PENSION RISK **SECURED**

PENSION INSURANCE CORPORATION GROUP LIMITED
HALF YEAR REPORT 2019

The purpose of Pension Insurance Corporation plc ("PIC") is to pay the pensions of its current and future policyholders. PIC is a specialist insurer which provides secure and stable retirement incomes through financial strength, leading customer service, comprehensive risk management and excellence in asset and liability management. Delivering on this purpose provides attractive returns for shareholders and fulfilling careers for employees.

PIC has insured 218,000 pension scheme members and has £39.6 billion in financial investments, accumulated through the provision of 195 tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes.

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2019 HIGHLIGHTS

HALF YEAR TO 30 JUNE 2019 HIGHLIGHTS

Providing long-term financial security and stability for our policyholders and attractive returns for our shareholders

HIGHLIGHTS

Premiums

£5,969m

HY 2019	5,969
FY 2018	7,150
FY 2017	3,704
FY 2016	2,598
FY 2015	3,755

IFRS profit before tax

£89m

HY 2019	89
FY 2018	477
FY 2017	383
FY 2016	266
FY 2015	136

Financial investments

£39.6bn

HY 2019	39.6
FY 2018	31.4
FY 2017	25.7
FY 2016	22.6
FY 2015	16.6

Market Consistent Embedded Value[1]

£3,890m

HY 2019	3,890
FY 2018	3,638
FY 2017	2,932
FY 2016	2,600

Solvency II ratio (PIC)[2]

157%

HY 2019	157
FY 2018	167
FY 2017	160
FY 2016	164
FY 2015	151

Assets held to meet solvency and risk margins (PIC)

£5.7bn

HY 2019	5.7
FY 2018	5.2
FY 2017	4.3
FY 2016	4.3
FY 2015	2.8

Customer satisfaction

99.4%

HY 2019	99.4
FY 2018	97.3
FY 2017	98.3
FY 2016	98.5
FY 2015	99.3

FitchRatings

A+

Fitch Ratings has assigned Pension Insurance Corporation plc (PIC) an "A+" (Strong) Insurer Financial Strength (IFS) rating.

1 The Group adopted the Market Consistent Embedded Value (MCEV) basis from 1 January 2017, therefore comparative information for the 2015 financial year is not available. 2016 numbers represent the opening balance at 1 January 2017.

2 The Solvency II regime was implemented on 1 January 2016 with comparative information prepared for 2015.

The Pension Insurance Corporation Group consists of Pension Insurance Corporation Group Limited (PICG), the group holding company; Pension Insurance Corporation plc (PIC), the Group's regulated insurer, and Pension Services Corporation Ltd, the Group's service company.

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.

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

SOME OF OUR CLIENTS

CHIEF EXECUTIVE OFFICER'S REVIEW

The business had an excellent first half, with Pension Insurance Corporation plc ("PIC"), our wholly owned insurance subsidiary, seeing record new business flows, record levels of longevity risk reinsured and a strong investment programme.

In total, PIC completed £6.0 billion of new business (HY 2018: £3.3 billion) with the trustees of UK defined benefit pension funds. This total included our largest ever transaction, a £3.4 billion buy-in of the British American Tobacco pension fund. Other high-profile brands which completed transactions with us during the period include Marks & Spencer, Dresdner and the Co-op. The number of pension fund members insured in total by PIC stood at 218,000 at the half year (31 December 2018: 192,100).

The overall pension risk transfer market continues to see huge growth potential, with more than £17 billion of transactions being completed in the first half of the year. As we have previously indicated, the pipeline of new business is very large, with more than £40 billion of new business anticipated to transact.

Our financial investments stood at £39.6 billion, a 26% increase in the period (31 December 2018: £31.4 billion) and I am delighted that the value of the business as measured under Market Consistent Embedded Value (MCEV) was £3,890 million at half year (31 December 2018: £3,638 million).

We also successfully raised £450 million of long-dated subordinated debt in July, providing further resources to support our new business pipeline.

We continue to focus on sourcing and investing in secure, long-term assets which back the pension payments we make to our policyholders. This includes debt sourced on a private basis, including investments in social housing, renewable energy and the university sector. These illiquid investments support new business flows and enhance the profitability and future value of the Company.

A key factor for insurers, as we manage the increasing demand for pension risk transfer, has been the opening up of the reinsurance market for non-pensioner lives. Reinsuring non-pensioner lives is an effective risk mitigant for the business and reduces the amount of capital held by insurers. In the first half of the year, PIC reinsured £7.1 billion of longevity risk exposure, which included the reinsurance of £1.5 billion of non-pensioner lives. This level of reinsurance for deferred lives was a first for the market and marks a step change in the appetite for this risk from reinsurers. At the half year, PIC had reinsured 81% of its total longevity exposure.

Due to the prudent management of the business, even as we transact record levels of new business, PIC's Solvency Capital Ratio was 157% at the half year (31 December 2018: 167%).

As we focus on the purpose of the Company, which is to pay the pensions of our current and future policyholders, PIC continues to be recognised for our very high levels of customer service. In particular, we won our third award in three years from the Institute of Customer Service, and subsequently won the European Pensions "Risk Management Firm of the Year" Award.

For the second year running, PIC was included in the Sunday Times Top Track 100 list of largest private companies by sales.

We have had an excellent first half of the year. Our valued staff have worked hard to support the business and our policyholders, and we look forward to a continued positive market environment.

Tracy Blackwell
Chief Executive Officer

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WE HAVE HAD AN EXCELLENT FIRST HALF OF THE YEAR.

99% OF OUR POLICYHOLDERS EXPRESSED OVERALL SATISFACTION WITH OUR SERVICE

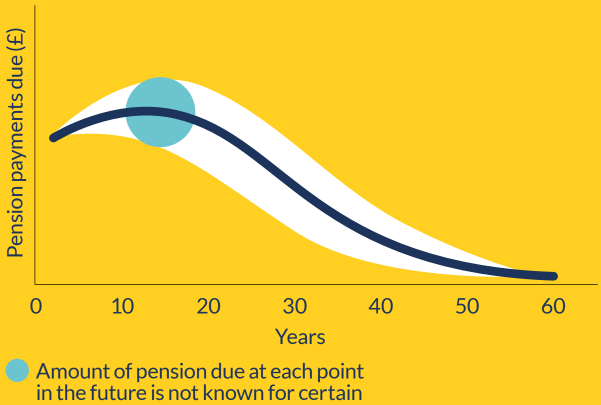
BUSINESS MODEL

GENERATING LONG-TERM SHAREHOLDER RETURNS

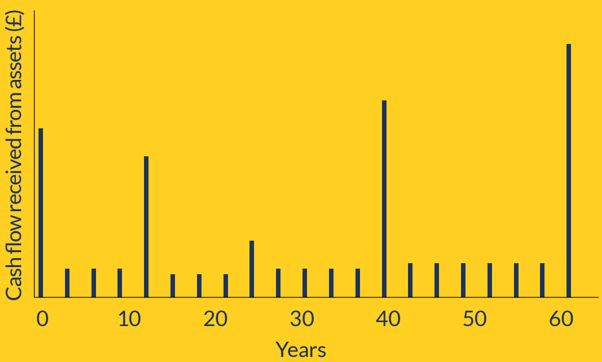
THREE KEY STEPS IN SECURING PENSIONS AND GENERATING LONG-TERM SHAREHOLDER RETURNS:

1. WHAT WE RECEIVE

Pension liabilities taken on are uncertain in both timing and amount (longevity and inflation uncertainty).



Assets are typically received in cash and gilts and are not cash flow matched to the liabilities.



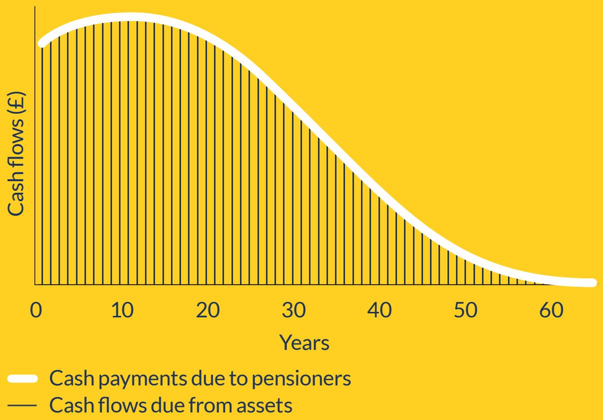
The profile of investment returns from the assets are typically very different to the profile of the cash payments due to pensioners (see chart above).

2. WHAT WE DO

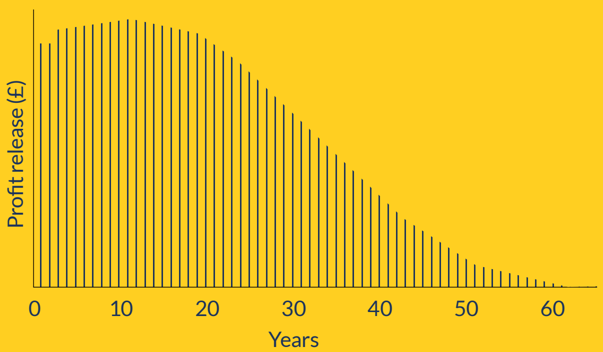
- **Liabilities** are hedged for interest rate and inflation exposure.
- **Assets** received are reinvested to optimise returns on a cash flow matched and risk-adjusted basis.
- **Longevity risk** is reinsured to remove risk, create certain liability cash flows and optimise capital deployment.
- The Group's **capital resources** are committed for the full term of the liabilities.

3. THE OUTCOME

Best estimate liabilities are made more certain and cash flow matched with high-quality assets to provide secure long-term pensions for our policyholders.



Margins in the liability together with the committed capital resources, are released over time, generating attractive risk-adjusted returns on capital employed.



KEY TO SUCCESS

Success in the pension risk transfer market requires expertise in:

- looking after policyholders;
- structuring transactions optimally;
- investing assets;
- hedging liabilities;
- reinsuring longevity risk;
- raising capital;
- bringing all these skills together in a coordinated and efficient basis for transacting and transitioning new business.

The Group's track record in all of these areas underpins its position as a leader in the pension risk transfer market.

FINANCIAL RESULTS SUMMARY

PENSION INSURANCE CORPORATION GROUP LIMITED

IFRS STATEMENT OF COMPREHENSIVE INCOME

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Revenue			
Gross premiums written	5,969	3,261	7,150
Outward reinsurance premiums	(22)	(16)	(29)
Net premium revenue earned	5,947	3,245	7,121
Investment return	2,349	(619)	(978)
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	8,296	2,626	6,144
Expenses			
Claims paid – gross	(675)	(545)	(1,248)
Reinsurers' share of claims paid	20	43	74
	(655)	(502)	(1,174)
Increase in insurance liabilities – gross	(8,051)	(1,369)	(3,727)
Increase/(decrease) in reinsurers' share of insurance liabilities	602	(551)	(596)
	(7,449)	(1,920)	(4,323)
Acquisition expenses	(32)	(27)	(52)
Other operating expenses	(41)	(34)	(72)
Finance costs	(30)	(20)	(46)
	(103)	(81)	(170)
Total claims and expenses	(8,207)	(2,503)	(5,667)
Profit before taxation	89	123	477
Tax charge	(17)	(24)	(91)
Profit or loss and total comprehensive income for the period	72	99	386

PROFIT BEFORE TAX BY ENTITY

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Pension Insurance Corporation plc	89	126	454
Other Group entities	–	(3)	23
Pension Insurance Corporation Group	89	123	477

IFRS BALANCE SHEET

(£m)	30 June 2019	30 June 2018	31 December 2018
Assets			
Investment properties	90	99	96
Reinsurers' share of insurance liabilities	2,456	1,900	1,854
Receivables and other financial assets[1]	933	248	280
Deferred tax asset	3	3	3
Prepayments	66	72	61
Financial investments	39,590	27,885	31,371
Derivative assets	12,451	9,276	9,757
Cash and cash equivalents	92	51	79
Total assets	55,681	39,534	43,501
Equity			
Share capital	2	2	2
Share premium	120	120	120
Treasury shares	(28)	(9)	(24)
Merger reserve	34	34	34
Capital reduction reserve	1,055	1,055	1,055
Share-based payment reserve	17	13	14
Retained profit	1,328	966	1,256
Total equity	2,528	2,181	2,457
Liabilities			
Gross insurance liabilities	36,771	26,363	28,720
Borrowings	892	544	891
Deferred tax liability	3	4	3
Derivative liabilities	14,840	10,331	11,303
Insurance and other payables	521	13	14
Current taxation	20	23	41
Accruals	106	75	72
Total liabilities	53,153	37,353	41,044
Total equity and liabilities	55,681	39,534	43,501

1 Significant increase in receivables and other financial assets was due to asset trading that took place close to period end.

NET ASSETS BY ENTITY

(£m)	30 June 2019	30 June 2018	31 December 2018
Pension Insurance Corporation plc	2,505	2,178	2,434
Other Group entities	23	3	23
Pension Insurance Corporation Group	2,528	2,181	2,457

FINANCIAL RESULTS SUMMARY (continued)

Statutory statement of comprehensive income and balance sheet review

The Group had a very strong first half performance completing nine (HY 2018: 15) new business transactions for a total premium of £6.0 billion (HY 2018: £3.3 billion). This included the insurance of the British American Tobacco UK Pension Fund for a premium of £3.4 billion, PIC's biggest insurance deal to date. PIC also completed seven (HY 2018: two) reinsurance deals in the first half of the year, covering longevity risk on £7.1 billion (HY 2018: £1.1 billion) of liabilities. This has increased the reinsurance coverage to 81% (31 December 2018: 74%) of PIC's total longevity risk exposure (on a Solvency II basis).

Claims paid during the first half of the year were £675 million (HY 2018: £545 million), an increase of 24% mainly due to the growth in the insurance book over the past 12 months. As at 30 June 2019, PIC was responsible for paying the pensions of approximately 218,000 individuals (31 December 2018: 192,100).

The assets in which PIC invests are carefully chosen in order to match the policyholder obligations that they are designed to pay. Our investment strategy is to select assets that generate cash flows that match our future claims payments in both timing and amount. This means that the value of our assets and our liabilities should move in tandem as factors such as interest rates and inflation rates change. Our chosen hedging benchmark is based on our solvency balance sheet, and as such there will exist basis risk between the solvency balance sheet and the IFRS balance sheet. We therefore expect there to be some volatility in our IFRS results due to interest rate and inflation movements.

Investment return (which comprises investment income received and changes in market value of assets) was £2.3 billion in HY 2019. In the same period, the increase in liabilities (excluding new business liabilities) and net claims paid amounted to £2.3 billion.

The increase in operating expenses from £61 million in HY 2018 to £73 million in HY 2019 was in line with the growth of the business. The finance costs of £30 million in HY 2019 are £10 million higher than in HY 2018 due to the new £350 million debt issued in September 2018.

The combination of the above activities led to a Group IFRS profit before tax of £89 million, compared to £123 million for the same period in 2018. The reduction in profits primarily reflects the impact of significant levels of new business deals completed in the last six months. The Group's strategy is to focus on long-term profitability, which involves transitioning new business premiums into target asset portfolio and reinsuring new business. To the extent there is a delay in completion of these activities, the day one IFRS impact of new business can result in a loss, which will reverse as these activities are completed in the future periods. In addition to this, the profits for HY 2019 were positively impacted by updates to our long-term expense assumptions, reflecting greater operational efficiencies within the business.

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THE GROUP INSURED NINE DEFINED BENEFIT PENSION SCHEMES WITH A TOTAL PREMIUM VALUE OF £6.0 BILLION AND COMPLETED SEVEN REINSURANCE DEALS COVERING £7.1 BILLION OF LIABILITIES.

The Group's financial investments increased by £8.2 billion to £39.6 billion (31 December 2018: £31.4 billion). The increase in 2019 was principally due to the new business written and fair value gains due to market fluctuations (largely falls in interest rates over the six-month period), offset by payments of claims and reinsurance fees.

Gross derivative assets and derivative liabilities have both increased since 31 December 2018, as the Group implements hedges on the assets and liabilities associated with new business written in the year as well as rebalancing hedges on existing liabilities.

The increase in insurance liabilities since December 2018 reflects the addition of the new business written during 2019 and the impact of market fluctuations, offset by claims paid to policyholders and the expense assumption changes (mainly to reflect lower per-policy expenses), which reduced the insurance liabilities by £335 million.

Alternative performance measures

Adjusted operating profit basis

In addition to the statutory results presentation outlined above, management also choose to analyse their IFRS results on an adjusted operating profit basis, reflecting the activities of the Group rather than the statutory income and expense categories.

Adjusted operating profit before tax has been defined to reflect the activities which are core to the Group's business, and to reflect the management choices and decisions around those activities. These encompass the writing and management of pension insurance contracts, the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities. Within this, management have defined a measure of "return from operations" which captures the returns made from the in-force book of insurance liabilities and expected long-term returns from surplus assets.

The adjusted operating profit basis is aligned to the way management view the business, and the decisions which management make around the Group's core activities.

The Group's adjusted operating profit before tax for the six months to 30 June 2019 was £629 million, increased from £125 million in HY 2018. An explanation of the main components of this is set out overleaf.

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

It also includes the impact on profit, on a pricing basis, from writing new buy-in and buyout insurance contracts, and entering into new contracts of reinsurance. At 30 June 2019, the net release from operations was £346 million. This is £278 million higher than the HY 2018 figure of £68 million, principally reflecting the increase of the book in the last 12 months, the record levels of new business written in the last six months and the completion of seven reinsurance deals covering £7.1 billion of liabilities.

Changes in valuation assumptions gave rise to a positive £335 million for the six months to 30 June 2019 mainly due to the reduction in per-policy expenses to reflect the latest trends and reduction in the allowance for defaults on corporate bonds as a result of updates to the default data on which the assumption is based.

Experience variances, which reflect both the actual claims experience compared with the expected amounts and the impacts of data updates on underlying policyholder information, were a loss of £7 million in the first six months of 2019 (HY 2018: £5 million profit).

The interest costs of the subordinated debt capital issued by the Group's subsidiary, PIC, rose to £30 million in the first six months of 2019 from £20 million in the same period of 2018, following the issuance of a further £350 million of debt in September 2018. Project costs in HY 2019 were £15 million (HY 2018: £8 million), reflecting the increased spend on implementation of IFRS 17 as well as other business-wide projects.

The impact of investment volatility on the Group's assets and liabilities was a £540 million loss in the first six months of 2019, compared to a £2 million loss at the same period in 2018.

Approximately £300 million of this loss occurred due to differences in the timing of obtaining assets assumed in new business pricing compared to those realised during the reporting period. The Group wrote significant volumes of new business towards the end of the period, and having received the premiums largely in cash and gilts, had not fully invested in line with the long-term target portfolios at the reporting date. It is expected that the reported loss will be partially reversed when these investments are made.

The remainder of the loss arose from the impact of short-term market movements. While the Group has an active hedging programme to manage the economic risks arising from its assets and liabilities, the Group's hedging is designed around its solvency balance sheet. As a result there is a degree of mismatch between the hedging basis and the IFRS balance sheet which flows through into the annual IFRS results, which is expected to largely reverse in due course.

At the end of June the prudent margins held, which represent additional provisions over and above our best estimate of liabilities, stood at £2.8 billion, an increase of £300 million since the end of 2018. These prudent margins have increased due to additional new business volumes written in the period, and represent future profits that will be released over the lifetime of our pension scheme liabilities.

- Return from operations is generated from the release of prudent margins for business written in previous years, along with the expected return on shareholder funds based on long-term investment return assumptions.

- Profit depends on characteristics of plans acquired.
- New business written to target IRRs.
- Prudent margins released over life of contract.
- Emergence of future profits de-risked through hedges and reinsurance.

- Model and assumption changes.

- Reflects actual claims experience compared to the expected amounts and the impacts of data updates.

- Short-term fluctuations in investment return.

ADJUSTED OPERATING PROFITS

IFRS adjusted operating profits

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Return from operations	150	107	238
New business and reinsurance surplus	196	(39)	59
Net release from operations	346	68	297
Changes in valuation assumptions	335	80	400
Experience and other variances	(7)	5	16
Finance and project costs	(45)	(28)	(64)
Adjusted operating profit before tax	629	125	649
Investment volatility	(540)	(2)	(172)
IFRS profit before tax	89	123	477

ADJUSTED OPERATING PROFIT BY ENTITY

IFRS adjusted operating profits

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Pension Insurance Corporation plc	629	128	626
Other Group entities	–	(3)	23
Pension Insurance Corporation Group	629	125	649

FINANCIAL RESULTS SUMMARY (continued)

PIC SOLVENCY RATIO

	30 June 2019 (£m)	30 June 2018 (£m)	31 December 2018 (£m)
Net assets held in excess of best estimate liabilities (BEL)	5,528	4,797	5,122
Risk margin net of transitional measures	(1,257)	(1,120)	(1,205)
Own funds	4,271	3,677	3,917
Solvency II capital requirements	(2,714)	(2,106)	(2,343)
Solvency II surplus	1,557	1,571	1,574
Solvency ratio	157%	175%	167%

KEY SOLVENCY SENSITIVITIES

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

- Pricing applied to new business and control of business volumes.
- New business only transacted provided it meets the Company's return on capital targets.

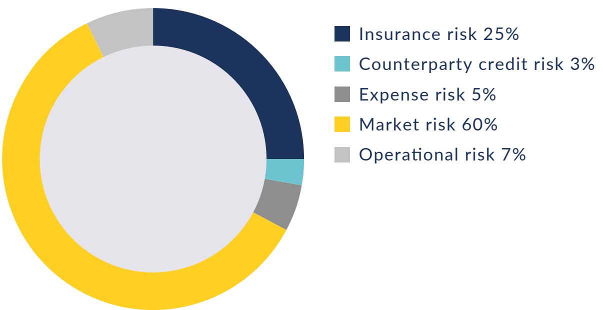
> Hedging strategy structured to protect regulatory solvency balance sheet:

- Interest rate, inflation and FX risk are hedged to manage solvency balance sheet.
- Longevity risk is managed through reinsurance where majority of risk is transferred.

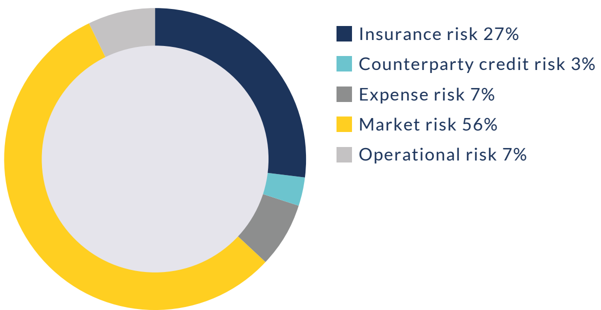
PIC sensitivity of solvency ratio to changes in assumptions	30 June 2019 (%)	30 June 2018 (%)	31 December 2018 (%)
Solvency ratio at end of period[1]	157	175	167
25 bps increase in interest rates[2]	5.3	7.2	6.1
25 bps reduction in interest rates[2]	(5.3)	(7.1)	(6.9)
£100 million credit default (no recovery)	(3.7)	(4.9)	(4.3)
5% reduction in base mortality[3]	(5.6)	(8.7)	(8.3)

SOLVENCY II SCR BY TYPE OF RISK (PRE-DIVERSIFICATION)

SCR by type of risk HY 2019



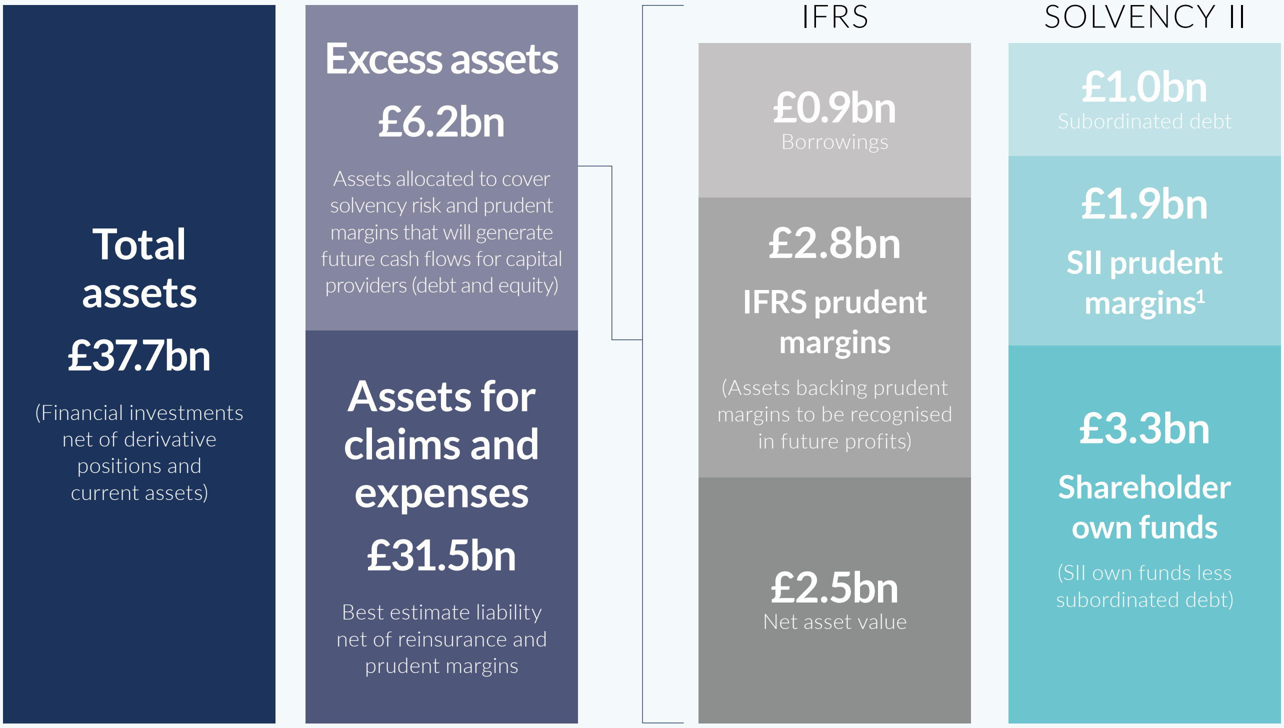
SCR by type of risk FY 2018



Notes:
1 No update to the transitional measures (TMTPs) have been included in the above solvency ratio. If there had been an update there would be no change to the solvency ratio.
2 After recalculation of TMTPs.
3 Equivalent to a 0.4 year increase in life expectancy from 22.8 years to 23.2 years for a typical male aged 65.

SOLVENCY II AND IFRS BALANCE SHEET

PIC asset breakdown at HY 2019 | **Excess assets on IFRS and Solvency II bases**



Notes:
1 SII prudent risk margins net of transitional measure on technical provisions. Solvency II and IFRS valuation differences including deferred tax.

Underlying value unchanged by IFRS or solvency representation:

> Under both solvency (own funds) and IFRS (NAV), only a portion of the profits that will ultimately flow to shareholders are recognised at the balance sheet date. The remainder will be recognised in the future as prudent/risk margins run-off.

MARKET CONSISTENT EMBEDDED VALUE (MCEV)

The MCEV analysis was prepared under the European Insurance CFO Forum MCEV Principles (Copyright© Stichting CFO Forum Foundation 2008) (MCEV Principles) issued in April 2016. The starting point is the Solvency II balance sheet, and to this 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 so as to arrive at a more appropriate quantification of the Group's value.

The Group's MCEV at 30 June 2019 was £3,890 million compared to £3,638 million at 31 December 2018. The increase in MCEV since December 2018 of £252 million reflects the beneficial impacts of new business written during the period, the in-force business contribution, assumption changes and the impacts of investment market movements during the period.

FINANCIAL RESULTS SUMMARY (continued)

In-force business contribution primarily relates to the unwinding of the MCEV discount rate and the release of the cost of capital and cost of non-hedgeable risks for the business in force at the start of the period, as well as the impact of reinsurance.

Economic variances capture the impact of the movements in the market variables (interest, inflation and credit spreads) during the period.

Non-economic variances include project costs, modelling changes, data updates, emerging claims experience, changes in frictional cost of required capital and costs of residual non hedgeable risks ("CRNHR") and tax variances.

Subordinated debt is treated as a liability at fair value under MCEV.

Change in embedded value (£m)

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Opening embedded value	3,638	2,932	2,932
New business contribution	351	228	513
In-force business contribution	54	(46)	(49)
MCEV operating profit	405	182	464
Economic variances	128	25	(64)
Non-economic variances	(222)	254	241
Change in fair value of subordinated debt	(59)	9	65
MCEV movement in the period	252	470	706
Closing embedded value	3,890	3,402	3,638

MCEV BY ENTITY

	30 June 2019 (£m)	30 June 2018 (£m)	31 December 2018 (£m)
Pension Insurance Corporation plc	3,871	3,402	3,615
Other Group entities	19	–	23
Pension Insurance Corporation Group	3,890	3,402	3,638

SOLVENCY II TO MCEV RECONCILIATION

30 June 2019 (£m)	Solvency II balance sheet	Allow for sub-debt	Recognise the frictional cost of required capital	Release (RM, DTL minus transitional measures), recognise CRNHR	Release MA margins	Tax on future profits	MCEV
Assets	37,712						
BEL	(32,052)						
Risk margin (RM), deferred tax liability (DTL) net of transitional measures	(1,371)						
Solvency II own funds	4,289						4,289
PVFP				1,371	536	(418)	1,489
CRNHR				(637)			(637)
FCoC			(206)				(206)
Subordinated debt		(1,045)					(1,045)
MCEV							3,890

ASSETS AND LIABILITY MANAGEMENT

PIC'S INVESTMENT PORTFOLIO SUMMARY AT 30 JUNE 2019

- 90% of financial investments in government and corporate securities.
- Corporate securities: 98% investment grade rated.
- No single counterparty (excluding UK Government) represents more than 1.4% of total investment assets.
- 49% of financial investments managed by external asset managers.
- 51% of PIC's total investment assets managed directly, including UK gilts, supranational bonds, and debt private placements.
- Investment strategy designed for long-dated assets to match long-dated liabilities.
- Debt private placements, including in social housing and renewable energy, totalled £0.9 billion during the period, taking the total to date to £6.7 billion.

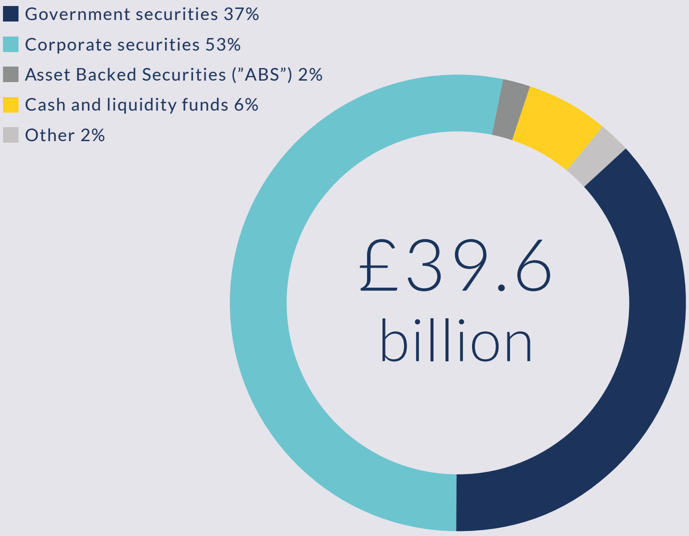
Corporate securities by country / region of issuance

Country	Market value (£m)	%
UK	10,158	48.8
US	6,824	32.7
Europe (ex UK)	2,377	11.4
Rest of world	1,489	7.1
Total	20,848	100.0

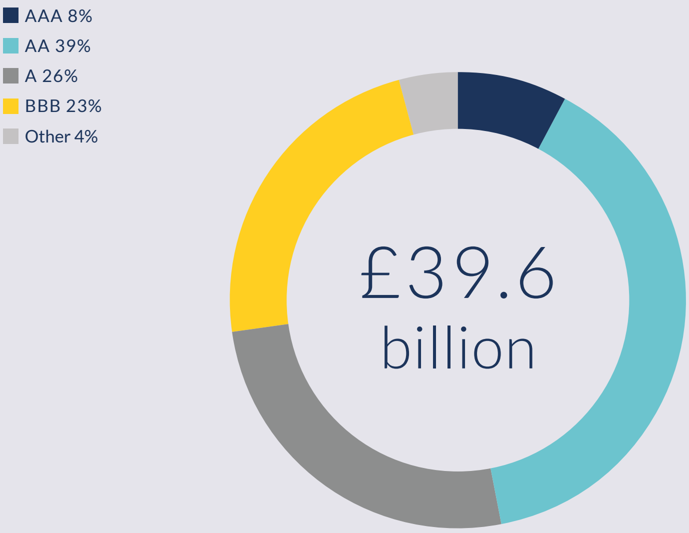
Corporate securities split by industry sector

Industry sector	Market value (£m)	%
Financial	5,672	27.2
Private financial initiatives and direct investment loans (unlisted)	3,401	16.3
Utilities	2,674	12.8
Consumer, non-cyclical	2,505	12.0
Communications	1,843	8.8
Energy	1,501	7.3
Technology	1,115	5.3
Consumer, cyclical	804	3.9
Industrial	711	3.4
Basic materials	516	2.5
Quasi-government	65	0.3
Diversified	41	0.2
Total	20,848	100.0

PIC'S ASSET PORTFOLIO BY ASSET CLASS (30 JUNE 2019)



PIC'S ASSET PORTFOLIO BY RATING



APPENDIX 1

OVERVIEW OF REPORTING BASES

The financial model

The Group's strategy is to manage the assets associated with defined benefit pension scheme liabilities and to make a consistent margin on these assets over the very long term. The liabilities that we take on are in respect of the obligations to pay the pensions of members or former members of pension schemes. As these obligations are highly predictable and the majority are non-callable, we are able to invest in assets with a very long-term investment horizon.

The Group, through its operating entity, Pension Insurance Corporation plc is authorised to write long-term insurance business by the Prudential Regulation Authority (PRA) and is regulated by the PRA and the Financial Conduct Authority (FCA). We operate in a highly regulated environment where our UK prudential regulator, the PRA, requires us to invest our assets and measure our liabilities in accordance with strict and detailed rules and guidance. The PRA also requires us to hold capital over and above the assets required to pay out policyholder benefits, as an additional safeguard for policyholders.

Our main income derives from new business premiums and investment returns. Our principal outgoings are pension-related payments to policyholders, investment management expenses and general management expenses, against which we maintain actuarially calculated reserves and provisions.

As a long-term business we complement our IFRS and Solvency II disclosures with additional information on an "embedded value" basis, which captures the inherent future value of the emerging margins in our business.

Presentation of financial results

The IFRS basis results for the 2019 and 2018 half years are unaudited and they have not been reviewed in accordance with International Standard on Review Engagements 2410. The 2018 full year IFRS basis results have been derived from the 2018 statutory accounts. The auditors have reported on the 2018 statutory accounts. The auditors' reports were: (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The embedded value results for the 2019 half year are unaudited. The 2018 year end embedded value results have been derived from the 2018 year end PIC market Consistent Embedded Value report, which included an unqualified audit report from the auditors in respect of compliance with the MCEV Principles set out by the European CFO Forum.

Because of the nature of our business, we present our results on a number of different bases, all of which provide different insights into the Group. The following paragraphs provide a summary of the different methods and insights offered by each basis.

Solvency II

The Solvency II results are prepared in accordance with the financial reporting provisions of the PRA Rules and Solvency II Regulations.

Under the Solvency II regime, firms can either follow a prescribed approach to calculating required regulatory capital (the standard formula approach), or they can apply to the supervisory regulatory body to use an "internal model", developed by the company but subject to comprehensive review and approval by the regulatory body, in our case the PRA.

PIC obtained approval from the PRA for its internal model, which we believe better reflects the risk profile of the Company's business, in December 2016. This was updated by a "major model" change application, which was approved in December 2018. The PRA also approved other Solvency II related applications made by the Company in respect of the Matching Adjustment, Volatility Adjustment and Transitional Measures, which are all related to how elements of the Solvency II balance sheet are calculated.

Market Consistent Embedded Value

The Group has adopted the MCEV Principles for its embedded value measurement and reporting. The MCEV methodology is based on Solvency II, rather than IFRS.

The MCEV results are prepared in accordance with the MCEV Principles issued in April 2016. MCEV breaks down the solvency balance sheet sufficiently to demonstrate the present value of shareholders' interest in the expected distributable profits of the business over the long-term, after making sufficient allowance for residual risks. It consists of the following components:

> Free surplus – the market value of any excess assets allocated to the in-force business at the valuation date.

> Required capital – the market value of assets over and above that required to back liabilities and whose distribution to shareholders is restricted until such time when it becomes available for distribution based on the regulatory requirements. Required capital is presented from shareholder perspective and therefore subordinated debt is excluded. The minimum amount of required capital the Group expects to hold is set equal to 130% of the SCR.

> Value of in-force business – the sum of present value of future profits (post tax, net of reinsurance cash flows), frictional cost of required capital and cost of residual non hedgeable risks.

Key MCEV assumptions:

> Economic MA is similar to the solvency matching adjustment but with a more realistic view on the cost of default and downgrade. This assumption is driven by the actual asset spread, net of the expected cost of defaults and downgrades.

> Cost of residual non-hedgeable risks is an allowance for the cost of the risks which cannot be readily hedged in a liquid market. In MCEV calculations the following categorisations are made for the risks:

– The longevity risk associated with all pensioner business, whether reinsured at the balance sheet date or not, is treated as hedgeable for a cost. This is a change from previous periods, where only the longevity risk associated with reinsured pensioner business was treated as hedgeable. This is relevant for the calculation of the CRNHR.

– The longevity risk associated with deferred business (where the insured individuals have not yet retired) is only treated as hedgeable provided it has been reinsured. Unreinsured deferred business is treated as non-hedgeable for the purposes of calculating the CRNHR.

– We treat all market-related risks as hedgeable or having a symmetric impact on shareholder value.

Other differences between Solvency II and MCEV assumptions relate to:

> Subordinated debt, which is treated as Tier 2 capital under Solvency II, is recognised at fair value for the purposes of MCEV.

> SCR, which is released over time and is replaced with frictional cost of capital for MCEV.

> Risk margin, which is released over time and is replaced with CRNHR, with a cost of capital rate of 3.2%.

IFRS

The half year IFRS results are prepared on the same basis as those required for annual statutory reporting purposes. The results are prepared on a "prudent" basis, recognising liabilities in full using best estimate assumptions to which margins for prudence are added, with no credit taken for future earnings or for the release of the prudent margins.

The discount rate used to value the future liabilities is derived from the yield on the asset portfolio that we hold, but with appropriate adjustments to ensure that the discount rate itself is on a prudent basis.

Because of this prudent approach, the impact of new business on profits is typically fairly small and can be negative. The value arising from new business written emerges over many years and the IFRS accounts will only reflect this emerging value over the lifetime of the new business.

Alternative measures of profit or loss ("Adjusted operating profit")

Adjusted Operating Profit before tax has been defined to reflect the activities which are core to the Group's business, and to reflect the management choices and decisions around those activities. These encompass the writing and management of pension insurance contracts, the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities. Within this, management have defined a measure of "return from operations" which captures the returns made from the in-force book of insurance liabilities and expected long-term returns from surplus assets.

The adjusted operating profit basis is aligned to the way management view the business, and the decisions which management make around the Group's core activities.

In 2018, the Group has amended certain definitions and descriptions within the adjusted operating profit basis, with the main changes being as follows:

> The items previously captioned "Return on Surplus Assets", and "Return on in-force book" have been added together to be called "Return from Operations". The measurement of these items is, however, unchanged. This change was made as it was felt there was little value in providing this level of granularity.

> Actuarial valuation assumption changes, which previously were shown outside of adjusted operating profit, have been moved to be within adjusted operating profit. This change was made to reflect that assumptions made, and changes to those assumptions, are an integral part of the long-term value creation of the business, and to the extent that these assumptions prove to be either too prudent or too imprudent, this should be reflected alongside the core profit emergence rather than being excluded.

> Finance and project costs have been included within adjusted operating profit. Whilst these costs could be considered outside of operating profit, it was determined that as they support the ability to write new business it was more appropriate to include such costs within adjusted operating profit.

These changes do not alter the total amount of profits or losses recognised within any accounting period, but the Group believes that making these changes serves to better describe the activities of the Group and the profits or losses arising.

The item "net release from operations" comprises the returns arising from the management of the Group's assets and liabilities. This is derived by using assumptions about long-term returns on the underlying investment portfolio backing liabilities, and on the surplus assets of the Group. It also includes the impact on profit, on a pricing basis, from writing new buy-in and buyout insurance contracts, and entering into new contracts of reinsurance.

APPENDIX 2

PIC SUPPLEMENTARY INFORMATION

FOR THE HALF YEAR ENDED 30 JUNE 2019

STATEMENT OF COMPREHENSIVE INCOME

	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Revenue			
Gross premiums written	5,969	3,261	7,150
Outward reinsurance premiums	(22)	(16)	(29)
Net premium revenue earned	5,947	3,245	7,121
Investment return	2,349	(619)	(978)
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	8,296	2,626	6,144
Expenses			
Claims paid – gross	(675)	(545)	(1,248)
Reinsurers' share of claims paid	20	43	74
	(655)	(502)	(1,174)
Increase in insurance liabilities – gross	(8,051)	(1,369)	(3,727)
Increase/(decrease) in reinsurers' share of insurance liabilities	602	(551)	(596)
	(7,449)	(1,920)	(4,323)
Acquisition expenses	(32)	(27)	(52)
Other operating expenses	(41)	(31)	(95)
Finance costs	(30)	(20)	(46)
	(103)	(78)	(193)
Total claims and expenses	(8,207)	(2,500)	(5,690)
Profit before taxation	89	126	454
Tax charge	(17)	(24)	(86)
Profit or loss and total comprehensive income for the period	72	102	368

ADJUSTED OPERATING PROFIT STATEMENT

IFRS adjusted operating profits	2019 Half year (£m)	2018 Half year (£m)	2018 Full year (£m)
Return from operations	150	107	238
New business and reinsurance surplus	196	(39)	59
Net release from operations	346	68	297
Changes in valuation assumptions	335	80	400
Experience Variances	(7)	8	(7)
Finance and project costs	(45)	(28)	(64)
Adjusted operating profit before tax	629	128	626
Investment volatility	(540)	(2)	(172)
IFRS profit before tax	89	126	454

STATEMENT OF FINANCIAL POSITION

	30 June 2019 (£m)	30 June 2018 (£m)	31 December 2018 (£m)
Assets			
Investment properties	90	99	96
Reinsurers' share of insurance liabilities	2,456	1,900	1,854
Receivables and other financial assets	930	244	276
Prepayments	62	69	58
Financial investments	39,590	27,885	31,371
Derivative assets	12,451	9,276	9,757
Cash and cash equivalents	83	44	67
Total assets	55,662	39,517	43,479
Equity			
Share capital	1,000	1,000	1,000
Other reserves	60	60	60
Retained profit	1,445	1,118	1,374
Total equity	2,505	2,178	2,434
Liabilities			
Gross insurance liabilities	36,771	26,363	28,720
Borrowings	892	544	891
Deferred tax liability	3	4	3
Derivative liabilities	14,840	10,331	11,303
Insurance and other payables	587	36	72
Current taxation	16	25	37
Accruals	48	36	19
Total liabilities	53,157	37,339	41,045
Total equity and liabilities	55,662	39,517	43,479

APPENDIX 3

GLOSSARY

Annuities
A type of insurance policy that pays out regular amounts of benefit to the policyholder for the remainder of insured individual's lifetime and, in certain cases, that of their spouse and/or dependants.

The payments may commence immediately ("immediate annuity") or may be deferred to commence from a future date, such as the date of retirement ("deferred annuity"). Immediate annuities and deferred annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of individuals.

Assets under management (AuM)
Represents all assets actively managed or administered by or on behalf of the institution including those funds managed by third parties.

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.

Cost of residual non-hedgeable risks (CRNHR)
Under 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 is treated as hedgeable but only to the extent that the risks relate to annuities in payment or to deferred annuities that have actually been hedged, typically using reinsurance. Unreinsured pensioner longevity risk is treated as reinsurable for the purpose of calculating the cost of non-hedgeable risks.

Defined benefit (DB) pension scheme
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.

Economic matching adjustment
The Economic MA is our best-estimate measure of the level of risk (the spread over the risk-free interest rate) contained within the assets we have backing our pension liabilities. It refines the MA and is tailored for our specific portfolio.

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.

Matching adjustment (MA)
The matching adjustment (MA) is a standard adjustment made to the risk-free interest rate, as prescribed within the Solvency II regime, to match more closely an insurer's liabilities and assets.

Matching adjustment margin
The matching adjustment margin is the difference between the standard prudent default margins within the Matching Adjustment, which are prescribed by the Solvency II regime, and our best estimate view of the actual default margins within the Economic MA.

Minimum capital requirement (MCR)
The lower of the two capital levels required by Solvency II. It represents the minimum level of capital required to be held by an insurer before ultimate regulatory intervention is triggered.

PIC's 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.

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 margin (RM)
Life insurance companies hold technical provisions (reserves) calculated on actuarial bases to ensure they have sufficient funds available to pay their technical liabilities when they fall due. The technical provisions comprise a BEL and a RM. The RM calculation, which is prescribed under the Solvency II regulations, is intended to represent the amount that a notional third party, a reference undertaking, would require in order to take over the liabilities and have sufficient capital to support them over their future lifetime.

Solvency II
An EU-wide regulatory regime which intends to align solvency capital to an insurers' risk profile. Solvency II was implemented on 1 January 2016.

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 are market risk and insurance risk, but the internal model also covers counterparty default risk, expense risk and operational risk.

Technical provisions (TP)
The value of technical provisions on the Solvency II basis is equal to the sum of a BEL and a RM.

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.

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