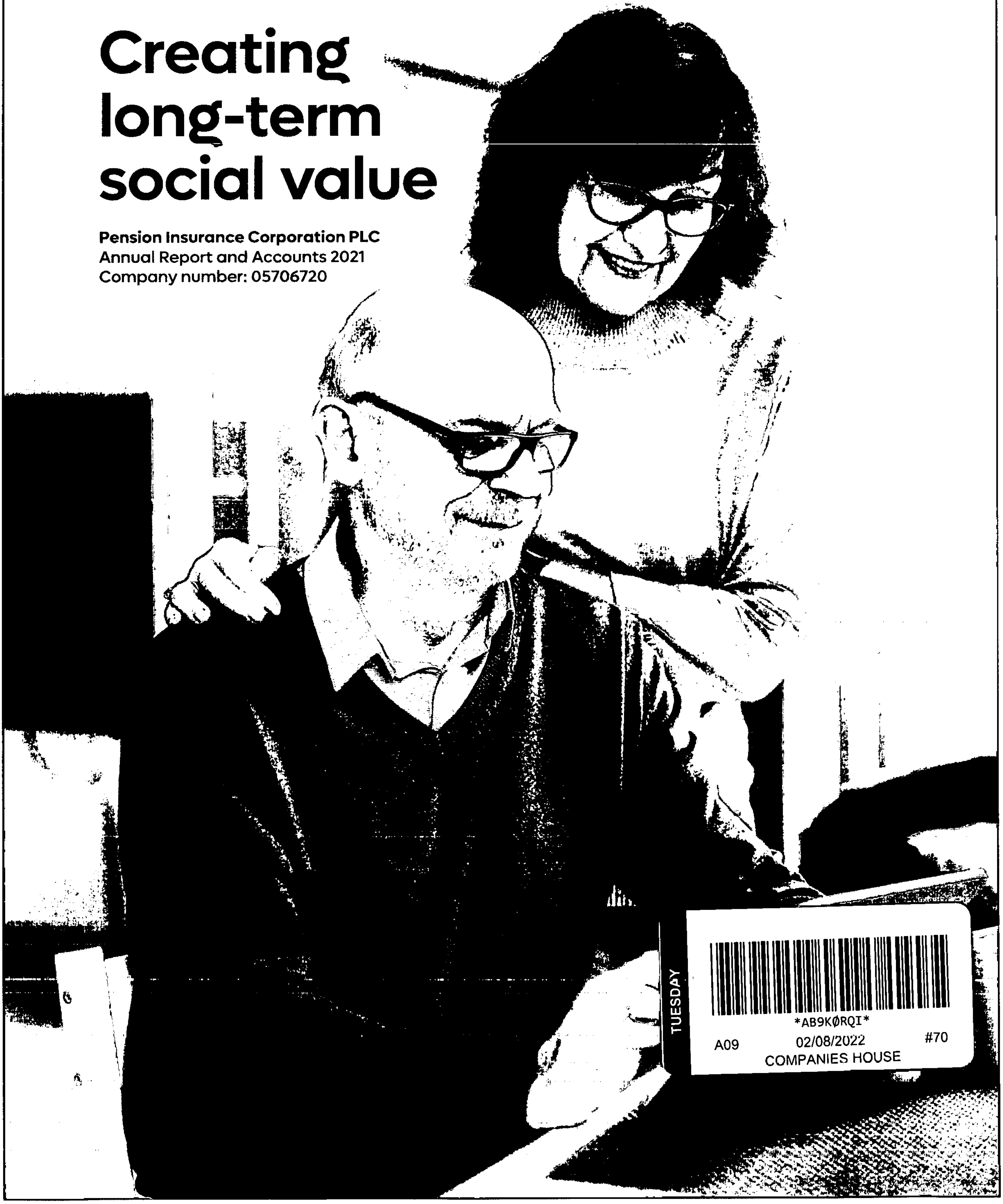
PIC

Creating long-term social value

Pension Insurance Corporation PLC
Annual Report and Accounts 2021
Company number: 05706720



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About PIC

PIC is a specialist insurer which has become a leader in the UK pension risk transfer market by focusing on our purpose.

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

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

Find out more at
www.pensioncorporation.com

Highlights

Delivering for our stakeholders.

Solvency II ratio

2021
168%

2020
157%

Adjusted operating profit

2021
£534m

2020
£349m[1]

Financial investments

2021
£51.1bn

2020
£49.6bn

Premiums

2021
£4,702m

2020
£5,649m

Policyholder satisfaction

2021
99.6%

2020
98.7%

Total Environmental, Social and Governance ("ESG") assets

2021
£10.9bn

2020
£10.1bn

Employee pride in working for PIC

2021
90%

2020
73%

Gender pay gap

2021
18.4%

2020
25.3%

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

A+

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

Strategic report
For the year ended 31 December 2021

The Directors present the Strategic Report, Directors' Report and the audited consolidated financial statements for Pension Insurance Corporation PLC ("PIC" or the "Company"), registered number 05706720, for the year ended 31 December 2021.

Principal activity

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

Business review

Background

PIC is authorised to write long-term insurance business by the Prudential Regulation Authority (the "PRA"), and regulated by the PRA and the Financial Conduct Authority (the "FCA").

Pension risk transfer products are used by pension funds to transfer to an insurance company, the risks and liabilities arising from the benefit promises made to pension fund members. Insurance is also used as a means by which the ultimate responsibility to pay the benefit promises is transferred to the insurance company through the issuance of an individual annuity insurance policy to the pension fund member.

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

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

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

Strategy

PIC's strategy is to use its capital resources and expertise to provide long-term security for its current and future policyholders and to generate attractive risk-adjusted returns for its shareholders by writing pension risk transfer contracts for UK defined benefit occupational pension funds and their members.

PIC aims to deliver this strategy through:

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

The escalating financial costs of pension provision to pension schemes and their sponsors, volatility in asset performance, increases in life expectancy and the need to match assets more closely with liabilities have caused pension fund trustees and corporate sponsors to look at the benefit of transferring the risks associated with their defined benefit pension funds to the security of a regulated insurance company such as PIC, which is well-placed to manage and mitigate these risks and provide policyholder security over the long-term.

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

PIC takes the views of its stakeholders seriously, especially when taking business decisions. In particular, Board papers include a section outlining how the interests of stakeholders are affected by a particular decision and this helps the Directors take the Section 172 (1) of the Companies Act 2006 ("s.172") factors into consideration in their decision making. This brings stakeholder interests to the forefront not only for our Directors, but also for senior management when bringing proposals to the Board. An illustration of where the interests of our stakeholders have had an impact on some of the Board's key decisions is covered in examples on pages 24 and 25 in the s.172 statement of this Annual Report.

Strategic objectives and key performance indicators

PIC's strategic objectives are designed to support the business and to fulfil its purpose, which is to pay the pensions of its current and future policyholders. This means, the Company prioritises a strong balance sheet, long-term value creation and a purposeful investment strategy. PIC's four strategic objectives are:

1 Growth and focus: Grow the value of the business on a focused, secure and sustainable basis
2 Reputation and conduct: Ensure that our behaviours reflect our values through market-leading customer service
3 Financial strength and cost efficiency: Maintain a scalable business model that optimises internal and external resources
4 Returns: Deliver attractive risk-adjusted total shareholder returns

PIC has identified eight financial and non-financial key performance indicators ("KPIs") that are designed to measure the Company's progress against its strategic objectives. These are reviewed annually to ensure that they remain appropriate as the Company fulfils its purpose amidst a changing economic and regulatory environment.

	Growth and focus		Reputation and conduct		Financial stength and cost efficiency		Returns	
	MCEV £m	Adjusted equity own funds £m	Policyholder satisfaction %	Customer focus %	Solvency ratio %	Expense ratio %	Adjusted operating profit before taxation £m	Return on equity %
2021	**4,996**	**5,888**	**99.6**	**92**	**168**	**0.39**	**534**	**7.4**
2020	4,948	6,013[1]	98.7	92	157	0.38[2]	349[3]	6.1[4]

1 Adjusted equity own funds has been restated to deduct the notional value of hybrid debt rather than the fair value.
2 Expense ratio has been restated to include the cost of our equity release mortgage ("ERM") origination fees which were previously excluded.
3 Adjusted operating profit before tax has been restated to include the Restricted Tier 1 coupon in operating profit.
4 Return on equity has been redefined to deduct the RT1 interest from the profit after tax.

Market Consistent Embedded Value ("MCEV")

MCEV is a measure of the consolidated value of shareholders' interests in the business, represented by the present value of future after-tax profits plus the market value of shareholder net assets less an allowance for the cost of capital.

Adjusted equity own funds

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

Policyholder satisfaction

Policyholders are asked to provide a satisfaction rating for PIC's customer service through telephone and paper surveys. The Company monitors this metric to ensure the Company continues to focus on its purpose.

Customer focus

In line with the Company's purpose, one of the internal measures is customer focus. Employees are asked as part of an employee engagement survey whether they believe PIC, "always seeks to understand and meet customer needs", ensuring our customers continue to remain our priority.

Solvency ratio

The solvency ratio is a measure of the Company's eligible own funds compared to the Company's regulatory capital requirements. A robust solvency ratio reflects the prudent management of interest, inflation and longevity risks, underpinned by capital optimisation, including hybrid debt issuance.

Expense ratio

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

Adjusted operating profit before tax

Adjusted operating profit before tax is the IFRS profit assessed on a long-term basis, including Restricted Tier 1 ("RT1") interest within finance costs and excluding short-term investment related variances.

Return on equity

Return on equity is a measure of the rolling 12 months after tax profits including interest incurred on the RT1 notes, in relation to average equity excluding our RT1 notes.

Strategic report continued
For the year ended 31 December 2021

Trading during the year

Overview

	2021 £m	2020 £m
Gross premiums written	**4,702**	5,649
Profit before taxation	**394**	276
Adjusted operating profit before tax	**534**	349*
Solvency II ratio (unaudited)	**168%**	157%
MCEV	**4,996**	4,948
Financial investments	**51,143**	49,648

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

PIC is a long-term business with a clear purpose, which is to pay the pensions of our current and future policyholders. The Group's financial results demonstrate a strong balance sheet and long-term profitability, underpinning its purpose and future growth prospects. The unaudited solvency ratio rose to 168% (2020: 157%), with adjusted operating profit before tax, the Group's preferred measure of long-term profitability increasing 53% to £534 million (2020: £349 million). Both metrics benefited from growth in the business alongside management actions taken in the year.

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

In terms of new business, the whole pension risk transfer market was muted during the first half of the year, a consequence of the disruption caused by the pandemic which led to a lower number of trustee meetings in 2020 and fewer PRT transactions being completed by the half year. In the second half we completed £4.3 billion of new business bringing our total to £4.7 billion for the year (2020: £5.6 billion), including the largest single transaction of the year, the £2.2 billion Metal Box buyout.

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

On 27 May 2021, Fitch Ratings affirmed PIC's Insurer Financial Strength Rating at 'A+' (Strong) and Long-Term Issuer Default Rating at 'A'. Both outlooks were affirmed at 'Stable'.

IFRS commentary

2021 financial performance

Statement of comprehensive income highlights

	2021 £m	2020 £m
Gross premiums written	**4,702**	5,649
Net premium revenue earned	**3,856**	5,132
Investment return (including commissions earned)	**210**	4,091
Total revenue	**4,066**	9,223
Net claims paid	**(1,785)**	(1,683)
Change in net insurance liabilities	**(1,601)**	(6,997)
Operating expenses	**(198)**	(195)
Finance costs	**(88)**	(72)
Total claims and expenses	**(3,672)**	(8,947)
Profit before taxation	**394**	276
Tax charge	**(81)**	(53)
Profit after tax	**313**	223

Premiums

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

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

Investment return

Investment return comprises interest received on fixed income securities, derivatives and investment properties, and the realised and unrealised gains or losses on these investments.

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

The net movement in the fair value of assets, including realised and unrealised items, was a loss of £1,029 million compared with a gain of £3,110 million in 2020. This comprises realised gains of £307 million (2020: £634 million) and unrealised losses of £1,336 million (2020: gain of £2,476 million). The unrealised losses recognised in 2021 are primarily due to higher risk-free rates.

Other investment return and commissions amounted to £185 million (2020: loss of £46 million).

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

Claims paid

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

Change in net insurance liabilities

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

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

Operating expenses
Total operating expenses were £198 million (2020: £195 million). This includes project spend of £38 million (2020: £45 million) primarily to support the forthcoming introduction of the new IFRS 17 accounting standard (see below), as well as spend on new asset and capital models. Excluding these project costs, the remaining increase in spend mainly reflects an increase in equity release mortgage origination fees.

Finance costs
Finance costs of £88 million in 2021 (2020: £72 million) represents the full year interest payable on the five (2020: five) subordinated debt securities issued by the Company. The RT1 debt issued in July 2019 has been accounted for as equity under IFRS and as such interest on these notes is not included in finance costs and is instead recognised as dividends when paid.

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

The Group ensures transparency in its tax disclosures and seeks a constructive relationship with HMRC at all times. The Group had an effective corporation tax rate of 21% during 2021 (2020: 19%). During the year, the Group paid a total of £56 million (2020: £118 million) in respect of corporation, payroll related and value added taxes, inclusive of amounts recharged from other PICG Group companies. The decrease in the year reflects the change to the tax payment date rules last year, resulting in a proportion of the 2019 tax liability and whole of the 2020 estimated tax liability being paid in 2020.

Statement of financial position review

Statement of financial position extract	**2021 £m**	2020 £m
Financial investments	**51,143**	49,648
Reinsurance assets	**3,350**	2,773
Derivative assets	**15,018**	21,936
Gross insurance liabilities	**(47,013)**	(44,835)
Derivative liabilities	**(16,997)**	(24,340)
Borrowings	**(1,590)**	(1,589)
Other net assets	**518**	550
Total equity	**4,429**	4,143

At the end of 2021, the Group had total financial investments of £51.1 billion, compared with £49.6 billion at the end of 2020. The assets in which the Group invests are carefully chosen in order to match the policyholder obligations that they are designed to pay. Our investment strategy is to select assets that generate cash flows to match our future claims payments in both timing and amount. This means that the value of our assets and liabilities should move broadly in tandem as factors such as interest and inflation rates change.

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

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

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

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

The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business. The decrease in the gross derivative asset and liability balances is a result of market movements, in particular rising interest rates, partially offset by new business written in the year. It should be noted that all derivative contracts are fully collateralised through the use of a custodian, and as such present little credit risk in the event of a derivative counterparty default.

Total equity has increased by £286 million mainly due to after tax profits during the year.

Adjusted operating profit

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

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

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

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

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

The 2020 comparatives have been restated accordingly.

The Group's adjusted operating profit before tax was £534 million, an increase of 53% from 2020 (2020: £349 million). This was primarily due to management actions and assumption changes and a lower adverse experience variance.

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

Adjusted operating profit	2021 £m	2020 Restated £m
Expected return from operations	**288**	274
New business and reinsurance profit	**167**	187
Underlying profit	**455**	461
Changes in valuation assumptions	**315**	292
Experience and other variances	**(77)**	(253)
Finance costs	**(121)**	(106)
Project costs	**(38)**	(45)
Adjusted operating profit before tax	**534**	349
Investment related variances	**(173)**	(106)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	33
Profit before taxation	**394**	276

Strategic report continued
For the year ended 31 December 2021

Underlying profit

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

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

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

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

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

Changes in valuation assumptions

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

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

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

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

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

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

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

Prudent margins

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

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

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

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

Finance costs and other costs
Finance and other costs reported under the alternative profit metric include finance costs on Tier 2 debt (see note 12), interest on the RT1 debt (see note 16) and project costs (see note 4).

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

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

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

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

Expense ratio
The expense ratio is a measure of the operating efficiency of PIC and reflects operating and investment expenses as a percentage of closing financial investments. This metric is a KPI which aligns to one of the strategic objectives of the Group, to maintain a scalable business model that optimises internal and external resources. This ratio has been redefined to include the cost of our ERM origination fees which were previously excluded.

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

Return on equity
Return on equity is a measure of the rolling 12 months after tax profits in relation to average equity (excluding our RT1 notes). This ratio has been redefined to deduct the RT1 interest from the profit after tax and the FY 2020 comparative has been restated accordingly. This metric is another one of the Group's KPI's which aligns to the strategic objective of delivering attractive risk-adjusted total shareholder returns.

Return on equity at 31 December 2021 increased to 7.4% (2020: 6.1%) reflecting the higher profit in 2021 compared to 2020.

Strategic report continued
For the year ended 31 December 2021

Capital and solvency

PIC, as a regulated company, is required to comply with the Solvency II regulatory framework. Solvency II requires firms to follow either a prescribed approach to calculating required regulatory capital (the standard formula approach), or to apply to the PRA to use an "internal model" developed by the Company but subject to comprehensive review and approval by the regulator. PIC has received PRA approval to apply an internal model, which is a better reflection of the risk profile of the Company's business than the standard formula approach.

At 31 December 2021, PIC's *unaudited Solvency II ratio improved to 168% (2020: 157%) and it had surplus funds of £2,701 million* (31 December 2020: £2,449 million) in excess of its Solvency II Capital Requirements ("SCR") as calculated by the internal model. The solvency ratio has improved in a challenging environment due to management actions taken and the return from the in-force book. We utilise hedging to provide protection for our solvency balance sheet against adverse economic fluctuations which has been particularly important given the market volatility of the last few years. This positions us well to take advantage of future market opportunities.

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

Surplus generation (unaudited)

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

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

Expected surplus generation from the in-force book

Expected surplus generation comprises the

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

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

New business (net of reinsurance)

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

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

Management actions and other operating variances

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

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

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

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

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

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

Financing and project costs

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

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

Economic and other non-operating variances

Operating surplus generation is based on expected investment returns which are calculated using management assumptions of the returns on the assets backing policyholder and shareholder funds with an allowance for the corresponding expected movements in technical provisions and the SCR. Actual investment returns in the year, on a mark to market basis, will differ from the expected returns due to short term impacts from market movements. The difference between the actual and the expected rates of return, coupled with the impact of changes in economic assumptions on technical provisions and the SCR, along with any difference between the short-term actual asset mix and the expected long-term asset mix on new business transactions during the year are included within non-operating variances, outside of operating surplus generation.

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

Change in capital

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

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

There were no dividends paid in either period.

Adjusted equity own funds

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

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

Adjusted equity own funds ("AEOF") is another KPI of the Group. This metric is a measure of the strategic objective to grow the value of the business on a focused, secure and sustainable basis. AEOF was £5,888 million at 31 December 2021 compared to £6,013 million at 31 December 2020. This change was primarily due to the increase in GBP risk-free rates partially offset by the benefit of writing £4.7 billion of new business and higher inflation over 2021.

The risk margin is a regulatory component of the Solvency II balance sheet that is intended to reflect the potential cost of transferring unhedged or unhedgeable insurance obligations to a third party. The Transitional Measures on the introduction of Solvency II, allowed insurers to smooth the impact of the introduction of Solvency II rules over a 16 year period from 1 January 2016, subject to periodic recalculation. The Risk Margin net of TMTP comprises a Risk Margin of £2.0 billion (31 December 2020: £2.4 billion) less the impact of Transitional Measures of £0.7 billion (31 December 2020: £1.1 billion).

The Matching Adjustment ("MA") is the benefit obtained from having a portfolio of assets backing policyholder liabilities that is yielding greater than the risk-free curve specified within the Solvency II regulations. For 2021, the MA was 1.040% (2020: 1.062%). The decrease in the year is primarily driven by narrowing credit spreads partially offset by the LIBOR to SONIA change.

Key solvency sensitivities

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

- New business is only transacted provided it meets the Group's financial return targets.
- New business is only written if the Group has sufficient capital resources to ensure on-going financial security for its existing policyholders.

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

- Interest rate, inflation and foreign exchange risks are hedged using market instruments.
- Longevity risk is managed through reinsurance.

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

PIC solvency sensitivities (unaudited)	2021	2020
As at 31 December	**168%**	157%
100bps increase in interest rates[1]	**12.9%**	3.9%
100bps reduction in interest rates[1]	**(23.1)%**	(12.6)%
100bps increase in credit spreads[1]	**9.4%**	(1.0)%
100bps reduction in credit spreads[1]	**(19.1)%**	(14.8)%
20% credit downgrade[2]	**(7.9)%**	(11.1)%
5% reduction in base mortality[3]	**(7.1)%**	(6.7)%

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

Notes:

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

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

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

Market Consistent Embedded Value ("MCEV") results

The Group prepares an MCEV analysis under the European Insurance CFO Forum Market Consistent Embedded Value Principles issued in April 2016.

The starting point is the Solvency II balance sheet to which is added an estimate of the after-tax value that is expected to emerge in the future from the release of the prudent margins built into the actuarial valuation of the in-force business. Further adjustments to the regulatory balance sheet are made in respect of the subordinated loan notes, frictional cost of capital and cost of residual non-hedgeable risks to arrive at a more appropriate quantification of the Group's value.

	2021 £m	2020 £m
Adjusted net worth	**6,680**	6,721
Value of in-force business after tax	**1,796**	1,812
MCEV fair value of Tier 1 and Tier 2 debt instruments	**(2,381)**	(2,505)
MCEV before cost of capital	**6,095**	6,028
Frictional cost of capital	**(359)**	(243)
Cost of residual non-hedgeable risk	**(740)**	(837)
MCEV net of cost of capital	**4,996**	4,948

At 31 December 2021, the Group's MCEV increased to £4,996 million from £4,948 million at the end of 2020. The increase is primarily due to new business profits, the expected return from the in-force book and management actions taken to incorporate amendments to the capital methodology. This was partially offset by the change in corporation tax rate from 19% to 25% in 2023 which was announced by the government in March 2021 and granted Royal Assent in June 2021. This *change resulted in a reduction in MCEV of £262 million. In addition, net adverse interest rate and inflation variances reduced* MCEV. We do not seek to make profits from these economic risks – rather we look to hedge them, but this is done on a solvency basis, and given the extreme economic volatility over 2021, this has had a negative impact on the MCEV results.

Reconciliation of IFRS, Solvency II and MCEV Balance sheets

Group IFRS reconciliation to Solvency II

31 December 2021 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 subordinated debt	Add accrued interest on Tier 2 subordinated debt	Deduct accrued interest on RT1 notes	Add risk margin net of transitionals	Reduction in technical provisions	Reduction in reinsurance assets	Differences in deferred tax	Differences in other asset values	Unaudited Solvency II (£m)
Total assets less other liabilities	**48,092**	**1,590**	**29**	**(11)**	**–**	**–**	**–**	**(214)**	**–**	**49,486**
Insurance liabilities/Best estimate liabilities (BEL) net of reinsurance assets	**(43,663)**	**–**	**–**	**–**	**–**	**2,731**	**(616)**	**–**	**–**	**(41,548)**
Risk margin net of transitionals	**–**	**–**	**–**	**–**	**(1,269)**	**–**	**–**	**–**	**–**	**(1,269)**
IFRS net assets/ Solvency II own funds	**4,429**	**1,590**	**29**	**(11)**	**(1,269)**	**2,731**	**(616)**	**(214)**	**–**	**6,669**

Solvency II to MCEV reconciliation

31 December 2021 (£m)	Unaudited Solvency II balance sheet	Allow for differences between Solvency II and MCEV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	MCEV (£m)
Total assets less other liabilities	**49,486**	**11**						
BEL net of reinsurance assets	**(41,548)**							
Risk margin net of transitionals	**(1,269)**							
Solvency II own funds/Adjusted net worth	**6,669**	**11**	**–**	**–**	**–**	**–**	**–**	**6,680**
Present value of future profits (PVFP)	**–**	**–**	**–**	**–**	**1,269**	**1,125**	**(598)**	**1,796**
Cost of residual non-hedgeable risks (CRNHR)	**–**	**–**	**–**	**–**	**(740)**	**–**	**–**	**(740)**
Frictional cost of required capital (FCoC)	**–**	**–**	**–**	**(359)**	**–**	**–**	**–**	**(359)**
Subordinated debt	**–**	**–**	**(2,381)**	**–**	**–**	**–**	**–**	**(2,381)**
Solvency II own funds/MCEV	**6,669**	**11**	**(2,381)**	**(359)**	**529**	**1,125**	**(598)**	**4,996**

Environmental, Social and Corporate Governance ("ESG")
For more information regarding the Company's ESG approach, policies and how we have implemented these during the year, please refer to the PIC ESG Report or pages 48-59 of the Pension Insurance Corporation Group Annual Report.

Principal risks and uncertainties

Mitigating our key risks

The principal risks to the business and its strategy for managing those risks, are set out below to page 21 for each risk group. More details are also included in Note 14 to the financial statements.

Sufficient Financial Resources

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

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

Key risks to maintaining sufficient financial resources

	Market risk
What this risk means to us	Market and/or economic volatility changes the value of our assets and liabilities with a corresponding impact on our capital position.
Risk trend and outlook	We expect the trend of uncertainty and volatility in the financial markets to continue into 2022. The clear need for the global economies to address climate change is also driving global economic uncertainty. The outlook for UK economic growth remains uncertain, with ongoing pressure driven by the Covid-19 pandemic, including a re-tightening of lockdown measures in the UK, our developing trade relationship with the EU post-Brexit, and expected higher inflation driven by energy prices and supply constraints. A similar picture exists at a global level where a range of risk drivers continue to sow uncertainty including further Covid-related restrictions, geopolitical risks from protectionist measures, social unrest, the Ukraine conflict, and advanced economies' governments' inability to deliver a significant fiscal stimulus to revive economic growth.
How we are managing this risk	During 2021, we have been cautious in our credit portfolio, focused on consolidating the portfolio into secure assets should markets become more volatile. The situation remains under careful review. In addition, PIC carries out close management of its balance sheet, and actively hedges its balance sheet against adverse movements in financial markets. PIC monitors areas of potential pricing bubbles that may see market corrections in order to limit exposures where appropriate. The business holds a significant amount of risk-based capital to protect against market movements.

Default risk	Counterparty risk	Longevity risk
Any default of credit/debt assets in our portfolio directly reduces the capital we have available to maintain our solvency position.	Any failure of counterparties and their ability to meet their contractual financial obligations would be expected to result in a loss or the need for PIC to recapture amounts previously reinsured, weakening the solvency position.	PIC's insured policyholders may live longer than was originally assumed when pricing new business.
PIC has historically experienced very low levels of default in the portfolio, *there were no defaults in 2020 or 2021.* Default risk continues to be significant for PIC given the ongoing global economic uncertainty and potential pressures from climate change described under 'Market risk'.	PIC's reinsurance and swap counterparties have weathered the Covid-19 shocks with *the impact on the credit quality of these* counterparties having been manageable. While there exist risks to these counterparties from the future path of the pandemic, their strong liquidity and capital positions along with support from fiscal and monetary policy to the markets is likely to limit any adverse impact.	PIC is exposed to factors that may lead to increases in future life expectancy, such as improvements in medical science beyond those anticipated. While life expectancy has improved over the past 40 years in the UK, improvements have started to slow down over the past decade. The drivers of the slowdown are believed to include the increased strain on the NHS and social care budgets, a tailing off of the mortality improvements seen for conditions such as cardiovascular disease, a change in morbidity prevalence including influenza and dementia, offset by changes in lifestyle and health monitoring as technology continues to provide new opportunities. The Covid-19 pandemic has introduced more uncertainty about future life expectancy. Industry consensus is that it is too early to determine the overall impact of the pandemic at this stage given there are some pressures potentially reducing it (the ongoing pandemic and associated pressures on the NHS) and some potentially increasing it (for example mask hygiene resulting in lower deaths from flu).
PIC selects and monitors its investment holdings very closely, either directly or through high-quality external managers. Provisions are held for defaults and downgrades in addition to the risk-based capital requirements.	PIC only transacts with highly rated reinsurance counterparties and includes collateral provisions to improve overall security. Interest rate swaps are fully collateralised on a daily basis. PIC carries out continuous monitoring of its counterparties to ensure issues can be identified earlier, allowing actions to be taken to reduce the risk.	PIC regularly reviews its longevity experience to ensure its assumptions remain appropriate, and continually seeks to enhance its understanding of the evolution of annuitant mortality. PIC holds a significant amount of risk-based capital to protect the business against potential increases in longevity. This is calculated using our approved Internal Model. PIC aims to reinsure more than 60% of its longevity risk exposure. As at 31 December 2021, PIC had reinsured 85% of its total longevity exposure.

Principal risks and uncertainties continued

Effective and Resilient Operations

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

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

Key risks to maintaining effective and resilient operations

	Operational risk
What this risk means to us	The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
Risk trend and outlook	Given the continued growth in PIC's balance sheet it is important to ensure that the process and control environment keeps pace. If the controls and process do not keep pace then PIC's exposure to operational risks will increase as the organisation grows in size and complexity. Additional risks also need to be managed given the changes in working environment resulting from the Covid-19 pandemic; in particular, an increased level of remote working placing heightened reliance on remote and automated systems and processes. This trend looks set to continue into 2022 and beyond. While the initial transition to a remote environment could have increased operational risks through the introduction of new processes, reduced inter-personal contact and the potential for reduction in the effectiveness of manually operated controls, the enhancements put in place to address these risks are viewed to have strengthened PIC's overall control framework.
How we are managing this risk	PIC maintains a robust control environment across its operations in order to reduce the likelihood and impact of operational risks. Operational risks are monitored and assessed through an ongoing process with the business in order to identify areas where the control environment needs further enhancement. Where areas of weaknesses are identified remediation work is completed. Our ongoing risk and control work now has a permanent focus on reviewing all controls to assess their effectiveness in both an on-site and remote environment. Work continues to fully embed operational resilience across the organisation in line with regulatory expectations. This will ensure that PIC understands its core business services and is able to recover these within acceptable timeframes should incidents occur.

Cyber risk	Culture and behaviour risk	Model and data risk
The financial services sector continues to be a target for cyber-crime. This includes the risks that third parties seek to disrupt PIC's operations, steal personal data or perpetrate acts of fraud.	The risk that PIC's culture or behaviour impacts our ability to deliver our purpose and business plan or leads to poor customer outcomes and reduces staff morale and retention.	The risk of loss or other detriment arising from the inappropriate design, implementation, operation or use of models or management of data.
The drivers of this risk continue to evolve rapidly as technology is changing the way firms do business and society operates. Covid-19 and the swift move to remote working has increased the reliance on IT systems and controls and with it PIC's exposure to cyber risks. The financial services sector has seen a significant increase in the number of attempts by third parties to seek and exploit vulnerabilities in IT systems. This has included increased phishing attempts looking to take advantage of the reduced level of face-to-face interactions and ransomware attacks which are on the increase across the globe both in terms of number and value.	Prolonged remote and hybrid working can lead to a loss of cross-team collaboration, increased time to complete tasks and impact staff mental health and wellbeing, due to the psychological distance felt when working remotely. This can impact staff morale, particularly when expectations remain high and interpersonal relationships are strained. PIC has experienced higher than usual turnover, as part of the "Great Resignation". Staff have had time to consider work life balance and priorities and have taken advantage of a "hot" recruitment market, which in turn impacts staff morale as team members leave and remaining staff pick up additional work and recruit and train new staff.	As PIC continues to grow there is an increasing reliance on models, supported by good underlying data, to deliver PIC's purpose and strategic aims. This has been observed over 2021 with the development of models in a number of key areas such as PIC's Internal Model, hedging and portfolio optimisation. With the increased pace of change there has also been a proportionate increase in controls and independent validation of models and data to help mitigate the risk. This trend is expected to continue into 2022 and beyond.
PIC maintains a robust IT environment to ensure protection of its data and security of its systems and those of outsourced or third parties that we work with. PIC works with its business partners to maintain controls and carries out regular monitoring to proactively address emerging threats. The IT environment is regularly tested internally and externally to maintain awareness of the latest threats and how these might impact PIC.	Management continues to focus on staff wellbeing with online resources as well as investment in mental health first aid training. Conduct training focuses on culture and psychological safety with further work planned to articulate and develop our culture in 2022. Appraisals include a behaviour rating and HR are currently developing career pathways to see how staff are able to progress.	PIC maintains a robust framework to help mitigate model and data risk. This includes the identification and risk assessment of all models and data used within the business. The framework also sets out standards around the design, implementation, operation and use of models and their supporting data, including requirements for ongoing testing and a centralise change process which is overseen by the Risk function.

Principal risks and uncertainties continued

Meeting External Expectations

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

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

Key risks to meeting external expectations

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

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

Section 172 statement

Promoting the long-term success of the Company.

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

The factors set out in s.172 are not only considered at Board level, they are embedded throughout the culture at PIC. More detail on the overall culture of PIC Group can be found in the Pension Insurance Corporation Group Limited 2021 Annual Report and Accounts and on page 30 of this report.

Our stakeholders and our engagement

Understanding the needs of our different stakeholders enables the Board to take proper account of stakeholder impacts and interests in decision-making. The Board recognises that considering the impact of decisions on each stakeholder group will help the Directors to deliver the Company's strategy in line with the wider PIC Group, and will promote the long-term sustainable success of the Company and the Group.

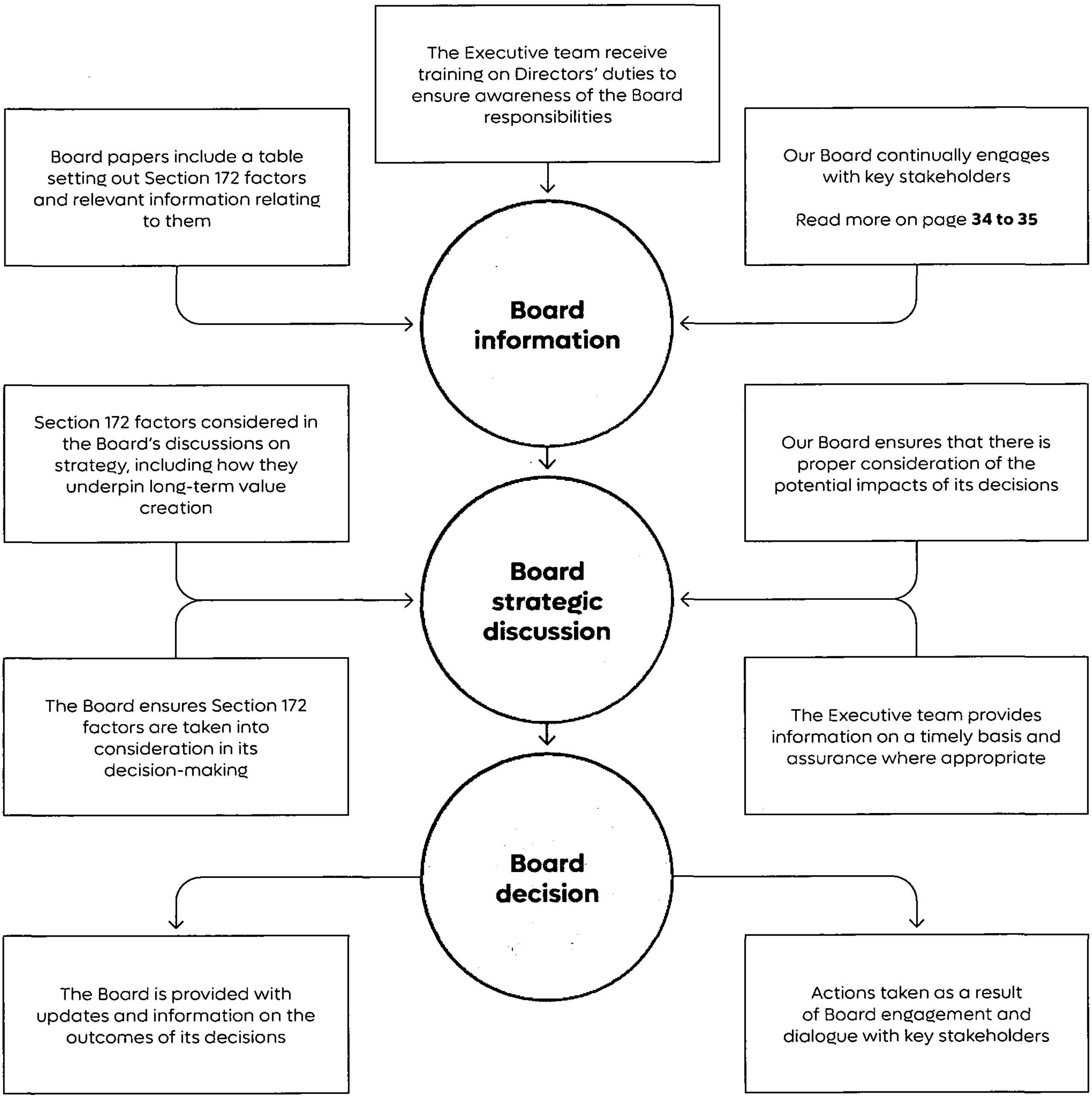
Our Board interacts with stakeholders through direct engagement and an open dialogue, as well as through information provided by senior management. Further information on why and how we engage with our stakeholders and examples of principal decisions taken by the Board during the year can be found on pages 24 and 25 and within the Directors' report on pages 30 to 62.

The Board focuses on the Group's purpose, of paying the pensions of our current and future policyholders, as it considers generating long-term value. With the increasing focus on the relationship between stakeholder interests and governance, we take increased care to ensure such considerations are documented, and that the Board receives adequate and appropriate training on its responsibilities. See page 31 on Directors' training and induction.

Section 172 statement continued

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

For more information please see **p24 and 25**



Section 172 statement continued

In 2021, the Board made decisions in respect of a wide variety of topics. The following are some examples of how the Board considers the s.172 principles in its deliberations.

1

Net Zero commitment

Section 172 considerations

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

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

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

Environment and community

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

Outcomes and actions

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

2

Bromley Affordable Housing Deal ("Bromley")

Section 172 considerations

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

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

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

Environment and community

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

Outcomes and actions

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

Key to the s.172 principles

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

3

Appointment of Macquarie Asset Management ("Macquarie")

Section 172 considerations

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

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

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

The Board satisfied itself that a thorough due diligence process had been followed and completed in line with the requirements for a 'critical supplier' as set out in PIC's Procurement and Outsourcing Policy. The Board discussed PIC's key requirements to ensure that Macquarie can provide bespoke solutions, understands PIC's needs, and provide good access to the market.

Environment and community

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

Outcomes and actions

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

4

The Board's commitment to ESG

Section 172 considerations

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

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

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing, and national infrastructure are socially beneficial outcomes of our focus on our purpose. We recognise that issues such as human rights, climate change, and corruption can have very real financial implications over the medium to long-term. PIC has published its modern slavery statement, which can be found on our website.

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

PIC is transparent on our gender pay gap, which is reported annually, and has made strong efforts towards diversity and inclusion this year. We are focused on balancing gender through recruitment and have an active target of 30% of CVs to be from women. PIC is a member of LGBT Great, with CEO, Tracy Blackwell, being recognised as one of the Top 100 Executive Allies within the industry for the second year running. We also run an Aspiring Managers Programme, which has a 50/50 gender split, and continued to sponsor the Actuarial Mentoring Programme for a fourth year which is designed to increase the number of female actuaries across the industry. PIC is a member of the 10,000 black interns programme, and this year we offered one of the interns a full-time position following their experience. We also launched the PIC Academy which will enable us to develop long-term, diverse talent pipelines.

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

Outcomes and actions

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

Stakeholder engagement

Our stakeholders.

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

Stakeholders	What matters to them	Why we engage

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

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

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

Stakeholder engagement continued

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

How we engage	2021 outcomes
• Our debt origination team works closely with borrowers to ensure the deals that are structured meet their individual needs, as well as offering us suitable cashflows to match future pension payments. • A partnership approach means ongoing engagement over many years with counterparties and development partners, increasingly resulting in follow-up transactions.	• We completed 42 transactions with a variety of high-quality partners. • 11 existing counterparties extended the scope of their debt agreements, agreeing funding for hundreds of new homes for social rent, as well as renewable energy. • £90 million investment in The Wiltern, PIC's second build-to-rent announced as well as cornerstone funding for major urban regeneration project in Wirral.
• PIC seeks to maintain an open, proactive dialogue with regulators. • PIC actively participates in public policy debates affecting the financial services sector, as well as the wider economy.	• PIC responded to the Treasury's call for evidence on Solvency II reform, as well as the Future *Regulatory Framework*. • PIC subsequently participated in the PRA's review of Solvency II.
• We work closely and collaboratively with our outsourced partners. • Our policy is to pay our suppliers within the payment terms on invoice rather than within 30 business days.	• As at year end, 97.6% (2020: 99.1%) of invoices received during the year from suppliers were paid.
• We provide clear, transparent and timely communications that help investors understand our purpose, strategy and business model. • Business updates are communicated regularly to providers of capital, including via the Regulatory News Service ("RNS") and on our website. • We meet and speak regularly with debt holders and have an annual debt holder conference call.	• At year end 2021, PIC had a solvency ratio of 168%, with adjusted operating profit of £534 million.

See **pages 34 and 35** for information on how our Board engages with our stakeholders

The Strategic Report on pages 1 to 29 was approved by the Board and signed on its behalf by:

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

Directors' Report
For the year ended 31 December 2021

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

Director	Position	Executive/Non-Executive	Notes
Jon Aisbitt	*Chairman*	*Non-Executive*	
Roger Marshall		Senior Independent Director	
Tracy Blackwell	Chief Executive	Executive	
Jake Blair		Non-Executive	Appointed 7 June 2021
Sally Bridgeland		Non-Executive	Appointed 28 January 2021
Judith Eden		Non-Executive	
Julia Goh		Non-Executive	Appointed 1 October 2021
Stuart King		Non-Executive	
Arno Kitts		Non-Executive	
Jérôme Mourgue D'Algue		Non-Executive	
Peter Rutland		Non-Executive	
Steve Sarjant		*Non-Executive*	*Retired 31 March 2021*
Rob Sewell		Executive	Retired 9 December 2021
Mark Stephen		Non-Executive	
Wilhelm Van Zyl		Non-Executive	
Dominic Veney		Executive	Appointed 10 December 2021

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

PIC has listed securities in issue and complies with the applicable sections DTR7.1 and DTR7.2 of the FCA handbook. The Company does not have a Premium Listing and therefore is not required to adopt the UK Corporate Governance Code (the "Code"). However, the Board is committed to high standards of corporate governance and supports the principles laid down in the Code, as issued by the Financial Reporting Council. The Board considers that the Company was compliant with all of the principles of the Code during the financial year ended 31 December 2021 but it does not comply with a number of provisions of the Code and some are not applicable. The Company is continuing to work towards full compliance with the provisions of the Code, where applicable. Detailed disclosures on how the PICG Group complied with the Code is included in the Pension Insurance Corporation Group Limited 2021 Annual Report and Accounts ("the PICG Annual Report and Accounts"). The Code can be accessed on the Financial Reporting Council's website at www.frc.org.uk. Additional information on the Company's governing body and its Committees is included in the governance framework section of this report.

Leadership
The Company is led by a Board of Directors (the "Board") who are appointed pursuant to the Articles of Association. There is an overlap of Directors between the PIC Board and the Board of PIC's ultimate parent, Pension Insurance Corporation Group Limited ("PICG") as shown in the table on page 38. The simple corporate structure of the PICG Group means that discussions on PICG may directly impact PIC and having an overlap of Directors ensures that both Boards are aware of all relevant matters. Any mention to the Board in this report refers to the PIC Board, unless stated otherwise. The Directors have the benefit of the Company's Directors' and Officers' indemnity and insurance policy.

The current Board members and the date of their appointment is set out above. Details of their experience can be found in the PICG Annual Report and Accounts.

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

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

The Board also ensures effective engagement with, and participation from, shareholders and other stakeholders. When making decisions, the Board has regard to the interests of all of the Company's stakeholders, as well as its broader duties under s.172 of the Companies Act 2006. The Company's formal s.172 statement can be found on pages 22 to 25 of this Annual Report and pages 26 to 29 set out how the Board has taken into account the views of our stakeholders, the impact of its decisions on them and any actions which have arisen as a consequence.

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

More detail on the Board responsibilities, composition and effectiveness can be found in the PICG Annual Report and Accounts.

Induction and ongoing training and development

The Board has developed an induction programme for all new Directors to be undertaken upon joining. This programme is monitored by the Chairman and is the responsibility of the Company Secretary. The programme is tailored to the new Director's qualifications and experience, and includes presentations, briefings, and meetings with Board members, senior management and external advisers. Specific training, that has been identified during the induction process, is then provided to new Directors to enable them to properly challenge the Executive Directors and senior management.

The ongoing professional development of the Directors is regularly reviewed by the Board and its Committees. The Chairman reviews and agrees training and development needs with each of the Directors annually. Directors also have the opportunity to highlight specific areas where they feel their skills or knowledge would benefit from development as part of the Board evaluation process and are encouraged to continue their own professional development through attendance at seminars and conferences. Directors confirm annually that they have received sufficient training to fulfil their duties.

Training sessions are regularly provided to Directors for each round of Board and Committee meetings. Usually, there is a training session scheduled for each Board meeting and after each Investment and Origination Committee and Risk Committee meeting. In addition to the mandatory compliance, conduct risk and anti-money laundering training, the Directors have been provided with thematic training sessions on ESG considerations in investments, climate change risk, emerging risks, the Diversified Capital Fund, IFRS 17, hedging and inflation and the pricing process.

Time commitment

As part of the appointment process and their annual review the NEDs each confirm that they are able to allocate sufficient time to the Company to discharge their responsibilities. The Company Secretary maintains a record of all external appointments held by the Directors and the external commitments of the Chairman and the other Directors are indicated in the PICG Annual Report and Accounts and on the Company's website www.pensioncorporation.com. In addition, Directors are required to consult with the Chairman as early as possible on any new external appointment. The Board is satisfied that the Chairman and each NED are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

Performance evaluation

The Board conducts an evaluation of its effectiveness in order to identify areas from development. Following the external evaluation in 2020 by Clare Chalmers Ltd, the 2021 evaluation was conducted internally.

More details on the strengths and areas for development identified as part of the evaluation can be found in the Corporate Governance report in the PICG Annual Report and Accounts.

Section 172 Statement on the Company's business relationships with suppliers, customers and others

Information on how the Directors have had regard to the need to foster effective business relationships with suppliers, customers and others including detail on how they have discharged their duty under s.172(1) of the Companies Act 2006 is included in the Strategic Report on pages 22 to 25 and in this report on pages 34 and 35.

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

Stakeholders and the Board

PIC's aim to provide secure and stable retirement incomes through best-in-class customer service, comprehensive risk management and excellence in asset and liability management. The Board recognises that the needs and relevance of different groups of stakeholders can vary over time, and as such the Board seeks to understand the needs and priorities of each stakeholder as part of its decision making. This can only be achieved through engagement with, and consideration of, all stakeholders including our suppliers, employees, policyholders, shareholders and debt holders, trustees, investment counterparties and regulators.

Pages 26 to 29 of the Strategic Report set out who our stakeholders are, how we have engaged with them as a business, and how stakeholder needs are at the core of our decision making.

Further detail on how the Board engaged with our stakeholders during the year to fulfil its duties under s.172 of the Companies Act 2006 is included on pages 34 and 35.

Directors' Report continued
For the year ended 31 December 2021

Supporting the Board's commitment to stakeholders
PIC takes the views of its stakeholders seriously, especially when taking business decisions. In particular, Board papers include a section outlining how the interests of stakeholders are affected by a particular decision and this helps the Directors take the s.172 factors into consideration in their decision making. This brings stakeholder interests to the forefront not only for our Directors, but also for senior management when bringing proposals to the Board. An illustration of where the interests of our stakeholders have had an impact on some of the Board's key decisions is given in examples on pages 24 and 25 in the s.172 statement of this Annual Report.

The Company has a schedule of matters reserved for the Board which makes sure that certain material and/or strategic decisions can only be made by the Board and may not be delegated to executive committees or senior management. More detail on the matters reserved for the Board can be found in the PICG Annual Report and Accounts in the section 'The Board and its responsibilities'.

Combined with a robust agenda-setting process, this schedule helps the Company to make sure that decisions are made at the right level and that stakeholder impacts are an intrinsic part of the decision-making process. The Board is supported in its work by six Board Committees, whose responsibilities are delegated by the Board and are described on page 37.

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

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

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

Financial reporting	Responsibility
Delegated authority	An established management structure operates across the Group with clearly defined levels of responsibility and delegated authorities.
Financial reporting	The Group has a robust system for reporting of the financial results to the Board. During the year, monthly and quarterly financial results are produced, which include comparison to forecast and prior year. The Board, Audit Committee, Risk Committee and executive management review the Group's performance throughout the year and monitor the operation of budgets and long-term business plans. The reports ensure that variances are investigated and acted upon.
Internal controls, processes and procedures	The Group has formal written procedures and controls in operation which are designed to facilitate effective and efficient business operation, robust financial reporting and compliance with laws and regulations. Procedures, processes and controls are updated regularly to ensure they are effective and in compliance with best practice. As part of the requirements of DTR 7.1.3 of the FCA Handbook, the Board, in line with the delegated authority to the Audit Committee, specifically monitors the financial reporting process and the statutory audit of the annual financial statements through reporting provided by management and reporting received from the Audit Committee. The Audit Committee meets regularly with members of executive management and the internal and external auditors to review the annual financial information and internal control matters, and to satisfy themselves that the internal control systems are operating effectively. The Audit Committee also reviews any follow-up actions to correct identified weaknesses. All Board members receive minutes of the Audit Committee meetings.

Financial reporting	Responsibility
Internal Audit assurance	The Audit Committee oversees the Group's Internal Audit function, which is managed by the Head of Internal Audit using a co-sourced model and has a direct reporting line to the Audit Committee. The Audit Committee approves an annual internal audit plan which is designed to review key areas of risk. Regular updates on progress of the internal audit plan are provided to the Audit Committee by the Head of Internal Audit, who is a standing attendee at the Audit Committee's meetings. Progress reports include results of individual audits. The Head of Internal Audit provides an annual report and opinion on the Group's internal controls, risk management, governance processes and culture. The annual opinion is informed by the control attestations which require each Executive Committee member to confirm compliance of their business areas with the Group's risk and control framework and provides information to the Executive Committee, Audit Committee and the Board on management's opinion on the application of the framework, risk management, control effectiveness, monitoring and information and compliance with key policies.
External audit assurance	The work of the External Auditor provides further independent assurance on the internal control environment, as described in its reporting to the Audit Committee. Furthermore, the Audit Committee reviews and monitors the effectiveness, independence and objectivity of the statutory auditor and considers the relationship with the Group as part of its assessment, including provision of non-audit services.
Risk management framework (more information is included on pages 16 to 21	The Board has established a risk management and compliance system which includes a process for identifying, evaluating and managing the risks faced by the Group. The Risk Committee works closely with the Audit Committee and provides oversight and advice to the Board with regard to the Group's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance, and its risk policies, procedures and risk controls. All Board members receive minutes of the Risk Committee meetings. Procedures are in place to ensure the employment, retention, training and development of suitably qualified staff to manage activities.

Board activities in 2021

The Board has led the business's ongoing response to the Covid-19 pandemic and in addition to the regular matters that the Board discusses at each meeting, there were several key strategic and operational topics the Board considered during regular and ad hoc Board meetings. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006 as outlined on page 22. The key deliberations are listed below:

Strategy	• Approved the five-year business plan following the Board discussing various scenarios at its strategy day focusing on PIC's purpose, growth and long-term success. • New business transactions above a defined threshold require Board approval, and the Board considered and approved a number of new business transactions during 2021. • Discussed culture in the context of how it affects the Group's strategy. • Approved the new brand and corporate identity. • Approved the Net Zero commitment and signed up to the Net-Zero Asset Owner Alliance. • Considered the pricing assumptions against investment outcomes. • Approved the Credit Model Change application to the PRA. • Continued to provide oversight of the Group-wide, comprehensive programme of change that has been instituted as part of the strategy to provide a robust platform for future growth for the business, and which focuses on key processes, people, management information and technology.
Risk management and Internal Model	• Carried out increased oversight and monitoring of PIC's liquidity and solvency positions, ensuring that it was robust and resilient to exceptional market conditions during the pandemic. • Closely oversaw PIC's portfolio and received regular updates on any de-risking carried out by the Investments team. • Closely oversaw PIC's operations with particular focus on administration services outsourced to Capita to ensure minimal impact on PIC's policyholders. • Approved risk appetite with particular focus on capital risk, debt, hedging and pricing. • Approved the Own Risk and Solvency Assessment. • Provided oversight of the implementation of the Group's hedging strategy including the establishment of a specialist Capital Planning and Hedging Committee by management. • Regular reports were made to the Board on the progress of regulatory stress and scenario testing to ensure the business remained resilient and robust in challenging times and there was no adverse impact on policyholders, workforce and other stakeholders. • Continued its focus on conduct risk and vulnerable customers. • Continued its focus on PIC's regulatory engagement. • Approved the updated recovery and resolution plan.

Employees and remuneration	• Received regular updates from the CEO and Chief People Officer on resourcing and wellbeing of staff, working arrangements and adjustments made to PIC's offices and working in the post-pandemic world. • An employee survey was completed with the Board discussing the results and what their significance is for the Group's culture and strategy as well as the future ways of working. • Received a report on the gender pay gap. • Approved annual remuneration parameters, NED and senior management remuneration, taking into account all stakeholders' interests and business priorities.
Financial reporting and controls	• Approved the full year Annual Report and Accounts. • Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee. • Monitored the progress in respect of the implementation of IFRS 17. • Approved the Whistleblowing Policy and reviewed the Whistleblowing report. • Approved the Modern Slavery Statement. • Reviewed the Annual Opinion from the Head of Internal Audit on the effectiveness of the Group controls, risk management and governance processes, and culture.
Corporate governance	• Approved the appointments of an additional independent Non-Executive Director and a Non-Executive Director on recommendation of the Nomination Committee to the PIC Board. • With assistance from the Nomination Committee, undertook a search for a new CFO to succeed Rob Sewell, and approved the appointment of Dom Veney as the new CFO. • Discussed the composition of the Board and Committees, which resulted in changes to the Committees' membership. • Considered the results of an internal Board effectiveness review in 2021 as disclosed in this report.

Valuing our stakeholders
As a business, we know that we can only be successful and sustainable in the long term if we take into account our stakeholders, their views and needs. The Board places the utmost importance on our stakeholders and takes an active role in engaging with them, including at our Policyholder days, which continue to be held virtually. The Board and PIC employees are looking forward to being able to hold these days in person once more. The main activities of the Board with regard to stakeholder engagement are shown below.

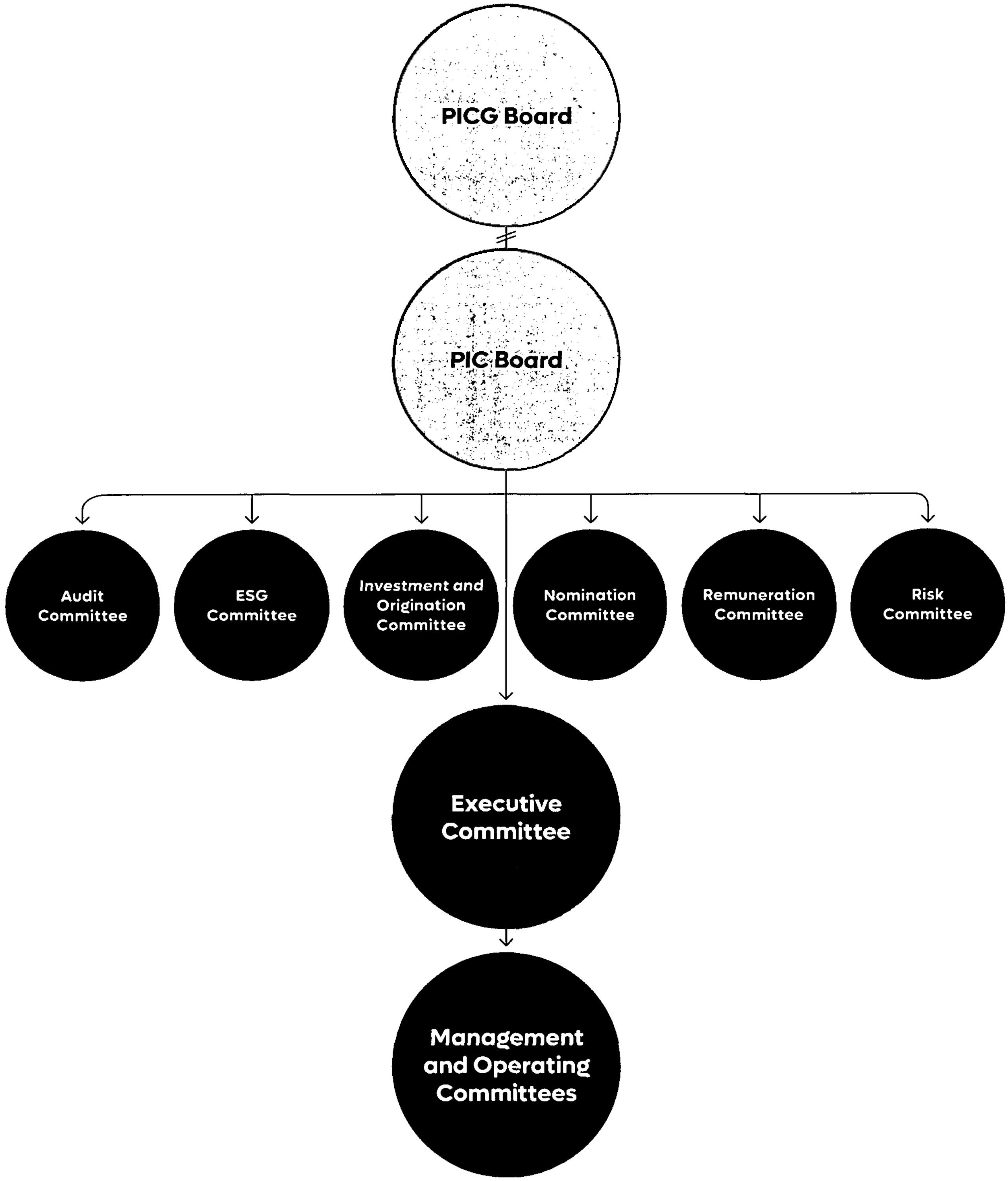
Stakeholder	Outcome of our business model for our stakeholders
Suppliers	The Board recognises the importance of its suppliers, which are identified and managed in accordance with PIC's Third Party Management Policy which forms part of a PIC-wide policy framework approved by the Board. A risk assessment is carried out on each supplier and the service provided to identify and prioritise critical relationships along with the applicable due diligence, whilst setting the frequency of ongoing reviews. This process is integral to any Board decision in respect of critical suppliers and outsourcers. The Board and its Committees regularly discuss commercial performance of PIC's suppliers, investment managers and key outsourcers, including an update on relationships. It is key for the Board that PIC fosters these relationships so that they are mutually beneficial, sustainable, and therefore in the best interest of PIC's policyholders.
Shareholders and debt holders	The Annual Report, Half Yearly Results, Solvency and Financial Condition Report, Task Force on Climate-Related Financial Disclosures Report, the Environmental, Social and Governance Report, and RNS updates are available throughout the year and these provide information on the Company's activities and financial information. The Board and its Committees are part of the process ensuring this information is accurate, fair, balanced and accessible to our stakeholders. Major PICG shareholders' views are voiced to the Board and management through their nominated Directors on the Board. Further, the Board has ongoing interactions with employees who are the largest group by number of shareholders.

Stakeholder	Outcome of our business model for our stakeholders
Regulators and policymakers	PIC is subject to regulation and supervision by regulatory authorities in the UK, most notably the FCA and the PRA. The Board and its Committees are kept updated on PIC's interactions with the regulators and receive Periodic Summary Meeting Letters. Throughout the year Directors met with the PRA, and management provided updates on major developments at PIC. PIC seeks to engage with regulators proactively to facilitate dialogue on the regulatory landscape, either by taking part in a formal consultation process or through meetings. Where appropriate, consulting in advance with the regulators is part of the Board's decision-making process.
Policyholders	Directors usually meet with policyholders during the Company's Policyholder Days, but due to the ongoing pandemic we could not hold these events in person in 2021. This year we held a live "Policyholder Hour" event online, hosted by the CEO who spoke with PIC employees about how we look after our policyholders. There was also a panel discussion on PIC's investment strategy, including responsible investing, ESG and climate change issues. During the hour, we invited policyholders to submit their questions for the PIC management panel to answer. The event also included videos from our policyholders, who shared their inspiring stories of what they have been up to in their retirement. The Board continued to receive regular reports on vulnerable customers and how PIC acts to ensure best outcomes for its policyholders. Having in-depth understanding of issues faced by vulnerable customers helps the Board in its consideration of any decisions which may impact PIC's policyholders. Non-Executive Directors continued attending workshops which explored PIC's customer journeys. These provided the Board with a detailed insight into customer touchpoints, experiences, challenges and outcomes.
Employees	The Board has regular interactions with PIC's workforce who are employed by Pension Services Corporation Limited, including mentorship provided by NEDs to the executive team, attendance by employees at Board and Committee meetings and engagement outside of meetings on a variety of initiatives. The CEO has recorded a number of conversations with our Non-Executive Directors which have been shared with PIC employees. These conversations cover a wide variety of topics, including how the Board assesses risk, the ESG challenges we face, the current economic conditions and challenges these bring for PIC, why our major shareholders have invested in PIC, and what's important to them, as well as personal stories from the Directors. The Board receives regular updates from the Chief People Officer, which includes any employee issues as well as updates on the results of the annual employee survey. The views and feedback are taken into account by the Board in its decisions affecting employees, e.g., in respect of remuneration and benefits, approval of the budget and the business plan, and the planned return to the workplace.
Defined benefit pension scheme trustees	The relationship the Company has with trustees, and their expectations, is discussed alongside each deal considered by the Board. Feedback received from the trustees and consultants is factored into the Board's strategic discussions around new business and underpins the Board's approval of the business plan.
Direct investment counterparties	PIC works with a variety of social housing counterparties and provides financing to them which enables the development of new homes for social rent. PIC also provides financing to counterparties who are involved in the development of renewable energy projects. The Board is part of the approval of any new strategies and the ongoing oversight of direct investments to ensure they provide good outcomes for communities, for PIC and for its policyholders.

Directors' Report continued
For the year ended 31 December 2021

Governance and control framework

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



Delegation

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

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

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

The Committee reports are set out on pages 39 to 59. More detail on the Committees can be found in the PICG Annual Report and Accounts.

The Investment and Origination Committee considers matters specific to PIC. The five remaining Committees consider matters concerning both PIC and PICG, as per the delegations in their terms of references. Members of the Committees are appointed by the Board on recommendation of the Nomination 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 Company in relation to; the day-to-day management of the business; investment matters, risk management frameworks and input into the development of the risk strategy; projects and major change initiatives to maximise PIC's project investment return, all new business deals and interaction with policyholders including Treating Customers Fairly outcomes and overall conduct.

Board and Committee meetings

The Board meets formally on a regular basis and attends to various matters by way of written resolutions. There is also regular communication and interaction with management including monthly updates. Prior to each meeting, the Chairman and the Company Secretary ensures 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 the Company Secretary. At each meeting the Board receives an update from the CEO and CFO, as well as from other members of the senior management. These reports cover how the Company is executing the business plan, policyholder administration, including details of how we meet our obligation to treat policyholders fairly, the new business pipeline and associated investments, and Risk's review of current and emerging risks. The Chairs of each Board Committee also report back to the Board on each Committee's recent activities. The Board is in regular dialogue with senior management outside of formal meetings, and in addition to regular matters, the Board and Committees also discuss other topics that require their attention. The topics that the Board discussed outside of regular reports are detailed on pages 33 and 34.

Directors' Report continued
For the year ended 31 December 2021

Attendance by Directors at Board and Committee meetings

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

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

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

1 Dom Veney was appointed to the PIC Board on 10 December, and during the year attended all Board, Audit, Investment and Origination, and Risk Committee meetings in his role as Chief Actuary.
2 Jake Blair was appointed to the PIC and PICG Boards on 7 June 2021.
3 Sally Bridgeland was appointed to the PIC Board on 28 January 2021 and succeeded Steve Sarjant as Chair of the Risk Committee on 1 April 2021.
4 Julia Goh was appointed to the PIC and PICG Boards on 1 October 2021.
5 Steve Sarjant retired from the PIC Board and as Chair of the Risk Committee on 31 March 2021.

Nomination Committee report

Meeting attendance

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

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

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

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

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

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

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

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

Jon Aisbitt
Chair of the Nomination Committee

Nomination Committee report continued

Committee members
The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 is set out in the table on page 39.

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

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

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

For more information on the Committee members please see **p30**

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

Responsibilities of the Committee
The Board of the Company has established the Committee to ensure that there is strong, responsible leadership at the head of the Company. The Committee ensures that appropriate plans are in place for orderly succession to both Board and senior management positions. In accordance with its terms of reference, the Board has delegated to the Committee responsibility for overseeing the following key areas:

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

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

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

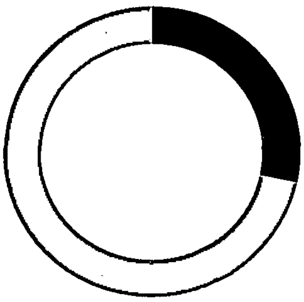
Governance
- Reviewing annually the Board Diversity Policy and recommending to the Board for approval.
- Reviewing annually the Fit and Proper Persons Policy for approval.
- Annually reviewing the composition of Board Committees to best utilise the experience and knowledge of all Directors.
- The Committee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

Board composition as at 31 December 2021

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

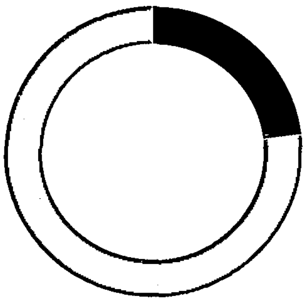
Gender diversity

PIC



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

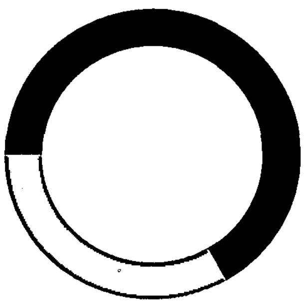
PICG



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

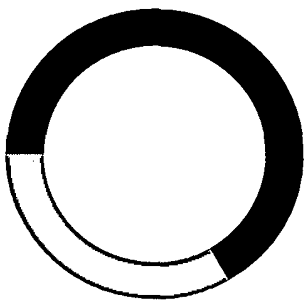
Non-Executive Director tenure

PIC



■ 0 – 3 years	5
□ 3 – 6 years	4
■ 6 – 9 years	3

PICG



■ 0 – 3 years	5
□ 3 – 6 years	4
■ 6 – 9 years	3

Activities during the year

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

During the year the Committee considers the matters below:

Board composition and succession planning

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

Non-Executive Directors

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

Governance

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

Performance evaluation

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

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

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

Areas of focus for 2022

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

Audit Committee report

Meeting attendance

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

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

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

Sally Bridgeland became a Committee member on 28 January 2021.

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

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

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

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

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

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

Roger Marshall
Chair of the Audit Committee

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year end 31 December 2021 is set out in the table on page 42.

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

The Committee was in place throughout the financial year ended 31 December 2021, and was chaired by Roger Marshall. It comprises only INEDs of the Company, all of whom are considered to be free of any relationship that would affect their impartiality in carrying out their responsibilities and were independent as required under the Code. Members of the Committee are appointed by the Board, upon the recommendation of the Nomination Committee and in consultation with the Chair of the Committee. On 28 January 2021, Sally Bridgeland joined the Committee as a member and succeeded Steve Sarjant, who retired from the Committee and the PIC Board on 31 March 2021. There were no further changes to the Committee membership during the year.

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

Responsibilities of the Committee

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

Financial reporting

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

Internal controls and risk management systems

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

Compliance, Financial Crime and Whistleblowing

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

Internal Audit and External Audit

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

Audit Committee report continued

Activities during the year

During the financial year, the Committee held five meetings. The Committee receives regular reports from the Internal Audit, Risk and Compliance functions, as well as updates regarding progress of major projects being undertaken which affect the control framework of the Group. The Committee also receives regular financial performance reports. In addition to these regular reports, this year the Committee considered the matters below:

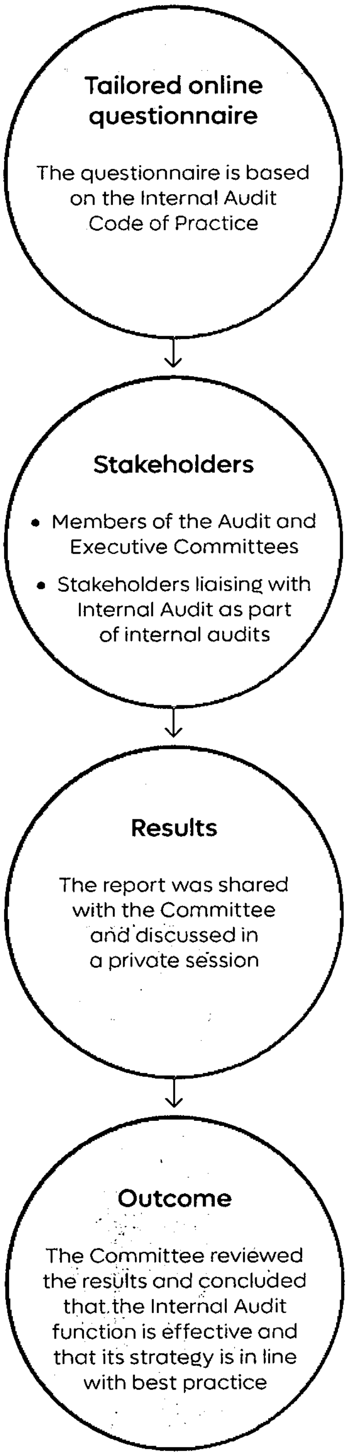
Financial reporting

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

Internal controls and risk management

- Continued its heightened focus on the Group's control environment, being cognisant of the impact of the Covid-19 pandemic and ongoing remote working.
- Reviewed the Internal Model Consolidated Annual Validation Report.
- Received the annual Internal Audit opinion on the effectiveness of the Group controls, risk management and governance processes.
- Continued overseeing the key projects such as policy data, third party risk management, the Finance Change Programme and progress made towards the implementation of IFRS 17.
- Received a comprehensive update on the Group's strategy and approach to cyber risk and associated IT control environment.

Internal Audit effectiveness review process



Compliance, financial crime and whistleblowing:

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

Other matters

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

Internal Audit and Integrated Assurance Plan

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

Internal Audit effectiveness review

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

External Auditor

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

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

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

During the year, the Committee reviewed the External Auditor's plan for the audit of the Group's financial statements, which included key areas of scope of work, key risks on the financial statements, and the proposed audit fee and terms of appointment.

Audit Committee report continued

Significant issues throughout the year

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

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

Performance evaluation

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

Areas of focus for 2022

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

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

Other disclosures

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

Significant issues throughout the year were dealt with as follows:

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

Risk Committee report

Meeting attendance

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

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

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

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

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

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

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

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

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

Additional information on PIC's approach to Risk Management can be found on pages 16 to 21.

Sally Bridgeland
Chair of the Risk Committee

Risk Committee report continued

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 is set out in the table on page 47.

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

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

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

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

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

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

Responsibilities of the Committee

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

Risk Strategy, Appetite and Policy

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

Risk Oversight and Monitoring

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

Governance

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

Activities during the year

During the financial year, the Committee held nine meetings, five of which were scheduled meetings, two were ad hoc meetings and two were training sessions. Each year, the Committee carries out a robust assessment of the Group's risks, the Group's management of these risks and its internal controls, making appropriate recommendations to the Board. This year, the Committee reported to the Board that it was happy with the procedures in place to monitor and manage risk and that the internal controls in place are fit for purpose.

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

Risk Strategy, Appetite and Policy

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

Risk Oversight and Monitoring

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

Governance

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

Performance evaluation

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

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

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

Areas of focus for 2022

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

Other disclosures

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

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

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

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

Investment and Origination Committee report

Meeting attendance

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

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

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

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

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

Despite the slower start to the year, the portfolio has continued to grow, and the Committee provided oversight of and challenge to origination projects in the pipeline. The Committee remained diligent in scrutinising investment outcomes versus assumptions and received an update on pricing assumptions relating to the transition from LIBOR to SONIA (see Note 1 to the financial statement for more detail).

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

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

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

Arno Kitts
Chair of the Investment and Origination Committee

Committee members
The membership of the Committee at the date of this report together with the attendance record for the year end 31 December 2021 are set in the table on page 50.

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

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

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

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

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

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

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

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

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

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

Investment and Origination Committee report continued

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

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

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

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

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

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

Areas of focus for 2022
The Committee will continue to focus on the assessment of ESG factors in investment decisions, as well as the technology to enhance investment data management and asset origination capabilities.

Remuneration Committee report

Meeting attendance

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

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

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

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

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

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

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

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

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

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

Judith Eden
Chair of the Remuneration Committee

Committee membership

The membership of the Committee at the date of this report together with the attendance record for the year ended 31 December 2021 are set out on page 53.

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

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

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

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

Responsibilities of the Committee

The Board of the Company has established a Remuneration Committee which oversees the establishment and implementation of a remuneration policy for employees and directors (employed by/or engaged through service contracts with Pension Services Corporation Limited), designed to support long-term business strategy and values of the Group as a whole, as well as promote effective risk management and comply with applicable legal and regulatory requirements. To assist the Committee in fulfilling its responsibilities, it regularly receives reports from the Chief People Officer.

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

Remuneration

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

Share schemes

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

Governance

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

Advice to the Committee

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

Activities during the year

During the financial year, the Committee held six scheduled meetings and four ad hoc meetings. The Committee members attended Board training sessions as described on page 31 of the Corporate Governance report and also received relevant training on the Long Term Incentive Plans from Deloitte.

Supporting our staff during the Covid-19 pandemic

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

Remuneration

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

Share schemes

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

Governance and other matters

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

Remuneration Policy

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

A description of the different remuneration elements for 2021 is set out below.

Base salary	Salaries are reviewed annually and are set to be market competitive, taking into account the individual's skills, as well as the size and scope of their role and that of the Group. Salaries are set at such a level that employees are not overly dependent on variable pay and to allow the Group to operate a fully flexible bonus policy.
Benefits	The following benefits are offered to all permanent employees: private health cover; annual travel insurance; interest-free loans (up to £10,000) for season tickets; Cycle to Work scheme and participation in the SAYE scheme.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Group's contribution that otherwise would have been made under the Stakeholder Pension arrangement.
Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All employees are eligible to be invited to participate in the plan. Awards are based on the achievement of annual objectives assessed against financial, customer service and risk management measures. For material risk takers, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO. For staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The CRO, with input from the Chair of the Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero. Performance against all of the above measures is assessed by the Remuneration Committee in the round. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil cost options. While the cash element of the bonus is paid upfront, for material risk takers at least 40% of annual bonuses is in the form of nil cost options which are subject to deferral over a three-year period using the Deferred Bonus Share Plan ("DBSP"), as detailed below.
Deferred Bonus Share Plan	The DBSP seeks to align the long-term interests of the Group for all senior management and other key individuals through bonus deferral. The deferred element is awarded in the form of nil cost options which vest after three years. For Solvency II Identified Staff, a minimum of 40% of any bonus award is deferred.
Long Term Incentive Plan	Selected senior individuals are invited, at the discretion of the Remuneration Committee, to receive LTIP share awards. These individuals are those tasked with delivering PIC's long-term strategic goals and to generate long-term shareholder value. LTIP awards vest after a three-year period, subject to the achievement of performance conditions, and a solvency and risk management underpin. Awards to the Executive Committee members would also have a further retention period of up to two years. The size of awards made to individuals will be determined by the Remuneration Committee each year, subject to the limits within the LTIP rules.

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

Performance evaluation

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

Areas of focus for 2022

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

Environmental, Social and Governance Committee report

Meeting attendance

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

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

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

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

Committee membership

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

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

Responsibilities of the Committee

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

Strategy, policy and disclosures

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

Governance

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

Activities during the year

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

The Committee also discussed the regulatory environment, including the outcomes and publications from COP26, noting the challenges that lay ahead for the Group and the sector as a whole. The Committee stressed the importance of the Group's culture and purpose as key proponents of a successful ESG approach, with a strong and consistent tone from the Board and senior management which considers the social consequences of the shift to a Net Zero economy.

Areas of focus for 2022

The Committee's priorities for 2022 will be to embed climate change risk within all aspects of the business, as well as its investment portfolio, and to articulate the Group's Net Zero transition strategy in line with the ABI and Net Zero Asset Owner Alliance. On 11 February 2022, the Committee approved the Group's Task Force on Climate Related Financial Disclosures ("TCFD") report,. During the year it will also be adopting a Stewardship Policy and making an application to become a signatory to the Stewardship Code. The Committee will also receive regular training on ESG matters as part of its annual programme.

Directors' Report continued
For the year ended 31 December 2021

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

Issue of shares and debt
The Company had 1,226,385,310 ordinary shares of £1 each in issue and these were subscribed by PIC Holdings Limited, the immediate parent company.

To date, the Company has issued £2,050 million of debt, comprising of £450 million of Restricted Tier 1 bonds and £1,600 million of Tier 2 bonds. During the year, the Company did not issue any subordinated debt.

Dividends
The Directors of the Company do not recommend a dividend for the year (2020: £nil).

Political contributions
The Company made no political contributions during the year (2020: £nil).

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

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

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

Financial instruments
The information relating to the Company's financial instruments is included in Note 9 to the financial statements.

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

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

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

Auditor
In accordance with section 489 of the Companies Act 2006, the auditor was re-appointed at the Annual General Meeting (the "AGM") of the Company held on 23 March 2021. The Board proposes the re-appointment of KPMG LLP and subject to approval by shareholders at the AGM, KPMG LLP will continue in office.

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

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

The Company commits to support the aims of the Modern Slavery Act 2015 and seeks to ensure that modern slavery or human trafficking does 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 PICG Group or its suppliers, and acts responsibly and ethically in business relationships to ensure human trafficking and slavery do not appear anywhere in its business operations.

Anti-bribery and corruption
The Company operates an Anti-bribery and Corruption Policy to prevent and prohibit bribery, in line with the Bribery Act 2010. The Company will not tolerate any form of bribery by, or of, its employees, agents or consultants or any person or body acting on its behalf, and no such incidents occurred in the financial year ending 31 December 2021. Senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery. The policy covers:

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

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

Overseas branches
The Company does not have any branches outside the United Kingdom.

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

Directors' Report continued
For the year ended 31 December 2021

Longer-term viability statement

1. The assessment process

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

2. The assessment period

The Directors have assessed the viability of the Group by reference to the five-year planning period to December 2026, which has been chosen as appropriate because it reflects the Group's business model and the dynamics of the pension risk transfer market as covered by the Group's five-year business plan.

3. Assessment of viability

In considering the viability of the Group, the Directors have assessed the key factors relating to the group's business model, strategy and the basis upon which its regulatory capital stress tests are carried out. This has included consideration of the ongoing impact of Covid-19, the uncertainty surrounding the macro-economic environment and its potential impact on the group and the potential impact of climate change related risks. It also takes into account the ongoing regulatory change affecting the financial services industry. The Directors have also carried out an assessment by reference to the Group's risk appetite and financial forecasts from December 2021 to December 2026. The Directors discussed the business strategy, market opportunity and potential future strategic objectives at the Board strategy day on 24 September. They considered the draft business plan at the Board meeting held on 2 December 2021 which was supported by the assessment of key risks to the successful execution of the business plan. The Directors also considered the Group's principal risks and how these are managed, as detailed on pages 16 to 21. The risk assessment included stress and scenario testing of key assumptions, and horizon scanning to consider the key risks to the business and the potential impact of these on the business plan objectives.

The scenarios considered in the risk assessment covered:

- PIC's ability to source high quality assets with appropriate yields to support PIC's pricing model, and access to capital and reinsurance;
- *risks from markets around downgrades, spread risks, rates* and inflation risks as well as regulatory changes and increased scrutiny by the regulators as PIC grows;
- risks to PIC's operations if the plan is successfully achieved focusing among others on operational resilience in terms of resourcing and processes, stakeholder, climate change, reputation and various other risks.

This year the Board also continued to assess impacts arising from the ongoing economic uncertainty caused by the pandemic combined with geopolitical risks. The Board discussed how these could cause solvency or liquidity declines on PIC's balance sheet from credit downgrades and continued volatility of rates/inflation and foreign exchange. The Board discussed these risks throughout 2021 and management incorporated their considerations into the business planning. The Board also continued to assess management actions available to mitigate risks arising from those adverse scenarios and the cost to the Group of those actions.

As well as risks arising from the macro-economic environment, a number of operational scenarios were performed considering the potential impact of failures of cloud-based systems, PIC's diversity and inclusion strategy and a talent shortage impacting ability of PIC to maintain or recruit sufficient levels of skilled resource.

4. Viability statement

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

On behalf of the Board

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

Statement of Directors' responsibilities
For the year ended 31 December 2021

Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the financial statements

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

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with International Financial Reporting Standards in conformity with the requirements of the Companies Act 2006 and applicable law;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

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

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

1 Our opinion is unmodified

We have audited the financial statements of Pension Insurance Corporation Plc ("the Company") for the year ended 31 December 2021 which comprise the Group statement of comprehensive income, the Group and parent Company statement of changes in equity, the Group and parent Company statement of financial position, the Group and parent Company statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2021 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 in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

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

We were first appointed as auditor by the shareholders in 2006. The period of total uninterrupted engagement is for the 16 financial years ended 31 December 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2020) for the Group and Parent company, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Valuation of Insurance Contract Liabilities (2021: £47,013 million; 2020: £44,835 million)

The risk is the same as prior year

Refer to page 89 (accounting policy) and pages 90 to 94 (financial disclosures)

The risk

The Group has significant insurance contract liabilities representing 96% (2020: 96%) of the Group's total liabilities.

Subjective valuation

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

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

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

Our response

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

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

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

- Assessing the methodology adopted for selecting assumptions by applying our industry knowledge and experience and comparing the methodology used against industry standard actuarial practice;
- Assessing the methodology adopted for calculating the policyholder liabilities by reference to the requirements of the accounting standard and actuarial market practice, and assessing the impact of current year changes in methodology on the calculation of policyholder liabilities

The risk	Our response
Mortality and longevity improvement rates require a high degree of judgement due to the number of factors which may influence future mortality experience. These judgments are set based on Group's own experience, the directors' and industry expected level of future rate of mortality improvement and other external factors arising from developments in the annuity market and potential impact from COVID-19. Maintenance expense assumptions require significant judgment to set the unit cost based on the expected future costs for administering the underlying policies. The key economic assumption is the valuation rate of interest ('VRI') i.e. the discount rate applied to the insurance liabilities. The VRI is derived from the yield on the assets backing the annuity liabilities. In setting the VRI, an explicit allowance for credit risk is included by making a deduction, representing part of the yield on debt and other fixed income securities. The assumptions surrounding this deduction require significant judgement and there is a risk that changes in investment yields, market spreads, current actual default experience and anticipated trends are not appropriately reflected. **Completeness and accuracy of data** Annuity liabilities are calculated by applying assumptions to the underlying actuarial data. There is a risk that incorrect or incomplete data may cause a misstatement in the calculation of the insurance liabilities. **Calculation error:** Management uses actuarial models to calculate policyholder liabilities. There is a risk that unauthorised or erroneous changes to the models may occur. **Estimation uncertainty** The effect of these matters is that, as part of our risk assessment, we determined that the valuation of insurance contract liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note 11e discloses the sensitivities estimated by the Group.	• Evaluating the analysis of the movements in insurance contract liabilities during the year, including consideration of whether the movements were in line with the methodology and assumptions adopted/updated during the year; and • Comparing changes in methodology to our expectations derived from market experience on the observed policyholder experience including the potential impact of COVID-19 on the observed policyholder experience. **Historical comparisons:** • We evaluated the mortality base assumptions used in the calculation of insurance contract liabilities by comparing to the Company's historic mortality experience in order to assess whether the results of this analysis support the year-end assumptions adopted, taking into consideration the potential impact of COVID-19 on policyholder experience. **Benchmarking assumptions and sector experience:** • We compared mortality assumptions to industry data on current mortality and expectations of future mortality improvements, including assessing management's choice of Continuous Mortality Investigation data whilst considering the impact of COVID-19 by comparing to industry practice and our expectations derived from market experience. • We assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies by analysing the most recent expense budget, comparing to prior years, and the likely impact of planned management actions on future cost. • We assessed the credit risk assumption and evaluated the appropriateness of the methodology used to calculate the VRI by reference to the industry practice and our expectation derived from market experience; • We utilised the results of KPMG benchmarking of assumptions and actuarial market practice to inform our challenge of management's assumptions in credit and mortality areas as noted above. **Independent reperformance:** We used our own valuation models to perform independent calculations to estimate the liabilities for selected policies. We compared these with the balances estimates by the Group to assess the accuracy of the calculations performed by the actuarial models, in particular whether they were in line with internally approved methodologies, assumptions and model changes. **Test of details** • We tested the underlying data by reconciling the source data from admin systems with the data in the model to assess if the data is complete and accurate. • Reconciled the completeness and accuracy of the assets used in the calculation of the Valuation Interest Rate to the assets. **Assessing transparency:** • We assessed whether the disclosures in relation to the assumptions used in the valuation of policyholder liabilities are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** • We found the valuation of insurance contract liabilities to be acceptable (2020: acceptable)

Valuation of investments (2021: £51,143 million; 2020: £49,648 million)
The risk is the same as prior year.

Refer to page 81 (accounting policy) and pages 82 to 88 (financial disclosures)

The risk

The Investment portfolio consists of financial investments and derivative assets, which represent 94% (2020: 93%) of the total assets of the Group.

Key audit matter

The portfolio of investments other than those requiring subjective valuation makes up 83% (2020: 76%) of the Group's total assets (by value). We do not consider these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which has the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Subjective valuation

The areas that involve significant audit effort and judgment were harder to value investments which made up 12% (2020: 17%) of the Group's total assets (by value) as at year end 2021. These include unquoted debt securities and alternate investment schemes. For these investments, application of expert judgment in the valuation is required.

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

Estimation uncertainty

The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investments held at fair value has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements note 9 discloses the sensitivities estimated by the Group.

Our response

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

Controls:
We tested the design and implementation of key controls over the valuation process for the investments that require judgement, including approval of credit ratings.

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

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

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

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

We engaged specialists to review the appropriateness of the internally assigned credit rating where relevant, for Harder to Value investments.

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

Our result

We found the valuation of investments to be acceptable, (2020: acceptable).

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

Materiality for the Group financial statements was set up at £45.6 million (2020: £42.5 million) and parent company financial statements at £44 million (2020: £42.5 million), determined with reference to a benchmark of Net Assets (of which it represents 1.1% (2020: 1.1.%) of the Group and Company's Net Assets).

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

Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements, which equates to £34.2 million (2020: £31.9 million) for the Group and £33m (2020: £31.9m) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £2.3 million (2020: £1.9 million) for group and £2.2 million (2020: £1.9 million) for parent in addition to other identified misstatements that warranted reporting on qualitative grounds for Group and parent company's financial statements.

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

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

4 Going concern

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

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

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

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

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

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

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 1 to be acceptable.

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

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

Identifying and responding to risks of material misstatement due to fraud

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

Our risk assessment procedures included:

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

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

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

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

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

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

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised users, those including specific words based on our risk criteria, those journals which were unbalanced, those posted to seldom used accounts, those posted to unusual accounts, those posted at the end of the period and post-closing entries with little or no description and unusual journal entries posted to either cash or revenue.
- Assessing whether the judgements made in accounting estimates including assessing valuation of insurance contract liabilities for bias.

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

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

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

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

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

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

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

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

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

6 We have nothing to report on the other information in the Annual Report
The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Strategic report and directors' report
Based solely on our work on the other information:

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

7 We have nothing to report on the other matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

8 Respective responsibilities
Directors' responsibilities
As explained more fully in their statement set out on page 63, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

11 March 2022

Statement of comprehensive income for the Group
for the year ended 31 December 2021

	Note	2021 £m	2020 £m
Revenue			
Gross premiums written		**4,702**	5,649
Outward reinsurance premiums	11f	**(846)**	(517)
Net premium revenue earned		**3,856**	5,132
Investment return	2	**209**	4,090
Commissions earned		**1**	1
Total revenue (net of reinsurance premiums)		**4,066**	9,223
Expenses			
Claims paid – gross		**(1,844)**	(1,730)
Reinsurers' share of claims paid	11f	**59**	47
		(1,785)	(1,683)
Increase in insurance liabilities – gross		**(2,178)**	(7,172)
Increase in reinsurers' share of insurance liabilities	11f	**577**	175
		(1,601)	(6,997)
Acquisition expenses	3	**(77)**	(75)
Other operating expenses	4	**(121)**	(120)
Finance costs	12	**(88)**	(72)
		(286)	(267)
Total expenses		**(3,672)**	(8,947)
Profit before taxation		**394**	276
Tax charge	7	**(81)**	(53)
Profit and total comprehensive income for the year		**313**	223

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 74 to 103 form an integral part of these financial statements.

Statement of financial position for the Group as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Investment properties	8	**173**	91
Financial investments	9	**51,143**	49,648
Derivative assets	10	**15,018**	21,936
Current taxation		**-**	3
Reinsurers' share of insurance liabilities	11	**3,350**	2,773
Prepayments		**98**	102
Receivables and other financial assets	9	**283**	284
Cash and cash equivalents	9	**192**	211
Total Assets		**70,257**	75,048
Equity			
Share capital	15	**1,226**	1,226
Share premium	17	**524**	524
Other reserves	17	**60**	60
Tier 1 notes	16	**444**	444
Retained profit	17	**2,175**	1,889
Total Equity		**4,429**	4,143
Liabilities			
Gross insurance liabilities	11	**47,013**	44,835
Borrowings	12	**1,590**	1,589
Derivative liabilities	10	**16,997**	24,340
Deferred tax liability	13	**1**	2
Current taxation		**37**	-
Insurance and other payables	9	**155**	109
Accruals	9	**35**	30
Total Liabilities		**65,828**	70,905
Total Equity and Liabilities		**70,257**	75,048

The accounting policies and notes on pages 74 to 103 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 11 March 2022 and were signed on its behalf by:

Dominic Veney
Director
Registration number: 05706720

Statement of changes in equity for the Group
for the year ended 31 December 2021

31 December 2021	Note	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year		**1,226**	**524**	**60**	**444**	**1,889**	**4,143**
Total comprehensive income							
Profit for the year		**–**	**–**	**–**	**–**	**313**	**313**
Transactions with owners							
Tier 1 coupon	**16**	**–**	**–**	**–**	**–**	**(33)**	**(33)**
Tier 1 tax relief	**7**	**–**	**–**	**–**	**–**	**6**	**6**
At end of year		**1,226**	**524**	**60**	**444**	**2,175**	**4,429**

31 December 2020	Note	Share capital £m	Share premium £m	Other reserves £m	Tier 1 notes £m	Retained profit £m	Total £m
At beginning of year		1,000	–	60	445	1,693	3,198
Total comprehensive income							
Profit for the year		–	–	–	–	223	223
Transactions with owners							
Tier 1 coupon	16	–	–	–	–	(33)	(33)
Tier 1 tax relief	7	–	–	–	–	6	6
Tier 1 additional costs		–	–	–	(1)	–	(1)
Equity raise		226	524	–	–	–	750
At end of year		1,226	524	60	444	1,889	4,143

The accounting policies and notes on pages 74 to 103 form an integral part of these financial statements.

Group statement of cash flows for the year ended 31 December 2021

	Note	2021 £m	2020 £m
from operating activities			
Profit for the year		**313**	223
Adjustments for:			
Interest income recognised in profit	2	**(1,054)**	(1,027)
Other investment return	2	**(184)**	47
Finance costs		**88**	72
Tax expense	7	**81**	53
		(1,069)	(855)
Changes in operating assets and liabilities			
Increase in investment properties	8	**(82)**	(10)
Decrease/(increase) in financial investments including derivative assets		**5,423**	(16,072)
Increase in reinsurers' share of insurance liabilities	11	**(577)**	(175)
Decrease/(increase) in prepayments		**4**	(11)
(Increase)/decrease in receivables and other financial assets		**(4)**	3
Increase in accruals		**5**	13
Increase in insurance liabilities	11	**2,178**	7,172
(Decrease)/increase in financial liabilities including derivative liabilities		**(7,343)**	7,609
Increase in insurance and other payables		**46**	21
		(350)	(1,450)
Cash flows used in operating activities		**(1,106)**	(2,082)
Interest income received		**1,060**	1,017
Other investment return		**184**	(47)
Taxation paid		**(36)**	(93)
Net inflow/(outflow) from operating activities		**102**	(1,205)
Cash flows from financing activities			
Proceeds from issue of subordinated debt	12	**–**	700
Proceeds from issue of equity		**–**	750
Interest paid on subordinated debt	12	**(88)**	(72)
Coupon on Tier 1 notes	16	**(33)**	(33)
Equity and debt Issue costs		**–**	(5)
Net (outflow)/inflow from financing activities		**(121)**	1,340
Net (decrease)/increase in cash and cash equivalents		**(19)**	135
Cash and cash equivalents at beginning of year		**211**	76
Cash and cash equivalents at end of year		**192**	211

The accounting policies and notes on pages 74 to 103 form an integral part of these financial statements.

Notes to the financial statements
for the year ended 31 December 2021

1. Accounting policies

Basis of preparation

Both the Company's financial statements and the Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006.

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

In making the going concern assessment, management reviewed the forecast solvency and liquidity positions and stress and scenario testing of key assumptions and horizon scanning to consider the key risks to the business, especially in light of the pandemic caused by Covid-19, and the potential impact of these risks on the business plan objectives. Mitigating actions were also considered and are set out in the Risk Management section of the Strategic Report on pages 16 to 21. The key stress tests, scenarios and sensitivities include a decline in interest rates, widening of spreads, downgrades and defaults, and *reinsurance and capital availability. The principal sources of forecast information were the 2022 business plan and the* Group's ORSA, both are expected to be approved by the Board in March 2022. Details on our financial position and solvency can be found in the Strategic Report on page 2 to 15.

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

The Group has applied all IFRS and interpretations that are adopted by the UK and are effective for accounting periods beginning on or after 1 January 2021.

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

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

Basis of consolidation

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

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

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

Critical estimates and judgements

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

Judgements:

Contract classification

Contracts written by insurers are classified as either insurance contracts or investment contracts, depending on the level of insurance risk transferred. The Group has classified all its policyholder contracts as insurance contracts. Please refer to Note 11 for further details.

Restricted Tier 1 notes
Classification of financial instruments as debt or equity is dependent on whether the terms impose an obligation to deliver cash or other financial assets. The Group's RT1 notes have been classified as equity. Please refer to Note 16 for further details.

Estimates:
Insurance liabilities
Insurance liabilities are valued using projected cash flows of future retirement income and the cost of administrating payments to policyholders. The key assumptions relate to future mortality, expenses, discount rates and inflation. Please refer to Note 11 for further details.

Financial instruments
Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discount them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment. For Equity Release Mortgages ("ERM"), key inputs also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity, early repayment rates and "no negative equity guarantees". The relevant fair value disclosures are set out in Note 9.

Changes in accounting policies
The Group has consistently applied its accounting policies to all periods presented in these financial statements. The application, in 2021, of "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)", and "Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" have had no impact on the Group. Disclosures in relation to interbank offer rate ("IBOR") reform are provided below.

Effect of IBOR reform
The Group has completed the transition from the use of the London interbank offer rate ("LIBOR") to Sterling Overnight Index Average ("SONIA") during the year. This has involved managing the transition of the Group's derivatives and relevant debt security assets away from LIBOR, re-negotiation of any LIBOR terms in contracts and the utilisation of SONIA swap curves for financial reporting.

The transition to SONIA has not had a significant impact on the IFRS financial position of the Group or its risk management strategy. At the end of the reporting period, the Group does not have any significant financial instruments that have yet to transition to an alternative benchmark rate.

Significant new standards or amendments to standards which are not yet effective
The following standards are only mandatory for accounting periods on or after 1 January 2022 and have not been adopted early by the Group:

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

The adoption of the standard is expected to have a significant impact on the financial statements as it transforms the way the Group measures, presents and discloses the insurance and reinsurance assets and liabilities in the Statement of Comprehensive Income, Statement of Financial Position and the notes to the financial statements. Under IFRS 17, new business profits at inception are deferred as a contractual service margin ("CSM") on the Statement of Financial Position, which is released into the Statement of Comprehensive Income over time. In addition to the CSM, an explicit margin called the risk adjustment ("RA") is required to be held for non-financial risks. More quantitative and qualitative information will be disclosed, including the reconciliations of CSM, RA and present value of future cash flows.

The Statement of Comprehensive Income will no longer include premium and claim volumes, and instead will focus on new measures, such as insurance contract revenue and insurance service expense. In addition, IFRS 17 introduces significant operational changes, including new models and significant updates to current systems and processes to account for new requirements for the collection, aggregation and analysis of data.

The Group is in the process of finalising the implementation of reporting processes and significant assumptions to meet the requirements of IFRS 17. We are well progressed in our implementation of the new systems and the expected financial implications will be communicated in due course.

Notes to the financial statements continued
for the year ended 31 December 2021

1. Accounting policies continued

IFRS 9 "Financial Instruments" – effective for accounting periods beginning on or after 1 January 2019.
The adoption of the standard is not expected to have a material impact on the results of the Group, as the financial instruments held by the Group are expected to remain classified as fair value through profit and loss. Although this standard is now effective, the IASB published Amendments to IFRS 4 "Extension of the temporary exemption from applying IFRS 9", which includes an optional temporary exemption from applying IFRS 9 until IFRS 17 is adopted. This exception is available to insurance entities whose activities are "predominantly connected with insurance" by meeting certain eligibility criteria.

As at 31 December 2021, the Group met the eligibility criteria and will defer the adoption of IFRS 9 to 1 January 2023.

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

	As at 31 December 2021		As at 31 December 2020	
	Financial assets passing SPPI test[1,2] £m	**All other financial assets £m**	Financial assets passing SPPI test[1,2] £m	All other financial assets £m
Receivables and other financial assets[2]	**283**	**–**	284	–
Financial investments	**–**	**51,143**	–	49,648
Derivative assets	**–**	**15,018**	–	21,936

1 For financial assets which passed the SPPI test as at 31 December 2021, there was a change in the fair value in the year of £nil (2020: £nil).
2 For the credit rating split of receivables and other financial assets please see Note 14.

2. Investment return

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

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

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

	2021 £m	2020 £m
Income from debt securities	**1,049**	1,021
Interest income on cash deposits	**–**	2
Income from mortgage backed securities ("MBS")	**5**	4
Interest income	**1,054**	1,027
Rental income	**8**	4
Income from other investments		
– Investment schemes	**1**	1
– Other asset backed securities ("ABS")	**9**	10
– Other investment return	**166**	(62)
Total other investment return	**184**	(47)
Total investment income	**1,238**	980
Net realised gains on investments		
– Investments designated as fair value through profit or loss on initial recognition	**442**	767
– Investments classified as held for trading	**(135)**	(133)
Net realised gains	**307**	634
Net unrealised (losses)/gains on investments		
– Investments designated as fair value through profit or loss on initial recognition	**(1,745)**	2,774
– Investments classified as held for trading	**409**	(298)
Net unrealised (losses)/gains	**(1,336)**	2,476
Investment return	**209**	4,090

3. Acquisition expenses

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

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

	2021 £m	2020 £m
Acquisition expenses	**77**	75

Notes to the financial statements continued
for the year ended 31 December 2021

4. Other operating expenses

Investment charges and related expenses comprise:

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

	2021 £m	2020 £m
Investment charges and related expenses	**42**	29
Project costs	**38**	45
Equity settled share-based payments[1]	**12**	7
Other expenses	**29**	39
	121	120

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

5. Auditor's remuneration

	2021 £m	2020 £m
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**410**	471
Fees payable to the Group's auditor and its associates for other services:		
– Audit of accounts of subsidiaries	**119**	–
– Audit-related assurance services	**153**	150
– All other services	**150**	135
Total fees paid to the auditor	**832**	756

6. Directors' remuneration, headcount and employee costs

Employee benefits

Defined contribution plans

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

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

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

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

	2021 £m	2020 £m
Wages and salaries	**48**	41
Social security costs	**6**	6
Other pension costs	**3**	2
	57	49

The Group has 16 Directors who served during the year (2020: 14). All Directors were employed by or contracted by the Group's service provider. The total remuneration received by the Directors for their services to the Company was £4 million (2020: £3 million). Certain Directors also receive remuneration from Pension Insurance Corporation Group Limited, the ultimate parent company.

The amount of remuneration received by the highest paid Director was £1 million (2020: £1 million). These amounts relate solely to the services provided by the Directors to the Company and do not include any payments due for services provided with regard to other Group entities.

Three Directors were provided a cash alternative in relation to a money purchase pension schemes where their lifetime or annual allowance limit had been reached (2020: two).

7. Corporation tax

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

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

The Group's tax charge for the year is:

	2021 £m	2020 £m
Current taxation		
Corporation tax payable for the current year	**75**	54
Prior year adjustment	**7**	–
Total current tax	**82**	54
Deferred taxation		
Tax transitional adjustments and timing differences	**(1)**	(1)
Tax charge	**81**	53

The effective current tax charge for the period of 21% is higher (2020: the same as) the standard rate of corporation tax in the UK of 19% (2020: 19%).

	2021 £m	2020 £m
Reconciliation of total income to the applicable tax rate		
Profit before taxation	**394**	276
Corporation tax at 19% (2020: 19%)	**75**	53
Effects of:		
Prior year adjustment	**7**	–
Deferred taxation movement	**(1)**	–
Tax charge	**81**	53

Tax credited to equity

Tax credited directly to equity in the year in respect of coupon payments on Tier 1 notes amounted to £6 million (2020: £6 million).

Factors that may affect future tax charges

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

Following the January 2013 change in the taxation regime for insurance companies, the benefit of the differences between IFRS retained earnings and taxable profits at 31 December 2012 will reverse over a period of ten years. Consequently, the Group has recognised a deferred tax liability at 31 December 2021 of £1 million (2020: £2 million) in respect of these timing differences which total £4 million (2020: £8 million).

8. Investment properties

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

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

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

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

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

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

The Group's holdings in investment properties relate to retail and residential properties held via Guernsey registered property unit trusts ("GPUTs"). All properties are located in the United Kingdom.

Investment properties held at cost are in the early period of construction, where fair value is not reliably measurable.

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

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

	2021 At cost £m	2021 At fair value £m
Investment yield	**Range from 4.25% to 9.75%**	Range from 6.75% to 10.0%
Rental value per square foot	**Range from £14.85 to £31.95**	Range from £14.96 to £32.19

The sensitivities of the property values to +/- 50 bps change in the investment yield is +£23 million/-£18 million (2020: +/- £4 million).

Rental income received in relation to these properties of £8 million (2020: £4 million) is shown within investment return in Note 2.

9. Financial assets and financial liabilities

Financial instruments

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

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

Assets held as collateral

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

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

Recognition and derecognition of financial instruments

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

Cash and cash equivalents

Cash and cash equivalents consist of cash balances that are repayable on demand and are integral to the Group's cash management, including any overdrawn balances, and deposits held at call with banks with less than 90 days' maturity from date of acquisition. As at 31 December 2021, the total balance in overdraft was £nil (2020: £nil).

9. Financial assets and financial liabilities continued

	2021		2020 (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	**17,965**	**–**	18,912	–
– Corporate bonds	**18,627**	**–**	19,274	–
– Private investments	**9,021**	**–**	7,736	–
MBS and ABS	**328**	**–**	387	–
Equity release mortgages	**1,082**	**–**	534	–
Deposits with credit institutions	**824**	**–**	494	–
Participation in investment schemes	**3,296**	**–**	2,311	–
Total financial investments	**51,143**	**–**	49,648	–
Derivative assets	**15,018**	**–**	21,936	–
Loans and receivables and other financial assets				
Debtors arising out of direct insurance operations	**–**	**6**	–	5
Other debtors	**–**	**21**	–	18
Accrued interest	**–**	**256**	–	261
Total receivables and other financial assets	**–**	**283**	–	284
Cash and cash equivalents	**–**	**192**	–	211
Total financial assets	**66,161**	**475**	71,584	495
Financial liabilities				
Derivative liabilities	**16,997**	**–**	24,340	–
Insurance and other payables	**–**	**155**	–	109
Borrowings	**–**	**1,590**	–	1,589
Accruals	**–**	**35**	–	30
Total financial liabilities	**16,997**	**1,780**	24,340	1,728

* Debt securities have been analysed as government bonds, corporate bonds and private investments.

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

	2021 £m	2020 £m
Financial assets designated as fair value through profit or loss	**61,586**	67,858

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

Deposits with credit institutions

Deposits with credit institutions include £22 million (2020: £21 million) in two bank accounts operated by PIC which are designated fee collateral bank accounts. These accounts were established under deeds of charge dated 9 July 2012 and 11 December 2012 between PIC and Münchener Rückversicherungsgesellschaft ("Munich Re") in respect of longevity reinsurance agreements. The amount deposited in each account represents a proportion of PIC's liability for the payment of fees due over the life of each agreement ("fee collateral amount") and is subject to annual review by each party.

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

Assets pledged as collateral

As explained in Note 10, the Group uses derivative financial instruments as part of its risk management strategy. Most over the counter derivative transactions require collateral to be received or pledged by the Group or its counterparty to mitigate the counterparty credit risk. The Group has collateral agreements with each counterparty based on standard ISDA master netting agreements, which specify minimum thresholds, asset class and credit quality of collateral and the frequency of valuation. While each party to the contract has a legal right to the collateral received if the counterparty does not meet its obligations, there is no right or intention to settle on a net basis and, therefore, these agreements do not meet the criteria for offsetting under IAS 32.

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

Derivatives

At 31 December 2021, the Group has £3,453 million (2020: £3,862 million) of financial assets which have been pledged as security under the terms of derivative contracts. The Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements.

At 31 December 2021, the amount of collateral received by the Group was £1,088 million (2020: £881 million). While the Group is permitted to sell or repledge collateral received, no collateral was actually sold or repledged in the absence of default during the year (2020: £nil). The Group does not acquire substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of the assets are recognised in the financial statements.

Buy-ins

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

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

Collateral is returned to PIC as it services the insured pension liabilities under the policy. This, in theory, exposes PIC to counterparty credit risk, which is, however, fully mitigated as PIC has a contractual right to offset its obligation to pay under the policy in the event of default by the Trustee. PIC retains substantially all the risks and rewards of ownership in respect of the transferred assets and accordingly PIC continues to recognise the assets which it has pledged under title transfer security in its financial statements. At 31 December 2021, this totalled £1.6 billion (2020: £1.7 billion).

Reinsurance

In 2021, the Group has £795 million of financial assets which have been pledged as collateral under the terms of certain reinsurance contracts (2020: £469 million). At 31 December 2021, the Group had pledged cash of £31 million (2020: £29 million) as collateral under the terms of certain reinsurance contracts. The Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements.

Lending arrangements

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

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

In all cases the Group retains substantially all the risks and rewards of ownership in respect of the transferred assets and consequently none of these assets have been derecognised in the financial statements. The Group is also not exposed to the risks and rewards of ownership of any assets received and, consequently, none of these assets have been recognised in the financial statements. At 31 December 2021, the Group held assets of £1,007 million (2020: £1,168 million) related to securities lending, sale and repurchase agreements, reverse sale and repurchase agreements, and held £1,007 million (2020: £1,168 million) in gilts and cash as collateral in respect of these arrangements.

9. Financial assets and financial liabilities continued

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 2021 (2020: £nil).

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

				Related amounts not offset in the Statement of Financial Position			
31 December 2021	**Gross amounts of recognised financial assets/ (liabilities) £m**	**Amounts offset in accordance with IAS 32 £m**	**Net amounts as recognised in the Statement of Financial Position £m**	**Financial instruments (received)/ pledged £m**	**Cash collateral (received)/ pledged £m**	**Derivative (liabilities)/ assets £m**	**Net amount £m**
Financial assets							
Derivatives	**15,018**	**–**	**15,018**	**(431)**	**(657)**	**(14,106)**	**(176)**
Debt securities							
– Government bonds	**388**	**–**	**388**	**(278)**	**(110)**	**–**	**–**
– Corporate bonds	**236**	**–**	**236**	**(236)**	**–**	**–**	**–**
Deposits with credit institutions	**383**	**–**	**383**	**(383)**	**–**	**–**	**–**
Financial liabilities							
Derivatives	**(16,997)**	**–**	**(16,997)**	**3,453**	**–**	**14,106**	**562**

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

Measurement of financial assets and liabilities

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

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

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

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

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

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

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

(c) Deposits with credit institutions
The fair value of deposits held with credit institutions represents their cash value in current terms. All deposits are short term and consequently no discounting adjustment has been made at the year end. Deposits with credit institutions are classified as Level 1 within the fair value hierarchy. By contrast there was one asset which had been measured using observable inputs other than quoted prices and therefore classified as Level 2 at 31 December 2020.

(d) Equity release mortgages
ERMs are loans secured against property that are repayable on death or entry into long-term care of the borrower. The fair value of ERM assets is determined using a mark-to-model approach based on discounting projected future cash flow arising from the loans. In addition to market observable inputs (such as interest and inflation rates), key inputs to the model also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity and early repayment rates, which are not market observable. Due to the significant estimation uncertainty involved in deriving the values, the ERMs are classified as Level 3 assets within the fair value hierarchy. Principal assumptions underlying the valuation of ERM assets are set out below and sensitivities of the valuations to changes in the key unobservable inputs are disclosed on page 88.

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

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

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

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

Dilapidation and sales costs
The valuation model allows for dilapidation and sales costs, both of which are set as a combined assumption of 12% of the value of the property at the point of sale.

No negative equity guarantees
No negative equity guarantees restrict the amount recoverable by the Group on repayment of the mortgage to the net sale proceeds of the property. The value of the guarantee is calculated using option pricing techniques, with the key input being volatility of future house price growth.

9. Financial assets and financial liabilities continued

Measurement of fair value

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

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

31 December 2020 (restated)*	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Debt securities				
– Government bonds	13,161	5,751	–	18,912
– Corporate bonds	–	19,274	–	19,274
– Private investments	90	1,892	5,754	7,736
MBS and ABS	–	387	–	387
Equity release mortgages	–	–	534	534
Deposits with credit institutions	344	150	–	494
Participation in investment schemes	957	891	463	2,311
Financial investments	14,552	28,345	6,751	49,648
Derivative assets	–	21,936	–	21,936
Financial assets	14,552	50,281	6,751	71,584
Derivative liabilities	–	(24,340)	–	(24,340)

* Comparatives have been restated to reflect the reallocation of participations in investment schemes that the Group now considers to be Level 3. Debt securities have been analysed as government bonds, corporate bonds and private investments.

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

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

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

Transfers between levels of the fair value hierarchy

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

Transfers between Level 2 and Level 3

During the year, £92 million of financial investments were transferred from Level 2 to Level 3 (2020: £686 million) and £384 million of financial investments were transferred out of Level 3 to Level 2 (2020: £237 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 2021	**Debt securities £m**	**MBS and ABS £m**	**ERM £m**	**Participation in investment schemes £m**	**Total £m**
Opening balance	**5,754**	**–**	**534**	**463**	**6,751**
Unrealised gains or losses	**(256)**	**–**	**(13)**	**(77)**	**(346)**
Acquisitions in year	**1,338**	**–**	**561**	**304**	**2,203**
Transfers into Level 3	**92**	**–**	**–**	**–**	**92**
Transfers out of Level 3	**(384)**	**–**	**–**	**–**	**(384)**
Disposals in year	**(137)**	**–**	**–**	**–**	**(137)**
Closing balance	**6,407**	**–**	**1,082**	**690**	**8,179**

31 December 2020 (restated)*	Debt securities £m	MBS and ABS £m	ERM £m	Participation in investment schemes £m	Total £m
Opening balance	3,681	7	414	434	4,536
Unrealised gains or losses	472	–	59	(24)	507
Acquisitions in year	1,237	–	61	130	1,428
Transfers into Level 3	686	–	–	–	686
Transfers out of Level 3	(237)	–	–	–	(237)
Disposals in year	(85)	(7)	–	(77)	(169)
Closing balance	5,754	–	534	463	6,751

* Debt securities have been analysed as government bonds, corporate bonds and private investments.

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

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

2020 (restated)*	Debt securities £m	ERM £m	Participation in investment schemes £m	Total £m
Investment income	78	2	–	80
Realised gains or losses	5	(2)	(11)	(8)
Unrealised gains or losses	472	59	(24)	507
Investment return on Level 3 assets	555	59	(35)	579

* Debt securities have been analysed as government bonds, corporate bonds and private investments.

9. Financial assets and financial liabilities continued

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

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

31 December 2021	Sensitivity	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Debt securities	+/- 100 bps credit spread	**6,407**	**1,405**	**(1,067)**
ERM	+/- 100 bps credit spread	**1,082**	**79**	**(111)**
	+/-5% change in mortality assumption	**–**	**–**	**–**
	+/-20% change in property prices	**–**	**27**	**(50)**
	+/- 1% change in property growth assumption	**–**	**4**	**(8)**
	+/-10% change in voluntary redemption assumption	**–**	**–**	**(1)**
Participation in investment schemes	+/-10% change in valuation assumptions	**690**	**69**	**(69)**
		8,179	**1,584**	**(1,306)**

31 December 2020 (restated)*	Sensitivity	Current fair value £m	Increase in fair value £m	Decrease in fair value £m
Debt securities	+/- 100 bps credit spread	5,754	1,303	(977)
MBS and ABS	+/- 30% change in EL	–	–	–
ERM	+/- 100 bps credit spread	534	31	(55)
	+/-5% change in mortality assumption	–	1	(1)
	+/-20% change in property prices	–	21	(34)
	+/- 1% change in property growth assumption	–	2	(5)
	+/-10% change in voluntary redemption assumption	–	1	(1)
Participation in investment schemes	+/-10% change in valuation assumptions	463	46	(46)
		6,751	1,405	(1,119)

* Comparatives have been restated to reflect the reallocation of participations in investment schemes that the Group now considers to be Level 3.

10. Derivative financial instruments

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

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

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

	31 December 2021 Assets £m	31 December 2021 Liabilities £m	31 December 2020 Assets £m	31 December 2020 Liabilities £m
Interest rate swaps	**11,906**	**(13,640)**	18,738	(19,335)
Inflation swaps	**2,026**	**(1,800)**	2,215	(4,023)
Credit default swaps	**14**	**(30)**	–	(6)
Currency swaps	**959**	**(1,509)**	966	(897)
Foreign exchange forward contracts	**12**	**(7)**	8	(36)
Total return swaps	**101**	**(11)**	9	(43)
Total derivative position	**15,018**	**(16,997)**	21,936	(24,340)

11. Insurance contracts and related insurance liabilities

Contract classification

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

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

Insurance liabilities

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

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

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

Premiums

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

No taxes or duties are payable on premiums.

Claims

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

Prepayments

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

11. Insurance contracts and related insurance liabilities continued
The Group's liabilities in relation to future policyholders' benefits are:

	2021 £m	2020 £m
Future policyholders' benefits		
Gross	**47,013**	44,835
Reinsurance	**(3,350)**	(2,773)
Net	**43,663**	42,062

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

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

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

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

(b) Principal assumptions used in the preparation of insurance liabilities
Mortality assumptions
The base mortality assumptions as at 31 December 2021 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the S3 series mortality tables published by the CMI, a research body with strong links to the Institute and Faculty of Actuaries in the UK.

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

The assumption for future improvements to mortality is modelled using the CMI 2019 model.

Both the base mortality and improvements tables were updated in 2020. No further changes were made during 2021.

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

The rate calculated in accordance with these adjustments as at 31 December 2021 was 1.77% for both index-linked liabilities and non-linked liabilities (2020: 1.25% combined rate).

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

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

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

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

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

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

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

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

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

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

- Maintenance expense assumptions were updated to reflect current budgets and business volumes, and a reduction in the *prudential margin, leading to an overall increase in reserves.*
- Investment expense assumptions were updated to reflect the outcome of a review of contractual custodian fees and the removal of the prudential margin, generating a release of reserves.
- Default rates used in the VRI calculation were updated for more recent default experience data, generating a release of reserves.
- Reinvestment *and disinvestment rates used in the derivation of the VRI were changed to remove an element of prudence* in the calculation, resulting in a release in reserves.
- LPI/CPI inflation assumptions were updated following the recent RPI reform, leading to a release of reserves.
- All other assumptions were reviewed and updated where necessary to reflect current operating conditions.

11. Insurance contracts and related insurance liabilities continued

Other movements

Other movements primarily comprise the unwind of the valuation rate of interest, the reduction in liabilities from expenses and fees, together with the impact of data changes and asset trading and transfers.

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

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

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

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

(e) Sensitivity analysis

In accordance with IFRS 4 and IFRS 7 "Financial Instruments: Disclosures" the Directors have considered the effect on profits and equity at 31 December 2021 resulting from changes in a number of key assumptions. The effect of each of the assumption changes is considered in isolation on the basis that all other key assumptions remain unaltered. The net impact of this sensitivity analysis on financial instruments and insurance contract liabilities is set out in the table below.

	2021		2020	
31 December 2021	**Pre-tax change in profit £m**	**Post-tax change in profit and equity £m**	Pre-tax change in profit £m	Post tax change in profit and equity £m
100 bps increase in interest rates	**100**	**81**	(639)	(517)
100 bps decrease in interest rates	**(369)**	**(299)**	428	347
50 bps increase in inflation (restated)*	**(227)**	**(184)**	(43)	(35)
50 bps decrease in inflation (restated)*	**321**	**260**	172	139
Base mortality (see below)	**(193)**	**(157)**	(188)	(152)
Mortality improvements (see below)	**(98)**	**(80)**	(92)	(74)
Renewal expenses (see below)	**(169)**	**(137)**	(147)	(119)
Exchange rates (see below)	**(10)**	**(8)**	(10)	(8)
Credit spreads increase of 100 bps	**13**	**11**	(64)	(51)

* 2020 inflation sensitivities have been restated.

Parameters for exchange rate, longevity and renewal expense sensitivities
The base mortality sensitivity is based on a 5% reduction in the base mortality rates. This is equivalent to a 0.4 year increase in life expectancy from 22.9 years to 23.3 years for a typical male aged 65.

The mortality improvements sensitivity is based on a 0.1% increase in annual mortality improvement rates. This is equivalent to a 0.2 year increase in life expectancy from 22.9 years to 23.1 years for a typical male aged 65.

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

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

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

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

(f) Reinsurance results

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements continued
for the year ended 31 December 2021

11. Insurance contracts and related insurance liabilities continued

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

	2021 £m	2020 £m
Outward reinsurance premiums	**(846)**	(517)
Reinsurers' share of claims paid	**59**	47
Changes in reinsurers' share of insurance liabilities	**577**	175
Net effect of reinsurance contracts on profit before taxation	**(210)**	(295)

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

12. 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.

	2021		2020	
Loan notes	**Carrying value £m**	**Fair value £m**	Carrying value £m	Fair value £m
£300m notes maturing 2024	**298**	**333**	298	362
£250m notes maturing 2026	**249**	**317**	248	335
£350m notes maturing 2030	**347**	**418**	347	450
£300m notes maturing 2031	**299**	**332**	299	367
£400m notes maturing 2032	**397**	**410**	397	445
Total	**1,590**	**1,810**	1,589	1,959

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

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

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

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

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

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

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

Finance costs comprise the interest expense on borrowings, which is calculated using the effective interest method. For the year ended 31 December 2021, an interest expense of £88 million (2020: £72 million) was recognised in the Statement of Comprehensive Income in respect of the notes.

13. Deferred tax

Deferred tax is provided on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation 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 2021, the Group's deferred tax balances calculated in accordance with IAS 12 "*Income Taxes*" were as follows:

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

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

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

	2021 £m	2020 £m
At beginning of year	**(2)**	(3)
Change in net deferred tax asset due to temporary timing differences	**1**	1
At end of year	**(1)**	(2)

The Group has £nil other timing differences or tax losses carried forward as at 31 December 2021 (2020: £nil) which may give rise to reduced tax charges in future periods.

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

14. Risk management

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

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

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

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

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

14. Risk management continued
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, where No Negative Equity Guarantees ("NNEGs") restrict the amount recoverable by the Group on repayment of the mortgage to the net sale proceeds of the property.

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

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

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. ERM property risk is mitigated by ensuring that the advance represents a low proportion of the property's value at outset, based on independent valuations, and ongoing dilapidation reviews.

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

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

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

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

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

31 December 2021	AAA £m	AA £m	A £m	BBB[3] £m	BB £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	**693**	**15,467**	**718**	**1,087**	**–**	**–**	**17,965**
– Corporate bonds	**1,606**	**1,580**	**6,820**	**8,351**	**13**	**257**	**18,627**
– Private investments	**138**	**3,250**	**3,659**	**1,837**	**72**	**65**	**9,021**
MBS and ABS[2]	**–**	**11**	**287**	**30**	**–**	**–**	**328**
Equity release mortgages	**–**	**–**	**–**	**–**	**–**	**1,082**	**1,082**
Deposits with credit institutions	**–**	**550**	**231**	**–**	**–**	**43**	**824**
Participation in investment schemes	**1,614**	**–**	**–**	**–**	**181**	**1,501**	**3,296**
	4,051	**20,858**	**11,715**	**11,305**	**266**	**2,948**	**51,143**
Other assets							
Derivative assets	**–**	**–**	**–**	**–**	**–**	**15,018**	**15,018**
Receivables and other financial assets	**23**	**47**	**74**	**111**	**1**	**27**	**283**
Cash and cash equivalents	**–**	**–**	**–**	**192**	**–**	**–**	**192**
	23	**47**	**74**	**303**	**1**	**15,045**	**15,493**

1 Within Debt securities there are £138 million AAA rated, £2,516 million AA rated, £3,426 million A rated, £1,967 million BBB rated and £72 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £5 million A rated securities which have been rated using internally assessed credit ratings.
3 Within the BBB rated Financial Investments there are £1,224 million of BBB- rated assets.

31 December 2020 (restated)*	AAA £m	AA £m	A £m	BBB[3] £m	BB £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	654	16,810	683	765	–	–	18,912
– Corporate bonds	1,861	1,512	7,642	8,025	16	218	19,274
– Private investments	140	2,629	3,258	1,560	78	71	7,736
MBS and ABS[2]	–	11	318	49	3	6	387
Equity release mortgages	–	–	–	–	–	534	534
Deposits with credit institutions	–	273	221	–	–	–	494
Participation in investment schemes	957	–	–	–	126	1,228	2,311
	3,612	21,235	12,122	10,399	223	2,057	49,648
Other assets							
Derivative assets	–	–	–	–	–	21,936	21,936
Receivables and other financial assets	25	47	83	105	1	23	284
Cash and cash equivalents	–	–	–	211	–	–	211
	25	47	83	316	1	21,959	22,431

* Debt securities have been analysed as government bonds, corporate bonds and private investments.

1 Within Debt securities there are £223 million AAA rated, £2,227 million AA rated, £2,882 million A rated, £1,188 million BBB rated and £78 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £4 million A rated securities which have been rated using internally assessed credit ratings.
3 Within the Within the BBB rated Financial Investments there are £1,217 million of BBB- rated assets.

Although the derivative asset instruments themselves are unrated, the ultimate issuing party for most derivative assets does have a credit rating. Additionally, the derivatives are fully collateralised with highly rated instruments, so as to mitigate any credit or counterparty risk. Applying the issuer rating to the assets held at 31 December 2021 produces the following split:

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

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

14. Risk management continued

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 with an exposure of £3,350 million at 31 December 2021 (2020: £2,773 million). Measures are in place with respect to the reinsurance contracts to manage counterparty exposure, including collateral arrangements and other protections. The credit rating of each reinsurer is reported to management on a monthly basis. The credit rating of each reinsurer was A or higher at both 31 December 2021 and 31 December 2020.

Impaired assets

The Group did not have any impaired or past due date assets at 31 December 2021 (2020: £nil).

(c) Liquidity risk

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

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

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

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

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

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

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

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

(d) Insurance risk

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

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

Longevity only reinsurance

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

Quota share reinsurance – longevity reinsurance via the transfer of assets

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

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

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

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

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

Risk arising from a specific insurance contract

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

Exposure to changes in financial market conditions

The Group prepares information based upon a range of possible market conditions in order to assess the potential impact on the balance sheet and the management actions available to help mitigate this. During 2021, this has included scenarios assessing the potential macro-economic impacts on PIC's solvency and liquidity position arising from the Covid-19 pandemic to ensure adequate controls are in place to mitigate the potential balance sheet impacts of market movements under a range of adverse scenarios.

(e) Operational risk

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

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

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

These plans were activated in 2020 and operated throughout 2020 and 2021 as a result of the Covid-19 pandemic. This required the Group to take a number of actions internally and with its outsourcing partners in accordance with its business continuity plans in order to maintain services to stakeholders, protect its staff and comply with national and regional measures. These measures ensured that the Group was able to continue to operate throughout the pandemic with no loss of service and within its risk appetite.

15. Share capital

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

	2021		2020	
	Number of shares	**£m**	Number of shares	£m
Authorised, issued and fully paid				
At beginning of year	**1,226,385,310**	**1,226**	999,810,351	1,000
Shares issued in the period	**–**	**–**	226,574,959	226
At end of year	**1,226,385,310**	**1,226**	1,226,385,310	1,226

16. Restricted tier 1 notes

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

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

The interest payments arising are recognised in equity upon payment.

	2021 £m	2020 £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 2021 the total coupon paid was £33 million (2020: £33 million).

17. Reserves

	2021			2020		
	Share premium £m	***Other reserves £m***	***Retained profit £m***	*Share premium £m*	*Other reserves £m*	*Retained profit £m*
At beginning of year	**524**	**60**	**1,889**	–	60	1,693
Total comprehensive income	**–**	**–**	**313**	–	–	223
RT1 coupon	**–**	**–**	**(33)**	–	–	(33)
Tax on RT1 coupon	**–**	**–**	**6**	–	–	6
Equity raise	**–**	**–**	**–**	524	–	–
At end of year	**524**	**60**	**2,175**	524	60	1,889

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

18. Capital resources

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

PIC is required to measure and manage its capital in accordance with the requirements of the EU Solvency II Framework Directive ("Solvency II"), as adopted by the PRA and retained under UK law. There are certain valuation differences between the IFRS balance sheet and the Solvency II balance sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. Also, under Solvency II PIC is able to treat the subordinated debt referred to in Note 12 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.

	2021 unaudited £m	2020 unaudited £m
Net assets held in excess of best estimate liabilities ("BEL")	**7,938**	8,063
Risk margin net of transitionals	**(1,269)**	(1,353)
Own Funds	**6,669**	6,710
Solvency II capital requirements	**(3,968)**	(4,261)
Solvency II surplus	**2,701**	2,449
Solvency ratio	**168%**	157%

The Group's objectives in managing its capital are:

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

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

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

PIC focuses on hedging its Solvency II balance sheet through hedging its technical provisions and solvency capital requirement to interest rates and inflation rates. 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 2021, based on best estimate liabilities.

Notes to the financial statements continued
for the year ended 31 December 2021

19. Related party transactions

As at 31 December 2021, the Directors regarded Pension Insurance Corporation Group Limited ("PICG"), a limited Group incorporated in England and Wales, as the Group's ultimate parent and controlling party.

a) Transactions with fellow group undertakings

The Group had the below transactions with its fellow group undertakings. The recharge includes £14 million relating to remuneration of PIC Directors and key management personnel (2020: £13 million).

Income statement	2021 £m	2020 £m
Expense recharges	(176)	(185)
	(176)	(185)

b) Balances with fellow group undertakings

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

	Transactions during the year		Balance as at 31 December	
Balance sheet	2021 £m	2020 £m	2021 £m	2020 £m
Amounts owed to group undertakings	(131)	(16)	(114)	(83)

c) Capital transactions with fellow group undertakings

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

Balance sheet	2021 £m	2020 £m
Equity raise	–	750

d) Other related party transactions

On 8 June 2021, PIC subscribed to €150 million 1.48% *senior notes in Capital Investors Europe PBI Limited, a company within* the CVC Group. Another member of the CVC Group is a significant shareholder of PICG, the ultimate parent of the Company. Investment income during the period amounted to £1 million and the carrying value of the investment at 31 December 2021 was £126 million.

20. Financial commitments and contingencies

Commitments

During the year, the Group executed transactions to purchase partly funded securities relating to private investments. The Group expects to pay a further £571 million within the next five years (2020: £1,089 million), £389 million of this being due within 12 months of the financial reporting date (2020: £797 million).

	2021 £m	2020 £m
Within 1 year	389	797
In 1–5 years	182	292
	571	1,089

At 31 December 2021, the Group's maximum commitment under contractual obligations to construct investment property is £216 million (2020: £113 million). The obligations cover a period of up to approximately four years.

Contingent liabilities

The Group has certain reinsurance agreements, which include fees that are contingent on occurrence of specific events. Such fees do not meet the definition of a liability, and therefore are not recognised on the Statement of Financial Position. At 31 December 2021, the estimated value of the contingent fees payable was £8 million (2020: £9 million). The Group considers that there were no other events which could lead to contingencies in the ordinary course of business.

21. Parent company and ultimate controlling party

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

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

Parent company financial statements
Statement of financial position for the Company
as at 31 December 2021

	Note	2021 £m	2020 £m
Assets			
Investments in subsidiaries	2	**162**	87
Financial investments		**51,316**	49,742
Derivative assets		**15,018**	21,936
Current taxation		**–**	3
Reinsurers' share of insurance liabilities		**3,350**	2,773
Prepayments		**98**	102
Receivables and other financial assets		**273**	284
Cash and cash equivalents		**25**	118
Total Assets		**70,242**	75,045
Equity			
Share capital		**1,226**	1,226
Share premium		**524**	524
Other reserves		**60**	60
Tier 1 notes		**444**	444
Retained profit		**2,175**	1,889
Total Equity		**4,429**	4,143
Liabilities			
Gross insurance liabilities		**47,013**	44,835
Borrowings		**1,590**	1,589
Derivative liabilities		**16,997**	24,340
Deferred tax liability		**1**	2
Current taxation		**37**	–
Insurance and other payables		**145**	107
Accruals		**30**	29
Total Liabilities		**65,813**	70,902
Total Equity and Liabilities		**70,242**	75,045

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 74 to 103 in the consolidated Group accounts, and the Company specific accounting policies and notes on pages 107 to 108 form an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 11 March 2022 and were signed on its behalf by:

D Veney

Dominic Veney
Director
Registered number: 05706720

Parent company financial statements
Statement of changes in equity for the Company
for the year ended 31 December 2021

The profit for the financial year recorded within the accounts of the Company is £313 million (2020: £223 million).
In accordance with the exemption granted under Section 408 of the Companies Act 2006, a separate Income Statement and Statement of Comprehensive Income for the Company have not been presented.

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

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

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 74 to 103 in the consolidated Group accounts, and the Company specific accounting policies and notes on pages 107 to 108 form an integral part of these financial statements.

Parent company financial statements
Company statement of cash flows
for the year ended 31 December 2021

	2021 £m	2020 £m
Cash flows from operating activities		
Profit for the year	**313**	223
Adjustments for:		
Interest income recognised in profit	**(1,054)**	(1,027)
Other investment return	**(184)**	47
Interest expense recognised in profit or loss	**88**	72
Revaluation of investment in subsidiaries	**(10)**	12
Tax expense	**81**	53
	(1,079)	(843)
Changes in operating assets and liabilities		
Decrease/(increase) in financial investments including derivative assets	**5,345**	(16,166)
Increase in reinsurers' share of insurance liabilities	**(577)**	(175)
Decrease/(increase) in prepayments	**4**	(11)
Decrease in receivables and other financial assets	**6**	3
Increase in accruals	**1**	12
Increase in insurance liabilities	**2,178**	7,172
(Decrease)/increase in financial liabilities including derivative liabilities	**(7,343)**	7,609
Increase in insurance and other payables	**37**	19
	(349)	(1,537)
Cash outflow from operating activities	**(1,115)**	(2,157)
Interest income received	**1,060**	1,017
Other investment return	**184**	(47)
Taxation paid	**(36)**	(93)
Net inflow/(outflow) from operating activities	**93**	(1,280)
Cash flows from investing activities		
Additions to investment in subsidiaries	**(65)**	(18)
Net outflow from investing activities	**(65)**	(18)
Cash flows from financing activities		
Proceeds from issue of subordinated debt	**–**	700
Proceeds from issue of equity	**–**	750
Interest paid on subordinated debt	**(88)**	(72)
Coupon on Tier 1 notes	**(33)**	(33)
Issue costs	**–**	(5)
Net (outflow)/inflow from financing activities	**(121)**	1,340
Net decrease/(increase) in cash and cash equivalents	**(93)**	42
Cash and cash equivalents at beginning of year	**118**	76
Cash and cash equivalents at end of year	**25**	118

The Company accounting policies are aligned with those of the Group. The accounting policies and notes on pages 74 to 103 in the consolidated Group accounts, and the Company specific accounting policies and notes on pages 107 to 108 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 2021

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

Investments in subsidiaries are carried at fair value, based on the fair value of the principal assets of the subsidiaries, which are investment properties. See note 8 of the Group's consolidated financial statements for valuation judgements in relation to investment properties.

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 2021. The Company has also consistently applied its accounting policies to all periods presented in these financial statements. The application, in 2021, of "Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)", and "Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)" have had no impact on the Company, as set out in note 1 of the Group's consolidated financial statements.

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

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

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

	2021 £m	2020 £m
Cost		
At start of year	**87**	81
Additions in the year	**65**	18
Revaluation of Investments in Subsidiaries	**10**	(12)
At end of the year	**162**	87
Net book value		
31 December	**162**	87

The additions in the year relate to the funding of investment property construction vehicles. Please see Note 8 of the consolidated Group accounts for more details.

Subsidiary Undertakings	Principal Activity	Country of incorporation	% of equity held	Share class
PIC ERM 1 Limited[1]	Investment activity	England	100%	Ordinary shares
PIC Properties Limited Partnership[1,2]	Investment holding entity	England	100%	Partnership
PIC New Victoria Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC New Victoria Limited Partnership[2]	Investment activity	England	99%	Partnership
PIC Wiltern Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC Wiltern Limited Partnership[2]	Investment activity	England	99%	Partnership
PIC Bowback Unit Trust	Investment activity	Guernsey	99%	Unit trust
PIC Bowback Limited Partnership[2]	Investment activity	England	99%	Partnership
PLE Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
STH Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
TBW Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
TNT Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
WOR Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
BSF Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
CVT Unit Trust	Investment activity	Guernsey	99.99%	Unit trust
GLS Unit Trust	Investment activity	Guernsey	99.99%	Unit trust

1 Denotes investment held directly by the Company at 31 December 2021
2 Denotes entities that have claimed exemption from audit by virtue of either section 479 of the Companies Act 2006, or Regulation 7 of the Partnerships (Account) Regulations.

Parent company financial statements
Notes to the financial statements of the Company continued
for the year ended 31 December 2021

2. Investments in subsidiaries continued
Subsidiaries incorporated in England are registered at 14 Cornhill, London EC3V 3ND

Subsidiaries incorporated in Guernsey are registered at Western Suite, Ground Floor, Mill Court, La Charroterie, St Peter Port, Guernsey GY1 1EJ

3. Related party transactions
a) Transactions with fellow group undertakings
The Company had transactions with its fellow group undertakings as follows:

Income statement	2021 £m	2020 £m
Distribution from group undertakings	**5**	1
Expense recharges	**(176)**	(185)
	(171)	(184)

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

Balance sheet	Transactions during the year 2021 £m	Transactions during the year 2020 £m	Balance as at 31 December 2021 £m	Balance as at 31 December 2020 £m
Amounts owed by group undertakings	**100**	77	**175**	75
Amounts owed to group undertakings	**(31)**	(16)	**(114)**	(83)

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

Balance sheet	2021 £m	2020 £m
Equity raise	**–**	750
Equity investment in subsidiary undertakings	**(65)**	(18)

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