Generating social value across the UK.

Pension Insurance Corporation Group Limited
Annual Report and Accounts 2022

From purpose to social value

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

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

Focused on our policyholders

Policyholder Day, London 2022

Read more on **p8**

Personally engaging with our policyholders

Read more on **p6**

Significant social value backing our pension payments

Supporting the West Midlands rail franchise

Read more on **p13**

Investing £83 million in the London Borough of Newham

Read more on **p13**

For more information visit
www.pensioncorporation.com

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

Highlights

Key financial highlights

Solvency II ratio

225%	168%
2022	2021

Premiums

£4,095m	£4,702m
2022	2021

Market consistent embedded value

£5,617m	£5,027m
2022	2021

IFRS profit before tax

£1,240m	£393m
2022	2021

Financial investments

£41.0bn	£51.1bn
2022	2021

Assets held to meet solvency and risk margins

£8.8bn	£9.1bn
2022	2021

Other highlights

Policyholder satisfaction

99.6%	99.6%
2022	2021

Total value of sustainable assets[1]

£10.3bn	£13.8bn
2022	2021

Employee pride in working for PIC

89%	90%
2022	2021

Gender pay gap

10.2%	18.4%
2022	2021

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

A+

Recent awards:

Our clients include:

1 "Sustainable assets" is defined on page 44.

PIC at a glance

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

Key outcomes of our purpose

Policyholders
Pensions for life; excellence in customer service

Employees
Stimulating, fair, and rewarding workplace

Key suppliers
Partnership model of engagement

Capital providers
Growing store of value expected to provide secure, long-term returns

Society
Active engagement in public debates around purposeful, long-term investment in the economy and stakeholder capitalism

Economy
Significant investments in urban regeneration, social housing, and areas that balance intergenerational equity

Environment
Increasing investments into renewable energy, with concurrent reduction in exposure to carbon-producing industries

Our culture

Our customers are our priority

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

For more information, see 'Our people and culture' section **p50**

Our values

Providing security
We are committed to managing risk and providing long-term stability and financial security for our customers. We protect customer data. Our strong, conservatively managed balance sheet and low-risk portfolio ensure resilience against difficult economic events

Embracing new ideas
We pride ourselves on doing things differently, being adaptable enough to operate successfully in any environment and match any challenge. We go beyond existing ways of thinking to come up with innovative, personalised solutions

Being a team
We know the benefit of working together as a team. We respect, value and nurture our people in terms of both their development and engagement

Striving to be the best
We provide sector-leading expertise, aiming for excellence in everything we do. We listen carefully, are not afraid to learn and challenge ourselves, and deliver a consistently high-quality offering

Doing the right thing
Our policyholders are our customers for life, which is why our strong ethos around doing the right thing is so important to us. We believe that fairness and honesty really count

Creating long-term social value

What PIC does

We provide tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes. We back the pensions of our policyholders with investments that are both secure and socially beneficial.

302,200

policyholders insured

Our investment portfolio

PIC has a diverse portfolio and primarily invests in publicly available fixed income assets, including £28.2 billion invested in government debt and corporate debt, (FY2021: £36.6 billion) to match our projected pension cash flows. PIC also invests in secure, long-term, privately-sourced debt to match pension payments at maturities in future decades, for example when public debt is not available, including in the sectors shown below.

Purposeful investments and creation of long-term social value

Pensions for our growing policyholder base are backed by a purposeful investment strategy. This strategy prioritises the management of key risks, including Environmental, Social and Governance ("ESG") risks, as integral to paying the pensions of our policyholders over the coming decades.

Investments with a lasting impact on current and future generations in areas including renewable energy, social housing, and national infrastructure are socially beneficial outcomes of our focus on our purpose. Excellence in customer service and balanced stakeholder relationships are fundamental to our approach.

For more information on our investments, please see pages **p26-33**

I have a very good impression of PIC. Your customer service is very good. You always provide complete and thorough information about our pension and where the money is invested and this information is important to know."

Suresh Saggar
PIC policyholder, 2022

Our geographic footprint

Generating social value across the UK.

PIC secures UK defined benefit pensions schemes, moving the pension promise into the security of the insurance regulatory framework, ensuring pensioners get their full benefits. The maps on these two pages give insight into PIC's social and economic impact on the UK, which is a consequence of our primary business activity.

The map below shows the value of the pension payments we make to our direct policyholders (44% of our total number of policyholders). These payments are broken down by the countries of the UK and the nine English regions.

Key
Number of policyholders 2022
Pensions paid (buyouts) 2022

Scotland
9,218
£56m

Northern Ireland
1,206
£7m

North East
4,629
£28m

North West
14,887
£104m

Yorkshire and the Humber
11,162
£63m

£1,756m

total pensions paid (buyouts and buy-ins) 2022

East Midlands
7,825
£67m

Wales
6,140
£52m

West Midlands
14,500
£95m

East of England
15,143
£116m

South West
11,633
£96m

South East
23,831
£214m

London
12,963
£100m

Pensions paid over 10 years (buyouts and buy-ins) 2013–2022[1]

East Midlands	**£574m**
East of England	**£1,343m**
London	**£1,187m**
North East	**£336m**
North West	**£1,074m**
Northern Ireland	**£71m**
Scotland	**£612m**
South East	**£2,377m**
South West	**£1,009m**
Wales	**£394m**
West Midlands	**£995m**
Yorkshire and the Humber	**£602m**

£10.6bn

total pensions paid (buyouts and buy-ins) 2013-2022[1]

1. Total paid to policyholders from 2013 onwards. Amounts paid before 2022 have been adjusted for inflation

Delivering long-term socially beneficial outcomes across the UK

Our investments secure more than the pensions of our policyholders. They're helping to support levelling up by providing social housing and renewable energy, regenerating our cities, and benefiting generations to come across the UK, with more than £9 billion invested in the English regions outside London, as well as Scotland, Wales and Northern Ireland.

These socially beneficial, privately sourced investments are presented on the map below, broken down in total by the countries of the UK and the nine English regions. We will publish detailed metrics, including relative GDP weighting, in our forthcoming thought leadership paper on our investments.

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

Funding retirement living in St Albans

Senior Living Investment Partners, a partnership between PIC and Octopus Real Estate, invested £115 million in its first retirement community investment via a joint venture with Elysian Residences.

Read more on **p32**

£11,424m

total UK direct investments

Scotland
£685m

North East
£897m

Northern Ireland
£329m

Yorkshire and the Humber
£761m

North West
£1,221m

East Midlands
£515m

Wales
£642m

West Midlands
£919m

East of England
£888m

London
£2,403m

South West
£752m

South East
£1,412m

£105 million invested in a Net Zero carbon office in central Manchester

Let to the Government Property Agency, the office will support the move of civil service roles from London to Manchester.

Read more on **p12**

Funding housing for the London Borough of Newham ("LBN")

PIC invested £83 million to fund the construction of 161 homes, as part of LBN's housing strategy, which seeks to actively manage the financial and social implications of the area's housing shortfall.

Read more on **p13**

Policyholder journey

Our policyholders, all former members of UK defined benefit pension schemes or their dependants, are central to our business.

Everything we do is designed to pay their pensions. We take on our policyholders following a buyout transaction agreed by the trustees of their pension scheme.

1

From pension scheme member...

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

What differentiates us

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

Pension insurance buy-in

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

PIC

Pension scheme

Assets & liabilities

Member

Pension insurance buyout

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

PIC

Pension scheme

Assets & liabilities

Policy holder

Member

PIC stands out positively as a business due to its strong focus on values and ability to connect with policyholders."

Investors in People Report, 2022

2

...via a transition period...

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

What differentiates us

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

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

PIC policyholder, 2022

For more information visit **www.pensioncorporation.com/policyholders/new-to-pic**

3

...to PIC policyholder

We genuinely seek to do things better for our policyholders.

What differentiates us

We hold events across the country, and online, where our policyholders can meet with, and question, senior management about the company which pays their pension.

Every event allows us to directly engage with our policyholders.

- Policyholders are invited
- A mixture of entirely complimentary online and in-person events across the UK, packed full of interesting and helpful information
- Updates from our senior leadership team
- Celebrity guest speaker and a choice of complimentary services at our Policyholder Days
- We're eager to listen and ready to answer questions

Read more about our policyholder events on **p8-9** and how and why we engage with our policyholders on **p38**

I've been with PIC for many years. They haven't let me down once. I would recommend them to anyone."

PIC policyholder, 2022

Personally engaging with our policyholders.

PIC's in-person policyholder events programme resumed in 2022. In addition to the virtual sessions held in previous years, we recommenced our lunches and whole-day events in locations across the UK. Our policyholders were once again able to reconnect with fellow policyholders and ex-colleagues in a convivial and informative setting. Highlights from the programme this year included updates from the PIC executive team, a keynote speech by Sir Steven Redgrave and some fun including complimentary massages and manicures.

50+

policyholder events held to date

25,000+

attendees

10+

locations across the UK

Before my pension transferred to PIC, I didn't have a clue about who was looking after it. The situation has completely changed since PIC became responsible. PIC keeps us well informed and is very good at explaining everything to us, including how they are safeguarding our pensions and how the investments they make support them. When you are my age, you want to be informed about these things!

My wife and I have been regular attendees of the PIC policyholder events – the 2022 London Policyholder Day was our fourth. We've always been very impressed with them and enjoy finding out what the company has been doing. It's a very enjoyable day, but importantly it's a very informative day as well. One of the best parts of the day for us is meeting people that we used to know and work with, as well as making new friends with people that were part of the same scheme. I used to run the sports and social clubs at EMI, so it is great to be able to continue the community feel during these events. We also love hearing from the guest speakers who provide helpful and inspirational stories that stay with us long after the event.

PIC is a very good company. They seem to be very sustainable in their approach to looking after our pensions and looking after the investments as well. The investments are very worthwhile, like the one in Newham where they are building 161 flats with social and affordable housing being included. There's a great need for it, so it's lovely to see that's what the investments are in and that we can actually see that there's good being done with our pension fund money to help those who desperately need it. The fact that you are helping the younger generation is fantastic because they are our future. If I were to describe PIC in three words, I would use fantastic, reliable and very helpful.

Manuel Badillo
Former member of the EMI Group Pension fund
and proud PIC policyholder since 2014

PIC is such a 'user friendly' company. I tell others how approachable everyone is, and that your documents are easy to read and understandable and your talks are informative and enjoyable. Not one bit boring!"

Jacqui Butcher
PIC policyholder, Policyholder Day 2022

I think the service at PIC is very good. It's very efficient. When I have had the need to ring customer services they've always been able to answer my queries then and there."

Clive Thomson
PIC policyholder, PIC Policyholder Day 2022

This policyholder event is excellent and shows how much you value people who have their pension with you, which I don't think is done by any other pension organisation."

PIC Policyholder Day 2022

For more information visit **www.pensioncorporation.com/policyholders/events**

Long-term client relationships in action.

In February 2023, PIC announced a c.£175 million buy-in with the trustee of the IMI 2014 Deferred Fund covering 1,378 pension fund members.

This is PIC's sixth transaction with the fund and covers the last remaining tranche of IMI pension liabilities. This transaction takes the total liabilities sponsored by IMI plc, which have been insured by PIC, to £1 billion since 2016, through a series of partial buy-in transactions. This demonstrates PIC's ability to build long-term partnerships based on high levels of customer service and adaptability.

This transaction is the culmination of our long-term de-risking journey to insure the Fund's pension obligations. We have now insured the benefits for all our members. We're delighted that we have been able to complete this final transaction with PIC, with whom we have a long-standing and successful relationship, and who were able to be flexible to meet the specific circumstances of this deal in 2022. We had confidence in PIC's ability to continue providing high-quality customer service to us and our members."

Greg Croydon
Chair of the Trustee to the Fund
February 2023

c.£1bn

liabilities insured in total

Generating social value

Providing risk transfer solutions for trustee boards creates long-term social value.

The pensions we take on through buyouts and buy-ins are backed by assets that have a lasting impact on younger and future generations.

By delivering on our purpose, our portfolio, which now stands at £41 billion, helps make the economy greener and regenerates cities, provides social housing and supports university education.

£1.8bn

invested in social housing[1]

Total UK direct investments[2]

£11.4bn

£0.3bn

invested in utilities[1]

£1.0bn

invested in renewable energy[1]

£1.5bn

invested in urban regeneration

£1.5bn

invested in the UK's education system[1]

1 Market value as at 31 December 2022.
2 Total amount invested to date.

PIC's private investments benefit a range of stakeholders, from our policyholders who are our customers for life, to younger generations and communities across the UK.

Key benefit for policyholders.
Long-term investments in property infrastructure generate low-risk, long-term cash flows that pay our policyholders' pensions.

The First Street Development is an example of how this works in practice.

In September 2022 PIC agreed to invest £105 million to forward fund a new 130,000 square foot Net Zero office, to be let to the Government Property Agency ("GPA") for 25 years. The new site, which underlines the Government's commitment to levelling up, will house approximately 2,500 civil servants, including over 700 roles which will be relocated from London to Manchester as part of the Places for Growth initiative.

The move of civil service roles to Manchester is expected by the Government to generate £31 million in economic benefits for the city, due to increased footfall and spending from staff.

For more information on our Private investments please see **p26-29**

The First Street development is part of the Government Hubs Programme which will provide a smaller, better and greener estate, which supports the Government's ambition to reach Net Zero carbon emissions by 2050."

Clive Anderson
GPA's Director of Capital Projects

Socially valuable outcomes of our investment

Purposeful investments

- The Board has oversight of PIC's investments to ensure alignment with our purpose and strategy, and to promote the long-term interests of the company and the interests of PIC's policyholders.
- Through PIC's specialist committee, the Investment and Origination Committee, investment details are reviewed and the social benefits considered.
- This investment will serve the wider Manchester community and provide security to our policyholders.

Benefits of construction

- 70% of on-site jobs sourced locally at the very start of construction.
- Younger generations are supported through collaboration with six local schools and colleges. Initiatives include careers fairs, school visits and workshops to explore the different career paths on offer within construction.

Ongoing benefits

- The First Street Manchester office will open in 2025 and will be home to at least four different Government departments. It will be one of the largest hubs for cross-Government collaboration outside London.
- Expected to generate £31 million in economic benefits for the city.

PIC invests £83 million in regeneration lease, funding housing for London Borough of Newham

In March 2022, PIC made an £83 million investment in partnership with the London Borough of Newham ("LBN"), to fund the construction of 161 homes. As part of LBN's housing strategy, which seeks to actively manage the financial and social implications of the area's housing shortfall, the investment will fund the regeneration of a brownfield, industrial site near London City Airport. The site will permanently re-home local families, with up to 50% of the properties intended to be affordable housing, generating considerable social value. Reef Group are the developers.

LBN's housing strategy will not only provide secure, good-quality housing for residents currently in temporary accommodation, but also provide LBN with a rental income which helps address their overall funding shortfall, as well as a stock of well-maintained, environmentally friendly properties for decades to come.

Closing this transaction with PIC allows us to move ahead with this key policy initiative. We are delighted to have PIC working with us on this project as they have the expertise and the focus to make the project a success over the coming decades, bringing considerable social value to the Borough."

Councillor Terence Paul
Lead Member for Finance & Corporate Services at Newham Council

Supporting the West Midlands rail franchise with £102 million of financing for new rolling stock

In October 2022, PIC announced it would provide £102 million of debt financing to support the delivery of new rolling stock to Corelink Rail Infrastructure Limited ("Corelink"), which will lease the trains to the operator of the West Midlands rail services.

The rolling stock will consist of two new electric multiple unit fleets to be built by Alstom, based in Derby, and one new diesel multiple unit fleet already built by CAF, based in Newport. The units are scheduled to enter service progressively in 2022 and 2023.

The transaction represents PIC's first rolling stock infrastructure deal. The new Corelink fleets will help the West Midlands operator to relieve overcrowding on its lines, improving services for passengers. New rail technology delivers significantly enhanced energy efficiency compared with the trains being replaced. The optimised fleet of electric and diesel-powered trains also produces significantly lower levels of noise and exhaust gas pollution, and as part of the investment, Corelink has committed to ongoing reporting on a comprehensive list of ESG criteria.

Corelink is pleased to have successfully completed the refinancing of its term loan facility. The support that PIC have provided is essential to allow Corelink to continue the delivery of rolling stock for use on the West Midlands network which ultimately translates in an improved travel experience to passengers. We look forward to continuing this long-term partnership with PIC and thank them for their support."

Giorgiana Wegener
Asset Manager Director, Infracapital, on behalf of Corelink

Chairman's statement

Long-term value growth.

I am deeply impressed by how much you can see and feel the enthusiasm for working at PIC."

Firstly, let me say how privileged I am to succeed Jon Aisbitt as Chairman of this tremendous business, and to follow in his footsteps.

Jon made an outstanding contribution at a crucial phase in PIC's growth, ensuring that our Governance Risk Management Framework and internal controls have matured at the same pace as that growth, and we all thank him for this and wish him well for the future.

As I write this in January 2023, nobody a year ago predicted the macro influences that have led to a period of extreme volatility and uncertainty in the financial markets: war in Ukraine; the abrupt end to an easy money regime managed by central banks; the delayed consequences of Brexit; and considerable political disruption.

The consequential rapid rise in inflation and nominal interest rates has driven recessionary fears and the cost-of-living crisis. Specifically, movements in real yields on gilts exacerbated market volatility during the autumn and PIC managed its asset portfolio to ensure the continuing security of policyholders, the maintenance of solvency capital ratios, and good returns for our owners. I am pleased that the combination of our inherently resilient business model, the clarity of our purpose, and our experienced and talented management team have ensured the business continues to thrive.

The results for the year ending 31 December 2022 are strong. PIC ended the year with a solvency ratio of 225% (FY2021: 168%), and adjusted operating profit of £388 million (FY2021: £533 million).

As the pension risk transfer market becomes significantly bigger with implications for our own growth, we need to continue to build the organisation without losing our very close focus on operational resilience, including maintaining the centrality of our policyholders to the business, and the quality of our customer service.

As part of this, during 2022 the Board approved an evolution of PIC's strategic objectives to:

- being a "secure and sustainable business";
- being a "responsible corporate citizen"; and
- ensuring "long-term value growth"

A key part of achieving these objectives is ensuring that we have the right people and capabilities in place. So, during the year the Board focused on executive succession with a view to further strengthening PIC's leadership team, bringing in the skills, experience, and knowledge needed for PIC to grow appropriately. Policyholders have always been central to our purpose, and the new Consumer Duty regulation crystalises some actions for the Board.

Over recent years the Board has spent considerable time engaging with the business on the Environmental, Social and Governance ("ESG") agenda, both at a corporate level and by looking at the practical implications for our portfolio as we enact our plan to become Net Zero. This strong focus on ESG has been supported by the Board's ESG Committee, which helped ensure that all other Board committees have ESG embedded into day-to-day governance.

Finally, as I have transitioned into the business, I have spent a significant amount of time talking to PIC employees. I have been deeply impressed by how much you can see and feel the enthusiasm for working at the company. Partly this is due to the real social value being created – and the link that employees can see between their roles and real world outcomes – and partly it's down to the excitement of working in a company that is growing and evolving. My impression so far is of a challenging and fulfilling workplace for our employees.

I relish the challenge of helping guide PIC's future development.

David Weymouth
Chairman

£388m

IFRS adjusted operating profit

225%

Solvency ratio

Our strategic objectives

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

Read more about our strategic objectives on **p20-21**

Chief Executive Officer's review

Focusing on our purpose.

Our long-term approach to relationships underpins a significant amount of new business."

Tracy Blackwell
CEO

In a year of significant change for the economy and particularly for defined benefit pension schemes, our focus on our purpose, which is to pay the pensions of our current and future policyholders, has stood us in good stead.

We ended the year with a robust balance sheet, very high customer satisfaction levels, and a huge market opportunity before us. Our purpose ensures that we always protect our balance sheet and prioritise risk management, as well as helping us evolve our investment strategy as we seek cash flows to match future pension payments, which stretch decades into the future. As a business with a very long-term outlook, we seek to develop ongoing relationships with our clients and investment partners, a theme which is noticeable in this year's results.

In February 2023 we announced the largest bulk annuity transaction to date, the £6.5 billion buy-in of two pension schemes sponsored by insurance company RSA. The landmark deal included very complex structuring considerations to accommodate the Schemes' existing longevity and asset swaps, paving the way for other, similar transactions. The deal ties in with our business plan, and following full implementation of the transaction PIC's solvency ratio would be in excess of 200% on a pro-forma basis, based on 30 December 2022 market conditions.

The deal was driven by the rise in gilt yields during 2022. During the first half of the year this meant that defined benefit ("DB") pension schemes were becoming better funded and closer to being able to buy out even before the Liability Driven Investment ("LDI") crisis.

However, the rapid increase in yields following the 'mini-budget', even where they fell back somewhat in the following weeks, had the overall effect of significantly reducing scheme deficits, bringing forward by several years trustees' de-risking plans. This has resulted in an exciting pipeline of new business for 2023 and beyond.

Group highlights

PIC remains ideally placed to help trustees secure their members' benefits. In terms of capital availability, we ended the year with a very strong solvency ratio of 225% (FY2021: 168%), with the increase largely driven by returns from the in-force book alongside favourable economic movements. We also remain providers of excellent customer service for policyholders, with satisfaction levels of 99.6% at year end (FY2021: 99.6%).

As a result of the strength of the balance sheet, and as part of the Company's long-term business plan, the Board proposed an inaugural dividend of 7.50 pence per ordinary share to the Group's shareholders.

Another notable effect of the rise in gilt yields this year has been a reduction in the size of our portfolio to £41.0 billion (FY2021: £51.1 billion).

However, because our assets and liabilities are designed to move in the same direction, the rise in gilt yields also reduced our insurance liabilities, which stood at £33.0 billion at year end (FY2021: £47.0 billion) and we remain well positioned to pay all our future obligations.

During the year we made pensions payments of £1,756 million (FY2021: £1,594 million), with more than £10 billion[1] in total paid to our policyholders to date.

Since our first transaction, we have been given responsibility for paying the pension benefits of almost 400,000 scheme members.

Policyholder care

One of the unique things about PIC is that we arrange events across the country for our policyholders to hear directly from us about how we are securing their pensions. We've been running these types of events since 2011, and with more than 25,000 attendees so far, they are very popular. For obvious reasons the in-person events haven't happened over the past couple of years. So it was with real pleasure that I was able to speak at our London Policyholder Day in November. Transparency and accountability in the relationship between financial institution and the customer is crucial not only to the long-term resilience and profitability of the institution itself, but if replicated across financial services, to the wellbeing of the economy and society more generally.

Purposeful investments

Our long-term approach to relationships underpins a significant amount of new business, as well as the sourcing of privately-sourced debt investments. During the year we completed new business volumes of £4.1 billion (FY2021: £4.7 billion), with one of the most significant transactions being the completion of our third buy-in with the British American Tobacco ("BAT") Pension Fund, insuring approximately £250 million of liabilities.

Since 2019, when we agreed innovative future terms during the initial £3.4 billion buy-in, we have now insured all £4.1 billion of BAT pension liabilities. In total, we have now completed 75 repeat transactions with trustee clients, covering £15 billion of liabilities and the benefits of over 90,000 scheme members.

On the asset side, we have to date invested £11.4 billion in UK direct investments, including a fourth investment of £40 million in secured debt issued by *mhs homes*, a social housing provider based in Kent, taking the total invested in them to £130 million since 2016. This long-term partnership has supported the development of well over 1,000 properties in the county. In 2022 over 20% of our privately-sourced debt investments were to our existing partners. See page 31 for more detail.

During the year we initiated several projects, including an investment of £130 million as cornerstone investors in the UK's largest urban regeneration project, in the Wirral, and a £102 million investment to finance new rolling stock for the West Midlands Rail Franchise. We also started work on our first retirement village, the initial development in our joint venture with Octopus Real Estate. I'm proud that PIC is helping solve the UK's housing crisis through the funding of accommodation for people across the demographic spectrum. See pages 32 and 33 for more detail.

Social value

The scale of our investments mean that we are increasingly being recognised for our growing impact across the country, and the social value these investments generate. This is also important for our employees, with 84% of them seeing the positive impact of their work on society. 89% of employees are proud to work for PIC (FY2021: 90%).

The quality of our people is of the utmost importance to us, not least in light of the considerable market growth we expect over the coming years. So, we were very pleased to be awarded 'Investors in People – Silver' during 2022, a year in which we brought on board a new Chairman, a new Chief Operations Officer, a new Chief People Officer, and 156 new employees. We also continued our focus on our talent pipeline and it's pleasing that almost 5% of our employees are now part of our early careers programmes, including our graduates, apprentices and interns.

Finally, I'm delighted that we donated £1.5 million to our charity partner, Independent Age, to help them support older people struggling during the cost-of-living crisis. See page 53 for more details.

Outlook

I'm very confident about the outlook for the business. With a low-risk portfolio, PIC is a countercyclical business that is in a strong position to help trustees move their members' benefits to the protection of the insurance regulatory framework. The expected flows of assets and liabilities out of defined benefit ("DB") pension schemes and into companies like PIC over coming years will change the face of the country.

Tracy Blackwell
Chief Executive Officer

£1,756m
Pensions paid

£41.0bn
Overall portfolio size

99.6%
Policyholder satisfaction

1 Total paid to policyholders from 2013 onwards. Amounts paid before 2022 have been adjusted for inflation.

Business model

Delivering value for our stakeholders.

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

How we create value

Operate the business

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

Originate and manage investments

Liabilities are taken on from **defined benefit pension scheme trustees and sponsors**. PIC liaises with trustees, understands the scheme, and determines a price to take on the scheme liabilities. We receive a premium for taking on the liabilities. We hedge the longevity, interest rate and inflation variability to establish more certain outgoings, which we then match with purposeful public and privately sourced assets, funded by the premium paid.

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

Take on liabilities

Transition liabilities and assets

Manage and pay policyholder pensions

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

We strive to pay accurately and on time and provide the highest levels of customer service.

Raise and manage capital

Capital is raised from **equity and debt investors**. Having paid our policyholder commitments, surplus capital is released back to the capital providers, or is reinvested. We seek to provide attractive risk-adjusted returns while retaining a healthy buffer in excess of regulatory requirements

Manage third party relationships

Through our Third Party Management and partnership model, we maintain strong relationships with our **key suppliers**.

We seek to maintain open and constructive relationships with **regulators and policymakers**.

Read more about our strategic objectives on **p20-21**

For more information visit
www.pensioncorporation.com/investors

Our stakeholders	...the value delivered
Policyholders	We secure our policyholders' pensions through purposeful investments and comprehensive risk management. We strive to pay pensions accurately and on time, delivering excellent customer service, reflected in policyholder satisfaction level of 99.6%.
Defined benefit pension scheme trustees and sponsors	We take an innovative and flexible approach to pension risk transfer transactions with trustees, sponsors and their advisers to provide tailored solutions that meet the transaction's needs.
Society	In pursuit of our purpose, we are a significant investor in the economy. We create social value and provide investment in urban regeneration, social housing and renewable energy for the benefit of generations to come, balancing intergenerational equity. What makes sense for society helps PIC achieve its long-term aims. Climate change considerations are increasingly integrated throughout the organisation's decision-making processes. See pages 26-33 for more information on our investments that provide value for society.
Regulators and policymakers	We seek to maintain open and constructive relationships with regulators and policymakers, and ensure that we have a secure and sustainable business.
Counterparties and investment partners	We have a partnership model of engagement with our outsourced providers and key suppliers, establishing long-term partnerships, working together on key topics such as climate change risk.
Employees	We provide the opportunity for our employees to work in a stimulating, fair and rewarding workplace. We strive to create a diverse and collaborative workforce focused on our purpose, where 89% of employees are proud to work at PIC.
Capital providers (debt and equity)	Returns for our capital providers are generated over the long term. As policyholder liabilities (and the prudent margins held above them) run off, excess capital emerges. At FY2022, we held £8.8 billion of excess assets to cover solvency and prudent margins that will generate future cash flows which can be returned to capital providers or reinvested in the business to fund future growth.

For more on outcomes for our stakeholders, please see the Stakeholder engagement section on **p38-39** and see the Section 172 statement on **p40-43**

What differentiates PIC?

Customer service
Central to our culture is our focus on customer service. We value all our stakeholders and work hard to provide an exceptional service to all our customers (policyholders, trustees and sponsors). We listen to and are responsive to their situation and needs.

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

Reputation
PIC prides itself on its reputation. Our reputation means that our policyholders, clients, employees and partners, current and future, can be sure that they will be dealing with a company grounded in strong values, delivering value for its stakeholders.

Our Strategic objectives

Fulfilling our purpose.

Our strategic objectives are designed to guide the business to fulfil our purpose, which is to pay the pensions of our current and future policyholders. This means we prioritise excellent customer service, underpinned by a strong balance sheet, long-term value creation, and a purposeful investment strategy.

Strategic objectives that reflect our ambitions in fulfilling our purpose
During 2022, we reviewed our strategic objectives to ensure that they reflected our culture and values as we seek to fulfil our purpose. Subsequently, the Board approved an evolution of PIC's strategic objectives from "financial strength and cost efficiency"; "returns", "reputation and conduct"; and "growth and focus" to "secure and sustainable business"; being a "responsible corporate citizen"; and ensuring "long-term value growth".

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

In pursuit of these strategic objectives, PIC follows a three-pillar approach to our strategic risk management aims of "providing sufficient financial resources"; "effective and resilient operations"; and "meeting external expectations". More information on these strategic aims can be found in our risk management section, pages 64-71.

We use key performance indicators ("KPIs") to measure our progress in pursuit of our strategic objectives. We keep our KPIs under constant review to ensure they remain relevant and informative. Our current KPIs are set out on pages 22-23.

Secure and sustainable business

Optimise internal and external resources.
PIC provides long-term security for our policyholders by being a sustainable business for the duration of our commitments to our policyholders. This means being efficient in what we do, and conducting business in line with our risk appetites. We put the returns that we earn back into the business, investing in line with our purpose in long-term sustainable assets, allowing us to support generations of future policyholders.

Responsible corporate citizen

Ensure our behaviours reflect our values.
At PIC, we want to do the right thing in the right way. By acting in line with our values in pursuit of our purpose, we behave as a responsible corporate citizen. This goes beyond the actual payment of pensions, but further to ensure that our policyholders receive the highest levels of service, clear communications, and helpful engagement from PIC. We also consider the impacts of our activities on society, considering all aspects of Environment, Social and Governance ("ESG").

Long-term value growth

Generate attractive returns over the lifetime of the business.
PIC's purpose is to pay the pensions of our current and future policyholders, which means investing for the long term. We do this by investing in purposeful assets, providing attractive risk-adjusted returns over the long-term.

Performance in 2022

- Maintained a robust solvency ratio throughout the year, with surplus funds of £4.0 billion in excess of solvency capital requirements
- £8.8 billion of assets held in excess of best estimate liabilities.
- In May 2022, Fitch affirmed PIC's Insurer Financial Strength rating at 'A+' (Strong) and PIC's long-term Issuer Default Rating at 'A', both with a 'Stable' outlook.

Our focus in 2023

- Continuing to originate and broaden our range of purposeful assets that add social value while generating attractive returns
- Continuing to review the changing Solvency II regulations and how these may be applied to PIC's business model and capital allocation and management.

Risks and opportunities

See pages 66-71 for our key risks and how we manage these.

Development of long-term partnerships to originate purposeful assets, securing the pensions of policyholders for years to come.

Preparing the business in anticipation of the implementation of the reforms to the Solvency II regulatory regime.

Link to stakeholders

Regulators

Trustees

Counterparties

Performance in 2022

- Continued to provide excellent customer service to our policyholders. 99.6% of our policyholders expressed overall satisfaction with our service levels.
- As well as holding the Institute of Customer Service's ServiceMark with Distinction, PIC achieved the "Investors in People Silver Standard".
- c.£1.7 million donated to charity on behalf of PIC and its employees.
- The Board signed off PIC's Sustainability Strategy

Our focus in 2023

- Continue to engage with our policyholders through a 2023 events programme to be held throughout the UK and virtually; see the Policyholder Day case study on page 8.
- Develop our partnerships with Women in Banking and Finance and Red Start Educate.
- Formally incorporate the FCA's new Consumer Duty regulation as it applies to our policyholders.

Risks and opportunities

See pages 66-71 for our key risks and how we manage these.

Increase social value by investing in line with our purpose, in retirement villages, regeneration leases and other built environment initiatives.

Progress our sustainability strategy which looks at ESG matters as they relate to all our stakeholders.

Link to stakeholders

Policyholders

Regulators

Trustees

Performance in 2022

- Maintained disciplined pricing, consistent with long-term Internal Rate of Return targets.
- Completed £4.1 billion of new business premiums over 2022, meaning we have now secured the benefits of 302,200 policyholders.
- Managed our in-force portfolio and experienced limited downgrades within the portfolio during the year. We have also had no defaults in the portfolio.

Our focus in 2023

- Continuing to grow the business by supporting trustees through buy-ins and buyouts, with a very healthy pipeline of potential new business.
- Strategically allocating capital where we can generate attractive returns.
- Paying an inaugural dividend to our shareholders.

Risks and opportunities

See pages 66-71 for our key risks and how we manage these.

Strong pipeline of new business, largely driven by market conditions over 2022 resulting in more schemes in an improved funding position, prompting sponsors to consider de-risking sooner rather than later.

Continuing to transact with previous clients as they are assured of the service that we provide.

Link to stakeholders

Capital providers

Employees

Key performance indicators

Measuring our success.

① PIC Solvency II ratio[1] (%)

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

Performance
PIC's solvency ratio has improved to 225% (2021: 168%) primarily due to favourable market movements and returns from the in-force book. Our capital position has improved despite turbulent market conditions and continues to represent security for our policyholders whilst positioning us well to take advantage of the opportunities presented in the pension risk transfer ("PRT") market in the coming year.

② Adjusted equity own funds ("AEOF") (£m)

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

Performance
AEOF was broadly stable at £5,852 million (2021: £5,888 million) as the benefits of writing new business and returns from the in-force book were largely offset by market movements. As we hedge interest rate risk on the overall solvency balance sheet and AEOF does not include the risk margin or Solvency Capital Requirement, it is impacted differently by interest rate movements as a result.

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

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

Performance
AOPBT has decreased to £388 million (2021: £533 million). Underlying profits improved in the year mainly driven by higher returns on surplus assets and writing new business. This was more than offset by favourable assumption changes which increased AOPBT in 2021 but which were not repeated in 2022.

④ Return on equity[2,3] (%)

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

Performance
Return on equity improved to 21.7% (2021: 7.3%) due to higher profit after tax in the year. This was driven by higher new business profit and returns on surplus assets, as well as favourable investment related variances, partly offset by favourable assumption changes which increased profit after tax in 2021 but which were not repeated in 2022.

1 Unaudited
2 We will be refreshing our IFRS-based KPIs next year to reflect the introduction of IFRS 17. Our 2022 KPIs are published on the existing IFRS 4 basis.
3 Alternative performance metrics ("APMs") are discussed in more detail in the Chief Financial Officer's review on pages 56-63.

5 Market consistent embedded value ("MCEV")[1] (£m)

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

Performance
MCEV increased to £5,617 million (2021: £5,027 million) primarily driven by the benefit of writing new business, returns from the in-force book and favourable market movements.

6 Expense ratio[2,3] (%)

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

Performance
The ratio increased to 0.60% (2021: 0.39%). The majority of this increase was driven by a 20% reduction in asset values because of higher interest rates, alongside higher expenses to support growth.

7 Policyholder satisfaction (%)

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

Performance
We are pleased that our score remains high which evidences the excellent quality of service we are delivering to our policyholders.

8 Customer focus (%)

Employees are asked, as part of an annual employee engagement survey, whether they believe PIC is "always seeking to understand and meet customer needs".
We began measuring this KPI from 2019.

Performance
These figures show the percentage of employees who believe PIC is customer focused. This demonstrates that as we continue to build the organisation, policyholders remain central to our business. See pages 36-37 for more details.

Origination market

We are known for our strong relationships with our trustee clients."

Jay Shah
Chief Origination Officer

PIC had a good year transacting new pension insurance business, with £4.1 billion of new business completed, including five repeat transactions with existing clients, representing c.£700 million of liabilities.

I think it's fair to describe 2022 as a huge year for defined benefit ("DB") pension schemes. From the outside, the major story of the year would, of course, be the severe market dislocation caused by DB schemes' use of Liability Driven Investment strategies ("LDIs"). LDIs have been a way for underfunded pension schemes to better manage their assets to help them achieve higher levels of funding, whilst protecting themselves against the risk of declines in asset value relative to their liabilities.

But this is only part of the story, even though the psychological impact of being in the eye of the storm will encourage more trustees to seek to buy out their schemes over time. In fact, gilt yields were rising during the whole year, effectively unwinding a decade's worth of falling and depressed yields in less than 12 months.

The effect of historically low gilt yields was persistently underfunded DB schemes, which forced them to rely on their sponsors for additional funding to fill their deficits. The rise in yields has had a momentous effect on funding – at year end 2022, DB schemes were on average c.20%[4] better funded than they were at the start of 2022 with aggregate funding levels approaching 90%[2] of buyout. Many schemes are much better funded than this, with a number funded above buyout levels.

In fact, it is estimated that about 20%[2] of schemes can now afford to complete a pension insurance buyout without recourse to additional funding from the sponsor. This is at least double the number[2] at the end of 2021. This lays the foundation for what is expected to be a significant increase in the size of the pension risk transfer market over the coming years, with up to 250,000[3] pension scheme members expected to become policyholders of life insurance companies over the next 12 months alone.

But this rise should not be surprising if you consider that DB scheme liabilities fell by about £1 trillion during 2022 – they now stand at c.£1.4 trillion, compared with c.£2.4 trillion at the end of 2021[2]. This change has a couple of impacts on the life insurance sector. The first is that each transaction in the pension risk transfer market will, on a like-for-like basis, appear smaller. So, if the liabilities for a scheme at the end of 2021 was £1 billion, for the same scheme it might be about £600 – £700 million at the end of 2022. But we expect this will be more than compensated by the larger number of pension schemes that can afford to buyout.

Market trends

Total defined benefit pension liabilities insured through buyouts and buy-ins since 2008[3]

£233bn

2021: £205bn

Assets held within UK defined benefit pension schemes[1]

£1.4tn

2021: £1.7tn

Decline in defined benefit pension scheme liabilities during 2022[2]

c.42%

1 PPF 7800 index, December 2022.
2 LCP data, January 2023.
3 PIC estimate
4 XPS DB:UK Tracker, February 2023.

Over the last 15 years, insurance capacity has always met or exceeded pension scheme demand, meaning that trustees could come to the market more or less whenever they wanted to. This dynamic is likely to reverse over the next three years and the challenge for insurers is to scale up capacity, something we are confident the industry is capable of doing, whilst the challenge for trustees is to ensure that they are properly prepared for a transaction.

One of the continuing themes within the market has been repeat transactions as a result of ongoing relationships between trustees and insurance companies. One of our transactions during the year was a buy-in covering the final tranche of £250 million of liabilities within the British American Tobacco Pension Fund. At the time of the original buy in, covering £3.4 billion of liabilities in May 2019, the trustees planned ahead and pre-agreed terms for future transactions, allowing attractive pricing in difficult market conditions. This deal was followed by a second £400 million buy-in in July 2021, also covered by the innovative terms. PIC has now insured all £4.1 billion of fund liabilities, covering the pensions of over 10,000 members.

PIC is well known within the industry for having strong relationships with our trustee clients, and a result of this approach has been 75 deals done with existing clients. This represents about 30% of our total number of transactions, with over 90,000 members and about £15 billion of liabilities.

The other theme of note in the pension risk transfer market has been the continued focus on Environmental, Social and Governance ("ESG") factors by trustees. This has moved beyond a singular focus on environmental factors to include the creation of social value through a purposeful investment strategy. We have had particular interest from trustees about our regional presence, including the creation of jobs on our development sites, as we document throughout this report.

I look forward to a busy, productive period in the pension risk transfer market.

Jay Shah
Chief Origination Officer

PIC completes c.£600 million buyout of House of Fraser Beatties & Jenners Pension Scheme

In June 2022, PIC concluded a pension insurance buyout with the Trustee of the House of Fraser Beatties & Jenners Pension Scheme (the "Scheme"), insuring c.£600 million of liabilities. The transaction covers 3,850 deferred members and 5,050 pensioners.

The Scheme's principal employer, House of Fraser (Stores) Limited, went into administration on 10 August 2018. The Scheme entered Pension Protection Fund ("PPF") assessment on 31 August 2018 following the voluntary liquidation of the remaining employer.

Since then, the Trustee completed thorough preparatory work and evaluated the options available to secure member benefits over the long term. Following this process, the Trustee was satisfied that insuring the benefits with PIC was the best outcome for the Scheme's members.

In addition, the terms negotiated by the Trustee mean members whose pensions have been reduced as a result of the insolvency are expected to get an uplift to their pension.

We are pleased to have been able to secure this buyout with PIC, which means members will receive higher benefits than they would have under the PPF. The buyout will also provide thousands of members with certainty and long-term security for their benefits. We see this as a very successful outcome following the challenges caused by the insolvency, and would like to thank PIC and our advisers who helped us achieve this result."

Steve Sargent
Chairman of the Scheme

Investments

We have had a strong year in developing our investment capabilities.""

Rob Groves
Chief Investment Officer

Our purposeful investment strategy is designed to do one thing: provide secure, long-term cash flows to allow us to pay the pensions of our policyholders over the coming decades. It is a source of pride to me and the whole team that we are able to generate considerable social value as we back our policyholders' pensions.

The main story of 2022 is the reassertion of reality into markets that have been distorted by monetary policy over recent years. Gilt yields have risen through the year, and after the mini-budget rose to levels not seen since the Global Financial Crisis. Although they subsequently declined, the net effect is the substantial unwinding of 15 years of monetary policy. We've also seen inflation come roaring back, and a widening of credit spreads and volatile asset values.

We started the year confident in the portfolio due to deliberate defensive positioning of our portfolio, designed to ensure that our assets are positioned to withstand potential economic headwinds. Due to this positioning, we saw limited downgrades within the portfolio during the year. We have also had no defaults in the portfolio. By contrast, the return of risk to the markets means we saw more opportunities to invest on a risk adjusted basis in secure, high-quality assets than we have seen since the pandemic, and these opportunities have supported pricing for new pension risk transfer business.

As the business continues to grow, we have been further evolving the operational capabilities of the investment team, building on the strong foundations that we have laid over the past decade and more. Our existing operational capabilities stood us in very good stead during last autumn's LDI crisis. Whilst we don't invest in the LDI funds which were at the heart of the crisis – which were very much a product used by defined benefit ("DB") schemes – we do use derivatives to help us more closely match our assets to our future pension cash flows, including removing foreign exchange risk where we have invested outside the UK, and for inflation proofing the portfolio. These investments meant that during the crisis we were required to post more collateral, but we were able to manage these operational challenges well and, indeed our portfolio performed resiliently.

Overall portfolio size

£41.0bn

2021: £51.1bn

Total value of sustainable assets

£10.3bn

2021: £13.8bn

Amount invested in the UK's education sector to date

>£3.0bn

2021: £2.9bn

Our evolving capabilities were focused on two main areas during the year. We completed the in-sourcing of our UK listed credit portfolio, which is now managed by our own team, reflecting our increased capabilities and scale. We have also continued to develop our ability to directly source secure long-term cash flows through investment in the built environment and infrastructure sectors, what are loosely termed productive assets. Our debt origination team has continued to perform well, including through the development of long-term relationships with borrowers such as long-standing partner *mhs homes*, and we have also increased our capabilities in the growing Build-to-Rent and regeneration lease sectors. We are now significant players in these sectors from a standing start three years ago. There is more detail on our productive asset investments on page 31.

Financial investments

At a portfolio level, rising gilt yields have two main impacts for a specialist insurer like PIC, or a DB pension scheme, which have large holdings of gilts. The main one is that the value of our future pension liabilities measured today is reduced, because we expect to earn a higher rate of return on our bond investments. Second, the value of our investments also falls. The difference between specialist insurers and DB schemes is that because insurers closely match assets and liabilities, assets and liabilities broadly move in tandem. So whilst our portfolio of financial investments was £41.0 billion (FY2021: £51.1 billion) at year end, our insurance liabilities declined to £33.0 billion (FY2021: £47.0 billion).

The majority of our portfolio is invested in investment grade corporate debt and UK government bonds. 91% of the portfolio was rated investment grade (FY2021: 94%).

As noted above, we have an extremely limited exposure to consumer cyclical industries, and 50.1% (FY2021: 49.3%) of the portfolio was invested in financial, utilities and non-cyclical consumer industries. In our view, these sectors are better placed to cope in an economic downturn as we seek to protect value and the cash flows which pay our policyholders' pensions. However, it is important to note that, as long-term buy and hold investors, we invest with the whole economic cycle in mind. This means that over a time horizon of decades we expect to see several recessions, so we are very focused on risk management within the portfolio. It also means that we need the courage of our convictions through the tough economic environments we expect over that time period. No single counterparty, other than the UK Government, represented more than 3.0% of the portfolio (FY2021: 1.5%).

Environmental, Social and Governance ("ESG") investment factors remain a key focus for the investment team as we source new investments and manage existing holdings. We have continued to map the carbon footprint of the portfolio and we published our first Task Force on Climate-related Financial Disclosures ("TCFD") report during the year. However, it is in our built environment that we have made considerable progress, for example with our investment in new, electric rolling stock, and the development of a new industry-leading ESG framework for our Built Environment sector investments, such as the First Street development in Manchester (see case study on page 12).

Overall, we have had a strong year in developing our investment capabilities and in the investments that we have made, and I look forward to 2023.

Rob Groves
Chief Investment Officer

Investments continued

Corporate securities and private investments split by industry sector

Sector	Market value 2022 (£m)	Market value 2021 (£m)	2022 %	2021 %
Financial	**5,558**	7,039	**25.6**	25.5
Utilities	**2,947**	3,669	**13.6**	13.3
Consumer, non-cyclical	**2,326**	2,899	**10.8**	10.5
Communications	**1,922**	2,567	**8.9**	9.3
Energy	**423**	534	**2.0**	1.9
Consumer, cyclical	**884**	727	**4.1**	2.6
Industrial	**693**	817	**3.2**	3.0
Basic materials	**343**	500	**1.6**	1.8
Technology	**1,207**	1,547	**5.6**	5.6
Diversified	**43**	60	**0.2**	0.2
Quasi-Government	**32**	127	**0.1**	0.5
Other	**5,250**	7,162	**24.3**	25.8
Total	**21,628**	27,648	**100**	100

Financial investments by asset class (31 December 2022)

£41.0bn

Debt securities – Government	**32.0%**
Debt securities – Corporate	**36.9%**
Debt securities – Private investments	**16.0%**
Equity release mortgages	**2.5%**
Mortgage backed and other asset backed securities	**0.6%**
Participation in investment schemes	**9.8%**
Deposits with credit institutions	**2.2%**

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

Country	Market value 2022 (£m)	Market value 2021 (£m)	2022 %	2021 %
UK	**9,794**	14,058	**45.3**	50.9
US	**6,666**	8,013	**30.8**	29.0
Europe (ex UK)	**3,500**	3,797	**16.2**	13.7
Rest of world	**1,668**	1,780	**7.7**	6.4
Total	**21,628**	27,648	**100**	100

Corporate securities and private investments by rating

£21.6bn

AAA	**6%**
AA	**15%**
A	**37%**
BBB	**40%**
BB or below	**1%**
Unrated	**1%**

Corporate securities and private investments split by currency

Currency	Market value 2022 (£m)	Market value 2021 (£m)	2022 %	2021 %
GBP (£)	**12,621**	17,270	**58.4**	62.5
USD ($)	**8,155**	9,400	**37.7**	34.0
EUR (€)	**801**	923	**3.7**	3.3
CHF	**51**	55	**0.2**	0.2
Total	**21,628**	27,648	**100**	100

The socially beneficial power of pensions

Collaboration with, and support of some of the communities in the greatest need, forms an essential part of work across all our developments. For a second year we supported Lifeshare's Christmas Project in Manchester. Lifeshare offers homeless people and those in crisis a place to find hot meals, companionship, medical and *personal care, shower facilities, veterinary care, and other* amenities with the aim to reduce isolation and bring people together.

The whole team behind our New Victoria Build-to-Rent development in Manchester, which topped out in July this year, donated use of the location, as well as volunteers and supplies to Lifeshare, to make sure the homeless community in Manchester had somewhere to go during the Christmas period. A financial donation from the team of £14,000 also meant that Lifeshare was able to extend its weekend breakfast provision well into the New Year.

Helping to make this Lifeshare Christmas Project happen at the New Victoria Build-to-Rent development were VINCI Building, Muse, PIC, Chroma, Walker Sime, HAALO, WSP and John Sisk.

In the Midlands, Court Collaboration and PIC are building One Eastside, a ground breaking Build-to-Rent project in the heart of Birmingham which will be the region's first official residential skyscraper at 51 storeys. Over 300 new jobs involved during the construction will be created and Court are committed to sourcing these roles from a diverse range of local residents. They're also working with Birmingham City University to launch the Spire Academy, which will provide work experience, paid internships and jobs on this scheme and others.

Court led the way in the Food SOS campaign in conjunction with the Birmingham Mail and raised more corporate donations through its supply chain than any corporate organisation to date, which Graham Browne, Editor of the Mail called: "A true example of business coming together to help feed our citizens in times of hardship".

Breakdown of private investments by sector in 2022

£2.05bn

Social Housing	**23%**
Financials	**18%**
US PP	**16%**
Regeneration Leases	**10%**
Commercial Property	**9%**
Education	**7%**
Transport	**5%**
Build-to-Rent	**5%**
Other	**3%**
Government Guaranteed	**2%**
Utilities	**1%**
Not for Profit	**1%**

Investments: Built environment assets

PIC is investing for the long term, backing the pensions of our policyholders with debt and equity investments that generate considerable social value. Our built environment assets are in sectors including Build-to-Rent, Long Income, Social Housing and University Accommodation, and Senior Living. In total we have invested £1.47 billion in these types of assets. More details on how PIC invests in these assets can be found in the table below.

Spread of PIC commitment across all asset types

£1.47bn

Social housing and university accommodation	**30%**
Build-to-Rent	**40%**
Long income	**22%**
Senior living	**8%**

	Deal type/sector			
	Build-to-Rent	**Long income**	**Social housing and university accommodation**	**Infrastructure**
Structure	PIC acquires the land and forward funds the development of the residential units with a view to owning and operating the asset over the long term.	PIC acquires the land and funds the development. On completion, the local authority/government body enters into an index-linked lease of up to 50 years.	PIC provides debt funding for highly rated counterparties to allow them to progress developments and retrofitting of existing units.	PIC provides debt funding for highly rated counterparties to allow them to initiate projects.
Examples	Institutional investment in this sector will be beneficial for renters as they see the professionalisation of building management. For example with the Manchester New Victoria development. See case study on page 32.	The funding PIC provides can unlock wider urban regeneration projects, such as in the Wirral. Our long-term focus means that we expect very high building and environmental standards.	PIC is able to offer deferred drawdown to counterparties, saving interest payments. For example, in investments like those in *mhs homes* and the University of York. See case studies on page 33.	PIC's investments are helping organisations such as the West Midlands rail service reduce their carbon output, and increase their focus on ESG issues.
Responsible for building maintenance	PIC	Local authority	Housing Association and student accommodation operator	The owner of the project or assets

Over

1,100

jobs created across the portfolio with more than 54% on average being local labour

Over

49

apprentices/trainees supported to date

2,432

apartments under construction and 12,000m² office space under construction

A significant percentage of the portfolio is invested in what is known as productive assets, such as urban regeneration, renewable energy, and the UK's universities.

PIC has a purposeful investment strategy, which is designed to provide the cash flows to allow the company to pay our policyholders' pensions for decades to come.

A significant percentage of the portfolio is invested in what is known as productive assets, such as urban regeneration, renewable energy, and the UK's universities.

These types of investments have the advantage of providing us with stable and secure cash flows to match specific liability payments at maturities decades into the future, when publicly listed debt is not available. Under the insurance regulatory framework, Solvency II, we are obliged to cash flow match all our future projected pension payments by the month, so sourcing these types of cash flows is crucial to us fulfilling our purpose.

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

Our £200 million Build-to-Rent project in the centre of Birmingham, announced in November, will create over 300 new jobs. We also have plans with the developer, Court Collaboration, to create a student academy, which is intended to allow hundreds of local students to develop their skills and knowledge with the aim of improving their future employment prospects. The programme will include work placements and on-site course opportunities and experience.

We evolve the composition of the portfolio and new sectors for this year include the development of a retirement community in St Albans in a joint venture with Octopus Real Estates and Elysian Residences, as well a £102 million investment in new rolling stock to support the West Midlands rail franchise.

As in previous years, we have worked in partnership with our existing counterparties, such as *mhs homes*, a social housing provider based in Kent. In October we announced a fourth investment, of £40 million, in its secured debt, taking our total investment to £130 million as part of our long-term partnership to address the housing crisis. The partnership is funding the development of well in excess of 1,000 homes in the area, helping alleviate the housing crisis.

We also continue to be flexible and innovative in helping our counterparties address their needs. For example, in October, we invested £50 million in debt issued by the University of Bath. The funds are refinancing an existing loan, but this allows the university to focus on the quality of education provision, develop their world-leading research, and continue to improve the student experience. PIC was chosen as the university's preferred partner for the transaction based on our ability to provide a 50-year maturity. We have a growing reputation to be able to meet borrowers' needs, including long tenors, deferred drawdowns, and lending in multiple currencies.

During the year, we sourced £362 million of Equity Release Mortgages ("ERMs"), which are another good match for our long-term liabilities, and help diversify the portfolio. At year end we had invested £1.0 billion (FY2021: £1.1 billion) in ERMs.

We made privately sourced debt investments of £2.1 billion in the year. This included sectors such as higher education, with £150 million invested in the period, and social housing, with around £470 million invested in the period. In total, we have invested £3.6 billion in social housing and more than £3.0 billion in the UK's education sector.

We also invested more than £300 million in Build-to-Rent, and more than £300 million in long income in the year, and now have £1.47 billion in total invested in projects like these which help regenerate our cities.

At 31 December 2022, £10.3 billion (FY2021: £13.8 billion), is now invested in sustainable assets.

Investments: case studies

PIC and Octopus Real Estate to build £115 million retirement community in St Albans

In November 2022, Senior Living Investment Partners, a partnership between PIC and specialist real estate lender and investor Octopus Real Estate ("Octopus") announced its first retirement community investment via a joint venture with Elysian Residences. The joint venture has acquired a nine-acre site with planning consent to develop 124 residences in an Integrated Retirement Community ("IRC") in How Wood, in St Albans, Hertfordshire.

Senior Living Investment Partners aims to house up to 2,000 people in the coming years across ten IRC developments. The communities developed will have strong ESG credentials, targeting a BREEAM "Excellent" rating and delivering apprenticeship opportunities to local young people.

IRC developments ease pressure on the NHS through the provision of on-site care facilities and wellbeing amenities, which promote a healthy lifestyle for older residents. It is estimated that each person in a later living development saves the NHS and social services c.£3,500 per year.

New Victoria, Manchester

As developments such as PIC's first Build-to-Rent scheme – New Victoria in Manchester – approach completion, it's becoming clearer how Build-to-Rent will become an integral part of UK housing delivery and economic growth.

During the first year of construction, the award-winning development, which is helping regenerate a key part of the city centre, injected £50 million into Greater Manchester's economy through local employment and the sourcing of materials by our development partners.

Once complete, New Victoria will comprise 520 new residential apartments and over 7,000 square feet of amenity space.

520

new residential apartments

7,000

square feet of amenity space

Developing more retirement communities at pace presents a brilliant opportunity for investors, operator partners, those approaching or in retirement, and for the UK and the Government's Levelling Up agenda. This first investment via our partnership with PIC has the prospect to deliver both strong returns for our stakeholders and strong impact returns by combatting some of the UK's biggest problems, not least the housing crisis and pressures on health services."

Kevin Beirne
Head of Retirement Living,
Octopus Real Estate

We are delighted to be working with PIC and Octopus Real Estate to provide a much needed integrated retirement community in St Albans. PIC is at the forefront of driving change, embracing new ideas and identifying innovative solutions in the pensions industry...we see our partnership putting customers front and centre, continuing to innovate for the benefit of both customers and society, and working hard to serve all key stakeholders, including the local community."

Gavin Stein
CEO of Elysian

PIC increases investment in *mhs homes*, taking total to £130 million as part of our long-term partnership to address housing crisis

In October 2022, PIC made its fourth investment of £40 million, in secured debt issued by Kent-based social housing provider *mhs homes*.

PIC's first debt investment in *mhs homes* was a £40 million transaction to provide over 400 new properties, signed in 2016, with a further two transactions totalling £50 million in 2017 and 2021.

mhs homes provides and manages over 9,500 homes in the Thames Estuary with the majority being general needs, and houses over 25,000 tenants.

The funding will go towards new homes and will help improve existing homes over the next five years, helping improve energy efficiency and reducing fuel poverty for tenants.

We are delighted to have completed this fourth transaction with PIC. This funding will help provide over 600 new properties in Medway and surrounding areas. The flexible arrangements agreed with PIC meet the requirements of our business plan and provide the long-term funding to match our aspirations. Our ultimate ambition is to help end the housing crisis in North Kent by providing safe and sustainable homes."

Bruce Shelmerdine
Group Finance Director, *mhs homes*

University of York

A flagship University of York student accommodation campus has reached completion, creating 1,480 bedrooms across 18 accommodation blocks for the increasing student population. The £160 million investment, which PIC funded in 2019, has now been handed over to the University.

The new accommodation aligns with the University of York's development masterplan, helping to address demand for much-needed student housing.

A sustainable approach to construction has been a key driver of the build, with GRAHAM deploying an innovative use of Modern Methods of Construction ("MMC") and adopting an off-site modular solution throughout the construction programme. Using MMC brings significant benefits, including enhanced quality, accelerated construction programmes, and reductions in energy use and waste.

This meant that the key structures could be constructed in a controlled environment, where energy was used more efficiently than traditional on-site building through the reduced use of mains energy and fuel-hungry generators. The MMC programme enabled the first accommodation block to impressively top out after only 26 days.

Throughout the build, project partners consistently worked and communicated with the local community as the development progressed. During the project, GRAHAM created 11 apprenticeship opportunities and 13 work-experience placements on-site.

£160m

investment

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

Transition and client management

What is transition and client management?

Transition management is the process of transferring a pension scheme and its members to PIC following a buyout. Once the contract has been signed, PIC's transition management team works with trustees and advisers to design a process transferring pension scheme members to PIC, as our policyholders for life. For buy-ins, the team looks after the ongoing relationship with the trustee, which in many cases can cover multiple buy-ins conducted over many years. For these transactions, building long-term relationships is central to a strong and lasting partnership.

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

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

We are delighted to have completed this transaction in unsettling times. Yell and the Plan's Trustees worked closely together for many years to improve the Plan's funding levels and by working with PIC, we were able to act quickly to secure our members' futures. PIC has a proven track record and an excellent reputation for customer care, which we have experienced first-hand, and I'd like to thank them for helping us achieve this excellent outcome."

Chair of Trustees
John Reeve of Finsbury Trustee Services Limited, Trustees for the Yell Pension Plan
September 2022

Key aspects of transition and client management

- Manage the transition of schemes to PIC, including building relationships with PIC's clients, their advisers and internal departments
- Ensure that PIC and its clients meet their objectives as set out in the buyout contract
- Ensure PIC adapts the funding of members' pensions following any benefit changes made by the trustee
- Guide trustees, company representatives, consultants and administrators through the post-contract transition process
- Manage relationships with all stakeholders and PIC's third party suppliers to ensure a successful scheme transition, within agreed timescales and budget
- Work with the scheme's trustees to ensure that the scheme's members (and PIC's future policyholders) receive an excellent experience throughout the transition, based on clear, timely communications, management of deadlines, and proactive, high-quality customer service
- Ensure that data transitioned into PIC's operating model is accurate, complete and appropriately protected

Adapting to our clients' needs

At PIC our focus is on fostering long-term client relationships and delivering first-class client experiences. This is evidenced through the 75 deals that have been done with repeat clients. This is equal to 90,000 members and £15 billion of liabilities.

A key tenet of the PIC offering is the ability to listen and respond to the needs of our trustee clients. During 2022, many schemes looked to PIC to help them transition their schemes in a reduced timeframe, without compromising on quality or attention to detail. The experience of trustees and pension scheme members during this crucial phase is a key focus for PIC and its management team. Progress on each scheme's transition is formally reported on at every PIC Board meeting and we are proud that our clients consistently rate PIC highly on customer care, service and management.

1 Cumulative figures.

Overview of our client portfolio

50

schemes in transition during 2022, covering

130,000

members, and

£18bn

of liabilities, which are expected to transition into the business

75

deals done with repeat clients, equal to

90,000

members and

£15bn

of liabilities

393,000

total number of pensions insured since 2006

302,200

number of policyholders insured

259

total schemes secured

Our clients include:

Customer care

Ensuring our policyholders receive the right outcomes is our number one priority."

Lance DeLuca
Chief Operating Officer

At PIC, high standards of customer care run throughout the organisation. We are proud that our purpose is to pay the pensions of our current and future policyholders and that this purpose dictates the way we approach all aspects of our business.

Taking care of our policyholders

Policyholders come to us following a buyout and rely on PIC to pay their pensions consistently and accurately. Ensuring our policyholders get the right outcomes is our number one priority and we are proud to be recognised as one of the leading customer service providers by the Institute of Customer Service ("ICS"), a reputation that we have built and maintained over many years.

PIC has shown that it is committed to improving its customer service offering and customer outcomes...PIC's strong ethos of serving their customers is the reason that they continue to demonstrate leadership."

Jo Causon
CEO of the Institute of Customer Service, ServiceMark with Distinction assessment

Customer service benchmarking

To ensure we regularly benchmark ourselves on our customer service provision, PIC works with the ICS. As an important part of this partnership, PIC participates in their ServiceMark assessment – a national standard recognising an organisation's achievement in Customer Service. Having attained the ICS's standard ServiceMark accreditation in 2015, PIC has held the ICS's highest accreditation – the ServiceMark with Distinction – since 2017. PIC is one of only 22 companies nationally to hold a Distinction.

The results of PIC's 2022 ServiceMark survey confirmed that our focus on customer service is recognised through the experience of our customers and employees. Both continued to rate PIC above Distinction standard. Policyholders also scored PIC on average 8% higher than other UK companies for key measures such as Customer Ethos, Emotional Connection, and Ethics.

Our service principles

Our service model is simple and is based on three principles:

Respond to each customer's individual needs, including those who need additional support

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

We focus on quality outcomes

These principles help make it easy for our customers to trust us to deliver on our promises.

Partnering with Capita Pension Solutions ("Capita")

PIC's award-winning administration services are provided by Capita. The PIC team work very closely with Capita and have invested time and resource into designing a bespoke service model that meets PIC's high standards of customer care and includes industry-leading service and contract aspects. Together with PIC's customer care team they operate as one department providing a dedicated, high-quality customer experience.

The individuals that make up our service team at Capita are carefully chosen so that they are the right fit for PIC. They share PIC's values, complete PIC training, and even take part in our ServiceMark assessments as 'PIC' employees.

PIC has comprehensive controls in place to monitor and maintain the excellent levels of service we expect. These include access to all Capita administration systems and allows PIC to seamlessly complete random file and call reviews. Our partnership with Capita results in high standards of quality across the board and fast response rates when our customers contact us.

Quality performance in 2022:

51.7%

Net Promoter Score

99.6%

Satisfaction rate from customer surveys

Service:

>98%

Enquiries answered in 3 days

99.4%

Calls answered in 30 secs

7 secs

Average call answer time

Working with vulnerable customers

Looking after the needs of vulnerable customers is important to PIC. Understanding these needs and being alert to changes in individuals' circumstances is of paramount importance to us and accordingly we have 'Board Champions' for key areas like vulnerable customers and customer service – making sure quality and consistency of service permeate throughout the Company.

As part of our ongoing commitment to our policyholders, we undertook several initiatives during 2022 designed to make things easier for vulnerable customers. These included overhauling our corporate and policyholder websites to make them more accessible for vulnerable customer groups, by introducing text size control and improving navigation, as well as improved styling and colour schemes for the visually impaired. These enhancements led to our corporate site being graded level AA in the Worldwide Web Consortium's Web Accessibility Initiative ("WAI").

In addition, we have further developed our customer service team to include a vulnerable customer officer and the full team receives specialist training focused on helping and understanding the needs of vulnerable customers.

Above all, we are keenly aware that vulnerability can mean different things to different people. It can come and go as short and long-term circumstances change for example at times of bereavement or with long-term deteriorating health conditions.

We believe in great customer service for everyone, regardless of their circumstances. We therefore have a large scale, company wide project underway to ensure we are leading the way in making sure our customers, including those that need more support, get the best possible service.

Industry-leading policyholder events

Our policyholder events are a key feature of our customer service offering and are recognised throughout the industry. We are the only insurance company in our sector to hold such events, because we believe in meeting the people whose pensions we look after. PIC employees are required to attend at least one event every two years and that applies from our graduates right up to our Board members. Attending these informal lunches and Policyholder Days helps to keep our customer service ethos alive, connecting day-to-day roles to the Company purpose in a meaningful and tangible way for our employees.

We were pleased to be able to reintroduce our popular face-to-face events during 2022, while continuing to host a virtual session for those that prefer to engage with PIC from the comfort of their homes. In total, PIC held six events during 2022, hosting nearly 2,000 of our policyholders at a number of different locations. Policyholders enjoyed meeting up with former colleagues, alongside some hospitality and, at our full-day session in London, enjoyed a motivational talk from our guest speaker Sir Steve Redgrave. PIC executives and employees were also on hand to provide an update on the Company and answer any questions that our customers may have about how their pensions are safeguarded.

Lance DeLuca
Chief Operating Officer

Our stakeholders.

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

Policyholders

See more on how we engage with our policyholders during their policyholder journey on p6-7

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

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

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

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

Defined benefit pension scheme trustees

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

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

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

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

Regulators and policymakers

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

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

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

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

Employees

Please see more information on employment policies and engagement on p52

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

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

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

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

Privately sourced debt counterparties and the private rental sector investment partners

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

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

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

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

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

Key suppliers

What matters to them
- Long-term partnership approach

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

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

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

Shareholders and debt holders

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

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

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

2022 outcomes
- At year end 2022, PIC had a solvency ratio of 225%, with adjusted operating profit of £388 million

Section 172 statement

Promoting the long-term success of the Company.

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

The factors set out in s.172 are not only considered at Board level, they are embedded throughout the culture at PIC (see more on pages 2 and 50 to 55).

Our stakeholders and our engagement

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

Our Board interacts with stakeholders through direct engagement and an open dialogue, as well as through information provided by senior management. Further information on why and how we engage with our stakeholders and examples of principal decisions taken by the Board during the year can be found on pages 42 and 43 and within the Corporate Governance report on pages 90 and 91

The Board focuses on the Group's purpose, of paying the pensions of our current and future policyholders, as it considers generating long-term value. With the increasing focus on the relationship between stakeholder interests and governance, we take increased care to ensure such considerations are documented and they stay at the forefront of the Board's attention.

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

Consequences of key decisions in the long term	Our business	**See page 2**
	Chairman's statement	**See pages 14 to 15**
	Business model	**See page 18**
Employees	Our culture and values	**See pages 2 and 50 to 55**
Fostering the Company's business relationships with suppliers, customers and others	Customer care	**See pages 36 to 37**
	Stakeholder engagement	**See pages 38 to 39**
Community	Stakeholder engagement	**See pages 38 to 39**
Environment	Our Environmental, Social and Governance ("ESG") approach	**See pages 44 to 55**
High standards of business conduct	Corporate Governance introduction	**See page 73**
	Whistleblowing	**See page 89**
	Modern Slavery Act	**See page 89**
	Anti-bribery and corruption	**See page 89**
Investors	*Stakeholder engagement*	***See pages 38 to 39***

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

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

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

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

Our Board continually engages with key stakeholders

Read more on pages 94-95

Board *information*

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

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

Board strategic discussion

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

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

Board decision

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

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

Section 172 statement continued

In 2022, the Board made decisions in respect of a wide variety of topics. The following are some examples of how the Board considers the s.172 principles in its deliberations.

Customer programme

S.172 considerations

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

The need to foster relationships with suppliers, customers and others

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

High standards of business conduct

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

Outcomes and actions

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

Retirement community in St Albans

S.172 considerations

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

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

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

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

Environment and community

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

Outcomes and actions

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

Key to the s.172 principles

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

Independent Age

S.172 considerations

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

Environment and community

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

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

The likely consequences of any decision in the long term

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

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

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

Outcomes and actions

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

Insourcing capabilities

S.172 considerations

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

The likely consequences of any decision in the long term

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

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

Interests of the Company's employees

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

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

Foster relationships with suppliers

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

Outcomes and actions

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

ESG with purpose.

PIC's purpose

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

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

This section covers PIC's approach to ESG factors and how we interact with them as a responsible corporate citizen.

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

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

PIC's sustainable assets

PIC's sustainable assets represent c.25% (£10.3 billion) of our overall portfolio. We define sustainable assets as those assets which demonstrate a balance between economic growth, environmental care, and social well-being. We focus on the total 'net' social or environmental benefit created including carbon emissions saved, jobs and apprenticeships created, and the wider social value of the investment. Where balance is compromised, we discuss each asset on a case-by-case basis through our ESG governance structure and ensure the company is included on a focus list within our Engagement Strategy.

Key outcomes of our purpose

- Environment
- Key suppliers
- Employees
- Capital providers
- Policyholders
- Society
- Economy

Our values

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

Read more on **p2–3**

ESG factors and our approach

Environmental factors

- Greenhouse gas and carbon emissions
- Pollution
- Energy efficiency
- Deforestation
- Biodiversity
- Waste and water management
- Sustainability

Our approach to the environment

PIC's commitment to the environment covers improvements through the environmental standards of our investment portfolio and the environmental performance of our business operations.

We recognise our influence as investors in enabling changes that can make a positive difference to all stakeholders across the economy and societies, and we have a two-fold approach to this. Our investments team carries out comprehensive ESG analysis of the investments in our portfolio and, as part of the ongoing management of these investments, ensures long-term stewardship actions include engagement with relevant counterparties.

More detail on these areas can be found in the following pages, including a case study on PIC's bespoke methodology for assessing the ESG credentials of our built environment portfolio.

Signatory and supporter of:

Social factors

- Consideration of all stakeholders
- Customer satisfaction
- Employee engagement and retention
- Impact on the local community
- Cultural and gender diversity
- Fair pay and taxes

Our approach to society

Social factors, or PIC's contribution to society, can be recognised in the working environment we create and through the social value of our investments in the economy, in particular those that are made as part of our direct, private portfolio. More detail on the social and economic impact of our investments can be found on pages 4-5 (Our geographic footprint) and pages 30-31 (Built environment section).

At PIC, we are committed to providing an empowering and intellectually stimulating workplace, where our employees are given the freedom to excel both individually and collectively. Our culture and values guide our actions and ensure the outcomes of our purpose. On pages 50-52 we discuss PIC as an employer, what it's like to work with us and how we factor in areas that are important to our employees, such as diversity and inclusion and employee engagement.

This year, we were proud to launch our Sustainability Strategy, which focuses on creating long-term social value for all our stakeholders. More information on this can be found in our ESG report.

Governance factors

- Principles for running a business
- Integrity of corporate actions
- Internal audit and accountability
- Diversity of the Board
- Fair profit
- Bribery, corruption and whistleblowing

Our approach to ESG Governance

PIC's approach to long-term value creation is incorporated into the Group's ESG strategy and overseen by the Board-level ESG Committee. The Board has delegated day-to-day implementation of the ESG strategy to various senior management figures within PIC, including the Chief Investment Officer, the Chief Risk Officer and the Head of Responsible Investing.

Furthermore, PIC has an ESG Oversight Forum which meets monthly to discuss corporate and investment related ESG-relevant matters, to provide additional scrutiny of ESG factors as they apply to the business. The Forum is chaired by the Head of Responsible Investing and comprises 15 senior representatives of various business functions of which three are members of the Executive Committee.

During 2022, the Group made good progress on its journey to Net Zero, securing Board approval for a Transition Timeline to attain Net Zero, which focuses on actions to decarbonise our portfolio. In addition, PIC published its first ESG Policy and standalone Stewardship Policy.

For more information on PIC's governance (see Corporate Governance section on page 80 onwards) and ESG governance can be found on pages 110 and 111 as well as in the ESG Report on our website.

Environment.

As a long-term investor and provider of pensions, managing climate and environmental risk is firmly embedded into our business. While we know there is more to do, in recent years we have taken action to align our processes more closely to external standards and have made significant progress towards our various targets, including become Net Zero by 2050.

PIC is a member of, or signatory to, several climate related initiatives within the financial services industry, recognising that collective action is required to make meaningful change.

United Nations Sustainable Development Goals ("UN SDGs")

Financial services companies have an important role to play in meeting both global and local challenges of a changing environment. The UN SDGs set out 17 goals to alleviate poverty and protect the planet. Out of these, PIC has a focus on 10 goals that have relevance to our business and purpose. These are goals 3 (Good Health and Well-Being), 4 (Quality Education), 6 (Clean Water and Sanitation), 7 (Affordable and Clean Energy), 9 (Industry, Innovation and Infrastructure), 10 (Reducing Inequalities), 11 (Sustainable Cities and Communities), 12 (Responsible Consumption and Production), 13 (Climate Action) and 15 (Life on Land).

United Nations Principles of Responsible Investment ("UN PRI")

PIC and its external asset managers are signatories to the UN PRI and are committed to six principles as they relate to our portfolio of fixed income and credit investments:

1. To incorporate ESG issues into investment analysis and decision-making processes
2. To be active owners and incorporate ESG issues into our ownership policies and practices
3. To seek appropriate disclosure on ESG issues by the entities in which we invest
4. To promote acceptance and implementation of the Principles within the investment industry
5. To work together to enhance effectiveness in implementing the Principles
6. To report on activities and progress towards implementing the Principles

Net Zero Asset Owners Alliance ("NZAOA")

Created in recognition that institutional investors collectively have an important role to play in fostering the energy transition the world needs. Members have committed:

1. To transitioning their investment portfolios to Net Zero greenhouse gas ("GHG") emissions by 2050 consistent with a maximum temperature rise of 1.5°C above pre-industrial levels;
2. To establishing intermediate targets every five years to; and
3. To regularly report on progress.

The Alliance is convened by the United Nations Environment Programme ("UNEP") and the UN PRI.

Task Force on Climate-related Financial Disclosures ("TCFD")

We publicly support the TCFD and published our first TCFD report in 2021. We agree with the TCFD that financial markets need clear, comprehensive, high-quality information on the impact of climate change. This includes the risks and opportunities presented by rising temperatures, climate related policy, and emerging technologies. The Financial Stability Board created the TCFD to improve and increase reporting of climate related financial information.

Association of British Insurers ("ABI") Climate Change Working Group and Roadmap

Developed by the ABI, the Climate Change Roadmap has set industry targets to address climate change and help the UK reach Net Zero by 2050. The ABI plan has several consumer-facing elements alongside a host of behind-the-scenes suggestions on investment and underwriting. The Roadmap is reviewed and refreshed every year in line with scientific evidence to ensure it stays in line with the Government strategy to reach Net Zero by 2050. The ABI Climate Change Working Group helps facilitate implementation of the Roadmap by the industry.

Case study: First Street Manchester (Net Zero carbon in operation)

In September 2022, PIC invested £105 million in First Street Manchester, a Grade A office development let to the UK Government Department for Levelling Up, Housing and Communities, that will be Net Zero carbon in operation, achieved through compliance with GPA Design Grade.

The new site will house approximately 2,500 civil servants, including over 700 roles which will be relocated from London to Manchester as part of the Places for Growth initiative. The move of civil service roles to Manchester is expected by the Government to generate £31 million in economic benefits for the city, due to increased footfall and spending from staff.

The building has been designed as 'first rate' in relation to embodied energy and its energy in use performance. The design and performance of the building will be rated BREAMM "Excellent". The building will be receiving a minimum of 5.5 stars, using the NABERS UK to ensure it is on a Net Zero carbon trajectory in operation. To meet these Net Zero credentials and lower the carbon footprint, the building has been designed as follows:

- A solid façade to reduce solar gain and hence energy demand for internal cooling
- Additional insulation in the solid façade to help improve the thermal performance of the building and reduce heating losses
- Natural open panel ventilation to the workplace by using opening panels within the façade, reducing the energy requirement by removing the need to provide fresh air solely by a normal office ventilation system

As part of PIC's ESG baseline credentials assessment, First Street has been awarded an 'A' rating, signifying best practice in the built environment sector.

£105m

investment

Our Environmental, Social and Governance approach continued Environment continued

Net Zero Transition Timeline

PIC's transition timeline sets out a roadmap for our strategy of achieving our Net Zero objectives. The timeline details key activities across the four areas of carbon reduction commitments, decarbonising the portfolio, stewardship and financing the transition, from 2021 through to 2050.

The Timeline has been developed through collaboration between various business functions. PIC believes that by following its strategy to the best of its efforts, it will be playing its part in helping the UK attain its own Net Zero objectives. The full timeline can be found in our ESG report.

PIC's climate strategy

The projected growth of the pension risk transfer ("PRT") market means large flows of assets and liabilities will move from defined benefit pension schemes into insurance companies like ours. As an owner of these funds, we will have an increasing part to play in driving sustainable growth in the economy and at PIC this is done through a focus on our purpose.

Our approach to climate risk, which forms part of our investment strategy, looks at how some of the risks posed by climate change may affect the stability and certainty of our investment cash flows. We look at industry-wide macro trends to determine long-term viability, for example, with oil and car manufacturers.

Within this approach, our analysis focuses on the willingness and ability for individual companies to transition to a low carbon economy.

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

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

More detailed information on our climate targets at a corporate and portfolio level can be found in the **ESG report**

TCFD disclosures

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

PIC's climate targets and achievements

Carbon neutral as a business by

2025

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

Net Zero across all emissions by

2050

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

Reduced Scope 1 and 2 emissions intensity by

18%

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

Target

50%

decrease by 2030 from 2019 levels

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

Target

25%

decrease by 2025 from 2019 levels

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

Weighted Average Carbon Intensity ("WACI")

175

tons CO_2e/£m revenue

weighted average carbon intensity of investment portfolio

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

Temperature alignment of

2.08°C

for public corporate credit portfolio

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

Responsible investor

PIC portfolio

ESG integration
Within all investment processes including within manager selection

ESG reporting
Manager bespoke quarterly ESG reporting, yearly PIC ESG report, TCFD, UN PRI transparency report, Net Zero Progress Report

Stewardship and engagement
Standalone Stewardship Policy, Engagement strategy

Industry participant:
UN PRI signatory, Net Zero Asset Owners Alliance member, ABI Climate Change Working Group participant

Climate change
decarbonization to Net Zero, TCFD reporting, Climate risk management and climate scenario testing

Responsible investing

The consideration of ESG within our investments has always been an inherent part of our process. For both directly managed investments and those managed on a segregated basis by our external asset managers, we ensure that ESG factors are considered. This means that from the initial due diligence phase or manager selection, relevant ESG questions are asked, and responses assessed.

Our Strategic Asset Allocation, as well as Country Risk Framework, also take into consideration ESG and these affect output such as concentration limits.

We feel strongly that investing in a sustainable manner, which encompasses ESG factors, helps ensure we can fulfil our purpose over the long term.

ESG in the built environment:

In 2022 PIC partnered with Buro Happold, a third party ESG specialist to help deep dive into our built environment pipeline and portfolio.

Together, PIC and Buro Happold have developed a three-stage assessment framework that establishes ESG Baseline Credentials for our built environment investments. PIC applies this bespoke, market-leading framework to all potential investments and is applying the framework retrospectively to the Build-to-Rent portfolio.

The initial stage comprises a series of gateway questions that potential investment partners must satisfy before the investment is considered viable.

The second stage is the initial screening list with 28 questions on ESG themes such as Net Zero Carbon, Biodiversity and Ecology, Materials and the Circular Economy, Health and Wellbeing, Social Value, and Policy and Monitoring. These are then explored further as part of the final stage of 65 questions.

Once completed, the answers are used to compile an ESG dashboard with an overall topic rating across Environment, Social and Governance from which each asset is given an ESG rating.

Our people and culture.

Overview

At PIC, we pride ourselves on creating a positive and empowering workplace. Our people work in line with our values and with the customer at the forefront of our actions as represented by our purpose of paying the pensions of our current and future policyholders.

The Company has seen significant growth in recent years, with employee numbers nearly doubling since 2019. During 2022, 156 new colleagues joined PIC as we continue to serve the accelerating Pension Risk Transfer market.

The fundamentals of working life at PIC remain strong. A highly skilled and innovative employee base, a focus on enhancing our colleagues' lives by providing meaningful and challenging work in a rewarding and collegiate atmosphere, and competitive compensation and benefits packages. The result is a strong and supportive environment where people are empowered to excel individually and collectively.

Our investment in creating an attractive working environment is borne out by the results of our employee surveys, where PIC's scores consistently demonstrate high levels of employee engagement and alignment to our purpose and values. In addition, employees comment on the benefits of the internal and external mentoring programmes and the significant training and development courses that are available to them.

Highly skilled and motivated employees are the foundation upon which PIC will continue to be successful in fulfilling its purpose over the decades to come. We are committed to investing in the development and wellbeing of our people.

Culture

PIC continues to invest in creating a welcoming and inclusive culture where individuals can thrive. The benefits of a positive culture are well recognised and at PIC our values provide the foundation for a strong and cohesive culture. Our customers are our priority, and we work hard to provide exceptional customer service that leads to good customer outcomes. We value all our stakeholders, including our employees, and believe in a listen and learn culture.

Following the shift in working patterns because of the Covid-19 pandemic, PIC has moved to a hybrid working model. Employees benefit from the flexibility of choosing their days in and out of the office to better suit their personal circumstances.

Our strong culture was recognised during the year as PIC was awarded the Investors in People silver accreditation. Investors in People recognises employers that are committed to providing a great place to work, including providing strong and clear leadership, and training and development opportunities. The assessment included a staff survey and interviews of employees from across the Company. The results of the feedback gathered found that 86% of employees believe PIC has clear values and 88% believe their behaviour reflects the PIC values. Furthermore, 80% of employees feel they are encouraged to take initiative in their role. Other stand out factors include the mental health first aiders programme, the Diversity and Inclusion forum, and the focus on early careers development.

Diversity and inclusion ("D&I") at PIC

A diverse workforce contributes to more successful outcomes through diversity of thought. Our approach to encouraging this is reflected through our values and culture and helps us deliver our purpose through continuous improvement and evolution. Employees at PIC can expect a safe, open, and transparent work environment. Our people are valued and recognised as individuals with the freedom to express and discuss issues that matter to them and society in an inclusive and informative way.

PIC's D&I Forum has three aims. These are to engage, educate and enable all employees to build and own an inclusive working environment. It does this through activities such as internal and external events, guest speakers and sponsorship of key diversity initiatives.

Engage – Demonstrate that PIC is a good corporate citizen by supporting worthwhile initiatives which align with our values and role model best practice as well as engaging with external partners who align with our values

Educate – Educate, inform and inspire at all levels on how D&I contributes to a successful business, and promote PIC's D&I approach externally to attract talent

Enable – Enable our current and future people to reach their full potential by providing opportunities and removing barriers

2022 highlights

PIC is a corporate member, and founding sponsor, of LGBT Great having joined the foundation in 2021. This year, two of our employees were recognised as LGBT Great Top 100 Gamechangers, which recognises people who are helping to change the game for LGBT+ diversity, equity, and inclusion across the financial services industry.

As one of the founding sponsors, PIC continued its support of the Actuarial Mentoring Programme for a sixth year. Run in partnership with the Institute and Faculty of Actuaries, and run by Moving Ahead, the programme provides early-stage actuaries with cross-company mentors.

Our early careers talent programme, PIC Academy, saw its first intake, with 11 apprentices joining during 2022. The programme was developed by PIC and aims to develop long-term diverse talent pipelines. The PIC Academy gives participants an opportunity to work towards a formal qualification in business administration and 18 months' work experience in a financial services firm (see case study opposite).

We continued to support the #10000BlackInterns campaign offering 20 interns across 13 departments during the year. PIC also joined Women in Banking and Finance, a not-for-profit membership network that champions women in financial services.

Case study: Macie Thorne, Team Administrator Apprentice

I joined PIC as the Team Administrator Apprentice for Internal Audit in September 2021. I chose an apprenticeship as it meant that I would be able to study towards a qualification alongside gaining on the job experience, an opportunity that university did not provide. It's a 18-month contract of which about 80% of the time is spent working and 20% taking part in on-the-job learning. This could be anything from learning something new in a meeting, to completing the designated apprenticeship work, which helps to develop your business knowledge. At the end of the apprenticeship, I will gain a Level 3 business administration qualification, which is the equivalent of gaining an extra A-Level.

When researching PIC, one key thing that stood out to me was that PIC is still a relatively young company in a fast-growing industry and is constantly evolving. This was important to me as it meant that my opinion would be valued within my team and in the wider organisation. Another key thing that stood out to me was the emphasis on the friendly culture, and this couldn't be truer.

I was selected to be in the Internal Audit team which suits me because I am naturally inquisitive and I am glad as it has meant that I have been able to gain knowledge about all the different departments within PIC and their various processes. It has also given me the opportunity to network and interact with a wide range of people, and really get a feel for the PIC culture and understand how a large corporate works.

From my experience, people here are very friendly and always willing to help. I have had the opportunity to complete work for different departments and everyone I worked with was very welcoming and took the time to explain things to me. The work that I am asked to complete is a lot more challenging than I was expecting when I initially applied for the apprenticeship, but I like this as it means I am always learning new things. I have been given a lot of trust and responsibility with certain tasks, rather than being hidden away from the more complex work, which has massively helped me with developing my confidence. I've also come out of the apprenticeship with a full-time job offer, which I couldn't be happier about.

If you are looking for a position where you are gaining experience, whilst studying towards a qualification, and meeting lots of friendly people, then I would recommend an apprenticeship at PIC. My apprenticeship has enabled me to learn a lot of things that I may not have necessarily learnt if I studied for a university degree and has given me a kick start in my career at a positive and empowering company.

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

Employee engagement

PIC gathers the views of its people through formal and informal employee engagement initiatives that take place throughout the year. Formally, our annual employee engagement survey looks at how our values and culture are experienced on a day-to-day basis by our employees.

The survey is also an opportunity to garner feedback from employees and listen to suggestions for improvement. Questions are focused on customer service and experience, strategic direction, culture and values. 89% of PIC employees took part in the 2022 survey with results demonstrating that our customer focus remains the number one priority for our people.

PIC is truly customer oriented

91%

I believe strongly in the goals and objectives of PIC

93%

I am proud to work for PIC

89%

I am optimistic about the future at PIC

88%

Rewarding our employees

As one of the leading employers in the pension risk transfer market, PIC offers competitive remuneration packages and a generous range of benefits

For example, PIC is one of a limited number of private companies that offers its people a chance to participate in a company Save as You Earn ("SAYE") scheme. SAYE schemes allow individuals to have a sense of ownership in the business and benefit from its long-term success.

The PIC SAYE scheme has been in place since 2013 and provides employees with an opportunity to purchase shares following a set savings period. The scheme is open to all permanent employees and sets the foundations for a successful and sustainable company with employees able to share in the long-term value creation of the business.

Working with our charity partners

PIC continues to provide charitable support to our two partner charities, Independent Age and Rethink Mental Illness, by helping to raise funds in support of the critical work they do supporting vulnerable members of society.

PIC was delighted to be able to run several successful fundraising initiatives during the year with company-wide events run by our charity committee alongside the individual fundraising efforts of our people. These included the annual PIC treasure hunt which brings together our clients, customers and colleagues, a charity quiz night, a bake sale, participation in the Lord Mayor's Show as well as participation in the London Marathon.

In light of the cost-of-living crisis and difficult economic circumstances faced by many of our customers, PIC took the decision during 2022 to make a one-off donation to Independent Age, of £1.5 million, to help support those in need (see case study opposite).

Rethink Mental Illness

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

Tens of thousands of people rely on its support every year to help them get through crises, live independently and realise they are not alone. The Rethink Advice and Information Service offers practical information and support about any aspect of mental health and has produced a whole range of factsheets, which are downloadable for free via the link below.

www.rethink.org/advice-and-information

Independent Age UK

Independent Age UK is a charity founded over 150 years ago offering advice and support for people in old age.

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

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

Case study: PIC donates £1.5 million to Independent Age to support older people through cost-of-living crisis

More older people in England, Scotland and Wales will receive targeted support and advice on how to cope with the cost of living crisis, following a £1.5 million donation by PIC in November 2022.

£1 million will go towards the charity's emergency grants programme, supporting community projects that work directly with older people struggling in the cost-of-living crisis.

£500,000 of the donation will allow Independent Age to expand their helpline by creating new roles for specialist staff to answer queries and provide advice to older callers in need of financial assistance. In recent weeks, the helpline has experienced an increase in the number of callers from people facing tough decisions on how to manage their household budgets, struggling to heat their homes or afford groceries.

£1.5m

donated to Independent Age by PIC

£500,000

of the donation will allow Independent Age to expand their helpline which provides practical advice and support to older people

At a time when those already impacted by the cost-of-living crisis face further rises in energy and food prices, these very welcome funds will allow us to help even more people in desperate need of support.

Inflation and the cost-of-living crisis are clearly already having an effect as we are receiving increasingly distressing calls to our helpline from older people who don't know how they will cope during the winter. A donation of this size will help us support so many more people."

Baroness Julia Neuberger DBE,
Chair of the Board of Trustees
at Independent Age

Gender pay gap report 2022.

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

2022 highlights

8.2%

decrease in PSC's mean gender pay gap

1.0%

total mean bonus pay gap

5.2%

decrease in PSC's median bonus gap

Pension Services Corporation is the company that provides all services including staff to PIC and PICG.

Percentage of women at each quartile

On 5 April 2022, PSC had 400 employees

Lower quartile

Women	**45%**
Men	**55%**

Lower middle quartile

Women	**32%**
Men	**68%**

Upper middle quartile

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

Upper quartile

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

Mean salary pay gap 2022

Pension Services Corporation Limited's ("PSC") figure of 10.2% is below the financial services indicative average[1] (26.5%). PSC's gender pay gap figures remain typically narrower than competitors across all measures.

	2022	2021	Changes in last 12 months
Mean salary	**10.2%**	18.4%	8.2% (down)
Median salary	**12.5%**	6.8%	5.7% (up)

Our gender pay gap is driven by two primary factors:

- Only 34% of our employees are women
- Only 29% of employees in the upper pay quartile are women, flat from the previous year

Bonus pay gap

The reporting for the bonus pay gap must include all one-off payments which are subject to PAYE. This includes cash bonuses and shares at the point of exercise, rather than award. Unusually for a private company, PIC runs a share scheme for all employees. As share exercise is a personal decision, this contributes to the variability of PSC's bonus pay gap each year. PSC's bonus pay gap therefore varies significantly year-on-year due to circumstances beyond our control. For 2022 the median bonus pay gap reduced by 5.2%.

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

	2022	2021	Changes in last 12 months
Mean bonus	**1.0%**	1.1%	0.1% (down)
Median bonus	**18.2%**	23.4%	5.2% (down)

Actions we are taking to address the gender pay gap

PSC continues to target at least 30% of CVs from recruitment agencies to be women. PIC recruited approximately 100 new joiners since the 2020 – 2021 reporting period and of these, 35% were women. At PIC, we focus on early career talent to develop talent pipelines including through our Academy programme, which currently has 16 apprentices working across the business. PIC has also recently become a member of Women in Banking and Finance, which provides female colleagues at all levels, with access to development and networking opportunities, and the business with channels to recruit more female talent.

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

Chief Financial Officer's review

Our strong performance in challenging markets shows the strength and resilience of our business which is well positioned for growth opportunities."

Dom Veney
Chief Financial Officer

Financial highlights	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Solvency II ratio (unaudited)	**225%**	168%
Financial investments	**40,951**	51,143
IFRS profit before tax	**1,240**	393
Adjusted operating profit before tax	**388**	533
Market consistent embedded value	**5,617**	5,027

Introduction

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

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

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

IFRS profit before tax of £1,240 million (2021: £393 million) benefitted from favourable investment variances. Our hedging strategy is primarily calibrated to stabilise our solvency position rather than the IFRS balance sheet. This better reflects how we manage the business but can cause short-term volatility within the IFRS result. Operating profit remained strong at £388 million (2021: £533 million). Underlying profit grew by 44% to £654 million (2021: £455 million) from higher returns on surplus assets and new business profits, but this was more than offset by £315 million of favourable assumption changes which increased AOPBT in 2021 but which were not repeated in 2022.

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

Group MCEV was £5,617 million at the end of 2022 (2021: £5,027 million), with the rise driven by new business, returns from the in-force book, and net favourable market movements.

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

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

In light of our long-term financial and operational strength, the Board has proposed a first dividend to the Group's shareholders of £100 million, equivalent to 7.50 pence per ordinary share.

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

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

IFRS

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

Statement of comprehensive income – highlights	2022 £m	2021 £m
Gross premiums written	**4,095**	4,702
Net premium revenue earned	4,021	3,856
Investment return (including commissions earned)	(12,396)	210
Total revenue	**(8,375)**	4,066
Net claims paid	(1,881)	(1,785)
Change in net insurance liabilities	11,833	(1,601)
Operating expenses	(247)	(198)
Finance costs	(90)	(89)
Total claims and expenses	**9,615**	(3,673)
Profit before taxation	**1,240**	393
Tax charge	(229)	(82)
Profit after tax	**1,011**	311

Premiums

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

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

Investment return

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

The net movement in the fair value of assets, including realised and unrealised items, was a loss of £13,813 million compared with a loss of £1,029 million in 2021.

Total investment income increased to £1,416 million in 2022 (2021: £1,238 million). The 2022 net investment loss was largely driven by significant increases in interest rates during the year.

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

Claims paid

Net claims paid comprises gross claims paid, which are pension payments to our policyholders, less any payments received from reinsurers. Net claims paid increased to £1,881 million (2021: £1,785 million), mainly reflecting the increase in pensioner numbers due to new business.

Change in net insurance liabilities

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

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

Operating expenses

Total operating expenses were £247 million (2021: £198 million). This includes project spend of £58 million (2021: £38 million) reflecting a higher spend on business-wide initiatives.

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

Finance costs

Finance costs represent the interest payable on borrowings. Finance costs of £90 million (2021: £89 million) reflect the interest payable on the five (2021: five) subordinated debt securities issued by PIC, the Group's main trading entity.

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

Our approach to tax

As a UK registered business, the Group pays its full tax liability to His Majesty's Revenue and Customs ("HMRC") ensuring compliance with UK tax laws, regulations and disclosure requirements.

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

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

Chief Financial Officer's review continued

Statement of financial position – highlights	2022 £m	2021 £m
Financial investments	**40,951**	51,143
Derivative assets	**22,451**	15,018
Reinsurance assets	**1,199**	3,350
Gross insurance liabilities	**(33,029)**	(47,013)
Derivative liabilities	**(25,348)**	(16,997)
Borrowings	**(1,592)**	(1,590)
Other net assets	**807**	554
Total equity	**5,439**	4,465

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

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

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

The Group uses derivatives to hedge certain market risks associated with both new and existing business. Gross derivative assets and derivative liabilities have both increased during the year, leading to an increase in the net liability position of £918 million (2021: movement of £425 million). The net increase is a result of market movements, in particular rising interest rates. It should be noted that a significant proportion of our derivative contracts are collateralised through the use of a custodian, and as such present little credit risk in the event of a derivative counterparty default.

As a result of the above movements, total equity has increased by £974 million (2021. £298 million).

Adjusted operating profit before tax

In addition to the statutory results presentation outlined above, the Group also chooses to analyse its IFRS results on an alternative performance metric ("APM"), AOPBT.

It reflects the Group's activities which are core to our business alongside certain management choices and decisions around those activities. This includes the writing and management of pension insurance contracts and the management of risk through reinsurance.

AOPBT for the year decreased to £388 million (2021: £533 million). Whilst underlying profits have increased to £654 million (2021: £455 million) mainly due to the benefit from higher returns on surplus assets and writing new business, this was more than offset by favourable assumption changes which increased AOPBT in 2021 but which were not repeated in 2022.

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

Adjusted operating profit before tax	2022 £m	2021 £m
Expected return from operations	**426**	288
New business and reinsurance profit	**228**	167
Underlying profit	**654**	455
Changes in valuation assumptions	**(6)**	315
Experience and other variances	**(79)**	(77)
Finance costs	**(123)**	(122)
Project costs	**(58)**	(38)
Adjusted operating profit before tax	**388**	533
Investment related variances	**819**	(173)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**33**	33
Profit before tax	**1,240**	393

Expected return from operations

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

New business and reinsurance profit

New business and reinsurance profit represents the impact on profit of writing new pension risk transfer contracts based on target asset mix assumptions, and the impact of entering into new contracts of reinsurance. New business and reinsurance profit was £228 million (2021: £167 million), resulting from the £4.1 billion of new business premiums written.

Changes in valuation assumptions

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

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

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

For longevity, we adopted CMI_2021, which is the latest version of the Continuous Mortality Investigation's ("CMI") projections model, to generate future mortality improvements. The impact of Covid-19 has also been removed from the derivation of current mortality rates.

These changes lowered Management's view of average life expectancies, and consequently generated a reduction in reserves of £60 million.

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

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

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

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

Experience and other variances

Experience variances gave rise to a loss of £79 million in the year (2021: loss of £77 million). The loss in the current period largely reflects differences between assumptions used for pricing and reserving on new business. In 2021, the loss largely related to experience variances on new business, actual claims experience compared to expectation and the impacts of data updates from underlying policyholder information.

Finance costs

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

Investment related variances

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

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

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

Expense ratio

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

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

Return on equity

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

Return on equity improved to 21.7% over the year (2021: 7.3%) due to the higher profit after tax. This was driven by higher new business profit and returns on surplus assets, as well as favourable investment related variances, partly offset by favourable assumption changes which increased profit after tax in 2021 but which were not repeated in 2022. Our hedging strategy is principally designed to stabilise our solvency position, and this can lead to short-term volatility in the IFRS result.

IFRS 17

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

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

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

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

Capital and solvency

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

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

Solvency Ratio

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

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

Surplus generation (PIC) (unaudited)

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

Surplus generation measures the amount of Solvency II surplus capital generated in the year, being the excess of Own Funds over SCR. The key components are the expected surplus generated from the business written in previous periods and management actions taken in the year, which are used to fund the capital requirement of writing new business, alongside paying coupons to our debtholders and dividends to our shareholders.

Within economic and other non-operating variances are the impacts of market movements, alongside management actions relating to our portfolio, and variances between the actual asset mix on new business compared to that which was assumed in pricing.

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

Expected surplus generated from the in-force book

Expected surplus generation comprises the:

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

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

New business (net of reinsurance)

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

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

Management actions and other operating variances

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

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

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

Financing and project costs

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

Economic and other non-operating variances

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

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

Adjusted equity own funds

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

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

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

Key solvency sensitivities

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

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

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

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

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

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

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

Notes:

1. For the interest rate and credit spread sensitivities, due to the nature and size of the impacts the notional recalculation of the TMTP contributes significantly to the asymmetry of the results.
2. Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be immediately traded back to the original credit rating, so the impact is primarily a reduction in own funds from the loss of value on downgrade. The impact of the sensitivity depends upon the market levels of spreads and the asset mix of the portfolio at the balance sheet date.
3. Equivalent to a 0.4 year increase in life expectancy from 22.7 years to 23.1 years for a typical male aged 65.

Dividend

In recognition of the continued financial strength of the business, the Board has decided, for the first time, to propose a dividend to the Group's shareholders of 7.50 pence per ordinary share (2021: nil). The dividend is driven by financial performance in 2022 but will be reflected in the Group's results in 2023.

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

Chief Financial Officer's review continued

Market consistent embedded value results

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

At 31 December 2022, the Group's embedded value increased to £5,617 million from £5,027 million at the end of 2021. The increase is largely due to the benefit from writing new business, returns from the in-force book and favourable economic variances.

MCEV	2022 £m	2021 £m
Adjusted net worth	**7,247**	6,710
Value of in-force business after tax	**1,183**	1,796
MCEV fair value of Tier 1 and Tier 2 debt instruments	**(1,883)**	(2,381)
MCEV before cost of capital	**6,547**	6,125
Frictional cost of capital	**(575)**	(359)
Cost of residual non-hedgeable risks	**(355)**	(739)
MCEV net of cost of capital	**5,617**	5,027

IFRS reconciliation to solvency II – PICG

31 December 2022 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 subordinated debt	Add accrued interest on Tier 2 subordinated debt	Deduct accrued interest on RT1 notes	Add risk margin net of transitionals	Reduction in technical provisions	Reduction in reinsurance assets	Differences in deferred tax	Differences in other asset values	Unaudited Solvency II balance sheet (£m)
Total assets less other liabilities	**37,269**	**1,592**	**30**	**(11)**	**–**	**–**	**–**	**(142)**	**(125)**	**38,613**
Insurance liabilities/ Best estimate liabilities ("BEL") net of reinsurance assets	**(31,830)**	**–**	**–**	**–**	**–**	**1,205**	**(60)**	**–**	**–**	**(30,685)**
Risk margin net of transitionals	**–**	**–**	**–**	**–**	**(692)**	**–**	**–**	**–**	**–**	**(692)**
IFRS net assets/ Solvency II own funds	**5,439**	**1,592**	**30**	**(11)**	**(692)**	**1,205**	**(60)**	**(142)**	**(125)**	**7,236**

Solvency II to EV reconciliation – PICG

31 December 2022 (£m)	Unaudited Solvency II balance sheet (£m)	Allow for differences between Solvency II and MCEV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	Tax on PVFP
Total assets less other liabilities	**38,613**							
BEL net of reinsurance assets	**(30,685)**							
Risk margin net of transitionals	**(692)**							
Solvency II Own Funds/Adjusted net worth	**7,236**	**11**	**–**	**–**	**–**	**–**	**–**	**7,247**
Value of in-force business after tax	**–**	**–**	**–**	**–**	**692**	**885**	**(394)**	**1,183**
Cost of residual non-hedgeable risks (CRNHR)	**–**	**–**	**–**	**–**	**(355)**	**–**	**–**	**(355)**
Frictional cost of required capital (FCoC)	**–**	**–**	**–**	**(575)**	**–**	**–**	**–**	**(575)**
Subordinated debt	**–**	**–**	**(1,883)**	**–**	**–**	**–**	**–**	**(1,883)**
MCEV	**7,236**	**11**	**(1,883)**	**(575)**	**337**	**885**	**(394)**	**5,617**

PIC solvency II (unaudited) and IFRS excess assets

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

		IFRS	Solvency II
		£2.0bn Borrowings	£1.8bn Borrowings
Total assets £38.7bn	Assets held for claims and expenses £29.9bn	£1.8bn Assets backing prudent margins	£1.6bn Solvency II prudent margins
	Excess assets £8.8bn	£5.0bn Net asset value[1]	£5.4bn Shareholder own funds

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

Our approach to risk management

Alongside managing the significant day-to-day market volatility, we have enhanced our risk management capabilities."

Giles Fairhead
Chief Risk Officer

2022 has seen some unprecedented market volatility, precipitated by specific events but intensified by the shadow of Covid-19 and the crisis in Ukraine.

Inflation has risen significantly, and rapidly, and for much of the year we have seen a gradual increase in gilt yields before the shock of the 'mini-budget' precipitated a rapid rise and the need for the Bank of England to intervene.

A lot of the focus for risk management over the year has been to manage this volatility through our hedging strategy. Our hedging strategy, combined with our risk appetite framework, particularly our solvency and liquidity risk appetites, have stood up to the challenges of these market movements and allowed us to weather the storm. Whilst the Liability Driven Investment ("LDI") crisis in the pension market did impact our liquidity as a result of rapidly increasing gilt yields and the decreasing value of GBP against USD, we remained within our liquidity and capital risk appetite limits.

Alongside managing the day-to-day market volatility, we have enhanced our risk management capabilities. This includes significantly improving our asset stress and scenario testing capabilities with the implementation of a new asset stressing model and development to our Risk Appetite Framework. A particular focus has been climate change where we updated our risk framework to better embed the climate change risks in our risk taxonomy to allow us to develop more granular risk appetite statements and limits.

As we look forward into 2023, we need to be prepared for a busy and potentially volatile year ahead. There are no signs that market uncertainty is going to reduce. The combination of a gradual return to normal after Covid-19 interacting with the significant geopolitical uncertainty is likely to continue to bring market volatility and a chance of unexpected market and operational events. At the same time, we plan to diversify our asset origination and expect there to be a strong new business pipeline. We have carried out, and will continue to carry out, a series of market and operational stress tests to ensure that our business is well prepared, and as required take action to strengthen our position.

We will also continue to review our risk appetites in light of the changing environment. This work will have a particular focus on climate, liquidity and macro-economic risks. Operationally, we will ensure that any new risks are fully embedded in our regular Risk and Control Self Assessments. We will continue to manage the key regulatory changes including new Consumer Duty, IFRS 17 and the Solvency II regulatory reform. A key focus of risk management is to ensure that in all areas of regulatory and environmental change any new risks are fully understood, and managed, alongside ongoing review of existing risks.

Giles Fairhead
Chief Risk Officer

PIC prioritises its risks by continuously reviewing their materiality and aligns them to three key pillars:

1. Sufficient Financial Resources

2. Effective and Resilient Operations

3. Meeting External Expectations

Please see our principal risks section on **p66-71**

How we manage risk

Risk Management System

Enterprise Risk Management Framework

Governance Framework

Risk Appetite Framework

Policy Framework

Risk management is integrated into the business via the Enterprise Risk Management Framework, comprising our systems of governance, our policies, our Risk Appetite Framework and the application of the Risk Management System:

- the Governance Framework within which risk management responsibilities are delegated and governed, including the Three Lines of Defence model;
- the Policy Framework through which risk management expectations and requirements are embedded and consistently monitored across the business;
- the Risk Appetite Framework within which the Company's risk exposures are controlled and monitored in line with the Board's risk preferences and risk appetite; and
- the Risk Management System by which risks are identified, assessed, mitigated, monitored and reported throughout the company.

We have implemented three key risk pillars within our business and our risk taxonomy is aligned to these three pillars. Each risk category has statements and appetites to help us monitor and manage the risk to our business.

PIC strategic objectives

Long-term value growth
Generate attractive returns over the lifetime of the business

Secure and sustainable business
Optimise internal and external resources

Responsible corporate citizen
Ensure our behaviours reflect our values

Sufficient Financial Resources

The risk that PIC does not have sufficient funds to meet its business objectives

Liquidity

Solvency

Effective and Resilient Operations

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

Processes

People & Resources

Systems & Technology

Physical Infrastructure

Meeting External Expectations

The risk that PIC fails to meet the expectations of external stakeholders

Conduct

Strategy

Legal & Regulatory

Cross-cutting risks

Climate change

Mitigating our key risks

We closely manage all risks within our business. The key risks to the business and its strategy for managing those risks are set out below to page 71. More details are also included in Note 17 to the financial statements.

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

Key Increased Stable Decreased

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

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

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

Risk management continued

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

Key Increased Stable Decreased

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

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

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

Risk management continued

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

Key Increased Stable Decreased

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

The Strategic Report on pages 1 to 71 was approved by the Board and signed on its behalf by:

David Weymouth

David Weymouth
Chairman
14 Cornhill, London EC3V 3ND

15 March 2023

Corporate Governance divider

Corporate Governance.

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Chairman's introduction to Corporate Governance

PIC's purpose provides a strong foundation for continued growth and robust governance."

David Weymouth
Chairman

I am delighted to introduce the Corporate Governance section of this report and accounts.

As I have noted earlier in this document, since joining as Chairman in October 2022, I have been impressed with the Group's robust governance structures and processes, as well as the close working relationship and collaboration between the Board and management. Together these create ideal conditions for effective risk management, which will ensure the long-term success of the Company as we help increasing numbers of trustees move their members' benefits to the security of the insurance regulatory framework.

In this section, we detail our corporate governance structures and processes, attendance by Board members at relevant meetings, the Board's composition, and the Board's main activities during the year. The Chairs of PIC's six Board Committees, Audit, ESG, Investment and Origination, Nomination, Remuneration, and Risk, also provide individual reports on their activities and initiatives undertaken during the year. This section explains our adherence to the UK Corporate Governance Code 2018 (the "Code"), and to the provisions of s.172 of the Companies Act 2006, including our focus on our policyholders and wider stakeholders (also detailed on page 93).

As the scale of our presence across the economy – detailed in the heatmaps on pages 4 and 5 of this document – increases, it is imperative that we remain focused on our purpose and strategy, both of which are discussed regularly at Board meetings. Our growing presence also means it is important that the Board maintains a close focus on the implementation of the Group's ESG agenda, as we embed our Net Zero transition plans within the business.

The Board has also focused on the oversight of the large change initiatives of recent years. This includes PIC's new investment platform, IFRS 17 implementation, as well as the completion of the project to bring in-house our UK listed debt portfolio.

Finally, the Board has spent considerable time, assisted by the Nomination Committee, on executive succession with a view to further strengthening PIC's leadership team in order to deepen the skills, experience and knowledge needed as the Company continues to grow.

The Board

PICG's Board of Directors is made up of 13 Directors, 7 of whom are independent. Of the remaining Directors, 5 are appointed by the main shareholders, and one is the Chief Executive Officer. PIC's Board consists of 14 Directors, 8 of whom are independent, and two executive management (Chief Executive Officer and Chief Financial Officer).

The biographies of our Directors, including their experience and relevant expertise, is set out on pages 74 to 79 of this document. Both Boards have an appropriate balance between independent Directors and shareholder nominated Directors, and there is a wealth of knowledge and expertise to guide, and challenge where appropriate, management in the implementation of the Group's strategy.

David Weymouth
Chairman

15 March 2023

Board of Directors

David Weymouth
PICG & PIC Director
Chairman of the Board

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

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

He currently chairs the boards at Mizuho PLC and OSB Group PLC. David's executive career included serving as Global Chief Information Officer at Barclays and Chief Risk Officer at RSA PLC.

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

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

N E IO R

Our outgoing Chairman, Jon Aisbitt, stepped down from the PICG Board on 1 October 2022 and from the PIC Board on 31 October 2022.

Tracy Blackwell
PICG & PIC Director
Chief Executive Officer

Date of appointment: Appointed to the Board as an Executive Director in July 2011 and appointed CEO in July 2015

Background and career: Tracy joined PIC in 2006 as Chief Investment Officer and was one of PIC's founders. Until she became CEO in 2015, Tracy was responsible for building up the Company's asset management function, including direct investment capabilities into areas such as social housing and student accommodation. Prior to joining PIC, Tracy spent 10 years at Goldman Sachs, including as Head of Risk Management, EMEA at Goldman Sachs Asset Management, working with pension fund and insurance company clients on investment, risk and strategic issues.

Areas of expertise: Tracy has 30 years' experience in insurance and asset management, including a deep knowledge and understanding of the regulatory landscape. Areas of particular interest include: "The Purpose of Finance", a project seeking to redefine the social contract with financial services, and diversity in financial services.

Current external roles: Tracy is a member of Wellcome Trust's Investment Committee; an Advisory Council member on the Diversity Project; Trustee and Honourable Treasurer of the Elton John Aids Foundation; and a board member of the Association of British Insurers.

Dom Veney
PIC Director
Chief Financial Officer

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

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

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

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

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

Key

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

Ri A E

Sally Bridgeland
PIC Director
Independent Non-Executive Director

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

Background and career: Sally's previous roles include Chief Executive Officer of BP Pension Fund, where she had responsibility for the strategic, regulatory and operational matters of the £19 billion UK pension fund. Sally spent seven years in this executive role and stepped down in 2014. She has extensive investment consulting experience and has also served as a Trustee Director of Lloyds Banking Group Pension Trustee Limited, and has also held Ministerial appointments for the Nuclear Liabilities Fund and NEST Corporation. Sally is a Fellow of the Institute of Actuaries and in 2020 she received the Award of Honour from the Worshipful Company of Actuaries.

Areas of expertise: Sally is an actuary and has over 30 years' experience in the UK pensions industry gained from executive and non-executive roles.

Current external roles: Sally is Chair of Local Pensions Partnership Investments Limited and Impax Asset Management plc as well as a Non-Executive Director of Local Pensions Partnership Limited, Royal London Mutual Insurance Society Ltd and Royal & Sun Alliance Insurance. Sally is an Honorary Group Captain in 601 Squadron of the Royal Auxiliary Air Force.

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

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

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

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

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

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

IO

Judith Eden
PICG & PIC Director
Independent Non-Executive Director

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

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

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

Areas of expertise: Judith has over 30 years' experience in financial services gained from both executive and non-executive roles, in particular in investment management. She has an in-depth understanding of the regulatory environment and has helped guide companies through business restructuring and change programmes.

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

R Ri E

Board of Directors continued

IO

Julia Goh
PICG & PIC Director
Independent Non-Executive Director

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

Background and career: Julia has over 25 years of broad-based financial services experience in London. She was a Managing Director at Barclays Investment Bank from 2010 to 2018 in various senior front-office positions including as Chief Operating Officer of Global Markets, and was also Chair of the Barclays Women's Initiative Network. Prior to that, she was a Managing Director and the Global Head of Prime Services Risk at Credit Suisse for 11 years, where she was also Chair of the Equities Diversity Advisory Council. Julia started her Markets career at Nomura International as a risk manager. She is a member of ICAEW and has a Certificate in Company Direction from the Institute of Directors.

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

Current external roles: Julia is a Non-Executive Director and Audit and Risk Committee Chair of Schroder AsiaPacific Fund plc, and Non-Executive Director of The Mercantile Investment Trust plc. She is also a Director of the charity Children of the Mekong and is a board adviser of the Handbag Clinic.

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

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

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

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

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

Stuart King
PICG & PIC Director
Independent Non-Executive Director

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

A RI N R

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

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

Current external roles: He is a Commissioner of Guernsey Financial Services Commission. Stuart remains an external adviser to financial services firms. He is a trustee to a number of charities working in the areas of education, and mental health including Emerge Advocacy which assists young people facing mental health crises.

Key

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

IO Ri E

Arno Kitts
PICG & PIC Director
Independent Non-Executive Director

Date of appointment:
Arno was appointed to the Board as an independent Non-Executive Director in July 2016.

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

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

Current external roles: Arno is the founder of Perspective Investments, an investment management firm. He is also a Non-Executive Director of Wake Trade Technologies, a member of the Investment Committee of Valesco and an adviser to New World Group.

N R

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

Date of appointment:
Josua was appointed to the Board as a Non-Executive Director in December 2015.

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

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

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

A Ri E

Roger Marshall
PICG & PIC Director
Senior Independent Director

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

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

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

Board of Directors continued

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

Date of appointment: Jérôme was appointed to the Board as a Non-Executive Director in November 2018.

N IO

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

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

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

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

Date of appointment: Peter was appointed to the Board as a Non-Executive Director in May 2017.

R IO

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

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

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

Key

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

A N R

Mark Stephen

PICG & PIC Director Independent Non-Executive Director

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

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

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

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

Ri IO

Wilhelm Van Zyl

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

Date of appointment: Wilhelm was appointed to the PIC Board as a *Non-Executive* Director in May 2015, and subsequently appointed to the PICG Board in October 2017.

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

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

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

Corporate Governance report

Governance Code compliance

The Board is committed to high standards of corporate governance across the Group and supports the principles laid down in the 2018 UK Corporate Governance Code (the Code) which is available at the Financial Reporting Council's website www.frc.org.uk. During the financial year ended 31 December 2022, the Group was compliant with all of the principles of the Code and the table below provides signposting to how we have achieved compliance. However, as the Group is a private company it does not comply with a number of provisions of the Code and we explain throughout the report where we do not comply with the Code or where the provisions are not applicable. The Board's commitment to robust governance means that we continue to work towards full compliance with the provisions of the Code, where applicable.

Code Principles explanation references

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

Principle reference	
1. Board Leadership and Company Purpose	
A	pages 74-79
B	page 81
C	pages 83 and 94-97
D	pages 38–39, 92–93
E	pages 50–55
2. Division of Responsibilities	
F	page 82
G	page 82
H	page 86
I	page 82
3. Composition, Succession and Evaluation	
J	pages 85, 101–102
K	pages 74–79, 84-86
L	page 88
4. Audit, Risk and Internal Control	
M	pages 95-96
N	page 95
O	pages 107-109
5. Remuneration	
P	pages 103-106
Q	pages 103-106
R	pages 103-106

Code Provisions that the Group does not apply

Provision	Explanation
18. All directors should be subject to annual re-election. The board should set out in the papers accompanying the resolutions to elect each director the specific reasons why their contribution is, and continues to be, important to the company's long-term sustainable success.	The Company's directors are not subject to annual re-election. Major shareholders of the Group nominate Directors for appointment to the Board and can raise any issues directly with the Chairman.
32. The board should establish a remuneration committee of independent non-executive directors, with a minimum membership of three, or in the case of smaller companies, two. In addition, the chair of the board can only be a member if they *were independent on appointment* and cannot chair the committee. Before appointment as chair of the remuneration committee, the appointee should have served on a remuneration committee for at least 12 months.	The Committee comprises six NEDs, four of whom are regarded independent and the remaining two are shareholder nominated directors. The Chair of the Remuneration Committee *is independent and meets* the relevant requirements. The shareholder nominated directors 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.
41. There should be a description of the work of the remuneration committee in the annual report, including: • an explanation of the strategic rationale for executive directors' remuneration policies, structures and any performance metrics; • reasons why the remuneration is appropriate using internal and external measures, including pay ratios and pay gaps; • a description, with examples, of how the remuneration committee has addressed the factors in Provision 40; • whether the remuneration policy operated as intended in terms of company performance and quantum, and, if not, what changes are necessary; • what engagement has taken place with shareholders and the impact this has had on remuneration policy and outcomes; • what engagement with the workforce has taken place to explain how executive remuneration aligns with wider company pay policy, and • to what extent discretion has been applied to remuneration outcomes and the reasons why.	The content of the Remuneration Committee report is tailored to requirements for Private Limited companies. We comply with the majority of this Provision and the Group is developing further ways of engagement with the workforce on the remuneration matters.

Simplified PICG Group structure

- Holding entities
- Regulated entity
- Service entity

Shareholders

Pension Insurance Corporation Group Limited

PIC Holdings Limited

Pension Insurance Corporation plc

Pension Services Corporation Limited

Leadership and Company Purpose

Pension Insurance Corporation Group Limited ("PICG" or the "Group") and Pension Insurance Corporation plc ("PIC") are each led by a Board of Directors (the "Board") who are appointed pursuant to the Articles of Association. The Group continues to benefit from a simple corporate structure, as depicted above, and composition of the Boards is designed to ensure there is an overlap of Directors between the Boards, as shown in the attendance table on page 84 and that both Boards are aware of relevant matters which affect either PICG or PIC. Any mention of the Board in this report refers to the PICG Board, unless stated otherwise. The Directors have the benefit of the Group's Directors' and Officers' indemnity and insurance policy.

The current Board members, details of their experience and the date of their appointment are set out on pages 74 to 79.

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

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

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

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

Engagement with stakeholders

The Board recognises that effective engagement with, and participation from, shareholders and other stakeholders is fundamental to promoting the Group's long-term sustainable success and to fulfilling its purpose of paying pensions of the current and future policyholders. When making decisions, the Board has regard to the interests of all of the Group's stakeholders, as well as its broader duties under s.172 of the Companies Act 2006. The Group's formal s.172 statement can be found on pages 40 to 43 of this Annual Report and pages 92 and 93 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.

Corporate Governance report continued

Division of responsibilities

The Board maintains a formal schedule of matters specifically reserved for its decision, to ensure there is a clear division of responsibilities between the Board and executive management, which is reviewed on an annual basis. These reserved matters include the Group's strategic aims; objectives and commercial strategy; governance and regulatory compliance; structure and capital; financial reporting and controls; internal controls and risk management; major capital commitments; major contracts and agreements; shareholder engagement; remuneration of the Board and senior executives; material corporate transactions; and any changes to this schedule of reserved matters.

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

Non-Executive Directors

Chairman

David Weymouth

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

Senior Independent Director ("SID")

Roger Marshall

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

Non-Executive Directors

Jake Blair; Sally Bridgeland; Judith Eden; Tim Gallico; Julia Goh; Stuart King; Arno Kitts; Josua Malherbe; Jérôme Mourgue D'Algue; Peter Rutland; Mark Stephen; Wilhelm Van Zyl

Along with the Chairman and Executive Directors, the NEDs are responsible for ensuring the Board and its Committees fulfil their responsibilities. The NEDs combine broad business and commercial experience, in particular in the financial services and insurance sectors, with independent and objective judgement as well as providing independent challenge to the Executive Directors. The balance between NEDs and Executive Directors enables the Board to provide clear and effective leadership across the Group.

Executive Directors

Chief Executive Officer ("CEO")

Tracy Blackwell

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

Chief Financial Officer ("CFO")

Dom Veney

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

Louise Inward

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

Governance and control framework

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

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

Board

The role of the Board is to promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society. The Board also plays a key role in establishing the Group's purpose, which is to pay the pensions of its current and future policyholders. Matters reserved for the Board are described on page 82.

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

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

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

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

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

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

Chief Executive Officer

Under authority delegated from the Board, responsible for management of the Group.

Executive Committee

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

Management and Operating Committees

Specialist committees assisting the executive management in discharging their responsibilities.

Corporate Governance report continued

Delegation

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

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

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

The Committee reports are set out on pages 94 to 111.

The Investment and Origination Committee considers matters specific to PIC. The five remaining Committees consider matters concerning both PICG and PIC, as per the delegations in their terms of reference. Members of the Committees are appointed by the Board on recommendation of the Nomination Committee in consultation with the Committee Chairs.

In addition to the Board Committees, there are also a number of management and operating committees that assist senior management with business management and oversight of the Group in relation to: the day-to-day management of the business; investment matters; risk management frameworks and input into the development of the risk strategy; projects and major change initiatives to maximise PIC's project investment return; and all new business deals and interaction with policyholders, including the new Consumer Duty, and overall conduct.

Board and Committee meetings

The Board meets formally on a regular basis and also attends to various matters by way of written resolutions. There is also regular communication and interaction with management, including monthly updates. Prior to each meeting, the Chairman and Company Secretary ensure that the Directors receive accurate, clear and timely information, to facilitate focused, robust and informed discussions and to aid the decision-making process.

Board meetings follow a clear agenda that is agreed in advance by the Chairman, in conjunction with the CEO and Company Secretary. At each meeting the Board receives updates from the CEO and CFO, as well as from other members of the senior management. These reports cover how the Group is executing the business plan, policyholder administration, including details of how we meet our obligation to policyholders, the new business pipeline and associated investments, and Risk's review of current and emerging risks. The Chairs of each Board Committee also report back to the Board on each Committee's recent activities. The Board is in regular dialogue with senior management outside of formal meetings and, in addition to regular matters, the Board and Committees also discuss other topics that require their attention. The topics that the Board discussed outside of regular reports are detailed on pages 94 and 111.

Attendance by Directors at Board and Committee meetings

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

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

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

1 David Weymouth was appointed as Director to the PICG and PIC Boards on 1 October 2022. He became the Chairman on 19 December 2022 following approval of his appointment by the Regulator

2 Jon Aisbitt stepped down from the PICG Board on 1 October 2022 and from the PIC Board on 31 October 2022

Key

○ Meetings attended

● Scheduled meetings

Board composition and effectiveness

The Nomination Committee regularly reviews the size, structure and composition of the Board and its Committees and makes appropriate recommendations to the Board. The Board is structured to provide the Group with an appropriate balance of skills, experience, knowledge and independence to enable it to discharge its duties and responsibilities effectively. Given the nature of the Group's business, insurance, actuarial, accounting and financial services sector experience is clearly of benefit, and this is reflected in the composition of the Board and its Committees. More detail on skills and experience of our Boards is included in the table below and on pages 74 to 79.

The PICG Board comprises the same Chairman and CEO as PIC, as well as 11 Non-Executive Directors, six of whom are independent and five nominated by major shareholders. The PIC Board is currently composed of a Chairman, CEO, CFO and 11 Non-Executive Directors, seven of whom are independent and four of whom have been nominated by major shareholders of the Group. Jon Aisbitt stepped down from the PICG Board on 1 October and from the PIC Board on 31 October. He was succeeded by David Weymouth, who joined the PICG and PIC Boards on 1 October 2022. David assumed the role of Chairman on 19 December 2022, following approval of his appointment by the PRA and FCA.

During the year, the Chairman (Jon and his successor David) and the NEDs met without the Executive Directors, and the NEDs met without the Chairman present. Whilst the Board increased its diversity in terms of gender and ethnicity following Director appointments in 2021, it remains aware that it currently does not meet best practice initiatives regarding the percentage of women on the Board. The Board will continue to take steps where possible to increase its diversity.

Skills matrix and Board evaluation

The Board believes that diversity, in its broadest sense, including gender, social, educational and ethnic backgrounds, age, disability, sexual orientation, skills, experience and diversity of thought and personal attributes, is crucial in providing a range of insights needed to support good decision making and the successful delivery of the PIC Group's business strategy. In assessing the balance of skills and experience, the Board uses a skills matrix and, where there are gaps, training is provided. The skills matrix is also taken into account for Board succession planning.

A Board evaluation exercise is carried out annually, covering both the Board and its Committees, and every three years the evaluation is carried out by an external consultant. An external evaluation took place in 2020, therefore for 2022 the Board conducted an internal evaluation, which will be followed by an external review in 2023. The process entailed the completion of a questionnaire for the Board and each Committee, with the results being discussed by the Nomination Committee and then the Board. The results indicated that the Board continued to have a broad and appropriate range of skills with which to properly challenge management, as well as the skills and experience needed to meet stakeholder expectations. More detail on the Board effectiveness review is included on page 88.

Skills matrix

Knowledge of the business	100%
Corporate Governance	95%
Board experience	93%
Strategic Leadership	93%
Capital Markets and Listing	81%
Corporate Finance	95%
Asset & Liability Management	86%
Operations	81%
Origination	83%
Insurance	90%
Capital and Liquidity	90%
Conduct Risk	88%

Board independence

The independence of the Non-Executive Directors ("NEDs") is reviewed annually in accordance with the criteria set out within the Code. The PICG Board and PIC Board both comprise a majority of independent NEDs ("INEDs") including the Chairman. On his appointment as Chairman, David Weymouth satisfied the independence criteria set out in the Code. Sally Bridgeland, Judith Eden, Julia Goh, Stuart King, Arno Kitts, Roger Marshall and Mark Stephen are considered independent. Jake Blair, Jérôme Mourgue D'Algue, Tim Gallico, Josua Malherbe, Peter Rutland and Wilhelm Van Zyl are not considered independent because they are nominated by major shareholders of the Group. For the financial year ended 31 December 2022, the Board has therefore satisfied the Code requirement that at least half of the Board, excluding the Chair, comprises Non-Executive Directors determined to be independent.

Composition and independence

PIC Board

Executive	2
Independent non-executive	7
Non-executive	5

PICG Board

Executive	1
Independent non-executive	6
Non-executive	5

Time commitments

As part of the appointment process and their annual review, each NED confirms that they are able to allocate sufficient time to the Group to discharge their responsibilities effectively. The external commitments of the Chairman and the other Directors are indicated in their profiles on pages 74 to 79 and the Company Secretary maintains a record of all external appointments held by the Directors. In addition, Directors are required to consult with the Chairman as early as possible on any new external appointment. The Board is satisfied that the Chairman and each NED are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

Induction and ongoing training and development

Following appointment, all Board members receive a tailored induction programme, which is monitored by the Chairman and is the responsibility of the Company Secretary. The programme is bespoke and takes into account the new Director's qualifications and experience. It includes presentations, briefings, and meetings with Board members, senior management and external advisers. Specific training, that has been identified during the induction process, is then provided to new Directors to enable them to properly challenge the Executive Directors and senior management.

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

Training sessions are regularly provided to Directors for each round of Board and Committee meetings. Usually, there is a training session scheduled for each Board meeting and after each Investment and Origination Committee and Risk Committee meeting.

Ongoing learning of the Board

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

David Weymouth's induction

A tailored induction programme was designed for David Weymouth who, was appointed as the new Chairman. The induction included reading material to give David an overview of the PIC business and, was followed by general induction and focused deep dive sessions. This induction programme was implemented over a period of two months.

Reading material

Reading material shared with David which provided a general overview of PIC and gave him an insight into the Board work

General introduction

Origination
How PIC wins business including pricing, market overview and reinsurance origination

Operations/Pension Schemes Transition
How scheme members become PIC's customers/ policyholders and how PIC looks after its policyholders

Investments
Structure of investments, investment overview and strategy, ESG integration, built environment and investment operations

IT
IT strategy and cyber security

Strategy
Board and executive management work on the Group's strategy

Compliance and Data Protection
Compliance across the business and how PIC ensures data safety

Finance
Overview of PIC's financial reporting

HR
Overview of the HR function and PIC's Remuneration Policy

Risk
Key business risks, risk appetite and the Risk Management Framework

Legal
Overview of the Group's legal structure, the Articles of Association of PICG, and shareholder matters

Projects
Focus on change initiatives across the business

Focused sessions

PIC Culture
Deep dive with Learning & Development, HR and Corporate Communications teams

IFRS 17
Focused session with the Finance and IFRS 17 project teams

Policyholders
Overview of conduct risk and Pension Operations

Internal Model
Focused session with Chief Actuary, Finance and Risk

Corporate Governance report continued

Performance evaluation

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

Step one **Process planning**

The Company Secretary prepares a survey covering the following sections: i) meetings, ii) composition and succession, iii) responsibilities, culture and stakeholders, iv) training and development, and v) role of the Board Chairman.

Step two **Implementation and reporting**

Following review by the Chairman, the survey is circulated for completion.

Results are collated by the Company Secretary, who analyses the key themes and proposes actions.

Step three **Evaluation at Board level**

The Nomination Committee considers the results and recommends the proposed action to the Boards.

The Boards discuss the outcomes of the evaluation and agree the proposed actions.

Step four **Oversight of progress**

Work begins on the proposed actions.

Regular updates are given to the Boards on progress.

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

Board strengths:

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

Areas for development:

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

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

Conflicts of interest

The Board has established a procedure to deal with Directors' conflicts of interest which complies with the PICG and PIC 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 each Board and Committee meeting.

Accountability

The Board, through the Audit and Risk Committees, receives reports regarding the Group's risk management and internal control systems. These reports comprise a verbal update from all Chairs of the Board Committees and are supported by the Integrated Assurance Report and an annual attestation process. Collectively, these lead to an annual opinion and written assessment on controls, risk management, governance and culture which allow the Board to assess the effectiveness of the Group's systems of risk management and internal control. The Audit Committee facilitates for the Board the review of the Group's relationship with its auditor, the details of which are set out in the Audit Committee report on pages 94 to 97. The Board also reviews financial and business reporting at each scheduled meeting.

Modern Slavery Act 2015

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

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

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

Anti-bribery and corruption

The Group operates an Anti-Bribery and Corruption Policy to prevent and prohibit bribery, in line with the Bribery Act 2010. The Group will not tolerate any form of bribery by, or of, its employees, agents or consultants or any person or body acting on its behalf, and no such incidents occurred in the financial year ended 31 December 2022. Senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery. The policy covers:

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

Whistleblowing arrangements

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

Remuneration

Details of the Directors' remuneration and the work of the Remuneration Committee can be found on pages 103 to 106.

Board activities.

Each year the Board approves an annual Board calendar of matters which it considers important to oversee, debate and review. The table below shows these regular matters; the topics which were of particular focus in 2022 are highlighted at the top of the table. The Board, in its considerations, took into account its obligations arising from s.172 of the Companies Act 2006 as outlined on pages 40 to 43.

Strategy	Customers/Policyholders	Risk management and Internal Model
Key highlights from Board activities in 2022		
• Approved refreshed strategic objectives and KPIs. • Approved PIC Sustainability Strategy, and updated the ESG Policy.	• Approved PIC's Operational Resilience Self-Assessment including Important Business Services and Impact Tolerances in respect of PRA PS6/21 and FCA PS21/3. • Considered implications of the new Consumer Duty for the Group and approved the implementation plan.	• Carried out increased oversight and monitoring of PIC's liquidity and solvency position, ensuring that it was robust and resilient to exceptional market conditions.
Routine matters considered as part of the annual Board calendar		
• Approved the five-year business plan. • Considered the Group's strategy and further opportunities for growth. • Approved new asset classes to be added to PIC's portfolio. • New business transactions above a defined threshold require Board approval, and the Board considered and approved a number of new business transactions. • Continued to discuss the Group's culture in the context of how it affects the Group's strategy. • Considered the Group's pricing assumptions against investment outcomes. • Continued to provide oversight of the Group-wide, comprehensive programme of change focusing on the initiatives being handed over to business as usual.	• Continued to closely oversee PIC's operations with particular focus on administration services outsourced to ensure excellent service provided to PIC's policyholders. • Redefined the various customer initiatives into an overarching Customer Programme which covers: the new Consumer Duty, policyholder communications and vulnerable customers.	• Closely oversaw PIC's portfolio and received regular updates on any de-risking carried out by the Investments team. • Approved risk appetite with particular focus on climate change. • Approved the Own Risk and Solvency Assessment. • Provided oversight of the implementation of the Group's hedging strategy. • Received reports on the progress of regulatory stress and scenario testing to ensure the business remained resilient and robust in challenging times and there was no adverse impact on policyholders, workforce and other stakeholders. • Received an annual report on the Internal Model validation. • Continued its focus on PIC's regulatory engagement. • Approved the updated recovery and resolution plan. • Received an annual cyber security benchmark.

[redacted]

Employees and remuneration

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

[redacted]

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

Financial reporting and controls

- Approved the full year Annual Report and Accounts.
- Monitored the Group's progress in respect of the implementation of IFRS17.

- Regularly received and reviewed the Group's performance reports.
- Reviewed and approved the integrated assurance plan and noted updates against the plan in reports from the Audit Committee.
- 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

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

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

Corporate Governance report continued

Stakeholders and the Board

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

Pages 38 to 39 of the Strategic Report set out who our stakeholders are, how we have engaged with them as a business, and how stakeholder needs are at the core of our decision making.

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

Supporting the Board's commitment to stakeholders

PIC ensures that the interests of its stakeholders are embedded and intrinsic to any decisions made by the Board, Executive Committee and senior management. Board papers include a section outlining how the interests of stakeholders are affected by a particular decision to assist Directors take s.172 factors into consideration in their decision making. An illustration of where the interests of our stakeholders have had an impact on some of the Board's key decisions is covered in examples on pages 40 to 43 in the s.172 statement of this Annual Report.

The Company has a schedule of matters reserved for the Board which ensures that certain material and/or strategic decisions can only be made by the Board and may not be delegated to Executive Committees or senior management. More detail on the matters reserved for the Board can be found on page 82 in the section "Division of responsibilities". This schedule helps the Group to make sure that decisions are made at the right level and that stakeholder impacts are a fundamental part of the decision-making process. The Board is supported in its work by six Board Committees, whose responsibilities are delegated by the Board and are described on page 83.

Embedding stakeholder interests within our culture

Through informed discussion at Board level, our executive team carries forward stakeholder consideration into and throughout the business as described on pages 38 to 39. PIC operates a culture of openness and transparency, with management at all levels working amongst their operational teams, ensuring that the tone from the top is well embedded in the day-to-day operations of the Group and therefore stakeholder interests are evidenced in PIC's culture.

Valuing our stakeholders

As a business, we know that we can only be successful and sustainable in the long term if we take into account our stakeholders, their views and needs. The Board places the utmost importance on our stakeholders and takes an active role in engaging with them, including at our Policyholder Days, which continue to be held in person and virtually. The main activities of the Board with regard to stakeholder engagement are shown on pages 38 to 39 and page 93.

Stakeholder	Outcome of our business model for our stakeholders
Suppliers	The Board recognises the importance of its suppliers, which are identified and managed in accordance with PIC's Third Party Management Policy which forms part of a PIC-wide policy framework approved by the Board. A risk assessment is carried out on each supplier and the service provided to identify and prioritise critical relationships along with the applicable due diligence, whilst setting the frequency of ongoing reviews. This process is integral to any Board decision in respect of critical suppliers and outsourcers. The Board and its Committees regularly discuss commercial performance of PIC's suppliers, investment managers and key outsourcers, including an update on relationships. It is key for the Board that PIC fosters these relationships so that they are mutually beneficial, sustainable, and therefore in the best interest of PIC's policyholders.
Shareholders and debt holders	The Annual and Half Yearly Reports, Solvency and Financial Condition Report, Task Force on Climate-related Financial Disclosures report, the Environmental, Social and Governance report, and RNS updates are available throughout the year and these provide information on the Company's activities and financial information. The Board and its Committees are part of the process ensuring this information is accurate, fair, balanced and accessible to our stakeholders. Major shareholders' views are voiced to the Board and management through their nominated Directors on the Board. Further, the Board has ongoing interactions with employees who are the largest group by number of shareholders.
Regulators and policymakers	PIC is subject to regulation and supervision by regulatory authorities in the UK, most notably the FCA and the PRA. The Board and its Committees are kept updated on PIC's interactions with the regulators. Throughout the year Directors and management met with the PRA, with management providing updates on major developments at PIC. PIC seeks to engage with regulators proactively to facilitate dialogue on the regulatory landscape, either by taking part in a formal consultation process or through meetings. Where appropriate, consulting in advance with the regulators is part of the Board's decision-making process.
Policyholders	Directors meet with policyholders during the Company's policyholder events, which this year included one Policyholder Hour, four Policyholder lunches and one Policyholder Day. PIC's policyholders were also part of the Lord Mayor's Show in London, attended by PIC, and participated in the topping out ceremony of Manchester New Victoria. The Board continued to receive regular reports on PIC's customers, and considered an overarching Customer Programme which covers vulnerable customers, policyholder communications and the new Consumer Duty. A number of NEDs attended workshops which focus on the implementation of the new Consumer Duty.
Employees	The Board has regular interactions with PIC's workforce, including mentorship provided by NEDs to the Executive team, attendance by employees at Board and Committee meetings and engagement outside of meetings on a variety of initiatives. The Executive Board members hold regular Town Halls with all employees which facilitate a two way dialogue between the Executives and PIC's workforce, and feedback is communicated back to the Board. There is also a Senior Leadership Forum which provides channels of communication between the Executives and the wider employee group. The Board receives regular updates from the Chief People Officer, which include any employee issues as well as updates on the results of the annual employee survey. The views and feedback are taken into account by the Board in its decisions affecting employees, e.g., in respect of remuneration and benefits, approval of the budget and the business plan, and the ways of working.
Defined benefit pension scheme trustees and sponsors	The relationship PIC has with trustees, and their expectations, is discussed alongside each deal considered by the Board. Feedback received from the trustees and consultants is factored into the Board's strategic discussions around new business and underpins the Board's approval of the business plan.
Direct investment counterparties	PIC works with numerous counterparties and provides financing for a variety of projects which enable the development of new homes for social rent, and development of renewable projects. The Board is part of the approval of any new strategies and the ongoing oversight of direct investments to ensure they provide good outcomes for communities, for PIC and for its policyholders. The projects PIC invests in create opportunities for local communities through funding of the projects but also additional initiatives such as funding of local charities, and opportunities for younger generations to work in the construction industry via apprenticeships.

Audit Committee report

We remained focused on overseeing the integrity of PIC's financial reporting and internal controls."

Roger Marshall
Chair of the Audit Committee

Committee role and membership

The Audit Committee (the "Committee") is responsible for oversight of financial reporting, the effectiveness of internal controls, risk management systems and processes as well as compliance matters. The Committee therefore reviews and challenges the consistency of accounting policies and methodologies used for transactions as well as the information presented within the financial statements. The Committee is also responsible for overseeing the effectiveness of internal controls and the Risk Management Framework and reviews whether management has discharged its duty to maintain effective systems, processes and controls.

Pursuant to the Code, the Committee comprises four INEDs. The Board has confirmed that it is satisfied all Committee members are independent and possess recent and relevant financial experience across various industries.

Other regular attendees at Committee meetings during 2022 included: Chairman of the Board, CEO, CFO, CRO, Chief Actuary, Actuarial Function Holder, General Counsel, Head of Internal Audit and Wilhelm van Zyl, a shareholder nominated Director.

The Committee held private sessions without Executives or KPMG present and also met privately with the Head of Internal Audit.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

		Scheduled meetings	Meetings attended
Roger Marshall (Chair)	INED	5	5
Sally Bridgeland	INED	5	5
Stuart King	INED	5	5
Mark Stephen	INED	5	5

I am pleased to present this year's Audit Committee report, which gives insight into the work carried out by the Committee and our discussions during 2022.

The Committee fulfils a vital role in the Group's governance framework by providing valuable independent challenge and oversight across all financial reporting and internal control procedures. It ensures that our shareholders', policyholders' and wider stakeholders' interests are protected.

The backdrop of this year continued to be the implications of market volatility and uncertainty in relation to inflation and interest rate movements. The Committee received regular updates from the Chief Financial Officer on the implications to our key metrics and, as a result of the substantial increase in GBP interest rates, the Committee approved the recalculation of the TMTP at half year 2022.

As was the case in 2021, the Committee has continued to dedicate a considerable amount of time and focus to the implementation of IFRS 17, by receiving regular project updates, reviewing and challenging implementation plans and also approving key accounting policies and reviewing significant judgements to support the transition to the new standard. The Committee members, along with KPMG, attended a session to gain an in-depth understanding of the implications for the opening balance sheet.

As part of our regular duties, we oversee the relationship with and performance of the external auditor. In 2022, we provided oversight of the change in the lead Audit Partner, who finished his term on the PIC account. We will continue to work with the new Audit Partner closely to ensure the external auditor's work remains effective and improvements are made, where needed.

In my role as Chair, I remain committed to ensuring the Committee is effective and adjusts its deliberations in line with regulatory changes and evolving business needs.

More detail on the Committee's other activities can be found on the following pages.

Committee focus during 2022

It is important for the Committee Chair to understand fully the topics of concern to facilitate meaningful discussion during the meetings. To support him in fulfilling this role, the Chair met regularly on a one-to-one basis with the CEO, CFO, Head of Internal Audit, and the lead Audit Partner from KPMG. The Finance and Actuarial teams also provide support to the Committee by making recommendations in relation to the Group's key accounting policies, stress testing and methods and assumptions being used in the valuation of the technical provisions under Solvency II and suggested basis *including prudential margins for technical provisions under* IFRS for PIC and the Group.

In 2022, the Committee remained focused on the implementation of IFRS 17 and the financial impact on the Group's reporting, and held several additional sessions on these matters. The Committee has continued to monitor the implementation of systems, processes, and the operating model to support the new financial reporting requirement. The discussions also centred around understanding and challenging the IFRS 17 methodologies, fair value calibrations, default assumptions and the impacts on the balance sheet. The Committee, along with KPMG, also attended a session on the IFRS 17 opening balance sheet to understand the impacts and sensitivity comparisons with IFRS 4.

The Group continued to strengthen its non-financial controls and governance arrangements and throughout the year the Committee approved a number of policies that fall within its remit. The Committee had oversight of the Group's compliance, whistleblowing policy and procedures for detecting fraud as well as the prevention of bribery and market abuse. In addition, the Committee focused on information security, cyber security, cloud security as well as physical assets security and challenged the outcomes of an audit in these areas. This will remain a focus for 2023 and the Committee has a training session scheduled for 2023.

During the year, the Committee spent time reviewing the Group's quarterly operating performance updates, half year and full year financial statements, and remained conscious of macro-economic factors impacting the Group. The Committee approved the proposed changes to the credit default assumption, following Moody's default report issued in February 2022, and also reviewed the Group's assessment of going concern and viability of the business, which the Committee is required to review under the Group's and the Company's Reporting and Disclosure Policy.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

- Approved the PICG half year report, and the Solvency and Financial Condition Report
- Reviewed the 2021 Annual Accounts and recommended to the PIC and PICG Boards for approval
- Reviewed and approved the half year 2022 Transitional Measures and Technical Provisions recalculation assessment
- 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
- Approved the 2022 year end methodologies and assumptions
- Approved the 2023 annual Compliance Monitoring Plan
- Approved the 2023 Integrated Assurance Plan and Internal Audit Plan
- Reviewed the Money Laundering Reporting Officer's report
- Reviewed and received regular reports from the Compliance function in relation to financial crime, whistleblowing and data protection
- Received reports and updates from the Actuarial Function Holder in respect of validation of technical provisions and year end basis and assumptions

Whistleblowing

The Committee reviewed the adequacy of the Group's whistleblowing policies and procedures, ensuring that such arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action. The Committee was satisfied that these remain adequate.

Fair, balanced and understandable statements

The Committee considered, satisfied itself and recommended to the Board that the processes and procedures in place ensure that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the shareholders and stakeholders to assess the Group's position and performance, business model and strategy, and the business risks it faces.

To make this assessment, the Committee received copies of the Annual Report and Accounts, to review during the drafting process to ensure that the key messages were aligned to the Group's position, performance and strategy, and that the narrative sections were consistent with the financial statements and tables. The Committee provided *feedback and the Annual Report was amended accordingly,* ahead of final approval.

Internal audit and integrated assurance plan

The Committee monitors the activity, role and effectiveness of the Group's Internal Audit function and is responsible for the appointment or removal of the 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.

Towards the end of the year, the Committee reviewed and approved the 2023 Internal Audit Plan and the 2023 Annual Compliance Monitoring Plan; it also recommended the 2023 Integrated Assurance Plan to the Board.

Audit Committee report continued

Internal Audit effectiveness review

Tailored online questionnaire

The questionnaire is based on the Internal Audit Code of Practice

Stakeholders

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

Results

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

Outcome

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

In accordance with the Internal Audit Code of Practice and the UK Corporate Governance Code, the Committee reviews the effectiveness of the Internal Audit function annually. The review is conducted by a tailored online questionnaire which is completed by relevant stakeholders.

The Committee considered the results of the review and is satisfied the Internal Audit function had the relevant experience and expertise for the Group and engages well with the wider business. It was recognised that additional Internal Audit resource would be required to keep up with the growth of the Group.

External auditor

The Audit Committee has the overall responsibility for overseeing the relationship, performance and fees of the external auditor, KPMG. This includes making recommendations to the Board in relation to its appointment, re-appointment and removal. In 2022, there has been a rotation of the Audit Partner and the Committee oversaw the transition.

The Committee has confirmed that it was satisfied that KPMG remained independent and objective throughout the year.

During 2022, the Committee reviewed the external auditor's plan, for the audit of the Group's financial statements, which included key areas of scope of work, key risks on the financial statements, and the proposed audit fee and terms of appointment.

Tenure and effectiveness

KPMG has been the external auditor for the Group for the last 16 years, with a tendering process last completed in 2016.

The effectiveness of our external auditor is assessed in accordance with a process agreed by the Audit Committee, which involves the completion of a questionnaire by a targeted group that have regular interactions with KPMG. The targeted group include: the CEO, CFO, Chief Actuary, Financial Controller, and individuals from the business.

The Committee was provided with a summary of responses and held a private session to discuss the results to assist with its own considerations. Feedback demonstrated that KPMG was performing largely as expected. However, some areas for improvement were highlighted and discussed with the new Audit Partner.

Non-audit fees

To ensure the continued independence of the external auditor, the Group has put in place a Non-Audit Services Policy, which is reviewed annually by the Committee. The policy places a 70% cap on non-audit services relative to the statutory audit fees, with any fees over £25,000 requiring approval from the Committee.

The Committee is satisfied that the Group was compliant with the Financial Reporting Council's Ethical and Auditors Standards and the UK Corporate Governance Code in relation to the scope and maximum permitted level of fees incurred for non-audit work by KPMG during the year.

Other disclosures

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

Significant issues throughout the year were dealt with as follows:

Area of focus	Actions taken by the Committee
IFRS 17 methodology and calibration	The Committee reviewed progress made in IFRS 17 preparation and progress on the technical development of IFRS 17 methodology and calibration. It assessed high-level financial impacts on PIC's opening balance sheet and approved tranches of accounting methodologies in support of a series of "Dry Runs" ahead of the effective date of 1 January 2023.
Valuation basis and assumptions	The Committee continued to review and approve the valuation basis and assumptions for financial reporting. In-depth discussions were held on inflation, longevity and MCEV cost of capital Proposed changes to the valuation assumptions and methodology were approved in May 2022 and November 2022.
TMTP methodology	The Committee has reviewed and challenged the proposed changes to the TMTP methodology and, in June 2022 approved the Group's application to the PRA to recalculate TMTP at half year 2022.
Internal controls	The Committee received quarterly reports to allow for the evaluation of the effectiveness of controls and to highlight any failings or weaknesses. The reports on financial and non-financial controls assured the Committee that the controls remained within the tolerances and provided an update on the status of progress against the 2022 Integrated Assurance Plans. The Committee also receives quarterly reports on current and emerging legal and regulatory matters, and any potential impacts on the Group's and Company's financial statements.

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. Further information can be found on page 88.

Looking forward to 2023

The focus of the Committee during 2023 will be to oversee the first-time publication of the 2023 half year IFRS 17 results, which will include 2022 half year and full year comparatives.

Investment and Origination Committee report

PIC's overall public and private credit exposure and portfolio stability are central to our considerations."

Arno Kitts
Chair of the Investment and Origination Committee

Committee role and membership

The Investment and Origination Committee (the "Committee") is responsible for overseeing the management of the investment policy and investment strategy for PIC, and to provide oversight of the operation of PIC's investment portfolios within the strategic and risk frameworks. In practice, this involves reviewing proposals of investments including new asset classes, approving entry into new transactions, and overseeing the use of both internal and external fund managers as well as the use of custodians. The Committee also ensures the integration of ESG risks, including climate change, within the investment policy.

Jake Blair and Julia Goh were appointed to the Committee on 1 January 2022. David Weymouth joined the Committee on 1 October 2022 and Jon Aisbitt stepped down on 31 October 2022.

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

Other regular attendees at Committee meetings during 2022 included: CEO, CFO, CRO, Chief Investment Officer, Chief Origination Officer and the General Counsel.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

		Scheduled meetings	Meetings attended
Arno Kitts (Chair)	INED	4	4
Jake Blair	NED	4	2
Julia Goh	INED	4	3
Jérôme Mourgue D'Algue	NED	4	4
Peter Rutland	NED	4	3
David Weymouth	INED	1	-
Wilhelm van Zyl	NED	4	4

Jon Aisbitt stepped down from the PIC Board and from the Committee on 31 October 2022. He attended 3/4 meetings.

As Chair of the Investment and Origination Committee, I am pleased to present its report for the year ended 31 December 2022.

During the year, the Committee's core duties remained unchanged and the usual activities relating to investment, new business and reinsurance origination remained in place. Whilst market challenges arising from Covid-19 had dominated the prior year, the backdrop of this year continued to be the characteristics of market volatility and uncertainty. In particular, navigating macro-economic factors such as the Russian invasion of Ukraine, inflation, the autumn LDI crisis alongside hedging and liquidity were all key components of discussion. The Committee monitored elevated inflation and *the reversal of monetary policy in respect of* PIC's overall public and private credit exposure and portfolio stability. The Committee members, together with the entire Board, attended a deep dive session on inflation.

To support its ongoing work to assess whether the assets remained appropriately invested and are in the best interests of policyholders, the Committee reviewed and approved the Investment Policy and updated delegations within the Group's governance framework. The Committee considered the contribution to the portfolio performance from both strategic asset allocation and active investments undertaken in the year.

Despite the market conditions, the origination pipeline throughout the year continued to grow and the Committee provided oversight and challenge of the core value metrics to proposed projects. Throughout the year, Committee members attended ad hoc meetings to review and discuss in detail asset strategies for larger transactions. Each transaction was scrutinised and where applicable, the Committee approved the asset strategy for recommendation to the Board.

The Committee continued to support the Group's ESG strategy towards meeting its Net Zero commitment by approving a transition strategy for portfolio decarbonisation. Further information on PIC's ESG strategy can be found on pages 44 to 55. We also spent time on overseeing progress made by PIC in embedding ESG into the day-to-day activities which are under the oversight remit of the Committee.

Committee focus during 2022

The Investment and Origination teams provide the Committee with significant support to help it discharge its responsibilities. The Investment team makes recommendations regarding the Investment Policy and strategy, PIC's hedging exposure, and pricing portfolios for deals. Meanwhile, the Origination team recommends entry into new origination transactions as well as the pricing aspects.

In 2022, the Committee dedicated time to consider the integration of PIC's ESG investment approach and strategy to achieve its Net Zero carbon commitment. In July 2022, the Committee approved PIC's Stewardship Policy. The policy sets out PIC's approach to stewardship within its investment portfolio, including the responsible allocation of capital to create long-term value. The Committee also approved the transition strategy for portfolio decarbonisation to support the approach that climate change was not only a risk, but also an investment opportunity.

Another focus of the Committee during the year was supporting the strategy for PIC to become a manufacturer of long-term income-producing assets. As part of the strategy, the Committee recommended to the Board the capital strategy and the formation of two new asset classes. The Committee considered in detail the Affordable Housing strategy to support the provision of safe, secure homes that people can afford to live in and that will have a lasting impact on current and future generations. Further information on built environment and Affordable Housing can be found on pages 8 to 13.

As a result of the global macro events, the Committee received regular updates in relation to the Group's liquidity position, including collateral and stress and scenario testing of liquidity. The Committee reviewed the appropriateness of PIC's liquidity stresses, but remained comfortable that, despite the challenging conditions, the portfolios were resilient in accordance with the Group's liquidity framework. The Group will be undertaking a fuller review of the liquidity framework and the Committee will continue to focus on liquidity matters in 2023.

High on the Committee's agenda was also monitoring the progress of insourcing management of PIC's GBP credit portfolio, which it approved last year. The Committee has received quarterly updates in relation to the migration of assets and the recruitment process.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

- Reviewed the Chief Investment Officer and the Chief Origination Officer Management Information
- Reviewed regular updates on GBP public credit insourcing
- Reviewed the Trading Policy as part of the Prudent Person Principle regulations
- Assessed the impact of UK inflation on PIC's balance sheet
- Received quarterly updates on the Diversified Capital Fund performance estimates, activity and pipeline, and the DCF new business allocation
- Approved the Investment Policy
- Approved the Stewardship Policy
- Approved the transition strategy for portfolio decarbonisation
- Recommended to the Board for approval the new asset class of Senior Living
- Recommended to the Board for approval the asset strategies for larger transactions
- Recommended to the Board for approval the new asset class of Affordable Housing

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. Further information can be found on page 88.

Looking forward to 2023

In 2023, the Committee will continue to focus on navigating the portfolio through a macro-economic environment of variable interest rates and potentially negative growth. The Committee will continue to monitor hedging and liquidity, and will focus on the development and integration of the Group's ESG capabilities.

Nomination Committee report

The Board and executive succession was our key focus this year."

David Weymouth
Chair of the Nomination Committee

Committee role and membership

The Nomination Committee (the "Committee") is responsible for keeping the size, structure and composition of the Board and its Committees under review, assisting the Board with developing robust succession plans for Board and senior executive positions, evaluating the balance of skills, knowledge, experience and diversity, ensuring that there is a sufficient pipeline of talent to achieve the Group's strategy and stay within its risk appetite. The Committee leads the process for Board appointments and makes recommendations to the Board. It also works closely with the Company Secretary to ensure that arrangements are in place for a formal induction for new appointees to the Board and identifies ongoing training needs. The Committee assists the Board with its annual evaluation of effectiveness process and more detail on the process can be found on page 88.

During the year, David Weymouth joined the Committee on 1 October 2022 and Jon Aisbitt stepped down on 31 October 2022

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

Other regular attendees at Committee meetings during 2022 included: General Counsel, Chief People Officer, Head of Learning & Development and external consultants.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

		Scheduled meetings	Meetings attended
David Weymouth (Chair)	INED	1	1
Stuart King	INED	5	5
Josua Malherbe	NED	5	3
Jérôme Mourgue D'Algue	NED	5	5
Mark Stephen	INED	5	5

Jon Aisbitt stepped down from the PIC Board and from the Committee on 31 October 2022. He attended 4/4 meetings.

I am pleased to present the Nomination Committee report for the year ended 31 December 2022. I would like to thank Jon Aisbitt, who chaired the Committee for much of the year until he stepped down from the Board in October 2022. I have assumed chairing of the Committee in November 2022 and will build on the work Jon has done.

The key focus of the Committee during the year was on the Board and executive succession. The report gives detailed insights into the process the Group followed which resulted in my appointment as the Chairman of the Board, and which was led by our Senior Independent Director, Roger Marshall. As part of the overall succession planning, the Committee continued to monitor the Board's tenure and identified that several INEDs are nearing the nine-year term. Serving beyond a nine-year tenure is considered in the Code as being one of the reasons for which a director's independence could be impacted. Therefore, a search for successors has already commenced and will continue into 2023.

Considerable time was spent by the Committee on executive succession, which led to the appointments of Dara McCann as the interim Chief People Officer and Lance DeLuca as the Chief Operating Officer. The Committee also provided feedback on the management's proposal of an updated talent and succession management programme alongside a new leadership capability framework. The Committee considers this an important element which will help us further develop a structured approach to identifying a strong pipeline of future leaders. We will continue to closely oversee this work in 2023.

The Committee also attended to other matters, such as approval of various policies, the Committee's terms of reference and assisting the Board with the Board and Committees' evaluation process. We also carried out our annual review of the Board Diversity Policy and Board diversity targets and recommended to the Boards that these are still appropriate, but we will continue to discuss how to improve Board diversity in 2023 when we consider appointments for any arising vacancies.

Further details on matters considered by the Committee are provided on the following pages.

Committee's focus during 2022

Board composition and succession

Much of the Committee's time in 2022 was spent on assisting the Board with finding a successor for the Chairman of the Board, Jon Aisbitt, who, at the end of 2021, announced his intention to step down from the Board. We take this opportunity to provide some detailed insights into the search process leading to the appointment of the new Chairman, as outlined on the chart below.

Succession planning – appointment of the new Chairman

2021

The Board is notified by Jon Aisbitt of his intention to step down from the Board and its Committees.

January 2022

The Nomination Committee selects a group of Directors to focus on the search for a new Chair (Chair Search Committee). The group is led by the Senior Independent Director, Roger Marshall. The current Chairman excuses himself from the meetings considering the search for the new Chair, as required by the Code.

February 2022

Russell Reynolds is selected as a search agency. A position specification is prepared and the Chair Search Committee discusses the interview process.

March 2022

A long list of candidates is presented to the Chair Search Committee including diversity considerations.

April 2022

Interviews are carried out and the Chair Search Committee reviews feedback on various candidates.

May 2022

The search narrows down the candidates to two. Further interviews are held.

The Chair Search Committee makes recommendation to the Boards to appoint David Weymouth as the Chairman of PIC and PICG.

June 2022

On recommendation from the Chair Search Committee, the Boards appoint David Weymouth as the new Chairman of PIC and PICG Boards.

December 2022

The PRA approves David Weymouth's appointment as the Chairman of the PIC and PICG Boards.

An induction process is carried out to assist David in settling into his role. More information on induction can be found on pages 86 and 87.

Nomination Committee report continued

Board composition and tenure

The Committee assisted the Board with the annual self-assessment and as part of this process reviewed the Board's composition, including the tenure of Directors. More on the evaluation process can be found on page 88. This review indicated that several INEDs will be coming to the end of their nine-year term, as shown on the Board tenure charts below, therefore the Committee has already commenced planning their succession. The skills matrix, which can be found on page 85, is used to support the planning process and is overlaid with considerations around future skills and experience which the Board will need to successfully lead the Group.

PICG length of tenure
(Chairman and Non-Executive Directors)

1 5 1 5

PIC length of tenure
(Chairman and Non-Executive Directors)

1 6 1 4

Key

Less than a year 1–3 years 3–5 years 5–7 years

Gender diversity

PIC		PICG	
Women	**4 = 28.6%**	Women	**3 = 23.1%**
Men	**10 = 71.4%**	Men	**10 = 76.9%**

Executive succession

Along with progressing the search for the new Chairman, the Committee also had its attention on executive succession planning. The Group has a succession plan in place for senior management and the Committee reviews this regularly and reports to the Board. The need for changes in leadership was recognised as part of overall strategy considerations and planning for the further growth of the Group. In 2022, the Committee, assisted by an external search consultancy, considered candidates for the interim Chief People Officer ("CPO") and the new Chief Operating Officer ("COO"). Following an extensive search and a rigorous recruitment process, the Committee made recommendations to the Board to approve Dara McCann as the interim CPO and Lance DeLuca as the new COO. Dara joined the Group in September 2022, bringing diverse experience from various industries, and Lance started in October 2022, bringing a wealth of experience from the financial industry.

The Committee also spent time reviewing management's proposal for an updated talent and succession management programme alongside a new leadership capability framework. This work aims to help the Group identify future leaders. The implementation of those proposals will be closely overseen by the Committee in 2023.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

- Approved the Board Diversity Policy and Board Diversity Targets
- Approved the Fit and Proper Persons Policy
- Approved the Gender Pay Gap results
- Reviewed the Board tenure of NEDs and recommended to the Board to extend Roger Marshall's contract until August 2024 to allow for orderly succession and finding his replacement as the Chair of the Audit Committee
- Reviewed and approved the Committee terms of reference

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. Further information can be found on page 88.

Looking forward to 2023

The Committee will focus on an external effectiveness review of the Board and its Committees, assisted by an external consultant. As mentioned previously in the report, an external evaluation is carried out every three years, as recommended by the Code. The Committee will also dedicate its time and attention to overseeing the implementation of the new approach to executive talent and success on planning and a new leadership capability framework. It will also continue its work on finding successors for INEDs who are due to rotate off the Boards.

Remuneration Committee report

Continued improvement of the risk adjustment framework linked to remuneration remained high on our agenda."

Judith Eden
Chair of the Remuneration Committee

Committee role and membership

The Board of the Company has established a Remuneration Committee (the "Committee") which oversees the establishment and implementation of a Remuneration Policy for employees and Directors, 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.

The Committee also oversees the ongoing appropriateness and relevancy of the Remuneration Policy and other workforce policies so that it does not encourage excessive risk-taking. To assist the Committee in fulfilling its responsibilities, it has access to a number of resources including the CRO, Chairs of the Risk and Audit Committees, external remuneration consultants and input from relevant subject matter experts within the Group.

David Weymouth joined the Committee on 1 October 2022 and Jon Aisbitt stepped down from the Committee on 31 October 2022.

The Committee comprises six NEDs, four of whom are regarded as independent and the remaining two are shareholder nominated Directors. Following a refresh of the Committee membership from 1 January 2022, the Committee has progressed towards compliance with the Code, and it is now majority independent.

Other regular attendees at Committee meetings during 2022 included: the CEO, the Chief People Officer and the Head of Compensation and Benefits.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

		Scheduled meetings	Meetings attended
Judith Eden (Chair)	INED	5	5
Stuart King	INED	5	5
Josua Malherbe	NED	5	4
Peter Rutland	NED	5	4
Mark Stephen	INED	5	5
David Weymouth	INED	1	1

Jon Aisbitt stepped down from the PIC Board and from the Committee on 31 October 2022. He attended 4/4 meetings.

I am pleased to present the Remuneration Committee report for the year ended 31 December 2022.

As anticipated in last year's report, the Committee continued to spend its time on the management incentive structure, the financial performance scorecards for 2022 and continued improvement of the risk adjustment framework linked to remuneration. We deliberated on how the application of the scorecards could be expanded across the Group as part of the employee annual review process. The Committee's attention remained on the link between pay, financial and non-financial performance, and risk metrics as well as considerations for further incorporating ESG within performance metrics as appropriate. We remained mindful of the Group's overall performance when discussing and approving incentive outcomes, especially in light of the market volatility and global macro-economic events.

The Committee also worked closely with management on agreeing remuneration packages for the newly appointed Executive Committee members. We have considered the Chairman of the Board and the CEO's proposals in relation to the NEDs' fees, and we have made recommendations in respect of both to the Board for approval.

We also spent some time on reviewing the benefits offered to employees, supported by the use of independent external benchmarking data. As a result, the Committee approved enhancements to some benefits provided to employees. This remains on our agenda as part of an ongoing review of benefits as we want to ensure the Group remains appropriately competitive with its peers.

As the number of employees continues to grow, our share ownership has also increased and, during the year, the Committee carefully considered the valuation of the Group for the share-based incentive awards, exercise, and liquidity purposes. We obtained input from independent advisers to support our recommendations to the Board.

The Committee is also responsible for leading on employee engagement and diversity and inclusion. We received regular reports from the Chief People Officer, which provided the basis for our oversight of the Group's overall headcount changes, turnover trends and whether these pose any risks to the stability of the Group, as well as diversity and inclusion initiatives.

As part of our routine activities, we have also reviewed and approved various policies within the Committee's remit (e.g., Remuneration Policy and Remuneration Policy Statement) to ensure these continue to be updated for legislative and regulatory changes and remain reflective of current practices within the Group.

Remuneration Committee report continued

Committee focus during 2022

A number of teams, including Human Resources ("HR"), Risk, Finance and Company Secretariat, supported the Committee to discharge its responsibility, including support in relation to incentive structures (including further cascading the use of incentive scorecards across the Group), further operationalising frameworks implemented with the support of external advisers (e.g., risk adjustment framework), continued alignment of pay to overall Group and individual performance, the NED Expense Policy, and the grant of options, for recommendation to the Board.

In 2021, the Group announced that Jon Aisbitt had expressed his wish to retire as Chairman in late 2022, and that following a comprehensive internal and external evaluation process by the Nomination Committee, David Weymouth would be appointed as his successor. To enable a smooth transition, David was appointed to the PICG and PIC Board on 1 October 2022 as Chairman designate. The Committee recommended to the Board the Chairman's fee, having considered external benchmarking data as well as the time commitment expected of David. In addition, the Committee also determined the remuneration package for other senior appointees, which was set in line with the current Remuneration Policy, including pension arrangements in line with those available to the wider workforce.

Another focus of the Committee during the year was to review and approve the proposed changes to the management incentive metrics and assurance measure scorecards for 2022. The intention of the incentive is to reward management commensurately for delivering across a basket of financial and non-financial metrics. The Committee also discussed in depth the integration of ESG factors within the performance framework and rolling this out Company-wide will be a focus for 2023.

During the year, the Committee dedicated time to consider PIC's benefit offering to employees to ensure that the Group and Company's approach to benefits remains competitive against the talent market from which we recruit. The Committee reviewed an external benchmarking exercise completed by Willis Towers Watson and agreed to approve changes to a number of benefits provided to employees. Further reviews and changes are expected to take place during 2023.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

- Conducted an annual remuneration review, including reviewing Group performance, risk metrics and bonus pool availability, and made recommendations to the Board
- Approved changes to a number of employee benefits
- Discussed and recommended the share valuation for the Company's share schemes supported by independent Company valuation
- Approved the Remuneration Policy
- Approved and recommended to the Board the Remuneration Policy Statement
- Reviewed Board and Executive remuneration proposals, and made recommendations to the Board
- Approved and recommended to the Board the NED Expense Policy
- Reviewed the results of the gender pay gap analysis and associated reporting
- Reviewed the Chief People Officer Management Information

Remuneration consultants and 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.

The Committee also obtained advice from Deloitte in benchmarking its remuneration structures and packages. The Committee exercised independent judgement when evaluating advice from external consultants.

NED remuneration

The table below sets out our Policy for NED remuneration as per the Group's NED Expense Policy. The Policy was approved in December 2022 and is reviewed annually.

Chairman's fees	The CEO and Senior Independent Director will review the Chairman's fees on an annual basis and will recommend them to the Committee for review. Once approved by the Committee, the Committee will recommend to the Board for approval.
Non-Executive Directors' fees	Fees are reviewed annually by the Chairman of the Board, with support from the CEO and the Human Resources team, who submit their proposals to the Committee for review. The Committee considers these and makes appropriate recommendations to the Board for approval. This process ensures that NEDs are not involved in setting their own remuneration package.
Additional fees	Additional fees are paid for undertaking extra responsibilities of: • Board Chairman; • Senior Independent Director; and • Committee Chair.
Benefit	In accordance with the NED Expense Policy, the Group will reimburse NEDs for all expenses reasonably incurred in the proper performance of their duties as Directors.
Share ownership	n/a

Diversity and inclusion

Throughout the year, we've continued to take actions that further promote D&I at PIC. The Committee received regular updates from the Chief People Officer on D&I and the Diversity and Inclusion Forum.

Further information relating to D&I can be found on pages 50 to 55.

LTIP

LTIP participants receive nil cost share options subject to the achievement of performance targets assessed on a three-year performance period. Any vested awards are subject to a holding period of up to two years.

UK Corporate Governance Code

In determining the remuneration arrangements, the Committee aims to ensure that they support the execution of our strategy and promote its long-term sustainable success. The Committee also reviews Executive remuneration so that it is aligned to the Group's purpose and values. In doing so, the Committee takes into consideration the wider employees' remuneration and emerging best practice.

The Committee believes that our remuneration arrangements are clear and transparent. Further information on our Remuneration Policy can be found on page 106.

The Committee is mindful of the Code's six principles when determining the Group's Remuneration Policy.

Clarity	• Our Remuneration Policy supports the financial and strategic objectives of the Group and aligns the interests of Executive Directors to those of our shareholders. • We are committed to transparent communication with all stakeholders, including shareholders (see "Engagement with Shareholders" section)
Simplicity	• We operate a simple remuneration structure comprising fixed pay elements along with short- and long-term variable elements. The annual bonus and LTIPs are focused and suitably stretching, whilst being rewarding against key metrics of success for the business. • The structure provides transparency to Executive Directors, shareholders and the wider workforce.
Risk	• Our remuneration packages ensure risk events are reflected in remuneration outcomes. During the year, the Committee approved the Remuneration Policy Statement, which is intended to be consistent with and promote sound and effective risk management. It does not encourage risk taking. • LTIPs were introduced in 2021 to incentivise senior executives to deliver long-term sustained performance consistent with the Group's risk appetite. • Malus and clawback provisions apply to Deferred Bonus Share Plan awards and LTIP awards. • As part of the mid year and full year appraisal process, the entire workforce is assessed against risk management objectives.
Predictability	• The range of possible values of rewards to individual Directors and any other limits are explained at the time of approving the policy.
Proportionality	• Individual awards are based on performance against a range of non-financial and financial measures, including risk performance and achievement of key strategic objectives during the year. • The Committee has the discretion to adjust the incentive elements of remuneration packages.
Alignment to culture	• Our incentive schemes drive behaviours consistent with Company purpose, values and strategy.

Engagement with shareholders

Having shareholder nominated Directors on the Committee allows these shareholders to monitor and safeguard the sustainable growth of the Group through remuneration oversight and ensuring that remuneration does not encourage excessive risk taking but promotes the long-term success of the Group. The shareholder nominated Directors provide feedback and challenge on the Remuneration Policy, which feeds into the development of the updated policy, annually.

Engagement with the workforce

Management seek employee feedback through formal engagement surveys as well as through the Senior Leadership Forum and the D&I Forum. Relevant insights and updates are shared with the Committee, and are typically presented by HR.

Employee feedback and insights are appropriately taken into account when considering reviews and changes to the Group's Remuneration Policy and practices.

The workforce is also able to participate in the all employee Save As You Earn scheme.

Gender pay gap

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

The PSC median gender pay gap for the year 2022 was 12.5%, which is up 5.2% on last year. The PSC mean gap for the year is 10.2%. Our gender pay gap is driven by two primary factors:

- Only 34% of our employees are women
- Only 29% of employees in the upper quartile are women

We released our UK Pay Gap Report 2021 in March 2022 and it can be found at PIC Gender Pay Group 2021 (pensioncorporation.com).

Remuneration Committee report continued

Remuneration Policy

The Group's Remuneration Policy is designed to enable the Group to recruit, retain and motivate employees of the appropriate calibre to deliver its strategy over the long term. The policy is intended to be consistent with and promote sound and effective risk management, and to ensure that it does not encourage risk taking that exceeds the tolerated risk appetite of the Company. A description of the different remuneration elements for 2022 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, parental* leave and participation in the SAYE scheme.
Pension	All employees who meet the minimum criteria are automatically enrolled in the Stakeholder Pension scheme. Employees who have reached their lifetime or annual allowance limit for pensions for tax purposes may receive a cash alternative in lieu of the Group's contribution that otherwise would have been made under the Stakeholder Pension arrangement.
Annual bonus	The annual bonus plan provides participants with an opportunity to receive a cash amount, subject to performance measured in respect of the relevant financial year. All employees are eligible to be invited to participate in the plan. Awards are based on the achievement of annual objectives assessed against financial, customer service and risk management measures. For material risk takers, individual bonus payments are determined by the Remuneration Committee based on a review of both financial and strategic measures and assessment of individual performance over the year, including a review of individual performance by the CRO For Solvency II staff in assurance functions, at least 75% of the annual bonus award is based on the achievement of objectives related to the individual's assurance function. The remaining 25% relates to the performance of the Group. Awards for this population are subject to a prevailing affordability underpin, and no bonuses will be paid if overall financial performance is not sufficient to fund awards. The CRO, with input from the Chair of the Risk Committee and the Chair of the Audit Committee, assesses the performance of the year against the Group's risk appetite and behaviours and attitude to risk and compliance. If the performance has been achieved by exceeding the risk appetite of the Group, as stated and approved by the Board and the Board Risk Committee, the bonus pool and/or individual outcomes may be adjusted downwards, potentially to zero Performance against all of the above measures is assessed by the Remuneration Committee in the round. The bonus opportunity is expressed as a percentage of salary and depends on an individual's role and responsibilities. The annual bonus comprises a cash element and an award of nil cost options. While the cash element of the bonus is paid upfront, for material risk takers at least 40% of annual bonuses is in the form of nil cost options which are subject to deferral over a three-year period using the Deferred Bonus Share Plan ("DBSP"), as detailed below.
Deferred Bonus Share Plan	The DBSP seeks to align the long-term interests of the Group for all senior management and other *key individuals through bonus deferral. The deferred element is awarded in the form of nil cost* options which vest after three years. For Solvency II Identified Staff, a minimum of 40% of any bonus *award is deferred.*
Long Term Incentive Plan	Selected senior individuals are invited, at the discretion of the Remuneration Committee, to receive LTIP share awards. These individuals are those tasked with delivering PIC's long-term strategic goals and to generate long-term shareholder value. LTIP awards vest after a three-year period, subject to the achievement of performance conditions, and a solvency and risk management underpin. Awards to the Executive Committee members would also have a further retention period of up to two years.
Malus, clawback and in-year adjustment	Any bonus including annual bonus, deferred bonus share plans and the LTIP can be adjusted by the Remuneration Committee by applying malus, clawback and in-year adjustment provisions as determined in the rules. This includes, but is not limited to: • an event of significant financial losses or material misstatement of the accounts; • material failure of risk management; • discovery of a material error in relation to the assessment of annual performance on which an award was based; or • reasonable evidence of any act or omission by the participant which has contributed to material losses or serious reputational damage to the Group or any business area; or has amounted to serious misconduct, fraud or misstatement.

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. Further information can be found on page 88.

Looking forward to 2023

The Committee's focus during 2023 will be on the further alignment of employee pay to performance (including financial and non-financial metrics). In addition, the Committee will continue with the ongoing review of benefits and the introduction of the new Consumer Duty into remuneration considerations.

Risk Committee report

The Committee's primary role was particularly important in times of heightened volatility of the markets."

Sally Bridgeland
Chair of the Risk Committee

Committee role and membership

The Risk Committee (the "Committee") is responsible for providing oversight of and advising the Board in relation to the current and potential risk exposure of the Group. This includes recommending to the Board the risk appetite and overall monitoring of the effectiveness of the Risk Management Framework, which includes oversight of the Internal Model. The scope of the Committee's work is designed to help the Board in delivering the Group's strategic objectives of long-term value growth, being a responsible corporate citizen, and making sure the Group is secure and sustainable.

The Committee comprises six NEDs, five of whom are regarded as independent pursuant to the Code and who the Group considers to be free of any relationship that would impact their impartiality in carrying out their responsibilities. The remaining NED is shareholder nominated. There were no changes to the membership of the Committee during 2022.

Other regular attendees at Committee meetings during 2022 included: Chairman of the Board, CEO, CFO, CRO, Chief Investment Officer, General Counsel, Chief Actuary, Actuarial Function Holder and Head of Internal Audit.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

The Committee held five scheduled meetings and several ad hoc sessions which were either deep dives, technical sessions or informal briefings on a variety of topics.

		Scheduled meetings	Meetings attended
Sally Bridgeland (Chair)	INED	5	5
Judith Eden	INED	5	5
Stuart King	INED	3	5
Arno Kitts	INED	5	5
Roger Marshall	INED	5	5
Wilhelm Van Zyl	NED	5	5

I am pleased to present the Risk Committee report for the year ended 31 December 2022.

The Committee continued to focus on its primary role of providing oversight and advising the Board on the current and potential risk exposure of the Group and ensuring that the Group's Risk Management Framework is effective and robust. This was particularly important in times of heightened volatility of the markets and the extreme movements in gilts yields in reaction to the UK Government's "mini-budget" in September.

We have also carried out further work on embedding ESG into our routine considerations and will continue this work in 2023. In 2022, we formally incorporated climate change risk into the Group's Risk Management Framework.

The Committee has carried out its usual work on the Internal Model, which involves a review of the validation results and validation plan, and a review of any minor adjustments. The Committee was satisfied that the Internal Model continues to be appropriate and compliant with the relevant Solvency II requirements and produces an appropriate amount of capital in aggregate. We have also continued to spend a considerable amount of time on the oversight of the re-development of the credit module of the Internal Model. We have held additional technical sessions to review progress and receive updates on the calibrations of this module.

I am pleased to say that we have also seen further improvements to the Group's stress and scenario testing ("SST") capabilities, and the Committee is looking forward to receiving some enhanced outputs of the SST in 2023.

The Group continued to adapt to changes in the regulatory landscape, which in 2022 brought in the new Consumer Duty. The Committee will continue to provide oversight of progress of the implementation of the new Consumer Duty in 2023.

The Committee also assisted the Remuneration Committee in its recommendation to the Board on the remuneration process. We 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.

The further parts of this report list our other activities and additional information on PIC's approach to risk management can be found on pages 64 to 71.

Risk Committee report continued

Committee's focus during 2022

Operational resilience	The Committee continued to dedicate its time to the operational resilience work and its focus in 2022 was particularly on the regulatory requirement for an Operational Resilience Self-Assessment, including categorisation of important business services and impact tolerances. The Committee reviewed these and recommended them to the Board for approval. The Committee reviewed any themes arising from the operational risk incidents.
Internal Model – credit module	One of the key responsibilities of the Committee is oversight of the Group's Risk Management Framework, which includes oversight of the Internal Model. In addition to the routine Internal Model work, much of the Committee's time and attention was dedicated to the re-development of the credit module of the Internal Model. We are looking forward to completing this review in 2023.
ORSA and stress and scenario testing	The Committee considers annually the output from the Own Risk and Solvency Assessment ("ORSA") process. The report provides an assessment of the effectiveness of the Group's Risk Management Framework, allowing the Board to challenge where further enhancements can be made. Additionally, it undertakes the forward-looking risk assessment and an overview of key areas of risk for PIC's business model, and the potential impact of these. In 2022, the Committee focused on overseeing PIC's work on improving its SST capability, in particular in relation to the asset stressing model. The Committee provided feedback on the non-financial stress testing scenarios and reviewed the output of that work.
Recovery and Resolution Plan	The Committee considered a number of changes to the Recovery and Resolution Plan and Future Management Actions Plan, and recommended these for approval by the Board. Further enhancements will be introduced in phases and the Committee will continue to oversee this work.
Liquidity management	The Committee provided oversight of the liquidity risks throughout the year and whilst PIC's liquidity was in a very strong position throughout the year, the market turbulence which occurred in reaction to the UK Government's budget in September required additional attention from the Board and its Committees. The liquidity risk appetite was closely monitored during that period and was not breached, but the Group took a prudent approach and decided to carry out a full review of liquidity management processes. The Committee has considered initial findings and will continue to provide scrutiny of this work in 2023.
ESG and climate risk	The Committee continued its work on embedding ESG related matters into its routine discussions. As part of the Environmental component of ESG, the Group made progress on its approach to climate change risk and the Committee recommended to the Board to formally incorporate the climate change risk into the Group's Risk Management Framework. The Committee's recommendations were accepted and approved by the Board in December.
Emerging risks	The Committee continued to discuss emerging risks and their potential systemic impact. The Committee reviewed and suggested further refinements to the Group's emerging risks dashboard.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

Risk Strategy, Appetite and Policy

- Reviewed PIC's Risk Appetite Framework and made recommendations to the Board on its continued evolution.
- Considered Strategic Risk within the Risk Appetite Framework and provided feedback to management.
- Recommended to the Board the Recovery and Resolution Plan.

Risk Oversight and Monitoring

- Received regular updates from the CRO which covered the risk appetite dashboard and enterprise risk dashboard.
- Received an overview of emerging risks and suggested further refinements to the Group's emerging risks dashboard.
- Received regular updates on PIC's material outsourcing to counterparties and agreed an elevated monitoring framework.
- Received a deep dive on counterparty risk.
- Reviewed risk incidents and established that there were no systemic issues and the integrity of risk management systems has not been compromised.
- Reviewed the Actuarial Function's opinion on the 2022 Underwriting Policy and the adequacy of the 2022 reinsurance arrangements of PIC's insurance undertaking.
- Received regular updates on regulatory developments and interactions with the Regulators.
- Provided oversight of the Risk and Control and Self-Assessment processes.

Internal Model

- Reviewed the Internal Model Validation Report and the Internal Model Consolidated Annual Report, Internal Model drift analysis.
- Reviewed and provided challenge to the updates to the Internal Model Change Policy.

Governance

- Reviewed and approved Risk Function strategy and plans for 2022 and 2023 which link to the overall Integrated Assurance Plan.
- 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.
- Reviewed the CRO report to the Remuneration Committee on risk matters to be considered in reviewing annual remuneration review and bonus pools.

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. Further information can be found on page 88.

Looking forward to 2023

The Committee continues to focus on its core activities with enhanced oversight of the key initiatives, such as implementation of the new Consumer Duty, review of the liquidity management methodology, ESG embeddedness and finalising work on the re-development of the credit module of the Internal Model.

Environmental, Social and Governance Committee report

Delivery on our climate commitments is very important in our discussions."

David Weymouth
Chair of the Environmental, Social and Governance Committee

Committee role and membership

The Environmental, Social and Governance Committee (the "Committee") is responsible for providing oversight in relation to the Group's ESG strategy and activities. It determines how the Group should embed the monitoring of ESG into day-to-day activities as well as ensuring compliance with legal and regulatory requirements, including industry standards. In practice, this involves monitoring current and emerging ESG trends, relevant international standards, and legislative requirements. The Committee is involved in setting appropriate strategic goals, ensuring they remain fit for purpose and holding the Group accountable against the action plans and targets. The Committee has been dedicated to evolving its approach and ensuring that the Group has a carbon neutral business that delivers for all stakeholders.

The Committee comprises five NEDs, all of whom are the Chairs of the other Board-level Committees. The overlap in membership allows the Committee to work closely with the Board and other Committees to oversee the identification, mitigation and opportunities relating to ESG matters.

Other regular attendees at Committee meetings during 2022 included: Chief Investment Officer, CRO, General Counsel, Head of Responsible Investing and Head of Regulatory Risk Affairs.

More detail on the skills and experience of the Committee members can be found on **p74-79**

Meetings held in 2022

	Scheduled meetings	Meetings attended
David Weymouth (Chair)	1	1
Sally Bridgeland	4	4
Judith Eden	4	4
Arno Kitts	4	4
Roger Marshall	4	4

Jon Aisbitt stepped down from the PIC Board and from the Committee on 31 October 2022. He attended 3/3 meetings

As Chair of the ESG Committee, I am pleased to present its report for the year ended 31 December 2022.

We established the ESG Committee to ensure that the Group embeds the risks from ESG and climate change considerations into its governance arrangements, financial risk management practice, investment processes as well as the overall Group strategy.

During the year, the Committee's focus has been to monitor ongoing delivery against the objectives and targets for our main priority areas: deliver on our climate commitments of becoming carbon neutral as a business by 2025 and Net Zero across all emissions by 2050, disclosing our progress towards such goals through support and publication of our TCFD report, defining and launching our Sustainability Strategy, and drafting and publishing standalone Stewardship and ESG Policies. We are pleased with the strong progress made across all these areas. Further information on our climate initiatives can be found on pages 44 to 49 of this report and in more detail within our TCFD report.

The Committee has recognised the importance of managing and mitigating the Group's impact on people and the planet, through our investment portfolios, as well as the risks and opportunities that the Group faces directly from climate change. In February, the Committee attended a deep dive session, facilitated by Sustainalytics, on integrating ESG and corporate governance factors into investment processes, as well as to gain further insight into ESG risk ratings.

Committee focus during 2022

The Responsible Investing team provides the Committee with significant support to help it discharge its responsibilities. The Responsible Investing team makes recommendations regarding the Group's transition to Net Zero, its entity-level climate initiatives, the transition timeline, ESG & Stewardship Policy, and PIC's overall exposure to climate risk.

In 2022, the Committee remained focused on strategic positioning and moving towards Net Zero. It considered a number of Company policies that are vital to achieving that goal. Firstly, the Committee reviewed PIC's transition timeline, including the proposed actions to decarbonise the investment portfolios. The Committee reviewed and challenged the proposed methodology, targets and ambitions, and the final timeline was recommended to the Investment and Origination Committee (the "IOC"), where it was approved in September 2022. The Committee also challenged and collaborated on enhancing the proposed Corporate Sustainability Strategy, which was approved by the Board in September 2022.

In addition, the Committee reviewed the Stewardship Policy, which sets out PIC's approach to stewardship within its investment portfolio, including the responsible allocation, management and oversight of our capital to create long-term value for society and all our stakeholders. The implementation of the Stewardship Policy was recommended to the IOC and approved in July 2022.

The Committee also reviewed and contributed to PIC's ESG Policy, which outlines our commitment and drive to building a long-term, sustainable business which will grow, provide employment, and generate economic benefit in an environmentally and socially responsible manner. The ESG Policy was approved in October 2022 by the Board.

Committee activities during 2022

Other activities of the Committee in 2022 included the following:

- Approved PIC's transition timeline to Net Zero approach
- Approved the 2022 TCFD report (for publication in 2023)
- Recommended to the Board for approval the ESG Policy
- Recommended to the Board for approval the Corporate Sustainability Strategy
- Recommended to the IOC for approval the Stewardship Policy
- Recommended to the IOC for approval the decarbonising portfolio strategy timeline
- Reviewed the UN PRI 2021 Assessment
- Received quarterly updates on the ESG regulatory landscape

Committee performance

The Committee's performance was reviewed as part of the 2022 internal Board evaluation process. The review found that the Committee was considered to be operating well and that there was good information flow between the Board and the Committee.

Further information can be found on page 88.

Looking forward to 2023

In 2023, the Committee will look to continue monitoring progress towards its stated climate commitments, at both an entity and portfolio level. It will also look to review and propose for approval PIC's Engagement Strategy and support enhanced stewardship and engagement action. The Committee promotes transparency of disclosures, and will promote further progress in that area.

Directors' Report

Corporate Governance statement

The Board and the executive management are committed to the principles and high standards of the Corporate Governance Code as they believe these underpin the success of the Company and are for the benefit of its shareholders and stakeholders, including policyholders. For this reason, the Company applies all the principles of the 2018 Corporate Governance Code. In addition, the Group's subsidiary, Pension Insurance Corporation plc, has listed securities in issue and complies with the applicable sections DTR7.1 and DTR7.2 of the FCA Handbook. Further information on the Company's governing body and its Committees is included in the Corporate Governance report on pages 74 to 111.

PICG Directors and their interests

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

Name	Position	Appointed/Resigned
David Weymouth	Chairman	Appointed 1 October 2022
Jon Aisbitt	Chairman	Resigned 1 October 2022
Roger Marshall	Senior Independent Director	
Tracy Blackwell	Chief Executive	
Jake Blair	Director	
Judith Eden	Director	
Tim Gallico	Director	
Julia Goh	Director	
Stuart King	Director	
Arno Kitts	Director	
Josua Malherbe	Director	
Jérôme Mourgue D'Algue	Director	
Mark Stephen	Director	
Wilhelm Van Zyl	Director	

One Director who held office during the financial year is a beneficiary of the Company's share-based award schemes, details of which are given in Note 7 to the financial statements. This Director received 566,583 ordinary shares of the Company upon vesting of certain schemes during the year (2021: one Director received a total of 892,472 ordinary shares).

Share capital and major shareholders

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares, are set out in Note 19 to the financial statements. The following are the major shareholders of PICG as at 31 December 2022:

	No of ordinary shares held as at 31 December 2022	% of the issue ordinary share capital as at 31 December 2022
Reinet PC Investments (Jersey) Limited on behalf of Reinet Investments S.C.A.	660,381,700	49.49
Luxinva S.A. on behalf of ADIA	245,710,540	18.42
Blue Grass Holdings Limited on behalf of CVC	231,825,290	17.37
MP 2019 K2 Aggregator, L.P. on behalf of HPS	136,508,422	10.23

Own shares

At 31 December 2022, 5,481,028 ordinary shares of the Company were held in an Employee Benefit Trust (2021: 5,261,772), in accordance with the accounting policy in Note 7 to the financial statements.

Dividends

The Directors of the Company proposed a dividend for the year of 7.50 pence per share (2021: nil).

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

Information on how the Directors have had regard to the need to foster effective business relationships with suppliers, customers and others, including detail on how they have discharged their duty under s.172 of the Companies Act 2006, is included in the Strategic Report on pages 40 to 43.

Any payments to suppliers are made through the service company PSC and the required disclosures on policy and practice on payment of creditors are included in the PSC Annual Report and Accounts

Political contributions

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

Qualifying third party indemnities

The Articles of Association of the Company provide for the Directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. The Company also provides certain forms of protection for its Directors and senior managers of companies within the Group against personal financial exposure that they may incur in their capacity as such. During the year and at the time the Directors' Report was approved under section 234 of the Companies Act 2006, this protection included qualifying third party indemnity provisions (as defined under section 234 of the Companies Act 2006) in force for the benefit of the Company's Directors.

Going concern

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

Financial instruments

The information relating to the Company's financial instruments is included in Note 12 to the financial statements.

Future developments

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

Material contracts

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

Internal controls and risk management system

The Board has overall responsibility for the system of risk management and internal controls, and for reviewing its effectiveness. The Group has a risk management and internal controls system in place which is designed to manage and reduce rather than eliminate the risk of failing to achieve business objectives. It can only provide the Board with reasonable, and not absolute, assurance against material misstatement or loss. The Board has delegated responsibility to the Audit Committee and the Risk Committee for monitoring this system and reporting on its effectiveness to the Board. Each year, the Board approves an integrated assurance plan which is intended to provide the Board with assurance that the internal controls and risk management systems work effectively. The plan, which is effected by the Internal Audit, Compliance, Risk and Actuarial functions within the Group, is overseen by the Risk and Audit Committees as part of their delegated authority from the Board. The overlap in membership of those two Committees ensures that all areas of the system are adequately covered.

Financial reporting	Responsibility
Delegated authority	An established management structure operates across the Group with clearly defined levels of responsibility and delegated authorities.
Financial reporting	The Group has a robust system for reporting of the financial results to the Board. During the year, monthly and quarterly financial results are produced, which include comparison with 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.

Directors' Report continued

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 64 to 71)	The Board has established a risk management and compliance system which includes a process for identifying, evaluating and managing the risks faced by the Group. The Risk Committee works closely with the Audit Committee and provides oversight and advice to the Board with regard to the Group's current and likely risk exposures, risk tolerances and appetite, risk measurement, risk management performance, and its risk policies, procedures and risk controls. All Board members receive minutes of the Risk Committee meetings. Procedures are in place to ensure the employment, retention, training and development of suitably qualified staff to manage activities.

The Board has reviewed the effectiveness of the system of internal controls, including risk management, for the year ended 31 December 2022 and up to the date of signing of these financial statements and the Annual Report. It has not identified any weaknesses sufficient to cause material misstatement or loss which requires disclosure in the financial statements.

Disclosure of information to auditor

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

Auditor

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

Employee engagement

The Company is committed to keeping employees well informed of the performance of PIC and this is achieved through regular updates from the CEO and senior management.

The Group also operates an annual SAYE scheme to encourage greater employee involvement. The scheme is available to all employees are provides the opportunity to acquire the Company's shares at a favourable price. Further information can be found on page 52.

Diversity and inclusion

PIC's Diversity and Inclusion Policy is to promote a consistent and fair approach to employment, and this stems from our values and capability framework. All of our training and learning and development policies are in place for all employees to access regardless of gender, race, age or disability. PIC is committed to providing a working environment free from harassment and discrimination and a place where our employees are proud to work.

As our approach is to go beyond the requirements of the Equality Act 2010, PIC wants to ensure everyone has the opportunity to develop and progress in their career with the Company. PIC recruits and promotes the best person for each role, based on objective job related criteria with due regard for their qualifications and experience. PIC is also committed to making reasonable adjustments for the hiring of employees with disabilities and having regard to their particular aptitudes and abilities.

PIC actively encourages all employees to take advantage of the learning and development opportunities available to help maintain, develop or increase knowledge, for the purpose of maintaining a high standard of professional practice. All employees are required to complete a minimum of ten hours of Continuing Professional Development ("CPD") every 12 months.

PIC's Diversity and Inclusion Forum, which is made up of employees and HR representatives, continued to work in 2022. The Forum meets on a regular basis and its key objective is to organise learning events on diversity and inclusion topics and represent employees in making recommendations to senior management on potential changes to policy.

Employees with disabilities
In the event that an employee becomes disabled during employment, PIC will actively make reasonable adjustments to the working environment and/or practices so anyone can be supported in carrying out their role and responsibilities to their full potential.

In some instances, PIC may seek third party advice around how the Company can make these reasonable adjustments; this could include the use of an occupational health provider.

Overseas branches
PIC does not have any branches outside the United Kingdom.

Greenhouse gas emissions
In accordance with Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and Companies Act 2006 (Strategic Report and Directors' Report) Regulations, we are required to report on our GHG emissions including our UK energy use and carbon emissions.

The information in the table below represents our GHG and energy use for which PIC is responsible:

	Current reporting period (UK and offshore)	2021 reporting period (UK and offshore)
Total energy consumption used to calculate emissions in kWh	974,288	893,748
Emissions from combustion of gas in tCO_2e (Scope 1)	81.7	81.9
Emissions from purchased electricity in tCO_2e (Scope 2, location-based)	101.9	94.8
Total gross tCO_2e based on above	183.6	176.7
Intensity ratio: gross tCO_2e/floor area	0.04	0.04
Intensity ratio: gross tCO_2e/full-time equivalent	0.4	0.5

Reporting terminology definitions
Scope 1: Direct emissions that are owned and controlled by the Company.

Scope 2: Emissions that are a consequence of the operations of the Company.

Intensity ratio: GHG impact per unit of physical activity or unit of economic value.

Reporting period
Our GHG reporting period is the same as our financial year: 1 January to 31 December 2022.

Methodologies
The data detailed in this table represents emissions and energy use for which Pension Insurance Corporation Group Limited is responsible. To calculate our emissions, we have used the main requirements of the Greenhouse Gas Protocol Corporate Standard along with the UK Government GHG Conversion Factors for Company Reporting 2022. We have calculated our emissions for 2021 and 2022 in line with our financial years. Any electricity estimates included in our totals are derived from actual data in the same reporting period, which has been extrapolated to cover any missing periods. Natural gas consumption is estimated based on our floor area and the Real Estate Environmental Benchmark from the Better Buildings Partnership. We do not have any fuel used for company travel to report.

Actions
As the site has already undertaken a significant number of measures, including installing LEDs and PIRs throughout and using efficient laptops, there are limited options for savings within the building. Pension Insurance Corporation Limited works to shut down floors when they are not occupied due to staff working from home under the new hybrid working system as an energy efficiency measure in the reporting period detailed above.

Directors' Report continued

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 18 to 23), and year-on-year activities, combined with a focus on material factors which may impact the Group in the foreseeable future, are central to the assessment that the Group can be reasonably expected to continue in operation and meet its liabilities as they fall due. The Group's business plan is prepared annually and covers a five-year period on a rolling basis. The plan covers projected performance and related profitability, cash and value generation and the capital position of the Group over the period. The plan is designed within the Group's Risk Appetite Framework, which forms an integral part of the business planning process. The plan is tested against the risk appetite set for the Group by the Board. This includes a number of stress scenarios, which consider the Group's resilience and capacity to respond to relevant stresses and shock events, which may potentially impact the Group. The Group also evaluates various management actions designed to maintain and restore key capital and solvency metrics to within the Group's approved risk appetite over the planning period and takes into account the cost of these actions to the Group's Solvency Surplus and their potential impact on the Group's Market Consistent Embedded Value and IFRS profits.

2. The assessment period

The Directors have assessed the viability of the Group by reference to the five-year planning period to December 2027, 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 uncertainty surrounding the macro-economic environment and its potential impact on the Group, the potential impact of climate change related risks and the ongoing regulatory change affecting the financial services industry. The Directors have also carried out an assessment by reference to the Group's risk appetite and financial forecasts from December 2022 to December 2027. The Directors discussed the business strategy, market opportunity and potential future strategic objectives. They considered the draft business plan which was supported by the assessment of key risks to the successful execution of the business plan. The Directors also considered the Group's principal risks and how these are managed, as detailed on pages 66 to 71.

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

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

This year, the Board also continued to assess impacts arising from the ongoing economic uncertainty caused by instability in the geopolitical environment. The Board discussed how these could cause solvency or liquidity declines on PIC's balance sheet from credit downgrades and continued volatility of rates/inflation and foreign exchange. The Board discussed these risks throughout 2022 and management incorporated their considerations into the business planning. The Board also continued to assess management actions available to mitigate risks arising from those adverse scenarios and the cost to the Group of those actions.

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

4. Viability statement

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

On behalf of the Board

David Weymouth

David Weymouth
Chairman
14 Cornhill, London EC3V 3ND

15 March 2023

Statement of Directors' responsibilities

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

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

Company law requires the directors to prepare Group and parent Company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

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

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

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

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

On behalf of the Board

David Weymouth

David Weymouth
Chairman
14 Cornhill, London EC3V 3ND

15 March 2023

Financial statements.

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

Opinion
We have audited the financial statements of Pension Insurance Corporation Group Limited ("the Company") for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income for the Group, Statement of Financial Position for the Group, the Statement of Changes in Equity for the Group, the Group Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion:

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

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

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

In our evaluation of the directors' conclusions, we considered the inherent risks to the Group's business model and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

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

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

Fraud and breaches of laws and regulations – ability to detect
To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

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

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

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of insurance contract liabilities and harder to value investments. On this audit we do not believe there is a fraud risk related to revenue recognition because there is no significant 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 and the valuation of harder to value investments we involved specialists to assist in our challenge of management. We challenged management in relation to the selection of assumptions and the appropriateness of the rationale for any changes, the consistency of the selected assumptions across different aspects of the financial reporting process and comparison to our understanding of the business, trends in experience, policyholder behavior and economic conditions and also by reference to market practice.

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

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

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by unauthorised user, approved by unauthorised approvers, those posted and approved by the same user, those including specific words based on our criteria, those journals which were unbalanced, those with no descriptions or user IDs, those posted to seldom used accounts, unusual journal entries posted to cash and duplicates.
- Assessing whether the judgements made in accounting estimates including assessing valuation of insurance contract liabilities for bias.
- Assessing whether the judgements made to determine internal credit ratings, within the overall valuation of harder to value investments process, contain bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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

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

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

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

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

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.

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 117, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

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

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

James Anderson

James Anderson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

15 March 2023

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

	Note	2022 £m	2021 £m
Revenue			
Gross premiums written		**4,095**	4,702
Outward reinsurance premiums	15	**(74)**	(846)
Net premium revenue earned		**4,021**	3,856
Investment return	2	**(12,397)**	209
Commissions earned		**1**	1
Total net revenue		**(8,375)**	4,066
Expenses			
Claims paid – gross		**(1,919)**	(1,844)
Reinsurers' share of claims paid	15	**38**	59
		(1,881)	(1,785)
Decrease/(increase) in insurance liabilities – gross		**13,984**	(2,178)
(Decrease)/increase in reinsurers' share of insurance liabilities	15	**(2,151)**	577
		11,833	(1,601)
Acquisition expenses	3	**(76)**	(77)
Other operating expenses	4	**(171)**	(121)
Finance costs	16	**(90)**	(89)
		(337)	(287)
Total net expenses		**9,615**	(3,673)
Profit before taxation		**1,240**	393
Tax charge	8	**(229)**	(82)
Profit and total comprehensive income for the year		**1,011**	311

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 126 to 161 form an integral part of these financial statements.

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

	Note	2022 £m	2021 £m
Assets			
Property, plant and equipment		**1**	1
Right of use assets	10	**4**	17
Investment properties	11	**244**	173
Financial investments	12	**40,951**	51,143
Derivative assets	13	**22,451**	15,018
Deferred tax assets	14	**5**	4
Reinsurers' share of insurance liabilities	15	**1,199**	3,350
Prepayments		**112**	104
Receivables and other financial assets	12	**474**	284
Cash and cash equivalents	12	**201**	199
Total Assets		**65,642**	70,293
Equity			
Share capital	19	**2**	2
Share premium	21	**873**	873
Treasury shares	21	**(20)**	(19)
Merger reserve	21	**34**	34
Tier 1 notes	20	**444**	444
Capital reduction reserve	21	**1,055**	1,055
Share-based payment reserve	21	**20**	21
Retained profit	21	**3,031**	2,055
Total Equity		**5,439**	4,465
Liabilities			
Gross insurance liabilities	15	**33,029**	47,013
Borrowings	16	**1,592**	1,590
Lease liabilities	10	**9**	20
Derivative liabilities	13	**25,348**	16,997
Deferred tax liabilities	14	**–**	1
Current taxation		**27**	38
Insurance and other payables	12	**45**	47
Accruals	12	**153**	122
Total Liabilities		**60,203**	65,828
Total Equity and Liabilities		**65,642**	70,293

The accounting policies and notes on pages 126 to 161 form an integral part of these financial statements.

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

Tracy Blackwell
Director
Registration number: 09740110

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

31 December 2022	Note	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Tier 1 notes £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year		**2**	**873**	**(19)**	**34**	**444**	**1,055**	**21**	**2,055**	**4,465**
Total comprehensive income										
Profit for the year		–	–	–	–	–	–	–	**1,011**	**1,011**
Transactions with owners										
Tier 1 note coupon	20	–	–	–	–	–	–	–	**(33)**	**(33)**
Exercise of share-based *payment schemes*	21	–	–	**9**	–	–	–	**(9)**	–	–
Share-based payment charge	7, 21	–	–	–	–	–	–	**8**	–	**8**
Share purchases and share scheme contributions/ settlements	21	–	–	**(10)**	–	–	–	–	**(2)**	**(12)**
At end of year		**2**	**873**	**(20)**	**34**	**444**	**1,055**	**20**	**3,031**	**5,439**

31 December 2021	Note	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Tier 1 notes £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year		2	870	(25)	34	444	1,055	14	1,773	4,167
Total comprehensive income										
Profit for the year		–	–	–	–	–	–	–	311	311
Transactions with owners										
Sale of treasury shares	21	–	3	31	–	–	–	–	–	34
Tier 1 note coupon	20	–	–	–	–	–	–	–	(33)	(33)
Tier 1 coupon tax relief	8	–	–	–	–	–	–	–	6	6
Exercise of share-based payment schemes	21	–	–	6	–	–	–	(5)	(1)	–
Share-based payment charge	7, 21	–	–	–	–	–	–	12	–	12
Share purchases and share scheme contributions/ settlements	21	–	–	(31)	–	–	–	–	(1)	(32)
At end of year		2	873	(19)	34	444	1,055	21	2,055	4,465

The accounting policies and notes on pages 126 to 161 form an integral part of these financial statements.

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

	Note	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year		**1,011**	311
Adjustments for:			
Investment income	2	**(1,416)**	(1,238)
Finance costs	16	**90**	89
Depreciation charged on right of use asset	10	**3**	3
Tax expense	8	**229**	82
Equity settled share-based payments	7	**8**	12
		(1,086)	(1,052)
Changes in operating assets and liabilities			
Increase in investment properties	11	**(71)**	(82)
Decrease in property, plant and equipment		**–**	1
Decrease in financial investments including derivative assets		**2,759**	5,423
Decrease/(increase) in reinsurers' share of insurance liabilities	15	**2,151**	(577)
(Increase)/decrease in prepayments		**(8)**	3
Increase in receivables and other financial assets	12	**(179)**	(6)
Increase in accruals		**31**	17
(Decrease)/increase in insurance liabilities	15	**(13,984)**	2,178
Increase/(decrease) in financial liabilities including derivative liabilities	13	**8,353**	(7,343)
(Decrease)/increase in insurance and other payables		**(2)**	27
		(950)	(359)
Cash flows used in operating activities		**(1,025)**	(1,100)
Interest income received		**1,208**	1,060
Other investment return		**196**	184
Taxation paid		**(242)**	(37)
Net inflow from operating activities		**137**	107
Cash flows from financing activities			
Payment of lease liabilities	10	**(2)**	(3)
Share scheme purchases and contributions/settlements		**(12)**	(32)
Sale of treasury shares		**–**	34
Interest paid on subordinated debt		**(88)**	(88)
Coupon on Tier 1 notes	20	**(33)**	(33)
Net outflow from financing activities		**(135)**	(122)
Net increase/(decrease) in cash and cash equivalents		**2**	(15)
Cash and cash equivalents at beginning of year		**199**	214
Cash and cash equivalents at end of year		**201**	199

The accounting policies and notes on pages 126 to 161 form an integral part of these financial statements.

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

1. Accounting policies

Basis of preparation

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

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

In making the going concern assessment, management reviewed the forecast solvency and liquidity positions, stress and scenario testing of key assumptions, and horizon scanning to consider the key risks to the business and the potential impact of these risks on the business plan objectives. Mitigating actions were also considered and are set out in the Risk management section of the Strategic Report on pages 64 to 71. The key stress tests, scenarios and sensitivities include a change in interest rates, an increase in inflation, widening of credit spreads, downgrades and defaults, liquidity stresses, and reinsurance and capital availability. The principal sources of forecast information were the 2023 business plan and the Group's ORSA, both of which are expected to be approved by the Board in March 2023. Details on our financial position and solvency can be found in the Chief Financial Officer's review on page 56 to 63.

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

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

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

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

In preparing the financial statements, climate change has not been a significant area of accounting judgement or estimation, please refer to Note 17(f) for further details.

Basis of consolidation

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

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

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

Critical estimates and judgements

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

Judgements:

Contract classification

Contracts written by insurers are classified as either insurance contracts or investment contracts, depending on the level of insurance risk transferred. The Group has classified all its policyholder contracts and reinsurance treaties as insurance contracts. Please refer to Note 15 for further details.

Restricted Tier 1 notes

Classification of financial instruments as debt or equity is dependent on whether the terms impose an obligation to deliver cash or other financial assets. The Group's Restricted Tier 1 notes have been classified as equity. Please refer to Note 20 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 15 for further details.

Financial instruments

Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discounts them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment. Where an instrument is neither traded on an active market or internally modelled, the Group uses valuations provided by independent fund managers. For equity release mortgages ("ERMs"), key inputs also include assumptions relating to property prices and credit spreads. The relevant fair value disclosures are set out in Note 12.

Investment properties

The market value of the investment properties held at fair value is determined based on a valuation approach which applies an investment yield to the rental income. Please refer to Note 11 for further details.

Changes in accounting policies

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

Significant new standards or amendments to standards which are not yet effective

The following standards are only mandatory for accounting periods beginning on or after 1 January 2023 and have not been adopted early by the Group:

IFRS 17 *"Insurance Contracts"* – effective for accounting periods beginning on or after 1 January 2023

The Group is required to adopt IFRS 17 for its financial year beginning on 1 January 2023.

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

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

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

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

1. Accounting policies continued

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

IFRS 17 – key methodology and accounting policies

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

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

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

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

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

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

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

IFRS 17 – impact

As at the date of this publication, the Group is in the process of finalising the calculation of the opening balance sheet and the production of 2022 comparative information. For this reason, it is not currently practicable to accurately quantify the impact of adopting IFRS 17, but the expected impact on equity as at 1 January 2022 is estimated to be a decrease of between £100 million to £300 million. This is net of the recognition of a deferred tax asset for the reversal of previously taxed profits on transition. Relief for these losses is then spread over a ten year period. The Group expects to recognise a net of reinsurance pre-tax CSM plus RA of between £2.6 billion to £2.8 billion on 1 January 2022, which is expected to be released to profit over time.

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

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

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

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

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

	As at 31 December 2022		As at 31 December 2021	
	Financial assets passing SPPI test[1] £m	**All other financial assets £m**	Financial assets passing SPPI test[1] £m	All other financial assets £m
Receivables and other financial assets[2, 3]	**474**	**–**	284	–
Financial investments	**–**	**40,951**	–	51,143
Derivative assets	**–**	**22,451**	–	15,018

1 For financial assets which passed the SPPI test as at 31 December 2022, there was a change in the fair value in the year of £nil (2021: £nil).
2 For the credit rating split of receivables and other financial assets, please see Note 17.
3 Includes £267 million (2021: £256 million) of accrued interest on financial investments that will be reclassified from other receivables to the related financial investment balance on the adoption of IFRS 9. This is considered to be a more appropriate presentation, as the interest receivable is considered to be an integral part of the financial investment managed at fair value

2. Investment return

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

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

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

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

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

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for the year ended 31 December 2022

3. Acquisition expenses

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

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

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

4. Other operating expenses

Investment charges and related expenses comprise:

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

	2022 £m	2021 £m
Investment charges and related expenses	**58**	42
Project costs	**58**	38
Share-based payments	**13**	12
Other expenses	**42**	29
	171	121

5. Auditor's remuneration

	2022 £000	2021 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**36**	21
Fees payable to the Group's auditor and its associates for other services:		
Audit of accounts of subsidiaries	**2,273**	560
Audit related assurance services	**168**	153
All other services	**66**	150
Total fees paid to the auditor	**2,543**	884

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

6. Directors' remuneration, employee costs and headcount

Employee benefits

Defined contribution plans

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

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

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

The 14 Directors (2021: 13) who served in the Company during the year received total remuneration of £3 million (2021: £2 million) for their services to the Group. This includes £3 million (2021: £2 million) in respect of services provided to other Group companies. All Directors were employed by or contracted by the Group's service provider.

One Director was provided a cash alternative in relation to a money purchase pension scheme where their lifetime or annual allowance limit had been reached (2021: one), one Director of the Company was awarded share options during 2022 (2021: one) and one Director exercised share options during 2022 (2021: one).

The amount of remuneration received by the highest paid Director was £1.6 million (2021: £1.4 million). This includes £1.6 million (2021: £1.4 million) in respect of services provided to other Group companies. In addition, the highest paid Director received shares in the Company on maturity of certain share plans and exercised share options during 2022.

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

	2022 Number	2021 Number
Employees	**415**	350
Directors	**13**	12

7. Share-based payment arrangements

Equity settled share-based payment transactions

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

Any ordinary shares required to fulfil entitlements under the share-based payment awards are provided by the Pension Insurance Corporation Group Employee Benefit Trusts ("EBTs"). The EBTs are treated as branches. Any shares purchased by the EBTs to fund these awards are held at a period end date and accounted for as treasury shares within the Company and Group shareholders' equity.

When the awards vest and new shares are issued, the proceeds received, net of transaction costs, are credited to share capital (par value) and the balance, if any, to share premium. Where the shares are already held by the EBTs, the net proceeds are credited against the cost of these shares, with the difference between cost and proceeds being taken to retained earnings. In both cases, the relevant amount in the share-based payments reserve is then credited to retained earnings.

Employer's national insurance contributions in relation to the equity settled schemes are treated as cash settled transactions, with the fair value recognised as an expense over the period that the employees become unconditionally entitled to the related equity award. Until the liability is settled on exercise of options, it is remeasured at fair value, with any changes in fair value recognised in profit or loss for the period.

Analysis of expense recognised in the Statement of Comprehensive Income:

	2022 £m	2021 £m
Equity settled share-based payment transactions		
Deferred Bonus Share Plan	**7**	12
Long Term Incentive Plan	**1**	–
Total expense recognised for equity settled share-based payments	**8**	12

During the year cash settled employer's social security costs of £5 million (2021: £nil) were incurred by the Group, and as at 31 December 2022, total liabilities in relation to cash settled employer's social security cost were £3 million (2021: £nil).

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

7. Share-based payment arrangements continued

Share Growth Plan 2017

The commercial objective of this plan was to deliver to participants (Directors and senior management of Group companies) a proportion of growth in the value of the Company above the value of the Company on implementation of the plan ("Initial Company Value").

The fair value of the Growth Plan at inception was calculated to be £1.6 million, 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.

The Growth Shares, initially issued as 2,000 C shares at inception of the plan, vested on 1 January 2021 and were subsequently converted into 2,000 ordinary shares. An additional 3,208,330 ordinary shares were also issued to the participants as settlement of the plan.

Participants are able to sell their ordinary shares over the period 2021–2023.

Long Term Incentive Plan ("LTIP")

This plan is designed to incentivise key individuals to grow the business and build a sustained and successful future for the Group by rewarding and retaining them through a long-term incentive arrangement. The plan has been in place since 2021 and awards are made on an annual basis, at the Company's discretion. All awards to date are nil cost options, with vesting dependent on performance against a Group MCEV target, with a Solvency II coverage underpin. The awards vest at the end of a three-year performance period and become exercisable after a further two years.

	2022 Number of options	2021 *Number of options*
Outstanding at 1 January	**1,149,455**	–
Awarded	**1,197,238**	1,149,455
Lapsed/forfeited	**(65,384)**	–
Remaining at 31 December	**2,281,309**	1,149,455
Exerciseable at 31 December	**–**	–
Weighted-average share price at grant/exercise (£)	**3.70**	3.65
Weighted-average remaining contractual life (years)	**9.35**	9.70

During the year to 31 December 2022, LTIP awards were made on 1 June 2022 and 1 December 2022. As these are nil cost options with non-market-based performance criteria, the key input to determine the fair value of the awards for the IFRS 2 share-based payment charge is the share price at grant date of £3.70 which was determined with the assistance of third party valuation specialists.

Deferred Bonus Share Plan ("DBSP")

This plan is designed to incentivise key individuals to grow the business and build a sustained and successful future for the Group by rewarding and retaining them through a long-term incentive arrangement. The plan has been in place since 2013 and awards are made on an annual basis, at the Company's discretion.

The awards under the DBSP are in the form of a nil cost option over a number of the Company's ordinary shares.

	2022 Number of options	2021 *Number of options*
Outstanding at 1 January	**7,875,195**	7,733,236
Awarded	**1,368,354**	1,933,596
Lapsed/forfeited	**(52,510)**	(249,513)
Exercised	**(2,711,590)**	(1,542,124)
Remaining at 31 December	**6,479,449**	7,875,195
Exerciseable at 31 December	**1,126,964**	1,441,537
Weighted-average share price at grant/exercise (£)	**3.70**	3.65
Weighted-average remaining contractual life (years)	**7.58**	7.67

2022 awards under the DBSP were made on 1 June 2022. As these are nil cost options with no specific performance criteria, the key input to determine the fair value of the awards for the IFRS 2 share-based payment charge is the share price at grant date of £3.70 which was determined with the assistance of third party valuation specialists.

8. Corporation tax

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

The Group's tax charge for the year is:

	2022 £m	2021 £m
Current taxation		
Corporation tax payable for the current year	**231**	77
Prior year adjustment	**–**	7
Total current tax	**231**	84
Deferred taxation		
Tax transitional adjustments and timing differences	**(2)**	(2)
Total deferred tax	**(2)**	(2)
Tax charge	**229**	82

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

	2022 £m	2021 £m
Reconciliation of total income to the applicable tax rate		
Profit before taxation	**1,240**	393
Corporation tax at 19% (2021: 19%)	**236**	75
Effects of:		
Prior year adjustment	**–**	7
Non-deductible expenses	**1**	2
Tier 1 coupon tax relief	**(6)**	–
Deferred taxation movement	**(2)**	(2)
Tax charge	**229**	82

Factors that may affect future tax charges

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

9. Dividends

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

On 15 March 2023, the Board proposed a final dividend for 2022 of 7.50 pence per ordinary share (2021: nil). Subject to approval by shareholders, the dividend will be paid on or around 11 May 2023. It will be accounted for as an appropriation of retained earnings in the year ended 31 December 2023 and is not included as a liability in the Group Statement of Financial Position as at 31 December 2022

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10. Leases

The Group applied IFRS 16 from 1 January 2019. On transition, the Group elected to use the practical expedient to apply IFRS 16 only to contracts that were identified as leases under IAS 17.

The Group recognises a right of use asset and a lease liability at the lease commencement date. Right of use assets are initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of restoration costs, less any lease incentives received.

A right of use asset is depreciated on a straight line basis over the lease term.

Non-financial assets that are measured at amortised cost are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

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

The Group 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 lease term was reassessed during the year and as at 31 December 2022, the calculations of the right of use asset and lease assume cessation in July 2024 as the Group is not reasonably certain that the termination options will not be exercised.

Right of use assets

	2022 Office buildings £m	2021 Office buildings £m
Balance at 1 January	**17**	20
Reassessment of lease term	**(10)**	–
Depreciation charge for the year	**(3)**	(3)
Balance at 31 December	**4**	17

Lease liabilities

	2022 £m	2021 £m
Balance at 1 January	**20**	22
Reassessment of lease term	**(10)**	–
Cash outflow for lease payments	**(2)**	(3)
Interest on lease liabilities	**1**	1
Balance at 31 December	**9**	20

Maturity analysis – contractual undiscounted cash flows	2022 £m	2021 £m
Less than one year	**6**	4
One to five years	**3**	15
More than five years	**–**	4
Total undiscounted lease liabilities at 31 December	**9**	23
Balance at 31 December	**9**	20

The Group's potential undiscounted cash flows relating to the lease term beyond the termination option date are £12 million (2021: £nil). These have not been included in the 31 December 2022 liabilities above.

11. Investment properties

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

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

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

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

11. Investment properties continued

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

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

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

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

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

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

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

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

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

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

12. Financial assets and financial liabilities

Financial instruments

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

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

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

Assets held as collateral

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

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

Recognition and derecognition of financial instruments

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

Cash and cash equivalents

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

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for the year ended 31 December 2022

12. Financial assets and financial liabilities continued

	2022 Fair value through profit and loss £m	2022 Amortised cost £m	2021 Fair value through profit and loss £m	2021 Amortised cost £m
Financial assets				
Financial investments				
Debt securities				
– Government bonds	**13,119**	**–**	17,965	–
– Corporate bonds	**15,071**	**–**	18,627	–
– Private investments	**6,557**	**–**	9,021	–
MBS and ABS	**259**	**–**	328	–
Equity release mortgages	**1,013**	**–**	1,082	–
Deposits with credit institutions	**901**	**–**	824	–
Participation in investment schemes	**4,031**	**–**	3,296	–
Total financial investments	**40,951**	**–**	51,143	–
Derivative assets	**22,451**	**–**	15,018	–
Loans and receivables and other financial assets				
Debtors arising out of direct insurance operations	**–**	**126**	–	6
Other debtors	**–**	**81**	–	22
Accrued interest	**–**	**267**	–	256
Total receivables and other financial assets	**–**	**474**	–	284
Cash and cash equivalents	**–**	**201**	–	199
Total financial assets	**63,402**	**675**	66,161	483
Financial liabilities				
Derivative liabilities	**25,348**	**–**	16,997	–
Insurance and other payables	**–**	**45**	–	47
Borrowings	**–**	**1,592**	–	1,590
Accruals	**–**	**153**	–	122
Total financial liabilities	**25,348**	**1,790**	16,997	1,759

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

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

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

Deposits with credit institutions

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

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

Assets pledged as collateral

Derivatives and lending arrangements

As explained in Note 13, the Group uses derivative financial instruments as part of its risk management strategy. Most over the counter derivative transactions require collateral to be received or pledged by the Group or its counterparty to mitigate the counterparty credit risk. The Group has collateral agreements with each counterparty based on standard ISDA master netting agreements, which specify minimum thresholds, asset class and credit quality of collateral and the frequency of valuation. While each party to the contract has a legal right to the collateral received if the counterparty does not meet its obligations, there is no right or intention to settle on a net basis and, therefore, these agreements do not meet the criteria for offsetting under IAS 32.

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

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

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

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

Buy-ins

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

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

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

Reinsurance

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

12. 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 and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Realisation of a financial asset and settlement of a financial liability are treated as simultaneous only when the settlements are executed at the same time, or within a single settlement process or cycle, resulting in no or insignificant credit and liquidity risk.

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

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

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

				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)
Financial liabilities							
Derivatives	(16,997)	–	(16,997)	3,453	–	14,106	562

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

Measurement of financial assets and liabilities

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

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

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

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

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

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

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

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

(c) Equity release mortgages
ERMs are loans secured against property that are repayable on death or entry into long-term care of the borrower. The fair value of ERM assets is determined using a mark-to-model approach based on discounting projected future cash flow arising from the loans. In addition to market observable inputs (such as interest and inflation rates), key inputs to the model also include assumptions relating to property price growth and volatility, equivalent spread, mortality, morbidity and early repayment rates, which are not market observable. Due to the significant estimation uncertainty involved in deriving the values, the ERMs are classified as Level 3 assets within the fair value hierarchy. Principal assumptions underlying the valuation of ERM assets are set out below and sensitivities of the valuations to changes in the key unobservable inputs are disclosed on page 144.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12. Financial assets and financial liabilities continued

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

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

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

13. Derivative financial instruments

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

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

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

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

14. Deferred tax

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

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

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

	Asset £m	Liability £m	Total £m
31 December 2022			
Timing differences	**5**	**–**	**5**
31 December 2021			
Timing differences	4	(1)	3

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

	2022 £m	2021 £m
At beginning of year	**3**	1
Change in net deferred tax asset due to temporary timing differences	**2**	2
At end of year	**5**	3

A net deferred tax asset of £5 million (2021: £3 million) has been recognised primarily in respect of temporary timing differences on equity settled share-based payments.

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

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

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

15. Insurance contracts and related insurance liabilities

Contract classification

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

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

Insurance liabilities

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

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

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

Premiums

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

No taxes or duties are payable on premiums.

Claims

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

Prepayments

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

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

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

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

(a) Terms and conditions of insurance contracts

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

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

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

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

Mortality assumptions

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

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

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

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

Valuation rate of interest ("VRI")

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

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

Inflation

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

Expenses

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

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15. Insurance contracts and related insurance liabilities continued

(c) Movements

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

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

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

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

Impact of investment volatility

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

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

Changes in valuation assumptions

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

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

Other movements

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

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

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

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

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

(e) Sensitivity analysis

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

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

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

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for the year ended 31 December 2022

15. Insurance contracts and related insurance liabilities continued

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

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

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

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

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

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

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

(f) Reinsurance results

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16. Borrowings

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

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

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

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

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

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

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

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

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

Finance costs mainly comprise of the interest expense on borrowings, which is calculated using the effective interest method. For the year ended 31 December 2022, transaction and interest expenses of £90 million (2021: £89 million) were recognised in the Statement of Comprehensive Income in respect of the notes.

17. Risk management

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

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

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

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

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

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

The Group uses derivatives for the purpose of efficient portfolio management or to reduce risk in aspects of the Group's investment activities such as the implementation of tactical asset allocation changes around the strategic benchmark, the hedging of cash flows and the control of the risk profile of an identified strategy. The Group uses cross currency-swaps, forward exchange contracts and futures for these purposes. It also uses interest and inflation rate swaps for the purpose of matching assets and liabilities, and credit default swaps to manage credit risk.

(a) Market risk

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

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

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

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

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

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

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

17. Risk management continued

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

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

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

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

(b) Credit risk

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

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

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

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

31 December 2022	AAA £m	AA £m	A £m	BBB[4] £m	BB or below £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	573	11,018	611	917	–	–	13,119
– Corporate bonds	1,191	1,083	5,317	7,178	42	260	15,071
– Private investments	127	2,095	2,759	1,408	160	8	6,557
MBS and ABS[2]	20	3	212	24	–	–	259
Equity release mortgages	–	–	–	–	–	1,013	1,013
Deposits with credit institutions	–	603	272	–	–	26	901
Participation in investment schemes[3]	1,954	–	–	–	167	1,910	4,031
	3,865	14,802	9,171	9,527	369	3,217	40,951
Other assets							
Derivative assets	–	–	–	–	–	22,451	22,451
Receivables and other financial assets	30	41	65	131	2	205	474
Cash and cash equivalents	–	–	–	201	–	–	201
	30	41	65	332	2	22,656	23,126

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

31 December 2021 (restated)	AAA £m	AA £m	A £m	BBB[3] £m	BB or below[4] £m	Unrated £m	Total £m
Financial investments							
Debt securities[1]							
– Government bonds	693	15,467	718	1,087	–	–	17,965
– Corporate bonds	1,606	1,580	6,820	8,351	13	257	18,627
– Private investments	138	3,250	3,659	1,837	137	–	9,021
MBS and ABS[2]	–	11	287	30	–	–	328
Equity release mortgages	–	–	–	–	–	1,082	1,082
Deposits with credit institutions	–	550	231	–	–	43	824
Participation in investment schemes	1,614		–	–	181	1,501	3,296
	4,051	20,858	11,715	11,305	331	2,883	51,143
Other assets							
Derivative assets	–	–	–	–	–	15,018	15,018
Receivables and other financial assets	23	47	74	139	1	–	284
Cash and cash equivalents	–	–	–	199	–	–	199
	23	47	74	338	1	15,018	15,501

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

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

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

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

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

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

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

17. Risk management continued

(c) Liquidity risk

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

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

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

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

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

31 December 2022	**Carrying value £m**	**Within 1 year £m**	**In 1–5 years £m**	**In 5–15 years £m**	**Over 15 years £m**	**Total £m**
Creditors arising out of reinsurance operations	**20**	**20**	**–**	**–**	**–**	**20**
Other creditors	**25**	**25**	**–**	**–**	**–**	**25**
Accruals	**153**	**153**	**–**	**–**	**–**	**153**
Borrowings	**1,592**	**88**	**822**	**1,236**	**–**	**2,146**
Derivative liabilities	**25,348**	**650**	**1,731**	**6,759**	**16,208**	**25,348**
	27,138	**936**	**2,553**	**7,995**	**16,208**	**27,692**

31 December 2021	Carrying value £m	Within 1 year £m	In 1–5 years £m	In 5–15 years £m	Over 15 years £m	Total £m
Creditors arising out of reinsurance operations	19	19	–	–	–	19
Other creditors	28	28	–	–	–	28
Accruals	122	122	–	–	–	122
Borrowings	1,590	88	861	1,285	–	2,234
Derivative liabilities	16,997	178	699	2,717	13,403	16,997
	18,756	435	1,560	4,002	13,403	19,400

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

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

(d) Insurance risk

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

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

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

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

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

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

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

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

Risk arising from a specific insurance contract
The Group considers, as part of its risk management process, the risk attached to each new contract accepted and the mitigation of such risk.

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

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

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

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

(f) Climate change risk
The Group's asset portfolio can be exposed to climate change through both:

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

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

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

18. Related party transactions

Transactions with Directors and key management personnel

Key management personnel comprise Directors of the Company and members of the Executive Committee.

	2022 £m	2021 £m
Short-term employee benefits	**9**	9
Share-based payments	**4**	5
Total	**13**	14

The Group had no other transactions with Directors and key management personnel during the period other than in relation to awards made under the Share Growth Plan, which are detailed in Note 7.

Capital transactions

During the year, the Group invested £22 million into joint ventures; please refer to Note 3 of PICG's parent Company financial statements for further details.

Other related party transactions

On 8 June 2021, PIC subscribed to €150 million of 1.48% senior notes in Capital Investors Europe PBI Limited, a company within the CVC Group. Another member of the CVC Group is a significant shareholder of PICG. Investment income during the period amounted to £2 million (2021: £1 million) and the carrying value of the investment at 31 December 2022 was £97 million (2021: £126 million).

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

19. Share capital

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

	2022		2021	
	Number of shares	£m	Number of shares	£m
Ordinary shares				
Authorised, issued and fully paid				
At beginning of year	**1,334,205,407**	**2**	1,330,995,077	2
Shares issued in the period	**–**	**–**	3,208,330	–
C shares converted into ordinary shares	**–**	**–**	2,000	–
Shares at the end of the period	**1,334,205,407**	**2**	1,334,205,407	2
C shares				
At beginning and end of year	**–**	**–**	2,000	–
C shares converted into ordinary shares	**–**	**–**	(2,000)	–
Shares at the end of the period	**–**	**–**	–	–

The rights attaching to each class of shares existing at 31 December 2022 are as follows:

Ordinary shares

Voting rights are only conferred on the holders of ordinary shares, except when a resolution relates to a change of rights or privileges of convertible deferred shares or the winding up of the Company. Ordinary shares are the only class entitled to dividends or distributions of income unless otherwise determined by the Board.

Conversion of C shares to ordinary shares

Following the vesting of the 2017 Growth Share Plan on 1 January 2021, 2,000 C shares were converted into ordinary shares. An additional 3,208,330 ordinary shares were also issued to the participants as settlement of the plan.

20. Restricted Tier 1 notes

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

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

The interest payments arising are recognised in equity upon payment.

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

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

21. Reserves
Group

31 December 2022	**Share premium £m**	**Treasury shares £m**	**Merger reserve £m**	**Capital reduction reserve £m**	**Share-based payment reserve £m**	**Retained profit £m**
At beginning of year	**873**	**(19)**	**34**	**1,055**	**21**	**2,055**
Total comprehensive income	**–**	**–**	**–**	**–**	**–**	**1,011**
RT1 coupon	**–**	**–**	**–**	**–**	**–**	**(33)**
Exercise of share-based payment schemes	**–**	**9**	**–**	**–**	**(9)**	**–**
Share-based payment charge	**–**	**–**	**–**	**–**	**8**	**–**
Share purchases and share scheme contributions/settlements	**–**	**(10)**	**–**	**–**	**–**	**(2)**
At end of year	**873**	**(20)**	**34**	**1,055**	**20**	**3,031**

31 December 2021	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m
At beginning of year	870	(25)	34	1,055	14	1,773
Total comprehensive income	–	–	–	–	–	311
RT1 coupon	–	–	–	–	–	(33)
Tax on RT1 coupon	–	–	–	–	–	6
Sale of treasury shares	3	31	–	–	–	–
Exercise of share-based payment schemes	–	6	–	–	(5)	(1)
Share-based payment charge	–	–	–	–	12	–
Share purchases and share scheme contributions/settlements	–	(31)	–	–	–	(1)
At end of year	873	(19)	34	1,055	21	2,055

Treasury shares relate to the shares purchased by EBTs in respect of the Company's share-based payment awards.

A capital reduction reserve was established on 21 October 2016, when the Company reduced the nominal value of its ordinary shares from £1 to £0.00161678179673884 in accordance with the relevant Special Resolution.

The Group carried out a group reorganisation in December 2015, which led to a recognition of a merger reserve of £34 million in respect of the amount by which the book value of the Pension Corporation Group Limited ("PCG") exceeded the nominal value of shares issued by PICG to acquire the PCG Group.

A share-based payment reserve is recognised in respect of the equity settled share-based payment awards in accordance with the accounting policy in Note 7. The relevant disclosures in respect of the share-based payment schemes are provided in Note 7.

22. Capital resources

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and ensure compliance with the relevant financial services regulations, whilst creating shareholder value. The Group's capital resources comprise equity and debt capital. The details of the Group's equity capital resources are provided in Notes 19 to 21. Details of the Group's debt capital resources are provided in Note 16.

The Group's main subsidiary, PIC, is required to measure and manage its capital in accordance with the requirements of the EU Solvency II Framework Directive ("Solvency II"), as adopted by the PRA and retained under UK law. There are certain valuation differences between the IFRS balance sheet and the Solvency II balance sheet, for example between IFRS insurance liabilities and Solvency II technical provisions. Also, under Solvency II, PIC treats the subordinated debt referred to in Note 16 as regulatory capital. PIC has complied with the capital requirements under Solvency II throughout the year.

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

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

PIC's objectives in managing its capital are:

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

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

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

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

23. Financial commitments and contingencies

Other commitments

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

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

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

At 31 December 2022, the Group's maximum commitment under joint venture agreements (see Note 12(e)) is £4 million.

Contingent liabilities

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

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

	Note	2022 £m	2021 £m
Assets			
Investments in subsidiaries	2	**1,952**	1,952
Receivables and other financial assets	4	**35**	33
Cash and cash equivalents	4	**1**	6
Total Assets		**1,988**	1,991
Equity			
Share capital		**2**	2
Share premium		**873**	873
Treasury shares		**(20)**	(19)
Merger reserve		**34**	34
Capital reduction reserve		**1,055**	1,055
Share-based payment reserve		**20**	21
Retained profit		**19**	23
Total Equity		**1,983**	1,989
Liabilities			
Other payables	4	**5**	2
Total Liabilities		**5**	2
Total Equity and Liabilities		**1,988**	1,991

The accounting policies and notes on pages 165 to 167 form an integral part of these financial statements.

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

Tracy Blackwell
Director
Registered number: 09740110

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

31 December 2022	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year	**2**	**873**	**(19)**	**34**	**1,055**	**21**	**23**	**1,989**
Total comprehensive income								
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Transactions with owners								
Exercise of share-based payment schemes	**–**	**–**	**9**	**–**	**–**	**(9)**	**–**	**–**
Share-based payment charge	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**8**
Share purchases and share scheme contributions/settlements	**–**	**–**	**(10)**	**–**	**–**	**–**	**(2)**	**(12)**
At end of year	**2**	**873**	**(20)**	**34**	**1,055**	**20**	**19**	**1,983**

31 December 2021	Share capital £m	Share premium £m	Treasury shares £m	Merger reserve £m	Capital reduction reserve £m	Share-based payment reserve £m	Retained profit £m	Total £m
At beginning of year	2	870	(25)	34	1,055	14	25	1,975
Total comprehensive income	–	–	–	–	–	–	–	–
Profit for the year								
Transactions with owners								
Sale of treasury shares	–	3	31	–	–	–	–	34
Exercise of share-based payment schemes	–	–	6	–	–	(5)	(1)	–
Share-based payment charge	–	–	–	–	–	12	–	12
Share purchases and share scheme contributions/settlements	–	–	(31)	–	–	–	(1)	(32)
At end of year	2	873	(19)	34	1,055	21	23	1,989

The accounting policies and notes on pages 165 to 167 form an integral part of these financial statements.

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

	2022 £m	2021 £m
Cash flows from operating activities		
Loss for the year	**(2)**	–
Changes in operating assets and liabilities		
Increase in receivables and other financial assets	**(2)**	(4)
Increase/(decrease) in other payables	**3**	(4)
	1	(8)
Cash outflow from operating activities	**(1)**	(8)
Financing activities		
Share repurchases and contributions	**(12)**	(32)
Financing of share-based payment schemes	**8**	12
Proceeds from sale of treasury shares	**–**	34
Cash (outflow)/inflow from financing activities	**(4)**	14
Net (decrease)/increase in cash and cash equivalents	**(5)**	6
Cash and cash equivalents at beginning of year	**6**	–
Cash and cash equivalents at end of year	**1**	6

The accounting policies and notes on pages 165 to 167 form an integral part of these financial statements.

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

1. Accounting policies

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

Investments in subsidiaries are carried at cost less, where appropriate, allowances for impairment in the Company's financial statements. Where indicators of impairment exist, the carrying value of the investment in the subsidiary is compared against its recoverable amount, which is the higher of the fair value less cost to sell or the value in use, with any resulting impairment recorded in the income statement.

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

Disclosures in relation to the Company's share capital and other reserves are provided in Notes 19 and 21 of the Group's consolidated financial statements. The disclosures required by IFRS 2 *"Share-based Payment"* are provided in Note 7 of the Group's consolidated financial statements. The total expense borne by the Company in relation to share-based payments was £nil (2021: £nil).

2. Investments in subsidiaries

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

	2022 £m	2021 £m
Cost		
At the start and end of the year	**1,952**	1,952
Net book value		
31 December	**1,952**	1,952

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

2. Investments in subsidiaries continued

Subsidiary undertakings	Principal activity	Country of incorporation	% of equity held	Share class
PIC Holdings Limited[1]	Holding company	England	100%	Ordinary shares
Pension Insurance Corporation plc	Bulk annuity insurance	England	100%	Ordinary shares
Pension Services Corporation Limited	Service company	England	100%	Ordinary shares
PIC ERM 1 Limited[2]	Investment activity	England	100%	Ordinary shares
PIC Properties GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Properties Limited Partnership[2]	Investment holding entity	England	100%	Partnership
PIC New Victoria GP Limited[2]	General partner	England	100%	Ordinary shares
PIC New Victoria Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC New Victoria Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC New Victoria Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Wiltern GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Wiltern Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC Wiltern Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC Wiltern Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Bowback GP Limited[2]	General partner	England	100%	Ordinary shares
PIC Bowback Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC Bowback Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC Bowback Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC One Eastside GP Limited[2]	General partner	England	100%	Ordinary shares
PIC One Eastside Nominee Limited[2]	Nominee company	England	100%	Ordinary shares
PIC One Eastside Unit Trust	Investment activity	Guernsey	100%	Unit trust
PIC One Eastside Limited Partnership[2]	Investment activity	England	100%	Partnership
PIC Real Estate GP Limited	General partner	England	100%	Ordinary shares
PIC Real Estate Limited Partnership	Investment activity	England	100%	Partnership
PLE Unit Trust	Investment activity	Guernsey	100%	Unit trust
STH Unit Trust	Investment activity	Guernsey	100%	Unit trust
TBW Unit Trust	Investment activity	Guernsey	100%	Unit trust
TNT Unit Trust	Investment activity	Guernsey	100%	Unit trust
WOR Unit Trust	Investment activity	Guernsey	100%	Unit trust
BSF Unit Trust	Investment activity	Guernsey	100%	Unit trust
CVT Unit Trust	Investment activity	Guernsey	100%	Unit trust
GLS Unit Trust	Investment activity	Guernsey	100%	Unit trust

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

3. Investments in joint ventures
Investments in joint ventures are held indirectly by subsidiaries of PICG.

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

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

4. Financial assets and financial liabilities
All of the Company's financial assets and liabilities are valued at amortised cost as detailed below:

	2022 Amortised cost £m	2021 Amortised cost £m
Financial Assets		
Receivables and other financial assets	**35**	33
Cash and cash equivalents	**1**	6
Total Financial Assets	**36**	39
Financial Liabilities		
Other payables	**5**	2
Total Financial Liabilities	**5**	2

Included within receivables and other financial assets are amounts totalling £4 million (2021: £2 million) due to be received after more than one year. All amounts relating to other payables are expected to be settled within one year.

5. Related party transactions
(a) Transactions with certain Directors and key management personnel
Share-based payment transactions with the key management personnel are detailed in Note 18 of the Group financial statements.

(b) Balances with subsidiary companies
During the year, the Company had the following balances with subsidiary companies:

	Transactions during the year		Balance at 31 December	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Amounts owed by Group undertakings	**(3)**	11	**30**	33
Amounts owed to Group undertakings	**–**	–	**(2)**	(2)

(c) Capital transactions with subsidiary companies
During the year, the Company had the following capital transactions with subsidiary companies:

	2022 £m	2021 £m
Share-based payment charge recharged to subsidiary undertakings	**8**	12

Glossary

Annuities
A type of insurance policy that pays out regular amounts of benefit to the policyholder for the remainder of the insured individual's lifetime and, in certain cases, that of their spouse and/or dependants. The payments may commence immediately ("immediate annuity") or may be deferred to commence from a future date, such as the date of retirement ("deferred annuity"). Immediate annuities and deferred annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of individuals.

Buy-in
An annuity policy bought by trustees that is an asset of the scheme and helps manage their ongoing liabilities. The trustees and scheme remain in place and the administration remains the responsibility of the trustees.

Buyout
Annuities bought in bulk, covering all the scheme's liabilities. The scheme typically winds up and members become PIC policyholders. We also take on responsibility for ongoing administration alongside payment of policyholders' pensions.

Carbon neutrality
The focus on not increasing carbon emissions and of achieving carbon reduction through offsets.

Contractual service margin ("CSM")
A component of the carrying amount of the asset or liability for a group of insurance contracts representing the unearned profit that the Group will recognise as it provides insurance services under the insurance contracts in the group.

Cost of residual non-hedgeable risks ("CRNHR")
Under the market consistent embedded value ("MCEV"), allowance for the cost of holding capital in respect of non-hedgeable risks. Market risks are assumed to be hedgeable and so no cost is allowed for any capital that might be held under the regulatory solvency regime. Longevity risk in respect of deferred annuities is treated as non-hedgeable except to the extent that it has actually been hedged, typically using reinsurance. Pensioner longevity is treated as reinsurable and hence hedgeable regardless of whether it has actually been reinsured or not.

Defined benefit ("DB") pension plan
An employer-sponsored retirement benefit plan where the benefits promised to the members of the plan are defined according to a formula typically based on factors such as salary history and duration of employment. Investment risk and portfolio management are entirely under the control of the trustees of the pension plan and not the employee or employer.

Derivatives
Derivatives are securities that derive their value from an underlying asset or benchmark. The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business.

Financial investments
Represents all assets actively managed or administered by or on behalf of the institution, including those assets managed by third parties.

Frictional cost of required capital ("FCoC")
The cost associated with the assets used to support required capital under MCEV, principally in respect of investment management fees and tax on investment income.

Fulfilment cash flows
An explicit, unbiased and probability-weighted estimate of the present value of the future cash outflows minus the present value of the future cash inflows that will arise as the entity fulfils insurance contracts, including a risk adjustment for non-financial risk.

Insurance acquisition cash flows
Cash flows arising from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. Such cash flows include cash flows that are not directly attributable to individual contracts or groups of insurance contracts within the portfolio.

Internal Model
A risk management system developed by PIC to analyse its overall risk position, to quantify risks and to determine the capital required to meet those risks. PIC has obtained appropriate approval from the PRA to use its Internal Model to calculate its solvency capital requirement under Solvency II.

MSCI
Finance company and global provider of equity, fixed income, real estate indexes, multi-asset portfolio analysis tools, ESG and climate products.

Net Zero
The focus on actively reducing greenhouse gas emissions to the maximum possible level so that the residual emissions can be neutralised by carbon offsetting as a last resort. Offsetting is used to counteract remaining emissions after all reduction initiatives have been implemented.

Present value of future profits ("PVFP")
Represents the present value, after tax, of the future release of regulatory margins, such as risk margin

Prudential Regulation Authority ("PRA")
The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.

Risk adjustment for non-financial risk ("RA")
The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.

Risk margin ("RM")
Life insurance companies hold technical provisions (reserves) calculated on actuarial bases to ensure they have sufficient funds available to pay their technical liabilities when they fall due. The technical provisions comprise a BEL and an RM. The RM calculation, which is prescribed under the Solvency II regulations, is intended to represent the amount that a notional third party, a reference undertaking, would require in order to take over the liabilities and have sufficient capital to support them over their future lifetime.

Scope 1 emissions
Emissions that are directly generated by the Company.

Scope 2 emissions
Emissions that are created by the generation of the electricity or heat needed by the Company to sell its main products or provide its main services (indirect emissions).

Scope 3 emissions
Emissions caused by the entire value chain (indirect emissions).

Solvency II
An EU-wide regulatory regime which intends to align solvency capital to an insurer's risk profile. Solvency II was implemented on 1 January 2016.

Solvency II best estimate liability ("BEL")
The best estimate liability represents the value of future liability and expense cash flows. It is based on realistic assumptions with no prudent margins (other than in the default and downgrade assumptions stipulated for the calculation of the valuation discount rate) and is calculated using well-established actuarial and statistical methods.

Solvency capital requirement ("SCR")
The SCR represents the capital that the Company needs to hold in order to be able to survive a 1-in-200-year risk event over the 12 months following the balance sheet date. PIC calculates its SCR using a Company-specific model (the Internal Model) which has been approved by the PRA. The main components of the SCR for PIC are market risk and insurance risk, but the Internal Model also covers counterparty default risk, expense risk and operational risk.

Standard formula
A risk-based mathematical formula used by insurers to calculate their solvency capital requirement under Solvency II. The standard formula is intended for use by most EU insurers, although they may use an internal model instead, subject to regulatory approval.

Technical provisions ("TP")
The value of technical provisions on the Solvency II basis is equal to the sum of the BEL and an RM.

Temperature alignment
The projected temperature rise by 2100 from pre-industrial levels.

Transitional measures on technical provisions ("TMTP")
PIC uses a transitional measures deduction on technical provisions in its Solvency II balance sheet. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example in having to set up the risk margin. The TMTP only applies in respect of business that was in force at 31 December 2015, and it runs off linearly to zero over 16 years.

Value of in-force ("VIF")
This is the discounted value of after-tax profits expected to emerge from the in-force business over time, and is used in the embedded value calculation.

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