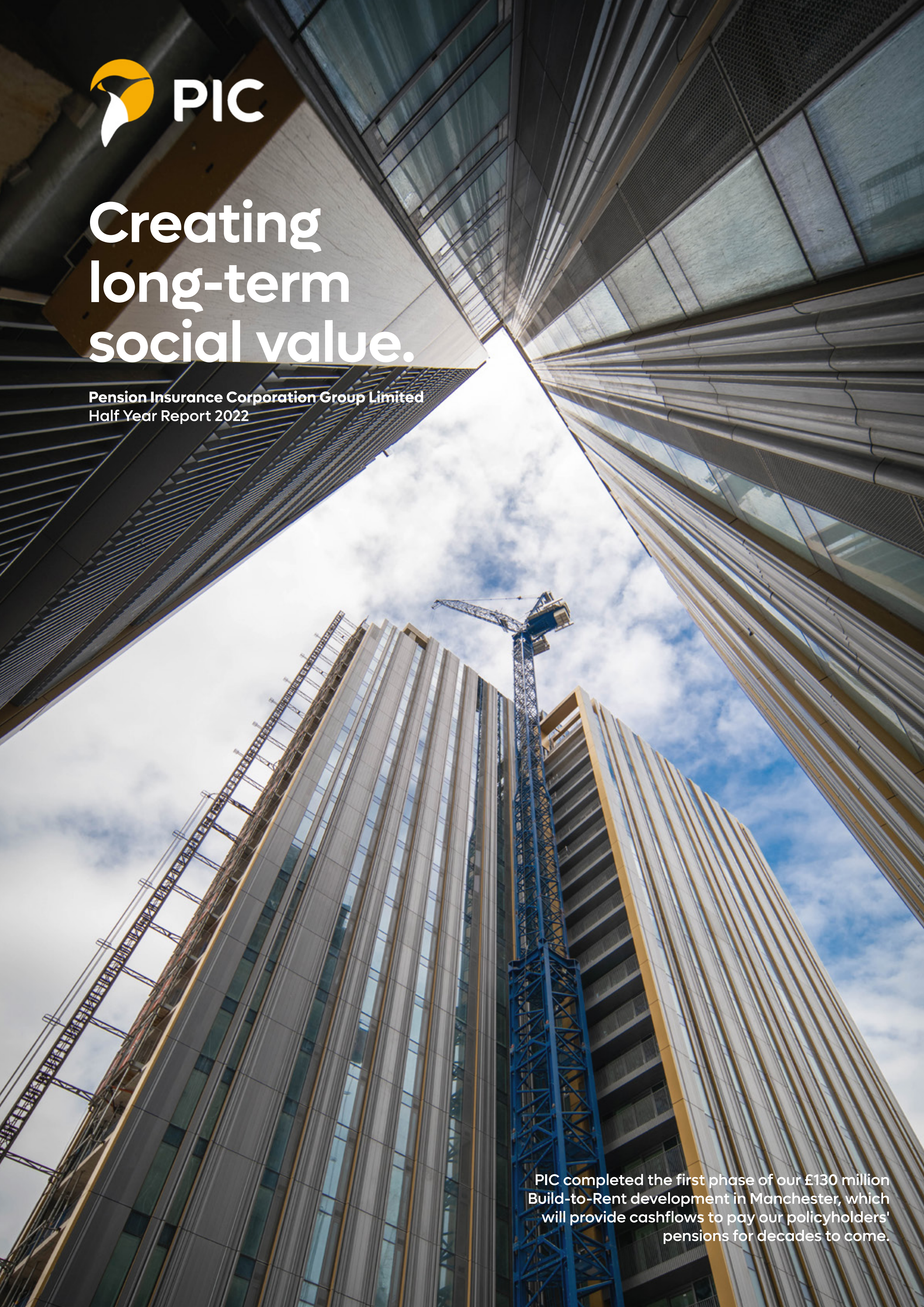
PIC

Creating long-term social value.

Pension Insurance Corporation Group Limited
Half Year Report 2022



PIC completed the first phase of our £130 million Build-to-Rent development in Manchester, which will provide cashflows to pay our policyholders' pensions for decades to come.

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

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

ServiceMark with Distinction Accredited from Dec '20 - Dec '23 The Institute of Customer Service

RESI AWARDS 10 years HIGHLY COMMENDED

INVESTORS IN PEOPLE We invest in people Standard

The Institute of Customer Service UK Customer Satisfaction Awards 2021 WINNER

Insider Residential Property Awards 2021 WINNER

Professional Pensions UK Pensions Awards 2021 WINNER Risk Reduction Provider of the Year Pension Insurance Corporation

Contents

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

Half year to 30 June 2022 highlights

Delivering for our stakeholders.

Premiums

HY 2022 £2,371m

HY 2021 £385m

Adjusted operating profit before tax

HY 2022 £118m

HY 2021 £205m[1]

Solvency II ratio (PIC)

HY 2022 192%

FY 2021 168%

IFRS profit before tax

HY 2022 £923m

HY 2021 £10m

Financial investments

HY 2022 £44.1bn

FY 2021 £51.1bn

Policyholder satisfaction

HY 2022 99.7%

FY 2021 99.6%

Market consistent embedded value

HY 2022 £5,541m

FY 2021 £5,027m

Assets held to meet solvency and risk margins (PIC)

HY 2022 £9.0bn

FY 2021 £9.1bn

Fitch ratings

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

A+

1 HY 2021 adjusted operating profit before tax has been restated to include the Restricted Tier 1 interest in operating profit.

Find out more at
www.pensioncorporation.com

Chief Executive Officer's review

Tracy Blackwell Chief Executive Officer

A clear and focused strategy.

Investing in the real economy to back our future pension payments creates social value across generations."

99.7%
Members scoring satisfied or better

88.0%
Policyholders giving maximum score

PIC had an excellent first half of the year with much to celebrate across the business. Our focus as always is on ensuring that our increasing numbers of policyholders have secure pensions, including through maintaining a strong balance sheet, as well as evolving the purposeful investment strategy which backs those pensions and creates social value across generations.

The rise in interest rates seen in the first half of the year means that defined benefit pension schemes are now more able to secure their members' benefits. During the first half of 2022 we concluded new business transactions of almost £2.4 billion (30 June 2021: £385 million), with expectations of significantly more business to follow over the second half and into 2023.

During the first half we paid out £860 million (30 June 2021: £786 million) in pensions to our 293,400 policyholders (30 June 2021: 270,800). We continue to receive excellent feedback from them, achieving an overall satisfaction score of 99.7% (31 December 2021: 99.6%). In addition, the Institute of Customer Service's latest survey of our policyholders has shown that they are more satisfied than customers of some major household names, and that we are one of the very best organisations in the country for customer service.

PIC's solvency ratio at the half year was 192% (31 December 2021: 168%), which not only demonstrates the robust nature of our balance sheet, but allows the Group to deploy significant levels of additional capital to support our new business pipeline. Our adjusted operating profit before tax ("AOPBT") was £118 million (30 June 2021: £205 million) with the variance due to a favourable assumption change in 2021 which did not recur on a like for like basis.

At the half year, our overall portfolio was £44.1 billion (31 December 2021: £51.1 billion), with the change an effect of the rise in interest rates. Because our assets are largely matched to our portfolio, we saw a corresponding decrease in the value of our liabilities.

Our purposeful investments during the first half of the year included an £83 million regeneration lease in Newham to help manage the area's housing shortfall, an £80 million Build-to-Rent investment in Milton Keynes, and a £130 million regeneration lease project in the Wirral, the cornerstone investment in the UK's largest urban regeneration project. We also invested a further £334 million in social housing, and £70 million in the university sector.

Since the half year we have also announced a new joint venture with Octopus Real Estate to develop retirement villages across the UK with the potential to accommodate up to 2,000 residents in total.

These sorts of investments demonstrate our increasing footprint across the UK and show how, by investing the assets that back the pensions of older people into areas that benefit multiple generations, we really are creating social value.

Building on our existing commitment to be Net Zero by 2050, we were pleased to publish our first report aligned to the Taskforce for Climate-related Financial Disclosures' recommendations.

We continue to make real strides in our Diversity & Inclusion work, including partnering with Women in Banking and Finance, and the Group for Autism, Insurance, Investment and Neurodiversity ("GAIN") in the first half of the year. This is in addition to our long-term partnerships with AMP for actuarial mentoring, #10000BlackInterns, and LGBT Great. We've also partnered with Red Start Educate, which gives the UK's most disadvantaged primary school children a head start on their financial futures, a really fantastic initiative. After the half year, we attained the Investors in People award, increasing our benchmark to Silver.

Following our announcement in January that Jon Aisbitt, our current Chairman, is standing down, we completed our search for the Group's new Chairman. Whilst I'm sorry to see Jon depart the business, I'm very much looking forward to working with our new Chairman, David Weymouth, when he joins us in October.

The first half of the year has been marked by the increasingly difficult economic environment and the growing cost of living crisis for people across the country, which is only expected to deepen over coming months. We are more than aware of the impact that this is having on many of our stakeholder groups, including our pensioners. As a consequence, we will be making a significant charitable donation. We are currently reviewing a number of charities to see where this can best be donated. We will make an announcement regarding this in the coming weeks, once the details have been confirmed.

Finally, as ever, I want to thank our employees who have remained focused on fulfilling our purpose of paying the pensions of our current and future policyholders, and who are the bedrock of our first half performance.

Policyholder feedback received via the ICS shows that we are one of the very best organisations in the country for customer service."

Key Performance Indicators

PIC focuses on eight key performance indicators to measure performance in four strategic objectives: Financial strength and cost efficiency, reputation and conduct, returns, and growth and focus.

Financial strength and cost efficiency

Maintain a scalable business model that optimises internal and external resources

PIC Solvency II ratio

The Solvency II ratio is a regulatory capital measure that demonstrates the Company's financial strength. The solvency ratio of 192% at the end of June 2022 benefitted from favourable market movements, net of a recalculation of the Transitional Measures on Technical Provisions ("TMTP"), as well as higher returns from the inforce book.

HY 2022
192%

FY 2021
168%

Expense ratio

The expense ratio is a measure of the operating efficiency of PICG and reflects annualised operating and investment expenses as a percentage of closing financial investments. Whilst the ratio increased over the period, this was primarily due to reduced asset values resulting from higher interest rates, alongside a small increase in expenses as the business continues to grow.

HY 2022
0.51%

FY 2021
0.39%

Reputation and conduct

Ensure that our behaviours reflect our values through market-leading customer service

Policyholder satisfaction

The HY 2022 ratio of 99.7% remains exceptionally high and evidences the excellent quality of service we deliver to our policyholders.

HY 2022
99.7%

FY 2021
99.6%

Customer focus

As PIC continues to expand, and in line with our purpose, one of our key internal measures is our customer focus. Employees are asked, as part of an annual employee engagement survey, whether they believe PIC is "always seeking to understand and meet customer needs", ensuring our customers continue to remain our priority. The 2022 survey will be conducted in the second half of the year.

FY 2021
92%

Returns

Deliver attractive risk-adjusted total shareholder returns

Adjusted operating profit before tax[1]
AOPBT reflects our IFRS profit assessed on a long-term basis, excluding investment related variances.

The group had a strong start of the year with an improved underlying performance driven by £2.4 billion of new business premiums and higher expected returns. The prior period benefitted from £131 million of favourable assumption changes which did not recur in the first half of 2022.

HY 2022 **£118m**

HY 2021 **£205m**

Return on equity
Return on equity is a measure of the rolling 12 months after tax IFRS profits (less the post-tax cost of the RT1 interest) as a percentage of average IFRS equity (excluding our RT1 notes).

The improvement over the period resulted largely from favourable market movements. We prioritise the Solvency II balance sheet in our hedging strategy in order to deliver dependable returns and capital resilience, which can at times cause short-term volatility in our IFRS results.

HY 2022 **24.2%**

FY 2021 **7.3%**

Growth and focus

Grow the value of the business on a focused, secure and sustainable basis

Market Consistent Embedded Value ("MCEV")
MCEV is a measure of the present value of future after-tax profits ("PVFP") plus adjusted net asset value less an allowance for the cost of capital and the market value of debt. The increase compared to FY 2021 reflected favourable market movements, expected return from our in-force book and profits on new business.

HY 2022 **£5,541m**

FY 2021 **£5,027m**

Adjusted Equity Own Funds ("AEOF")
AEOF is a shareholder view of PIC Solvency II own funds after deducting hybrid debt and removing the impact of the transitional measures on technical provisions and the risk margin. The increase in the period, net of recalculation of the TMTP, was driven by new business, expected return from operations and economic variances.

HY 2022 **£5,913m**

FY 2021 **£5,888m**

1 In late 2021, AOPBT was redefined to include the cost of the Restricted Tier 1 ("RT1") interest within finance costs. The prior period comparative has been restated accordingly.

Investments

As a result of careful risk management over the past few years, and our discipline in not chasing overpriced assets, our portfolio is in a strong position, including experiencing more upgrades than downgrades over the past six months.

At 30 June 2022, PIC's investment portfolio totalled £44.1 billion (31 December 2021: £51.1 billion). The reduction in size despite our new business volumes during the period was due to the welcome increase in interest rates from their historic lows. Within a broadly matched portfolio, this reduction is also reflected with a corresponding reduction in pensioner liabilities.

We continued to take a cautious investment approach and the overall makeup of the portfolio has remained broadly consistent to that at year end 2021. This means we have favoured more defensive sectors such as UK financials, for example we have seen good opportunities including in the banking sector, where profitable conditions have started to return. UK financials remains our largest single sector allocation. However, aside from the UK government and government-backed securities, no single counterparty represents more than 1.4% of our portfolio (31 December 2021: 1.4%).

Corporate and government bonds represented 68.0% of our overall portfolio at the half year (31 December 2021: 71.5%) of which 99.1% were investment grade rated (31 December 2021: 99.3%). The average rating of the credit portfolio remains A-. We have had zero defaults in the portfolio since 2013. We continue to hold significant allocations to cash and highly liquid assets.

We made privately sourced debt investments of £1.3 billion in the first half of the year. This included sectors such as higher education, with £70 million invested in the period, and social housing, with £334 million invested in the period.

We made further progress with our Build-to-Rent investment programme, announcing our third project, an £80 million redevelopment of a brownfield site in Milton Keynes, which will provide 306 new residential apartments once complete. As long-term owners and operators of these developments we take pride in going above and beyond existing building requirements in areas such as resident safety, and energy efficiency.

We also announced investments in two regeneration leases, which support local councils, with the completion of an £83 million investment with the London Borough of Newham to fund the regeneration of a brownfield site and development of 161 homes to help alleviate the area's housing shortfall, and a £130 million investment with Wirral Council, the cornerstone investment in the UK's largest urban regeneration project.

In July, we also announced our first investment in retirement living through a £200 million joint venture with Octopus Real Estate for the development of up to ten retirement communities across the UK.

Environmental, Social and Governance ("ESG") investment issues continue to be a focus for the Group. We are progressing our project to map the carbon output of the portfolio, we established a Net Zero Transition Working Group, and published our first Taskforce for Climate-Related Financial Disclosures report in the period.

The long-term defensive positioning of the portfolio, our prudent approach to managing risks, and our well-established ability to invest in secure, long-term privately sourced debt allows us to go into what may well be a difficult economic environment over the next six months and beyond with confidence.

Financial assets by credit rating

June 2022 (£m)	AAA	AA	A	BBB[4]	BB	Unrated	Total
Financial investments							
Debt securities[1]							
– Government bonds	**595**	**12,048**	**653**	**976**	**–**	**–**	**14,272**
– Corporate bonds	**1,252**	**1,228**	**5,513**	**7,422**	**6**	**257**	**15,678**
– Private investments	**140**	**2,697**	**3,370**	**1,778**	**63**	**60**	**8,108**
MBS and ABS[2]	**22**	**3**	**254**	**26**	**–**	**–**	**305**
Equity release mortgages	**–**	**–**	**–**	**–**	**–**	**1,063**	**1,063**
Deposits with credit institutions	**–**	**481**	**353**	**–**	**–**	**89**	**923**
Participation in investment schemes[3]	**1,715**	**–**	**–**	**–**	**170**	**1,826**	**3,711**
Total	**3,724**	**16,457**	**10,143**	**10,202**	**239**	**3,295**	**44,060**
Other assets							
Derivative assets	**–**	**–**	**–**	**–**	**–**	**17,576**	**17,576**
Receivables and other financial assets	**20**	**41**	**82**	**136**	**1**	**221**	**501**
Cash and cash equivalents	**–**	**–**	**–**	**239**	**–**	**–**	**239**
Total	**20**	**41**	**82**	**375**	**1**	**17,797**	**18,316**

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

	June 2022		December 2021	
	Market value (£m)	**%**	Market value (£m)	%
UK	**11,232**	**47.2**	14,058	50.9
US	**6,847**	**28.8**	8,013	29.0
Europe (excluding UK)	**3,856**	**16.2**	3,797	13.7
Rest of the world	**1,851**	**7.8**	1,780	6.4
Total all countries	**23,786**	**100.0**	27,648	100.0

Corporate bonds and private investments split by industry sector

	June 2022		December 2021	
	Market value (£m)	**%**	Market value (£m)	%
Financial	**6,570**	**27.7**	7,039	25.5
Utilities	**3,146**	**13.2**	3,669	13.3
Consumer, non-cyclical	**2,409**	**10.1**	2,899	10.5
Communications	**2,132**	**9.0**	2,567	9.3
Technology	**1,222**	**5.1**	1,547	5.6
Consumer, cyclical	**816**	**3.4**	727	2.6
Industrial	**736**	**3.1**	817	3.0
Energy	**451**	**1.9**	534	1.9
Basic materials	**408**	**1.7**	500	1.8
Diversified	**45**	**0.2**	60	0.2
Quasi-government	**28**	**0.1**	127	0.5
Other[5]	**5,823**	**24.5**	7,162	25.8
Total all industries	**23,786**	**100.0**	27,648	100.0

Corporate bonds and private investments by currency

	June 2022		December 2021	
Currency	**Market value (£m)**	**%**	Market value (£m)	%
GBP (£)	**14,276**	**60.0**	17,270	62.5
USD ($)	**8,542**	**35.9**	9,400	34.0
EUR (€)	**914**	**3.8**	923	3.3
CHF	**54**	**0.3**	55	0.2
Total	**23,786**	**100.0**	27,648	100.0

1 Within debt securities there are £140 million AAA rated, £2,205 million AA rated, £2,704 million A rated, £1,572 million BBB rated and £64 million BB rated securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £5 million A rated securities which have been rated using internally assessed credit ratings.
3 Within participation in investment schemes there are £170 million BB and below rated securities which have been rated using internally assessed credit ratings.
4 Within the BBB rated financial investments there are £1,226 million of BBB- rated assets.
5 Comprised mainly of unlisted private investments and bilateral loans, including investment in social housing and student accommodation.

Chief Financial Officer's review
Dom Veney Chief Financial Officer

Strong & resilient capital position.

"A strong set of results which leaves us well positioned to meet the upcoming market opportunity."

I am delighted that our results demonstrate the strong start we have made to the year and the resilience of the business in the face of challenging economic conditions. This sets us up well to meet our new business prospects in the second half of 2022 and into 2023.

In terms of new business, we continued the momentum from 2021, concluding £2.4 billion of new schemes in the first half of 2022 (30 June 2021: £0.4 billion). The rapid rise in risk free rates alongside wider credit spreads have helped reduce defined benefit pension scheme deficits so much that trustees are accelerating their de-risking processes and demand for buyouts and buy-ins is the strongest we have seen since before the pandemic. This increased demand will also mean greater investment flows into areas like social housing, renewable energy, and urban regeneration – benefiting the UK economy.

Our balance sheet proved robust in the face of volatile markets, and the rise in interest rates helped us close the half with a solvency ratio post TMTP recalculation of 192% (31 December 2021: 168%). Our strong solvency position is underpinned by our active hedging strategy, which prioritises protecting our solvency balance sheet to enable us to meet our purpose of paying the pensions of our current and future policyholders. The TMTP recalculation was performed as a consequence of the significant increase in interest rates observed in the period.

Our surplus generation was £587 million at 30 June 2022 (30 June 2021: surplus consumed of £149 million). The improvement for half year 2022 was driven by favourable market conditions, partially offset by the capital required to write new business within the period, as well as a decision to progress liability reinsurance after the half year.

At 30 June 2022 we had a portfolio of financial investments of £44.1 billion (31 December 2021: £51.1 billion). As our assets are broadly matched to our liabilities, their respective values largely rise and fall together. Therefore, although the size of the portfolio has decreased due to the impact of rising risk-free rates, the value of our insurance liabilities has also decreased.

However, our focus is not on the quantum of the portfolio, but on ensuring that our pension payments are secure over the lifetime of our policyholders through a prudent, and purposeful, investment strategy. During the period we saw more upgrades than downgrades, and zero defaults within the portfolio.

Our AOPBT was £118 million at the half year (30 June 2021: £205 million). While we have written higher volumes of new business than in the equivalent period of 2021, the result includes timing variances from not yet having reinsured certain new schemes, which are expected to reverse in the second half of the year. Additionally, the 2021 operating profit benefited from a favourable assumption change which has not recurred.

As noted above, our hedging strategy is primarily designed to manage the risks measured through the solvency balance sheet. As a result, there is a mismatch between solvency hedging and IFRS balance sheet hedging. This mismatch can cause short term volatility within the IFRS result, which presents within investment related variances. Favourable economic movements as well as the operating profit movements mentioned above increased our IFRS profit before tax to £923 million for the first half of 2022 (30 June 2021: £10 million).

Our return on equity at 30 June 2022 increased to 24.2% (31 December 2021: 7.3%), largely reflecting favourable market movements. The hedging volatility mentioned above has led to short-term volatility in the results, however investment variances are expected to largely net off over the long-term.

The expense ratio increased in the period to 0.51% (31 December 2021: 0.39%). The rise reflects the previously mentioned decrease in financial investments, alongside a small increase in expenses as the business continues to grow.

At 30 June 2022, the Group's Embedded Value increased to £5,541 million, from £5,027 million at the end of 2021. The increase is due to expected return from operations, new business profits and economic variances.

Overall, the Group had a very good first half. The strength of our balance sheet together with our market-leading reputation for excellence in customer service means we are very well placed to address the market opportunity ahead of us.

192%
Solvency ratio

£923m
IFRS profit before tax

£118m
IFRS adjusted operating profit before tax

Chief Financial Officer's review continued

Capital and solvency

Solvency II ratio (PIC)

At 30 June 2022, PIC's unaudited Solvency II ratio improved to 192% (31 December 2021: 168%), with surplus funds of £3,288 million (31 December 2021: £2,701 million) in excess of the solvency capital requirement ("SCR"). The increase in the solvency ratio is largely related to favourable market movements and returns from the in-force book.

PIC solvency	**30 June 2022 Unaudited (£m)**	30 June 2021 Unaudited (£m)	31 December 2021 (£m)
Own funds	**6,870**	6,306	6,669
Solvency II capital requirements	**(3,582)**	(4,006)	(3,968)
Solvency II surplus	**3,288**	2,300	2,701
Solvency ratio (%)	**192%**	157%	168%
Matching adjustment (%)	**1.529%**	0.896%	1.040%

Surplus generation (PIC) (unaudited)

Surplus generation	**6 months to June 2022 (£m)**	6 months to June 2021 (£m)	12 months to December 2021 (£m)
Opening surplus	**2,701**	2,449	2,449
Expected surplus generation from in-force book	**273**	205	400
New business (net of reinsurance)	**(83)**	(54)	(33)
Management actions and other operating variances	**(264)**	(6)	171
Financing and project costs	**(81)**	(75)	(158)
Operating surplus generation	**(155)**	70	380
Economic and other non-operating variances	**742**	(219)	(128)
Total surplus generation	**587**	(149)	252
Closing surplus	**3,288**	2,300	2,701

Surplus generation is a key alternative performance metric ("APM") of the business and measures the amount of Solvency II surplus capital generated in the period, being the excess of own funds over SCR. The key components are the expected surplus generated from the business written in previous periods and management actions taken in the year, which are used to fund the capital requirement of writing new business and to pay coupons to our debtholders. Within economic and other non-operating variances are the impacts of market movements, alongside management actions relating to our portfolio such as re-risking and rebalancing activity.

Total surplus generation in the period to date amounted to £587 million (30 June 2021: surplus consumed of £149 million). The improvement compared to 2021 was driven by more favourable economic variances partially offset by the impact from the TMTP recalculation. For further details of the movements please refer to the below analysis.

Expected surplus generated from the in-force book

Expected surplus generation comprises the:

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

In half year 2022, the expected surplus generation increased to £273 million (30 June 2021: £205 million). This was due to higher risk-free rates driving a higher return on both the in-force book and on capital assets.

New business (net of reinsurance)

New business (net of reinsurance) is the expected impact on surplus of writing new business based on the pricing assumptions. Typically, new business is assumed to be reinsured at outset, however for un-reinsured liabilities the benefits of in-force reinsurance is also included here. Any differences between the actual reserving requirements and the pricing basis, including the timing of reinsurance, are reported as experience variances within other operating variances.

New business (net of reinsurance) consumed capital of £83 million in the first half of 2022 (30 June 2021: capital consumed of £54 million). This increase reflects the increased volume of new business written in the period, alongside the benefit from reinsurance within the in-force book.

Management actions and other operating variances

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

Management actions and other operating variances caused a reduction to surplus of £264 million in the period compared to the decrease of £6 million in the first half of 2021. The reduction in the current period largely reflects timing variances from not yet having reinsured certain new schemes, which are expected to reverse in the second half, and adverse expense experience on new schemes.

Financing and project costs

Financing and project costs reflect the accrued interest paid on the Restricted Tier 1 and Tier 2 debt issues coupled with project costs including IFRS 17 and other regulatory costs in the period. Financing costs were £60 million (30 June 2021: £60 million), whilst project costs of £21 million increased in 2022 (30 June 2021: £15 million) reflecting a higher spend on business-wide initiatives.

Economic and other non-operating variances

Economic and other non-operating variances includes the difference between actual economic movements and the economic assumptions within expected surplus generation and tax impacts. The 2022 result also includes the impact from the recalculation of the TMTP. The recalculation was performed as a consequence of the significant increase in interest rates observed in the period. No recalculation was performed at HY 2021.

Economic and other non-operating variances generated surplus of £742 million in the first half of 2022 (30 June 2021: consumed surplus capital of £219 million) mainly in respect of market volatility. This also reflects short-term variances between the actual asset mix on new business compared to that which was assumed in pricing, some of which is anticipated to reverse in the second half of the year upon further optimisation of the asset portfolio. In 2021, this was mostly driven by the impact of purchasing assets to support the future new business pipeline.

Adjusted equity own funds

PIC – Adjusted equity own funds £m	**30 June 2022 (£m)**	30 June 2021 (£m)	31 December 2021 (£m)
Own funds	**6,870**	6,306	6,669
Deduct notional RT1 and Tier 2 own funds	**(2,050)**	(2,050)	(2,050)
Shareholder equity own funds	**4,820**	4,256	4,619
Add risk margin net of transitionals	**1,093**	1,054	1,269
Adjusted equity own funds	**5,913**	5,310	5,888

AEOF is another APM 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, net of the TMTP recalculation, was £5,913 million at 30 June 2022 compared to £5,888 million at 31 December 2021. This change was primarily due to new business profits, expected return from in-force business and economic variances.

We hedge interest rate risk on the overall solvency balance sheet; AEOF does not include the risk margin or SCR components, therefore interest rate movements have affected this metric differently to overall solvency surplus.

Shareholder equity own funds, which only deducts hybrid debt from PIC Solvency II Own Funds, does benefit from the change in risk margin and increased to £4,820 million (31 December 2021: £4,619 million).

Chief Financial Officer's review continued

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 2022	30 June 2021	31 December 2021
As reported	**192%**	157%	168%
100 bps increase in interest rates[1]	**17.9%**	10.0%	12.9%
100 bps reduction in interest rates[1]	**(21.9)%**	(19.8)%	(23.1)%
100 bps increase in credit spreads[1]	**10.4%**	7.0%	9.4%
100 bps reduction in credit spreads[1]	**(13.3)%**	(20.2)%	(19.1)%
20% credit downgrade[2]	**(20.8)%**	(10.3)%	(7.9)%
5% reduction in base mortality[3]	**(3.5)%**	(8.1)%	(7.1)%

All sensitivities allow for a notional TMTP recalculation.

1. For the interest rate and credit spread sensitivities, due to the nature and size of the impacts the notional recalculation of the TMTP reflects a different test biting under the increase and reduction scenarios, which contributes to the asymmetry of the results.
2. Shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be immediately traded back to the original credit rating, so the impact is primarily a reduction in own funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
3. Equivalent to a 0.4 year increase in life expectancy from 23.0 years to 23.4 years for a typical male aged 65.

Adjusted operating profit before tax

In addition to the statutory results presentation outlined on page 16, the Group also chooses to analyse its IFRS results on an alternative performance metric, AOPBT, which is a non-GAAP measure of long-term value creation, a key outcome of the Group's business model. It reflects the Group's activities which are core to our business and the management choices and decisions around those activities.

The Group's AOPBT for period to 30 June 2022 was £118 million (30 June 2021: £205 million). Underlying profit has improved versus 2021 but this has been offset by short-term experience variances and the non-recurrence of assumption changes that favourably impacted the prior period.

£m	**6 months to 30 June 2022 (£m)**	6 months to 30 June 2021 (Restated) (£m)	12 months to 31 December 2021 (£m)
Expected return from operations	**178**	138	288
New business and reinsurance profit[1, 2]	**118**	1	167
Underlying profit	**296**	139	455
Changes in valuation assumptions	**–**	131	315
Experience and other variances	**(97)**	10	(77)
Finance costs[3]	**(60)**	(60)	(122)
Project costs	**(21)**	(15)	(38)
Adjusted operating profit before tax	**118**	205	533
Investment related variances	**789**	(211)	(173)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**16**	16	33
Profit before tax	**923**	10	393

Note: As outlined in the 2021 Annual Report & Accounts, the definition of AOPBT was amended to take account of three refinements to the methodology. As a result the comparatives for 30 June 2021 have been restated as follows:

1. New business profit has been redefined to align the reported new business profitability with the assumptions used in the pricing of new business. Any variance between pricing and current valuation assumptions is then recognised as an experience variance outside of underlying profit that will reverse over time. There is no change to AOPBT.
2. Reinsurance profit has been restated to recognise short term timing differences, and their reversal, within experience and other variances. This is consistent with underlying profit being an 'expected' profit measure. There is no change to AOPBT.
3. The cost of the RT1 interest has been recognised within finance costs. This is to align the reporting across all bases and reflects the way management and rating agencies view these financing costs. The treatment for the statutory IFRS statement of comprehensive income remains unchanged, with the RT1 interest treated as a dividend, and therefore the RT1 interest is added back before profit before tax in the alternative profit metric.

More detail on the main components of AOPBT are set out below.

Return from operations

Return from operations of £178 million was above the prior period (30 June 2021: £138 million), mainly reflecting the higher expected return on surplus assets due to the increase in interest rates and higher level of surplus assets seen in the period.

New business and reinsurance profit

New business and reinsurance surplus increased within the period amounting to £118 million (30 June 2021: £1 million), resulting from the £2.4 billion of new business premiums written in the period.

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 period. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

There were no significant assumption changes in the first half of 2022 whereas the half year 2021 result benefited £131 million primarily related to the Group updating its assumptions in respect of credit defaults on the adoption of the latest Moody's default data. The Group remains confident that existing assumptions remain appropriate as at 30 June 2022.

There are also prudent margins within the IFRS basis in relation to uncertainty over our best estimate assumptions, which includes default experience alongside longevity, expenses and the discount rate applied to liabilities. There are total prudent margins of £2.2 billion at 30 June 2022 (31 December 2021: £3.1 billion), which are expected to be released over the long term and recognised as profits, as actual experience materialises and uncertainty over the best estimate assumptions is reduced. The decrease in the period is largely driven by the rise in interest rates.

Experience and other variances

Experience variances gave rise to a loss of £97 million in the period (30 June 2021: gain of £10 million). The loss in the current period includes a timing variance from not yet having reinsured certain new business schemes in addition to some adverse expense experience on new schemes. The timing variances relating to reinsurance are expected to largely reverse in the second half of the year upon completion of the reinsurance.

In 2021, the positive experience variance was primarily driven by positive scheme data updates and favourable claims experience.

Finance costs

Finance costs reported as part of AOPBT include interest costs on both the Restricted Tier 1 and Tier 2 debt.

Investment related variances

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

The Group carefully manages its risk to market 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, is included within the investment related variance line. The solvency balance sheet is hedged to maintain long-term stability, and therefore variances within each period are likely to arise, with these expected to largely net off over several years. The impact of changes in credit ratings and management actions which were taken to improve the resilience of the balance sheet are also included here.

For the six months to 30 June 2022, investment related variances resulted in a gain of £789 million (30 June 2021: loss of £211 million). This is primarily related to the effects of the significant increase in risk-free rates and short-duration inflation, alongside management actions to optimise the risk profile of our portfolio. The negative investment related variances in 2021 were driven by movements in interest rates.

IFRS reconciliation to Solvency II – PICG

30 June 2022 (£m)	IFRS balance sheet	Add amortised cost value of Tier 2 subordinated debt	Add accrued interest on Tier 2 subordinated debt	Deduct accrued interest on RT1 notes	Add risk margin net of transitionals	Reduction in technical provisions	Reduction in reinsurance assets	Differences in deferred tax	Differences in other asset values	Unaudited Solvency II (£m)
Total assets less other liabilities	**40,714**	**1,591**	**59**	**(12)**	**–**	**–**	**–**	**(67)**	**(8)**	**42,277**
Insurance liabilities/Best estimate liabilities ("BEL") net of reinsurance assets	**(35,523)**	**–**	**–**	**–**	**–**	**1,285**	**(57)**	**–**	**–**	**(34,295)**
Risk margin net of transitionals	**–**	**–**	**–**	**–**	**(1,093)**	**–**	**–**	**–**	**–**	**(1,093)**
IFRS net assets/ Solvency II own funds	**5,191**	**1,591**	**59**	**(12)**	**(1,093)**	**1,285**	**(57)**	**(67)**	**(8)**	**6,889**

Market Consistent Embedded Value

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

At 30 June 2022, the Group's Embedded Value increased to £5,541 million from £5,027 million at the end of 2021. The increase is largely due to expected return from operations, new business profits and economic variances.

MCEV	30 June 2022 (£m)	30 June 2021 (£m)	31 December 2021 (£m)
Adjusted net worth	**6,901**	6,339	6,710
Value of in-force business after tax	**1,623**	1,662	1,796
MCEV fair value of Tier 1 and Tier 2 debt instruments	**(1,992)**	(2,487)	(2,381)
MCEV before cost of capital	**6,532**	5,514	6,125
Frictional cost of capital	**(524)**	(357)	(359)
Cost of residual non-hedgeable risks	**(467)**	(731)	(739)
MCEV net of cost of capital	**5,541**	4,426	5,027

Solvency II to EV reconciliation – PICG

30 June 2022 (£m)	Unaudited Solvency II balance sheet	Allow for differences between SII and MCEV	Allow for subordinated debt	Recognise the frictional cost of required capital	Release risk margin minus transitionals, recognise CRNHR	Release matching adjustment margins	Tax on PVFP	MCEV (£m)
Total assets less other liabilities	**42,277**	**12**						
BEL net of reinsurance assets	**(34,295)**							
Risk margin net of transitionals	**(1,093)**							
Solvency II own funds/ Adjusted net worth	**6,889**	**12**	**–**	**–**	**–**	**–**	**–**	**6,901**
Present value of future profits	**–**	**–**	**–**	**–**	**1,093**	**1,070**	**(540)**	**1,623**
Cost of residual non-hedgeable risks	**–**	**–**	**–**	**–**	**(467)**	**–**	**–**	**(467)**
Frictional cost of required capital ("FCoC")	**–**	**–**	**–**	**(524)**	**–**	**–**	**–**	**(524)**
Subordinated debt	**–**	**–**	**(1,992)**	**–**	**–**	**–**	**–**	**(1,992)**
Solvency II own funds/MCEV	**6,889**	**12**	**(1,992)**	**(524)**	**626**	**1,070**	**(540)**	**5,541**

Financial control framework and IFRS 17

IFRS 17 – Insurance contracts is a new accounting standard effective for accounting periods on or after 1 January 2023. The standard will provide a comprehensive approach for accounting for insurance contracts, including measurement, income statement presentation and disclosure. It is expected to have a significant impact on the reporting of the Group's metrics.

Work has continued to ensure technical compliance, alongside testing and embedding both the systems and operational capability required to deliver new end-to-end finance processes. The Group is well progressed, but further work is ongoing to refine our methodology and complete systems development, therefore it is not possible to provide a reliable estimate of the impact of adopting IFRS 17 at this time. Given the long-term nature of our business, the Group will be applying the General Measurement Model to all contracts in scope of the standard. On transition to IFRS 17, the Group will apply the fully retrospective approach unless impracticable. In some instances, this will lead to the fair value approach being used for specific groups of insurance contracts.

Outlook

The overall Pension Risk Transfer market remains buoyant, and the market trajectory seen in the second half of 2021 has continued into the first half of this year, with pension schemes looking to de-risk in the context of rising interest rates and widening credit spreads. PIC's robust solvency ratio underpins our ability to write new business, which puts us in a strong position to capitalise on the promising pipeline of new business in the second half of the year.

However, there continues to be significant uncertainty in financial markets. We will remain vigilant to potential adverse impacts on the investment portfolio, whilst provisioning the business to continue taking advantage of business opportunities as they arise.

Financial statements (unaudited)

Statement of comprehensive income for the Group
For the six months ended 30 June 2022

	6 months to 30 June 2022 (£m)	6 months to 30 June 2021 (£m)	12 months to 31 December 2021 (£m)
Revenue			
Gross premiums written	**2,371**	385	4,702
Outward reinsurance premiums	**(37)**	(35)	(846)
Net premium revenue earned	**2,334**	350	3,856
Investment return	**(8,468)**	(1,493)	209
Commissions earned	**–**	–	1
Total net revenue	**(6,134)**	(1,143)	4,066
Expenses			
Claims paid – gross	**(948)**	(922)	(1,844)
Reinsurers' share of claims paid	**20**	24	59
	(928)	(898)	(1,785)
Decrease/(increase) in insurance liabilities – gross	**9,457**	2,534	(2,178)
(Decrease)/increase in reinsurers' share of insurance liabilities	**(1,317)**	(360)	577
	8,140	2,174	(1,601)
Acquisition expenses	**(32)**	(28)	(77)
Other operating expenses	**(79)**	(51)	(121)
Finance costs	**(44)**	(44)	(89)
	(155)	(123)	(287)
Total net expenses	**7,057**	1,153	(3,673)
Profit before tax	**923**	10	393
Tax charge	**(175)**	(3)	(82)
Profit and total comprehensive income for the period	**748**	7	311

Profit before tax by entity

	6 months to 30 June 2022 (£m)	6 months to 30 June 2021 (£m)	12 months to 31 December 2021 (£m)
Pension Insurance Corporation plc	**923**	11	394
Other Group entities	**–**	(1)	(1)
Pension Insurance Corporation Group	**923**	10	393

Statement of financial position for the Group
As at 30 June 2022

	30 June 2022 (£m)	30 June 2021 (£m)	31 December 2021 (£m)
Assets			
Property, plant and equipment	**1**	1	1
Right of use assets	**16**	19	17
Investment properties	**214**	117	173
Financial investments	**44,060**	47,557	51,143
Derivative assets	**17,576**	16,055	15,018
Deferred tax assets	**3**	3	4
Current taxation	**–**	5	–
Reinsurers' share of insurance liabilities	**2,033**	2,413	3,350
Prepayments	**102**	101	104
Receivables and other financial assets	**501**	286	284
Cash and cash equivalents	**239**	185	199
Total Assets	**64,745**	66,742	70,293
Equity			
Share capital	**2**	2	2
Share premium	**873**	874	873
Treasury shares	**(20)**	(19)	(19)
Merger reserve	**34**	34	34
Tier 1 notes	**444**	444	444
Capital reduction reserve	**1,055**	1,055	1,055
Share-based payment reserve	**16**	13	21
Retained profit	**2,787**	1,765	2,055
Total Equity	**5,191**	4,168	4,465
Liabilities			
Gross insurance liabilities	**37,556**	42,301	47,013
Borrowings	**1,591**	1,589	1,590
Lease liabilities	**19**	21	20
Derivative liabilities	**20,002**	18,473	16,997
Deferred tax liabilities	**–**	1	1
Current taxation	**96**	–	38
Insurance and other payables	**141**	66	47
Accruals	**149**	123	122
Total Liabilities	**59,554**	62,574	65,828
Total Equity and Liabilities	**64,745**	66,742	70,293

Net assets by entity

	30 June 2022 (£m)	30 June 2021 (£m)	31 December 2021 (£m)
Pension Insurance Corporation plc	**5,163**	4,137	4,429
Other Group entities	**28**	31	36
Pension Insurance Corporation Group	**5,191**	4,168	4,465

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 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 MCEV 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 2022 and 2021 half years are unaudited and they have not been reviewed in accordance with International Standard on Review Engagements 2410. The 2021 full year IFRS basis results have been derived from the 2021 statutory accounts. The auditors have reported on the 2021 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 Solvency II results for the 2022 and 2021 half years are unaudited. The 2021 full year results have been derived from the 2021 Solvency and Financial Condition Report ("SFCR"), which included an unqualified audit report from the auditors in respect of compliance with the rules and Solvency II regulations as set out by the PRA.

The MCEV results for the 2022 and 2021 half years are unaudited. The 2021 year end MCEV results have been derived from the 2021 year end PIC 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.

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 2015. Since then, PIC has obtained Major Model Change approval to improve and expand its Internal Model, for example in areas such as Equity Release Mortgages. The PRA also approved the use of the matching adjustment, volatility adjustment and transitional measures on technical provisions, which are all related to how elements of the Solvency II balance sheet are calculated.

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.

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 140% of SCR, which is the minimum amount of capital that the Group expects to hold.
- Value of in-force business – the sum of the 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 as a liability at fair value for the purposes of MCEV;
- SCR, which is released over time and is replaced with the frictional cost of capital for MCEV; and
- Risk margin, which is released over time and is replaced with the CRNHR, with a cost of capital rate of 3.2%.

Alternative measures of profit or loss ("adjusted operating profit before tax")

In addition to the statutory results presentation outlined on page 16, the Group also chooses to analyse its IFRS results on an alternative performance metric, AOPBT, which is a non-GAAP measure of long-term value creation, a key outcome of the Group's business model. It reflects the Group's activities which are core to our business and the management choices and decisions around those activities. These activities include the writing and management of pension insurance contracts (buyouts and buy-ins), the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities. In essence, it gives stakeholders a more accurate view of the expected long-term investment returns on the assets backing policyholder and shareholder funds, with an allowance for the corresponding expected movements in liabilities. This basis reflects the long-term trading activities of the Group better than the IFRS reported profit before taxation.

Appendix 2: PIC supplementary information

The following are the consolidated financial statements of Pension Insurance Corporation plc and its subsidiaries.

Statement of comprehensive income
For the six months ended 30 June 2022

	6 months to 30 June 2022 (£m)	6 months to 30 June 2021 (£m)	12 months to 31 December 2021 (£m)
Revenue			
Gross premiums written	**2,371**	385	4,702
Outward reinsurance premiums	**(37)**	(35)	(846)
Net premium revenue earned	**2,334**	350	3,856
Investment return	**(8,468)**	(1,493)	209
Commissions earned	**–**	–	1
Total net revenue	**(6,134)**	(1,143)	4,066
Expenses			
Claims paid – gross	**(948)**	(922)	(1,844)
Reinsurers' share of claims paid	**20**	24	59
	(928)	(898)	(1,785)
Decrease/(increase) in insurance liabilities – gross	**9,457**	2,534	(2,178)
(Decrease)/increase in reinsurers' share of insurance liabilities	**(1,317)**	(360)	577
	8,140	2,174	(1,601)
Acquisition expenses	**(32)**	(28)	(77)
Other operating expenses	**(79)**	(50)	(121)
Finance costs	**(44)**	(44)	(88)
	(155)	(122)	(286)
Total net expenses	**7,057**	1,154	(3,672)
Profit before tax	**923**	11	394
Tax charge	**(175)**	(2)	(81)
Profit and total comprehensive income for the period	**748**	9	313

Adjusted operating profit before tax statement

Adjusted operating profit before tax	**6 months to 30 June 2022 (£m)**	6 months to 30 June 2021 (Restated) (£m)	12 months to 31 December 2021 (£m)
Expected return from operations	**178**	138	288
New business and reinsurance surplus	**118**	1	167
Underlying profit	**296**	139	455
Changes in valuation assumptions	**–**	131	315
Experience and other variances	**(97)**	11	(77)
Finance costs	**(60)**	(60)	(121)
Project costs	**(21)**	(15)	(38)
Adjusted operating profit before tax	**118**	206	534
Investment related variances	**789**	(211)	(173)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**16**	16	33
Profit before tax	**923**	11	394

Statement of financial position
As at 30 June 2022

	30 June 2022 (£m)	30 June 2021 (£m)	31 December 2021 (£m)
Assets			
Investment properties	**214**	117	173
Financial investments	**44,060**	47,557	51,143
Derivative assets	**17,576**	16,055	15,018
Current taxation	**–**	4	–
Reinsurers' share of insurance liabilities	**2,033**	2,413	3,350
Prepayments	**93**	94	98
Receivables and other financial assets	**501**	279	283
Cash and cash equivalents	**224**	162	192
Total Assets	**64,701**	66,681	70,257
Equity			
Share capital	**1,226**	1,226	1,226
Share premium	**524**	524	524
Other reserves	**60**	60	60
Tier 1 notes	**444**	444	444
Retained profit	**2,909**	1,883	2,175
Total Equity	**5,163**	4,137	4,429
Liabilities			
Gross insurance liabilities	**37,556**	42,301	47,013
Borrowings	**1,591**	1,589	1,590
Derivative liabilities	**20,002**	18,473	16,997
Deferred tax liability	**–**	1	1
Current taxation	**96**	–	37
Insurance and other payables	**226**	119	155
Accruals	**67**	61	35
Total Liabilities	**59,538**	62,544	65,828
Total Equity and Liabilities	**64,701**	66,681	70,257

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.

Buy-in
An annuity policy bought by trustees that is an asset of the scheme and helps manage their ongoing liabilities. The trustees and scheme remain in place and the administration stays the responsibility of the trustees.

Buyout
Annuities bought in bulk, covering all the scheme's liabilities. The scheme typically winds up and members become PIC policyholders. We also take on responsibility for ongoing administration alongside payment of policyholders' pensions.

Cost of residual non-hedgeable risks ("CRNHR")
Under the MCEV, allowance is made 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.

Derivatives
Derivatives are securities that derive their value from an underlying asset or benchmark. The Group uses derivatives to hedge out certain market risks, in particular inflation, interest rates and currency risks associated with both new and existing business.

Financial investments
Represents all assets actively managed or administered by or on behalf of the institution including those assets managed by third parties.

Frictional cost of required capital ("FCOC")
The cost associated with the assets used to support required capital under MCEV, principally in respect of investment management fees and tax on investment income.

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, also applicable in the UK, 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.

Solvency II best estimate liability ("BEL")
The best estimate liability represents the value of future liability and expense cash flows. It is based on realistic assumptions with no prudent margins (other than in the default and downgrade assumptions stipulated for the calculation of the valuation discount rate) and is calculated using well-established actuarial and statistical methods.

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 TP on the Solvency II basis is equal to the sum of a BEL and a 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. This will decrease linearly to zero over 16 years, but may be recalculated to allow for material changes in the risk profile for the company, subject to regulatory approval.

Value of in-force ("VIF")
This is the discounted value of after-tax profits expected to emerge from the in-force business over time, and is used in the embedded value calculation.

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