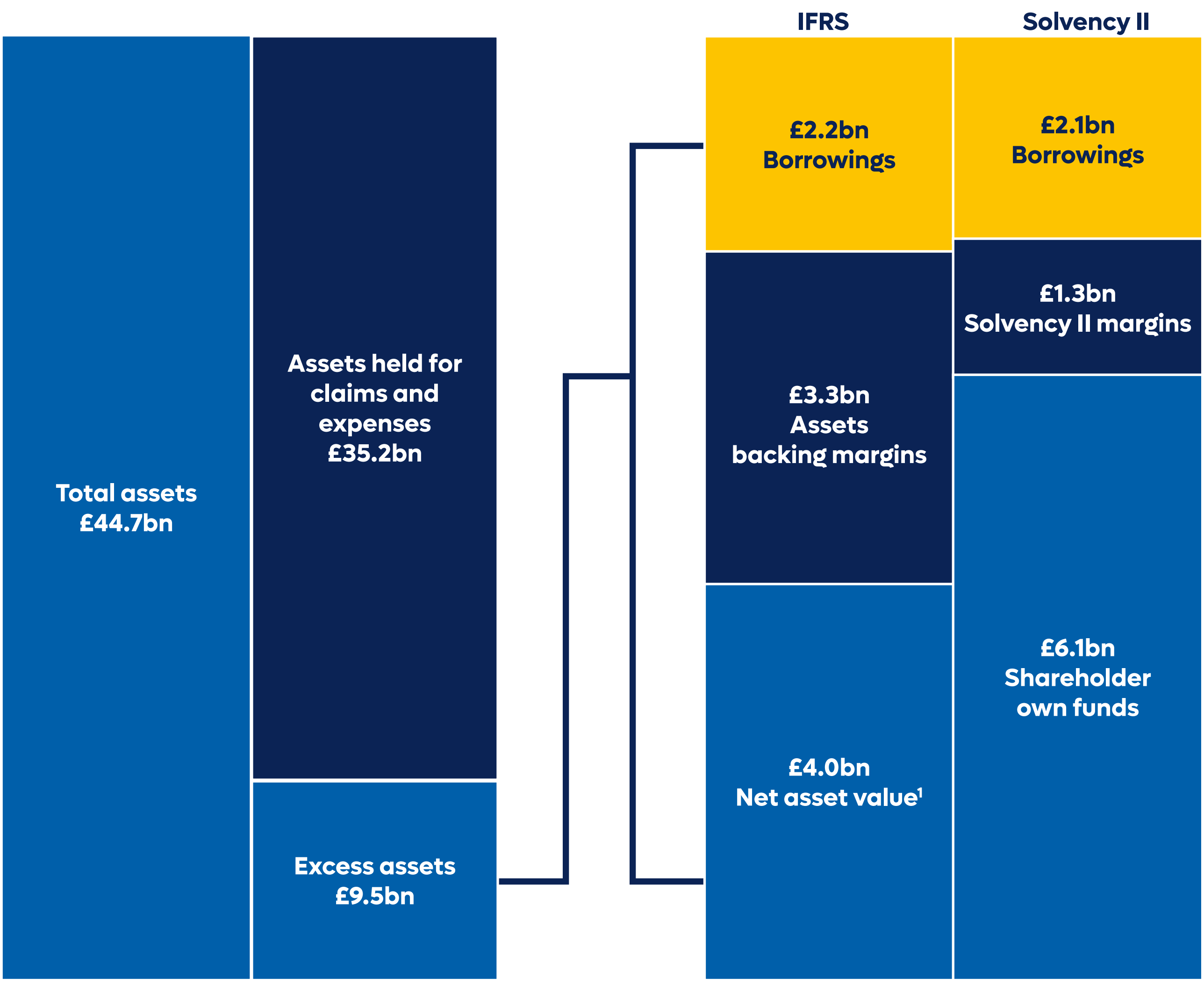
MCEV	2023 £m	2022 £m
Adjusted net worth	**8,232**	7,247
Value of in-force business after tax	**971**	1,183
MCEV fair value of Restricted Tier 1 and Tier 2 debt instruments	**(2,179)**	(1,883)
MCEV before cost of capital	**7,024**	6,547
Frictional cost of capital	**(664)**	(575)
Cost of residual non-hedgeable risks	**(291)**	(355)
MCEV net of cost of capital	**6,069**	5,617

Solvency II to EV reconciliation – PICG

31 December 2023 (£m)	Solvency II balance sheet	Allow for differences between Solvency II and MCEV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM net of TMTP), recognise CRNHR	Release matching adjustment margins	Tax on present value of future profits	MCEV
Total assets less other liabilities	44,638							
BEL net of reinsurance assets	(36,107)							
Risk margin net of TMTP	(310)							
Solvency II Own Funds/Adjusted net worth	**8,221**	**11**	**–**	**–**	**–**	**–**	**–**	**8,232**
Value of in-force business after tax					**310**	**984**	**(323)**	**971**
CRNHR					**(291)**			**(291)**
FCoC				**(664)**				**(664)**
Subordinated debt			**(2,179)**					**(2,179)**
MCEV	**8,221**	**11**	**(2,179)**	**(664)**	**19**	**984**	**(323)**	**6,069**

PIC solvency II (unaudited) and IFRS excess assets

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



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

Our approach to risk management.

Our Risk Management Framework has proven resilient amidst the continued market volatility."

2023 saw heightened geopolitical risk and uncertainty with conflict continuing in the Ukraine and starting between Israel and Hamas. A swift regulatory response assisted in preventing significant global contagion from a US banking sector crisis precipitated by the considerable market movements. However, uncertainties remain regarding the trajectory of major world economies, leading to continued market volatility.

During 2023, PIC's risk management approach was, as always, central to our resilience. We had no direct exposure to the US failed banks given our preference for highly-regulated and globally systemic important banks. Meanwhile, our hedging strategy, implemented in line with our Risk Appetite Framework shielded our balance sheet from much of the market volatility. Our solvency and liquidity remained comfortably above the Board's Risk Appetite levels at all times.

In February, PIC concluded a buy-in of two pension schemes sponsored by RSA Group. This constituted the largest ever bulk annuity transaction, covering 40,000 members and c.£6.2 billion of liabilities. While the transaction necessitated some operational adjustments, the risks were carefully monitored and managed.

In March, one of our key outsourcing partners experienced a significant cyber incident. Our crisis response teams and business continuity processes ensured that we were able to continue all essential operations. The incident that occurred at the outsourcer emphasised the growing risk of cyber-crime, which will remain a key focus area for risk management.

We continued to enhance our risk management capabilities in 2023. Across large sections of the business, we added more detailed risk appetite definitions, statements and metrics which facilitated additional baseline monitoring and management of risks. Another key focus area for 2023 was our processes and ensuring these are robust and fit for the size of business we plan to become. We have enhanced our process for managing emerging risks, and examined a number of emerging risks in detail, including political changes which might occur as a result of the US and UK elections, and elements of Artificial Intelligence.

As we look ahead to 2024, we are preparing for another busy and potentially volatile year. There are upcoming elections in the US and UK which may occur in quick succession and geopolitical risks look set to remain elevated bringing continued market volatility and a chance of unexpected market and operational events. At the same time, we expect there to be a very strong new business pipeline.

Our focus for 2024 will be to continue enhancing our approach and Risk Management Framework to oversee and support a growing business in uncertain times, which will also include significant regulatory reform. We will also carry out a series of market and operational stress tests to ensure that our business continues to be resilient to adverse events.

Giles Fairhead
Chief Risk Officer

PIC's three key pillars

PIC prioritises its risks by continuously reviewing the materiality of their potential impact. The risks are aligned to three key pillars:

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

Please see Managing our key risks section on **p71-75**

How we manage risk

Risk management is integrated into the business via the Enterprise Risk Management Framework. This consists of our Risk Governance Framework, Risk Policy Framework, Risk Processes and Risk Appetite Framework:

- The Risk Governance Framework sets out PIC's risk management responsibilities.
- The Risk Policy Framework sets, embeds and monitors the standards applied to each risk area.
- The Risk Processes are the techniques and tools used to identify, assess, mitigate, monitor and report risk throughout PIC.
- The Risk Appetite Framework sets the level of risk the Board is willing to take and in which areas and how performance against risk appetite will be measured.

The Risk Governance Framework

Our three lines of defence model is shown below. We use this model in everything we do, from process reviews to taking on new business.

Board and Board Committees

Management Committees

First-line business units are responsible for managing risk in their day-to-day activities.

Advisory and oversight activities

Second-line Risk and Compliance are responsible for the following areas of activity:

Operational: owning, maintaining and developing the Risk Management Framework.

Advisory: facilitating the embedding and implementation of the Risk Management Framework.

Oversight: providing independent oversight and challenge to the first-line in carrying out risk management.

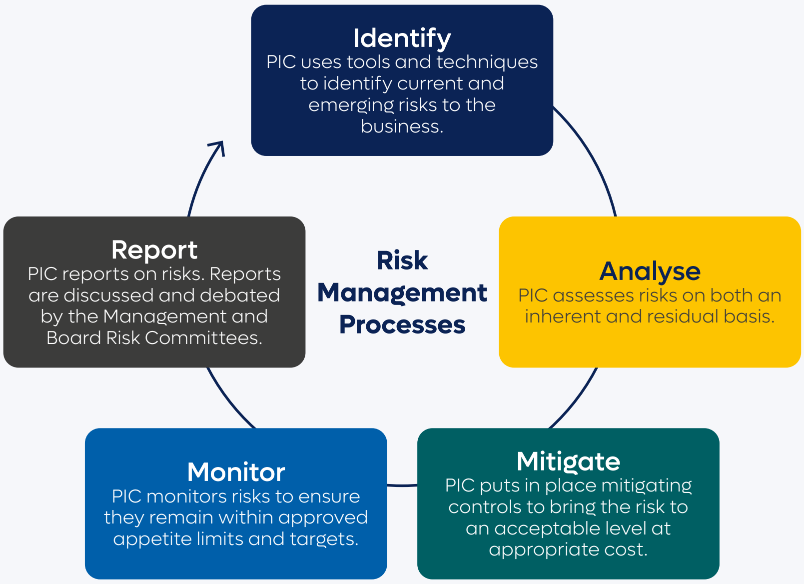
Independent Assurance over first- and second-line activities

The purpose of the **third-line** (Internal Audit) is to provide independent and objective assurance to the PIC Board of Directors.

Risk management continued

Risk Management Processes

We use risk management processes and tools to identify, assess, mitigate, monitor and report risks throughout PIC as shown below. We use this for all risk types e.g. financial, operational, new or existing risks.



Risk Appetite Framework

Our Risk Appetite Framework articulates the Board's appetite for taking the different types of risks which PIC may be exposed to in pursuit of its strategic objectives.

Risk preferences are set for each risk as those PIC actively seeks, accepts or wants to minimise.

We actively **seek** risks that:

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

We **accept** and take measured amounts of risks that:

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

We **minimise** risks which:

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

The preference assigned to each of our key risks is included in the tables on the following pages.

To monitor the position against the risk appetite, metrics are set to help guard against PIC exceeding the level of risk we are willing to take on. The risk appetite metrics are monitored by the business and performance against the metrics is reported to the Board Risk Committee and Board.

Consistent with other years, we reviewed our risk appetite statements and metrics in 2023, adding new metrics where appropriate. This resulted in improved coverage of quantifiable measures of risk, for example, relating to project risk management and company culture.

In 2023 we continued to develop our Emerging Risk management

We maintain an emerging risk dashboard which is discussed by the Management Risk Committee and Board Risk Committee. We have formal reviews at least twice a year to ensure the full coverage of emerging risks and agree if any need more detailed analysis or more active management. We use a number of external sources to monitor emerging risks and we also gain input from across the business.

As part of the emerging risk dashboard, we maintain a 'Watchlist' of the most pressing risks in terms of their potential impact and proximity in time. In 2023, several of the risks on the Watchlist were selected for detailed analysis which gave insight on the nature of the risks and their potential impacts on the business. Mitigants, controls and possible next steps were also considered.

One of the areas explored was 'US-China tensions'. A deep-dive report for the Board Risk Committee analysed the potential implications of escalating US-China tensions, ranging from the financial market impact to supply-chain disruption.

We also conducted analysis on Artificial Intelligence ("AI"), including longevity risk associated with AI-led improvements in healthcare, and potential regulatory concern regarding the transparency of models which use AI. The analysis highlighted that many elements of AI have already 'emerged' and as such, we will treat AI as both a managed risk and an emerging risk.

Our work on emerging risks in 2023 also included a focus on the upcoming elections in the UK and US. For each election, we considered the likely outcome and its implications for policy. The policy implications were then mapped to the potential opportunities and risks posed to the business.

Managing our key risks

The key risks to the business and its strategy for managing those risks are set out below to page 75. More details are also included in Note 17 to the financial statements.

The risk, what it means to us and our risk preference	Change in year	Outlook	How we are managing this
Risk Pillar: Sufficient Financial Resources			
1. Financial markets **Risks associated with changes in values of assets and liabilities caused by market movements, downgrades and defaults.** **Risk preference:** Seek **Impacted strategic objectives:**	**Change in year** Increased The global economic outlook continued to be volatile in 2023, with fluctuating interest rates and growing geopolitical risks, particularly the continued Russian invasion of Ukraine and the conflict between Israel and Hamas. The impacts of these market conditions on PIC 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.	Although interest rates are expected to plateau before falling and inflation is expected to fall in the medium term, increases in commodity prices due to geopolitical tensions could exacerbate inflation levels and weaken the economic environment. This could mean increased credit risk and a downward pressure on credit ratings. Sustained levels of downgrades and defaults would impact PIC's solvency position. However, higher yields without downgrades or defaults could improve PIC's solvency position.	Exposure to market risks such as inflation is primarily managed through our hedging programme. We constantly monitor market conditions and have risk appetite limits set to manage PIC's exposure to market risks. PIC also holds capital to protect the business against market movements and downgrades and defaults, and we continue to develop 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.** **Risk preference:** Accept **Impacted strategic objectives:**	**Change in year** Stable 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 following the Covid-19 pandemic. Mortality rates in the population have been higher compared to mortality rates in 2019. As well as the direct impacts of the pandemic, other factors may be contributing to higher mortality. For example, pressures on the NHS and social care service and the cost-of-living crisis have driven a decrease in views of life expectancy in the UK, but with higher levels of uncertainty around estimates of life expectancy.	The outlook for longevity risk is uncertain, driven by impacts of the Covid-19 pandemic. This is compounded by reductions in public spending and the cost-of-living crisis, with decreases in households' real income being linked to increases in premature deaths.	PIC generally seeks to transfer longevity risk via reinsurance contracts. This reduces the risk to PIC of policyholders living longer than expected as any increase in liabilities is shared between PIC and the reinsurers. It also means that PIC does not benefit as much from reductions in life expectancy. Where PIC has retained longevity risk, this is weighted more heavily to younger policyholders. PIC also holds capital to protect the business against potential increases in longevity.

Key

Increased   Stable   Decreased

To continue building a secure and sustainable business

To keep on driving long-term value growth

To carry on leading as a responsible corporate citizen

The risk, what it means to us and our risk preference	Change in year	Outlook	How we are managing this
Risk Pillar: Sufficient Financial Resources			
3. Counterparty default **Risk associated with the failure of one or more of PIC's banking or reinsurance counterparties.** **Risk preference:** Accept **Impacted strategic objectives:**	**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.	Given the credit strength of PIC's counterparties, limited negative change to the credit ratings of our counterparties is expected in the near term. However, over the coming months cost pressures, higher funding costs and interest rates, continued tightness in the labour market and slower economic activity could continue to feed through to Company margins.	We monitor the strength of our counterparties on a daily basis, and can decide to temporarily stop adding, or reduce, risk exposure with a counterparty if we view them as high risk. We have introduced a number of additional risk appetite metrics in 2023 to further refine our risk management. Approval from the PIC Board is required before we transact with any new banking or reinsurance counterparties. We also hold capital and have collateral arrangements 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.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** = Liquidity risk arises as a consequence of using derivatives to manage the sensitivity of PIC's balance sheet to movements in long-term interest rates, inflation, and the dollar/sterling exchange rate. As a result of PIC's hedging strategy, real interest rates are a key driver of liquidity risk. Markets, particularly real interest rates, remained volatile in 2023, which drove changes in the amount of liquid assets PIC needed to post to its derivative counterparties. However, PIC has significant liquidity, and our stress and scenario testing has shown we can withstand shocks and remain within our liquidity risk appetite.	Markets remain volatile, and the outlook for interest rates in the UK is heavily influenced by inflation experience and macroeconomic volatility. Inflation indicators began reducing in the latter part of 2023. If this trend continues, volatility in interest rate expectations is expected to reduce.	PIC holds a material part of its portfolio in high-quality liquid assets to ensure it can meet its financial obligations under extreme movements in markets. We undertake extensive market and liquidity risk stress testing, alongside frequent monitoring of the liquidity position against liquidity risk appetite. We maintain a liquidity plan of management actions which can be taken if extreme events do occur. In 2023, we implemented actions following the significant market movements experienced after the 'mini-budget' in Q3 2022 to further improve the resilience of the liquidity position to similar extreme scenarios.

Key

Increased — Stable — Decreased

To continue building a secure and sustainable business

To keep on driving long-term value growth

To carry on leading as a responsible corporate citizen

Risk Pillar: **Effective and Resilient Operations**

The risk, what it means to us and our risk preference	Change in year	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.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** ↑ This risk relates to PIC's internal processes and controls failing or not scaling effectively as the business grows. This risk has increased due to there being more complex deals in the market and hence needing to ensure our processes remain appropriate to manage these. During 2023 we onboarded a large, complex new deal and made multiple control improvements from lessons learnt.	As PIC continues to take on larger, more complex deals, this risk is expected to increase in the medium term.	We monitor the effectiveness of controls in place, mitigating risks associated with key processes and making enhancements where necessary. During 2023, we focused on our key end-to-end processes to ensure these are future fit, aligned to risks and controls and where possible are reducing the number of manual controls. We also continued the focus on operational resilience, having recently refreshed our recovery and resolution plan and have introduced a number of additional risk appetite metrics in 2023.
2. Talent retention and recruitment **Risks associated with a failure to attract, train and retain knowledgeable and skilled staff.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** = The employee market over 2023 was driven by competition for key resources in the face of increased deal flow. This risk is stable as our strategy and growth opportunities make us an attractive place to work in the life insurance market. We do continue to face specific challenges in sourcing appropriate candidates with niche skills and/or product knowledge, but generally across PIC our ability to attract and retain staff remains strong.	The recruitment market is expected to continue to be challenging during 2024 as the sector is experiencing significant growth.	In Q4 2023 we launched our new values at an all-staff away day. We have reviewed and enhanced our benefits package in 2023 and ensured that hybrid working is functioning effectively. Our Human Resources team is focused on strategic and tactical workforce planning in areas of stretch. Where resource is stretched, temporary cover is used where necessary. We carefully monitor staff turnover and 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.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** ↑ Third party administrators play a critical role in PIC's interactions with its policyholders. They help ensure we pay our policyholders and deal with key communications and customer service. If PIC's third parties fail to deliver, PIC runs the risk of financial loss, policyholder detriment, regulatory breaches and reputational damage.	Third parties continue to be of critical importance to the delivery of PIC's strategy, policyholder solutions and other related activities, particularly as our portfolio expands.	In 2023 we introduced a new third party and outsourcing operating model and implemented a new system to support the governance and management of our third parties, this included new risk appetite metrics and limits and management information. We continue to run scenario assessments to ensure our Operational Resilience and safety and soundness, acting where we identify any gaps in processes.

Risk management continued

Risk Pillar: **Effective and Resilient Operations**

The risk, what it means to us and our risk preference	Change in year	Outlook	How we are managing this
4. Cyber **Risk arising from unauthorised access to PIC's information systems and data (including sensitive data).** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** ↑ A cyber-attack on PIC's information systems and data (or our third parties) could result in financial loss, operational disruption and/or reputational damage. In 2023, one of our key outsourcers suffered a cyber incident. This demonstrates the heightened cyber risk environment. When the outsourcer had the incident, we invoked our crisis management plans which ensured minimal disruption to our customers. The external cyber threat landscape remains challenging, mainly driven by the continued war between Russia and Ukraine, as well as other parties who may have strong political or financial motives.	As we continue to grow and increase our use of cloud services and third parties, our cyber security risks will continuously change. Our cyber risk programme needs to adapt with this evolving landscape.	We maintain a robust IT environment to ensure protection of our data and security of our systems, assessing any potential impact/risk via third parties. The IT environment is regularly tested internally and externally to check effectiveness of security controls, including our incident response capability and within 2023 have refined a number of the cyber risk appetite metrics. We continue to enhance controls in this area.

Risk Pillar: **Meeting External Expectations**

The risk, what it means to us and our risk preference	Change in year	Outlook	How we are managing this
1. Conduct Risk **The risk that PIC's business practices, culture or behaviour lead to unfair or poor outcomes for customers.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** = This risk could materialise by PIC failing to pay a policyholder correctly, or communications to policyholders being unclear or untimely. There is also a risk of vulnerable customers not receiving as good an outcome as all other customers. The Consumer Duty regulations were introduced this year which sets higher and clearer standards of consumer protection.	The outlook for this risk is stable although following the introduction of the Consumer Duty, financial services firms in general can expect greater scrutiny from the FCA and the media on securing good customer outcomes.	A new Board Customer Committee has been set up to review our Consumer Duty project delivery including our work on vulnerable customers and communications. We have secured ISO 22458 accreditation on consumer vulnerability. This specifies requirements and guidelines for the design and delivery of inclusive service. We have extensive metrics and risk limits in place to manage this risk. Our metrics will be further enhanced through our Consumer Duty work. Further work planned includes the roll out of an Artificial Intelligence tool to support our agents in recognising and responding to potential consumer vulnerability. Also, we are refreshing our communications with new layouts and tone of voice to make our letters easier to read and understand.

The risk, what it means to us and our risk preference	Change in year	Outlook	How we are managing this
Risk Pillar: Meeting External Expectations			
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.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** = Regulatory change, supervision and political changes may reduce PIC's value proposition or result in PIC's business model becoming unviable. PIC continues to assess and engage relevant parties on Solvency II reform, including the Matching Adjustment, noting that there is a degree of uncertainty where these reforms will land.	We expect this risk to remain relatively high over the next three years, given the general election, the completion and implementation of Solvency II regulatory reform, the ongoing implementation of Consumer Duty 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 aims to ensure prompt delivery of regulatory information to assist in supervisory activities and engage in relevant consultations. We identify regulatory change risk via horizon scanning and risk review. Where changes pose a risk to the business, resource is focused on influencing the change and monitoring the key outcomes.
3. 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.** **Risk preference:** Minimise **Impacted strategic objectives:**	**Change in year** = Climate change continues to be an area of concern 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.	The focus on climate change and related sustainability risk will remain high given the continued focus from key stakeholders. Climate change 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.	We have made progress over the past year to manage the potential risks arising from climate change, including updating the formalised approach to achieving Net Zero. We have also further enhanced the climate risk approach, including climate change specific stress and scenario testing and introduction of risk appetite metrics.

Key

↑ Increased = Stable ↓ Decreased

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To keep on driving long-term value growth

To carry on leading as a responsible corporate citizen

Longer-term viability statement

1. The assessment process

The longer-term viability process is primarily carried out through strategic and financial planning. The Group's strategy (see pages 14 to 15) and year-on-year activities, combined with a focus on material factors which may impact the Group in the foreseeable future, are central to the assessment that the Group can be reasonably expected to continue in operation and meet its liabilities as they fall due. The Group's business plan is prepared annually and covers a five-year period on a rolling basis. The plan covers projected performance and related profitability, cash and value generation and the capital position of the Group over the period. The plan is tested against the risk appetites set for the Group by the Board. This includes a number of stresses and scenarios to test the Group's resilience and capacity to respond to relevant stresses and shock events, which may potentially impact the Group. The Group also evaluates various management actions designed to maintain and restore key capital and liquidity metrics to within the Group's approved risk appetite over the planning period and takes into account the cost of these actions to the Group's Solvency Surplus and their potential impact on the Group's Market Consistent Embedded Value and IFRS profits.

2. The assessment period

The Directors have assessed the viability of the Group by reference to the five-year planning period to December 2028, which has been chosen as appropriate because it reflects the Group's business model and the dynamics of the pension risk transfer market as covered by the Group's five-year business plan.

3. Assessment of viability

In considering the viability of the Group, the Directors have assessed the key factors relating to the Group's business model, strategy and the stress and scenario tests carried out. This has included, but not been limited to, consideration of the uncertainty surrounding the macro-economic environment and its potential impact on the Group, as well as the potential impact of climate change related risks. The Directors have also carried out an assessment with reference to the Group's business plan which contained financial forecasts from December 2023 to December 2027. The Directors discussed the business strategy, market opportunity and potential future strategic objectives. They considered the business plan which was supported by the assessment of key risks to the successful execution of the business plan. The Directors also considered the Group's principal risks and how these are managed, as detailed on pages 71 to 75.

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

- the risks to PIC's operations if the plan is achieved, focusing on the adequacy of PIC's systems, processes and controls;
- the risks relating to recruiting and retaining the staff required to grow the business in line with the plan;
- PIC's ability to source high-quality assets with appropriate yields to support PIC's pricing model;
- access to capital and reinsurance, and;
- the risks arising from the external environment, including technological advances and regulatory change.

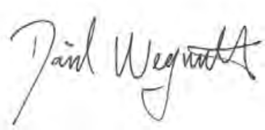
This year, the Board closely oversaw PIC's portfolio and received regular updates on the origination of assets as part of the onboarding of the RSA Group transaction. The Board completed their annual review of solvency and liquidity risk appetites, and reviewed a range of updates to the risk preferences, risk appetites and associated limits. The Board discussed reports on the progress of stress and scenario testing and management incorporated these considerations into the business planning. The Board also continued to assess management actions available to mitigate risks arising from those adverse scenarios and the actions to ensure the Group remained resilient and robust, and fed these into associated processes such as Recovery and Resolution planning.

As well as risks arising from the macro-economic environment, a number of operational scenarios were performed during 2023. These included the impact of a cyber-security incident linked to one of our outsourcing providers, the failure of a material outsourcer and the reputational impact of adverse media coverage around several conduct-related issues or crises.

4. Viability statement

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

On behalf of the Board



David Weymouth
Chairman
14 Cornhill, London EC3V 3ND

26 March 2024

Non-Financial and Sustainability Information Statement

This section of the Strategic Report constitutes the Non-Financial and Sustainability Information Statement of Pension Insurance Corporation Group Limited, to comply with sections 414CA and 414CB of the Companies Act 2006.

The information listed in the table below is incorporated by cross reference.

Reporting requirement	Key policies and standards that govern our approach	Additional information in this report and page reference
Mandatory climate-related financial disclosures		• Climate-related financial disclosures (p54)
Environmental matters	• Climate Report (TCFD), Basis of Reporting report, Transition Plan • Our Journey to Net Zero • Sustainability Policy • Stewardship Policy • Sustainability Report	• Sustainability (p49-57) • Greenhouse gas emissions (Directors' Report) (p125) • Stewardship and engagement (p57)
Employees	• Health and Safety Procedure • HR related policies across a range of areas including hybrid working, flexible working, recruitment, remuneration, absences, diversity and inclusion, family friendly leave, parental leave, capability and redundancy	• Our people and culture (p44-48)
Social matters	• Stewardship Policy • Complaints Handling Policy • Customer Outcomes Policy • Customer and Community Policy	• Providing social value across the UK (p4-5) • Sustainability (p49-57) • Our stakeholders (p36-37) • Customer Care (p30-35)
Respect for human rights	• Anti-Slavery and Human Trafficking Policy • Diversity and Inclusion Policy • Modern Slavery Statement (on website)	• Stakeholder engagement (p36-37) • Governance report (Modern Slavery) (p98) • Governance report (Anti-bribery and Anti-corruption and Modern Slavery Act 2015) (p98)
Anti-corruption and anti-bribery	• Anti-Bribery and Anti-Corruption Policy • Anti-Facilitation of Tax Evasion Policy • Anti-Fraud Policy • Conduct Risk Policy • Conflicts of Interest Policy • Whistleblowing Policy	• Governance report (Anti-bribery and Anti-corruption and Modern Slavery Act 2015) (p98)
Description of the business model	• Business strategy	• CEO's review (p10) • Our business model (p12-13) • Our strategic objectives (p14-15)
Description of principal risks	• Risk Management Framework • Extensive suite of risk policies	• Our approach to risk management (p68-70) • Our strategic objectives (p14-15)
Description of non-financial key performance indicators		• Key performance indicators (p20-21)

The policies and standards mentioned above form part of the Group's policies, which act as the strategic link between our strategy, values and how we manage the Group on a day-to-day basis.

During the year, the Board determined that the policies remain appropriate, are consistent with the Company values and support its long-term sustainable success.

Mandatory statutory climate-related financial disclosures under section 414CB(2A) of Companies Act 2006

s.414CB(2A)(a) Describe the company's governance arrangements in relation to assessing and managing climate-related risks and opportunities

The ultimate responsibility for assessing climate-related risks and opportunities lies with the Board. Where relevant, assessing and managing these risks is delegated to the appropriate Board Committees, such as the Board Risk Committee for consideration of climate risk management within the overall risk framework, and the Investment and Origination Committee for the integration of sustainability related risks into the investment decision-making process.

The Board regularly considers and discusses sustainability matters and this includes climate-related risks and opportunities.

s.414CB(2A)(b) Describe how the company identifies, assesses, and manages climate-related risks and opportunities

Identification: We conduct climate risk assessments to identify potential climate risk exposures and immediate actions for managing these risks. This involves leveraging analyses from third-party sources and performing due diligence on assets under consideration for investment.

Assessment: We use our Risk Management processes to analyse the climate risks we are exposed to, such as the Own Risk and Solvency Assessment process and the Risk and Controls Self-Assessment process. We also carry out detailed climate risk analysis on a case-by-case basis in our investment process. This analysis also helps us identify climate-related risks in the first step.

Management: In addition to making short-term adjustments to our portfolio, we establish long-term objectives and action plans aligned with our Net Zero targets and Transition Timeline. This process considers engagement and divestment actions, and it acknowledges our recent short-term measures, such as introducing covenants into contracts related to the reporting of sustainability performance metrics and evaluating new private assets.

s.414CB(2A)(c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management process

PIC's Enterprise Risk Management ("ERM") Framework establishes a consistent approach to identifying, managing, and reporting all risks. Within this framework, climate change is recognised as a cross-cutting risk that could drive other risk events and impacts across our current risk profile. Further information can be found on pages 68 to 75.

PIC analyses climate risk through the following Risk Management processes:

- Own Risk and Solvency Assessment ("ORSA") – an annual process to consider the potential impact of quantifiable risks on PIC's business, through qualitative and quantitative scenario analysis. Climate change risk is considered in detail in this process.
- Risk and Control Self-Assessment ("RCSA") – a qualitative process to consider the potential impact of non-quantifiable risks on PIC's business.
- Investment Due-Diligence – given we consider the investment portfolio to be the most material area of climate risk exposure, climate risk is analysed in detail within our investment process.

The Risk team are involved in the analysis of climate change risk across the investment portfolio and other areas.

s.414CB(2A)(d) Describe: (i) the principal climate-related risks and opportunities arising in connection with the company's operations; and (ii) the time periods by reference to which those risks and opportunities are assessed

There are two key types of risk associated with climate change: 1) the risks that arise as the economy moves from a carbon-intensive one to a Net Zero emissions economy, known as transition risks and 2) risks associated with an increase in global temperatures, known as physical risks.

PIC's Climate Report (TCFD) includes detail on how we expect physical and transition risks to impact on the lead taxonomy risks. Specifically, we have identified Solvency and Liquidity as areas where the impact of both physical and transition risks is expected to be significant.

Given the nature of these risks, physical climate risk is less likely to materialise in the short term and we view it as a longer-term risk (5+ years). Transition risk could materialise over the medium term (1-5 years) given the possible timescales of the shift to a lower-carbon economy. However, in the case of both physical and transition risk, we also actively consider the possibility that financial markets price in this risk in advance of the risk itself materialising.

s.414CB(2A)(e) Describe the actual and potential impacts of the principal climate-related risks and opportunities on the company's business model and strategy

PIC currently experiences limited impact on its business model from climate-related risks and opportunities. The potential impacts on the management of the investment portfolio are recognised as more probable. The climate-related risks we have identified have the potential to necessitate changes in PIC's investment strategy to effectively navigate emerging climate-related challenges and capitalise on opportunities.

s.414CB(2A)(f) Include an analysis of the resilience of the company's business model and strategy, taking into consideration different climate-related scenarios

In 2023, we performed a quantitative climate scenario analysis, assessing the impact of different climate scenarios on the balance sheet, focusing on our credit portfolio, and specifically credit rating downgrades. This assessment was based on the Climate Biennial Exploratory Scenario ("CBES") exercise, developed by the Bank of England ("BoE"). The scenarios that were developed by the BoE were **early action**, **late action** and **no additional action**.

We calculated the impacts on our solvency ratio, assuming our investment portfolio remains fixed and no management actions are taken to minimise the impact (except rebalancing of the Matching Adjustment Fund):

Scenario	2031	2040	2050
Early Action	Minimal	Minimal	Minimal
Late Action	Minimal	Pronounced	Moderate
No Action	Minimal	Moderate	Moderate

Key

- Pronounced relative impact on solvency.
- Moderate relative impact on solvency.
- Minimal relative impact on solvency.

The results above should be used with caution, as they are based on scenarios that may or may not occur and have been calibrated using standardised methodology. There are also significant assumptions and limitations in projecting the economic impacts of those scenarios given this work considers the impact of credit worthiness and credit ratings only.

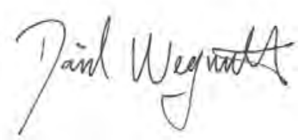
s.414CB(2A)(g) Describe the targets used by the company to manage climate-related risks and to realise climate-related opportunities and of performance against those targets

Refer to our explanation for s.414CB(2A)(h) below.

s.414CB(2A)(h) Describe the key performance indicators used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those key performance indicators are based

Information on metrics that support us in embedding climate change considerations into our investment decision-making process and managing the impact of climate risk can be found on page 75 and in our Climate Report (TCFD).

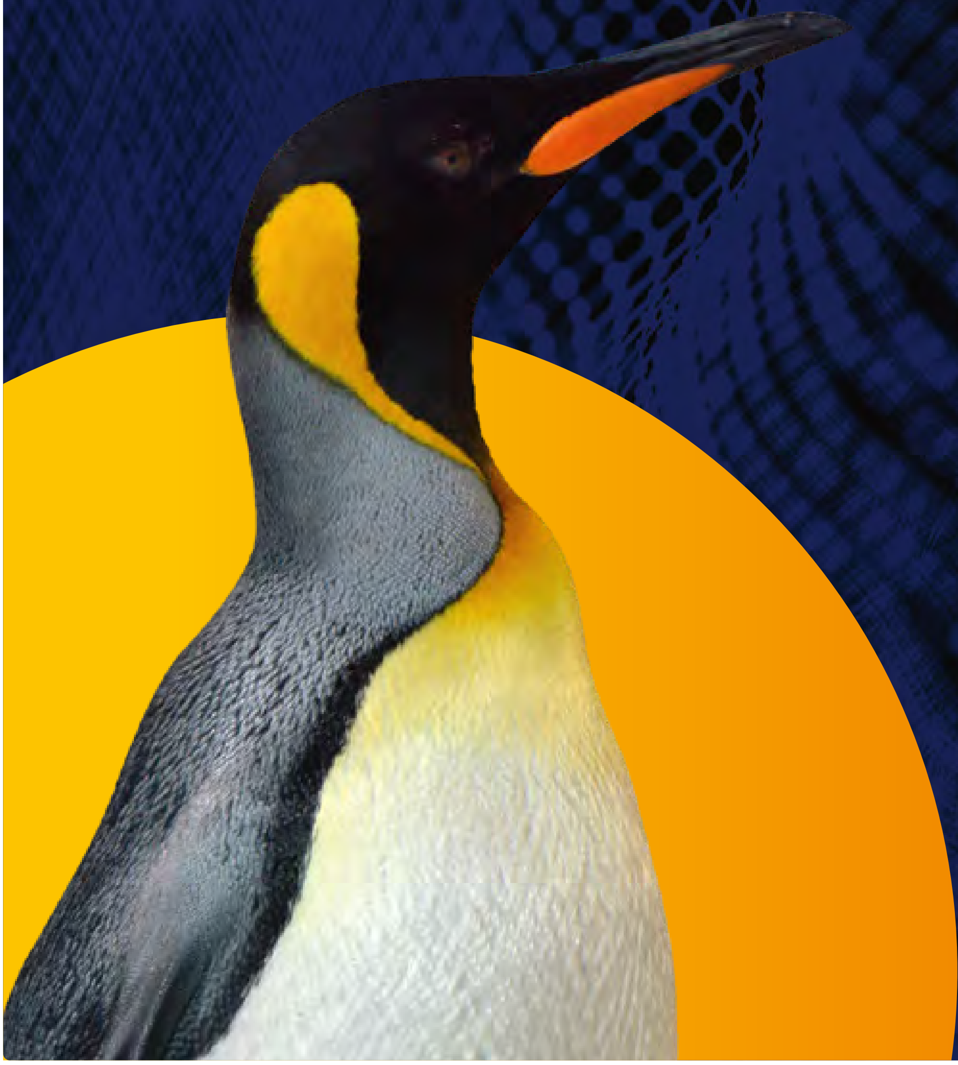
The Strategic Report on pages 1 to 79 was approved by the Board and signed on its behalf by:



David Weymouth
Chairman
14 Cornhill, London EC3V 3ND

26 March 2024

Corporate Governance.



Chairman's introduction to Corporate Governance

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

A robust governance framework combined with close Board oversight of the business ensures that the long-term success of the Group is based on the prudent and effective identification and management of the Group's risks. The following pages explain our approach to applying the provisions of the UK Corporate Governance Code 2018 (the "Code") and we explain how we discharge our duties under s.172 of the Companies Act 2006 on pages 38 to 43, including the responsibilities we have to our policyholders and stakeholders. The report describes changes we have made to our corporate governance structure during the year and includes Committee reports from the Audit, Investment and Origination, Nomination, Remuneration, and Risk Committees.

During my first full year as Chairman, I have been impressed with how management have navigated the Group through changes in our macro-environment, including regulatory changes, inflationary pressures and onboarding the largest transaction in the history of the PTR market. The Board's activities have continued to focus on our medium to long-term strategic objective of growing our business in a safe and sustainable way, and fulfilling our duties in respect of governance and oversight of our systems of risk management and controls.

I have also taken time to reflect on the work of the Board as a whole and am comforted by the Board's wealth of knowledge, experience, and also by the challenge and support it provides to management, which was recognised by the recent external Board Effectiveness Review. I have also focused on the areas for development identified in previous performance evaluations.

Update on previous Board evaluation observations

Last , we outlined the process and the observations from the 2022 internal performance evaluation and three areas for development.

The first area was to increase the time spent on the strategic and cultural aspects of the business. The remit of the Remuneration Committee was expanded in 2023 to include oversight of the development and measurement of the Group's desired culture. The Chief People Officer has provided updates on people matters (including resourcing, ways of working, and Board and executive succession planning) and we have refreshed our values. You can read more about this on page 113 of the Nomination Committee report and page 116 of the Remuneration Committee report.

The second area for development was succession planning. In 2023, the Nomination Committee reviewed the composition, diversity and skills of the PICG and PIC Boards, and the tenure of existing NEDs. The Nomination Committee and the Board approved the recommendation for the appointment of Andy Moss as a Director to the PIC and PICG Boards, and we continue our search for another Non-Executive Director as Roger Marshall will retire from the Board in August 2024. We have considered executive succession planning for all Executive Committee members and, in 2023, they approved i) the permanent appointment of Dara McCann as Chief People Officer and ii) the appointment of Mitul Magudia as Chief Origination Officer from 1 April 2024.

The final area marked for development in the 2022 evaluation was to focus on overseeing and embedding ESG matters into PIC's day-to-day business activities. The Board and its Environmental, Social and Governance ("ESG") Committee dedicated time to sustainability matters, and, in June 2023, the Committee concluded that sustainability matters and have been successfully embedded into our business-as-usual activities and therefore the ESG Committee, which was set up to closely monitor that transition, was no longer necessary. The responsibilities of the ESG Committee were distributed amongst the other Committees and the Board assumed an overall role in overseeing the sustainability of our business including the Group's capabilities in achieving our Net Zero commitment.

We will now turn our focus to the recommendations from the 2023 external Board Effectiveness Review. More detail on this can be found on pages 96 to 97.

Areas of focus

With the Group's growth over 2023, the introduction of the Consumer Duty regulation and the integration of the RSA transaction, our focus on our customers and scrutiny of the services we provide have become even more important. The Board has therefore reassessed how it oversees policyholder matters and the embedding of Consumer Duty and, in June 2023, the Board approved the establishment of a Board Customer Committee, chaired by Stuart King. The scope of that Committee is described on page 92.

Another key focus of the Board during the year was the payment of PICG's first dividend of £100 million, which equated to 7.5 pence per ordinary share. Further information of our key considerations for the dividend can be found on page 42.

The Board

PICG's Board of Directors is made up of 13 Directors, seven of whom are independent. Of the remaining Directors, five are appointed by the main shareholders and one is the CEO.

PIC's Board consists of 14 Directors, eight of whom are independent, four are appointed by the main shareholders and two comprise the executive management (CEO and CFO).

In May 2023, the Board approved the appointment of Andy Moss, who joined the PIC Board on 1 September 2023 and the PICG Board on 1 January 2024. Mark Stephen stepped down from the PICG and PIC Boards on 31 December 2023.

The biographies of our Directors, including their experience and relevant expertise, are set out on pages 82 to 87 of this report. Both Boards have an appropriate balance between independent Directors and shareholder nominated Directors.

David Weymouth
Chairman

26 March 2024

Board of Directors

David Weymouth
PICG & PIC Director
Chairman of the Board

N IO R

Date of appointment: David was appointed to the Board in October 2022 and became Chair in December 2022.

Background and career: David has extensive Chair and non-executive experience across a range of Financial Services businesses. He has previously chaired Fidelity Investment Services (UK) LTD, served as Senior Independent Director at Royal London Mutual Insurance Society, and as Audit and Risk Chair at a number of businesses.

He is currently the Chair of Remuneration Committee at Mizuho PLC, Chair of One Savings Bank Group PLC and Chair of Risk Committee at Marsh UK. David's executive career included serving as Global Chief Information Officer at Barclays and Chief Risk Officer at RSA PLC.

Areas of expertise: David has more than 30 years' experience operating at Executive and Board level across Banking, Insurance and Asset Management. He has deep functional expertise across Business Transformation, Technology Operations and Risk.

Current external roles: Mizuho PLC, Chair of OSB Group PLC, NED and Chair of Risk Committee, Marsh UK.

Tracy Blackwell
PICG & PIC Director
Chief Executive Officer

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

Background and career: Tracy is Chief Executive Officer and a Director of Pension Insurance Corporation plc, as well as CEO and a Director of PIC's parent company, Pension Insurance Corporation Group Limited. Tracy is responsible for leading PIC's management team in carrying out the company's strategy. Tracy was one of PIC's founders, joining in 2006. Until she became CEO in 2015, Tracy was PIC's Chief Investment Officer and was responsible for building up the company's asset management function.

Areas of expertise: Tracy has 30 years' experience in insurance and asset management, including a deep knowledge and understanding of the regulatory landscape. Areas of particular interest include the social impact of urban regeneration projects on local communities, and diversity in financial services.

Current external roles: Tracy is a member of Wellcome Trust's Investment Committee; Chair of the Purposeful Finance Commission; Chair of the Business Advisory Council of the Regulatory Reform Group; Trustee and Honourable Treasurer of the Elton John Aids Foundation; and a Board member of the Association of British Insurers.

Dom Veney
PIC Director
Chief Financial Officer

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

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

Dom is a Fellow of the Faculty and Institute of Actuaries. He holds a degree in Mathematics from Warwick University.

Areas of expertise: Dom has over 25 years' experience in the life insurance sector and has an in-depth knowledge of insurance financial and capital management, and regulatory affairs. He also has significant experience in finance restructuring projects.

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

Sally Bridgeland
PIC Director
Independent Non-Executive Director

Ri A E

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

Background and career: Sally has a portfolio of non-executive and advisory roles. Her executive roles include Chief Executive Officer of BP Pension Fund and extensive pensions and investment consulting experience. She has served as a Trustee Director of Lloyds Banking Group Pension Trustee Limited, where she stepped down in 2020, and as Chair of Local Pensions Partnership Investments Limited and Non-Executive Director of Local Pensions Partnership Limited, where she stepped down in 2023. Sally has also held Ministerial appointments for the Nuclear Liabilities Fund and NEST Corporation. Sally is a Fellow of the Institute of Actuaries and in 2020 she received the Award of Honour from the Worshipful Company of Actuaries. She was winner of the 2023 Non Executive Director Awards for the FTSE AIM category.

Areas of expertise: Sally is an actuary and has nearly 40 years' experience in the UK pensions, insurance and investment industry gained from executive and non-executive roles.

Current external roles: Sally is Chair of home care provider BelleVie and asset manager Impax Asset Management Group plc as well as a Non-Executive Director of Royal & Sun Alliance Insurance. Sally is also a member of Nesta Trust Investment Committee, Strategic Advisor to Darwin Alternatives. Sally is an Honorary Group Captain in 601 Squadron of the Royal Auxiliary Air Force.

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

IO

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

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

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

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

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

Judith Eden
PICG & PIC Director
Independent Non-Executive Director

R Ri E N CC

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

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

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

Areas of expertise: Judith has over 30 years' experience in financial services gained from both executive and non-executive roles, in particular in investment management. She has an in-depth understanding of the regulatory environment and has helped guide companies through business restructuring and change programmes. Judith was Senior Independent Director and Chair of the Remuneration Committee of Flood Re until 8 January 2024. Judith was also Audit Committee Chair of Invesco UK Limited.

Current external roles: Judith is a Non-Executive Director of Invesco Asset Management Ltd, Senior Independent Director and Audit Committee Chair of ICBC Standard Bank plc, Non-Executive Director of Flood Re Limited and Non-Executive Director of TSB Banking Group plc. She is also a Senior Independent Council Member at the University of Surrey.

Chair	N Nomination Committee	R Remuneration Committee	Ri Risk Committee
A Audit Committee	CC Customer Committee	IO Investment and Origination Committee	E Environmental, Social and Governance Committee (this was disbanded in June 2023)

Board of Directors continued

Julia Goh
PICG & PIC Director
Independent
Non-Executive Director

IO CC

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

Background and career: Julia has broad-based financial services experience in London. She was a Managing Director at Barclays Investment Bank in various senior front-office positions including as Chief Operating Officer of Global Markets, and was also Chair of the Barclays Women's Initiative Network. Prior to that, she was a Managing Director and the Global Head of Prime Services Risk at Credit Suisse for 11 years, where she was also Chair of the Equities Diversity Advisory Council. Julia started her Markets career at Nomura International as a risk manager. She is a fellow of the ICAEW (alumnus PwC) and has a Certificate in Company Direction from the Institute of Directors. She holds a BSc from the London School of Economics and Political Science and a MSc from Bayes Business School.

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

Current external roles: Julia is a Non-Executive Director and Audit and Risk Committee Chair of Schroder AsiaPacific Fund plc, and Non-Executive Director of The Mercantile Investment Trust plc. She is also a director of the charity Children of the Mekong and senior adviser to Phoenix Merchant Partners.

Tim Gallico
PICG Director
Non-Executive Director
Shareholder nominated by CVC

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

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

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

Current external roles: Tim represents CVC and currently sits on the boards of entities in the following groups: Asplundh Tree Expert LLC, the RAC Group and Riverstone International. He also acts as a Trustee of United World Schools.

Stuart King
PICG & PIC Director
Independent
Non-Executive Director

A Ri R CC

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

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

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

Current external roles: He is a Commissioner of Guernsey Financial Services Commission. Stuart remains an external adviser to financial services firms. He is a trustee to a number of charities working in the areas of education and mental health.

Arno Kitts

PICG & PIC Director
Independent
Non-Executive Director

IO Ri N E

Date of appointment: Arno was appointed to the Board in July 2016.

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

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

Current external roles: Arno is the founder of Perspective Investments, an investment management firm. He is also a Non-Executive Director of Wake TT (Malta) Ltd, a member of the Investment Committee of Valesco. He is an adviser to New World Group, Legion of Lions International and Glint Pay Ltd.

Josua Malherbe

PICG Director
Non-Executive Director
Shareholder nominated by Reinet

N R

Date of appointment: Josua was appointed to the Board in December 2015.

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

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

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

Roger Marshall

PICG & PIC Director
Senior Independent
Director

A Ri E

Date of appointment: Roger was appointed to the Board in September 2015.

Background and career: Roger spent much of his career in PwC, where he was an audit partner in London and Zurich. Roger was Chair of PwC's Global Audit Policy Board and its global Corporate Reporting Task Force. He served on the board of Old Mutual plc, where he was also Chair of the Audit Committee. He was Chair of the Accounting Standards Board and a Director of the Financial Reporting Council. He also served on the board of the European Financial Reporting Advisory Group and was interim President. He is a Fellow of the ICAEW and Honorary Fellow of the Chartered Institute of Internal Auditors.

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

Current external roles: Roger does not have any current external roles.

Chair	N Nomination Committee	R Remuneration Committee	Ri Risk Committee
A Audit Committee	CC Customer Committee	IO Investment and Origination Committee	E Environmental, Social and Governance Committee (this was disbanded in June 2023)

Board of Directors continued

Andy Moss

PICG & PIC Director
Independent
Non-Executive Director

A R

Date of appointment: Andy was appointed to the PIC Board in September 2023 and subsequently appointed to the PICG Board on 1 January 2024.

Background and career: Andy has worked in the life insurance sector for over 25 years and in the wider insurance market for 35 years. He was Chair of the Phoenix Assurance General Insurance (PAGI) Board and also sat as a NED on the board of Sun Life Limited, Opal Re Bermuda and Standard Life Unit Trust Managers. Andy has held a number of other board roles over the last 20 years as both an Executive and Non-Executive member.

Areas of expertise: Andy is a highly experienced former Chief Executive Officer and Finance Director with a strong commercial outlook and he has experience of growing and acquisitive businesses. He has a deep understanding of finance and risk management and effective operating models in FTSE 100 businesses.

Current external roles: Andy is currently also Non-Executive Director and Audit Chair at Ascot Underwriting Limited. Andy cares passionately about giving back to the community and supporting charities and is currently a Director and Trustee of Midlands Air Ambulance and of Rugby for Heroes.

Jérôme Mourgue D'Algue

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

N IO

Date of appointment: Jérôme was appointed to the Board in November 2018.

Background and career: Jérôme holds an MBA from the Wharton School and a BA from ESSEC. He was previously an Associate at McKinsey & Company and Vice President of Morgan Stanley Capital Partners in London. Jérôme was a Partner at private equity firm Englefield Capital LLP. He has been an employee of Abu Dhabi Investment Authority ("ADIA") since 2012. He became Head of Financial Services in the Private Equity Department in 2017, Head of EMEA in 2019 and is now the Global Head of Private Equity.

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

Current external roles: Jérôme is currently the Global Head of Private Equity at ADIA and represents ADIA on the boards of various entities ADIA has invested in.

Peter Rutland

PIC Director
Non-Executive Director
Shareholder nominated by CVC

R IO

Date of appointment: Peter was appointed to the Board in May 2017.

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

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

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

Mark Stephen

PICG & PIC Director
Independent
Non-Executive Director

A N R

Date of appointment: Mark was appointed to the Board in November 2014. Mark retired from the Board on 31 December 2023.

Background and career: Mark has worked in the insurance industry for over 30 years. He currently has a portfolio of independent non-executive director roles across the industry. Following a degree and research career in life sciences he qualified as a chartered accountant before joining PwC. As a partner at PwC he led the insurance consulting business and latterly was UK Insurance Industry leader. Throughout his career he maintained a strong client focus and worked with many of the leading insurers in the UK, Switzerland and South Africa. He retired from the partnership in 2013.

Areas of expertise: Mark's experience is in advising and working with insurance company boards on many aspects of business performance, including how they adapt to the changing regulatory and business landscape.

Current external roles: Mark serves as Chairman of TransRe London Limited and Chairs the Investment Committee, he also Chairs the Audit and Remuneration Committees at Howden Group Holdings Limited. In 2021 he was appointed to Openwork Holdings Limited where he Chairs the Audit Committee, and in 2022 as a director of HGH Finance Limited.

Wilhelm Van Zyl

PICG Director
Non-Executive Director
Shareholder nominated by Reinet

Ri IO

Date of appointment: Wilhelm was appointed to the PIC Board in May 2015 and subsequently appointed to the PICG Board in October 2017.

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

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

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

Chair	N Nomination Committee	R Remuneration Committee	Ri Risk Committee
A Audit Committee	CC Customer Committee	IO Investment and Origination Committee	E Environmental, Social and Governance Committee (this was disbanded in June 2023)

Corporate Governance report

Application of the UK Corporate Governance Code

The Board is committed to high standards of corporate governance across the Group and in line with best corporate governance practices, it supports the principles laid down in the 2018 UK Corporate Governance Code (the Code) which is available at the Financial Reporting Council's website www.frc.org.uk. During the financial year ended 31 December 2023, the Group applied all of the principles of the Code and the table to the right, provides signposting to where key content can be found in this report to demonstrate how we have applied the principles of the Code.

The Board remains dedicated to open and transparent reporting; however, as the Group is a private company, it does not apply a number of the provisions of the Code because they are not relevant in the context of the Group's business. We explain throughout this report and below where we do not apply certain provisions of the Code and why these are not applicable to the Group. The Board is supportive of good governance practices and it will continue to work towards full compliance with the provisions of the Code, where applicable.

Code provisions that the Group does not apply

Provision 18 – all directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long term success.

Explanation – the Company's Directors are not subject to annual re-election. Major shareholders of the Group nominate Directors for appointment to the Board and can raise any issues directly with the Chairman.

Provision 32 – the board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the board can only be a member if they were independent on appointment and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.

Explanation – the Remuneration Committee comprises six NEDs: four are regarded as independent and the remaining two are shareholder nominated Directors. The Chair of the Remuneration Committee is independent and meets the relevant requirements. The shareholder nominated Directors represent shareholder views in remuneration discussions and together with the independent NEDs, they monitor and safeguard the sustainable growth of the Group through remuneration oversight and ensuring that remuneration policies do not encourage excessive risk taking.

Provision 41 – the description of the work of the remuneration committee in the annual report.

Explanation – the content of the Remuneration Committee report is tailored to requirements for private limited companies. We comply with the majority of this provision and the Group is developing further ways of engagement with the workforce on remuneration matters.

Code Principles explanation references

1. Board Leadership and Company Purpose	
A Effective Board	pages 82–87
B Purpose, values, strategy and culture	page 90
C Governance framework	pages 92 and 104–107
D Stakeholder engagement	pages 36–37 and 101–103
E Workforce policies and practices	pages 44-48

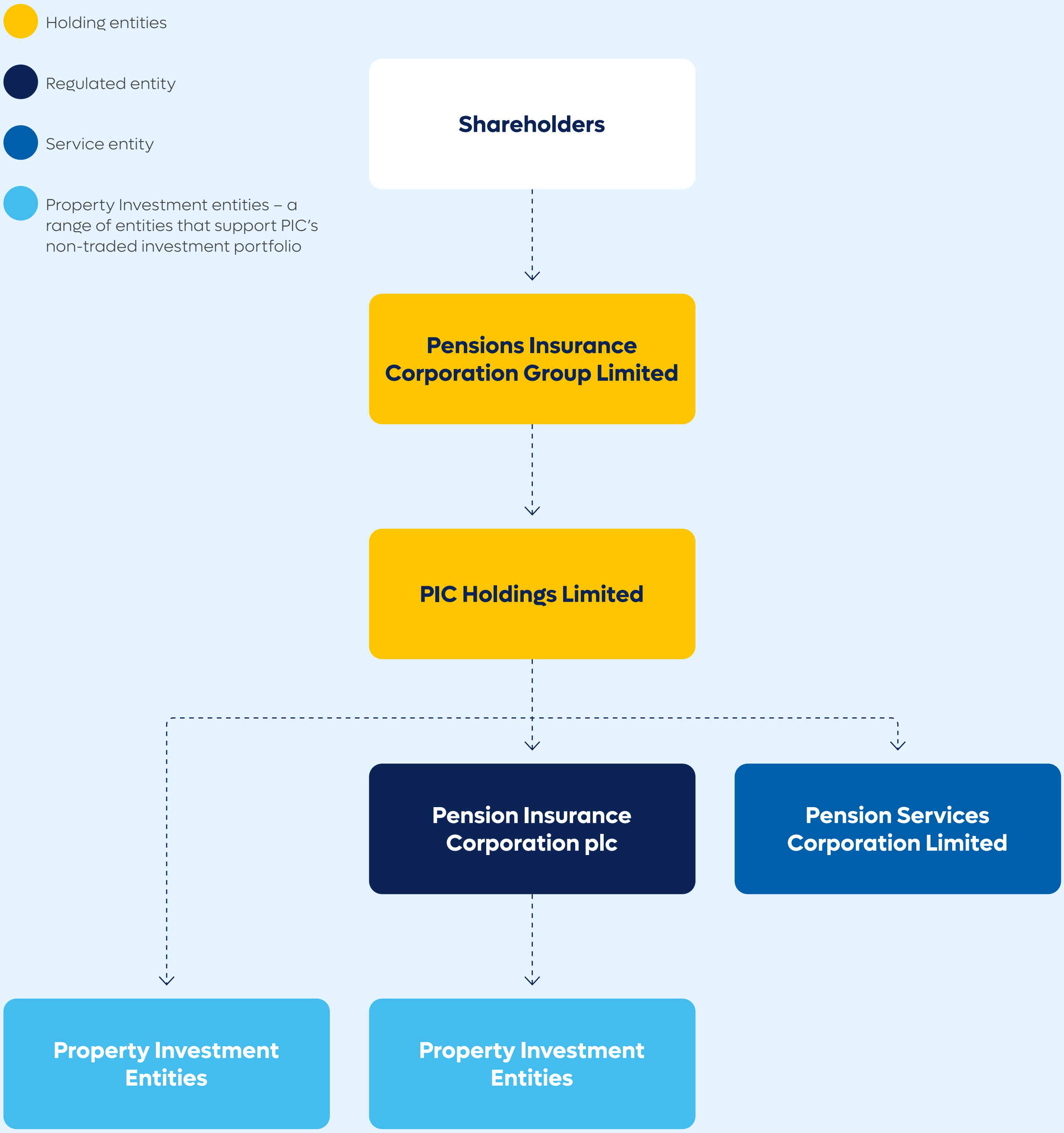
2. Division of Responsibilities	
F Role of Chairman	page 91
G Independence	page 90
H Non-Executive Director time commitments	page 98
I Board support and resources	page 91

3. Composition, Succession and Evaluation	
J Appointments to the Board	page 94 and 111-112
K Board skills, experience and knowledge	page 82-87 and 94-95
L Annual Board evaluation	page 96-97

4. Audit, Risk and Internal Control	
M Internal and external auditors	pages 106
N Fair, balanced and understandable	page 106
O Internal control framework and risk management	pages 106 and 120-121

5. Remuneration	
P Remuneration linked to purpose and values	pages 114-119
Q Remuneration policy review	pages 114-119
R Remuneration outcomes	pages 114-119

Simplified PICG Group structure



Corporate Governance report continued

Leadership and Company purpose

Pension Insurance Corporation Group Limited ("PICG" or the "Group") and Pension Insurance Corporation plc ("PIC") are each led by a Board of Directors (the "Board") who are appointed pursuant to the relevant Articles of Association. The Group continues to benefit from a simple corporate structure, as depicted on page 89. The 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 93 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 PICG Board, unless stated otherwise. The Directors have the benefit of the Group's Directors' and Officers' indemnity and insurance policy.

The current Board members, details of their experience and the date of their appointment are set out on pages 82 to 87.

The Board believes that good governance, strong values and the right culture enable the Group to do what is right for our policyholders, employees, shareholders and other stakeholders. The Board considers and applies the principles of the Code as the basis of how the Group 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 Group'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 Group's purpose, the Board ensures that the Group operates 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 Group's culture and monitoring how it is being embedded so that it is aligned with the Group's values and purpose. The right culture enables the delivery of the Group's strategy and business model by promoting attitudes and behaviours of high ethical standards and integrity, as set out in the Group's values. The Board sets the tone through ongoing dialogue with management and employees, and holds senior management to account where there is a misalignment of the existing culture with the Group's purpose and values.

The Board has collective responsibility for setting the Group's strategic goals and providing leadership to put them into effect through the management of the Group's business within the Group's governance framework. It does this by setting Group strategy, ensuring appropriate standards and controls, and monitoring and reviewing management's performance. Part of this process is ensuring that the right resources are in place to enable the Group 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 is in place.

In 2024, the Board will build on the work carried out to date and ensure that Directors and executive management have the relevant skills and experience to continue to provide strong direction and leadership to the Group as it continues to grow and evolve. The Board will focus on the actions arising from the external Board evaluation so that it improves its own effectiveness.

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 Group's strategic aims; objectives and commercial strategy; governance and regulatory compliance; structure and capital; financial reporting and controls; internal controls and risk management; major capital commitments; major contracts and agreements; shareholder engagement; remuneration of the Board and senior executives; material corporate transactions; and any changes to this schedule of reserved matters.

The responsibilities of the Directors and the Company Secretary are set out further below:

Non-Executive Directors

Chairman
David Weymouth
David is responsible for the leadership and effectiveness of the Board. He also leads on the development of culture by the Board as well as the development and monitoring of the effective implementation of policies and procedures for the succession planning, induction, training and development of Directors, as well as evaluating their performance. Together with the CEO and Company Secretary, he sets the agenda for Board meetings, and he facilitates open and constructive dialogue during those meetings. David also plays an important role in ensuring the Group maintains effective communication with shareholders and other stakeholders.

Senior Independent Director ("SID")
Roger Marshall
Roger acts as a sounding board for the Chairman and is a trusted intermediary for the other Directors and shareholders. He is also available if they have concerns, which contact through the normal channels of Chairman, CEO or CFO, has failed to resolve or for which such contact is inappropriate. Roger, in his capacity as SID, meets with the NEDs at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate. Additionally, in his role as the Whistleblowing Champion, he guards the independence, autonomy and effectiveness of the Group's policies and procedures on whistleblowing.

Non-Executive Directors
Jake Blair; Sally Bridgeland; Judith Eden; Tim Gallico; Julia Goh; Stuart King; Arno Kitts; Andy Moss; Josua Malherbe; Jérôme Mourgue D'Algue; Peter Rutland; Mark Stephen; Wilhelm Van Zyl
Along with the Chairman and Executive Directors, the NEDs are responsible for ensuring the Board and its Committees fulfil their responsibilities. The NEDs combine broad business and commercial experience, in particular in the financial services and insurance sectors, with independent and objective judgement as well as providing independent challenge to the Executive Directors. The balance between the NEDs and Executive Directors enables the Board to provide clear and effective leadership across the Group.

During the year, Arno Kitts has taken on the additional responsibility of Sustainability Champion and Stuart King has taken on the additional responsibility of Consumer Duty Champion.

Executive Directors

Chief Executive Officer ("CEO")
Tracy Blackwell
Tracy leads the executives in the day-to-day management of the business and effective implementation of the Board's decisions. Tracy is supported by a strong and experienced Executive Committee, and together with her leadership team Tracy proposes and develops the Group's strategy and overall commercial objectives having regard to the Group's responsibilities to its shareholders, customers, employees and other stakeholders. Tracy consults regularly with the Chairman and the Board on matters which may have a material impact on the Group. She is responsible for the Group's performance of its obligations, adoption of the culture set by the Board, and outsourcing arrangements.

Chief Financial Officer ("CFO")
Dom Veney
Dom is responsible for the financial and actuarial matters of the Group, including management, allocation and maintenance of capital, funding and liquidity. He also manages and oversees the production and integrity of the Group's financial information and its regulatory reporting.

Company Secretary

Louise Inward
Louise, through the Chairman, is responsible for advising the Board on all governance matters, and ensuring the Board has the right procedures, policies, processes and resources it needs to function effectively. She makes sure there is a good information flow between the Board, its Committees, senior management and the NEDs.

Governance and control framework

The below chart shows the Group's governance structure. The structure is reviewed as part of the annual review of the governance processes; this is 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. This 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 Group's purpose, which is to pay the pensions of its current and future policyholders. Matters reserved for the Board are described on page 90.

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.

Customer Committee
Assists the Board with oversight and advice in relation to the implementation, prioritisation, delivery and embedding of the new Consumer Duty requirements in the Company's processes and business activities.

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, 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 Group.

Executive Committee

Assists the Chief Executive Officer in the overall management of the Group. 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 Group.

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 Customer 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.

The Committee reports are set out on pages 104 to 121.

The Investment and Origination Committee and the Customer Committee consider matters specific to PIC. The four 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 the 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 it 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 the Group 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 to the Board on the recent activities of each Committee. The Board has 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.

Attendance by Directors at Board and Committee meetings

In 2023, there were seven scheduled PICG and PIC Board meetings. There were no 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.

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

1. Andy Moss was appointed as Director to the PIC Board on 1 September 2023 and to the PICG Board on 1 January 2024.
2. Mark Stephen stepped down from the PICG Board on 31 December 2023.

Key Meetings attended Scheduled meetings

Strategic Report p1-79
Corporate Governance p80-126
Financial Statements p127-197

Corporate Governance report continued

Board composition

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

The PICG Board had 11 Non-Executive Directors as at 31 December 2023. This included six independent Non-Executive Directors ("INEDs"), including the Chairman and five nominated by major shareholders. On 31 December 2023, Mark Stephen stepped down as Director and Andy Moss was appointed on 1 January 2024.

As at 31 December 2023, the PIC Board had 15 Directors, nine of whom were INEDs, including the Chairman, and four of whom were nominated by major shareholders. Mark Stephen stepped down on 31 December 2023. From 1 January 2024, the PIC Board has 14 Directors, eight of whom are INEDs, including the Chairman, and four of whom remain nominated by major shareholders.

During the year, the Chairman 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.

Board independence

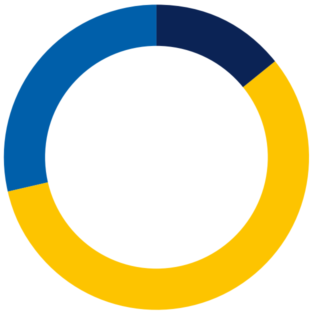
The independence of the NEDs is reviewed annually by the Nomination Committee in accordance with the criteria set out within the Code.

Jake Blair, Jérôme Mourgue D'Algue, Tim Gallico, Josua Malherbe, Peter Rutland and Wilhelm Van Zyl are not considered independent because they are nominated by major shareholders of the Group.

For the financial year ended 31 December 2023, the PICG and PIC Boards are satisfied that they met the requirement under the Code, for at least half of the Board (excluding the Chair) to comprise independent NEDs.

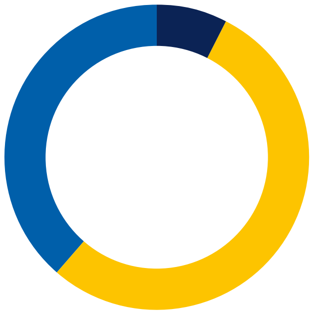
Composition and independence
As at 31 December 2023

PIC Board



Executive	2
Independent non-executive	9
Non-executive	4

PICG Board



Executive	1
Independent non-executive	6
Non-executive	5

Board diversity and skills

The Board believes that its success is rooted in the diverse nature of the environment in which it operates and is dependent on the Group's ability to leverage differences, collective experiences, variety of backgrounds, talents, skills and knowledge.

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. The Board considers a number of factors, including gender, social, educational and ethnic backgrounds, age, disability, skills, experience, diversity of thought and other relevant personal attributes, are crucial to provide a range of perspectives, insights and challenge that are needed to support good decision making and successful delivery of the Group's business strategy.

The Nomination Committee supports the Board by reviewing and considering the diversity of the Board as part of the annual effectiveness review and ongoing succession planning when recommending the appointment of new Board members. The review takes into account the challenges and opportunities facing the Group, the balance of skills, knowledge, experience and diversity of the Board, as well as time commitments needed on the Board in the future.

Development and ongoing training

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.

It is important that the Board remains aware of upcoming developments and the Directors refresh their skills and knowledge so they can continue to contribute to technical discussions and provide effective challenge. The Directors complete mandatory compliance training on an annual basis and also attend training sessions for each round of Board and Committee meetings.

Ongoing learning of the Board and Committees

February 2023	Stress and scenario testing and ORSA key risks deep dive	Ri
March 2023	Counterparty exposure and IT physical assets deep dive	Ri, A
June 2023	Investment Operating Platform teach-in	Board
September 2023	Sustainability training, presented by PwC	Board
September 2023	Update on FRC Corporate Governance Reforms, presented by KPMG	Board
November 2023	IFRS 17 training, presented by PwC	Ri, A
November 2023	External teach-in on Affordable Housing strategy	Board
December 2023	Inflation deep dive	Board
February 2024	Sustainability reporting, presented by Deloitte	Board

Board (yellow circle) · A Audit Committee · Ri Risk Committee

Board effectiveness

In accordance with the Code, the 2023 effectiveness review of the PIC and PICG Boards was required to be externally facilitated, following the previous external review conducted by Clare Chalmers Ltd in 2020. The Group undertook a tender process, before the decision was made to appoint Independent Audit Limited ("IAL") for the evaluation.

IAL is a signatory to the Code of Practice for independent board reviews and does not have any connections with the Group or any individual Directors.

During the initial scoping meeting, IAL was provided with a detailed brief by the Chairman of the Board and the Company Secretary. As part of the comprehensive external evaluation, all aspects of the Board's effectiveness were covered and this included observations of the September 2023 Board and Committee meetings, with the exception of the Board Customer Committee. IAL also had access to 2022-2023 Board and Committee papers, terms of reference and forward-looking agendas. Directors' CVs were also reviewed to facilitate the assessment of the Board's relevant skills and experience.

The methodology of the external evaluation took the form of detailed interviews with 24 stakeholders, including the PIC and PICG Board members, the Executive Committee, other key stakeholders and advisers. All participants were interviewed in accordance with the interview questions based on IAL's board effectiveness model.

A report was prepared by IAL based on interviewees' perspectives and observations from the Board and Committee meetings. Initial findings were discussed with the Chairman and were presented to the Board in December, with IAL present.

Throughout the evaluation, IAL has also had access to and the support of the Company Secretary. IAL have also had the opportunity to provide comment on the description of the evaluation in this report.

In 2022, the effectiveness of the PIC and PICG Boards and Committees was evaluated internally by the use of questionnaires. A common theme arising from this evaluation was ESG factors and sustainability. During the year, the Boards have received training on sustainability and Arno Kitts was appointed as the Board's Sustainability Champion. The Committees also have greater oversight of ESG factors within their remit.

External evaluation process

- Initial scoping meeting and evaluation brief provided to IAL
- Interview questions based on IAL's board effectiveness model
- Documentation review
- One-to-one interviews conducted
- Board and Committee meetings observed
- IAL analysis
- Focused report prepared
- Observations discussed with the Chair
- Final report presented to the Board
- Action plan for 2024 agreed

Key observations from the 2023 external effectiveness review

- The CEO is well respected by the Board for her extensive industry expertise and openness with the Board
- The new Chairman is highly respected by everyone and is skilled in managing meetings and works hard on interactions with shareholders, regulators and colleagues
- There is a wide range of skill sets brought by shareholder nominated Directors and independent NEDs
- The Audit Committee has overseen a strengthening of the Internal Audit function
- The Board meets the guideline for at least one of the senior board positions to be a woman (FCA Policy Statement PS22/23, point 1.9)
- IAL noted the positive atmosphere and productive discussions at all the meetings it observed
- There is the right level of attention on deals and investments and the temporary ESG Committee facilitated an oversight of sustainability matters
- The NEDs are well prepared for meetings
- The Company Secretariat provides a professional service to the Board and the Board Committees

Following IAL's 2023 evaluation, the PIC and PICG Boards have agreed to the following recommendations and action plan for 2024.

2024 Action Plan

Recommendation	Initial progress
Board agendas	
Notwithstanding the well-structured agenda, consideration should be given to: • Refocusing the agenda so that topics requiring more debate and discussion are scheduled earlier on the Board agenda to ensure sufficient time for debates; and • Allocating more time on the agenda to discuss strategic matters and operational change initiatives.	The Board agendas are less static and have been refocused to ensure that all matters requiring debate and discussion are scheduled early in the day and there is sufficient time devoted to the most important topics for the Board to consider.
Board reports	
Notwithstanding the quality of Board reporting, there was an opportunity to improve executive summaries, shorten the length of reports where possible and articulate the 'ask' within Board reports to facilitate focused Board decisions.	Feedback on Board reporting has been incorporated into internal and external facilitated training for authors of Board reports.
Coordination between Committees	
Consideration should be given to increase efficiency of meetings by reducing duplication of topics at the Committee level.	Feedback has been incorporated and meetings have been scheduled between the Chairman of the Board, Committee Chairs and Company Secretariat as part of the Board and Committee agenda-setting process.
Culture	
There was opportunity to further develop the Board's oversight of culture.	The Remuneration Committee has taken on an active role in assisting the Board in oversight of the Group's culture. More time on the Board agenda has also been allocated to the Chief People Officer.

Corporate Governance report continued

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 stated in their profiles on pages 81 to 87 and the Company Secretary maintains a record of all external appointments held by the Directors. In addition, the 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

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.

Further detail about the induction process for Andy Moss can be found on **p112**

Conflicts of interest

The Board has established a procedure to deal with Directors' conflicts of interest which complies with the PICG and PIC Articles of Association and the provisions in s.175 of the Companies Act 2006. A schedule of each Director's actual or potential conflicts is compiled based on the disclosures made by the Director and these are reviewed on an annual basis. Additionally, any conflicts or potential conflicts are considered at the beginning of each Board and Committee meeting.

Accountability

The Board, through the Audit and Risk Committees, receives reports regarding the Group's risk management and internal control systems. These reports comprise a verbal update from all Chairs of the Board Committees and are supported by the Integrated Assurance Report and an annual attestation process. Collectively, these lead to an annual opinion and written assessment on controls, risk management, governance and culture which allow the Board to assess the effectiveness of the Group's systems of risk management and internal control. The Audit Committee facilitates the review of the Group's relationship with its auditor, on behalf of the Board, and the details are set out in the Audit Committee report on pages 104 to 107. The Board also reviews financial and business reporting at each scheduled meeting.

Modern Slavery Act 2015

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

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

There were no instances of modern slavery reported during the year. The Group continued to manage its suppliers through a third party management process and the implementation of internal policies. The Group 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 anti-corruption

The Group operates an Anti-Bribery and Anti-Corruption Policy as per the Policy Hub to prevent and prohibit bribery, in line with the Bribery Act 2010. The Group will not tolerate any form of bribery by, or of, its employees, agents or consultants or any person or body acting on its behalf, and no such incidents occurred in the financial year ended 31 December 2023. Senior management are committed to implementing effective measures to prevent, monitor and eliminate bribery. The policy covers:

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

Whistleblowing arrangements

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

Remuneration

Details of the Directors' remuneration and the work of the Remuneration Committee can be found on pages 114 to 119.

Board activities at a glance

In numbers

Total Board meetings

7

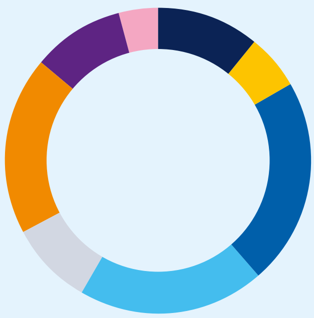
Total Committee meetings

28

Ad hoc Committee meetings

5

How the Board is spending its time during the year



Financial matters	11%
Governance	8%
Investment & Origination	21%
Strategy & Sustainability	18%
People matters	9%
Risk & Regulatory	18%
Operations	12%
Other	3%

Key decisions made by the Board

2023

30 January
- Considered and approved the 2023 operating budget

15 March:
- Approval of the PIC and PICG Statutory Accounts for 2022
- Declared the first final dividend to shareholders at 7.5 pence per share

30 March:
- Approved the 2023 PIC and PICG business plan
- Approved PIC and PICG 2022 ORSA
- Approved to temporarily increase the liquidity risk appetite

27 April:
- Approved the launch of 2023 Save-As-You-Earn scheme

16 May:
- On recommendation from the Nomination Committee, the Board approved the appointment of Andy Moss

15 June:
- Established the Board Customer Committee
- Dara McCann is appointed Chief People Officer

1 September:
- Andy Moss joins the PIC Board as an Independent Non-Executive Director

5 October:
- Arno Kitts is appointed Board Sustainability Champion
- Approved the changes to the Nomination Committee composition with Stuart King stepping down and Judith Eden and Arno Kitts becoming members

10 October:
- Board attends strategy away day to discuss priorities for 2024

4 December:
- Approved the appointment of Mitul Magudia as Chief Origination Officer, effective from 1 April 2024
- Reviewed the outcomes from the 2023 External Board and Committee Effectiveness evaluation

31 December:
- Mark Stephen steps down as a Director from the PICG and PIC Boards

2024

1 January:
- Andy Moss joins the PICG Board as an independent Non-Executive Director

Board activities

Each year the Board approves an annual Board calendar of matters which it considers important to oversee, debate and review. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006 as outlined on pages 38 to 43.

Routine matters considered as part of the annual Board calendar

Strategy
- Approval of the 2023 Business Plan
- Considered the Group's strategy and further opportunities for growth
- New business transactions above a defined threshold require Board approval, and the Board considered and approved the RSA Group transaction
- Approval of a final 2022 dividend of 7.5 pence per share
- Continued to discuss the Group's culture in the context of the resources and activities required to ensure the success of the Group's strategy over a five-year period
- Approved the derivatives strategy for PIC
- Received regular updates on sustainability and approval of the Sustainability Policy
- Approved the Group's refreshed values

Customers/Policyholders
- Approved PIC's Operational Resilience Self-Assessment including Important Business Services and Impact Tolerances in respect of PRA PS6/21 and FCA PS21/3
- Continued to monitor the various customer initiatives into an overarching Customer Programme which covers: the new Consumer Duty, policyholder communications and vulnerable customers
- Continued to closely oversee PIC's operations with particular focus on outsourced administration services to ensure excellent service is provided to PIC's policyholders
- Received regular updates on the investment data projects and initiatives

Risk management and Internal Model
- Closely oversaw PIC's portfolio and received regular updates on the origination of assets as part of the onboarding of the RSA Group transaction
- Reviewed risk appetite preferences, statements and metrics for solvency
- Approved the 2022 PIC and PICG Own Risk and Solvency Assessments
- 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

Employees and remuneration
- Worked closely with the Nomination Committee on executive succession and approved the appointments of the Chief People Officer and Chief Origination Officer
- Approved annual bonus and Long Term Incentive Plan ("LTIP") scorecards, metrics and ranges
- Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, and evolving working arrangements
- Approved the launch of the Group's share schemes for the year as an important way for the Group to engage with its employees
- An employee survey was completed, with the Board discussing the results and what their significance is for the Group's culture and strategy, as well as the future ways of working
- Approved annual remuneration parameters and NED and senior management remuneration, taking into account all stakeholders' interests and business priorities

Financial reporting and controls
- Approved the full year Annual Report and Accounts
- Approved the IFRS 17 adjusted operating profit definition
- Monitored the Group's progress in respect of the implementation of IFRS 17
- Regularly received and reviewed the Group's performance reports
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee
- Reviewed the whistleblowing report
- Approved the Modern Slavery Statement
- Reviewed the Annual Opinion from the Chief Internal Audit Officer on the effectiveness of the Group controls, risk management and governance processes, and culture

Corporate governance
- With assistance from the Nomination Committee and an external recruitment consultant, the Board undertook a search for a new Director, and approved the appointment of Andy Moss
- Reviewed the composition of the Board and Committees
- Considered the results from the 2023 external Board effectiveness review as disclosed in this report
- Monitored any governance actions which had arisen from the 2022 Board evaluation

Stakeholder engagement

This section provides insights into how the Board engages with our stakeholders to understand what matters to them and to further inform the Board's decision making and the actions taken as a consequence.

The Group's formal section 172 statement can be found on pages 38 to 43 of this Annual Report.

Stakeholders and the Board

PIC's purpose is to pay the pensions of its current and future policyholders, and this is 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 when making decisions, the Board has regard to the needs and priorities of each of its stakeholders, as well as its broader duties under s.172 of the Companies Act 2006. 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 36 to 37 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.

Embedding stakeholder interests within our culture

Our Executive Committee considers stakeholder interests as part of its discussion and decision making. Examples of how these interests have been considered are described on pages 102 to 103. PIC operates a culture of openness and transparency and the executive team and management at all levels ensure that the tone from the top is well embedded in the day-to-day operations of the Group, and this is evidenced in PIC's culture.

Supporting the Board's commitment to stakeholders

PIC ensures that the interests 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 considered by the Board as part of its s.172 considerations. This includes how stakeholders may be affected by a particular decision being considered by the Board, to assist the Directors in their decision making. Illustrations of where the interests of our stakeholders have had an impact on some of the Board's key decisions are provided on pages 40 to 43 in the s.172 statement of this Annual Report.

The Company has a schedule of matters reserved for the Board which ensures that certain material and/or strategic decisions can only be made by the Board and may not be delegated to the Executive Committee or senior management. More detail on the matters reserved for the Board can be found on page 90 in the section 'Division of responsibilities section'.

This schedule helps the Group to make sure that decisions are made at the right level and that stakeholder impacts are a fundamental part of the decision-making process. The Board is supported in its work by six Board Committees, whose responsibilities are delegated by the Board and are described on pages 92 to 93.

Stakeholder engagement continued

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 are held in person. The main activities of the Board with regard to stakeholder engagement are shown here.

PIC: Valuing our stakeholders

Key suppliers

It is vital that we build and maintain a strong working relationship with our suppliers to deliver the right outcomes for our policyholders.

- The Board and its Committees regularly discuss the commercial performance of PIC's suppliers, investment managers and key outsourcers, and this includes updates on key supplier relationships.
- An annual risk assessment is carried out on PIC's key suppliers. This process is integral to any Board decision in respect of critical suppliers and outsourcers.

Shareholders and debt holders

Shareholders invest in the Group. The Company also has listed bonds and our Tier 2 debt is listed on the London Stock Exchange, whereas the Restricted Tier 1 debt is listed on Euronext Dublin.

- The Board and the Audit Committee review and approve, as per their delegated authority, any financial or regulatory disclosures to the market. As part of the process, they ensure this information is accurate, fair, balanced, and accessible to our stakeholders.
- Major shareholders' views are voiced to the Board and management through their nominated Directors on the Board.
- The Board has ongoing interactions with employees, who are the largest group by number of shareholders.
- In 2023, the Board approved the payment of the Group's first dividend. Further information on this can be found on page 42.

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 maintains a constructive and open relationship with our regulators. Both the Directors and senior managers meet regularly with the PRA.
- A report is presented at each Board meeting and Board Risk Committee meeting with an update on the priorities and concerns of the regulators that affect the Group.

Direct investment counterparties

We work with numerous counterparties who provide financing for a variety of projects which enable the development of new homes for social rent, and the development of renewable projects.

- The Board approves any new strategies and provides ongoing oversight of direct investments to ensure they provide good outcomes for communities, for its policyholders and for PIC.

Defined benefit pension scheme trustees and sponsors

Understanding what is important to our trustees and sponsors is key as this stakeholder group transacts with PIC ensuring security for their members' pensions.

- The relationship and expectations of the trustees 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.

Policyholders

Understanding what's important to our 339,900 policyholders is key to achieving our purpose.

- To facilitate oversight of the Customer Programme, which encompasses vulnerable customers, policyholder communications and the new Consumer Duty, the Board approved the establishment of a Board Customer Committee. Reporting on the activities of this committee is provided at each Board meeting.
- Stuart King in his capacity as Vulnerable Customer and Consumer Duty Board Champion assists the Board in providing oversight on embedding Consumer Duty and consumer outcomes within the Group.
- Board members attend Policyholder Days and get the opportunity to meet directly with our policyholders.

Employees

PIC employs highly skilled individuals who all work together to deliver a common purpose, supported by a culture of innovation and a strong set of values.

- The CEO, CFO and members of the Senior Leadership Team 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.
- The Board receives regular updates from the Chief People Officer, which include 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.
- Our employees share in the Group's success as shareholders through membership of our share plans. During the year, the Board approved the launch of the 2023 Save-As-You-Earn scheme.

Audit Committee report

Roger Marshall
Chair of the Audit Committee

Committee role and membership

The Audit Committee (the "Committee") is responsible for oversight of financial and sustainability reporting, the effectiveness of internal controls, risk management systems and processes as well as compliance matters. The Committee reviews and challenges the consistency of accounting policies, valuation assumptions and methodologies used for transactions as well as the information presented within the financial statements and Task Force on Climate-Related Disclosures ("TCFD") report. The Committee is also responsible for overseeing the effectiveness of internal controls and the Risk Management Framework and reviews whether management has discharged its duty to maintain effective systems, processes, and controls.

Pursuant to the Code, the Committee comprises five INEDs. The Board has confirmed that it is satisfied all Committee members are independent and possess recent and relevant financial experience and expertise across various industries. Other regular attendees at Committee meetings during 2023 included: Chairman of the Board, CEO, CFO, CRO, Chief Actuary, Actuarial Function Holder, General Counsel, Chief Internal Audit Officer and Wilhelm Van Zyl, a shareholder nominated Director.

Andy Moss was appointed to the Committee on 1 September 2023 and is the planned successor for Roger Marshall, the Chair. Mark Stephen stepped down on 31 December 2023.

A number of the Committee members are also members of the Board Risk Committee, which ensures effective coordination and oversight across these committees.

More detail on the skills and experience of the Committee members can be found on pages 82 to 87.

Meetings held in 2023

		Scheduled meetings	Meetings attended
Roger Marshall (Chair)	INED	5	5
Sally Bridgeland	INED	5	5
Stuart King	INED	5	5
Andy Moss	INED	2	2
Mark Stephen	INED	5	4

I am pleased to present this year's Audit Committee report, which gives insight into the work carried out by the Committee and our discussions during 2023.

The Committee fulfils a vital role in the Group's governance framework by providing valuable independent challenge and oversight across all financial and sustainability reporting and internal control procedures. It ensures that our shareholders', policyholders' and wider stakeholders' interests are protected.

The year highlighted the impacts of market volatility and uncertainty in relation to inflation and interest rate movements. The Committee received regular updates from the Chief Financial Officer on the implications to our key metrics.

The Committee has continued to dedicate a significant amount of time and focus to the implementation and reporting of IFRS 17. During 2023, the Committee saw PIC's first full reporting of results under IFRS 17 for half year 2023, including comparative information for 2022. We received regular IFRS 17 project updates, reviewing and challenging implementation plans and progress through to delivery. In the latter part of the year, the Committee members, along with the wider Board attended a session to gain an understanding of the wider market reporting and reactions to IFRS 17.

The Committee has an oversight role of climate-related reporting including TCFD and other sustainability disclosures. Regular updates are received from our Sustainability team on targets and disclosure requirements. During the year, the Committee reviewed its approach to TCFD and sustainability reporting, and engaged third party assurance on a selection of the metrics disclosed in the year end 2023 TCFD report.

As part of our regular duties, the Committee oversees the relationship with and performance of the external auditor. We continue to work closely with our lead Audit Partner from KPMG, who was appointed in the second half of 2022, to ensure the external auditor's work remains effective and improvements are made, where needed. The Committee approved the rotation of auditors from 1 January 2026, meaning KPMG will perform its final audit for the full year 2025 financial statements. The Committee has started the tendering process.

In my role as Chair, I remain committed to ensuring the Committee is effective and adjusts its deliberations in line with regulatory changes and evolving business needs.

More detail on the Committee's other activities can be found on the following pages.

Committee focus during 2023

It is important for the Committee Chair to fully understand areas of concern to facilitate meaningful discussion during the meetings. To support him in fulfilling this role, the Chair met regularly on a one-to-one basis with the CEO, CFO, Chief Internal Audit Officer, Appointed Actuary and the lead Audit Partner from KPMG. The Finance and Actuarial teams also provide support to the Committee by making recommendations in relation to the Group's key accounting policies, stress testing and methods and assumptions being used in the valuation of the technical provisions under Solvency II and insurance contracts under IFRS for PIC and the Group.

Since 1 January 2023, the Group has adopted IFRS 17 "Insurance Contracts", a new industry wide accounting standard that has changed the way it accounts for insurance and reinsurance contracts, including measurement, income statement presentation and disclosure. The Committee has continued to monitor the implementation of systems, processes, and operating model to support this new financial reporting requirement. The discussions also centred around understanding and challenging the IFRS 17 results and their presentation and disclosure. The Committee were pleased to review and approve the half year 2023 accounts which reported on an IFRS 17 basis externally for the first time.

In 2023, the Committee dedicated time to review and approve sustainability and TCFD reports, including the basis of reporting and processes, risks and controls on the calculation of the TCFD metrics.

The Group continued to strengthen its non-financial controls and governance arrangements, and throughout the year, the Committee approved a number of policies that fall within its remit. The Committee had oversight of the Group's compliance, Whistleblowing Policy and procedures for detecting fraud as well as the prevention of bribery and market abuse. In addition, the Committee focused on information security, cyber security, cloud security as well as training on physical assets security. The Committee received oversight reviews of PIC's IT related critical outsourcers.

During the year, the Committee spent time reviewing the Group's quarterly operating performance updates and half year and full year financial statements, and remained conscious of macro-economic factors impacting the Group.

The Committee received regular updates from Internal Audit and Compliance on their reviews.

The Committee reviewed and recommended to the Board the Group's assessment of going concern and viability of the business, which the Committee is required to review under the UK Corporate Governance Code.

Committee activities during 2023

Other activities of the Committee in 2023 included the following:

- Approved the PICG half year report, and the Solvency and Financial Condition Report.
- Reviewed the 2022 Annual Accounts and recommended to the PIC and PICG Boards for approval.
- Reviewed and approved the policy and methodology for Transitional Measures and Technical Provisions recalculation.
- Reviewed and approved the results of the actuarial valuation of PIC.
- Reviewed and approved the Market Consistent Embedded Value report.
- Reviewed the appropriateness of the Group's key accounting policies, issues and significant judgements related to the financial statements.
- Reviewed the process and stress testing undertaken to support the Group's viability and going concern statements.
- Reviewed and approved a new Insurance Accounting Policy which describes the methodology used for the accounting of insurance and reinsurance contracts under IFRS 17.
- Reviewed and approved the Internal Audit Charter.
- Approved the 2023 year end methodologies and assumptions.
- Approved the Valuation of Actuarial Liabilities Policy.
- Approved the 2024 annual Compliance Monitoring Plan.
- Approved the 2024 Integrated Assurance Plan.
- Reviewed the Money Laundering Reporting Officer's report.
- Reviewed and received regular reports from the Compliance function in relation to financial crime, whistleblowing and data protection.
- Received reports and updates from the Actuarial Function Holder in respect of validation of technical provisions and year end basis and assumptions.

Audit Committee report continued

Whistleblowing

The Committee reviewed the adequacy of the Group's whistleblowing policies and procedures, ensuring that such arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Committee was satisfied that these remain adequate.

Fair, balanced and understandable statements

The Committee considered, satisfied itself and recommended to the Board that the processes and procedures in place ensure that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders and stakeholders to assess the Group's position and performance, business model and strategy, and the business risks it faces. To make this assessment, the Committee received copies of the Annual Report and Accounts, to review during the drafting process to ensure that the key messages were aligned to the Group's position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables. The Committee provided feedback and the Annual Report was amended accordingly, ahead of final approval.

Internal Audit and Integrated Assurance Plan

The Committee monitors the activity, role and effectiveness of the Group's Internal Audit function and is responsible for the appointment or removal of the Chief Internal Audit Officer. The Committee meets regularly with management, the Chief Risk Officer, the General Counsel, and the Chief Internal Audit Officer to review the effectiveness of internal controls, risk management and compliance processes.

Each year an annual Integrated Assurance Plan, which covers the Internal Audit Plan, the Compliance Monitoring Programme and Risk Reviews, is presented to the Committee, which reviews and challenges it, if necessary, before recommending it to the Board for approval. The annual integrated assurance plan helps the Board in discharging its responsibilities of oversight of the Group's systems of controls and risk management. Towards the end of the year, the Committee reviewed and approved the 2024 Annual Compliance Monitoring Plan; it also recommended the 2024 Integrated Assurance Plan to the Board.

During 2023, the Committee continued to receive regular updates from the Chief Internal Audit Officer on all Internal Audit matters and reports. This included approval of the Internal Audit Charter.

Towards the end of this year, an external quality assessment of the Internal Audit function was conducted by management consulting firm, Protiviti. The review was conducted by a set of interviews, questionnaires, and reviews to understand if the internal audit department is in line with the IIA's Standards for the profession. It also provides significant insights about the Internal Audit department, such as its methods, its team members and its interactions with management. The Committee considered the results of the review and is satisfied the Internal Audit function had the relevant experience and expertise for the Group and engages well with the wider business. It was recognised that adequate Internal Audit resource was in place to keep up with the growth of the Group. A number of actions were agreed following the review which are being addressed by Internal Audit.

During the year, the Internal Audit function underwent structural team changes including the appointment of a new Chief Internal Audit Officer in the first half of 2023.

External auditor

The Audit Committee has the overall responsibility for overseeing the relationship, performance and fees of the external auditor, KPMG. This includes making recommendations to the Board in relation to its appointment, re-appointment and removal.

The lead Audit Partner attended all Committee meetings during 2023. The Committee has confirmed that it was satisfied that KPMG remained independent and objective throughout the year. During 2023, the Committee reviewed the external auditor's plan, for the audit of the Group's financial statements, which included key areas of scope of work, key risks on the financial statements, and the proposed audit fee and terms of appointment.

Tenure and effectiveness

KPMG has been the external auditor for the Group for the last 17 years, with a tendering process last completed in 2016. The Committee has taken due regard of the current Audit Directive and FRC guidance in respect of audit tendering. The Committee approved the rotation of auditors from 1 January 2026, as required, meaning KPMG will perform its final audit for the full year 2025 financial statements. The Committee has proactively started engagement with prospective audit firms as part of its preparations.

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves the completion of a questionnaire by a targeted group that has regular interactions with KPMG. The targeted group includes: the CEO, CFO, Chief Actuary, Financial Controller, and individuals from the business. The Committee was provided with a summary of responses and held a private session to discuss the results to assist with its considerations. Feedback demonstrated that KPMG was performing largely as expected. However, some areas for improvement were highlighted and discussed with the lead Audit Partner.

Non-audit fees

To ensure the continued independence of the external auditor, the Group has put in place a Non-Audit Services Policy, which is reviewed annually by the Committee. The policy places a 70% cap on non-audit services relative to the statutory audit fees, with any fees over £25,000 requiring approval from the Committee. The Committee is satisfied that the Group was compliant with the Financial Reporting Council's Ethical and Auditors Standards and the UK Corporate Governance Code in relation to the scope and maximum permitted level of fees incurred for non-audit work by KPMG during the year.

Other disclosures

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

Significant issues throughout the year were dealt with as follows:

Area of focus	Actions taken by the Committee
IFRS 17 methodology and implementation	The Committee reviewed progress made in preparation for reporting under IFRS 17 including the production of full year end notes and disclosures. The Committee reviewed and approved the full year 2022 and the half year 2023 results on an IFRS 17 reporting basis.
Valuation basis and assumptions	The Committee continued to review and approve the valuation basis and assumptions for financial reporting. In-depth discussions were held on inflation, longevity and MCEV cost of capital.
FRC Corporate Governance Reforms	The Committee considered the implications of the draft FRC Corporate Governance reforms which propose a number of changes, including the Board's making an annual declaration of the effectiveness of the risk management and internal controls systems. KPMG held a training session to outline the key implications for PIC.
TCFD reporting	The Committee reviewed the TCFD disclosure and discussed the level of assurance provided over key sustainability related metrics. The Committee satisfied itself that the Group's TCFD disclosure was appropriate.

Committee performance

The Committee's performance was reviewed as part of the 2023 External Board effectiveness evaluation. Further information can be found on page 96.

Looking forward to 2024

The focus of the Committee during 2024 will be to continue embedding IFRS 17 and to ensure we are ready for the proposed corporate governance reforms. The Committee will also continue to oversee the implementation of the recent Solvency UK proposals into the Group's financial reporting processes and controls.

Investment and Origination Committee report

Arno Kitts
Chair of the Investment and Origination Committee

Committee role and membership

The Investment and Origination Committee (the "Committee") is responsible for overseeing the management of the Investment Policy and investment strategy for PIC, and for providing oversight of the operation of PIC's investment portfolios within the strategic and risk frameworks. It is also responsible for overseeing PIC's new business and reinsurance origination within established strategy and risk frameworks, including conduct risk. In practice, this involves reviewing proposals of investments including new asset classes, approving entry into new transactions, and overseeing the use of both internal and external fund managers as well as the use of custodians. The Committee ensures the integration of ESG risks, including climate change, within the Investment Policy.

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

Other regular attendees at Committee meetings during 2023 included: CEO, CFO, CRO, Chief Investment Officer, Chief Origination Officer, and General Counsel.

More detail on the skills and experience of the Committee members can be found on pages 82 to 87.

Meetings held in 2023

		Scheduled meetings	Meetings attended
Arno Kitts (Chair)	INED	4	4
Jake Blair	NED	4	3
Julia Goh	INED	4	4
Jérôme Mourgue D'Algue	NED	4	4
Peter Rutland	NED	4	4
Wilhelm Van Zyl	INED	4	3
David Weymouth	NED	4	3

As Chair of the Investment and Origination Committee, I am pleased to present its report for the year ended 31 December 2023.

During the year, the Committee's core duties remained unchanged and the usual activities relating to investment, new business and reinsurance origination remained in place.

Whilst market challenges and uncertainty remained, the Committee reviewed and was updated on the progress of new investment initiatives that had taken place over the past few years. This year's focus was on the consolidation of these initiatives and ensuring our operational readiness to changing market conditions and new business demands.

To support its ongoing work to assess whether assets remain appropriately invested and are in the best interests of policyholders, the Committee reviewed and approved the Investment Policy and updated delegations within the Group's governance framework.

The Committee considered the contribution to the portfolio performance from both strategic asset allocation and active investments undertaken in the year. Despite the market conditions, the origination pipeline throughout the year continued to grow and the Committee provided oversight and challenge of the core value metrics for proposed projects.

Throughout the year, Committee members attended ad hoc meetings to review and discuss in detail asset strategies for larger transactions. Each transaction was scrutinised and, where applicable, the Committee approved the asset strategy for recommendation to the Board.

Committee focus during 2023

The Investment and Origination teams provide the Committee with significant support to help it discharge its responsibilities. The Investment team makes recommendations regarding the Investment Policy and strategy, PIC's hedging exposure, and pricing portfolios for deals. Meanwhile, the Origination team recommends entry into new origination transactions as well as the pricing aspects.

In 2023, the Committee dedicated time to consider the integration of PIC's ESG investment approach and strategy to achieve its Net Zero commitment. Further information on PIC's sustainability strategy can be found on pages 49 to 57. We also spent time on overseeing the progress made by PIC in embedding ESG into the day-to-day activities which are under the oversight and remit of the Committee.

In September 2023, the Committee approved PIC's Stewardship Policy. The policy sets out PIC's approach to stewardship within its investment portfolio, including the responsible allocation of capital to create long-term value. In H2 2023, we were pleased to see that PIC had been successful in its application to the FRC UK Stewardship Code, highlighting our enhanced approach to stewardship reporting.

The Committee considered in detail an Affordable Housing strategy to support the provision of safe, secure homes that people can afford to live in and that will have a lasting impact on current and future generations. The Committee attended a teach-in session hosted by Savills on affordable housing which provided an overview of the sector and a chance to explore the opportunities of this strategy.

As a result of the global macro-economic events, the Committee received regular updates in relation to the Group's liquidity position, including collateral and stress and scenario testing of liquidity. The Committee reviewed the appropriateness of PIC's liquidity management framework, ensuring it adheres to an acceptable level of liquidity risk and ensure that PIC can maintain its financial stability and solvency in the face of changing economic and market conditions.

Committee activities during 2023

Other activities of the Committee in 2023 included the following:

- Reviewed the Chief Investment Officer and the Chief Origination Officer management information
- Reviewed the investment resources including people, systems and processes
- Reviewed the origination resources including people, systems and processes
- Reviewed regular updates on GBP public credit insourcing
- Reviewed the changes to pricing assumptions
- Received quarterly updates on the Diversified Capital Fund performance estimates, activity and pipeline, and the DCF new business allocation
- Approved the Stewardship Policy
- Approved the liquidity strategy
- Approved the new Strategic Asset Allocation Framework
- Recommended to the Board for approval the asset strategies for larger transactions
- Reviewed and recommended to the Board for approval the derivatives strategy
- Reviewed and recommended to the Board for approval the following Pricing Governance documents:
  - New Business and Reinsurance Transaction Authorisation Schedule
  - Origination Policy
  - Investment Policy

Committee performance

The Committee's performance was reviewed as part of the 2023 external Board effectiveness evaluation. Further information can be found on pages 96 and 97.

Looking forward to 2024

In 2024, the Committee will continue to focus on navigating the portfolio through a potentially volatile macro-economic environment. It will continue to oversee PIC's new business and reinsurance origination. The Committee will continue to monitor hedging and liquidity, and focus on the development and integration of the Group's ESG capabilities and achieving its Net Zero commitment. The Committee will also be considering issues associated with larger new business transactions.

Nomination Committee report

David Weymouth
Chair of the Nomination Committee

Committee role and membership

The Nomination Committee (the "Committee") is responsible for keeping the size, structure and composition of the Board and its Committees under review, assisting the Board with developing robust succession plans for Board and senior executive positions, evaluating the balance of skills, knowledge, experience and diversity, and ensuring that there is a sufficient pipeline of talent to achieve the Group's strategy within its risk appetite.

The Committee leads the process for Board appointments and makes recommendations to the Board. It also works closely with the Company Secretary to ensure that arrangements are in place for a formal induction for new appointees to the Board and identifies ongoing training needs. The Committee assists the Board with its annual evaluation of effectiveness process and more detail on the process can be found on pages 96 and 97.

During the year, Judith Eden and Arno Kitts joined the Committee on 6 October and 1 December respectively. Stuart King stepped down on 6 October and Mark Stephen stepped down on 31 December.

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

Other regular attendees at Committee meetings during 2023 included: the CEO, the General Counsel, the Chief People Officer, and external consultants.

More detail on the skills and experience of the Committee members can be found on pages 82 to 87.

Meetings held in 2023

		Scheduled meetings	Meetings attended
David Weymouth (Chair)	INED	5	4
Judith Eden	INED	1	1
Stuart King	INED	4	4
Arno Kitts[1]	INED	-	-
Josua Malherbe	NED	5	2
Jérôme Mourgue D'Algue	NED	5	5
Mark Stephen	INED	5	4

1. Arno Kitts joined the Committee on 1 December and there were no Committee meetings in December.

I am pleased to present the Nomination Committee report for the year ended 31 December 2023.

The Committee continued its focus on executive succession planning and oversaw a number of changes throughout the year. Dara McCann was appointed Chief People Officer in June 2023, following her initial appointment as Interim Chief People Officer in September 2022. Jay Shah also announced that he will be stepping down as Chief Origination Officer at the end of March 2024. The Committee oversaw the talent development and succession process to this role and recommended to the Board that Mitul Magudia be appointed as Deputy Chief Origination Officer from 1 August 2023, with a plan that he will succeed Jay as Chief Origination Officer on 1 April 2024. Mitul has been with the Group for 15 years and the Committee was pleased that the appointment was from existing talent within the Group.

As identified in 2022, there were several INEDs nearing the nine-year term. The Committee spent considerable time focusing on the successor to the Chair of the Audit Committee role, with Roger Marshall due to retire in August 2024. Following a formal and transparent search process, assisted by an external search agency, the Committee recommended to the Board the appointment of Andy Moss as successor to Roger as Chair of the Audit Committee. Andy joined the Board of PIC with effect from 1 September 2023 and the Board of the Group with effect from 1 January 2024. Further information on the search process can be found within this report.

The Committee also began the search process for a Senior Independent Director ("SID"), which will continue into 2024. As part of its discussions, it reviewed the current skills, knowledge and experience as well as diversity of gender and ethnicity of the Board. The Committee considered the long-term strategic direction of the Group and the relevant skills, experience and time commitments required for this role.

Another key focus of the Committee during the year was overseeing the Board Effectiveness Review, which comprised an externally facilitated evaluation in accordance with the Code. Further information on the Board Effectiveness Review can be found on pages 96 to 97.

Throughout the year, the Committee attended to other matters, such as approval of various policies, reviewed the Committee's terms of reference and carried out an annual review of the Board Diversity Policy and Board Diversity Targets and recommended to the Boards that these remain appropriate. Further details on matters considered by the Committee are provided on the following pages.

Committee's focus during 2023

Board composition, independence and tenure

As part of the 2023 external Board evaluation process, the composition of the PICG and PIC Boards was reviewed. It was noted that despite the Boards being large due to the ownership structure, there was a benefit from the wide range of skill set brought by shareholder nominated Directors and NEDs.

During the year, the Committee also reviewed the independence and tenure of the NEDs. No current Directors' tenures exceeded nine years and it was concluded that each NED remains independent and continues to make appropriate contributions to the Board.

Chairman and Non-Executive Directors' length of tenure

As at 31 December 2023[1]

As at 1 January 2024[1]

PIC Board

As at 31 December 2023[1]

As at 1 January 2024[1]

Key

Less than a year | 1–3 years | 3–5 years | 5–9 years

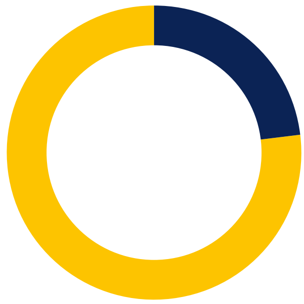
1. Mark Stephen stepped down from the PICG and PIC Boards on 31 December 2023. Andy Moss was appointed to the PIC Board on 1 September 2023 and to the PICG Board on 1 January 2024.

Gender diversity

PIC

Women	4 = 26.7%
Men	11 = 73.3%

PICG



Women	3 = 23.1%
Men	10 = 76.9%

Board succession

During the year, the Committee was focused on supporting the refresh of the Board's composition as two Non-Executive Directors are approaching the end of their tenure. The initial priority of the Committee was to identify a successor to the Chair of the Audit Committee as Roger Marshall is due to retire in August 2024 with the intention was to provide a lengthy handover period.

Andy Moss was identified as part of the search as appropriate successor for Roger Marshall and was appointed to the Board of PIC plc on 1 September and to the Board of the PICG on 1 January 2024. Andy replaced Mark Stephen who stepped down from the PICG and PIC Boards on 31 December 2023.

Andy also became a member of the Audit Committee on 1 September 2023, and will shadow Roger as Chair of the Audit Committee until he takes over from Roger on his retirement in August 2024.

The Committee also began the search process for a SID, which will continue into 2024.

Nomination Committee report continued

Director succession and induction process: Andy Moss

Search

In early January 2023, Russell Reynolds was engaged and was briefed by the Chairman of the Board, the CEO, the CFO, the SID, Mark Stephen and Wilhelm Van Zyl on the desired candidate specifications for Roger Marshall and Mark Stephen's roles, both of whom were reaching the end of their tenure.

Russell Reynolds does not have any connection with the Group or the independent Directors.

January 2023:
External search firm, Russell Reynolds, were engaged.

A candidate specification is shared with the Committee, with a focus on:
1. Insurance Experience
2. Financial Acumen
3. Experienced NEDs

Review and Identify shortlist

Russell Reynolds reviewed the candidate specification and conducted a broad market search, taking into consideration the Company's brief and critical factors.

February 2023:
The Committee reviewed the longlist of candidates and identified a shortlist who would be assessed and interviewed by the Board members.

Interviews

The shortlisted candidates were interviewed by the Chairman of the Board, the CEO, the CFO, Josua Malherbe, Jerome Mourgue D'Algue and Stuart King, who assessed whether their skills and experience would support the dynamics of the Board and the Company's overall strategic priorities.

March – April 2023
Interviews and meetings took place.

Appointment

The Committee reconvened to discuss the feedback following the interviews.

June 2023
The Committee discussed the proposal to appoint Andy Moss.

Following the Board's approval, Andy is offered the role and accepted it, with the appointment to the PIC plc Board being effective from 1 September 2023 and to the Company's Board from 1 January 2024.

Induction

The final step in the process was to provide a robust induction programme tailored to support the candidate in meeting their statutory obligations but providing a comprehensive introduction to the Company's strategic priorities, internal controls, and Risk Management Framework.

The induction programme was tailored and discussed in depth with the candidate.

September 2023 onwards:
Introductions with Executive Management and business units.

Andy also received reading material as part of his induction.

Executive succession

The Committee plays an important role in overseeing the development of a diverse pipeline of talent for succession to executive and senior management roles within the Group. This remained a key focus during the year and the Committee received regular updates on the talent and succession management project, which commenced in 2022.

As part of the project, the Committee has had oversight of PIC's refreshed capabilities, identifying and nurturing talent to support development of future leaders and performance management processes. The Committee continued to monitor the available pool of talent within the Group and the development plans for potential leaders.

Following the appointment of Dara McCann as Interim Chief People Officer in September 2022, the Committee recommended to the Board that her role should be made permanent as she had successfully integrated into the Executive Committee and was delivering the key responsibilities outlined in her role profile. Dara was appointed Chief People Officer in June 2023.

The Committee also had oversight of the succession planning process for the Chief Origination Officer, as Jay Shah is stepping down at the end of March 2024, after 15 years with the Group. The Committee recommended to the Board that Mitul Magudia be appointed as Deputy Origination Officer with effect from 1 August 2023 taking over Jay's role on 1 April 2024. Mitul joined the Group 15 years ago and has a wealth of knowledge and has led many notable transactions. Mitul also joined the Executive Committee from 1 January 2024.

Committee activities during 2023

Other activities of the Committee in 2023 included the following:

- Approved for recommendation to the Board, the permanent appointment of Dara McCann as the Chief People Officer
- Approved for recommendation to the Board, the appointment of Andy Moss as an INED
- Approved for recommendation to the Board, the appointment of Mitul Magudia as Chief Origination Officer
- Commenced the search process for Mark Stephen's successor
- Approved the Fit and Proper Persons Policy
- Approved the Board Diversity Policy and Board Diversity Targets
- Reviewed talent and senior management succession planning
- Reviewed and approved the Committee terms of reference
- Reviewed the time commitments of the NEDs
- Reviewed the Board's tenure and NED independence

Committee performance

The Committee's performance was reviewed as part of the 2023 External Board Effectiveness Evaluation. Further information can be found on pages 96 to 97.

Looking forward to 2024

The Committee will continue with the search process for the SID role alongside finding successors for INEDs who are due to rotate off the Boards. The Committee will also dedicate its time and attention to overseeing the implementation of the talent and succession management project to the wider workforce.

Remuneration Committee report

Judith Eden
Chair of the Remuneration Committee

Committee role and membership

The Board of the Company has established a Remuneration Committee (the "Committee") which oversees the establishment and implementation of a Remuneration Policy for employees and Directors. The policy is designed to support long-term business strategy and values of the Group as a whole, as well as promote effective risk management and comply with applicable legal and regulatory requirements.

In 2023, the Committee formally expanded its remit to other people matters which include assisting the Board in its overall responsibility for overseeing the development and measuring of the Group's culture, monitoring the Group's diversity and inclusion initiatives, employee engagement and general capacity and capability.

To assist the Committee in fulfilling its responsibilities, it has access to a number of resources including the Chief People Officer, Chief Risk Officer, HR function, Chairs of the Risk and Audit Committees, external remuneration consultants and input from relevant subject matter experts within the Group.

The Committee is majority independent and comprises six NEDs, four of whom are regarded as independent and the remaining two are shareholder nominated Directors.

During the year, Andy Moss was appointed to the Committee on 4 December 2023 and Mark Stephen stepped down on 31 December 2023.

Other regular attendees at Committee meetings during 2023 included: the CEO, the CFO, the Chief People Officer and the Head of Compensation and Benefits.

More detail on the skills and experience of the Committee members can be found on pages 82 to 87.

Meetings held in 2023

		Scheduled meetings	Meetings attended
Judith Eden (Chair)	INED	5	5
Stuart King	INED	5	5
Josua Malherbe	NED	5	4
Andy Moss[1]	INED	–	–
Peter Rutland	NED	5	3
Mark Stephen	INED	5	5
David Weymouth	INED	5	5

1. Andy Moss joined the Committee on 4 December and there were no Committee meetings in December.

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Committee report for the year ended 31 December 2023.

In 2023 the Committee took a more active role in assisting the Board in its overall responsibility for overseeing the development and measuring of the Group's culture, employee engagement and general capacity and capability. We monitored these closely through reporting from the CPO focusing on potential risks that may crystallise. The reporting included updates on the progress of strategic workforce planning, diversity and inclusion initiatives and the outcomes of the employee engagement survey.

We have tended to our usual remuneration-related activities and focused on further enhancements to the management of the incentive structure including continued refinement of the risk adjustment framework for remuneration. As part of this work, we have reviewed the effectiveness and operationalisation of the Remuneration Policy and In-year Adjustment, Malus and Clawback Policy and our financial and non-financial metrics to ensure they remain appropriate. We ensured that sustainability is incorporated within objectives, so these can be accordingly linked to the remuneration framework. We remained mindful of the Group's overall performance when discussing and approving incentive outcomes, especially in light of the continued market volatility and global macro-economic events.

We have worked closely with the Nomination Committee on new senior appointments and succession planning and considered remuneration packages accordingly.

As in previous years, the Committee also considered the valuation of the Group for the share-based incentive awards, exercise, and liquidity purposes. We obtained input from independent advisers to support our recommendations to the Board. The Company subsequently held its annual internal liquidity event.

As part of our other routine activities, we have also reviewed and approved various policies within the Committee's remit to ensure these continue to be updated for legislative and regulatory changes and remain reflective of current practices within the Group. We have considered our terms of reference and reviewed the results of the external board and committee evaluation process. More detail can be found on pages 96 to 97.

Committee focus during 2023

Throughout the year and at year end, the Committee considered the achievement of individual business and risk management objectives and reviewed the Company's targets to ensure they remained relevant and appropriately stretching, and in line with the Company's strategic priorities. We spent time deliberating context of business performance which included both financial and non-financial metrics, and the wider economic environment, noting the cost-of-living challenges our colleagues faced in 2023.

The Committee reviewed how sustainability related objectives are integrated into the framework. Customer satisfaction already forms part of metrics used to access annual bonus and these continue to be monitored for appropriate refinements.

More detail on the Group's performance can be found on pages 58 to 67.

As part of orderly succession planning, the Committee worked closely with the Nomination Committee on considering new senior appointments and determined the remuneration packages for the senior appointees, which were set in line with the current Remuneration Policy, including pension arrangements in line with those available to the wider workforce.

Committee activities during 2023

Other activities of the Committee in 2023 included the following:

- Conducted an annual remuneration review, including reviewing Group performance, risk metrics and bonus pool availability, and review of PIC's population of Material Risk Takers, and made recommendations to the Board
- Enhanced employee benefits with the addition of critical illness and group income protection
- Discussed and recommended the share valuation for the Company's share schemes, supported by independent Company valuation
- Approved and recommended to the Board the Remuneration Policy and NEDs' Expense Policy
- Approved the Remuneration Policy Statement and the People Policy
- Reviewed the operationalisation of the Malus and Clawback Policy and self-assessment of the effectiveness of the Remuneration Policy
- Reviewed Board and Executive annual remuneration proposals, and made recommendations to the Board
- Approved the remuneration packages for the new Chief People Officer and successor to the Chief Origination Officer
- Reviewed the results of the gender pay gap analysis and associated reporting
- Reviewed management information on employee related matters

Remuneration consultants and advice to the Committee

During the year, the Committee was assisted in benchmarking its remuneration structures and packages by Deloitte, and on the valuation of the Company for vesting of various Group share schemes and management incentive plans by PwC.

The Committee exercised independent judgement when evaluating advice from external consultants.

Remuneration Committee report continued

NED remuneration

The table below sets out our policy for NED remuneration as per the Group's NED Expense Policy. The Policy was approved in December 2023 and is reviewed annually.

Chairman's fees	The CEO and Senior Independent Director review the Chairman's fees on an annual basis and recommend them to the Committee for review. Once approved by the Committee, the Committee will recommend to the Board for approval.
Non-Executive Directors' fees	Fees are reviewed annually by the Chairman of the Board, with support from the CEO and the Human Resources team, who submit their proposals to the Committee for review. The Committee considers these and makes appropriate recommendations to the Board for approval. This process ensures that the NEDs are not involved in setting their own remuneration package. All NEDs receive a base fee and additional fees are paid for undertaking the extra responsibilities of: • Board Chairman; • Senior Independent Director; • Committee Chair; and • Committee membership.
Benefit	In accordance with the NED Expense Policy, the Group will reimburse the NEDs for all expenses reasonably incurred in the proper performance of their duties as Directors.
Share ownership	n/a

Diversity and inclusion

Throughout the year we have continued to take action that further promotes diversity and inclusion ("D&I") at PIC. The Committee received regular updates from the Chief People Officer on those matters.

Further information relating to D&I can be found on page 44.

Engagement with shareholders

Having shareholder nominated Directors on the Committee allows these shareholders to monitor and safeguard the sustainable growth of the Group through remuneration oversight and ensuring that remuneration does not encourage excessive risk taking but promotes the long-term success of the Group.

Engagement with the workforce

Management seek employee feedback through formal engagement surveys. Relevant insights and updates are shared with the Committee, and are appropriately taken into account when considering reviews and changes to the Group's Remuneration Policy and practices.

Gender pay gap

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

The PIC median gender pay gap for the year 2023 was 15.1% (FY2022: 12.5%). The PIC mean gap for the year was 11.4% (FY2022:10.2%). Our gender pay gap is driven by two primary factors:

- Only 33% of our employees are women
- Only 28% of employees in the upper quartile are women

We released our UK Pay Gap Report 2023 in March 2024 and it can be found at PIC Gender Pay Group 2023 (pensioncorporation.com).

UK Corporate Governance Code

In determining the remuneration arrangements, the Committee aims to ensure that it supports the execution of our strategy and promotes its long-term sustainable success. The Committee also reviews Executive remuneration so that it is aligned to the Group's purpose and values. In doing so, the Committee takes into consideration the wider employees' remuneration and emerging best practice.

The Committee believes that our remuneration arrangements are clear and transparent. Further information on our Remuneration Policy can be found on page 117.

The Committee is mindful of the Code's six principles when determining the Group's Remuneration Policy.

Clarity	• Our Remuneration Policy supports the financial and strategic objectives of the Group and aligns the interests of Executive Directors to those of our shareholders. • We are committed to transparent communication with all stakeholders, including shareholders (see 'Stakeholder engagement' section).
Simplicity	• We operate a simple remuneration structure comprising fixed pay elements along with short- and long-term variable elements. The annual bonus and Long Term Incentive Plans ("LTIPs") are focused and suitably stretching, whilst rewarding against key metrics of success for the business. • The structure provides transparency to Executive Directors, shareholders and the wider workforce.
Risk	• Our remuneration packages ensure risk events are reflected in remuneration outcomes. During the year, the Committee approved the Remuneration Policy Statement, which is intended to be consistent with and promote sound and effective risk management. It does not encourage risk taking. • LTIPs were introduced in 2021 to incentivise senior executives to deliver long-term sustained performance consistent with the Group's risk appetite. • Malus and clawback provisions apply to Deferred Bonus Share Plan awards and LTIP awards. • As part of the mid year and full year appraisal process, the entire workforce is assessed against risk management objectives.
Predictability	• The range of possible values of rewards to individual Executive Directors and any other limits are explained at the time of approving the policy.
Proportionality	• Individual awards are based on performance against a range of non-financial and financial measures, including risk performance and achievement of key strategic objectives during the year. • The Committee has the discretion to adjust the incentive elements of remuneration packages.
Alignment to culture	• Our incentive schemes drive behaviours consistent with the Company purpose, values and strategy.

Remuneration Policy

The Group's Remuneration Policy is designed to enable the Group to recruit, retain and motivate employees of the appropriate calibre to deliver its strategy over the long term. The policy is intended to be consistent with and promote sound and effective risk management, and to ensure that it does not encourage risk taking that exceeds the tolerated risk appetite of the Company. A description of the different remuneration elements for 2023 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive, taking into account the individual's skills, as well as the size and scope of their role and that of the Group. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Group to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all permanent employees: private health cover; critical illness and income protection, annual travel insurance; interest-free loans (up to £10,000) for season tickets; Cycle to Work scheme, parental leave and participation in the SAYE scheme.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Worksave Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Group's contribution that otherwise would have been made under the Worksave Pension arrangement.
Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All employees are eligible to be invited to participate in the plan. Awards are based on the achievement of annual objectives assessed against financial, customer service and risk management measures. For material risk takers, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the Chief Risk Officer. For Solvency II staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The Chief Risk Officer, with input from the Chair of the Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all of the above measures is assessed by the Remuneration Committee in the round. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil cost options. While the cash element of the bonus is paid upfront, for material risk takers at least 40% of annual bonuses is in the form of nil cost options which are subject to deferral over a three-year period using the Deferred Bonus Share Plan ("DBSP"), as detailed below.
Deferred Bonus Share Plan	The DBSP seeks to align the long-term interests of the Group for all senior management and other key individuals through bonus deferral. The deferred element is awarded in the form of nil cost options which vest after three years. For Solvency II Identified Staff, a minimum of 40% of any bonus award is deferred.
Long Term Incentive Plan	Selected senior individuals are invited, at the discretion of the Remuneration Committee, to receive LTIP share awards. These individuals are those tasked with delivering PIC's long-term strategic goals and to generate long-term shareholder value. LTIP awards vest after a three-year period, subject to the achievement of performance conditions, and a solvency and risk management underpin. Awards to the Executive Committee members also have a further retention period of up to two years.
Malus, clawback and in-year adjustment	Any bonus including annual bonus, deferred bonus share plans and the LTIP can be adjusted by the Remuneration Committee by applying malus, clawback and in-year adjustment provisions as determined in the relevant scheme rules. This includes, but is not limited to: • an event of significant financial losses or material misstatement of the accounts; • material failure of risk management; • discovery of a material error in relation to the assessment of annual performance on which an award was based; or • reasonable evidence of any act or omission by the participant which has contributed to material losses or serious reputational damage to the Group or any business area; or has amounted to serious misconduct, fraud or misstatement.

Committee performance

The Committee's performance was reviewed as part of the 2023 External Board Effectiveness Evaluation. Further information can be found on pages 96 to 97.

Looking forward to 2024

The Committee will continue to focus on:

- Further enhancing maturity of PIC's remuneration structures and risk adjustment framework
- Both non-financial and finance performance metrics and their alignment to PIC's strategic objectives
- Further roll out of the scorecard to a wider population of employees at PIC
- People related initiatives including diversity and inclusion, workforce planning, employee engagement results and what actions have been taken by executives to address issues
- Assisting the Board with monitoring PIC's culture

Risk Committee report

Sally Bridgeland
Chair of the Risk Committee

Committee role and membership

The Risk Committee (the "Committee") is responsible for providing oversight and advice to the Board about the current, emerging and potential risk exposures to the viability and future strategy of the Group. This includes recommending the risk appetite to the Board. The Committee also has responsibility for monitoring the effectiveness of the Risk Management Framework and oversight of the Internal Model. The scope of the Committee's work is designed to help the Board in delivering the Group's strategic objectives of long-term value growth, being a responsible corporate citizen, and making sure the Group is secure and sustainable.

The Committee comprises six NEDs, five of whom are regarded as independent pursuant to the Code and who the Group considers to be free of any relationship that would impact their impartiality in carrying out their responsibilities. The remaining NED is shareholder nominated. There were no changes to the membership of the Committee during 2023.

Other regular attendees at the Committee's meetings during 2023 included: the Chairman of the Board, the CEO, the CFO, the CRO, the Chief Investment Officer, the General Counsel, the Chief Actuary, the Actuarial Function Holder and the newly-appointed Chief Internal Audit Officer.

More detail on the skills and experience of the Committee members can be found on pages 82 to 87.

Meetings held in 2023

The Committee held five scheduled meetings and four additional sessions which were either deep dives, technical sessions or briefings on a variety of topics, including the development of the credit module of the Internal Model, the Group's Recovery and Resolution Plan and Stress and Scenario Testing ("SST").

Meetings held in 2023

		Scheduled meetings	Meetings attended
Sally Bridgeland (Chair)	INED	5	5
Judith Eden	INED	5	4
Stuart King	INED	5	5
Arno Kitts	INED	5	5
Roger Marshall	INED	5	5
Wilhelm Van Zyl	NED	5	5

I am pleased to present the Risk Committee report for the year ended 31 December 2023.

The Committee continued to focus on its primary role of providing oversight and advice to the Board on the current, emerging and potential risk exposures to the viability and future strategy of the Group. This has provided assurance to the Board that the Group's Risk Management Framework continues to be effective and robust.

The Committee has continued to spend a considerable amount of time on oversight of the Internal Model, which involved a detailed review of the credit module including independent validation of a new credit module. Throughout the year, the Committee has held technical sessions on the credit module, including the model design, model use, limitations and validation.

I am pleased to say that we have also seen further improvements to the Group's SST capabilities over the year. The Committee received SST results supporting the Recovery and Resolution Plan ("RRP") and Own Risk and Solvency Assessment ("ORSA") processes and an independent benchmarking report on PIC's capabilities and SST plan by EY. The Committee is looking forward to receiving further enhanced outputs of the SST in 2024 and beyond.

The Group continued to adapt to changes in the regulatory landscape including the implementation of the FCA's Consumer Duty in July 2023. The Committee received an update on the status of the Customer Programme and the key risks and issues for the Group in May 2023. In June 2023, a Board Customer Committee was established to consider the Customer Programme and implementation of the FCA's Consumer Duty into PIC's activities.

The Committee also assisted the Remuneration Committee in its recommendation to the Board on the remuneration process. It ensured that risk management was properly considered in setting performance objectives within the incentive structure and taken into account in the Remuneration Policy and awards. The further parts of this report details the Committee's other activities in the year. Additional information on PIC's approach to risk management can be found on pages 68 to 75.

Committee's focus during 2023

Operational resilience	The Committee continued to consider the Group's operational resilience and in March the Committee reviewed the annual Operational Resilience Self-Assessment and recommended this to the Board for approval. The Committee also reviewed any themes arising from risk incident reports, it considered operational risk scenarios for the 2023 ORSA and received an update from Business Services on the work underway to finalise a new target operating model.
Internal Model	One of the key responsibilities of the Committee is oversight of the Group's Risk Management Framework, and the Internal Model. In addition to the routine Internal Model work, the Committee has spent a considerable amount of time and attention reviewing the proposed changes to the credit module of the Internal Model.
ORSA and stress and scenario testing	The Committee considers annually the output from the ORSA process. The ORSA report provides an assessment of the effectiveness of the Group's Risk Management Framework, allowing the Board to challenge where further enhancements can be made. Additionally, it undertakes a forward-looking risk assessment and an overview of key areas of risk for PIC's business model, and the potential impact of these. In 2023, the Committee focused on overseeing PIC's work on improving its SST capability and future roadmap. The Committee also provided feedback on the non-financial stress testing scenarios and reviewed the output of that work.
Recovery and Resolution Plan	The Committee received a briefing on proposed changes to the RRP which had received external review and input. These changes included recovery scenarios, recovery actions and the run-off scenario and run-off planning. In September 2023, the Committee considered the updated Plan, and recommended this for approval by the Board.
Liquidity management	The Committee continued to provide oversight of the liquidity risks throughout the year following the market turbulence in September 2022. The Committee considered the findings and agreed actions of the Internal Audit report into Liquidity and Collateral.
ESG and climate risk	The Committee considered a proposed approach for incorporating climate change risk appetite statements and metrics into PIC's Risk Management Framework.
Emerging risks	The Committee continued to discuss emerging risks and their potential impact. The Committee reviewed and suggested further refinements to the Group's emerging risks dashboard, and received emerging risk deep dives and bulletins on key areas (e.g. Artificial Intelligence).

Committee activities during 2023

Other activities of the Committee in 2023 included the following:

Risk strategy, appetite and policy

- Reviewed PIC's Risk Appetite Framework and made recommendations to the Board on its continued evolution. During 2023, all risk appetite statements, tolerance and metrics were reviewed.
- Reviewed and approved Risk Function strategy and plans for 2024 which link to the overall Integrated Assurance Plan.
- Reviewed and discussed the risk approach for Project Cedar and large deals.

Risk oversight and monitoring

- Received regular risk updates from the CRO on the top risk areas and their assessment both on a forward and backward looking basis.
- Received an overview of emerging risks and suggested further refinements to the Group's emerging risks dashboard.
- Received a training session on counterparty risk.
- Reviewed risk incidents trends and material incidents and improvement plans.
- Reviewed the Actuarial Function's opinion on the 2022 Underwriting Policy and the adequacy of the 2022 reinsurance arrangements of PIC's insurance undertaking.
- Received regular updates on regulatory developments and interactions with the Regulators.

Internal model

- Reviewed the Internal Model Validation Report and the Internal Model Consolidated Annual Report, Internal Model drift analysis.

Governance

- Reviewed the performance of the Risk function and the CRO and was satisfied that both the CRO and the Risk function continue to operate effectively and in accordance with the Risk Function Mandate.
- Reviewed the Committee's terms of reference and recommended the updated version to the Board for approval.
- Approved the Risk Function Mandate, Actuarial Function Mandate and various policies which are within the Committee's remit and are subject to annual review.
- Reviewed the CRO report to the Remuneration Committee on risk matters to be considered in the annual remuneration review and setting the bonus pools.

Committee performance

The Committee's performance was reviewed as part of the 2023 External Board Effectiveness Evaluation. Further information can be found on pages 96 to 97.

Looking forward to 2024

Alongside its core activities, the Committee expects to provide enhanced oversight of the key initiatives, such as implementing Solvency UK Reform into the internal model.

Directors' Report

The Directors' Report for the year ended 31 December 2023 comprises pages 122 to 126 of this report, together with sections of the Governance Report set out on pages 88 to 98, which are incorporated by reference into this report and should be read as part of this report.

Corporate Governance statement

The Board and the executive management are committed to high standards of corporate governance and following the principles of the 2018 UK Corporate Governance Code ("the Code"), because they believe these underpin and promote the success of the Company for the benefit of its shareholders and stakeholders. The Company has applied all the principles of the Code and it has applied most of the provisions of the Code. Further details about the Company's application of the Code can be found in the Corporate Governance report on page 88.

In addition, the Group's subsidiary, Pension Insurance Corporation plc, has listed securities in issue and complies with its ongoing obligations, including as regards governance, under the FCA's Disclosure and Transparency Rules and Listing Rules and the Global Exchange Market's Listing and Admission to Trading Rules for Debt Securities. Further information on the Company's governing body and its Committees is included in the Corporate Governance report on pages 82 to 121.

PICG Directors and their interests

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

Name	Position	Appointed/Resigned
David Weymouth	Chairman	
Roger Marshall	Senior Independent Director	
Tracy Blackwell	Chief Executive	
Jake Blair	Director	
Judith Eden	Director	
Tim Gallico	Director	
Julia Goh	Director	
Stuart King	Director	
Arno Kitts	Director	
Josua Malherbe	Director	
Andy Moss	Director	Appointed 1 January 2024
Jérôme Mourgue D'Algue	Director	
Mark Stephen	Director	Resigned 31 December 2023
Wilhelm Van Zyl	Director	

One Director who held office during the financial year is a beneficiary of the Company's share-based award schemes, details of which are given in Note 7 to the financial statements. This Director received 134,557 ordinary shares of the Company upon vesting of certain schemes during the year (2022: one Director received a total of 566,583 ordinary shares).

Directors' and officers' 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.

Share capital and major shareholders

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 19 to the financial statements. The following are the major shareholders of PICG as at 31 December 2023:

	No of ordinary shares held as at 31 December 2023	% of the issue ordinary share capital as at 31 December 2023
Reinet PC Investments (Jersey) Limited on behalf of Reinet Investments S.C.A.	660,381,700	49.49
Luxinva S.A. on behalf of ADIA	245,710,540	18.42
Blue Grass Holdings Limited on behalf of CVC	231,825,290	17.37
MP 2019 K2 Aggregator, L.P. on behalf of HPS	136,508,422	10.23

Own shares

At 31 December 2023, 8,047,431 ordinary shares of the Company were held in an Employee Benefit Trust (2022: 5,481,028), in accordance with the Accounting Policy in Note 7 to the financial statements.

Dividends

The Directors of the Company proposed a final dividend for the year of 11.0 pence per ordinary share (2022: 7.50 pence).

Statement on the Company's business relationships with suppliers, customers and others

Information on how the Directors have had regard to theneed to foster effective business relationships with suppliers, customers and others, including detail on how they have discharged their duty under s.172 of the Companies Act 2006, is included in the Strategic Report on pages 38 to 43.

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.

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.

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.

Financial instruments

The information relating to the Company's financial instruments is included in Note 12 to the financial statements.

Auditor

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

Disclosure of information to auditor

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

Internal controls and risk management system

Section 4 of the Code sets out the requirements in relation to audit, risk and internal controls. The Board has overall responsibility for the system of risk management and internal controls, and for reviewing its effectiveness. The Board has delegated responsibility for monitoring this system and reporting on its effectiveness to the Board to the Audit Committee and the Risk Committee. Throughout the year, the Audit Committee and Risk Committee received and reviewed regular management reports in relation to internal controls and risk management to assure itself that the processes in place remain effective.

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, is devised by the Internal Audit, Compliance, Risk and Actuarial functions within the Group and 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.

The Board Risk Committee is responsible for exercising oversight, on behalf of the Board, of the key risks of the Group. It reviews the Group's Risk Appetite Statement and Enterprise Risk Management Framework and makes recommendations to the Board. The Audit Committee is responsible for oversight and advice to the Board on matters relating to financial reporting and it will review the Group's internal controls including internal financial controls.

The performance of the Group's businesses is reported regularly to senior management and the Board. Performance trends and forecasts, as well as actual performance against budgets and prior periods, are monitored closely. Financial information is prepared using appropriate accounting policies, which are applied consistently.

Internal controls

The Group's risk management and internal controls system is designed to manage rather than eliminate the risk of failure to achieve business objectives. An internal control system can provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee reviews the Group's internal control systems and both the Audit Committee and the Risk Committee receive updates on the findings of Internal Audit's investigations at each meeting. Any significant matters are reported to the Board, which retains overall responsibility for the effectiveness of the full scope of internal controls across the Group. A description of the key activities in respect of internal controls covered by the Audit Committee is provided in the report on pages 104 to 107.

The audit programme includes obtaining an understanding of the processes and systems under audit review, evaluating the design of controls, and testing the operating effectiveness and outcomes of key controls. The Chief Internal Audit Officer reports regularly to the Audit Committee and the Risk Committee. The Chief Internal Audit Officer has reporting lines to the Chair of the Audit Committee, the Audit Committee, the Executive Committee and the Board and directly reports to the Chief Executive.

In September 2023, the Board and the Audit Committee received a short training session on the scope of corporate governance reform consultation on 'Restoring trust in audit and corporate governance', which if implemented as proposed, would extend the scope of the Audit Committee's role and is designed to strengthen the Board's accountability for the effectiveness of the risk and internal controls framework.

The Board is fully committed to ensuring that the Group's internal controls and risk management systems are in line with best practice and address any new requirements within the expected timeframes.

Risk management

The Board has overall responsibility for setting the Group's risk appetite and ensuring that there is an effective Risk Management Framework in place and has delegated responsibility for review of the risk management methodology and system to the Risk Committee.

Risk management is integrated into the Group via the Enterprise Risk Management ("ERM") Framework. This framework comprises PIC's system of governance, policies, the Risk Appetite Framework and the application of the risk management system. The ERM provides a robust assessment of all of the principal risks, topical and emerging risks and integrated risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.

Directors' Report continued

The Risk Committee reviews the processes for, and outputs from, the Group's ERM activity, through which the Group's key risks and related controls are identified, evaluated and managed. It also reviews the effectiveness of the risk management system on behalf of the Board and keeps under review ways in which the control and assurance arrangements can be enhanced. A Management Risk Committee assists the Risk Committee in reviewing the risk management system and undertaking reviews of assurance risk reports prior to Audit and Risk Committee meetings.

This year, the Risk Committee also reviewed PIC's Risk Appetite Framework and made recommendations to the Board on its continued evolution. The Risk Committee continued to discuss emerging risks and their potential systemic impact and the Risk Committee reviewed and suggested further refinements to the Group's emerging risks dashboard.

Further details of the Group's risk management systems and controls in place to manage the Group's key risks can be found in the Strategic Report on pages 71 to 75. Additionally, the Risk Committee report outlines the main activities undertaken in respect of risk strategy, appetite, policy and risk oversight and monitoring are outlined on pages 120 to 121.

Conclusion on internal controls and risk management

The Audit Committee and Risk Committee are pleased to confirm that they were able to provide the Board with assurance that the Group's internal controls systems and risk management procedures are effective, efficient and operating as required.

The Board has reviewed the effectiveness of the system of internal controls and risk management, for the year ended 31 December 2023 and up to the date of signing of these financial statements and the Annual Report. The Board believes that the internal control and risk management systems of the Company are effective and adequate and it has not identified any weaknesses sufficient to cause material misstatement or loss which requires disclosure in the financial statements.

Employee engagement and policies

Details of how the Company has engaged with employees during the year can be found in the 'Our people and culture' section of the Strategic Report and the 'Stakeholder engagement' section of the Corporate Governance Report. In addition, details of how the Board has considered the interests of the Company's employees in key decision making can be found in the section 172 statement included in the Strategic Report and the Corporate Governance Report.

The Company is committed to keeping employees informed of the performance of PIC and this is achieved through regular updates from the CEO and senior management through the online Town Halls and company-wide away days known as the Big PICnic and a TyPICal Day. These facilitate a two-way dialogue between the Executives and PIC's employees.

PIC gathers the views of its employees through formal and informal engagement methods that take place throughout the year. PIC's annual employee engagement survey asks employees how they feel about working at PIC and if the values and culture are reflected in the Company's ways of working and working practices. The Board also receives regular updates from the Chief People Officer, which include employee issues and an update on the annual employee survey. PIC recognises the critical role that its senior management continues to play a critical role in engaging with employees across the Company and ensuring that they are kept up to date on key business developments related to our performance and strategy.

The Group operates an annual SAYE scheme to encourage greater employee involvement. Information about the scheme is shared with employees via email and a live session with questions and answers and further information is provided to employees via the Company's employee intranet. The scheme is available to all employees and provides the opportunity to acquire the Company's shares at a favourable price. Further information can be found on page 46.

Diversity and inclusion

PIC believes that having and maintaining a diverse and inclusive workforce is a key factor for it to be a successful business. PIC's Diversity and Inclusion Policy aims to promote a consistent and fair approach to employment, and this stems from our values and capability framework. PIC's approach is to go beyond the requirements of the Equality Act 2010 and PIC believes in consistency and fairness across all people policies, procedures and practices.

PIC seeks to ensure that every employee is treated equally and fairly, in a working environment free from bullying, harassment and discrimination and it is a place where our employees are proud to work. PIC recruits and promotes the best person for each role, based on objective job-related criteria with due regard for their qualifications and experience.

PIC actively encourages the development of all Company employees to enable them to reach their full potential. The Diversity and Inclusion Policy outlines the Group's approach to training and progression. PIC actively encourages all employees to maintain, develop or increase knowledge, for the purpose of maintaining a high standard of professional practice. All employees are required to complete a minimum of ten hours of Continuing Professional Development every year and employees are encouraged to advantage of the learning and development opportunities available via PIC Learning or external courses, where appropriate.

Employees with disabilities

The Group is an equal opportunities employer and welcomes applications from all individuals, including those with a disability. We are fully committed to supporting applications made by disabled persons and make reasonable adjustments to their environment where possible (having regard to their particular aptitudes and abilities). We are also responsive to the needs of our employees. As such, should any employee become disabled during their time with us, we will actively re-train that employee and make reasonable adjustments to their environment where possible, in order to keep them in employment with us. We encourage all employees to take advantage of the learning and development opportunities available. All training applications are assessed on how this will benefit the individual and the Company. This assessment includes training in their current role, career progression and/or promotion.

Other disclosures

Political donations

The Company made no political donations during the year (2022: £nil).

Overseas branches

The Group does not have any branches outside the United Kingdom.

Greenhouse gas emissions

In accordance with Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and Companies Act 2006 (Strategic Report and Directors' Report) Regulations, we are required to report on our GHG emissions including our UK energy use and carbon emissions. The information in the table below represents our GHG and energy use for which PIC is responsible:

	Current reporting period (UK and offshore)	2022 reporting period (UK and offshore) (restated[1])
Total energy consumption used to calculate emissions in kWh	**1,271,958**	1,479,280
Emissions from combustion of gas in tCO_2e (Scope 1)	**32.2**	36.0
Emissions from purchased electricity in tCO_2e (Scope 2, location-based)	**226.9**	247.9
Emissions from purchased energy in tCO_2e (Scope 2, market-based)	**400.1**	450.1
Total gross tCO_2e based on above	**259.1**	283.9
Intensity ratio: gross tCO_2e/floor area	**0.05**	0.06
Intensity ratio: gross tCO_2e/full-time equivalent	**0.51**	0.68

1. We have restated prior year figures. For Scope 1 emissions, at FY22 ,gas use was estimated based on the Real Estate Environmental Benchmark from the Better Buildings Partnership. However, actual data was available for gas use in 2022 and we have therefore restated based on this data. For Scope 2 emissions, the energy use data used as at FY22 did not include PIC's full electricity use in 2022 and we have restated to account for this.

Reporting terminology definitions

Scope 1: Direct emissions that are owned and controlled by the Company.

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

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

Reporting period

Our GHG reporting period is the same as our financial year: 1 January to 31 December 2023.

Methodologies

The data detailed in this table represents emissions and energy use for which Pension Insurance Corporation Group Limited is responsible. To calculate our emissions, we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard, along with the UK Government GHG Conversion Factors for Company Reporting 2023 for Scope 1 and location-based Scope 2 emissions, and the Association of Issuing Bodies Residual Mix factors for market-based Scope 2 emissions. We have calculated our emissions for 2022 and 2023 in line with our financial years. Electricity estimates included in our totals are derived from actual data in the same reporting period. Natural gas consumption is estimated based on actual data for the office building, of which 50% is assumed to be used by PIC. We do not have any fuel used for company travel to report.

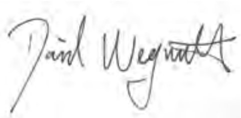
Actions

As the site has already undertaken a significant number of measures, including installing LEDs and PIRs throughout and using efficient laptops, there are limited options for savings within the building. Pension Insurance Corporation Limited worked to shut down floors when they were not occupied due to staff working from home under the new hybrid working system as an energy efficiency measure in the reporting period detailed above.

Going concern and viability

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.

On behalf of the Board



David Weymouth
Chairman

14 Cornhill, London EC3V 3ND

26 March 2024

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Statement of Directors’ responsibilities

Statement of Directors’ responsibilities in respect of the Annual Report, 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 UK-adopted international accounting standards 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 the UK-adopted 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

26 March 2024

Independent Auditor's Report
To the members of Pension Insurance Corporation Group Limited

Opinion
We have audited the financial statements of Pension Insurance Corporation Group Limited ("the Company") for the year ended 31 December 2023 which comprise the Statement of comprehensive income for the Group, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2023 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 have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

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

Fraud and breaches of laws and regulations – ability to detect
Identifying and responding to risks of material misstatement due to fraud
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to the 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, Investment and Origination and Credit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management and 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 financial targets, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting judgement with respect to the determination of coverage units, which ultimately determines how revenue is released and recorded in each period.

We also identified fraud risks related to the valuation of insurance contract liabilities and valuation of private investments in response to the possible pressures on management to meet the financial targets.

For insurance contract liabilities, the risk relates to the particularly judgmental assumptions of base mortality, mortality improvements, expenses including maintenance expenses and credit default assumption. We involved actuarial specialists to assist in our challenge of management. Our procedures in relation to this fraud risk included challenging the key assumptions in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the business, trends in experience, policyholder behavior and economic conditions and also by reference to market practice.

For valuation of private investments, the risk relates to the internal credit ratings assumptions. We engaged our credit rating specialists to assess the appropriateness of the internally assigned credit ratings.

To address the fraud risk related to management override and fraudulent revenue recognition, 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 including specific words based on our risk criteria, those posted to seldom used accounts and those entries containing significant estimates posted at the end of the period (period-end adjustments).
- Assessing whether the judgements made in regard to coverage unit methodology are indicative of potential bias.

Identifying and responding to risks of material misstatement related to 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 discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

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

Firstly, the 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. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity and certain aspects of Group legislation recognizing the financial 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 operational 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 fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 126, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

James Anderson

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

26 March 2024

Statement of comprehensive income for the Group
for the year ended 31 December 2023

	Note	2023 £m	2022 (restated)* £m
Insurance revenue	2	**2,187**	1,942
Insurance service expense	2	**(1,877)**	(1,563)
Net expense from reinsurance contracts held	2	**(108)**	(168)
Insurance service result		**202**	211
Total investment return/(loss)	3	**3,210**	(12,358)
Net finance (expense)/income from insurance contracts	3	**(3,327)**	13,655
Net finance income/(expense) from reinsurance contracts	3	**482**	(1,177)
Net financial result		**365**	120
Other operating expenses	4	**(173)**	(145)
Other finance costs		**(91)**	(90)
Profit before taxation		**303**	96
Tax (charge)/credit	8	**(64)**	59
Profit and total comprehensive income for the year		**239**	155

* 31 December 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts". See Note 1 for details.

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 134 to 189 form an integral part of these financial statements.

Statement of financial position for the Group
as at 31 December 2023

	Note	**31 December 2023 £m**	31 December 2022 (restated)* £m	1 January 2022 (restated)* £m
Assets				
Property, plant and equipment		**–**	1	1
Right of use assets	10	**40**	4	17
Investment properties	11	**663**	244	173
Financial investments	*12*	***39,118***	*31,875*	*46,171*
Pledged financial investments	*12*	***7,731***	*9,343*	*5,227*
Total financial investments		**46,849**	41,218	51,398
Derivative and other financial assets	13	**27,977**	22,451	15,018
Deferred tax assets	14	**322**	357	67
Reinsurance contract assets	15	**2,321**	660	1,966
Prepayments		**9**	8	6
Receivables	12	**45**	81	22
Cash and cash equivalents	12	**312**	201	199
Total Assets		**78,538**	**65,225**	**68,867**
Equity				
Share capital	19	**2**	2	2
Share premium	21	**873**	873	873
Treasury shares	21	**(31)**	(20)	(19)
Merger reserve	21	**34**	34	34
Tier 1 notes	20	**444**	444	444
Capital reduction reserve	21	**1,055**	1,055	1,055
Share-based payment reserve	21	**21**	20	21
Retained profit	21	**2,070**	1,967	1,847
Total Equity		**4,468**	**4,375**	**4,257**
Liabilities				
Insurance contract liabilities	15	**41,206**	33,713	45,827
Borrowings	16	**1,789**	1,592	1,590
Lease liabilities	10	**40**	9	20
Derivative and other financial liabilities	13	**30,830**	25,348	16,997
Current taxation		**–**	27	38
Other payables	12	**16**	8	16
Accruals	12	**189**	153	122
Total Liabilities		**74,070**	**60,850**	**64,610**
Total Equity and Liabilities		**78,538**	**65,225**	**68,867**

* 31 December 2022 and 1 January 2022 comparatives have been restated following the Group's adoption of IFRS 9 "Financial Instruments" and IFRS 17 "Insurance Contracts". See Note 1 for details.

The accounting policies and notes on pages 134 to 189 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 March 2024 and were signed on its behalf by:

Tracy Blackwell
Director
Registration number: 09740110

Statement of changes in equity for the Group
for the year ended 31 December 2023

31 December 2023	Note	**Share capital £m**	**Share premium £m**	**Treasury shares £m**	**Merger reserve £m**	**Tier 1 notes £m**	**Capital reduction reserve £m**	**Share-based payment reserve £m**	**Retained profit £m**	**Total £m**
At beginning of year (restated)*		**2**	**873**	**(20)**	**34**	**444**	**1,055**	**20**	**1,967**	**4,375**
Total comprehensive income										
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**239**	**239**
Transactions with owners										
Dividend	9	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(100)**	**(100)**
Tier 1 note coupon	20	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(33)**	**(33)**
Exercise of share-based payment schemes	21	**–**	**–**	**7**	**–**	**–**	**–**	**(7)**	**–**	**–**
Share-based payment charge	7, 21	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Share purchases and share scheme settlements	21	**–**	**–**	**(18)**	**–**	**–**	**–**	**–**	**(3)**	**(21)**
At end of year		**2**	**873**	**(31)**	**34**	**444**	**1,055**	**21**	**2,070**	**4,468**

31 December 2022	Note	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Tier 1 notes £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year (as previously reported)		2	873	(19)	34	444	1,055	21	2,055	4,465
IFRS 17 transitional adjustment, net of tax		–	–	–	–	–	–	–	(208)	(208)
At beginning of year (restated)*		2	873	(19)	34	444	1,055	21	1,847	4,257
Total comprehensive income										
Profit for the year		–	–	–	–	–	–	–	155	155
Transactions with owners										
Dividend	9	–	–	–	–	–	–	–	–	–
Tier 1 note coupon	20	–	–	–	–	–	–	–	(33)	(33)
Exercise of share-based payment schemes	21	–	–	9	–	–	–	(9)	–	–
Share-based payment charge	7, 21	–	–	–	–	–	–	8	–	8
Share purchases and share scheme settlements	21	–	–	(10)	–	–	–	–	(2)	(12)
At end of year (restated)*		2	873	(20)	34	444	1,055	20	1,967	4,375

* 31 December 2022 and 1 January 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts". See Note 1 for details.

The accounting policies and notes on pages 134 to 189 form an integral part of these financial statements.

Group statement of cash flows
for the year ended 31 December 2023

	Note	2023 £m	2022 (restated)* £m
Cash flows from operating activities			
Profit for the year		**239**	155
Adjustments for:			
Interest income		**(1,421)**	(1,219)
Other investment loss/(income)		**10**	(197)
Loss on redemption of subordinated debt	3	**10**	–
Finance costs		**91**	90
Tax expense/(credit)	8	**64**	(59)
Equity settled share-based payments	7	**8**	8
		(1,238)	(1,377)
Changes in operating assets and liabilities			
Increase in investment properties	11	**(419)**	(71)
(Increase)/decrease in financial investments	12	**(5,631)**	10,180
Increase in derivative and other financial assets	12	**(5,526)**	(7,433)
(Increase)/decrease in reinsurance contract assets	15	**(1,661)**	1,306
Increase in prepayments		**(1)**	(2)
Decrease/(increase) in receivables		**54**	(56)
Increase in accruals		**36**	31
Increase/(decrease) in insurance contract liabilities	15	**7,493**	(12,114)
Increase in derivative and other financial liabilities		**5,482**	8,351
Increase/(decrease) in other payables		**8**	(6)
		(165)	186
Cash flows used in operating activities		**(1,164)**	(1,036)
Interest income received		**1,421**	1,219
Other investment (loss)/income		**(10)**	196
Taxation paid		**(72)**	(242)
Net inflow from operating activities		**175**	137
Cash flows from financing activities			
Payment of lease liabilities	10	**(5)**	(2)
Purchase of treasury shares		**(18)**	(10)
Share scheme settlements		**(3)**	(2)
Interest paid on subordinated debt		**(90)**	(88)
Coupon on Tier 1 notes	20	**(33)**	(33)
Issuance of subordinated debt	16	**495**	–
Redemption of subordinated debt	16	**(310)**	–
Dividends paid	9	**(100)**	–
Net outflow from financing activities		**(64)**	(135)
Net increase in cash and cash equivalents		**111**	2
Cash and cash equivalents at beginning of year		**201**	199
Cash and cash equivalents at end of year		**312**	201

* 31 December 2022 and 1 January 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments". See Note 1 for details.

The accounting policies and notes on pages 134 to 189 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2023

1. Accounting policies

Basis of preparation

Pension Insurance Corporation Group Limited 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 UK-adopted international accounting standards 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 Strategic Report on pages 68 to 75. 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 2024 business plan and the Group's Own Risk and Solvency Assessment ("ORSA"), both of which were approved by the Board in March 2024. Details of our financial position and solvency can be found in the Chief Financial Officer's review on pages 58 to 67.

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 Statement of comprehensive income 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 2023. This includes the adoption of IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments" in 2023 (see 'Adoption of new standards and interpretations issued' below for further details) and the consequential restatement of figures for the year ended 31 December 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).

In preparing the financial statements, climate change has not been a significant area of accounting judgement or estimation; please refer to Note 17(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 parent Company 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 contract 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.

Policy related judgements

Insurance/reinsurance contract liabilities/assets

The valuation approach applied involves the following key judgements:

- The method adopted to measure coverage units for the release of the Contractual Service Margin ("CSM").
- The method adopted to measure the risk adjustment.
- Assessing which internal expenses and overheads of the Group are directly related to the acquisition and fulfilment of an insurance contract.
- The method adopted for the release of the loss component for onerous contracts and the loss recovery component for related reinsurance contracts.

On transition to IFRS 17, judgement was required to assess whether sufficient, reasonable and supportable information was available to apply the retrospective approach and, in determining the approach to assess the fair value of contracts where the fair value approach has been applied. Please refer to the 'Changes in accounting policies' section of this note for further information on the retrospective versus fair value approach and Note 15(e) for further details of the other judgements.

Estimates

Present value of future cash flows

Future cash flows are valued based on the present value of the unbiased probability weighted projected cash flows of future benefit payments to policyholders and the cost of administering payments to policyholders. The key assumptions relate to future mortality, expenses, discount rates and inflation. Please refer to Note 15(e) for further details.

Risk adjustment

The risk adjustment for non-financial risk ("RA") is estimated using a selected confidence interval ("value at risk"), applied to probability distributions and risk correlations underlying our Solvency II Internal Model. Please refer to Note 15(e) for further details.

Financial instruments

Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discount them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment. For equity release mortgages ("ERMs"), key inputs also include assumptions relating to property prices. Where an instrument is neither traded on an active market or internally modelled, the Group uses valuations provided by independent fund managers. The relevant fair value disclosures are set out in Note 12.

Investment properties

The market value of the investment properties held at fair value are generally determined based on a valuation approach which applies an investment yield to the rental income. For properties with long-term leases, a discounted cash flow approach is used for the valuation of the lease. Please refer to Note 11 for further details.

Notes to the financial statements
for the year ended 31 December 2023 continued

1. Accounting policies continued
Changes in accounting policies
The Group has adopted IFRS 17 "Insurance Contracts" and IFRS 9 "Financial Instruments", including any consequential amendments to other standards, with a date of initial application of 1 January 2023. These standards have brought significant changes to the accounting for insurance and reinsurance contracts and financial instruments. As a result, the Group has restated certain comparative amounts and presented a third Statement of financial position as at date of transition of 1 January 2022. The effects of adopting IFRS 17 on the consolidated financial statements at 1 January 2022 are presented in the Statement of changes in equity.

The nature and effects of the key changes in the Group's accounting policies resulting from its adoption of IFRS 17 and IFRS 9 are summarised below. Restatements due to the implementation of IFRS 17 and IFRS 9 have been clearly highlighted throughout this report.

A: IFRS 17 Insurance Contracts
IFRS 17 replaces IFRS 4 and provides a comprehensive approach for accounting for insurance contracts, including measurement, income statement presentation and disclosure. It has a significant impact on the Group's IFRS results. Under IFRS 17, insurance contracts are aggregated into groups for recognition and measurement purposes.

The key differences between the Group's measurement and presentation of results for 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 as incurred.	Insurance contracts are measured at the unbiased, probability-weighted estimate of the present value of future cash flows plus an allocation of insurance acquisition cash flows and an explicit RA for non-financial risk.
Profit at initial recognition	Any day one profit or loss (i.e. excess or deficit of premium over fulfilment cash flows) is recognised immediately in profit and loss.	Any new business profits at inception are deferred as a CSM on the Statement of financial position. If a group of insurance contracts is onerous (i.e. the fulfilment cash flows exceed the premium payable), a loss is recognised immediately.
Measurement subsequent to initial recognition	The impacts of all assumption changes are recognised immediately in profit and loss.	The fulfilment cash flows of groups of insurance contracts are measured at the reporting dates using current estimates. The impacts of financial assumption changes (e.g. interest rates, inflation, liquidity premiums) are recognised immediately in profit or loss and have no impact on the CSM. To the extent that contracts remain profitable, the impact of non-financial assumption changes (e.g. longevity and expenses) relating to future service are spread over time via the CSM based on locked discount rates at inception. The CSM of a group of insurance contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period, which is determined by considering for each contract the quantity of the benefits provided and its expected coverage duration.
Statement of comprehensive income	Premiums, claims, expenses and movements in insurance liabilities and reinsurers' share of insurance liabilities are presented separately in the Statement of comprehensive income. Premiums and claims in relation to longevity swaps are presented net.	The Group's results are analysed in the Statement of comprehensive income between: (i) The Insurance service result, comprising the release of the CSM, release of the RA, losses and reversals of losses on onerous contracts and the reinsurance result, and experience variances between opening assumptions and actual fulfilment cash flows. The reinsurance result is presented net in the Statement of comprehensive income, but gross in the notes to the accounts (including premiums and claims in relation to longevity swaps). (ii) The net financial result, comprising Investment return on assets, the unwind of the discount rate on fulfilment cash flows at current opening rates and the CSM at rates locked at inception, changes in financial risk assumptions due to economics and changes in non-financial assumptions relating to future service arising from differences between unlocked rates used to discount the present value of future cash flows and locked rates used for the CSM. (iii) Other expenses and finance costs.

l. Recognition, measurement, and presentation of insurance contracts

Given the long-term nature of our business, the Group applies the General Measurement Model to all contracts in scope of the standard. The Group's insurance contracts do not include any distinct investment components requiring separation as a financial instrument under IFRS 9. The Group has elected to continue to account for Equity Release Mortgage investments as financial instruments under IFRS 9.

On transition to IFRS 17, the Group applied the full retrospective approach unless impracticable. The full retrospective approach was not practicable for business written prior to 2016 due to a lack of reference portfolio data to establish discount rates prior to the introduction of Solvency II, in addition to a number of systems changes that resulted in a lack of historic cash flow data. Under the fair value approach, the Group has taken policy options allowable under IFRS 17 to group contracts written more than one year apart, and to identify groups using reasonable and supportable information as at the transition date. The fair value CSM on the date of transition 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. Fair value has been determined as the estimated bulk annuity market premium that would be paid to accept the insurance liabilities and related reinsurance, in line with market conditions at the transition date, with the reinsurance premium based on an estimated longevity swap fee. Key judgements included consideration of how much Solvency capital is required to be set aside, the pricing of the business to earn an appropriate return and the assumed return on assets backing liabilities. Subsequent changes to the CSM after transition date from interest accretion, and changes to fulfilment cash flows that relate to future service, are calculated on a locked discount rate reflecting financial conditions at the transition date.

Under IFRS 17, only cash flows that are directly related to the fulfilment of an insurance contract are included within fulfilment cash flows, which is generally narrower than the Group's previous policy under IFRS 4. Expenses are only 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 are 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 is set using the top-down method, based on a portfolio of assets that match the cash flows of the liabilities. The yield on this portfolio of assets is adjusted for the impact of credit risk and any remaining cash flow mismatches. This is similar to the approach taken under IFRS 4 with the exception that prudent margins are not included and the portfolio of assets includes anticipated asset purchases on recently written new business.

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) is set as a percentile of the distribution of present value of future cash flows under certain adverse scenarios.

The CSM is 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).

The Group has taken the policy option to present income and expenses from reinsurance contracts net in the Statement of comprehensive income.

For further details of how the Group accounts for insurance and reinsurance contracts under IFRS 17, including significant estimates and judgements, see Note 15.

Notes to the financial statements
for the year ended 31 December 2023 continued

1. Accounting policies continued

II. Transition

IFRS profits that have been recognised in previous years have been recalculated and restated. The transitional impact on equity of adopting IFRS 17 at the beginning of the 2022 comparative period is as follows:

	£m
IFRS 4 equity as at 31 December 2021	**4,465**
Adjusted for:	
Changes in present value of cash flows and removal of IFRS 4 prudence margins[i]	2,421
Risk adjustment recognition[ii]	(451)
CSM recognition (full retrospective)[iii]	(1,820)
CSM recognition (fair value approach)[iv]	(422)
Deferred tax relating to above[v]	64
IFRS 17 equity as at 1 January 2022	**4,257**

i. Changes in cash flows are primarily due to the removal of prudent margins in the discount rate and cash flows, with minor impacts arising from the narrower view taken for attributable expenses.
ii. Risk adjustment for non-financial risk, based on assumptions at the transition date. Set at the 85th percentile over one year, net of reinsurance.
iii. For contracts under the full retrospective approach, the CSM has been calculated as at the date the business was originally written, based on assumptions at that date. It has then been rolled forward for interest accretion and non-financial assumption changes at the locked-in discount rate and the release for services provided prior to the date of transition. Changes in economic conditions post inception of the contract have therefore not impacted the CSM.
iv. Circa 35% of the Group's fulfilment cash flows on transition fall under the fair value approach. For each fair value group of contracts, the fair value premium that determines the CSM has been calculated as the premium for the entire group as at the date of transition. The fair value premium that determines the CSM has been calculated as at the date of transition, based on market conditions and assumptions at that date, and so has no direct correlation with the actual premium when the business was transacted. The primary drivers of the proportionally lower CSM for this business, compared to business under the retrospective approach, were market conditions at the transition date and the assumption that the fair value premium is for a very large bulk annuity transaction, where market premium rates tend to be lower.
v. Deferred tax adjustment on the reversal of previously taxed profits on transition. Relief for these losses is spread over a ten-year period.

For a growing business such as PIC, equity on transition is reduced due to the recognition of profits generated on sale of new business being deferred into the CSM, although this has been largely offset by the release of IFRS 4 prudent margins. PIC's future profit recognition will be slower under IFRS 17 than IFRS 4, due to the deferral of profits generated on new business as a CSM.

Profit under IFRS 17 is less sensitive to non-financial assumption changes, but is sensitive to short-term investment volatility (noting that PIC bases its hedging on a Solvency II, rather than IFRS, position).

Due to deferral of new business profits and sensitivity of profit to short-term volatility, the Group will continue to also analyse its results on an "adjusted operating profit" basis, which includes the full value generated from writing new business prior to the new business deferral and subsequent in-force release of profit via the CSM, and excludes investment related variances.

B: IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 and addresses classification, measurement and de-recognition of financial assets and financial liabilities, and introduces new rules for hedge accounting and a new impairment model for financial assets. The Group did not adopt IFRS 9 in 2018, as it was eligible for the deferral approach, giving companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until IFRS 17 was adopted.

As permitted by IFRS 7, the Group has not disclosed the impact of the adoption of IFRS 9 on each financial statement line item. The Group has applied IFRS 9 retrospectively; however, there has been no impact on the opening balance retained earnings at 1 January 2022.

I. Classification of financial assets and financial liabilities

IFRS 9 includes three principal classification categories for financial assets: Amortised cost, Fair value through other comprehensive income ("FVOCI") and Fair value through profit or loss ("FVTPL"). The classification of financial assets under IFRS 9 is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Group manages the business on a fair value basis and performance of financial investments is evaluated and reported to management on this basis, resulting in classification at fair value through profit and loss under IFRS 9. As financial investments were previously measured at fair value through profit and loss under IAS 39, there has been no impact on measurement as a result of adopting IFRS 9. For further details of how the Company classifies and measures financial assets and accounts for related gains and losses under IFRS 9, see Note 12. IFRS 9 has had no impact on the Group's accounting policies for financial liabilities and it does not apply hedge accounting.

Alongside the adoption of IFRS 9, the Group has made some amendments to the presentation of items in the Statement of financial position and Statement of comprehensive income as follows:

- Accrued interest on financial investments has been reclassified from other receivables to financial investments, as it is considered to be an integral part of the financial investment managed at fair value under IFRS 9. This resulted in a reclassification of £256 million between other receivables and financial investments at the transition date.
- Dealing and transaction costs related to financial investments were previously included within investment return, but are now presented as an expense, which better reflects their substance.
- Where collateral pledged by the Group can be sold or repledged by the other counterparty, the asset is presented as a 'Pledged' asset in the Statement of financial position.

II. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' approach in IAS 39 with a forward-looking 'expected credit loss' approach. The new impairment approach applies to financial assets measured at amortised cost, debt investments at FVOCI and lease receivables. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The Group's assets within the scope of the expected credit loss approach are other receivables (£22 million at 1 January 2022). These are receivables with counterparties of high credit quality, resulting in insignificant credit loss provisions.

C: Amendments to other standards

The Group has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2023. The amendments have been issued and endorsed by the UK and have had no significant impact on the Group's financial statements.

- Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies to help preparers decide which accounting policies to disclose in their financial statements.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. The amendments help preparers distinguish between accounting policies and accounting estimates.
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments clarify the specific circumstances when exemptions to recognising deferred tax apply.
- Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules. The amendments give temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's international tax reform.

Except for the changes above, the Group has consistently applied its accounting policies to all periods presented in these financial statements.

Significant new standards or amendments to standards which are not yet effective

There are currently no new standards or amendments to standards that are expected to have a significant impact on the Group.

2. Insurance revenue and insurance service results

Insurance revenue

Insurance revenue represents the provision of coverage and other services arising from the group of insurance contracts at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services. The present value of the sum of the insurance revenue over the life of the contract equates to the premium received, after excluding non-distinct investment components and adjustments for financing.

Insurance revenue consists of:

- The release of the CSM, which represents the unearned profit that the Group will recognise as it provides services for a group of insurance contracts. The CSM is recognised as revenue based on coverage provided in the period;
- The release of the risk adjustment for non-financial risk relating to risks expired, after loss component allocation*;
- Claims and other insurance service expenses for the current period excluding any non-distinct investment component, measured at amounts expected at the beginning of the year, after loss component allocation*;
- Experience adjustments arising from premiums received in the period relating to current and past services; and
- The recovery of insurance acquisition cash flows, recognised on a straight-line basis over the expected coverage period of the group of contracts.

* The loss component release is recognised in insurance service expenses rather than revenue, as it represents the excess of claims and expenses over premium revenue received.

Insurance service expense

Insurance service expenses consist of:

- Actual incurred claims excluding non-distinct investment components;
- Directly attributable insurance service expenses;
- Losses on onerous insurance contracts and reversals of such losses. A group of insurance contracts is onerous if the total fulfilment cash flows and allocation of acquisition costs result in a net cash outflow. The loss is recognised in insurance service expenses immediately and subsequently released as the fulfilment cash flows are realised; and
- Deferral and amortisation of acquisition costs attributable to selling insurance contracts, which is matched by equal and opposite recovery in insurance revenue.

Net expense from reinsurance contracts held

Income and expenses from reinsurance contracts held consists of the following:

- Allocation of reinsurance premiums paid:
  a) Release of the CSM
  b) The release of the risk adjustment for non-financial risk
  c) Expected recoveries and reinsurance service expenses for the current period;
- Recovery of incurred claims;
- Directly attributable insurance service expenses relating to reinsurance contracts and the effect of changes in risk of reinsurer non-performance; and
- Recoveries and reversals of recoveries of losses on onerous underlying contracts (loss recovery components).

Analysis of the total insurance revenue, insurance service expenses, and net expense from reinsurance contracts held recognised in the period is shown in the following table. Further details of the accounting policies and assumptions in relation to insurance and reinsurance contracts are set out in Note 15.

	2023 £m	2022 £m
Insurance revenue		
Amounts relating to changes in liabilities for remaining coverage		
– CSM recognised for services provided	**219**	132
– Change in risk adjustment for non-financial risk for the risk expired after loss component allocation	**54**	90
– Expected incurred claims and other insurance service expenses after loss component allocation	**1,890**	1,693
– Experience adjustments for premium receipts	**2**	8
Recovery of insurance acquisition cash flows	**22**	19
Total insurance revenue	**2,187**	1,942
Insurance service expense		
Incurred claims	**(1,835)**	(1,646)
Insurance service expenses	**(43)**	(38)
Reversal of losses on onerous contracts	**23**	140
Amortisation of insurance acquisition cash flows	**(22)**	(19)
Total insurance service expense	**(1,877)**	(1,563)
Net expense from reinsurance contracts held		
Allocation of premiums paid	**(1,736)**	(1,580)
Amounts recoverable from reinsurers		
Recoveries of incurred claims	**1,645**	1,525
Reinsurance expenses	**(1)**	(1)
Recoveries and reversals of recoveries of losses on onerous underlying contracts	**(16)**	(112)
Total net expense from reinsurance contracts held	**(108)**	(168)
Total insurance service result	**202**	211

3. Net financial result

Investment return comprises net gains or losses on financial instruments and investment property measured at FVTPL. Net gains and losses on financial instruments measured at FVTPL includes interest (and dividend) income. Rental income earned on investment properties is recognised on a straight-line basis. All financial instruments are mandatorily measured at FVTPL, other than repurchase agreement and cash collateral received liabilities which are designated as at FVTPL. An analysis is provided to show investment return relating to assets backing insurance liabilities (underlying assets) and other investments.

Any gains or losses on the early redemption of borrowings measured at amortised cost are recognised within investment return.

Insurance/reinsurance finance income and expenses represent movements in the carrying amount of the group of insurance and reinsurance contracts due to time value of money (discount unwinding of fulfilment cash flows at current opening rates, and the interest accretion on the CSM at rates locked at inception), changes in financial risk assumptions due to economics (interest rates, index-linked inflation, credit spreads) and changes in non-financial assumptions relating to future service arising from differences between unlocked rates used to discount present value of future cash flows and locked rates used for the CSM.

	Note	2023 £m	2022 £m
Investment return – underlying assets			
Net gains/(losses) on financial assets/liabilities mandatorily measured at FVTPL		**3,196**	(12,474)
Net losses on financial liabilities designated as at FVTPL		**(31)**	–
Rental income		**10**	2
Net losses on investment property		**(35)**	(9)
Total investment return/(loss) – underlying assets		**3,140**	(12,481)
Investment return – other investments			
Net gains on financial assets/liabilities mandatorily measured at FVTPL		**80**	123
Total investment return – other investments		**80**	123
Loss on redemption of subordinated debt		**(10)**	–
Total investment return/(loss)		**3,210**	(12,358)
Net finance (expense)/income from insurance contracts issued			
Interest accreted		**(2,319)**	(881)
Effect of changes in interest rates and other financial assumptions		**(1,008)**	14,536
Total net finance (expense)/income from insurance contracts	15	**(3,327)**	13,655
Net finance income/(expense) from reinsurance contracts			
Interest accreted		**107**	28
Effect of changes in interest rates and other financial assumptions		**375**	(1,205)
Total net finance income/(expense) from reinsurance contracts	15	**482**	(1,177)
Net financial result		**365**	120

4. Other operating expenses

Investment related expenses include dealing and hedging costs and investment fees payable to investment managers.

Project costs relate to the implementation of business-wide initiatives.

Operating expenses include staff costs, legal and professional fees, IT costs, depreciation and other costs incurred in operating the business.

Operating expenses can be further analysed into those relating to insurance and reinsurance contracts and other expenses that are not directly attributable to selling and servicing insurance contracts. The acquisition costs of acquiring new profitable insurance business are deferred within insurance contract liabilities and amortised as insurance service expenses over the life of the related insurance contract.

		Insurance service expenses			Reinsurance expenses			Other expenses
31 December 2023	**Total £m**	**Acquisition £m**	**Maintenance £m**	**Total £m**	**Acquisition £m**	**Maintenance £m**	**Total £m**	**£m**
Investment related expenses	**81**	**27**	**16**	**43**	**–**	**–**	**–**	**38**
Project costs	**76**	**–**	**–**	**–**	**–**	**–**	**–**	**76**
Operating expenses[1]	**163**	**69**	**27**	**96**	**7**	**1**	**8**	**59**
Total expenses incurred	**320**	**96**	**43**	**139**	**7**	**1**	**8**	**173**
Deferral of acquisition costs	**(103)**	**(96)**	**–**	**(96)**	**(7)**	**–**	**(7)**	**–**
Expense allocation post deferral of acquisition costs	**217**	**–**	**43**	**43**	**–**	**1**	**1**	**173**
Amortisation of acquisition costs	**22**	**22**	**–**	**22**	**–**	**–**	**–**	**–**

1. Operating expenses include £90 million of employee benefits.

		Insurance service expenses			Reinsurance expenses			Other expenses
31 December 2022	Total (restated)* £m	Acquisition £m	Maintenance £m	Total £m	Acquisition £m	Maintenance £m	Total £m	£m
Investment related expenses	96	46	17	63	–	–	–	33
Project costs	58	–	–	–	–	–	–	58
Operating expenses[1]	132	50	21	71	6	1	7	54
Total expenses incurred	286	96	38	134	6	1	7	145
Deferral of acquisition costs	(102)	(96)	–	(96)	(6)	–	(6)	–
Expense allocation post deferral of acquisition costs	184	–	38	38	–	1	1	145
Amortisation of acquisition costs	19	19	–	19	–	–	–	–

* Restated for the adoption of IFRS 17 "Insurance Contracts".
1. Operating expenses include £69 million of employee benefits.

5. Auditors' remuneration

	2023 £000	2022 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**26**	36
Fees payable to the Group's auditor and its associates for other services:		
Audit of accounts of subsidiaries	**3,200**	2,273
Audit-related assurance services	**254**	168
All other services	**131**	66
Total fees paid to the auditor	**3,611**	2,543

During the year, audit fees of £0.9 million were included in relation to the implementation of IFRS 17 (2022: £1.4 million).

6. Directors' remuneration, employee costs and headcount

Employee benefits

Defined contribution plans

Pension Services Corporation Limited ("PSC") operates a defined contribution pension plan into which PSC contributes 8% if the employee makes a minimum contribution of 2.5% of qualifying salary. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the Statement of comprehensive income in the period during which the related services are rendered by employees.

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

	2023 £m	2022 £m
Wages and salaries	**76**	58
Social security costs	**10**	8
Other pension costs	**4**	3
	90	69

The 13 Directors (2022: 14) who served in the Company during the year received total remuneration of £3 million (2022: £3 million) for their services to the Group. This includes £3 million (2022: £3 million) in respect of services provided to other Group companies. All Directors were employed by or contracted by the Group's service provider.

One Director was provided with a cash alternative in relation to a money purchase pension scheme where their lifetime or annual allowance limit had been reached (2022: one), one Director of the Company was awarded share options during 2023 (2022: one) and one Director exercised share options during 2023 (2022: one).

The amount of remuneration received by the highest paid Director was £1.7 million (2022: £1.6 million). This includes £1.7 million (2022: £1.6 million) in respect of services provided to other Group companies. In addition, the highest paid Director received shares in the Company on maturity of certain share plans and exercised share options during 2023.

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

	2023 Number	2022 Number
Employees	**503**	415
Directors	**13**	13

7. Share-based payment arrangements

Equity settled share-based payment transactions

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

Any ordinary shares required to fulfil entitlements under the share-based payment awards are provided by the Pension Insurance Corporation Group Employee Benefit Trusts ("EBTs"). The EBTs are treated as branches. Any shares purchased by the EBTs to fund these awards are accounted for as treasury shares held at cost within the Company and Group shareholders' equity.

When the awards vest and new shares are issued to the participants on exercise, the proceeds received (if any), net of transaction costs, are credited to share capital (par value) and the balance, if any, to share premium. Where the shares transferred to participants on exercise are held as treasury shares by the EBTs, the net of the release of the treasury shares and the proceeds received (if any) are credited to retained earnings. On exercise of share awards, the relevant amount in the share-based payments reserve is then credited to retained earnings.

Employer's national insurance contributions in relation to the equity settled schemes are treated as cash settled transactions, with the fair value recognised as an expense over the vesting period that the employees become unconditionally entitled to the related equity award. Until the liability is settled on exercise of options, it is remeasured at fair value, with any changes in fair value recognised in profit or loss for the period.

Analysis of expense recognised in the Statement of comprehensive income:

	2023 £m	2022 £m
Equity settled share-based payment transactions		
Deferred Bonus Share Plan	**7**	7
Long Term Incentive Plan	**1**	1
Total expense recognised for equity settled share-based payments	**8**	8

During the year, cash settled employer's social security costs of £1 million (2022: £5 million) were incurred by the Group, and as at 31 December 2023, total liabilities in relation to cash settled employer's social security cost were £3 million (2022: £3 million).

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

Notes to the financial statements
for the year ended 31 December 2023 continued

7. Share-based payment arrangements continued

Long Term Incentive Plan ("LTIP")

This plan is designed to incentivise key individuals to grow the business and build a sustained and successful future for the Group by rewarding and retaining them through a long-term incentive arrangement. The plan has been in place since 2021 and awards are made on an annual basis, at the Company's discretion. All awards to date are nil cost options, with vesting dependent on performance against a Group Market Consistent Embedded Value ("MCEV") target, with a Solvency II coverage underpin. The awards vest at the end of a three-year performance period and become exercisable after a further two years.

	2023 Number of options	2022 Number of options
Outstanding at 1 January	**2,281,309**	1,149,455
Awarded	**1,546,535**	1,197,238
Forfeited	**(16,694)**	(65,384)
Remaining at 31 December	**3,811,150**	2,281,309
Exercisable at 31 December	**–**	–
Weighted-average share price at grant/exercise (£)	**3.97**	3.70
Weighted-average remaining contractual life (years)	**8.74**	9.35

During the year to 31 December 2023, LTIP awards were made on 27 April 2023 and 10 August 2023. As these are nil cost options with non-market based performance criteria, the key input to determine the fair value of the awards for the IFRS 2 share-based payment charge is the share price at grant date of £3.97 which was determined with the assistance of third party valuation specialists.

Deferred Bonus Share Plan ("DBSP")

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

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

	2023 Number of options	2022 Number of options
Outstanding at 1 January	**6,479,449**	7,875,195
Awarded	**1,991,418**	1,368,354
Forfeited	**(21,283)**	(52,510)
Exercised	**(2,610,133)**	(2,711,590)
Remaining at 31 December	**5,839,451**	6,479,449
Exercisable at 31 December	**645,528**	1,126,964
Weighted-average share price at grant/exercise (£)	**3.97**	3.70
Weighted-average remaining contractual life (years)	**8.04**	7.58

2023 awards under the DBSP were made on 27 April 2023. As these are nil cost options with no specific performance criteria, the key input to determine the fair value of the awards for the IFRS 2 share-based payment charge is the share price at grant date of £3.97 which was determined with the assistance of third party valuation specialists.

8. 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:

	2023 £m	2022 (restated)* £m
Current taxation		
Corporation tax payable for the current year	**29**	231
Total current tax	**29**	231
Deferred taxation:		
IFRS 17 transition tax relief	**35**	–
Deferred tax arising from restatement of IFRS 17 Profit & Loss	**–**	(289)
Other temporary differences	**–**	(1)
Tax charge/(credit)	**64**	(59)

* Restated for the adoption of IFRS 17 "Insurance Contracts".

The actual corporation tax charge for 2022 remains unchanged, with the impact of the adoption of IFRS 17 reflected through deferred tax. The deferred tax asset arises on the reversal of previously taxed profits prior to the adoption of IFRS 17 and is supported by projections of future taxable profits. The deferred tax asset is then recovered over a ten-year period from 1 January 2023.

	2023 £m	2022 (restated)* £m
Reconciliation of total income to the applicable tax rate		
Profit before taxation	**303**	96
Expected corporation tax at 23.5% (2022: 19%)	**71**	18
Effects of:		
Non-deductible expenses	**–**	1
Tier 1 coupon tax relief	**(7)**	(6)
Difference in tax rates due to timing of profits	**–**	(72)
Tax charge/(credit)	**64**	(59)

* Restated for the adoption of IFRS 17 "Insurance Contracts".

Factors that may affect future tax charges

Current taxation is provided on taxable profits at the corporation tax rate ruling in the year they are earned. The Group's tax charge is primarily based on the profits of PIC. The corporation tax rate increased from 19% to 25% on 1 April 2023.

On 20 June 2023, Finance (No. 2) Act 2023 was substantively enacted. This included legislation to implement the OECD Pillar Two global minimum top-up tax in the UK. However, since the newly enacted tax legislation in the UK is only effective from 1 January 2024, there is no current or deferred tax impact for the year ended 31 December 2023. The Group is applying the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to IAS 12 issued in May 2023.

Under the legislation, the Group is liable to pay a domestic top-up tax for the difference between its global anti-base erosion effective tax rate in the UK and the 15% minimum rate. The Group has assessed the impact of the legislation based on the current version of the rules and HMRC guidance applied to historical financial information. Based on this, and given the Group is only UK based, the Group does not expect to be subject to a top-up tax under these rules. The Group will continue to review this position as additional legislation and HMRC guidance is issued on the application of these rules.

9. 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 26 March 2024, the Board approved a final dividend for 2023 of 11.0 pence per ordinary share (2022: 7.5 pence), equivalent to c.£147 million in total (2022: c.£100 million). Subject to approval by shareholders, the dividend will be paid on or around 8 May 2024. The final dividend for 2023 will be accounted for as an appropriation of retained earnings in the year ended 31 December 2024 and is not included as a liability in the Group Statement of financial position as at 31 December 2023.

10. Leases

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

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

A right of use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful life of the asset.

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

A lease liability is initially measured as the value of expected future lease payments, discounted using the Group's incremental borrowing rate. The incremental borrowing rate is determined using the yield on the Group's external borrowing, adjusted to reflect the terms of the lease.

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

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

During the year, PIC exercised an option to terminate an existing office lease in 2024 and has also entered into a 15-year lease for a new office building, commencing in December 2023. The new lease includes an option to extend for a period of five years as well as an option to terminate after ten years. The right of use asset and lease liability have been calculated on the basis that the lease will terminate in December 2033, as the Group is not reasonably certain that the lease period will extend beyond this point.

Right of use assets

	2023 Office buildings £m	2022 Office buildings £m
Balance at 1 January	**4**	17
Reassessment of lease term	**–**	(10)
Additions	**39**	–
Depreciation charge for the year	**(3)**	(3)
Balance at 31 December	**40**	4

Lease liabilities

	2023 £m	2022 £m
Balance at 1 January	**9**	20
Reassessment of lease term	**–**	(10)
Additions	**36**	–
Cash outflow for lease payments	**(5)**	(2)
Interest on lease liabilities	**–**	1
Balance at 31 December	**40**	9

Maturity analysis – contractual undiscounted cash flows	2023 £m	2022 £m
Less than one year	**3**	6
One to five years	**16**	3
More than five years	**42**	–
Total undiscounted lease liabilities at 31 December	**61**	9
Balance at 31 December	**40**	9

The Group's potential undiscounted cash flows relating to the lease term beyond the termination option date are £28 million (2022: £12 million). These have not been included in the 31 December 2023 liabilities above.

Notes to the financial statements
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11. Investment properties

Investment properties are not for occupation by the Group, but are held for rental income and capital appreciation. 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, if there are circumstances 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 with the input of 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.

Valuations 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.

	2023 At cost £m	**2023 At fair value £m**	**2023 Total £m**
At beginning of year	**55**	**189**	**244**
Additions	**66**	**411**	**477**
Disposals[1]	**–**	**(28)**	**(28)**
Transfer of properties under construction from cost to fair value	**(107)**	**107**	**–**
Change in fair value during the year	**–**	**(30)**	**(30)**
At end of year	**14**	**649**	**663**

	2022 At cost £m	2022 At fair value £m	2022 Total £m
At beginning of year	47	126	173
Additions	82	60	142
Disposals[2]	–	(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 properties acquired during 2023 under an insurance buy-in contract that have largely been disposed of in the year. The gain on disposal, net of transactions costs, was £2 million.
2. Relating to a portfolio of retail properties disposed of in the year. The loss on disposal, net of transactions costs, was £14 million.

The Group's holdings in investment properties relate to retail, office, residential and affordable housing properties held via Guernsey registered property unit trusts 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 generally 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.

In some circumstances, a combination of valuation approaches is used for a single property, applying a discounted cash flow approach for the long-term lease element (where the long-term cash flows are with a single lessee counterparty, similar in nature to a private loan), with the residual value of the property at the end of the lease determined using an investment yield approach.

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

	2023	2022
Investment yield	**Range from 6.03% to 6.82%**	Range from 5.46% to 6.04%
Rental value per square foot	**Range from £29.93 to £46.32**	Range from £27.40 to £31.63
Discount rate for long-term leases[1]	**Range from 5.30% to 5.53%**	n/a

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

	2023		2022	
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	**(66)**	**81**	(35)	43
+/- 10% change in rental value per square foot	**69**	**(70)**	31	(32)
+/- 100 bps change in discount rate for long-term leases[1]	**(18)**	**20**	n/a	n/a

1. During 2023, the Group fair valued the properties with long-term leases, which were previously held at cost while under construction.

Rental income received in relation to these properties of £10 million (2022: £2 million) is shown within investment return in Note 3.

12. Financial assets and financial liabilities

Financial investments, derivatives and other financial assets/liabilities

Derivative financial instruments are mandatorily measured at FVTPL. All other financial assets are also mandatorily at FVTPL, and repurchase agreement and cash collateral liabilities are designated at FVTPL, as their performance is managed and evaluated on a fair value basis. Cash and cash equivalents are measured at amortised cost.

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. The carrying values of financial instruments at FVTPL are inclusive of accrued interest.

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.

Receivables and payables

Receivables are carried at amortised cost net of provisions for lifetime expected credit losses ("ECLs"), where appropriate. The Group does not currently hold any material provisions for ECLs. Payables are carried at amortised cost.

Collateral

In order to meet its contractual obligations, the Group receives and pledges collateral in the form of cash and non-cash assets. Collateral pledged in the form of non-cash assets continues to be recognised in the Statement of financial position, as the Group retains all risks and rewards of ownership. Where collateral pledged by the Group can be sold or repledged by the other counterparty, the asset is presented as a 'Pledged' asset in the Statement of financial position. Cash collateral pledged that is not legally segregated from the transferee is derecognised from the Statement of financial position and a financial asset is recognised for the other counterparty's obligation to return the collateral.

Collateral received in the form non-cash assets is not recognised as an asset in the Statement of financial position as the Group does not acquire the economic risks and rewards of ownership. Cash collateral received that is not legally segregated from the Group is recognised as an asset and a corresponding financial liability is recognised for the obligation to return the collateral.

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 2023, the total balance in overdraft was £nil (2022: £nil). Cash deposits managed as part of a wider portfolio of financial investments are presented as Deposits with credit institutions.

Notes to the financial statements
for the year ended 31 December 2023 continued

12. Financial assets and financial liabilities continued

	2023		2022 (restated)*	
	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	**11,282**	**–**	8,255	–
– Pledged government bonds[1]	**5,677**	**–**	4,920	–
– Corporate bonds	**13,571**	**–**	10,854	–
– Pledged corporate bonds[1]	**2,054**	**–**	4,423	–
– Private investments	**8,353**	**–**	6,561	–
MBS and ABS	**262**	**–**	263	–
ERMs	**1,124**	**–**	1,013	–
Deposits with credit institutions	**421**	**–**	895	–
Participation in investment schemes	**4,105**	**–**	4,034	–
Total financial investments	**46,849**	**–**	41,218	–
Derivative and other financial assets				
– Derivatives	**25,487**	**–**	22,451	–
– Repurchase agreements[2]	**2,440**	**–**	–	–
– Cash collateral pledged[2]	**50**	**–**	–	–
Receivables	**–**	**45**	–	81
Cash and cash equivalents	**–**	**312**	–	201
Total financial assets	**74,826**	**357**	63,669	282
Financial liabilities				
Derivative and other financial liabilities				
– Derivatives	**28,566**	**–**	25,348	–
– Repurchase agreements[2]	**1,193**	**–**	–	–
– Cash collateral received[2]	**1,071**	**–**	–	–
Other payables	**–**	**16**	–	8
Borrowings	**–**	**1,789**	–	1,592
Accruals	**–**	**189**	–	153
Total financial liabilities	**30,830**	**1,994**	25,348	1,753

* Restated for the adoption of IFRS 9 "Financial Instruments".
1. Where assets pledged as collateral can be sold or repledged by the counterparty, these have been presented as pledged.
2. For 2023 reporting, the Group has made some amendments to the presentation of repurchase agreements and cash collateral:
   a. Equal and opposite repurchase/reverse repurchase agreements with the same counterparty, entered into for securities lending purposes, are now accounted for as separate financial assets and liabilities for the cash receivable and payable as they are separate legal contracts and are not simultaneously settled.
   b. Cash collateral pledged is now derecognised and a receivable is recognised within other financial assets. Cash collateral received that is not legally segregated from the Group is now recognised as an asset within Deposits with credit institutions and a corresponding liability is recognised for the obligation to return the collateral.
   Comparative information throughout the financial statements has not been restated on the basis that these are presentation adjustments that would not influence a user's decision making.

	2023		2022 (restated)*	
	Fair value through profit and loss £m	**Amortised cost £m**	Fair value through profit and loss £m	Amortised cost £m
Expected to be recovered in less than one year	**9,220**	**343**	5,219	282
Expected to be recovered after one year	**65,606**	**14**	58,450	–
Total financial assets	**74,826**	**357**	63,669	282

* Restated for the adoption of IFRS 9 "Financial Instruments".

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

Deposits with credit institutions

Deposits with credit institutions include £22 million (2022: £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

The Group pledges/receives collateral in respect of certain securities lending, repurchase agreement, derivative, buy-in and reinsurance contracts. The amount of collateral required is generally 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.

Derivatives and lending arrangements

As explained in Note 13, the Group uses derivative financial instruments as part of its risk management strategy. The Group has collateral agreements with each counterparty based on standard International Swaps and Derivatives Association master netting agreements, which specify minimum thresholds, asset class and credit quality of collateral and the frequency of valuation. Most over-the-counter derivative transactions require collateral to be received or pledged by the Group or its counterparty to mitigate credit risk. Initial margin collateral is transferred on initiation of the derivative trade. The assets are pledged without an outright title transfer and are held by a third party, with title transfer only enforceable following certain specified default events. The second type of collateral arrangement is variation margin, which reflects the market value movement of the trade and is calculated daily. Variation margin collateral is posted on an outright title transfer basis.

The Group also enters into cleared derivative trades, which only require variation margin collateral to be posted as the use of the central clearing party mitigates credit and default risk.

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.

Collateral is pledged in the form of securities and cash. The Group retains substantially all the risks and rewards of ownership in respect of non-cash 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 securities received as collateral and consequently none of the assets are recognised in the financial statements. Cash collateral pledged is derecognised and a receivable is recognised within other financial assets. Cash collateral received that is not legally segregated from the Group is recognised as an asset within Deposits with credit institutions and a corresponding liability is recognised for the obligation to return the collateral.

Under securities lending arrangements, the Group lends/borrows an agreed debt security to/from a counterparty and receives/pledges collateral in the form of eligible, investment grade debt securities as a security against potential counterparty default. The amount of collateral received/pledged fluctuates due to changes in fair value of the securities, subject to the minimum thresholds. Although the initial and variation margin assets are provided with an outright title transfer, 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. In circumstances where the Group uses back-to-back repurchase and reverse repurchase agreements to effect securities lending, separate financial assets and liabilities are recognised for the cash receivable and payable under the agreements.

Whilst the Group retains the risk and rewards of ownership of collateral pledged with title transfer for derivatives and lending arrangements, the counterparty is free to use the assets without constraint; however, it is obliged to return equivalent assets. PIC retains the right to replace any of the assets with assets of similar nature.

12. Financial assets and financial liabilities continued

The Group had pledged and received cash and non-cash collateral assets as follows:

	31 December 2023		31 December 2022	
	Pledged £m	**Received £m**	Pledged £m	Received £m
Derivative transactions	**(5,735)**	**1,734**	(4,925)	1,152
Repurchase agreements	**(1,480)**	**2,614**	(3,960)	3,302
Securities lending arrangements	**(553)**	**544**	(494)	514
Total	**(7,768)**	**4,892**	(9,379)	4,968

None of the collateral held was repledged (2022: £nil).

Buy-ins

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

Under the terms of the security, the Trustee is free to use the assets without constraint; however, it is obliged to deliver equivalent assets 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 a similar nature.

Collateral is returned to PIC as it services the insured pension liabilities under the policy. In theory, this exposes PIC to counterparty credit risk which is 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 2023, this totalled £1.1 billion (2022: £1.1 billion).

At 31 December 2023, other pledged collateral in relation to buy-ins totalled £215 million (2022: £nil). 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.

Reinsurance

In 2023, the Group has £508 million of financial assets which have been pledged as collateral under the terms of certain reinsurance contracts (2022: £507 million). Substantially all the risks and rewards of ownership in respect of non-cash assets transferred are retained by the Group and consequently none of these assets have been derecognised in the financial statements. At 31 December 2023, the Group had pledged cash of £28 million (2022: £27 million) as collateral under the terms of certain reinsurance contracts. The Group retains control and risk and rewards of ownership of cash pledged to cover two fee collateral arrangements held in dedicated fee accounts, whereby the counterparty is only entitled to the collateral on the occurrence of certain specified default events. Therefore, these deposits are not derecognised from the Statement of financial position. Where cash collateral is pledged to cover longevity experience directly with the counterparty, the deposit is derecognised and a reinsurance receivable is recognised.

Receivables

Receivables primarily consist of investment settlement receivables and VAT recoverable balances.

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 (including the default by, or insolvency or bankruptcy, of the Group and all counterparties), and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the settlements are executed at the same time, or within a single settlement process or cycle, resulting in no or insignificant credit and liquidity risk.

The Group has no financial assets and financial liabilities that have been offset in the Statement of financial position as at 31 December 2023 (2022: £nil).

The table below contains disclosures related to derivatives and repurchase agreements that are subject to enforceable master netting arrangements or similar agreements. Traditional securities lending arrangements do not result in the derecognition/recognition of assets exchanged and are not included in the tables below.

31 December 2023	**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[1]**		**Net amount £m**
				Financial (liabilities)/ assets[2] £m	**Financial instruments (received)/ pledged as collateral[3] £m**	
Financial assets						
Derivatives	**25,487**	**–**	**25,487**	**(24,694)**	**(505)**	**288**
Repurchase agreements[4]	**2,440**	**–**	**2,440**	**(1,175)**	**(959)**	**306**
Financial liabilities						
Derivatives	**(28,566)**	**–**	**(28,566)**	**24,694**	**3,872**	**–**
Repurchase agreements[4]	**(1,193)**	**–**	**(1,193)**	**1,175**	**18**	**–**

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[1]		Net amount £m
				Financial (liabilities)/ assets[2] £m	Financial instruments (received)/ pledged as collateral[3] £m	
Financial assets						
Derivatives	22,451	–	22,451	(22,027)	(141)	283
Financial liabilities						
Derivatives	(25,348)	–	(25,348)	22,027	3,286	(35)

1. Collateral reported in this table is restricted to the value of the net exposure with the counterparty.
2. Assets and liabilities positions with the same counterparty that have the right to offset on default under a master netting or similar arrangements.
3. Collateral received in the form of financial instruments is not recognised in the Statement of financial position.
4. See Financial assets and financial liabilities table for further information regarding amendments to the presentation of repurchase agreements and cash collateral for 2023 reporting.

Measurement of financial assets and liabilities

The Group's financial assets and liabilities have been valued using the following methods in accordance with IFRS 13 "Fair Value Measurement".

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.

12. Financial assets and financial liabilities continued

Fair values for debt securities, where quoted prices from third parties are not available, are estimated as the present value of future cash flows, discounted at a rate based on yields for comparable quoted bonds, adjusted, where applicable, for illiquidity and idiosyncratic risk. Key factors in determining the overall discount rate for each debt security are internal credit ratings (see Note 17), sector and maturity. Relevant debt securities 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 (i.e. <5%), 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 6.5% (2022: 0.0% to 6.4%).

(b) Mortgage-backed securities ("MBS") and Asset-backed securities ("ABS")

The fair value of MBS and other ABS 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.

(c) Equity release mortgages

ERMs are loans secured against property that are repayable on death or entry into long-term care of the borrower. An ERM can also be repaid early voluntarily by the borrower, in which case an early repayment charge may apply. 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 159.

- 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% (2022: 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. (2022: 2% and 6.5%) depending on the projection term, and the loan's term since inception.
- Mortality assumptions are derived using the Continuous Mortality Investigation ("CMI") 2022 mortality improvements (2022: CMI_2021 mortality improvements) and a multiple of the PXA16 mortality tables (2022: PXA16 mortality tables).

(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.

(e) Participation in investment schemes

Investment schemes are valued based on fund manager statements and classified as either Level 2 or Level 3 depending on the weighting of the classification of the underlying assets held by the fund (if Level 3 assets exceed one third of the fund value, the fund is classified as Level 3).

Participation in investment schemes includes an investment in a retirement living joint venture with a carrying value of £28 million at 31 December 2023 (2022: £22 million). 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 with financial investments on the basis that it is managed at fair value as part of the Group's portfolio of financial investments.

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

(f) Derivatives

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 within the fair value hierarchy.

(g) Repurchase agreements and cash collateral pledged/ received

Repurchase agreements are valued based on the discounted cash flows expected to be paid, using an observable market interest rate and have been classified as Level 2 within the fair value hierarchy.

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 2023	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Financial investments				
Debt securities				
– Government bonds	**11,678**	**5,281**	**–**	**16,959**
– Corporate bonds	**–**	**15,591**	**34**	**15,625**
– Private investments	**–**	**4,158**	**4,195**	**8,353**
MBS and ABS	**–**	**262**	**–**	**262**
ERMs	**–**	**–**	**1,124**	**1,124**
Deposits with credit institutions	**–**	**421**	**–**	**421**
Participation in investment schemes	**1,374**	**1,740**	**991**	**4,105**
Total financial investments at FVTPL	**13,052**	**27,453**	**6,344**	**46,849**
Derivative and other financial assets				
Derivative assets	**–**	**25,487**	**–**	**25,487**
Repurchase agreements	**–**	**2,440**	**–**	**2,440**
Cash collateral pledged	**–**	**50**	**–**	**50**
Total financial assets at FVTPL	**13,052**	**55,430**	**6,344**	**74,826**
Financial liabilities at FVTPL				
Derivative liabilities	**–**	**(28,566)**	**–**	**(28,566)**
Repurchase agreements	**–**	**(1,193)**	**–**	**(1,193)**
Cash collateral received	**–**	**(1,071)**	**–**	**(1,071)**
Total financial liabilities at FVTPL	**–**	**(30,830)**	**–**	**(30,830)**

31 December 2022 (restated)*	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at FVTPL				
Financial investments				
Debt securities				
– Government bonds	9,433	3,742	–	13,175
– Corporate bonds	–	15,230	47	15,277
– Private investments	–	3,084	3,477	6,561
MBS and ABS	–	263	–	263
ERMs	–	–	1,013	1,013
Deposits with credit institutions	–	895	–	895
Participation in investment schemes	1,958	1,439	637	4,034
Total financial investments at FVTPL	11,391	24,653	5,174	41,218
Derivative and other financial assets				
Derivative assets	–	22,451	–	22,451
Total financial assets at FVTPL	11,391	47,104	5,174	63,669
Financial liabilities at FVTPL				
Derivative liabilities	–	(25,348)	–	(25,348)

* Restated for the adoption of IFRS 9 "Financial Instruments".

12. Financial assets and financial liabilities continued

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 primarily 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 1 and Level 2

During the year, the Group had no transfers between Level 1 and Level 2 (2022: £nil).

Transfers between Level 2 and Level 3

During the year, £207 million of financial investments were transferred from Level 2 to Level 3 (2022: £189 million) and £43 million of financial investments were transferred out of Level 3 to Level 2 (2022: £1,616 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 2023	**Debt securities £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Opening balance	**3,524**	**1,013**	**637**	**5,174**
Unrealised gains/(losses) on assets held at the end of the year	**85**	**93**	**(50)**	**128**
Gains on assets sold in year	**7**	**51**	**42**	**100**
Acquisitions in year	**897**	**233**	**368**	**1,498**
Transfers into Level 3	**125**	**–**	**82**	**207**
Transfers out of Level 3	**(43)**	**–**	**–**	**(43)**
Disposals in year	**(366)**	**(266)**	**(88)**	**(720)**
Closing balance	**4,229**	**1,124**	**991**	**6,344**

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/(losses) on assets held at the end of the year	(2,286)	(357)	6	(2,637)
Gains/(losses) on assets sold in year	4	(78)	47	(27)
Acquisitions in year	870	288	33	1,191
Transfers into Level 3	189	–	–	189
Transfers out of Level 3	(1,583)	–	(33)	(1,616)
Disposals in year	(77)	78	(106)	(105)
Closing balance	3,524	1,013	637	5,174

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

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

31 December 2023	Sensitivity	**Current fair value £m**	**Increase in fair value £m**	**Decrease in fair value £m**
Debt securities	+/- 100 bps change in credit spread adjustment	**4,229**	**(558)**	**703**
ERM	+/- 100 bps credit spread	**1,124**	**(113)**	**128**
	+/- 5% change in mortality assumption	**–**	**5**	**(5)**
	+/- 20% change in property prices	**–**	**17**	**(29)**
	+/- 1% change in property growth assumption	**–**	**15**	**(19)**
	+/- 10% change in voluntary redemption assumption	**–**	**5**	**(5)**
Participation in investment schemes	+/- 10% change in valuation	**991**	**99**	**(99)**
		6,344	**(530)**	**674**

31 December 2022	Sensitivity	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Debt securities	+/- 100 bps change in credit spread adjustment	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	637	64	(64)
		5,174	(508)	647

13. Derivative and other financial assets/liabilities

Derivatives and other financial assets and liabilities are initially recognised at fair value on the date on which the contract is entered into and are subsequently remeasured at their fair value.

All contracts 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 financial instruments are recognised immediately in the Statement of comprehensive income within the heading investment return.

A financial liability/asset is recognised for cash collateral received/pledged when the cash is not legally segregated from the Group/counterparty.

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 improve the matching of asset and liability cashflows and to ensure that risk driver sensitivities are aligned across the maturity spectrum.

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.

Cash collateral pledged/received relates to cash collateral posted on derivative contracts.

	31 December 2023		31 December 2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Interest rate swaps	**21,530**	**(23,571)**	18,485	(19,388)
Inflation swaps	**3,301**	**(2,326)**	3,329	(2,357)
Credit default swaps	**–**	**–**	12	(15)
Currency swaps	**529**	**(2,273)**	522	(3,339)
Foreign exchange forward contracts	**39**	**(6)**	36	(13)
Total return swaps	**88**	**(390)**	67	(236)
Total derivative position	**25,487**	**(28,566)**	22,451	(25,348)
Repurchase agreements[1]	**2,440**	**(1,193)**	–	–
Cash collateral pledged/received[1]	**50**	**(1,071)**	–	–
Total derivatives and other financial assets/liabilities	**27,977**	**(30,830)**	22,451	(25,348)

1. See Note 12 for further information regarding amendments to the presentation of repurchase agreements and cash collateral for 2023 reporting.

The Group's repurchase agreements are entered into for securities lending purposes, rather than financing, and are back-to-back with a reverse repurchase agreement with the same counterparty, for the same nominal amount and are settled on the same day. They are accounted for as separate financial assets and liabilities for the cash receivable and payable as they are separate legal contracts and are not simultaneously settled.

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 2023, the Group's deferred tax balances calculated in accordance with IAS 12 "Income Taxes" were as follows:

	Asset £m	Total £m
31 December 2023		
Timing differences	**322**	**322**
31 December 2022 (restated)*		
Temporary differences	357	357

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

	2023 £m	2022 (restated)* £m
At beginning of year	**357**	67
Change in net deferred tax asset due to amortisation of transitional adjustment	**(35)**	–
Change in net deferred tax asset due to restatement of IFRS 17 profits	**–**	289
Change in net deferred tax asset due to other timing differences	**–**	1
At end of year	**322**	357

* Restated for the adoption of IFRS 17 "Insurance Contracts".

On transition to IFRS 17, a deferred tax asset arises on the reversal of previously taxed profits and is supported by projections of future taxable profits. The deferred tax asset is then recovered over a ten-year period from 1 January 2023.

The corporation tax rate increased from 19% to 25% on 1 April 2023. The Group has considered when the timing differences are expected to reverse and used the appropriate tax rate in calculating the deferred tax.

15. Insurance contracts

Contract classification
Insurance contracts are contracts containing significant insurance risk at inception, whereby an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. 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, as they contain significant longevity risk.

Contracts held by the Group under which it transfers significant insurance risk (i.e. longevity risk) related to underlying insurance contracts are classified as reinsurance contracts.

Most of the Group's insurance contracts provide a guarantee period for pensions in payment, the ability to take a lump sum on retirement and for deferred policies the ability to take a transfer value. These are all a combination of investment components (payable in all circumstances) and/or refund of premiums. All investment components are considered to be highly interrelated with the insurance component and therefore they are not required to be separated and accounted for as a financial liability.

Level of aggregation
Presentation of insurance contracts is at portfolio level, i.e. contracts which have similar risks and are managed together. The Group has a single annuity line of business portfolio. Portfolios are further disaggregated into groups at inception, which become the unit of account for measurement and profit recognition. Insurance contracts are generally grouped at new business contract level for measurement purposes, with the exception of contracts entered into prior to 2016 where the fair value approach has been used. These contracts have been grouped into two units of account as at the opening Statement of financial position date. One fair value group contains all schemes that would have been profitable if each scheme had been assessed individually, and the other group contains all schemes that would have been onerous if assessed individually. The fair value premium for each group has been calculated using the assumption that it is for a large bulk annuity transaction, resulting in both Groups being onerous at the date of transition.

Contract boundaries
The measurement of a contract includes all of the future cash flows within the boundary of the contract. The Group's contracts arise mainly from buy-in contracts where the premium includes a transition to buy out. Therefore, all benefits up to the last possible payment date as well as associated expenses will fall within the contract boundary.

Initial measurement
A group of insurance contracts is initially measured using the General Measurement Model as the total of:

(a) the fulfilment cash flows, which comprise: (i) estimates of future cash flows, (ii) an adjustment to reflect the time value of money and the financial risks related to the future cash flows, and (iii) a risk adjustment for non-financial risk (i.e. the compensation for bearing the uncertainty about the amount and timing of the cash flows that arise from longevity and expense risk).

(b) The CSM is a component of the liability for the group of insurance contracts that represents the unearned profit recognised as services are provided over time. The CSM results in no initial profit being recognised for profitable contracts. If the net cash flow is negative, the contract is onerous and a loss is immediately recognised in insurance service expenses. As a result, a loss component of the liability for remaining coverage is created, which determines the amounts subsequently presented in the Statement of comprehensive income as reversals of losses on onerous contracts which are excluded from insurance revenue (see Note 2).

Acquisition costs arising before the recognition of the related insurance contract(s) are recognised as an asset (presented within insurance contract liabilities). The asset is subsequently derecognised and included in the measurement of the related insurance contract(s) on initial recognition.

Subsequent measurement

The carrying amount of a group of insurance contracts at the end of each reporting period is the sum of:

(a) the liability for remaining coverage comprising: (i) the fulfilment cash flows related to services that will be provided under the contracts in future periods and, (ii) any remaining CSM of the group at that date.

(b) the liability for incurred claims, comprising the fulfilment cash flows for incurred claims that have not yet been paid.

The fulfilment cash flows of groups of insurance contracts are measured at the reporting dates using current estimates of future cash flows, current discount rates and current estimates of the risk adjustment for non-financial risk (see Note 15(e) for details). The release of the liability for remaining coverage to revenue for the period is calculated as the expected fulfilment cash flows at the beginning of the period, together with the CSM recognised for coverage provided in the period.

The carrying amount of the CSM at the end of the period is the carrying amount at the start of the period, adjusted for:

- interest accreted at the locked discount rate at inception of the contract;
- premium and acquisition cost adjustments relating to future service;
- changes in fulfilment cash flows that relate to future service of profitable contracts (note that changes relating to current or past service are recognised in profit and loss), calculated at the locked discount rate at initial recognition of the group of contracts; and
- the amount recognised as insurance revenue for the period. The amount of CSM recognised as insurance revenue is based on coverage provided during the period. See Note 15 (e) Significant estimates and judgements for details.

For onerous contracts, the Group allocates the following between the loss component and the remaining component of the liability for remaining coverage for the respective group of contracts based on the ratio of the loss component to the fulfilment cash flows relating to the expected future cash outflows:

- Expected incurred claims and expenses for the period;
- Changes in risk adjustment for non-financial risk for the risk expired; and
- Finance income or expenses from insurance contracts issued.

The loss component is updated for changes in the estimation of fulfilment cash flows which relate to future services, for example, from changes to non-financial assumptions. Where decreases in the fulfilment cash flows relating to remaining coverage in subsequent periods reduce the remaining loss component to nil, a CSM is reinstated.

The Group has taken the accounting policy choice to disaggregate the effect of changes in the discount rate on the risk adjustment through insurance finance income or expense and the remaining movement of the risk adjustment recognised in the insurance service result.

See Note 2 for further details of policies in relation to the presentation of the insurance service result in the Statement of comprehensive income.

15. Insurance contracts continued

Reinsurance
The same accounting policies as above apply for reinsurance contracts, with the following modifications.

Level of aggregation
Reinsurance contracts are generally grouped at reinsurance contract level for measurement purposes, with the exception of contracts entered into prior to 2016 where the fair value approach has been used. These contracts have been grouped into two units of account as at the opening Statement of financial position date. One fair value group contains all treaties that would have been net gain if each treaty had been assessed individually, and the other group contains all treaties that would have been net cost if assessed individually.

Contract boundaries
Under reinsurance arrangements, none of the parties involved have unilateral termination rights, so the boundary follows that of the related gross contract.

Initial recognition
On initial recognition, the Group measures the estimate of the present value of the expected future cash flows and an adjustment for any expected risk of non-performance by the reinsurer. The risk adjustment for non-financial risk reflects the amount of the risk adjustment on the related insurance contract that is transferred to the reinsurer.

The CSM of a group of reinsurance contracts on initial recognition represents a net cost or net gain on purchasing reinsurance. It is measured as the equal and opposite amount of the total of the fulfilment cash flows, any derecognised assets for cash flows occurring before the recognition of the group and any cash flows arising at that date.

Subsequent measurement
The carrying amount of a group of reinsurance contracts at each reporting date is the sum of:

- the remaining coverage, comprising the fulfilment cash flows that relate to services that will be received under the contracts in future periods and any remaining CSM at that date; and
- the incurred claims, comprising the fulfilment cash flows related to past service.

A reinsurance CSM is held for contracts in either a net gain or net cost position.

Reinsurance of onerous underlying insurance contracts – loss-recovery components
If a reinsurance contract is entered into before or at the same time as the onerous underlying contracts are recognised, the Group adjusts the reinsurance CSM of the corresponding reinsurance unit of account to reflect the recovery of the reinsured element of the loss on initial recognition of the onerous underlying contracts. The gain is recognised in the Statement of comprehensive income.

For all reinsurance contracts, adjustments are then subsequently made to the loss-recovery component, or a loss-recovery component is established to reflect subsequent changes in the loss component of the onerous group of underlying contracts, limited to the proportion of the loss component that the Group expects to recover from the reinsurance contracts.

Net expenses from reinsurance contracts
Income and expenses from reinsurance contracts, excluding insurance finance income and expenses, are presented on a net basis as 'net expenses from reinsurance contracts' in the insurance service result. See Note 2.

	Note	**31 December 2023**		31 December 2022 (restated)	
		Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Insurance contract balances	15 (a)		**41,206**		33,726
Asset for insurance acquisition cash flows	15 (f)		**–**		(13)
Total Insurance contracts			**41,206**		33,713
Expected to be settled more than 12 months after the reporting date			**38,943**		31,831
Reinsurance contract balances	15 (b)	**2,321**		660	
Total Reinsurance contracts		**2,321**		660	
Expected to be recovered more than 12 months after the reporting date		**2,286**		718	

The Group uses reinsurance, predominantly longevity swap reinsurance and quota share ("funded") reinsurance, to minimise the risk and uncertainty arising through future longevity experience.

The following reconciliations show how the net carrying amount of insurance and reinsurance contracts changed during the year as a result of cash flows and amounts recognised in the Statement of profit or loss and OCI.

The first reconciliation analyses the movements in the liabilities for remaining coverage and movements in the liabilities for incurred claims and reconciles these movements to the line items in the Statement of profit or loss and OCI.

The second reconciliation analyses the changes in the estimates of the present value of future cash flows, the risk adjustment for non-financial risk and the CSM.

a. Insurance contracts

i) Analysis by remaining coverage and incurred claims

		Liabilities for remaining coverage			
2023 £m	Note	**Excluding loss component**	**Loss component[a]**	**Liabilities for incurred claims[b]**	**Total**
Opening liabilities		**33,801**	**16**	**(91)**	**33,726**
Changes in Statement of comprehensive income					
Insurance revenue					
Contracts under the fair value approach		**(598)**	**–**	**–**	**(598)**
Other contracts		**(1,589)**	**–**	**–**	**(1,589)**
	2	**(2,187)**	**–**	**–**	**(2,187)**
Insurance service expenses					
Incurred claims and other insurance service expenses		**–**	**(1)**	**1,879**	**1,878**
Amortisation of insurance acquisition cash flows	2	**22**	**–**	**–**	**22**
Reversals of losses on onerous contracts	2	**–**	**(23)**	**–**	**(23)**
	2	**22**	**(24)**	**1,879**	**1,877**
Investment components and refund of premiums		**(425)**	**–**	**425**	**–**
Insurance service result		**(2,590)**	**(24)**	**2,304**	**(310)**
Net finance expense from insurance contracts	3	**3,319**	**8**	**–**	**3,327**
Total changes in the Statement of comprehensive income		**729**	**(16)**	**2,304**	**3,017**
Cash flows					
Premiums received		**6,956**	**–**	**–**	**6,956**
Claims and other insurance service expenses paid, including investment components		**–**	**–**	**(2,384)**	**(2,384)**
Insurance acquisition cash flows		**(109)**	**–**	**–**	**(109)**
Total cash flows		**6,847**	**–**	**(2,384)**	**4,463**
Closing liabilities		**41,377**	**–**	**(171)**	**41,206**

a) Loss components on gross contracts are largely offset by loss recovery components on related reinsurance contracts. See Note 15 (b) Reinsurance contracts: Analysis by remaining coverage and incurred claims table.
b) Prepayments of claims resulted in a negative liability for incurred claims.

Changes in data and non-financial assumptions have reduced the loss component and all of the groups that were onerous as at 31 December 2022 have become profitable. Please refer to Note 15a (ii) for information on changes in estimates made during the year.

Notes to the financial statements
for the year ended 31 December 2023 continued

15. Insurance contracts continued

2022 £m	Note	Liabilities for remaining coverage Excluding loss component	 Loss component[a]	Liabilities for incurred claims[b]	Total
Opening liabilities		45,750	166	(89)	45,827
Changes in Statement of comprehensive income					
Insurance revenue					
Contracts under the fair value approach		(596)	–	–	(596)
Other contracts		(1,346)	–	–	(1,346)
	2	(1,942)	–	–	(1,942)
Insurance service expenses					
Incurred claims and other insurance service expenses		–	(6)	1,690	1,684
Amortisation of insurance acquisition cash flows	2	19	–	–	19
Reversals of losses on onerous contracts	2	–	(140)	–	(140)
	2	19	(146)	1,690	1,563
Investment components and refund of premiums		(264)	–	264	–
Insurance service result		(2,187)	(146)	1,954	(379)
Net finance income from insurance contracts	3	(13,651)	(4)	–	(13,655)
Total changes in the Statement of comprehensive income		(15,838)	(150)	1,954	(14,034)
Cash flows					
Premiums received		3,974	–	–	3,974
Claims and other insurance service expenses paid, including investment components		–	–	(1,956)	(1,956)
Insurance acquisition cash flows		(85)	–	–	(85)
Total cash flows		3,889	–	(1,956)	1,933
Closing liabilities		33,801	16	(91)	33,726

a) Loss components on gross contracts are largely offset by loss recovery components on related reinsurance contracts. See Note 15 (b) Reinsurance contracts: Analysis by remaining coverage and incurred claims table.
b) Prepayments of claims resulted in a negative liability for incurred claims.

Changes in data and non-financial assumptions have reduced the loss component and some of the groups that were onerous have become profitable. Please refer to Note 15a (ii) for information on changes in estimates made during the year.

ii) Analysis by measurement component

2023 £m	Notes	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM Contracts under fair value approach	CSM Other contracts	Total
Opening liabilities		**29,895**	**1,069**	**217**	**2,545**	**33,726**
Changes in Statement of comprehensive income						
Changes that relate to current services						
CSM recognised for services provided	2	**–**	**–**	**(29)**	**(190)**	**(219)**
Change in risk adjustment for non-financial risk for risk expired	2	**–**	**(54)**	**–**	**–**	**(54)**
Experience adjustments		**(14)**	**–**	**–**	**–**	**(14)**
Changes that relate to future services						
Contracts initially recognised in the year	15c	**(538)**	**174**	**–**	**364**	**–**
Changes in estimates that adjust the CSM[a]		**(863)**	**(102)**	**340**	**625**	**–**
Changes in estimates that result in losses and reversal of losses on onerous contracts[b]		**(16)**	**(7)**	**–**	**–**	**(23)**
Insurance service result		**(1,431)**	**11**	**311**	**799**	**(310)**
Net finance expense from insurance contracts[c]	3	**3,081**	**148**	**5**	**93**	**3,327**
Total changes in the Statement of comprehensive income		**1,650**	**159**	**316**	**892**	**3,017**
Cash flows						
Premiums received		**6,956**	**–**	**–**	**–**	**6,956**
Claims and other insurance service expenses paid, including investment components		**(2,384)**	**–**	**–**	**–**	**(2,384)**
Insurance acquisition cash flows		**(109)**	**–**	**–**	**–**	**(109)**
Total cash flows		**4,463**	**–**	**–**	**–**	**4,463**
Closing liabilities		**36,008**	**1,228**	**533**	**3,437**	**41,206**

a) Changes in the estimation of the fulfilment cash flows that are taken to the CSM primarily relate to the following non-financial assumption changes:
- Updates to the mortality improvement assumptions to reflect the latest version of the CMI projections model, resulting in a decrease in estimates of future cash flow and risk adjustment, as well as a corresponding increase in CSM.
- Updates to other demographic and maintenance expense assumptions, resulting in a decrease in estimates of future cash flows and risk adjustment, and corresponding increase in CSM.

b) Changes in estimates that result in losses and reversal of losses on onerous contracts reflect the impact of data updates and non-financial assumption changes on onerous contracts, which reversed losses previously recognised for contracts where the fair value approach has been used.

c) Net finance income from insurance contracts reflect economic movements, mainly driven by movements in the risk-free curve and liquidity premium. The unwind of discount on estimates of future cash flows and risk adjustment, and accretion of interest on the CSM are also included.

15. Insurance contracts continued

2022 £m	Notes	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM Contracts under fair value approach	CSM Other contracts	Total
Opening liabilities		41,719	2,216	–	1,892	45,827
Changes in Statement of comprehensive income						
Changes that relate to current services						
CSM recognised for services provided	2	–	–	(11)	(121)	(132)
Change in risk adjustment for non-financial risk for risk expired	2	–	(90)	–	–	(90)
Experience adjustments		(17)	–	–	–	(17)
Changes that relate to future services						
Contracts initially recognised in the year	15c	(443)	147	–	296	–
Changes in estimates that adjust the CSM[a]		(637)	(18)	228	427	–
Changes in estimates that result in losses and reversal of losses on onerous contracts[b]		(125)	(15)	–	–	(140)
Insurance service result		(1,222)	24	217	602	(379)
Net finance income from insurance contracts[c]	3	(12,535)	(1,171)	–	51	(13,655)
Total changes in the Statement of comprehensive income		(13,757)	(1,147)	217	653	(14,034)
Cash flows						
Premiums received		3,974	–	–	–	3,974
Claims and other insurance service expenses paid, including investment components		(1,956)	–	–	–	(1,956)
Insurance acquisition cash flows		(85)	–	–	–	(85)
Total cash flows		1,933	–	–	–	1,933
Closing liabilities		29,895	1,069	217	2,545	33,726

a) Changes in the estimation of the fulfilment cash flows that are taken to the CSM primarily relate to the following non-financial assumption changes:
- Updates to the mortality improvement assumptions to reflect the latest version of the CMI projections model, resulting in a decrease in estimates of future cash flow and risk adjustment, as well as a corresponding increase in CSM.
- Updates to other demographic assumptions, resulting in a decrease in estimates of future cash flows and risk adjustment, and corresponding increase in CSM, which was offset by the impact of maintenance expense assumption updates.

b) Changes in estimates that result in losses and reversal of losses on onerous contracts reflect the impact of non-financial assumption changes on onerous contracts, which partially reversed losses previously recognised for contracts where the fair value approach has been used.

c) Net finance income from insurance contracts reflect economic movements, mainly driven by increases in the risk-free curve and liquidity premium. The unwind of discount on estimates of future cash flows and risk adjustment, and accretion of interest on the CSM are also included.

b. Reinsurance contracts

i) Analysis by remaining coverage and incurred claims

2023 £m	Note	**Assets for remaining coverage: Excluding loss recovery component**	**Assets for remaining coverage: Loss recovery component**	**Asset for incurred claims**	**Total**
Opening reinsurance assets		**(340)**	**9**	**991**	**660**
Changes in Statement of comprehensive income					
Allocation of premiums paid	2	**(1,736)**	**–**	**–**	**(1,736)**
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expenses	2	**–**	**–**	**1,644**	**1,644**
Recoveries and reversals of recoveries of losses on onerous underlying contracts	2	**–**	**(16)**	**–**	**(16)**
Investment components and refund of premiums		**(62)**	**–**	**62**	**–**
Net finance income from reinsurance contracts	3	**475**	**7**	**–**	**482**
Total changes in the Statement of comprehensive income		**(1,323)**	**(9)**	**1,706**	**374**
Cash flows					
Premiums paid		**2,267**	**–**	**–**	**2,267**
Amounts received		**–**	**–**	**(980)**	**(980)**
Total cash flows		**2,267**	**–**	**(980)**	**1,287**
Closing reinsurance assets		**604**	**–**	**1,717**	**2,321**

As the loss component on onerous underlying contracts reduced to nil and all groups became profitable at the end of year, the recovery of losses has also been reversed, resulting in a corresponding decrease in the loss recovery component balance to nil.

2022 £m	Note	Assets for remaining coverage: Excluding loss recovery component	Assets for remaining coverage: Loss recovery component	Asset for incurred claims	Total
Opening reinsurance assets		1,641	130	195	1,966
Changes in Statement of comprehensive income					
Allocation of premiums paid	2	(1,580)	–	–	(1,580)
Amounts recoverable from reinsurers					
Recoveries of incurred claims and other insurance service expense	2	–	(6)	1,530	1,524
Recoveries and reversals of recoveries of losses on onerous underlying contracts	2	–	(112)	–	(112)
Investment components and refund of premiums		(30)	–	30	–
Net finance expenses from reinsurance contracts	3	(1,174)	(3)	–	(1,177)
Total changes in the Statement of comprehensive income		(2,784)	(121)	1,560	(1,345)
Cash flows					
Premiums paid		803	–	–	803
Amounts received		–	–	(764)	(764)
Total cash flows		803	–	(764)	39
Closing reinsurance assets		(340)	9	991	660

As the loss component on onerous underlying contracts reduced and some groups became profitable at the end of year, the recovery of losses has also been partially reversed, resulting in a corresponding decrease in the loss recovery component balance.

Notes to the financial statements
for the year ended 31 December 2023 continued

15. Insurance contracts continued
ii) Analysis by measurement component

2023 £m	Notes	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM Contracts under fair value approach	CSM Other contracts	Total
Opening reinsurance assets		**(319)**	**868**	**(319)**	**430**	**660**
Changes in Statement of comprehensive income						
Changes that relate to current services						
CSM recognised for services received		–	–	7	(45)	(38)
Change in risk adjustment for non-financial risk for risk expired		–	(41)	–	–	(41)
Experience adjustments		(13)	–	–	–	(13)
Changes that relate to future services						
Contracts initially recognised in the year		(176)	149	–	27	–
Changes in estimates that adjust the CSM[a]		(551)	(77)	203	425	–
Changes in estimates that relate to losses and reversal of losses on underlying onerous contracts[b]		(14)	(2)	–	–	(16)
Net expenses from reinsurance contracts		**(754)**	**29**	**210**	**407**	**(108)**
Net finance income from reinsurance contracts[c]	3	358	118	(7)	13	482
Total changes in the Statement of comprehensive income		**(396)**	**147**	**203**	**420**	**374**
Cash flows						
Premiums paid		2,267	–	–	–	2,267
Amounts received		(980)	–	–	–	(980)
Total cash flows		**1,287**	**–**	**–**	**–**	**1,287**
Closing reinsurance assets		**572**	**1,015**	**(116)**	**850**	**2,321**

a) Changes in estimates that adjust the CSM primarily relate to mortality improvement and other demographic assumption updates.
b) Changes in estimates that relate to losses and reversal of losses on onerous contracts primarily reflect the impact of the data and non-financial assumption changes on onerous contracts, which adjust the loss recovery component. The change in non-financial assumptions resulted in a reversal of losses on onerous underlying contracts that become profitable during the year.
c) Net finance expenses from reinsurance contracts reflect economic movements, mainly driven by movements in the risk-free curve and liquidity premium. This line item also includes the unwind of discount on future cash flows and risk adjustment at current rates, as well as interest accreted on the CSM.

2022 £m	Note	Estimates of present value of future cash flows	Risk adjustment for non-financial risk	CSM Contracts under the fair value approach	CSM Other contracts	Total
Opening reinsurance assets		550	1,766	(422)	72	1,966
Changes in Statement of comprehensive income						
Changes that relate to current services						
CSM recognised for services received		–	–	21	(20)	1
Change in risk adjustment for non-financial risk for risk expired		–	(49)	–	–	(49)
Experience adjustments		(8)	–	–	–	(8)
Changes that relate to future services						
Contracts initially recognised in the year		(81)	102	–	(21)	–
Changes in estimates that adjust the CSM[a]		(458)	(30)	90	398	–
Changes in estimates that relate to losses and reversal of losses on underlying onerous contracts[b]		(102)	(10)	–	–	(112)
Net expenses from reinsurance contracts		(649)	13	111	357	(168)
Net finance expenses from reinsurance contracts[c]	3	(259)	(911)	(8)	1	(1,177)
Total changes in the Statement of comprehensive income		(908)	(898)	103	358	(1,345)
Cash flows						
Premiums paid		803	–	–	–	803
Amounts received		(764)	–	–	–	(764)
Total cash flows		39	–	–	–	39
Closing reinsurance assets		(319)	868	(319)	430	660

a) Changes in estimates that adjust the CSM primarily relate to data and mortality improvement assumption updates.
b) Changes in estimates that relate to losses and reversal of losses on onerous contracts primarily reflect the impact of the data and non-financial assumption changes on onerous contracts, which adjust the loss recovery component. The change in non-financial assumptions resulted in a reversal of losses on onerous underlying contracts that become profitable during the year.
c) Net finance expenses from reinsurance contracts reflect economic movements, mainly driven by increases in the risk-free curve and liquidity premium. This line item also includes the unwind of discount on future cash flows and risk adjustment at current rates, as well as interest accreted on the CSM.

15. Insurance contracts continued

c. Contracts recognised in the year

Effect of insurance contracts initially recognised in the year

£m	2023 Profitable contracts issued	2023 Onerous contracts issued	2023 Total	2022 Profitable contracts issued	2022 Onerous contracts issued	2022 Total
Insurance acquisition cash flows	**109**	**–**	**109**	84	–	84
Claims and other insurance service expenses payable	**6,290**	**–**	**6,290**	3,563	–	3,563
Estimates of present value of cash outflows	**6,399**	**–**	**6,399**	3,647	–	3,647
Estimates of present value of cash inflows	**(6,937)**	**–**	**(6,937)**	(4,090)	–	(4,090)
Risk adjustment for non-financial risk	**174**	**–**	**174**	147	–	147
CSM	**364**	**–**	**364**	296	–	296
Losses on initial recognition	**–**	**–**	**–**	–	–	–

Reinsurance contracts recognised in the year

£m	2023 Contracts initiated without loss recovery component	2023 Contracts initiated with loss recovery component	2023 Total	2022 Contracts initiated without loss recovery component	2022 Contracts initiated with loss recovery component	2022 Total
Estimates of present value inflows	**4,772**	**–**	**4,772**	2,838	–	2,838
Estimates of present value of cash outflows	**(4,948)**	**–**	**(4,948)**	(2,919)	–	(2,919)
Risk adjustment for non-financial risk	**149**	**–**	**149**	102	–	102
CSM	**27**	**–**	**27**	(21)	–	(21)
Gain recognised due to onerous underlying contracts	**–**	**–**	**–**	–	–	–

d. Contractual service margin ("CSM")

The following table illustrates when the Group expects to recognise the remaining CSM as revenue. Future interest accretion on the CSM is excluded from the figures below. Also, please refer to Notes 15 a (ii) and 15 b (ii) for further information on CSM movements.

	Within 1 year £m	**In 1–5 years £m**	**In 5–10 years £m**	**Over 10 years £m**	**Total £m**
Insurance	**220**	**804**	**844**	**2,102**	**3,970**
Reinsurance	**(37)**	**(139)**	**(152)**	**(406)**	**(734)**

	Within 1 year £m	In 1–5 years £m	In 5–10 years £m	Over 10 years £m	Total £m
Insurance	141	528	567	1,526	2,762
Reinsurance	(1)	(7)	(12)	(91)	(111)

e. Significant estimates and judgements

Fulfilment cash flows

Estimates of cash flows

The Group incorporates, in an unbiased way, all reasonable and supportable information that is available without undue cost or effort at the reporting date in determining the estimated cash flows. This information includes both internal and external historical data about claims and other experience, updated to reflect current expectations of future events.

Cash flows within the boundary of a contract relate directly to the fulfilment of the contract. These include premiums, benefit payments to policyholders, insurance acquisition cash flows, policy administration and maintenance costs and other costs that are incurred in fulfilling and enhancing the benefits of contracts, such as investment expenses.

Directly attributable acquisition and maintenance costs include the costs of direct functions, such as origination, transitions, operations and investments, dealing and hedging costs related to the acquisition of investments backing policyholder liabilities as well as a portion of overheads. Overheads include an apportionment of functions such as Human Resources, IT, Finance and Risk, as well as premises costs. These costs are only included as directly attributable to the extent they relate to activities carried out to support the direct functions. Cash flows are attributed to acquisition activities, other fulfilment activities and other activities using activity-based techniques and are consistently applied to all costs that have similar characteristics. Strategic and shareholder related costs, that relate to central corporate activity, as well as the majority of project costs that are one-off in nature, are considered outside the contract boundaries.

Uncertainty in the estimation of benefit payments to policyholders arises primarily from uncertainties regarding long-term changes in mortality rates and other demographic assumptions, future inflation rates and future levels of expenses. Assumptions used to develop estimates for future cash flows are reassessed at each reporting date and adjusted where required.

Mortality

Assumptions about mortality and other demographic assumptions that are used in estimating future cash flows are developed reflecting recent experience and the profiles of policyholders within a group of contracts.

Mortality assumptions are developed using a blend of national mortality data, industry trends and recent experience. Experience is monitored through regular studies, the results of which are reflected both in the pricing of new contracts and in the measurement of existing contracts.

Tables produced by the CMI, a research body with strong links to the Institute and Faculty of Actuaries, are used and adjusted to reflect expected mortality improvements, as set out below. 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.

	Mortality projection model	Mortality table used and adjustments	Adjustments for long-term mortality improvements
2023			
Male	**CMI_2022**	**97% of S3PML with base year 2013**	**1.75%**
Female	**CMI_2022**	**97% of S3PFL/S3DFL with base year 2013**	**1.75%**
2022			
Male	CMI_2021	96% of S3PML with base year 2013	1.75%
Female	CMI_2021	96% of S3PFL/S3DFL with base year 2013	1.75%

15. Insurance contracts continued

Risk Adjustment for non-financial risk

The RA is an amount required within fulfilment cash flows, in addition to the estimate of the present value of future cash flows. It reflects the compensation required for uncertainty in the amount and timing of cash flows that arises from non-financial risks (predominantly longevity and expense risk) as the insurance or reinsurance contract is fulfilled.

The Group uses a confidence interval ("value at risk") approach set at the 85th percentile (2022: 85th percentile) over one year, representing the possibility that the present value of the future cash flows could increase under certain adverse scenarios. Estimates of reasonably possible outcomes are made using probability distributions and risk correlations underlying our Solvency II Internal Model, and taking into account the degree of diversification benefits. The risk adjustment for reinsurance is calculated as the difference between the risk adjustment on a gross basis before allowance for reinsurance cashflows less the net risk adjustment calculated after the allowance for reinsurance cashflows.

The net of reinsurance RA measured over the remaining lifetime corresponds to a 70% confidence level (2022: 68%). This has been determined in line with the run-off profile of the Group's business and the underlying non-financial risks.

Financial assumptions

The Group considers discount rates, index-linked inflation and exchange rates on foreign currency business as financial assumptions.

i) Discount rates

The present value of future cash flows and the RA are discounted to reflect the time value of money and the illiquidity inherent in the liabilities. As liability discount rates are not observable, an appropriate discount rate has been set by considering the yield on a portfolio of assets (a "reference portfolio") that reflects the characteristics of the liabilities. The yield is then adjusted to remove features that are not relevant to the liabilities (a "top down" approach). The Group holds assets in a matching fund with the aim of meeting liability cash flows. It is considered that these assets represent a reasonable reference portfolio for the IFRS 17 discount rate. In circumstances where there is a time lag between the receipt of the premium and subsequent investment in the anticipated portfolio of assets, the reference portfolio used to determine the discount rate includes an adjustment to reflect the anticipated assets.

An adjustment is made to the asset yield to remove the impact of expected credit risk and any remaining cash flow mismatches. The credit adjustment has been set based on historic average default rates and allows for expected recovery rates in the event of default.

Whilst the matching adjustment fund assets are held to meet the liabilities as they fall due, there is inevitably a small level of cash flow mismatch. An adjustment is made for reinvestment/disinvestment of cash flows as required.

The liabilities are discounted by a fixed addition over the risk-free swap curve.

	2023	2022
Yield on assets in reference portfolio	**5.5%**	5.7%
Adjustment for credit risk and cash flow mismatches	**(0.5%)**	(0.5%)
Liability discount rate	**5.0%**	5.2%
Expressed as a spread over risk-free swap rates	**1.6%**	1.7%

Risk-free swap rates are obtained based on the prices of market swap rates up to 60 years (2022: up to 60 years), following which the curve is set to trend towards an ultimate forward rate of 3.45% (2022: 3.45%), using a Smith-Wilson approach.

The GBP yield curve that is used to discount the estimates of future cash flows is as follows:

	2023					2022				
Tenor (years)	**1**	**5**	**10**	**20**	**30**	1	5	10	20	30
Rate (%)	**6.35%**	**4.97%**	**4.89%**	**5.04%**	**4.96%**	6.13%	5.76%	5.39%	5.22%	5.03%

As the Group writes new business and enters into new reinsurance, the assets will be selected to optimise portfolio returns and capital, so are different to assets already held in the reference portfolio. During 2023, new business and new reinsurance discount rates that have been used to set the initial CSM averaged 5.4% (2022: 4.0%). The assets within the reference portfolio change over time. This is due to differences between assets being bought in connection with new business and any anticipated assets, improving cash flow matching with liabilities, concerns over credit risk and to improve capital efficiency. During 2023, changes in asset mix are estimated to have resulted in a decrease in the net liability values of £109 million (2022: decrease of £65 million).

The fulfilment cash flows accrete interest using current discount rates. The CSM accretes interest using the locked discount rate at inception of each group of contracts.

ii) Inflation
Inflation assumptions are relevant to the projection of future policyholder benefits and expenses. Most policyholder benefits are linked to a type of Limited Price Indexation ("LPI"), with other benefits linked to the Retail Price Index ("RPI") or the Consumer Price Index ("CPI"). The assumption for expected future RPI inflation is based on a curve derived from the market prices of inflation-linked swap contracts. The CPI inflation assumption is also derived from this curve, with an additional term-dependent allowance for the expected gap between CPI inflation and RPI inflation. For LPI linked annuities, which are generally subject to maximum and minimum percentage annual increases, a mark-to-model approach is used to derive inflation assumptions that 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.

Contractual service margin
The CSM for a group of insurance contracts is recognised as insurance revenue in each period based on the number of coverage units provided in the period. This is determined for each group by considering the quantity of the benefits provided to the policyholder and the expected coverage duration. The Group applies the "annuity payment method" for determining coverage units, as annuity payments made are reflective of the quantity of benefits provided.

The total number of coverage units provided in the period to retired policyholders is the expected annuity payments, including allowance for benefit inflation where payments contractually increase with inflation. Annuity payments are considered a suitable proxy for investment return service provided during annuity payment guarantee periods (typically five years), as this aligns with the insurance coverage measure and avoids more complex alternatives that are not necessarily any more meaningful.

For policyholders who have not yet retired, the total number of coverage units, both before and after retirement, is the sum of the following three components:

- the potential amount that might be paid to spouses if the annuity should come into payment on the death of the first life in the deferred period. This reflects insurance provided in the deferred period;
- the expected investment return on the transfer value that the policyholder is eligible to take in the deferred period. This is considered appropriate as it reflects the investment activities that PIC performs to generate investment return and protect policyholder benefits; and
- the expected annuity payments made to policyholders from retirement. This is consistent with coverage units of retired policyholders.

The total number of remaining coverage units until the end of the contract is discounted using rates locked at inception of the contract.

An analysis of the expected timing of the allocation of the CSM to profit or loss is disclosed in Note 15 (d).

Loss components and loss recovery components
Loss components are systematically released over time as the related fulfilment cash flows leading to the loss are incurred, based on a loss component proportion, equal to the loss component divided by the present value of fulfilment cash flows. The related reinsurance loss-recovery component is released on the same basis.

Foreign currency business
A limited number of groups have a small proportion of Euro-denominated liabilities. Fulfilment cash flows are retranslated at each reporting period for changes in exchange rates. The Group uses a Group currency approach for these groups, which assigns a single currency (GBP) to the CSM at initial recognition, i.e. the CSM is not subsequently retranslated for changes in exchange rates.

f. Acquisition costs
Costs incurred in the acquisition of new business which has not been written yet can be analysed as follows:

	2023 £m	2022 £m
Opening balance	**13**	1
Expenses incurred during the period	**96**	96
Amounts allocated to contracts recognised in the period	**(109)**	(84)
Net closing balance	**–**	13

The 2022 balance related to business which was due to be recognised in the next 12 months and was included within the insurance contract liabilities line of the Statement of financial position.

16. 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.

	Subordinated loan notes			2023		2022	
Par amount	Issue date	Maturity date	Coupon	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
£300m*	3 Jul 2014	3 Jul 2024	6.5%	**203**	**203**	299	299
£250m*	23 Nov 2016	23 Nov 2026	8.0%	**47**	**50**	249	259
£350m	20 Sep 2018	20 Sep 2030	5.625%	**348**	**336**	348	316
£300m	7 May 2020	7 May 2031	4.625%	**299**	**267**	299	251
£400m	21 Oct 2020	21 Oct 2032	3.625%	**397**	**325**	397	302
£500m	13 Nov 2023	13 Nov 2033	8.0%	**495**	**538**	–	–
Total				**1,789**	**1,719**	1,592	1,427

* The carrying values of loan notes maturing in 2024 and 2026 have reduced to £203 million and £47 million respectively following their partial redemption.

On 13 November 2023, PIC issued £500 million of subordinated loan notes, maturing in 2033, with a fixed coupon of 8.0% paid annually in arrears. These notes were issued at 99.7% of par. Following the issue, £97 million of the 2024 and £203 million of the 2026 loan notes were redeemed for a total cost of £310 million.

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

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

Finance costs comprise the interest expense on borrowings, which is calculated using the effective interest method. For the year ended 31 December 2023, transaction and interest expenses of £91 million (2022: £90 million) were recognised in the Statement of comprehensive income in respect of the notes.

The table below provides a reconciliation between opening and closing borrowings:

	2023 £m	2022 £m
At beginning of year	**1,592**	1,590
Amortisation	**2**	2
Additions	**495**	–
Redemptions	**(310)**	–
Loss on redemption of subordinated debt	**10**	–
At end of year	**1,789**	1,592

17. 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), liquidity risk, operational risk and climate change risk. Other risks are also detailed within this section.

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 Board Customer 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 fluctuations 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 No Negative Equity Guarantee ("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. The 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 indirect exposure to residential property prices. At December 2023, the average LTV for PIC's portfolio was 29% (2022: 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.

17. Risk management continued

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. Bilateral assets and bonds are also used to improve inflation matching where contractual features of the assets include inflation linkages. 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.

Sensitivity analysis

The following table provides information on the sensitivity of the Group's profit and equity to market movements:

31 December 2023 £m	**Interest rates +100 bps**	**Interest rates -100 bps**	**Inflation rates +50 bps**	**Inflation rates -50 bps**	**Credit spreads +100 bps**	**House price index increase 10%**	**Exchange rate**
Change in financial investments	**(3,691)**	**4,367**	**1,478**	**(1,360)**	**(2,736)**	**9**	**23**
Net change in insurance contracts	**3,458**	**(4,188)**	**(1,485)**	**1,359**	**2,610**	**(6)**	**(26)**
Net change in CSM	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Pre-tax change in profit	**(233)**	**179**	**(7)**	**(1)**	**(126)**	**3**	**(3)**
Post tax change in profit and equity	**(178)**	**137**	**(5)**	**(1)**	**(96)**	**2**	**(2)**

31 December 2022 £m	Interest rates +100 bps	Interest rates -100 bps	Inflation rates +50 bps	Inflation rates -50 bps	Credit spreads +100 bps	House price index increase 10%	Exchange rate
Change in financial investments	(3,268)	3,891	1,331	(1,211)	(2,536)	6	27
Net change in insurance contracts	2,980	(3,615)	(1,250)	1,190	2,452	(4)	(26)
Net change in CSM	–	–	–	–	–	–	–
Pre-tax change in profit	(288)	276	81	(21)	(84)	2	1
Post tax change in profit and equity	(234)	224	66	(17)	(68)	2	1

The movement in the sensitivities compared to the prior year reflects the different asset and insurance portfolios as at 31 December 2023 compared to 31 December 2022, as well as the level of interest rates and other economic conditions. 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. 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. The inflation sensitivity is affected by the level of inflation curves as well as the overall hedging in place. The sensitivity has changed slightly from 31 December 2022 and is now immaterially adverse to a 50 bps increase in inflation curves. The market conditions used to derive the CSM are locked at policy inception, and so the CSM is not impacted under the economic sensitivities.

The sensitivities to credit spreads and the house price index as at 31 December 2023 are broadly symmetric to the equivalent decrease in credit spreads and the house price index.

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

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 rate and inflation risks is carefully managed.

(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 and lending arrangements is controlled through establishment of collateral agreements and master netting agreements. To further manage credit risk, the financial condition of counterparties is monitored on a regular basis. Stress testing and capital help the Group to understand and manage its exposures.

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.

Financial assets by credit rating

31 December 2023	AAA £m	AA £m	A £m	BBB[4] £m	BB or below £m	Unrated £m	Total £m
Financial investments – *at FVTPL*							
Debt securities[1]							
– Government bonds	**354**	**14,809**	**755**	**1,041**	**–**	**–**	**16,959**
– Corporate bonds	**645**	**914**	**6,102**	**7,932**	**32**	**–**	**15,625**
– Private investments	**105**	**2,617**	**3,312**	**2,149**	**170**	**–**	**8,353**
MBS and ABS[2]	**20**	**7**	**207**	**28**	**–**	**–**	**262**
Equity release mortgages	**–**	**–**	**–**	**–**	**–**	**1,124**	**1,124**
Deposits with credit institutions	**–**	**300**	**102**	**–**	**–**	**19**	**421**
Participation in investment schemes[3]	**1,374**	**–**	**–**	**–**	**179**	**2,552**	**4,105**
Total financial investments	**2,498**	**18,647**	**10,478**	**11,150**	**381**	**3,695**	**46,849**
Other financial assets – *at FVTPL*							
Derivative and other financial assets	**–**	**–**	**–**	**–**	**–**	**27,977**	**27,977**
Other financial assets – *at amortised cost*							
Receivables	**–**	**–**	**–**	**–**	**–**	**45**	**45**
Cash and cash equivalents	**–**	**–**	**–**	**312**	**–**	**–**	**312**
Total other financial assets	**–**	**–**	**–**	**312**	**–**	**28,022**	**28,334**

1. Within Debt securities, there are £105 million AAA rated, £2,098 million AA rated, £3,460 million A rated, £2,308 million BBB rated and £170 million BB or below 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 £13 million AAA rated and £179 million BB or below rated schemes, which have been rated using internally assessed credit ratings.
4. Within the BBB rated Financial investments, there are £1,372 million of BBB- rated assets.

Notes to the financial statements
for the year ended 31 December 2023 continued

17. Risk management continued

31 December 2022 (restated)*	AAA £m	AA £m	A £m	BBB[4] £m	BB or below £m	Unrated £m	Total £m
Financial investments – *at FVTPL*							
Debt securities[1]							
– Government bonds	579	11,047	618	931	-	-	13,175
– Corporate bonds	1,211	1,094	5,376	7,294	43	259	15,277
– Private investments	127	2,095	2,762	1,409	161	7	6,561
MBS and ABS[2]	21	3	215	24	–	–	263
Equity release mortgages	–	–	–	–	–	1,013	1,013
Deposits with credit institutions	–	603	266	–	–	26	895
Participation in investment schemes[3]	1,957	–	–	–	167	1,910	4,034
Total financial investment	3,895	14,842	9,237	9,658	371	3,215	41,218
Other financial assets – *at FVTPL*							
Derivative assets	–	–	–	–	–	22,451	22,451
Other financial assets – *at amortised cost*							
Receivables	–	–	–	–	–	81	81
Cash and cash equivalents	–	–	–	201	–	–	201
Total other financial assets	–	–	–	201	–	22,532	22,733

* Restated for the adoption of IFRS 9 "Financial Instruments".
1. Within Debt securities, there are £130 million AAA rated, £1,553 million AA rated, £2,615 million A rated, £1,456 million BBB rated and £109 million BB or below 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 or below rated schemes, which have been rated using internally assessed credit ratings.
4. Within the BBB rated Financial investments, there are £1,093 million of BBB- rated assets.

Although the derivative and repurchase agreement asset instruments themselves are unrated, the ultimate issuing party for most derivative assets does have a credit rating. Additionally, the balances are 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 2023 produces the following split:

31 December 2023	**AAA £m**	**AA £m**	**A £m**	**BBB £m**	**BB or below £m**	**Unrated £m**	**Total £m**
Derivative assets	**–**	**6,516**	**18,608**	**–**	**–**	**363**	**25,487**
Repurchase agreements	**–**	**521**	**1,919**	**–**	**–**	**–**	**2,440**
Cash collateral pledged	**–**	**–**	**50**	**–**	**–**	**–**	**50**

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

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 (2022: 14 external reinsurers) with an exposure of £572 million at 31 December 2023 (2022: £(319) million). Measures are in place with respect to the reinsurance contracts to manage counterparty exposure, including collateral arrangements and other protections. At 31 December 2023, the fair value of securities accepted as collateral that the Group is permitted to sell or repledge in the event of default was £2,330 million (2022: £799 million). 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 2023 (A- or higher at 31 December 2022).

Expected credit loss for trade receivables & cash and cash equivalents

Expected credit losses are insignificant and recognised at 31 December 2023 at £nil (2022: £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 either: post collateral to derivative and reinsurance counterparties as it falls due; or pay liabilities in a timely manner without incurring any excessive cost, even though regulatory solvency requirements have been met.

Liquidity risk most typically arises if: derivative contracts to manage inflation, interest rate, and currency risks, require collateral to be posted; a large proportion of deferred policyholders opt to take transfer values; or if a large proportion of assets are invested in assets which are not easy or straightforward to liquidate. Liquidity risk can also materialise on the termination of certain policies, where the trustees of a pension scheme have the right to terminate policies under certain circumstances.

PIC manages the most common sources of liquidity risk as follows:

- Posting collateral: PIC's risk policies define a minimum proportion of assets to be held in cash, gilts, and highly liquid corporate bonds, which can be posted as collateral on derivative contracts. This ensures that PIC would be able to meet demands from derivative counterparties under extreme market scenarios.
- Liability payments: Projected cash flows for all new pensioner liabilities taken on are determined as a part of the new business origination process. This is used to identify appropriate assets which provide matching cash flows at an acceptable price. The projected cash flows are updated regularly, and assumptions are updated at least annually, considering factors such as mortality experience and how this affects the required cash flows in the future.
- PIC's risk policies also define a minimum amount of unencumbered cash available to meet pension liability outgoings and business expenses over the following three months.
- Termination of policies: PIC typically manages this risk by ensuring a suitable timeframe between policy termination and the requirement to pay back the scheme, and that a range of different assets can be passed back to the scheme on termination.

Financial instruments

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 2023	**Carrying value £m**	**Within 1 year £m**	**In 1–5 years £m**	**In 5–15 years £m**	**Over 15 years £m**	**Total £m**
Financial liabilities						
Other payables	**16**	**16**	**–**	**–**	**–**	**16**
Accruals	**189**	**189**	**–**	**–**	**–**	**189**
Borrowings	**1,789**	**302**	**408**	**1,866**	**–**	**2,576**
Derivative liabilities	**28,566**	**509**	**1,650**	**8,004**	**18,403**	**28,566**
Repurchase agreements	**1,193**	**1,193**	**–**	**–**	**–**	**1,193**
Cash collateral received	**1,071**	**1,071**	**–**	**–**	**–**	**1,071**
	32,824	**3,280**	**2,058**	**9,870**	**18,403**	**33,611**

Repurchase agreement liabilities are largely matched by repurchase agreement assets with the same counterparty that mature on the same date. See Note 13 for further information.

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
Financial liabilities						
Other payables	8	8	–	–	–	8
Accruals	153	153	–	–	–	153
Borrowings	1,592	88	822	1,236	–	2,146
Derivative liabilities	25,348	650	1,731	6,759	16,208	25,348
	27,101	899	2,553	7,995	16,208	27,655

All amounts due to other payables 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.

17. Risk management continued

Insurance and reinsurance contracts

The following table provides an analysis of the Group's insurance and reinsurance contract cash flows by duration on a discounted basis, which reflects the dates on which the cash flows are expected to occur. Cash flows do not include the risk adjustment and contractual risk margin.

31 December 2023	Within 1 year £m	In 1–2 years £m	In 2–3 years £m	In 3–4 years £m	In 4–5 years £m	In 5–15 years £m	More than 15 years £m	Total £m
Insurance contract liabilities	**2,019**	**2,394**	**2,178**	**2,091**	**2,009**	**15,004**	**10,313**	**36,008**
Reinsurance contract assets	**25**	**15**	**17**	**14**	**11**	**(164)**	**(490)**	**(572)**

31 December 2022	Within 1 year £m	In 1–2 years £m	In 2–3 years £m	In 3–4 years £m	In 4–5 years £m	In 5–15 years £m	More than 15 years £m	Total £m
Insurance contract liabilities	1,731	2,005	1,808	1,728	1,644	12,282	8,697	29,895
Reinsurance contract assets	82	48	52	48	48	176	(135)	319

Estimates of the present value of future cash flows

The amounts from insurance contract liabilities that are payable on demand are set out below:

	2023		2022	
Insurance contracts	**Payable on demand £m**	**Carrying amount £m**	Payable on demand £m	Carrying amount £m
Life risk	**9,141**	**9,091**	5,867	5,870

These amounts relate to deferred contracts on which a transfer value can be requested. The amount payable on demand is different to the carrying amount due to different discount rates.

(d) Insurance 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.

Longevity risk is the risk that the Group's policyholders may live for longer 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 the uncertainty arising through future longevity experience, the Group adopts an active approach to reinsuring these risks where it is economic to do so. Sensitivity analysis is also carried out to ensure the remaining exposure to longevity risks is understood, as presented later in this section.

The Group's reinsurance can be classified into two broad categories:

Longevity only reinsurance

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

Quota share (or "funded") 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 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, and so increasing the life expectancy of Group's policyholders, 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 impact on the Statement of financial position and the management actions available to help mitigate these.

Sensitivity analysis
The following table analyses how the CSM, profit and equity would respond if changes in underwriting risk exposures that were reasonably possible at the reporting date occur. This analysis presents the sensitivities both before and after risk mitigation by reinsurance and assumes that all other variables remain constant.

31 December 2023 £m	**Mortality improvements 0.1%**	**Base mortality -5% probability of death**	**Increase in per policy expense assumption of 10%**
Change in insurance liabilities fulfilment cash flows	**(173)**	**(607)**	**(49)**
Change in gross CSM	**318**	**948**	**67**
Change in reinsurance assets fulfilment cash flows	**148**	**546**	**(10)**
Change in reinsurance CSM	**(259)**	**(808)**	**13**
Pre-tax change in profit	**34**	**79**	**21**
Post tax change in profit and equity	**26**	**60**	**16**

31 December 2022 £m	Mortality improvements 0.1%	Base mortality -5% probability of death	Increase in per policy expense assumptions of 10%
Change in insurance liabilities fulfilment cash flows	(152)	(528)	(45)
Change in gross CSM	285	766	62
Change in reinsurance assets fulfilment cash flows	126	466	(8)
Change in reinsurance CSM	(207)	(627)	12
Pre-tax change in profit	52	77	21
Post tax change in profit and equity	42	62	17

- The mortality improvements sensitivity is based on a 0.1% increase in all annual mortality improvement rates. This is equivalent to a 0.2 year increase in life expectancy from 22.5 years to 22.7 years for a typical male aged 65.
- The base mortality sensitivity is based on a 5% reduction in base mortality rates. This is equivalent to a 0.4 year increase in life expectancy from 22.5 years to 22.9 years for a typical male aged 65.
- The per policy expense sensitivity is based on an increase in annual maintenance expenses (including third party administration costs) of 10%.

Profit and equity increase for all the sensitivities shown, despite losses from changes in fulfilment cash flows net of reinsurance. This is due to profits from changes in CSM net of reinsurance more than offsetting the losses from fulfilment cash flows, which is a result of the locked discount rates at initial recognition used to measure changes in CSM generally being lower than the current rates being used to measure the changes in the fulfilment cash flows as at 31 December 2023 and 31 December 2022. The differences between locked and current rates are in part due to movements in interest rates between initial recognition dates and the reporting date.

The sensitivities are broadly symmetric to the equivalent opposite change in the variable shown.

17. Risk management continued

(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 Company's internal control processes are supported by multi-level governance activities, the maintenance of a central risk register, the Risk and Control Self-Assessment process, scenario and stress testing, and an independent internal audit review of the Operational Risk Framework and its activities.

All material operational risk types are actively managed through a defined control framework and include first line owned activities and actions overseen and challenged by the second line.

The Company 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. There is a formal Third Party and Outsourcing Framework which contains clear requirements in regard to the onboarding, relationship management and offboarding of third parties, supported by a specialised third party management system.

Given PIC's business model, there is considerable use of financial models and associated output throughout a range of actuarial and financial reporting processes which expose the business to risk through inappropriate use or poor design. From an operational risk perspective, extensive controls exist to mitigate risks related to model design, integration, operation and change management. This is supported by a specific Model Risk Framework and associated Board approved policies, which provide direction and guidance in this respect. Model risk is overseen by a specialist team within the wider Risk function.

Cyber risk is the risk of electronic information security breaches or loss of digital assets. This includes losses arising from internal employees acting carelessly or maliciously with electronic forms of data, as well as external threat actors who may target our electronic information and digital assets. Basic control gaps such as improperly configured hardware, IT frameworks which are not fully established, mature or resourced, software vulnerabilities, and employees who are not 'cyber aware,' etc. – all create risks that threat actors (attackers) can exploit to harm our information and data assets. PIC, or any of its critical third parties, could be (and has been) subject to a cyber-attack by a sophisticated threat actor (attacker) using advanced tools, methods, and access paths to harm or disable our systems, network, and sensitive/critical data. A cyber incident could lead to significant loss or corruption of critical and/or sensitive information assets with regulatory fines, and reputational damage.

Cyber risk is mitigated by various controls or processes including:

- An interim Chief Information Security Officer ("CISO") leading an Information Security function tasked with ongoing preparation for ISO27001 certification in 2024;
- Antivirus, malware, phishing, end point, server and firewall protection controls;
- Security Operations Centre ("SOC") and Security Incident and Event Management ("SIEM");
- Vulnerability scanning and patching;
- Ongoing third party penetration tests (including red teaming and purple teaming tests);
- Data encryption within Oracle (employee data) and Egnyte (policyholder files data at storage level);
- Backup and restoration processes supported with offsite data centres and tape retention;
- Network segmentation via Project Yoda (due to be completed in Q4 2024);
- Incident Management Team ("IMT"), Business Continuity and Disaster Recovery Procedures ("BCP", "DRP"); and
- Crisis Management Team with lessons learned and continuous improvement activities.

The Company is primarily exposed to conduct risk through its interactions with, and obligations to, its retail customers. Given the demographic of the policyholder base, many policyholders are likely to exhibit characteristics of vulnerability. This requires the Company to support their additional needs where possible, such as offering alternative contact channels and methods of communication. Conduct risk is mitigated through extensive controls such as staff training, policies and procedures, quality assurance and contractual service level agreements.

Emergency and business continuity plans have also been established to counter adverse occurrences. These plans are tested at regular intervals and the results of these tests are linked closely to the operational risk scenario assessment process. Separate BCP scenarios are also identified and assessed as part of the overall BCP process and drive management actions where identified.

There is an annual operational risk scenario review process in place to examine potential risk impacts caused by both internal and external events. Various scenarios are assessed by appropriate first line SMEs, based upon the Operational Risk taxonomy and challenged by the Risk team. Management mitigation actions that are identified as part of this activity are approved through the risk governance process.

(f) Climate change risk

PIC considers climate change to be a cross-cutting risk, which could drive significant increases in risk across PIC's risk profile. For example, these increases in risk could include:

- Increased market risk due to asset impairment
- Increased operational risk due to operational disruption as a result of physical climate risk events
- Increased reputational risk arising from failure to enact or evidence long-term climate actions, leading to increased cost of capital and/or reduced new business volumes
- Increased regulatory risk due to failure to comply with fast-moving regulatory environment

PIC is continually assessing how our business may be impacted by climate change risk. Importantly, PIC has developed the risk management approach to identify, manage and report climate related risks to the Board Risk Committee, and ultimately the Board. For systems and processes, PIC includes adaptation or operational disruption caused by physical and transition risk associated with climate change in risk analysis and has actively started engaging with external providers. For the assets we invest in, PIC accepts that some transition risk is inherent in doing business and aims to minimise the physical risk in the portfolio. PIC has performed sensitivity analysis to further understand the impacts that physical and transitional climate change risk could have on the Statement of financial position.

PIC produces a Climate Report, which outlines the approach to managing risks arising from climate change across four key areas: strategy, metrics and targets, risk management and governance, in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

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.

18. Related party transactions

Transactions with Directors and key management personnel

Key management personnel comprise Directors of the Company and members of the Executive Committee.

	2023 £m	2022 £m
Short-term employee benefits	**10**	9
Share-based payments	**3**	4
Total	**13**	13

The Group had no other transactions with Directors and key management personnel during the period.

Capital transactions

During the year, the Group invested £13 million into joint ventures (2022: £22 million). As at 31 December 2023, the carrying value of the investment in joint ventures was £28 million (2022: £22 million); please refer to Note 3 of PICG's parent Company financial statements for further details on investments in joint ventures.

Other related party transactions

PIC holds €150 million of 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. Investment income during the period amounted to £2 million (2022: £2 million) and the carrying value of the investment at 31 December 2023 was £108 million (2022: £97 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 contributions of £6 million (2022: £33 million) and investment income amounted to £16 million (2022: £14 million). As at 31 December 2023, the carrying value of the investments was £179 million (2022: £166 million).

19. Share capital

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

	2023		2022	
	Number of shares	£m	Number of shares	£m
Ordinary shares				
Authorised, issued and fully paid				
At beginning of year	**1,334,205,407**	**2**	1,334,205,407	2
Shares at the end of the period	**1,334,205,407**	**2**	1,334,205,407	2

20. Restricted Tier 1 notes

In 2019, PIC issued £450 million of RT1 notes. The notes have been classified as equity as 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.

	2023 £m	2022 £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 2023, the total coupon paid was £33 million (2022: £33 million).

21. Reserves

Group

31 December 2023	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m
At beginning of year*	**873**	**(20)**	**34**	**1,055**	**20**	**1,967**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**239**
RT1 coupon	**–**	**–**	**–**	**–**	**–**	**(33)**
Exercise of share-based payment schemes	**–**	**7**	**–**	**–**	**(7)**	**–**
Dividend	**–**	**–**	**–**	**–**	**–**	**(100)**
Share-based payment charge	**–**	**–**	**–**	**–**	**8**	**–**
Share purchases and share scheme settlements	**–**	**(18)**	**–**	**–**	**–**	**(3)**
At end of year	**873**	**(31)**	**34**	**1,055**	**21**	**2,070**

31 December 2022	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m
At beginning of year (as previously reported)	873	(19)	34	1,055	21	2,055
IFRS 17 transitional adjustment, net of tax	–	–	–	–	–	(208)
At beginning of year (restated)*	873	(19)	34	1,055	21	1,847
Total comprehensive income	–	–	–	–	–	155
RT1 coupon	–	–	–	–	–	(33)
Exercise of share-based payment schemes	–	9	–	–	(9)	–
Dividend	–	–	–	–	–	–
Share-based payment charge	–	–	–	–	8	–
Share purchases and share scheme settlements	–	(10)	–	–	–	(2)
At end of year (restated)*	873	(20)	34	1,055	20	1,967

* 31 December 2022 and 1 January 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts". See Note 1 for details.

Treasury shares relate to the shares purchased by EBTs for the purpose of subsequently settling share-based payment awards.

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 continued

22. 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. Details of the Group's equity capital resources are provided in Notes 19 to 21. Details of the Group's debt capital resources are provided in Note 16.

The Group's main subsidiary, PIC, is required to measure and manage its capital in accordance with the requirements of the EU Solvency II Framework Directive ("Solvency II"), as adopted by the PRA and retained under UK law. There are certain valuation differences between the IFRS Statement of financial position and the Solvency II Statement of financial position, for example, differences between IFRS insurance liabilities and Solvency II technical provisions. Also, under Solvency II, PIC treats the subordinated debt (referred to in Note 16) 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.

At 31 December 2023, the Group's Solvency II ratio was 211% (2022: 226%) and it had surplus funds of £4,331 million (2022: £4,037 million) in excess of its SCR.

	2023 unaudited £m	2022 unaudited* £m
Total IFRS equity as at 31 December	**4,468**	4,375
Liability valuation differences and other adjustments	**2,073**	1,473
Total Tier 1	**6,541**	5,848
Tier 2 debt valuation	**1,680**	1,388
Own Funds	**8,221**	7,236
Solvency II capital requirements	**(3,890)**	(3,199)
Solvency II surplus	**4,331**	4,037
Solvency ratio	**211%**	226%

* 31 December 2022 comparatives have been restated following the Group's adoption of IFRS 17 "Insurance Contracts". See Note 1 for details.

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; and
- 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 is used to identify all the risks faced by PIC including those not captured within the internal model and the report is a summary of all appropriate risk management activities used to identify the forward-looking risks PIC faces over the business planning horizon.

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 Statement of financial position through hedging its technical provisions and solvency capital requirement to manage key exposures such as interest rates risk and inflation risk. PIC aims to remove all foreign exchange risk through cross-currency hedging. Longevity risk is managed through reinsurance, where 85% of exposure has been transferred as at 31 December 2023, based on best estimate liabilities (2022: 87%).

23. 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 £676 million in the coming years (2022: £952 million), £412 million of this being due within 12 months of the financial reporting date (2022: £376 million).

	2023 £m	2022 £m
Within 1 year	**412**	376
In 1–5 years	**243**	565
In 5–15 years	**9**	5
Over 15 years	**12**	6
	676	952

At 31 December 2023, the Group's maximum commitment under contractual obligations to construct investment property is £301 million (2022: £380 million). The obligations cover a period of up to approximately five years.

At 31 December 2023, the Group's maximum commitment under joint venture agreements is £113 million (2022: £4 million).

Parent Company financial statements
Statement of financial position for the Company
as at 31 December 2023

	Note	**2023 £m**	2022 £m
Assets			
Investments in subsidiaries	2	**1,952**	1,952
Receivables and other financial assets	4	**31**	35
Cash and cash equivalents	4	**3**	1
Total Assets		**1,986**	1,988
Equity			
Share capital		**2**	2
Share premium		**873**	873
Treasury shares		**(31)**	(20)
Merger reserve		**34**	34
Capital reduction reserve		**1,055**	1,055
Share-based payment reserve		**21**	20
Retained profit		**16**	19
Total Equity		**1,970**	1,983
Liabilities			
Other payables	4	**16**	5
Total Liabilities		**16**	5
Total Equity and Liabilities		**1,986**	1,988

The accounting policies and notes on pages 193 to 195 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 26 March 2024 and were signed on its behalf by:

Tracy Blackwell
Director
Registered number: 09740110

Parent Company financial statements
Statement of changes in equity for the Company
for the year ended 31 December 2023

31 December 2023	**Share capital £m**	**Share premium £m**	**Treasury shares £m**	**Merger reserve £m**	**Capital reduction reserve £m**	**Share-based payment reserve £m**	**Retained profit £m**	**Total £m**
At beginning of year	**2**	**873**	**(20)**	**34**	**1,055**	**20**	**19**	**1,983**
Total comprehensive income								
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**100**	**100**
Transactions with owners								
Dividend	**–**	**–**	**–**	**–**	**–**	**–**	**(100)**	**(100)**
Exercise of share-based payment schemes	**–**	**–**	**7**	**–**	**–**	**(7)**	**–**	**–**
Dividend								
Share-based payment charge	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Share purchases and share scheme settlements	**–**	**–**	**(18)**	**–**	**–**	**–**	**(3)**	**(21)**
At end of year	**2**	**873**	**(31)**	**34**	**1,055**	**21**	**16**	**1,970**

31 December 2022	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year	2	873	(19)	34	1,055	21	23	1,989
Total comprehensive income								
Loss for the year	–	–	–	–	–	–	(2)	(2)
Transactions with owners								
Dividend	–	–	–	–	–	–	–	–
Exercise of share-based payment schemes	–	–	9	–	–	(9)	–	–
Share-based payment charge	–	–	–	–	–	8	–	8
Share purchases and share scheme settlements	–	–	(10)	–	–	–	(2)	(12)
At end of year	2	873	(20)	34	1,055	20	19	1,983

The accounting policies and notes on pages 193 to 195 form an integral part of these financial statements.

Parent Company financial statements
Company statement of cash flows
for the year ended 31 December 2023

	2023 £m	2022 £m
Cash flows from operating activities		
Profit/(loss) for the year	**100**	(2)
Adjustments for:		
Dividends received from Group companies	**(100)**	–
Equity settled share-based payments	**8**	8
	(92)	8
Changes in operating assets and liabilities		
Decrease/(increase) in receivables and other financial assets	**4**	(2)
Increase in other payables	**11**	3
	15	1
Cash inflow from operating activities	**23**	7
Investing activities		
Dividend received	**100**	–
Cash inflow from investing activities	**100**	–
Financing activities		
Purchase of treasury shares	**(18)**	(10)
Share scheme settlements	**(3)**	(2)
Dividend paid	**(100)**	–
Cash outflow from financing activities	**(121)**	(12)
Net increase/(decrease) in cash and cash equivalents	**2**	(5)
Cash and cash equivalents at beginning of year	**1**	6
Cash and cash equivalents at end of year	**3**	1

The accounting policies and notes on pages 193 to 195 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 2023

1. Accounting policies

The Company's financial statements have been prepared in accordance with UK-adopted international accounting standards 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 cost less, where appropriate, allowances for impairment in the Company's financial statements. Where indicators of impairment exist, the carrying value of the investment in the subsidiary is compared against its recoverable amount, which is the higher of the fair value less cost to sell or the value in use, with any resulting impairment recorded in the Statement of comprehensive income.

There were no 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 2023. The following amendments have been issued and endorsed by the UK and have had no impact on the Company:

- Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting policies to help preparers decide which accounting policies to disclose in their financial statements.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. The amendments help preparers distinguish between accounting policies and accounting estimates.
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction. The amendments clarify the specific circumstances when exemptions to recognising deferred tax apply.
- Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules. The amendments give temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's international tax reform.

Disclosures in relation to the Company's share capital and other reserves are provided in Notes 19 and 21 of the Group's consolidated financial statements. The disclosures required by IFRS 2 "Share-based Payment" are provided in Note 7 of the Group's consolidated financial statements. The total expense borne by the Company in relation to share-based payments was £1 million (2022: £nil).

Notes to the financial statements of the Company
for the year ended 31 December 2023 continued

2. Investments in subsidiaries

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

	2023 £m	2022 £m
Cost		
At the start of the year	**1,952**	1,952
At the end of the year	**1,952**	1,952
Net book value		
31 December	**1,952**	1,952

Subsidiary undertakings	Principal activity	Country of incorporation	% of equity held	Share class
PIC Holdings Limited[1]	Holding company	England	100%	Ordinary shares
Pension Insurance Corporation plc	Bulk annuity insurance	England	100%	Ordinary shares
Pension Services Corporation Limited	Service company	England	100%	Ordinary shares
PIC ERM 1 Limited[2]	Investment activity	England	100%	Ordinary shares
PIC Properties GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Properties Limited Partnership[2]	Investment holding entity	England	100%	Partnership
PIC New Victoria GP Limited[2]	General partner	England	100%	Ordinary shares
PIC New Victoria Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC New Victoria Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC New Victoria Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Wiltern GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Wiltern Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC Wiltern Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC Wiltern Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Bowback GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Bowback Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC Bowback Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC Bowback Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC One Eastside GP Limited[2]	General partner	England	100%	Ordinary shares
PIC One Eastside Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC One Eastside Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC One Eastside Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Real Estate GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Real Estate Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Real Estate (Ruskin Square) LP[2]	Investment activity	England	100%	Partnership
PIC Real Estate (Cedar) GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Real Estate (Cedar) Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC Real Estate (Cedar) LP	Investment activity	England	100%	Partnership
PIC LSQ Holdco LLP	Investment holding entity	England	100%	Partnership
PIC AR SQR LLP[2]	Investment activity	England	100%	Partnership
PIC LSQ Buildco 1 LLP[2]	Investment activity	England	100%	Partnership
PIC SO SQR LLP[2]	Investment activity	England	100%	Partnership

1. Denotes investment held directly by the Company at 31 December 2023.
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 Top Floor, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ.

3. Investments in joint ventures

Investments in joint ventures are held indirectly by subsidiaries of PICG.

Subsidiary undertakings	Principal activity	Country of incorporation	% of equity held	Share class
Senior Living Investment Partners (General Partner) Limited[1]	General partner	England	49%	Ordinary shares
Senior Living Investment Partners Limited Partnership[1]	Investment activity	England	99%	Partnership

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

4. Financial assets and financial liabilities

All of the Company's financial assets and liabilities are valued at amortised cost as detailed below:

	2023 Amortised cost £m	2022 Amortised cost £m
Financial Assets		
Receivables and other financial assets	**31**	35
Cash and cash equivalents	**3**	1
Total Financial Assets	**34**	36
Financial Liabilities		
Other payables	**16**	5
Total Financial Liabilities	**16**	5

Included within receivables and other financial assets are amounts totalling £14 million (2022: £4 million) due to be received after more than one year. All amounts relating to other payables are expected to be settled within one year.

5. Related party transactions

(a) Transactions with certain Directors and key management personnel

Share-based payment transactions with the key management personnel are detailed in Note 18 of the Group financial statements.

(b) Balances and intercompany transactions with subsidiary companies

During the year, the Company had the following outstanding balances with subsidiary companies:

	Transactions during the year[1]		Balance at 31 December	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Amounts owed by Group undertakings	**(19)**	(3)	**11**	30
Amounts owed to Group undertakings	**(6)**	–	**(8)**	(2)

1. Intercompany transactions during the year relate primarily to transactions with Pension Services Corporation Limited in relation to Employee share awards.

(c) Capital and dividend transactions with subsidiary companies

During the year, the Company had the following capital transactions with subsidiary companies:

	2023 £m	2022 £m
Share-based payment charge recharged to subsidiary undertakings	**8**	8
Dividend from Group undertakings	**100**	–

Glossary

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

Buy-in
An annuity policy bought by trustees that is an asset of the scheme and helps manage their ongoing liabilities. The trustees and scheme remain in place and the administration stays the responsibility of the trustees.

Buyout
Annuities bought in bulk, covering all the scheme's liabilities. The scheme typically winds up and members become PIC policyholders. We also take on responsibility for ongoing administration alongside payment of policyholders' pensions.

Carbon neutrality
A company is considered to be carbon neutral if its operations result in no net release of carbon dioxide in to the atmosphere, allowing for the purchase of carbon removal or carbon avoidance credits.

Contractual service margin ("CSM")
A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit that will be recognised as the insurance services are provided. For reinsurance contracts, the CSM represents a net cost or net gain on purchasing reinsurance.

Cost of residual non-hedgeable risks ("CRNHR")
Under the Market Consistent Embedded Value ("MCEV"), the CRNHR represents an allowance for the cost of holding capital in respect of non-hedgeable risks. It is calculated in a similar manner to the Solvency II risk margin, with the majority of risks contributing to PIC's Solvency Capital Requirement assumed to be non-hedgeable and included within the calculation of the CRNHR. Risks that are considered to be hedgeable and are excluded from the CRNHR calculation include longevity risk that has already been reinsured and most market risks.

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

Derivatives
Derivatives are securities that derive their value from an underlying asset or benchmark. The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business.

Financial investments
Represents all assets actively managed or administered by or on behalf of the institution including those assets managed by third parties.

Frictional cost of required capital ("FCoC")
The cost associated with the assets used to support required capital under MCEV, principally in respect of investment management fees and tax on investment income.

Fulfilment cash flows
An explicit, unbiased and probability-weighted estimate of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a RA for non-financial risk.

Insurance acquisition cash flows
Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.

Internal model
A risk management system developed by PIC to analyse its overall risk position, to quantify risks and to determine the capital required to meet those risks. PIC has obtained appropriate approval from the PRA to use its Internal Model to calculate its solvency capital requirement under Solvency II.

MSCI
Finance company and global provider of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.

Net Zero
A company is considered to be Net Zero if it's operations result in no net release of carbon dioxide, as a result of reducing emissions as far as practically possible, and purchasing carbon removal credits for residual carbon emissions.

Present value of future profits ("PVFP")
Represents the present value, after tax, of the future release of regulatory margins, such as risk margin.

Prudential Regulation Authority ("PRA")
The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.

Risk adjustment for non-financial risk ("RA")
The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Risk margin ("RM")
Life insurance companies hold technical provisions (reserves) calculated on actuarial bases to ensure they have sufficient funds available to pay their technical liabilities when they fall due. The technical provisions comprise a BEL and a RM. The RM calculation, which is prescribed under the Solvency II regulations, is intended to represent the amount that a notional third party, a reference undertaking, would require in order to take over the liabilities and have sufficient capital to support them over their future lifetime.

Scope 1 emissions
Emissions that are directly generated by the Company.

Scope 2 emissions
Emissions that are created by the generation of the electricity or heat needed by the Company to sell its main products or provide its main services (indirect emissions).

Scope 3 emissions
Emissions caused by the entire value chain (indirect emissions).

Solvency II
An EU-wide regulatory regime which intends to align solvency capital to an insurer's risk profile. Solvency II was implemented on 1 January 2016.

Solvency II best estimate liability ("BEL")
The best estimate liability represents the value of future liability and expense cash flows. It is based on realistic assumptions with no prudent margins (other than in the default and downgrade assumptions stipulated for the calculation of the valuation discount rate) and is calculated using well-established actuarial and statistical methods.

Solvency capital requirement ("SCR")
The SCR represents the capital that the Company needs to hold in order to be able to survive a 1-in-200 year risk event over the 12 months following the Statement of financial position date. PIC calculates its SCR using a Company-specific model (the Internal Model) which has been approved by the PRA. The main components of the SCR for PIC are market risk and insurance risk, but the Internal Model also covers counterparty default risk, expense risk and operational risk.

Standard formula
A risk-based mathematical formula used by insurers to calculate their solvency capital requirement under Solvency II. The standard formula is intended for use by most EU insurers, although they may use an Internal Model instead, subject to regulatory approval.

Technical provisions ("TP")
The value of technical provisions on the Solvency II basis is equal to the sum of the BEL and a RM.

Temperature alignment
The implied increase in global temperatures of a company, based on emissions projections for the company and comparison to independently calculated "carbon budgets" aligned with a 1.5 degree temperature increase. Where a company is projected to exceed the allocated carbon budget, their temperature alignment would be higher than 1.5 degrees. An investment portfolio temperature alignment is based on a weighted average of the temperature alignments of the issuers in that portfolio.

Transitional measures on technical provisions ("TMTP")
PIC uses a transitional measures deduction on technical provisions in its Solvency II Statement of financial position. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example, in having to set up the risk margin. The TMTP only applies in respect of business that was in force at 31 December 2015. This will decrease linearly to zero over 16 years, but may be recalculated to allow for material changes in the risk profile for the Company, subject to regulatory approval.

Value of in-force ("VIF")
This is the discounted value of after-tax profits expected to emerge from the in-force business over time, and is used in the embedded value calculation.

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