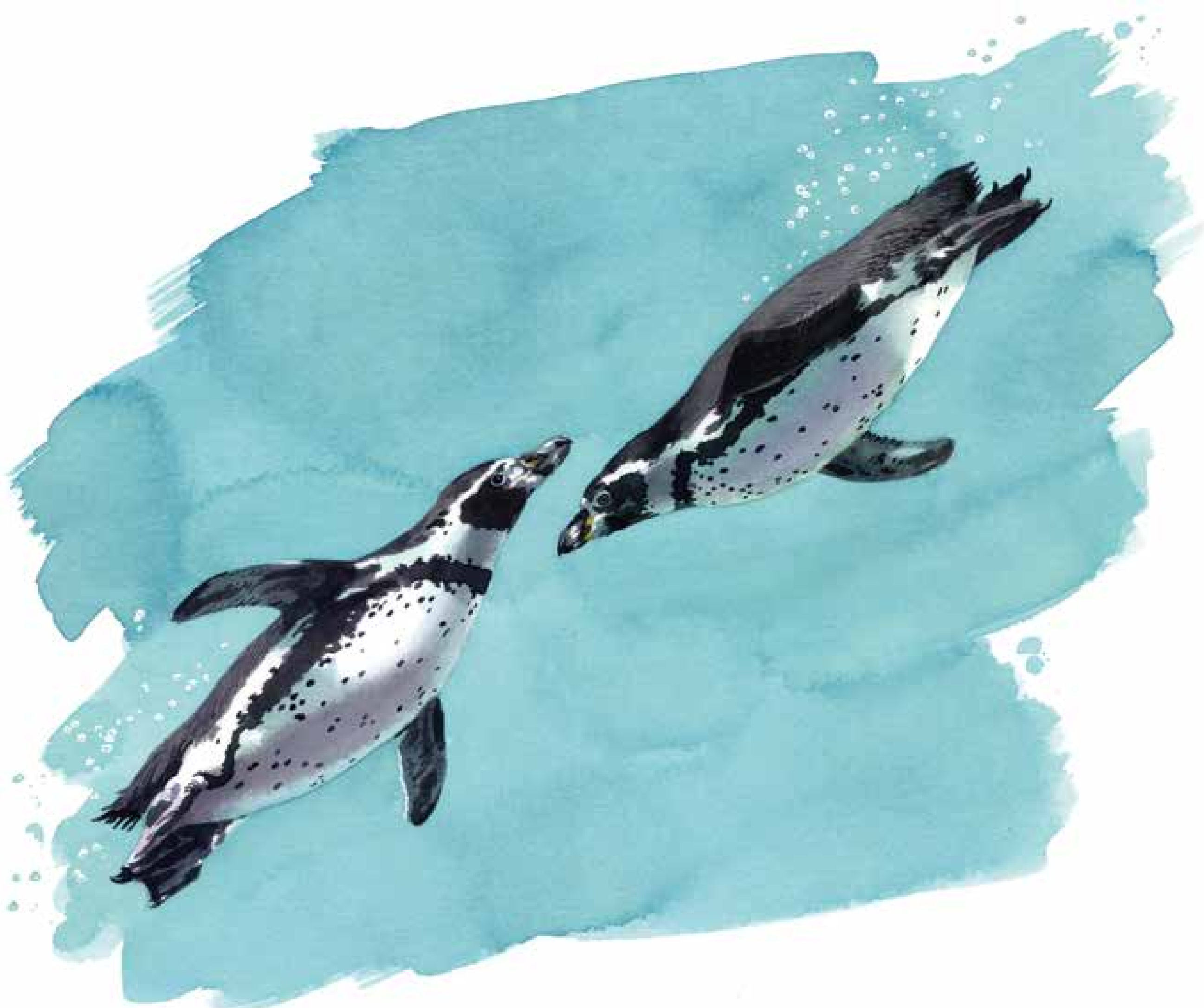
PENSION INSURANCE
CORPORATION GROUP LIMITED

Strengthening stakeholder relationships



PENSION INSURANCE CORPORATION GROUP LIMITED
HALF YEAR REPORT 2020

Guaranteed pensions, purposeful investment

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.

PIC has insured 237,600 pension scheme members and has £47.7 billion in financial investments, accumulated through the provision of 215 tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit schemes.

CONTENTS

OUR CLIENTS INCLUDE

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.

Front cover illustration:
The Humboldt penguin, also known as the Peruvian penguin or Patranca, lives across coastal Peru and Chile. They are a mid-sized penguin, growing from 56 to 70cm high, and have white markings that wrap across the top of the head, under the chin and down to the flippers. They nest across islands and the rocky coast line. Their population is declining and in 2010 they were granted protection under the U.S. Endangered Species Act.

HALF YEAR TO 30 JUNE 2020 HIGHLIGHTS

PREMIUMS

HY 2020
£3,499
MILLION

HY 2019
£5,969
MILLION

IFRS PROFIT BEFORE TAX

HY 2020
£306
MILLION

HY 2019
£89
MILLION

FINANCIAL INVESTMENTS

HY 2020
£47.7
BILLION

FY 2019
£40.9
BILLION

EMBEDDED VALUE

HY 2020
£4,623
MILLION

FY 2019
£3,874
MILLION

SOLVENCY II RATIO (PIC)

HY 2020
153%

FY 2019
164%

ASSETS HELD TO MEET SOLVENCY AND RISK MARGINS (PIC)

HY 2020
£8.0
BILLION

FY 2019
£6.6
BILLION

POLICYHOLDER SATISFACTION

HY 2020
99.5%

FY 2019
99.1%

RATING

FitchRatings
A+

In May 2020 Fitch Ratings affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

OUR AWARDS

European Pensions AWARDS 2019 WINNER Risk Management Firm of the Year

The Institute of Customer Service UK Customer Satisfaction Awards 2019 WINNER

FAST TRACK in association with THE SUNDAY TIMES

PENSIONSAge AWARDS 2020 WINNER

INVESTORS IN PEOPLE We invest in people Standard

Risk Awards 2020 Winner Pension Insurance Corporation Insurer of the year

Focussed and measured

TRACY BLACKWELL
CHIEF EXECUTIVE OFFICER

> "Our policyholders have remained our absolute priority during this period and we have maintained a first-class service for them"

Despite a volatile and uncertain backdrop, PIC has continued to win new business, manage our risks, strengthen our stakeholder relationships and garner considerable support from both our shareholders and the debt markets during the first half.

POLICYHOLDER SATISFACTION RATES:

Members scoring satisfied or better

99.5%

Policyholders giving maximum score

83.9%

In what has been a very difficult backdrop as a result of Covid-19, I am pleased to say that PIC has had a very strong first half to the year, maintaining robust financial strength. The business has enjoyed success in terms of new business completed, managing our risks, strengthening our stakeholder relationships, and garnering considerable support from both our shareholders and the debt markets. This success is a testament to the hard work put in by our valued employees over the past few years in terms of business resilience planning, especially with regard to the processes and systems for payments to policyholders; more recently in managing our overall risks, including the quality of our assets in the credit portfolio; and then in seamlessly pivoting to working from home when we were all required to do so.

Our policyholders have remained our absolute priority during this period and I am delighted that we have maintained a first-class service for them.

We have not experienced any disruption whatsoever to our normal service levels, and in fact we have seen a slight improvement in response times in our virtual contact centre. Our policyholder satisfaction levels remain extremely high at 99.5% (2019: 99.1%).

In the first half of the year we wrote £3.5 billion of new business (FY 2019: £7.2 billion), from clients including Co-op and MNOPF and we reinsured £3.9 billion of our longevity risk. As part of this longevity reinsurance, we were particularly pleased to have completed an asset-based reinsurance treaty with a global reinsurer covering £450 million of non-pensioner lives. This transaction means we have extended our panel of global reinsurers to 12.

Our investment portfolio has been resilient and durable, performing broadly in line with our expectations during this period. We have seen no defaults and only approximately 0.2% of the portfolio moving from Investment Grade to Non Investment Grade, which we believe is indicative of the quality of our overall investment portfolio. We have continued to invest in the UK's infrastructure during the year, with £75 million going into social housing. We have also invested almost £500 million in European solar energy production in the first half of the year. These investments provide secure long-term cashflows to back future pension payments, as well as providing a social benefit.

Our balance sheet remains strong, despite the turmoil in the markets and the impact on the wider economy of Covid-19. Our Solvency ratio at 30 June was 153% (31 December 2019: 164%). In January, we announced a capital raise of £750 million of new equity from our existing shareholders, of which we have drawn down £450 million to support our growth plans. And then in May, we were able to opportunistically raise a further £300 million of debt, also with the intention of supporting new business and our overall financial strength.

Our pre-tax profits for the half year of £306 million are comfortably ahead of the same period last year, supported by resilient investment performance. Group embedded value, a measure of the overall value of the Group, was £4,623 million at the half year, reflecting the additional share capital and profit in the period, an increase of £749 million over the previous year end.

As I mentioned above, our employees were able to seamlessly move to working from home and have performed in an exemplary fashion in what has been an incredibly hard few months. I am especially pleased that we have been able to redeploy staff as needed and have not furloughed anyone, indeed we have successfully taken on 56 new people since January.

Finally, I am pleased to report that we have not forgotten our wider social responsibilities and the Board moved quickly to donate £2 million to support those less fortunate than ourselves: £1.5 million was donated to the ABI's COVID-19 support fund; with £250,000 donated to each of our corporate charity partners, Independent Age and Rethink Mental Illness.

Once again, I want to thank our employees for their efforts over the past few months and I look forward to a successful second half.

"Our balance sheet remains strong, despite the turmoil in the markets and the impact on the wider economy"

KEY PERFORMANCE INDICATORS

PIC focuses on eight key performance indicators ("KPIs") to measure performance in four strategic objectives: growth and focus, reputation and conduct, cost and capital efficiency, and returns.

GROWTH AND FOCUS

EMBEDDED VALUE ("EV") (£M)

This measure gives an indication of the value created to date. It is also a financial metric the Board uses to evaluate the value of the business.

HY 2020
£4,623
MILLION

FY 2019
£3,874
MILLION

ADJUSTED EQUITY OWN FUNDS ("AEOF") (£M)

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

HY 2020
£5,624
MILLION

FY 2019
£4,504
MILLION

REPUTATION AND CONDUCT

POLICYHOLDER SATISFACTION (%)

This is a measure calculated where policyholders express their overall satisfaction with our customer service. This metric ensures we continue to focus on the purpose of the business.

HY 2020
99.5%

FY 2019
99.1%

CUSTOMER FOCUS (%)

In line with our purpose, one of our key internal measures is our customer focus. Employees are surveyed on whether they believe PIC is, "always seeking to understand and meet customer needs", ensuring our customers continue to remain our priority.

HY 2020
92%

FY 2019
98%

COST AND CAPITAL EFFICIENCY

PIC SOLVENCY RATIO (%)

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

HY 2020
153%

FY 2019
164%

EXPENSE RATIO (%)

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

HY 2020
0.38%

FY 2019
0.37%

RETURNS

ADJUSTED OPERATING PROFIT BEFORE TAX ("AOPBT") (£M)

AOPBT is the IFRS profit assessed on a long-term basis excluding investment related variances.

HY 2020
£187
MILLION

HY 2019
£629
MILLION

RETURN ON EQUITY (%)

Return on equity is a measure of the after tax profits in relation to average equity (excluding our Restricted Tier 1 ("RT1") notes).

HY 2020
16.6%

FY 2019
12.2%

ASSET AND LIABILITY MANAGEMENT

PORTFOLIO

Covid-19 and the ensuing lockdown has caused the largest ever quarterly drop in UK GDP. Globally, the response from governments and central banks has been unprecedented. Our cautious strategy, driven by the view that markets were not properly pricing in the risk of an economic slowdown, and aligned to our purpose of paying the pensions of our policyholders, has served us well.

Over 2019, we made significant progress to reposition the investment portfolio in anticipation of an economic downturn by taking risk out of the portfolio and investing in secure, high-quality, investment grade credit. We continued that strategy during the first half.

As at 30 June 2020, our investment portfolio totalled £47.7 billion (31 December 2019: £40.9 billion). We have maintained a significant allocation to cash and liquidity funds, and UK government debt, which collectively represented 45% of our assets at 30 June 2020 (31 December 2019: 44%). At year-end our biggest single allocation was to UK government debt and that remains the case at the half-year. Aside from the UK government no single counterparty represents more than 2.6% of our total assets (31 December 2019: 2.3%).

At the half year, 54% (31 December 2019: 53%) of our portfolio was invested in corporate bonds, of which 98% (31 December 2019: 98%) were investment grade rated. Less than 6% were rated BBB- or below (31 December 2019: less than 5%). Despite this slight increase, we have been actively managing this exposure and are confident in the overall quality of these assets such that we do not expect significant downgrades to sub-investment grade. Only 0.2% of the bond portfolio has been downgraded to sub-investment grade this year, and we have not experienced any defaults.

We took early steps to manage our exposure to sectors that have been the most directly impacted by Covid-19. For example, less than 2% of our total portfolio (31 December 2019: less than 2%) is invested in consumer cyclical sectors, of which 100% is investment grade. These sectors include airline, leisure and retail. Whilst the primary position within these sectors is a defensive one, given the negative impact of the pandemic, the position is nuanced by the success of others. For instance, within retail the largest exposure is to supermarkets, which have fared relatively well.

In addition, as we have integrated Environmental, Social and Governance ("ESG") and climate change risk management into our investment portfolio, we have taken an increasingly risk-averse stance to certain sectors, including autos and oil. As part of this process, we continue to make long-term changes to our holdings, moving away from problematic ESG areas and investing more in sectors like renewable energy, with almost £500 million invested in solar in the first half of the year.

We have also continued to increase our exposure to social housing, with £75 million invested in debt issued by Trident Housing Association, a housing association based in the Midlands earlier in the year. The funds will be used to refinance existing long-term debt, allowing Trident to plan further growth and develop more social housing stock.

The long-term defensive positioning of the portfolio means that we are well positioned as the effects of the pandemic continue to move through the economy throughout the rest of this year and beyond.

Financial assets by credit rating

30 June 2020	AAA £m	AA £m	A £m	BBB £m	BB £m	Unrated £m	Total £m
Financial investments							
Debt securities[1,2]	2,486	19,092	10,806	10,520	173	381	43,458
MBS and ABS[3]	–	13	321	50	–	8	392
Participation in investment schemes	559	–	–	–	–	1,112	1,671
Deposits with credit institutions	–	451	1,250	–	–	–	1,701
Equity release mortgages	–	–	–	–	–	471	471
	3,045	19,556	12,377	10,570	173	1,972	47,693
Other assets							
Derivative assets	–	–	–	–	–	23,856	23,856
Receivables and other financial assets	17	63	87	118	2	–	287
Cash and cash equivalents	–	–	–	138	–	–	138
	17	63	87	256	2	23,856	24,281

1 Within Debt securities there are £286 million AAA rated, £2,800 million AA rated, £2,835 million A rated, £1,209 million BBB rated and £76 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Debt securities are comprised of £25,583 million Corporate securities and £17,875 million Government securities.
3 Within MBS and ABS there are £4 million A rated securities which have been rated using internally assessed credit ratings.

Corporate securities by country / region of issuance

Country	30 June 2020 Market value (£m)	30 June 2020 %	31 Dec 2019 Market value (£m)	31 Dec 2019 %
UK	11,720	45.8	10,990	50.7
US	6,359	24.9	6,884	31.8
Europe (ex UK)	3,917	15.3	2,349	10.8
Rest of world	3,587	14.0	1,445	6.7
Total	25,583	100.0	21,668	100.0%

Corporate securities split by industry sector

Industry sector	30 June 2020 Market value (£m)	30 June 2020 %	31 Dec 2019 Market value (£m)	31 Dec 2019 %
Financial	6,920	27.1	5,606	25.8
Private financial initiatives and direct investment loans (unlisted)	5,034	19.7	4,200	19.3
Utilities	3,268	12.8	2,878	13.2
Consumer, non-cyclical	2,923	11.4	2,430	11.2
Communications	2,367	9.3	1,877	8.7
Technology	1,546	6.0	1,227	5.7
Energy	1,379	5.4	1,441	6.7
Industrial	851	3.3	775	3.6
Consumer, cyclical	643	2.5	645	3.0
Basic Materials	548	2.1	493	2.3
Diversified	69	0.3	62	0.3
Quasi-Government	35	0.1	34	0.2
Total	25,583	100.0	21,668	100.0

FINANCIAL RESULTS SUMMARY

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Gross premiums written	**3,499**	5,969	7,186
Adjusted operating profit before tax	**187**	629	824
Profit before tax	**306**	89	394
Solvency II ratio (%)	**153%**	157%	164%
Embedded value	**4,623**	3,890	3,874
Financial investments	**47,693**	39,590	40,886

In the first half of 2020, the Group recorded a strong performance delivered against a backdrop of turbulent market conditions as a result of the Covid-19 pandemic. The Group's £25.6 billion credit portfolio (excluding government securities) remained strong with an average rating of A (unchanged from 31 December 2019). The Group did not experience any defaults in the period and downgrades to sub-investment grade credit accounted for only 0.2% of the portfolio.

On 13 February 2020, the Group successfully raised £450 million of new equity capital from existing shareholders with a facility to draw down a further £300 million by no later than 26 January 2021. On 7 May 2020, the Group issued £300 million of Tier 2 subordinated notes with a coupon of 4.625%. With the benefit of this additional capital, the Group wrote £3.5 billion of premiums across five deals in the first half of 2020. The Group's Solvency II ratio, at 153% at 30 June 2020, remains resilient to further market volatility.

In March 2020, as the Covid-19 pandemic caused the UK economy to go into lockdown, the Group implemented its full Business Continuity Plan ("BCP plan") whereby all staff, including those of our Third Party providers, started working remotely. The BCP plan has worked well and has ensured minimal disruption to the normal daily activities of the Group including, most importantly being able to pay and service our policyholders. This has all been achieved with minimum incremental cost to the Group and we have benefited from the significant investment in IT made by the business over the last couple of years.

On 7 May 2020, Fitch Ratings affirmed the Group's regulated subsidiary, Pension Insurance Corporation plc's ("PIC"), Insurer Financial Strength Rating at "A+" (Strong) and Long-Term Issuer Default Rating at "A". Both outlooks were affirmed as "Stable".

FINANCIAL HIGHLIGHTS

IFRS

IFRS profit before tax for the period to 30 June 2020 was £306 million, an increase of £217 million from the same period in 2019 (HY 2019: £89 million). Within this result, the Group manages the business using an alternative performance metric, "Adjusted Operating Profit", which is a non-GAAP measure of performance intended to provide an appropriate assessment of the long-term nature of the business. This basis better reflects the activities of the Group rather than the statutory income and expense categories prescribed by IFRS.

Adjusted operating profit 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.

The following table takes all the items in the IFRS income statement and apportions them between various categories which the Group believes gives a better alignment with the activities of the business.

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Return from operations	**145**	150	301
New business surplus	**44**	90	149
Reinsurance surplus	**40**	106	96
Net release from operations	**229**	346	546
Valuation assumptions and model changes	**24**	335	358
Experience and other variances	**(14)**	(7)	12
Finance costs	**(32)**	(30)	(61)
Project costs and exceptional items	**(20)**	(15)	(31)
Adjusted operating profit before tax	**187**	629	824
Investment related variances	**119**	(540)	(430)
Profit before tax	**306**	89	394

In the first half of 2020, the Group's adjusted operating profit before tax was £187 million, a decrease of £442 million from the corresponding period in 2019 (HY 2019: £629 million). This was mainly due to there being a significant drop in the impact of changes in valuation assumptions compared with 2019. Lower levels of new business and reinsurance compared with the same period in 2019 also contributed to the lower adjusted operating profit figure.

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

Net release from operations

This item 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 the basis of using the assumptions used in pricing, of writing new buy-in and buyout insurance contracts and entering into new contracts of reinsurance.

Net release from operations of £229 million in the first half of 2020 was £117 million lower than 2019 (HY 2019: £346 million). This reflects the lower level of new business written, which also had a higher proportion of pensioner business in 2020 (HY 2020: £3.5 billion; HY 2019: £6.0 billion) coupled with reinsuring a lower amount of liabilities. Reinsurance transactions in the first half of 2020 covered £3.9 billion of liabilities compared with £7.1 billion of liabilities reinsured in the same period of 2019.

Changes in valuation assumptions

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

There were no assumption changes in the period; however, model refinements gave rise to a profit of £24 million for the half year 2020. This compares with a significant review and implementation of revised expense and default assumptions in 2019 which gave rise to a profit of £335 million.

There exist significant prudent margins within the IFRS basis in respect of key underlying assumptions. At 30 June 2020, the total prudent margins amounted to £3.0 billion (31 December 2019: £2.5 billion). PIC currently uses the CMI 2016 mortality improvement tables for its longevity related projections. As part of our periodic cycle of updating our longevity assumptions, we expect to move from CMI 2016 to a later mortality series and we will complete this review in the second half of the year.

Experience and other variances

Experience variances, which reflect both the actual claims experience compared to the expected amounts and the impacts of data updates on underlying policyholder information, were a loss of £14 million in the first half of 2020 (HY 2019: loss of £7 million).

Finance and other costs

Finance costs of £32 million in 2020 were £2 million higher than 2019 (HY 2019: £30 million). This was due to the £300 million issue of Tier 2 subordinated debt in May 2020 by the Group's subsidiary, PIC.

Project costs in the first half of 2020 totalled £20 million (HY 2019: £15 million). This increase reflects the increased spend on IFRS 17 and other business-wide projects.

Investment related variances

Adjusted operating profit before tax is based on the expected investment returns which are calculated using management assumptions of the long-term returns on the assets backing policyholder and shareholder funds with an allowance for the corresponding expected movements in liabilities. The long-term rates of return earned on excess assets are derived with reference to longer-term swap rates with additional spreads added to take into account the return associated with the underlying type of asset. Profit before tax includes the actual investment returns earned on assets backing insurance liabilities and surplus assets. The difference between the actual and the expected long-term rates of return, coupled with the impact of changes in economic assumptions on liabilities and the difference between the short-term actual asset mix and the expected long-term asset mix on new business transactions during the year, are included within investment related variances, outside of adjusted operating profit before tax.

The Group manages its risk to these and other economic factors and enters into derivative hedging contracts to manage these exposures in accordance with its risk appetite. The Group's hedging strategy is primarily designed to manage risk 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, flows through into the IFRS results although over the long term, we would expect the impacts to be broadly neutral.

There have been significant market movements in the period caused by the Covid-19 pandemic. Interest rates fell and credit spreads widened, both of which favourably impact IFRS profits. Downgrades to a proportion of the portfolio only partly offset these impacts and the Group generated investment related profits of £119 million in the first half of 2020. In the equivalent period of 2019, a loss of £540 million was primarily the result of a delay in investing new business premiums, which are received in cash and gilts, in the target asset portfolios coupled with short-term market movements.

CAPITAL AND SOLVENCY

In February, the Group's existing shareholders agreed to subscribe £750 million of new equity capital. £450 million was subscribed for immediately with a further £300 million available for drawdown no later than 26 January 2021. In May 2020, the Group's subsidiary, PIC, successfully issued £300 million of Tier 2 subordinated notes, with a coupon of 4.625% and a maturity date of 7 May 2031. This brings the total nominal value of Tier 2 subordinated notes to £1.2 billion and the nominal value of the total debt including Restricted Tier 1 notes to £1.65 billion.

In May 2020, Fitch affirmed PIC's Insurer Financial Strength rating at "A+" (Strong) with a Stable outlook and Long-Term Issuer Default Rating at "A" with a Stable outlook. PIC's Tier 2 subordinated notes are all rated BBB+ whilst the RT1 note is rated BBB-.

At 30 June 2020, PIC's unaudited Solvency II ratio was 153% (31 December 2019: 164%) and it had surplus funds which were £2,022 million (31 December 2019: £1,890 million) in excess of its Solvency Capital Requirements ("SCR"). The SCR is calculated using an internal model approved by the PIC's regulators, the PRA, which provides a more accurate reflection of the risk profile of the Company's business than the standard formula approach. The 11% decrease in the Solvency II ratio was driven by falling interest rates and new business volumes written in the first half of 2020, only partly offset by the capital raised. Despite adverse market conditions, PIC's Solvency position is robust. The Company has access to additional equity capital, has various management actions available and has in place strong and effective underwriting, reinsurance and investment capabilities.

A summary of the solvency position and key sensitivities is set out below.

	30 June 2020 unaudited £m	30 June 2019 unaudited £m	31 December 2019 unaudited £m
Own Funds	**5,865**	4,271	4,844
Solvency II capital requirements	**(3,843)**	(2,714)	(2,954)
Solvency II surplus	**2,022**	1,557	1,890
Solvency ratio (%)	**153%**	157%	164%

	30 June 2020 unaudited £m	30 June 2019 unaudited £m	31 December 2019 unaudited £m
Own Funds	**5,865**	4,271	4,844
Deduct RT1 and Tier 2 own funds	**(1,774)**	(1,002)	(1,447)
Shareholder equity own funds	**4,091**	3,269	3,397
Add Risk margin net of transitionals	**1,533**	1,257	1,107
Adjusted equity own funds	**5,624**	4,526	4,504

Adjusted equity own funds ("AEOF") is another KPI of the Group. This metric is a measure of the strategic objective to grow the value of the business on a focused, secure and sustainable basis. AEOF increased to £5,624 million at 30 June 2020 from £4,504 million at 31 December 2019. This increase was primarily due to raising new equity capital, return from operations, new business and favourable investment related variances.

Key solvency sensitivities

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

	30 June 2020	30 June 2019	31 December 2019
Solvency ratio at end of period	**153%**	157%	164%
100bps increase in interest rates[1,2]	**(2.3)%**	21.0%	21.3%
100bps reduction in interest rates[1,2]	**(13.1)%**	(21.1)%	(25.5)%
100bps increase in credit spreads[1]	**1.9%**	5.4%	9.4%
100bps reduction in credit spreads[1]	**(15.5)%**	(18.0)%	(22.7)%
20% credit downgrade[3]	**(18.7)%**	(10.1)%	(7.7)%
5% reduction in base mortality[4]	**(6.0)%**	(5.0)%	(7.4)%

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

Notes:

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

2 Note that the methodology to determine the recalculation of the TMTP impacts under the interest rate sensitivities have been refined in 2020 compared to 2019.

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

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

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 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 to arrive at a more appropriate quantification of the Group's value.

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Adjusted net worth	5,888	4,289	4,866
Value of in-force business after tax	1,644	1,489	1,487
EV fair value of Tier 1 and Tier 2 debt instruments	(1,902)	(1,045)	(1,603)
EV before cost of capital	5,630	4,733	4,750
Frictional cost of capital	(256)	(206)	(208)
Cost of residual non-hedgeable risks	(751)	(637)	(668)
EV net of cost of capital	4,623	3,890	3,874

At 30 June 2020, the Group's EV had increased to £4,623 million from £3,874 million at the end of 2019. The increase is primarily due to the issue of £450 million of equity capital, new business written in the first six months of 2020 and the impact of market movements on the Company.

RECONCILIATION OF IFRS, SOLVENCY AND EV BALANCE SHEETS

IFRS reconciliation to Solvency II

30 June 2020 (£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	Solvency II (£m)
Total assets less other liabilities	41,710	1,192	49	(12)	–	–	–	(182)	1	42,758
Insurance liabilities/ Best estimate liabilities (BEL) net of reinsurance assets	(37,808)	–	–	–		3,619	(1,160)	–	–	(35,349)
Risk margin net of transitionals		–	–	–	(1,533)	–	–	–	–	(1,533)
IFRS net assets/ Solvency II own funds	3,902	1,192	49	(12)	(1,533)	3,619	(1,160)	(182)	1	5,876

Solvency II to EV reconciliation

30 June 2020 (£m)	Solvency II balance sheet	Allow for differences between Solvency II and EV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on PVFP	EV (£m)
Total assets less other liabilities	42,759	–	–	–	–	–	–	–
Insurance liabilities/Best estimate liabilities (BEL) net of reinsurance assets	(35,350)	–	–	–	–	–	–	–
Risk margin net of transitionals	(1,533)	–	–	–	–	–	–	–
Solvency II own funds/ Adjusted net worth	5,876	12	–	–	–	–	–	5,888
Present value of future profits (PVFP)	–	–	–	–	1,688	497	(541)	1,644
Cost of residual non-hedgeable risks (CRNHR)	–	–	–	–	(751)	–	–	(751)
Frictional cost of required capital (FCoC)	–	–	–	(256)	–	–	–	(256)
Subordinated debt	–	–	(1,902)	–	–	–	–	(1,902)
EV								4,623

OUTLOOK

In the first half of 2020, the Group has made good progress against its strategy. Strong new business volumes and a robust solvency position despite market dislocation demonstrate the strength of the Group's business model and focus on capital management. A strong new business pipeline and the facility to draw-down further equity in the second half of 2020 positions us well to take advantage of the continued resilience of the Pension Risk Transfer ("PRT") market.

The Covid-19 pandemic and its consequences on the economy remain a significant cause for concern, and we are closely monitoring the credit quality of our financial investments. These have performed well to date and we have been careful to ensure the credit book remains of appropriate quality. Only 0.2% of debt securities were downgraded from investment to non-investment grade rating.

It is too early to assess what, if any, impact Covid-19 has had on long term mortality rates. However, as part of our periodic cycle of updating our longevity assumptions, we expect to move from CMI 2016 to a later mortality series and we will complete this review in the second half of the year.

FINANCIAL STATEMENTS (UNAUDITED)

STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP

	2020 Half year £m	2019 Half year £m	2019 Full year £m
Revenue			
Gross premiums written	3,499	5,969	7,186
Outward reinsurance premiums	(484)	(22)	(50)
Net premium revenue earned	3,015	5,947	7,136
Investment return	1,014	2,349	3,062
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	4,029	8,296	10,199
Expenses			
Claims paid – gross	(868)	(675)	(1,430)
Reinsurers' share of claims paid	20	20	42
	(848)	(655)	(1,388)
Increase in insurance liabilities – gross	(3,474)	(8,051)	(8,943)
Increase in reinsurers' share of insurance liabilities	731	602	744
	(2,743)	(7,449)	(8,199)
Acquisition expenses	(39)	(32)	(66)
Other operating expenses	(60)	(41)	(91)
Finance costs	(33)	(30)	(61)
	(132)	(103)	(218)
Total claims and expenses	(3,723)	(8,207)	(9,805)
Profit before tax	306	89	394
Tax charge	(55)	(17)	(75)
Profit and total comprehensive income for the period	251	72	319

PROFIT BEFORE TAX BY ENTITY

	2020 Half year £m	2019 Half year £m	2019 Full year £m
Pension Insurance Corporation plc	306	89	394
Other Group entities	–	–	–
Pension Insurance Corporation Group	306	89	394

STATEMENT OF FINANCIAL POSITION FOR THE GROUP

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Assets			
Investment properties	62	90	81
Right of use asset	21	–	22
Property, plant and equipment	2	–	1
Reinsurers' share of insurance liabilities	3,329	2,456	2,598
Receivables and other financial assets	321	933	276
Deferred tax asset	3	3	3
Prepayments	89	66	95
Financial investments	47,693	39,590	40,886
Derivative assets	23,856	12,451	14,626
Cash and cash equivalents	138	92	83
Total assets	75,514	55,681	58,671
Equity			
Share capital	2	2	2
Share premium	570	120	120
Treasury shares	(25)	(28)	(32)
Merger reserve	34	34	34
Tier 1 notes	444	–	445
Capital reduction reserve	1,055	1,055	1,055
Share-based payment reserve	12	17	15
Retained profit	1,810	1,328	1,576
Total equity	3,902	2,528	3,215
Liabilities			
Gross insurance liabilities	41,137	36,771	37,663
Borrowings	1,192	892	892
Lease liability	22	–	23
Deferred tax liability	3	3	3
Derivative liabilities	28,965	14,840	16,731
Insurance and other payables	139	521	17
Current taxation	39	20	42
Accruals	115	106	85
Total liabilities	71,612	53,153	55,456
Total equity and liabilities	75,514	55,681	58,671

NET ASSETS BY ENTITY

	30 June 2020 £m	30 June 2019 £m	31 December 2019 £m
Pension Insurance Corporation plc	3,881	2,505	3,198
Other Group entities	21	23	17
Pension Insurance Corporation Group	3,902	2,528	3,215

APPENDIX 1: OVERVIEW OF REPORTING BASES

THE FINANCIAL MODEL

The Group's strategy is to take on liabilities in respect of the obligations to pay the pensions of members or former members of pension schemes and to manage the assets associated with those liabilities so as to make a margin on those assets over the very long term.

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 to shareholders of the emerging margins in our business.

PRESENTATION OF FINANCIAL RESULTS

The IFRS basis results for the 2020 and 2019 half years are unaudited and they have not been reviewed in accordance with International Standard on Review Engagements 2410. The 2019 full year IFRS basis results have been derived from the 2019 statutory accounts. The auditors have reported on the 2019 statutory accounts. The auditors' reports: (i) were 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 2020 half year are unaudited. The 2019 year end embedded value results have been derived from the 2019 year end PIC Market Consistent Embedded Value ("MCEV") 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 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 has been set equal to 130% of SCR, which is the minimum amount of capital that the Group expects to hold.
- 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 matching adjustment 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.
  - 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 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 and 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; and
- 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 adds the outcome of new business and reinsurance activities to the return on the back book.

The return on the back book captures the long-term returns we make from the release of prudent margins in our in-force book of insurance assets and liabilities, and the investment returns on our surplus assets, based on our long-term return assumptions. Our IFRS approach means that these prudent margins are material, which serves to reduce the amount of profit recognised at the point of sale but increase the profits released over the remaining lifetime of the policy. This approach leads to long-term profit generation from the in-force book, which will continue to grow over time and aligns the timing of IFRS profit recognition with the actual run-off of the underlying insurance contracts.

Our overall profit in any one year is therefore less reliant on the new business written in the year and more reflective of the profits actually earned on our whole in-force business, as the anticipated profit loading in the premium represented by prudent margins is translated into actual earned profits.

This long-term profit recognition approach is reflective of the long-term ownership culture of the Group's shareholders.

APPENDIX 2: PIC SUPPLEMENTARY INFORMATION

FOR THE HALF YEAR ENDED 30 JUNE 2020

The following are the unaudited financial statements of Pension Insurance Company plc ("PIC"). PIC is the main operating subsidiary of the Group.

STATEMENT OF COMPREHENSIVE INCOME

	2020 Half year £m	2019 Half year £m	2019 Full year £m
Revenue			
Gross premiums written	3,499	5,969	7,186
Outward reinsurance premiums	(484)	(22)	(50)
Net premium revenue earned	3,015	5,947	7,136
Investment return	1,014	2,349	3,062
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	4,029	8,296	10,199
Expenses			
Claims paid – gross	(868)	(675)	(1,430)
Reinsurers' share of claims paid	20	20	42
	(848)	(655)	(1,388)
Increase in insurance liabilities – gross	(3,474)	(8,051)	(8,943)
Increase in reinsurers' share of insurance liabilities	731	602	744
	(2,743)	(7,449)	(8,199)
Acquisition expenses	(39)	(32)	(66)
Other operating expenses	(60)	(41)	(91)
Finance costs	(33)	(30)	(61)
	(132)	(103)	(218)
Total claims and expenses	(3,723)	(8,207)	(9,805)
Profit before tax	306	89	394
Tax charge	(55)	(17)	(75)
Profit and total comprehensive income for the period	251	72	319

ADJUSTED OPERATING PROFIT STATEMENT

IFRS adjusted operating profit	2020 Half year £m	2019 Half year £m	2019 Full year £m
Return from operations	145	150	301
New business and reinsurance surplus	84	196	245
Net release from operations	229	346	546
Changes in valuation assumptions	24	335	358
Experience variances	(14)	(7)	12
Finance and project costs	(52)	(45)	(92)
Adjusted operating profit before tax	187	629	824
Investment related variances	119	(540)	(430)
IFRS profit before tax	306	89	394

STATEMENT OF FINANCIAL POSITION

	30 June 2020 £m	30 June 2019 restated £m	31 December 2019 restated £m
Assets			
Investment in subsidiaries[1]	**62**	90	81
Reinsurers' share of insurance liabilities	**3,329**	2,456	2,598
Receivables and other financial assets	**314**	930	277
Prepayments	**81**	62	91
Financial investments	**47,693**	39,590	40,886
Derivative assets	**23,856**	12,451	14,626
Cash and cash equivalents	**125**	83	76
Total assets	**75,460**	55,662	58,635
Equity			
Share capital	**1,136**	1,000	1,000
Share premium	**314**	–	–
Other reserves	**60**	60	60
Tier 1 notes	**444**	–	445
Retained profit	**1,927**	1,445	1,693
Total equity	**3,881**	2,505	3,198
Liabilities			
Gross insurance liabilities	**41,137**	36,771	37,663
Borrowings	**1,192**	892	892
Deferred tax liability	**2**	3	3
Derivative liabilities	**28,965**	14,840	16,731
Insurance and other payables	**197**	587	88
Current taxation	**36**	16	43
Accruals	**50**	48	17
Total liabilities	**71,579**	53,157	55,437
Total equity and liabilities	**75,460**	55,662	58,635

1 As at 30 June 2020 PIC restated its investment properties to Investment in subsidiaries, reflecting that they are held indirectly through investment entities.

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.

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 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 as to 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.

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.

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 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.

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 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 a BEL and an RM.

Transitional measures ("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.

DISCLAIMER

The information in this document is being delivered on an information only basis by Pension Insurance Corporation Group Limited ("PICG", or the "Group"). This document is not intended as an offer or a solicitation for the purchase or sale of any financial instrument. Whilst every effort has been taken to ensure that the document is accurate, current, complete, fit for its intended purpose and compliant with the relevant United Kingdom legislation and regulations as at the date of issue, PICG does not warrant that this document is accurate, current, complete, fit for its intended purpose or compliant with the relevant United Kingdom legislation and regulations. In particular, PICG does not warrant that any market data or prices are complete or accurate. Any reliance placed on this document is done entirely at the risk of the person relying on it.

The statements and information contained in this document have been compiled as at 30 June 2020 unless otherwise stated herein, from sources believed to be reliable, but which have not been independently verified or, in the case of financial information, audited. The delivery of this document at any time should not under any circumstances imply that the information contained herein is correct as of any time subsequent to such date.

Any opinions or estimates expressed in the documents may be subject to change without notice and PICG is under no obligation to update the opinions or estimates and neither PICG nor any of its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. To the extent permitted by law and regulation, PICG disclaims all warranties, representations, conditions and guarantees (express, implied, statutory or otherwise) in connection with this document.

Past performance information contained in this document is not an indication of future performance. Where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given they should not be regarded by any recipient of this document as a guarantee, prediction or definitive statement of fact or probability.

PENSION INSURANCE
CORPORATION GROUP LIMITED

PENSION INSURANCE CORPORATION GROUP
14 CORNHILL, LONDON EC3V 3ND

WWW.PENSIONCORPORATION.COM