Registered Number 08019046

Pension Services Corporation Limited

Annual Report and Financial Statements
For the year ended 31 December 2019

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Pension Services Corporation Limited

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Pension Services Corporation Limited

Strategic report for the year ended 31 December 2019

The directors present their Strategic Report, Directors' Report and the audited financial statements for Pension Services Corporation Limited (the "Company" or "PSC") registered number 08019046 for the year ended 31 December 2019.

Principal Activity

The principal activity of the Company is the provision of services and personnel to fellow members of the group headed by Pension Insurance Corporation Group Limited ("PICG" or the "Group"), the ultimate parent company. Its registered office is 14 Cornhill, London, EC3V 3ND.

PSC is a wholly owned subsidiary of PIC Holdings Limited, which is a wholly owned subsidiary of PICG.

Business Review

The Company made a pre-tax profit for the year of £61,900 *(2018: £50,100).*

The directors do not recommend the payment of a dividend for the year.

Further details are included in the Statement of comprehensive income.

Strategy

The Company acts as a service provider to a number of companies within the PICG group. It sets its charging structure for services to ensure the costs of providing these services are fully covered. A margin for profit is included on the costs charged to PICG, but the Company does not apply a mark-up on expenses charged to Pension Insurance Corporation Plc (PIC).

Key Performance Indicators

The Company has identified the following key performance indicator and performance measurement metric that it considers relevant at this point in its development. As the business continues to develop, management will determine whether this indicator remains the most appropriate measure by which to manage the risk and profitability of the business.

Measures of profitability	**2019**	**2018**
Profit before taxation	£61,900	£50,100

Principal Risks and Uncertainties

The principal risks affecting the Company's business and its strategy for managing those risks are set out in detail in Note 15 to the financial statements.

On behalf of the Board

14 Cornhill
London
EC3V 3ND

Tracy Blackwell
Director

5 March 2020

Pension Services Corporation Limited

Directors' report for the year ended 31 December 2019

Directors and their interests

The directors who served during the year and up to the date of signing this report were:

Rob Sewell
Tracy Blackwell

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

Political contributions

The Company made no political donations during the year.

Employees

Employment of disabled persons

It is the policy of the Company to encourage good employment practices with regard to disabled persons, in accordance with government recommended guidelines. Where existing staff become disabled, it is the policy of the Company, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled staff wherever appropriate

Training and development

As part of its business planning process, the Company continues to place emphasis on the development and training of its staff, to meet its needs both now and in the future.

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

On behalf of the Board

14 Cornhill
London
EC3V 3ND

Tracy Blackwell
Director

5 March 2020

Pension Services Corporation Limited

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 financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the 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 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities.

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

Report of KPMG LLP to the members of Pension Services Corporation Limited

Independent Auditor's Report to the members of Pension Services Corporation Limited.

Opinion

We have audited the financial statements of Pension Services Corporation Limited ("the company") for the year ended 31st December 2019 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as Insurance Liabilities and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that 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 its 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 are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Report of KPMG LLP to the members of Pension Services Corporation Limited

Independent Auditor's Report to the members of Pension Services Corporation Limited.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 5, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the 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 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.

Report of KPMG LLP to the members of Pension Services Corporation Limited

Independent Auditor's Report to the members of Pension Services Corporation Limited.

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

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

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

5 March 2020

Pension Services Corporation Limited

Statement of comprehensive income
for the year ended 31 December 2019

	Note	2019	2018
		£000	£000
Revenue		**150,799**	104,473
Interest income		**49**	27
Operating expenses	*2-4*	**(150,786)**	(104,450)
Profit before taxation		**62**	50
Tax credit/(charge)	*6*	**211**	(440)
Total comprehensive income/(loss) for the year		**273**	(390)

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 13 to 29 form an integral part of these financial statements.

Pension Services Corporation Limited

Statement of changes in equity
for the year ended 31 December 2019

31 December 2019	**Share Capital £000**	**Capital Contribution £000**	**Other reserves £000**	**Retained profit £000**	**Total £000**
At beginning of year	**1**	**-**	**630**	**(792)**	**(161)**
Total comprehensive income for the year					
Income for the year	**-**	**-**	**-**	**273**	**273**
Impact of adoption of IFRS 16	**-**	**-**	**-**	**1,970**	**1,970**
Transactions with owners					
Share based payments	**-**	**6,969**	**-**	**-**	**6,969**
Recharge for share-based payments	**-**	**(6,969)**	**-**	**-**	**(6,969)**
Tax on share-based payments	**-**	**-**	**(139)**	**571**	**432**
At end of year	**1**	**-**	**491**	**2,022**	**2,514**

31 December 2018	**Share Capital £000**	**Capital Contribution £000**	**Other reserves £000**	**Retained profit £000**	**Total £000**
At beginning of year	1	-	890	(1,277)	(386)
Total comprehensive loss for the year					
Loss for the year	-	-	-	(390)	(390)
Transactions with owners					
Share-based payments	-	6,378	-	-	6,378
Recharge for share-based payments	-	(6,378)	-	-	(6,378)
Tax on share-based payments	-	-	(260)	875	615
At end of year	1	-	630	(792)	(161)

The accounting policies and notes on pages 13 to 29 form an integral part of these financial statements.

Pension Services Corporation Limited

Statement of financial position
as at 31 December 2019

	Note	2019		2018	
		£000	£000	£000	£000
Non-current assets					
Intangible assets	8	-		-	
Property, plant and equipment	7	1,652		175	
Right of use asset	9	22,087		-	
Deferred tax asset	11	2,729		3,101	
Other receivables	18	-		4,499	
			26,468		7,775
Current assets					
Trade and other receivables	10	75,248		66,763	
Current taxation		1,071		-	
Cash and cash equivalents		4,445		10,751	
			80,764		77,514
Total assets			107,232		85,289
Equity					
Share capital	16	1		1	
Other reserves	17	491		630	
Retained profit	17	2,022		(792)	
Total equity			2,514		(161)
Current liabilities					
Lease liability	9	23,059		-	
Trade and other payables	13	14,035		27,777	
Current taxation		-		4,973	
Accruals	14	67,624		52,700	
Total liabilities			104,718		85,450
Total equity and liabilities			107,232		85,289

The accounting policies and notes on pages 13 to 29 form an integral part of these financial statements.

The financial statements were approved by the directors on 5 March 2020 and were signed on its behalf by:

Rob Sewell
Director

Registered Number 08019046

Pension Services Corporation Limited

Statement of cash flows
for the year ended 31 December 2019

	Note	2019		2018	
		£000	**£000**	£000	£000
Cash flows from operating activities					
Income/(loss) for the year			**273**		(390)
Adjustments for non-cash movements:					
Depreciation	*7-9*	**2,734**		45	
Interest income from investing activities		**(49)**		-	
Current tax credit in comprehensive income	*6*	**(443)**		873	
Deferred tax expense in comprehensive income	*11*	**232**		-	
Interest expense on lease liability	*9*	**1,109**		-	
Tax on equity settled share-based payments		**-**		615	
			3,583		1,533
Changes in operating assets and liabilities					
Increase in receivables		**(8,485)**		(10,811)	
(Decrease)/increase in other payables		**(13,742)**		6,718	
Increase in accruals		**14,924**		13,538	
Other movement in current tax provision		**(5,029)**		-	
Movement in accruals recognised in reserves		**1,970**		-	
			(10,362)		9,445
Cash (outflow)/inflow from operating activities			**(6,506)**		10,588
Cash flows from investing activities					
Repayment/(provision) of loan to parent		**4,499**		(4,499)	
Interest received		**49**		-	
Acquisition of fixed assets		**(1,657)**		-	
Cash inflow/(outflow) from investing activities			**2,891**		(4,499)
Cash flows from financing activities					
Payment of lease liabilities		(2,691)		-	
Cash outflow from financing activities			**(2,691)**		-
Net (decrease)/increase in cash and cash equivalents			**(6,306)**		6,089
Cash and cash equivalents at beginning of year			**10,751**		4,662
Cash and cash equivalents at end of year			**4,445**		10,751

The accounting policies and notes on pages 13 to 29 form an integral part of these financial statements.

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019

1. Accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention excluding certain assets and liabilities which are fair value through profit or loss.

The financial statements have been prepared on a going concern basis.

New standards, interpretations and amendments to published standards that have been adopted by the Company

IFRS 16 Leases
In January 2016, the IASB published *IFRS 16 Leases*, which replaced *IAS 17 Leases* for annual reporting periods beginning on or after 1 January 2019. IFRS 16 introduces a definition of a lease with a single lessee accounting model, eliminating the distinction between operating or finance leases that existed in IAS 17. Under IFRS 16, lessees are required to recognise all lease assets and liabilities with a duration of longer than 12 months on the statement of financial position, unless the underlying asset is of low value. Depreciation of lease assets is presented separately from the interest expense on lease liabilities on the statement of comprehensive income.

The Company has applied IFRS 16 from 1 January 2019 but has not restated comparatives for 2018, as permitted by the modified retrospective approach in the standard. On transition, the Company elected to use the practical expedient to apply IFRS 16 only to contracts that were identified as leases under IAS 17. Leases of low value assets, comprising vending machines and franking machines, are not measured using IFRS 16. The accounting policy for leases can be seen in Note 1(l).

On initial recognition of IFRS 16 on 1 January 2019, the Company recognised £19.8 million right of use assets for office buildings and equipment, and lease liabilities of the same value. At the same date, the Company derecognised a rent accrual of £1,970,000, which related to an operating lease under IAS 17. In calculating the lease liabilities at the date of initial application of IFRS 16, the Company:

i. included expected building lease payments until the lease expiry date, as it is reasonably certain that the Company will not exercise the termination option in July 2024; and
ii. used an incremental borrowing rate of 4.5% to discount lease payments, which continues to apply at the reporting date.

	£000's
Operating lease commitments at 31 December 2018, as disclosed in the Company's financial statements	15,106
Lease payments due after date of termination option	9,548
Recognition exemption for leases of low value assets	(47)
Discounted using the incremental borrowing rate at 1 January 2019	(4,788)
Lease liabilities recognised at 1 January 2019	**19,819**

1. **Accounting policies (continued)**

(b) Basis of preparation (continued)

Standards, interpretations and amendments to published standards, which are not yet effective and have not been adopted early by the Company

No published accounting standards or interpretations that are not yet mandatory have been early adopted by the Company. These standards are not expected to have a material impact on the Company in the current or future reporting periods or on foreseeable future transactions.

(c) Revenue

In line with the requirements of IFRS 15, Revenue comprises amounts invoiced for services provided by the Company exclusive of Value Added Tax.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Depreciation is charged to write off the cost, less any residual value, of property, plant and equipment to the Statement of comprehensive income on a straight-line basis over its estimated useful life. Land is not depreciated. The estimated useful lives are as follows:

Office equipment	-	3 years or 5 years depending on asset type
Leasehold improvements	-	equal instalments over the term of the lease
Fixtures and fittings	-	equal instalments over the term of the lease

(e) Intangible assets

Intangible assets comprise software that is separable and not integral to hardware platforms. Software is stated at cost less accumulated amortisation and impairment losses. Externally acquired computer software is capitalised and amortised on a straight-line basis over its useful economic life of 3 years.

Costs relating to development of software for internal use are capitalised once the software is technically feasible and the Group has sufficient resources to complete development. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash balances, including any overdrawn balances, and deposits held at call with banks with less than 90 days maturity from date of acquisition.

(g) Receivables

Receivables consists of intercompany debtors, trade debtors and prepayments. The business model is to hold these amounts to collect their contractual cash flows and they are therefore measured at amortised cost under IFRS 9.

Expected credit losses ("ECL") are recognised for receivables when there is objective evidence that the Company will not be able to collect all amounts due. The ECL is based on the simplified IFRS 9 approach which uses lifetime ECL for all receivables due from related companies and other receivables.

1. **Accounting policies (continued)**

(h) Foreign Currencies

The functional currency of the Company is pounds sterling. The Company has chosen to present its financial statements in this currency.

Assets and liabilities denominated mainly in a foreign currency are translated into the functional currency at the foreign exchange rate effective at the end of the financial year. All revenue and expense items are reflected in the Statement of comprehensive income at the rate effective at the date the transaction took place.

(i) Taxation

Current taxation is provided on taxable profits at the corporation tax rate effective in the year they are earned and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts 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 in force at the date the timing difference is expected to reverse based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised.

(j) Accruals

Accruals are made for costs and expenses that have been incurred but for which no invoices have been processed prior to the end of the reporting period.

(k) Employee benefits

Equity settled share-based payment transactions

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

When the awards vest, any ordinary shares required to fulfil entitlements under the share-based payment awards are provided by Pension Insurance Corporation Group Limited.

Defined contribution pension plan

The Company operates a defined contribution pension plan into which the Company 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.

1. Accounting policies (continued)

(l) Leases

The Company has applied IFRS 16 from 1 January 2019 but has not restated comparatives for 2018, as permitted by the modified retrospective approach in the standard. On transition, the Company elected to use the practical expedient to apply IFRS 16 only to contracts that were identified as leases under IAS 17. The Company does not apply IFRS 16 to leases of low value assets, comprising vending machines and franking machines.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. Right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received. A right-of-use asset is depreciated on a straight-line basis over the lease term.

A lease liability is initially measured as the value of expected future lease payments, discounted using the Company's incremental borrowing rate.

(m) Critical accounting policies, estimates and judgements

Included in the financial statements are certain critical estimates as described below:

Incremental borrowing rate

IFRS 16 requires all lease liability cashflows to be discounted using an incremental borrowing rate which is the rate of interest the company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of similar value to the right of use asset.

The incremental borrowing rate is determined using interest rates from various external financing sources, which are adjusted to reflect the terms of the lease. Lease liabilities are measured at amortised cost using the effective interest method.

2. Operating expenses

Operating expenses include the following charges:

	2019	2018
	£000	£000
Equity settled share-based payments	**6,969**	6,378
Depreciation of property, plant and equipment	**2,734**	45
Auditor's remuneration		
- Audit of these financial statements	**24**	20

In 2019, depreciation includes £2,554,000 relating to right of use assets recognised on adoption of *IFRS 16 Leases*.

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

3. Staff headcount and expenses

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

	2019	2018
	No	No
Employees	**220**	184
Directors	**2**	2

The aggregate payroll cost of these persons was as follows:

	2019	2018
	£000	£000
Wages and salaries	**32,984**	**27,442**
Social security costs	**5,573**	**4,724**
Pension costs	**1,733**	**1,414**
	40,290	**33,580**

All of the above costs were recharged to Group companies.

4. Directors' emoluments

	2019	2018
	£000	£000
Directors' emoluments	**40**	40
	40	40

All directors of the Company provide services to the Company and other Group entities. Of the total emoluments paid to them by the Company, £40,000 was attributed to their activity as directors of PSC.

The aggregate emoluments of the highest paid director were £20,000 *(2018: £20,000).*

Two directors had money paid to a money purchase pension scheme or were provided a cash alternative where their lifetime limit had been reached (*2018: two*). None of these pension contributions were deemed to be in respect of their services to the Company (*2018: None*).

5. Share-based payments arrangements

The Group operates three types of share-based incentive schemes for employees. All three meet the definition of equity settled share-based payments under *IFRS 2 Share Based Payment.*

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

Share Growth Plan

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

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

The Growth Shares (issued as C shares) will ordinarily vest four years from acquisition date, 1 January 2017 ("the Vesting Date"), subject to certain provisions. On the Vesting Date, the value of the Growth Shares will be determined and the Growth Shares will be converted into ordinary shares of equal value. Participants will only be able to sell their ordinary shares received on conversion on the Vesting Date, in years 4, 5 and 6 in equal amounts, i.e. these shareholders will be able to sell a third each year after the growth plan vests.

If there is an exit event prior to the Vesting Date, the value of the Growth Shares will be determined on exit and the Growth Shares will vest as follows:

- On a sale or winding up of the Company, Growth Shares would vest in full;
- On a listing, the Growth Shares would convert into ordinary shares of an equal value. One third of the resulting ordinary shares would vest upon listing; one third would vest on the earlier of the 4th anniversary of the grant date and 12 months following the listing; and one-third would vest on the earlier of the 4th anniversary of the grant date and 24 months following the listing.

The fair value of the Growth Plan was calculated to be £1.6m, which was fully paid by the participants. As a result, no expense has been recognised in the statement of comprehensive income in respect of this plan.

Deferred Bonus Share Plan ("DBSP") (previously known as Performance Share Plan ("PSP")

These plans are designed to incentivise key individuals to grow the business and build a sustained and successful future for the Group by rewarding and retaining them through a long-term incentive arrangement. Initial awards under the DBSP plan were made by the Group on 30 January 2013 and again on 12 February 2014, 25 February 2015, 26 February 2016 and 20 February 2017. Awards under the DBSP plan were made by the Group on 21 March 2018 and 4 April 2019. Awards may be made on an annual basis in future at the Company's discretion.

Awards under the DBSP are in the form of a nil cost option over a number of the Group's ordinary shares.

	Awarded	Lapsed / forfeited	Exercised	Remaining
2013 awards	3,705,000	124,444	3,505,556	75,000
2014 awards	2,493,831	25,755	2,415,096	52,980
2015 awards	2,973,153	220,315	2,632,505	120,333
2016 awards	2,770,458	199,673	2,349,779	221,006
2017 awards	2,492,636	40,943	-	2,451,693
2018 awards	2,336,578	40,869	-	2,295,709
2019 awards	2,573,389	33,962	-	2,539,427
As at 31 December 2019	**19,345,045**	**685,961**	**10,902,936**	**7,756,148**

Notes to the financial statements for the year ended 31 December 2019 (continued)

5. Share-based payments arrangements (continued)

Save As You Earn Share Plan ("SAYE")

The SAYE plan is designed to incentivise all employees to grow the business and participate in the rewards this offers. There are two types of SAYE schemes: unapproved and approved by HMRC.

Initial awards under the plan were made by PICG on 9 April 2013, 11 April 2014, 13 April 2015, 16 May 2016, 8 May 2018 and 13 May 2019. These were unapproved.

On 11 May 2017, 8 May 2018 and 13 May 2019, awards were made by PICG, which were approved by HMRC. Awards may be made on an annual basis in future at the Group's discretion.

The SAYE plan is a savings plan that allows all staff to save a fixed amount each month over a three year period. At the start of the savings period staff are also granted an option over a number of ordinary shares in the Groups at a discount of up to 20% of the market value of PICG's shares at the date of grant. The minimum and maximum amounts for a savings contract are £10 and £500 (or 10% of gross salary if lower) per month respectively. These limits apply per plan and are a monthly amount.

	Awarded	Lapsed / forfeited	Exercised	Remaining
2013 awards	780,300	103,950	676,350	-
2014 awards	502,255	103,561	398,694	-
2015 awards	336,455	36,843	284,184	15,428
2016 awards	439,738	83,721	329,060	26,957
2017 awards	571,094	52,601	-	518,493
2018 awards	447,377	36,420	-	410,957
2019 awards	542,305	20,037	-	522,268
As at 31 December 2019	**3,619,524**	**437,133**	**1,688,288**	**1,494,103**

Measurement of fair values

The fair value of the shares issued through DBSP and SAYE plans has been measured using an option pricing model. The scenarios are based around the growth in Market Consistent Embedded Value ("EV") as shown in the Group business plan which is discounted based on current market experience to estimate a valuation of PICG. The alternative scenarios from the business plan allow for variations from the base numbers which result in both increases and decreases in value arising from a range of different commercial circumstances. The fair value is based on the weighted average of the different scenario outcomes.

As PICG is not quoted on an active market, expected volatility of the share price has been estimated based on the historic risk/return ratio of the S&P 500.

5. Share-based payments arrangements (continued)

In addition to the hurdle rate and thresholds noted above, the inputs used in the measurement of the fair values at the grant date of the incentive schemes were as follows:

DBSP plans	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Initial Company Value	£3,638m	£2,932m	£2,591m	£1,979m	£1,624m	£1,290m	£625m
Number of shares over which options awarded	2,573,389	2,336,578	2,492,636	2,770,458	2,973,153	2,493,831	3,705,000
Expected volatility	28.0%	30.2%	32.00%	43.72%	28.06%	29.70%	55.80%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Risk free interest rate (based on the GBP zero coupon swap rate)	1.16%	1.18%	0.62%	0.54%	1.15%	1.40%	0.77%

SAYE plans	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**
Initial Company Value	£3,638m	£2,932m	£2,591m	£1,979m	£1,624m	£1,290m	£625m
Number of shares over which options awarded	542,305	447,377	571,094	439,738	336,455	502,255	780,300
Expected volatility	29.8%	31.7%	32.00%	43.72%	28.43%	32.08%	58.85%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Expected life	3 years	3 years	3 years	3 years	4.5 years	4.5 years	4.5 years
Risk free interest rate (based on the GBP zero coupon swap rate)	1.03%	1.18%	0.62%	0.54%	1.34%	1.71%	0.68%

Analysis of expense recognised in the Statement of comprehensive income

	2019	2018
	£000	£000
Equity settled share-based payment transactions		
Deferred Bonus Share Plan	**6,540**	6,003
Save As You Earn Plan	**429**	375
Total expense recognised for equity settled share-based payments	**6,969**	6,378

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

6. Corporation tax

	2019	2018
	£000	£000
Current taxation		
Corporation tax payable for the current year	**119**	753
Prior year adjustment	**(562)**	305
Total current tax (credit)/charge	**(443)**	1,058
Deferred taxation		
Recognition of deferred tax asset on temporary timing differences	**232**	(618)
Total deferred tax charge/(credit)	**232**	(618)
Tax (credit)/charge	**(211)**	440

The current tax charge for the year is higher *(2018:higher)* than the standard rate of corporation tax in the United Kingdom of 19% *(2018: 19%)*. The differences are explained below:

	2019	2018
	£000	£000
Reconciliation of total income to the applicable tax rate		
Profit before taxation	**62**	50
Corporation tax at 19% (2018: 19%)	**12**	9
Effects of:		
Expenses not deductible for tax purposes	**1,198**	1,290
Share-based payment deduction	**(1,091)**	(546)
Prior year (over)/under provision	**(562)**	305
Current year deferred tax movement	**232**	(618)
Corporation tax (credit)/charge	**(211)**	440

Factors that may affect future tax charges

UK corporation tax rates are 19% from 1 April 2018 (enacted 18 November 2015) and 17% from 1 April 2020 (enacted 15 September 2016). These rates will reduce the Company's future current tax charge accordingly. The deferred tax asset at 31 December 2019 has been calculated based on the rates in force at this date.

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

7. Property, plant and equipment

Property, fixtures, equipment	**2019**	2018
	£000	£000
Cost		
At beginning of year	**2,071**	2,071
Additions during the year	**1,657**	-
Disposals during the year	**(1,259)**	-
At end of year	**2,469**	2,071
Depreciation		
At beginning of year	**1,896**	1,851
Charge for the year	**180**	45
Disposals during the year	**(1,259)**	-
At end of year	**817**	1,896
Net book value		
At end of year	**1,652**	175

8. Intangible assets

Computer software	**2019**	2018
	£000	£000
Cost		
At beginning of year	**2,158**	2,158
Disposals during the year	**(1,986)**	-
At end of year	**172**	2,158
Depreciation		
At beginning of year	**2,158**	2,158
Disposals during the year	**(1,986)**	-
At end of year	**172**	2,158
Net book value		
At end of year	**-**	-

Notes to the financial statements for the year ended 31 December 2019 (continued)

9. Leases

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

Right-of-use assets

	Office buildings	Office equipment	Total
	£000	£000	£000
Balance at 1 January 2019	19,653	166	19,819
Additions	4,822	-	4,822
Depreciation charge for the year	(2,508)	(46)	(2,554)
Balance at 31 December 2019	21,967	120	22,087

The Company leases office space and office equipment to enable it to carry out its operations. The leases for the office space expire in February 2028 but include an option to terminate in July 2024. The calculations of the right of use asset and lease liability assume the leases are held until the contractual expiry date, as the Group is reasonably certain that the termination options will not be exercised.

Lease liabilities

	2019
Maturity analysis - contractual undiscounted cash flows	£000
Less than one year	2,717
One to five years	13,863
More than five years	11,738
Total undiscounted lease liabilities at 31 December 2019	28,318
Lease liabilities included in the statement of financial position at 31 December 2019	23,059

The potential liquidity risk is managed within a flexible group funding strategy on the basis of the Company's cash flow forecasts, which ensure that cash for services provided is received in time for any event that the lease payments are due.

Amounts recognised in the statement of comprehensive income

	2019
Amounts recognised in profit or loss	£000
Interest on lease liabilities	1,109
Expenses relating to low-value leases	19

Amounts recognised in the statement of cash flows

	2019
	£000
Total cash outflow for leases	(2,691)

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

10. Trade and other receivables

	2019	2018
	£000	£000
Amounts due from fellow group undertakings	**67,384**	61,360
Other debtors	**3,384**	2,867
Prepayments	**4,480**	2,536
	75,248	66,763

All amounts due from fellow group companies are due within one year. The balance includes £67,384,000 *(2018: £61,360,000)* due from Pension Insurance Corporation plc ("PIC") for services provided during the year.

£3,384,000 (2018: *£2,801,000*) of the balance included within Other debtors represents amounts owed by Company employees in relation to the personal tax settled by the Company on their behalf upon exercise of the share option awards, of which £1,074,000 relates to the directors of the Company *(2018: £748,000).*

There is no difference between the carrying value and fair value of the trade and other receivables balance.

As at 31 December 2019 and 2018, no trade and other receivables balances were impaired or overdue.

11. Deferred tax

The following table shows the deferred tax asset recognised in the statement of financial position and the related amounts recognised in the statement of comprehensive income:

	2019	2018
	£'000	£'000
At beginning of year	**3,101**	2,743
Recognition of deferred tax asset on temporary timing differences	**(372)**	358
At end of year	**2,729**	3,101

Deferred tax assets are recognised 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 arise from which the underlying temporary differences can be deducted.

There is a deferred tax asset recognised in respect of temporary timing differences on equity settled share-based payments of £2,590,000 (2018: £2,720,000), with the remaining amount in respect of timing differences on fixed assets.

The company has no other timing differences or tax losses carried forward at 31 December 2019 which may give rise to reduced tax charges in future periods (2018: £nil).

Pension Services Corporation Limited

Notes to the financial statements for the year ended 31 December 2019 (continued)

12. Tax recognised directly in equity

The following table shows the tax recognised directly in equity, which all relates to equity settled share-based payments.

	2019	2018
	£000	£000
Current tax	571	875
Deferred tax	(139)	(260)
	432	615

13. Trade and other payables

	2019	2018
	£000	£000
Amounts due to fellow group undertakings	11,611	25,724
Trade payables	1,344	1,146
Other taxes and social security	1,080	907
	14,035	27,777

14. Accruals

	2019	2018
	£000	£000
Operating expenses of the Company	67,624	52,700

15. Risk management

As a provider of services and personnel to a number of companies, both related and external to the Group, the Company's business involves the acceptance and management of risk to achieve its strategic objectives.

The principal risk factors which affect the Company's operating results and financial condition are financial risks, which include credit risk and liquidity risk, and other risks, which include staff capabilities and operational risk.

The directors have overall responsibility for the management of the exposure to these risks.

Credit risk

Credit risk is the risk of loss due to the default of another party in performing its financial obligations to the Company.

The Company's main customer is PIC, which is authorised by the Prudential Regulatory Authority ("PRA") to write long term insurance business. As a result, PIC is subject to the regulatory capital requirements set by the PRA for all member firms that set a minimum ratio by which the assets of members firms must exceed their liabilities. PIC continually monitors its compliance with the requirements so as to ensure it can meet its liabilities, including amounts due to PSC for services.

Credit risk exists on the amounts due from fellow group undertakings and other debtors balances. The maximum exposure to credit risk is represented by the carrying value of these balances and no expected credit losses are recognised at 31 December 2019 (2018: £nil).

15. Risk management (continued)

Liquidity risk

The Company incurs many of its expenses in advance of billing its customers. The potential liquidity risk is managed within a flexible group funding strategy on the basis of the Company's cash flow forecasts, which ensure that cash for services provided is received in time for payments in respect of salaries and suppliers to be settled.

Staff capabilities and retention

The Company recognises that it must continue to attract, retain and motivate the best staff with the right capabilities at all levels of the business. The Company is committed to reviewing its staff policies on a regular basis and investing in training, development, succession planning and financial incentives for staff.

Operational risk

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Company's internal control processes are supported by 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, a continuous training programme, segregation of duties and whistle-blowing policies.

The Company has significant outsourcing arrangements for the administration of payrolls and certain 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 external occurrences which may disrupt the business.

16. Share capital

The allotted, called up and fully paid share capital of the Company is:

	2019	2018
	£000	£000
Allotted, called up and fully paid		
1,000 ordinary shares of £1 each	**1**	1

17. Reserves

31 December 2019	**Capital Contribution £000**	**Other Reserves £000**	**Retained profit £000**	**Total £000**
At beginning of year	**-**	**630**	**(792)**	**(162)**
Total comprehensive income for the year				
Income for the year	-	-	**273**	**273**
Impact of adoption of IFRS 16	-	-	**1,970**	**1,970**
Transactions with owners				
Share-based payments	**6,969**	-	-	**6,969**
Recharge for share-based payments	**(6,969)**	-	-	**(6,969)**
Tax on share-based payments	-	**(139)**	**571**	**432**
At end of year	**-**	**491**	**2,022**	**2,513**

31 December 2018	Capital Contribution £000	Other Reserves £000	Retained profit £000	Total £000
At beginning of year	-	890	(1,277)	(387)
Total comprehensive income for the year				
Loss for the year	-	-	(390)	(390)
Transactions with owners				
Share-based payments	6,378	-	-	6,378
Recharge for share-based payments	(6,378)	-	-	(6,378)
Tax on share-based payments		(260)	875	615
At end of year	-	630	(792)	(162)

Capital contribution arises as a result of accounting for share-based payment transactions, for which the Company recognises an expense, and a subsequent increase in its equity as a contribution from the parent in accordance with the requirements of *IFRS 2 Share-based Payment*.

Other reserves are established to capture the deferred tax that arises from share-based payment transactions.

18. Related party transactions

Throughout the year ended 31 December 2019, the Company was part of a group headed by PICG. This is the largest group of which the Company is a member and for which group financial statements are prepared.

The directors therefore regard PICG as the ultimate parent and ultimate controlling party, and all other entities within this group to be related parties.

a) Transactions with PIC

The Company is a provider of services and personnel to PIC. The total amount invoiced to PIC for the services received during the year was £150,516,000 *(2018: £103,987,000)*. At 31 December 2019 the Company had an outstanding debt due from PIC of £67,384,000 *(2018 : £61,360,000)* in respect of the charge for services provided during the year. This amount is due within one year.

b) Transactions with PICG

During the year the Company made charges to PICG totalling £283,145 *(2018: £486,000)*. At 31 December 2019 the Company has an outstanding debt of £11,611,000 *(2018: £25,724,000)* due to PICG.

In 2018, the Company issued a loan facility to PICG totalling £20 million. Interest is payable at the rate of 3% per annum plus LIBOR on the outstanding balance and the balance is repayable by 31 December 2030. At the year-end PICG owed the Company £nil including interest *(2018: £4,499,000)*. The company received £49,000 interest income from PICG on the loan facility during the year *(2018: £27,000)*.

c) Transactions with Directors

During the year, certain share-based payment schemes operated by PICG in respect of employees of the Company have vested. Two directors of the Company were participants in these schemes and received a total of 737,224 (*2018: 602,292*) ordinary shares of PICG upon vesting in line with the scheme rules.

The amounts owed by the directors to the company in relation to personal tax settled by the company on their behalf are disclosed in Note 10.

19. Parent company and ultimate controlling party

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

The directors regard Pension Insurance Corporation Group Limited, a limited company incorporated in England, as the ultimate parent undertaking and ultimate controlling party for which group financial statements are prepared.

The consolidated financial statements of Pension Insurance Corporation Group Limited are available to the public and may be obtained from 14 Cornhill, London, EC3V 3ND.