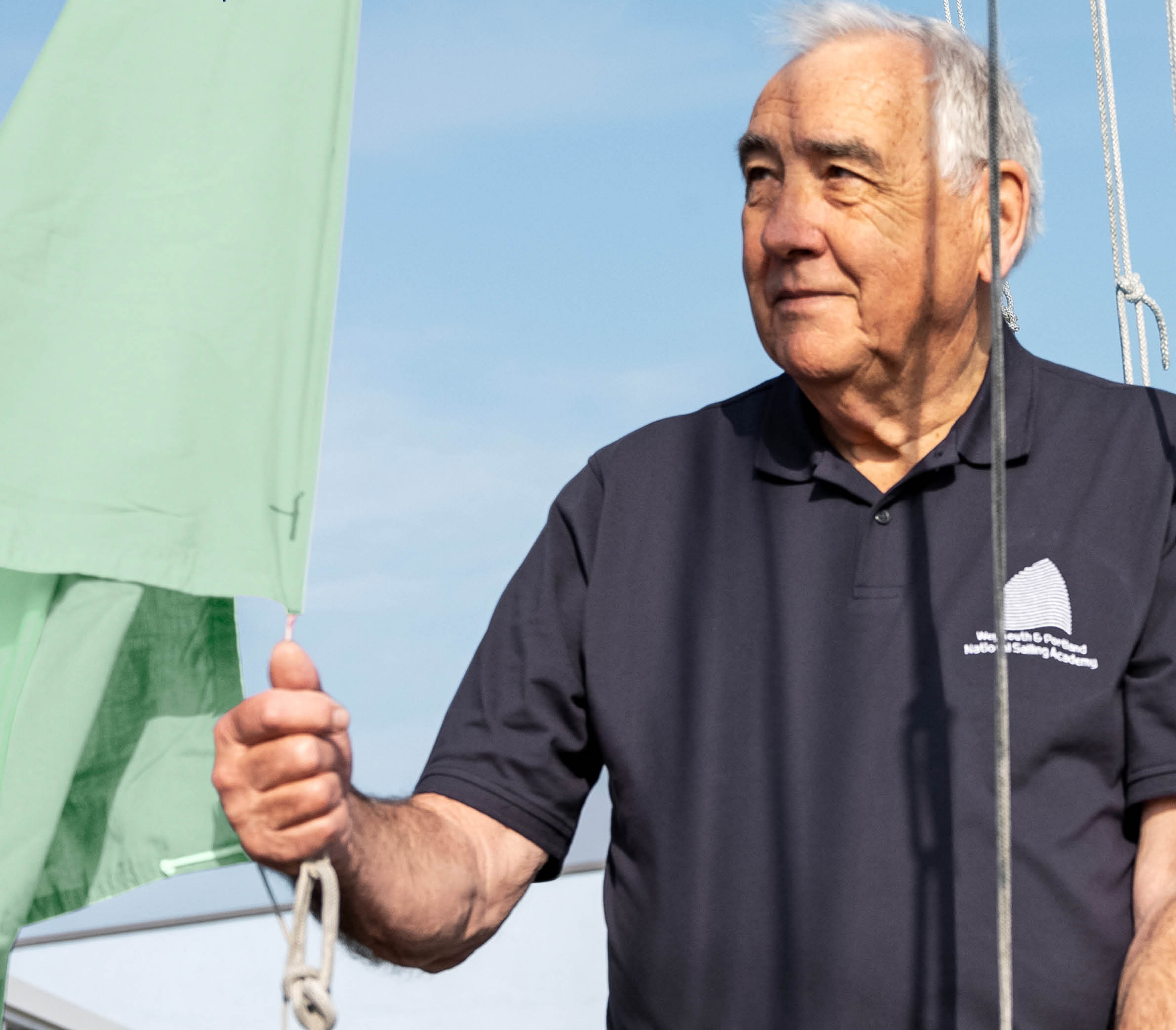
PIC

Unleashing the power of pensions.

Pension Insurance Corporation plc
Half Year Report 2024



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

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

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Pension Insurance Corporation plc ("PIC" or the "Company") 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). The registered office of PIC and its subsidiaries (the "Group") is 14 Cornhill, London EC3V 3ND.

Front cover:
Ken Porter enjoying his retirement knowing his pension is safe with PIC. Watch his inspirational story: https://www.pensioncorporation.com/policyholders/inspirational-stories

Delivering for our stakeholders.

Solvency II ratio

HY 2024
233%

FY 2023
211%

Equity own funds

HY 2024
£5,945m

FY 2023
£5,960m

Premiums

HY 2024
£3,009m

HY 2023
£6,494m

IFRS profit before tax

HY 2024
£53m

HY 2023
£34m

IFRS Adjusted operating profit before tax

HY 2024
£272m

HY 2023
£506m

IFRS Adjusted equity

HY 2024
£6,362m

FY 2023
£6,432m

Financial investments

HY 2024
£47.7bn

FY 2023
£46.8bn

Policyholder satisfaction

HY 2024
99.3%

FY 2023
99.3%

Fitch ratings

A+

In August 2024, Fitch affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

Recent awards

Focusing on our purpose.

Excellent customer service."

Tracy Blackwell
CEO

I am pleased to report that PIC had a strong first half focused on developing our offering for trustees seeking to de-risk their members' pensions, and continuing to improve our already excellent levels of customer service for our policyholders.

During H1 2024 we completed £3 billion of new business across nine schemes, with clients including Next and De Beers. We also had a further £1.6 billion of new business either in exclusivity, or signed, by the end of August. Our first half new business included our second buy-in with TotalEnergies, covering £1.2 billion of liabilities. The first buy-in with the scheme, which covered £1.6 billion of liabilities, was completed in 2014. Repeat transactions, especially where we have the opportunity to demonstrate our excellent customer service over a period of time, have been an important part of the market for us over recent years, and we expect them to continue to feature in future new business transactions.

The pension risk transfer ("PRT") market has evolved significantly over the past couple of years, driven by the much higher funding levels we have seen as a result of higher gilt yields. Notably, larger transactions, specifically those over £1 billion, are now coming more regularly to market. They require innovative, bespoke solutions and an adaptable approach from our team to deal with more complex benefit structures as well as to resolve holdings of illiquid assets. Our record transaction with RSA last year set the benchmark for other very large, complex schemes, which often have holdings of illiquid assets, looking to transact in the PRT market. It is this complexity which makes their transaction dates so unpredictable and can impact the expected total market volumes meaningfully given the size of these deals. However, we do expect these very large transactions to continue to come to market over the next few years, either as single deals or split into tranches over several years. Overall we expect the PRT market to end the year somewhere between £40 billion and £45 billion.

One key area of innovation is at the smaller end of the market, where there is a clear need for streamlined solutions for smaller schemes due to the significant increase in their numbers coming to market over the past couple of years. We launched Mosaic, our cost-effective, streamlined service for small pension schemes looking to complete a buyout, earlier in the year. We have had strong levels of interest and expect to complete our first transactions through Mosaic later this year.

One of the issues that has affected the PRT market is the impact of very close credit spreads on transaction pricing. Spreads have been incredibly tight this year – about as tight as they have been since the Global Financial Crisis – meaning that in our view, assets have been overpriced. It's difficult to see how they deliver long-term value, so we have been very selective in the assets we have invested in. As experience shows, the market will turn, leading to better pricing in the PRT market in due course.

Once again, our partnership approach with investment counterparties, has stood us in good stead. 45% of our £1.1 billion worth of privately-sourced debt investments during the period were with existing counterparties. This includes a second debt investment in Northern Ireland-based Housing Association, Apex, for £30 million, following a 2021 investment of £100 million.

Pensions paid

£1.1bn

Overall portfolio size

£47.7bn

Policyholder satisfaction

99.3%

We were also pleased to make significant progress in our £130 million Millers Quay development in the Wirral – the cornerstone investment in the UK's largest urban redevelopment project. The first two buildings reached practical completion just after the half year and will soon be welcoming their first tenants.

Our customer service has always been a key area of focus for us. We were therefore delighted to be re-awarded "ServiceMark with Distinction" by the Institute of Customer Service, for "consistently high customer service levels". We are one of very few companies in the country to hold this award. Our customer service satisfaction levels remain very high at 99.3%, on record policyholder pension payments of £1.1 billion in the period. We have now paid £14.9 billion[1] in total to our 348,600 policyholders.

During the period we continued to develop our policyholder offering. As well as a very full programme of in-person policyholder events, we launched our new online video service, "PIC on demand", which will provide a range of content about PIC and more general areas of interest, which our policyholders can download and watch at their leisure.

Our priority as a business is to be able to fulfil our purpose, which is to pay the pensions of our current and future policyholders. This priority is effected by actively managing our balance sheet to address potential risks. We completed the first half with a Solvency II ratio of 233%, considerably above our long-term solvency levels. Our portfolio of assets stood at £47.7 billion, and we had insurance liabilities of £42.1 billion.

PIC's dividend policy is to "retain sufficient capital to invest in the future growth opportunities of the UK PRT market, whilst paying regular dividends to shareholders, based on the current and future projected capital position of the business". Taking this into consideration, and based on our more capital efficient approach to new business in the current market conditions, the Board has approved a special dividend of £107 million, as well as an interim dividend payment of £147 million as part of the annual dividend cycle,representing 7% of our solvency capital requirement. Our solvency ratio continues to be well ahead of our long-term average.

Our focus on customer service has led to us winning six industry awards including the Pensions Age Risk Management Provider of the Year, UK Pensions Awards Risk Reduction Provider of the Year and the Institute of Customer Service Trusted Quality Provider. We also continued to invest in UK infrastructure and housing, and want to invest much more in these areas.

Despite slightly lower than expected market volumes in the first half, caused in large part by very tight credit spreads, we expect a strong second half, and have a full pipeline for 2025.

Tracy Blackwell
Chief Executive Officer

1 Total paid to policyholders from 2013 onwards. Amounts paid before 2024 have been adjusted for inflation.

Key performance indicators

We have three strategic objectives: to continue building a secure and sustainable business; to carry on leading as a responsible corporate citizen; and to keep on driving long-term value growth.

Our six KPIs are aligned to our strategic objectives and will be reviewed annually to ensure they remain an effective measure of progress against our ambitions.

Measure	Definition	HY 2024	2023	Performance
To continue building a secure and sustainable business				
Solvency II ratio (%)	The Solvency II ratio is a regulatory capital measure that demonstrates the Group's financial strength. It shows the ratio of eligible capital to required capital, which is defined as our eligible Solvency II own funds as a percentage of Solvency Capital Requirement ("SCR").	**233%**	**FY23: 211%**	The Group's Solvency II ratio remains strong and positions us well to fulfil our purpose of paying the pensions of our current and future policyholders, as well as helping more trustees of defined benefit ("DB") pension schemes secure the pensions of their members. The increase in the year was primarily due to returns from the in-force book and an increase in risk-free rates partly offset by the impact of writing £3.0 billion of new business in the period.
Fitch Insurer Financial Strength rating	The Fitch Insurer Financial Strength rating provides an external assessment of financial strength, which gives security to our current and future policyholders. It reflects both financial and non-financial metrics and represents the financial strength rating of PIC.	**A+**	**FY23: A+**	In August 2024, Fitch Ratings affirmed PIC's Insurer Financial Strength rating at 'A+' (Strong) and PIC's long-term Issuer Default rating at 'A', both with a 'Stable' outlook. This impartial assessment demonstrates the financial strength of the Company and delivery against our strategic objective, to continue building a secure and sustainable business.

Measure	Definition	HY 2024	2023	Performance
To carry on leading as a responsible corporate citizen				
Policyholder satisfaction (%)	Policyholders are asked to provide a satisfaction rating for PIC's customer service. This metric shows the percentage of customers surveyed who gave PIC a satisfied or very satisfied rating. We monitor this percentage to ensure we continue to deliver outstanding policyholder service.	**99.3%**	**FY23: 99.3%**	We have maintained consistently high policyholder satisfaction scores in excess of 98% for several years, which evidences the excellent quality of service we are delivering to our policyholders.
Carbon intensity (tCO_2e/$m revenue)	Managing climate risk is firmly embedded into our business and carbon intensity (defined as the Weighted Average Carbon intensity ("WACI") (Scope 1 and 2) in emissions per $ million revenue) is a key metric, which is monitored by PIC to ensure our externally published emissions targets and ambitions are achieved. The metric aligns with our externally published Net Zero targets.	**175 tCO_2e/$m**	**FY23: 169 tCO_2e/$m**	We remain on track to meet our 2025 and 2030 decarbonisation targets, despite a small increase in the WACI of our portfolio at HY24. Through our stewardship activities, we actively engage with the most carbon intensive companies in our portfolio. This engagement is ongoing and we would expect it to continue to have an impact in the medium term. We remain committed to achieving our long-term portfolio decarbonisation targets.

Key performance indicators continued

Measure	Definition	HY 2024	2023	Performance
To keep on driving long-term value growth				
Equity own funds ("EOF") (£m)	EOF is a shareholder view of the Group's Solvency II own funds after deducting hybrid debt and aligns to the way the business is managed.	**£5,945m**	**FY23: £5,960m**	EOF increased by £132 million before the payment of the 2023 final dividend of £147 million as profits emerging from the in-force book and new business were partly offset by headwinds from adverse economics, primarily an increase in risk-free rates. After the payment of the 2023 final dividend, EOF was broadly in line with prior year.
Adjusted operating profit before tax ("AOPBT") (£m)	AOPBT reflects the IFRS result relating to core business activities, alongside certain management choices and decisions around those activities, which include the writing and management of pension insurance contracts and the management of risk through reinsurance. This metric reflects the value generated prior to the new business deferral and subsequent in-force release of profit via the contractual service margin ("CSM") and excludes investment related variances.	**£272m**	**HY23: £506m**	AOPBT decreased in the period largely as a result of lower new business volumes written following the record RSA transaction last year.

Investments

At 30 June 2024, PIC's portfolio totalled £47.7 billion (31 December 2023: £46.8 billion) with the increase largely due to new business transactions including the £870 million De Beers UK pension scheme and £510 million full buy-in of the Next Group Pension Plan signed in the first half of 2024. Our insurance liabilities totalled £42.1 billion at the same date (31 December 2023: £41.2 billion).

PIC has a long-term focus and our investments in low risk, stable, fixed income assets reflect our prudent approach. We continue to favour defensive sectors including infrastructure, utilities, and public finance which we believe are characteristically lower risk holdings which are well suited to a long-term portfolio such as ours.

Strong investor demand during the first half of the year has led to tighter credit spreads. This has meant, given assets are generally overpriced, we have seen opportunities to invest in higher rated assets at a lower relative cost, and therefore have benefited from a significant de-risking of the portfolio. The average rating of the public credit portfolio is A/A-.

No single counterparty, other than the UK Government, represents more than 2.7% of our portfolio (31 December 2023: 1.9%), corporate and government bonds represent 69.8% of our portfolio at the half year (31 December 2023: 69.6%) and 99.9% are investment grade rated (31 December 2023: 99.9%). PIC had no defaults in the portfolio in the period, and has no exposure to residential ground rents.

Interest rate decreases did not materialise until services inflation showed signs of abating. This has meant that long duration issuance across UK public and private debt markets has been subdued as borrowers look to manage the impact of higher financing costs.

Despite this, PIC has made £1.1 billion of private investments in the first half of the year. This included sectors such as highly rated sub-sovereigns, utilities, financials and critical infrastructure assets. Highlights include a £30 million debt investment in a Northern Ireland based Housing Association, Apex Housing, and £26 million ($33 million) as senior secured debt funding in 37 solar parks in Chile. The investment helps Chile's transition to net zero, whilst also helping PIC decarbonise its own portfolio.

The strength of our long-term relationships has again proven instrumental in our ability to compete for good value, secure and stable private debt investment opportunities with 45% of private transactions in the first six months being completed with repeat borrowers. For example, the Apex Housing investment adds to an initial investment of £100 million from 2021. Our first build-to-rent development, New Vic, was fully let within the first year and demand has remained consistently high with a waiting list for a number of apartments and a large number of lets secured via recommendation.

We continue to follow our decarbonisation strategy as outlined in our Transition Plan and have achieved a 28% decrease in the Weighted Average Carbon Intensity of our public credit investment portfolio from our 2019 baseline. This surpasses our 25% reduction target by 2025. We continue to monitor the carbon intensity of investments and these are factored into investment decisions. For instance, given the current investment landscape seeing credit spreads compressed, we have tended to invest in more defensive stocks such as public finance and utilities. We are focused on investing in those companies that have the right credit profile which includes companies who are taking action around decarbonisation.

We have increased our Stewardship efforts, in particular those conducted directly by PIC analysts and in the first half of 2024 we conducted over 50 direct engagements on topics ranging from decarbonisation strategies to labour rights in supply chains. We continue to join forces with industry peers on collaborative engagements and are proud to have become a member of the Investor Forum to leverage their expertise, network and influence. In early 2024, we became founding signatories to the A4S Sustainability Principles Charter for the BPA process and continue to be active members of the working party. We are also proud to have successfully been accepted for a second year running as signatories to the UK Stewardship Code. Finally, in recognition of our progress on our overall Responsible Investment strategy, we were named winners of the Environmental Finance's Sustainable Re/insurer of the Year 2024 award.

Investments continued

Financial assets by credit rating

30 June 2024 (£m)	AAA	AA	A	BBB[4]	BB or below	Unrated	Total
Financial investments – *at fair value through profit or loss ("FVTPL"):*							
Debt securities[1]							
– Government bonds	258	15,468	1,282	965	–	–	17,973
– Corporate bonds	657	1,010	6,954	6,678	34	–	15,333
– Private investments	94	2,423	3,265	2,678	164	–	8,624
MBS and ABS[2]	20	17	196	22	–	–	255
Equity release mortgages	–	–	–	–	–	1,078	1,078
Participation in investment schemes[3]	1,560	–	–	–	168	2,704	4,432
Total financial investments	2,589	18,918	11,697	10,343	366	3,782	47,695
Other financial assets – at FVTPL							
Derivative and other financial assets	–	–	–	–	–	29,700	29,700
Other financial assets – at amortised cost							
Receivables	–	–	–	–	–	42	42
Cash and cash equivalents	–	250	82	344	–	4	680
Total other financial assets	–	250	82	344	–	29,746	30,422

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

	June 2024		December 2023	
	Market value (£m)	%	Market value (£m)	%
UK	11,889	49.6	11,909	49.7
US	6,028	25.2	6,246	26.0
Europe (excluding UK)	4,372	18.2	4,209	17.6
Rest of the world	1,668	7.0	1,614	6.7
Total	23,957	100.0	23,978	100.0

Corporate bonds and private investments split by industry sector

	June 2024		December 2023 (Restated*)	
	Market value (£m)	%	Market value (£m)	%
Utilities	5,002	21.0	4,617	19.4
Financials	4,401	18.4	4,579	19.1
Housing associations	2,353	9.8	2,154	9.0
Infrastructure	1,887	7.9	1,703	7.1
Telecoms, media and technology	1,862	7.8	2,374	9.9
Consumer, non-cyclical	1,641	6.8	1,371	5.7
Education (includes universities and student accommodation)	1,620	6.8	1,754	7.3
Consumer, cyclical	1,179	4.9	1,239	5.2
Renewable energy	1,039	4.3	1,088	4.5
Real estate	920	3.8	857	3.6
Commodities	593	2.5	729	3.0
Sovereigns, sub-sovereigns and municipals	586	2.4	586	2.4
Not for profits	506	2.1	536	2.2
Structured and other finance	368	1.5	391	1.6
Total	23,957	100.0	23,978	100.0

* 2023 industry sectors have been restated following an internal review of the sector classifications.

Corporate bonds and private investments by currency

Currency	June 2024 Market value (£m)	June 2024 %	December 2023 Market value (£m)	December 2023 %
GBP (£)	**14,677**	**61.3**	14,863	62.0
USD ($)	**7,142**	**29.8**	7,651	31.9
EUR (€)	**2,089**	**8.7**	1,409	5.9
CHF	**49**	**0.2**	55	0.2
Total	**23,957**	**100.0**	23,978	100.0

1 Within debt securities there are £283 million AAA rated, £3,051 million AA rated, £3,817 million A rated, £2,622 million BBB rated and £164 million BB rated and below securities, which have been rated using internally assessed credit ratings.
2 Within MBS and ABS there are £4 million A rated securities which have been rated using internally assessed credit ratings.
3 Within participation in investment schemes there are £168 million BB and below rated securities which have been rated using internally assessed credit ratings.
4 Within the BBB rated financial investments there are £830 million of BBB- rated assets which have been rated using internally assessed credit ratings.

Chief Financial Officer's review

Consistently good performance, continuing to deliver on our strategy and purpose."

Dom Veney
Chief Financial Officer

Introduction

We have delivered another good set of financial results over the first half of 2024 continuing to deliver on our strategy and enabling us to fulfil our purpose. Our Solvency II ratio increased to 233% at 30 June 2024 (31 December 2023: 211%) which positions us well to take advantage of further market opportunities. In the first half of the year we completed nine new business transactions totalling £3.0 billion in premiums with a further £1.6 billion signed or exclusive up to the end of August. This compares to £6.5 billion written in the first half of 2023 which included the completion of the largest ever bulk annuity transaction, a buy-in with two schemes sponsored by RSA. The pipeline for new business remains strong with latest industry expectations forecasting £40-45 billion for the full year compared to c. £50 billion in 2023.

Equity own funds, a KPI of the Group, increased by £132 million before the payment of the 2023 final dividend of £147 million. The profits emerging from the in-force book and value added from new business were partly offset by the negative impact of rises in risk-free rates and other economic volatility. After payment of the 2023 final dividend, Equity own funds were £5.9 billion as at 30 June 2024 (31 December 2023: £6.0 billion).

IFRS adjusted equity, a measure of overall shareholder value, remains strong at £6.4 billion at 30 June 2024 (31 December 2023: £6.4 billion), after payment of the 2023 final dividend. This benefited from IFRS adjusted operating profit of £272 million (30 June 2023: £506 million). The decrease in adjusted operating profit from 2023 mainly relates to lower new business volumes compared to the record RSA transaction last year. IFRS adjusted equity adds back the contractual service margin ("CSM") net of reinsurance and tax of £2.5 billion (31 December 2023: £2.4 billion). This store of future profits reflects the deferred initial profit on business that has already been written.

In May, we issued a further £500 million of Tier 2 subordinated notes with a coupon of 6.875% and a maturity date in 2034, and we simultaneously repurchased £194 million of the 2014 and 2016 issuances which were due to redeem in 2024 and 2026 respectively. These transactions enabled us to take advantage of the prevailing market conditions, securing capacity and flexibility for the second half of the year and beyond.

Our balance sheet continues to be extremely strong as at 30 June 2024 with a Solvency II ratio of 233% (31 December 2023: 211%), well ahead of our long-term average. The increase in Solvency II ratio was brought about by more efficient capital deployment in new business in the current market, as well as refinements to Solvency Capital Requirement ("SCR") modelling, further optimising our capital position, alongside the debt raise and economic variances. Our solvency surplus position has increased to £4.7 billion at 30 June 2024 (31 December 2023: £4.3 billion), again providing financial flexibility into the remainder of 2024 and beyond. The strength of our balance sheet means that we continue to be extremely well positioned to deliver on our purpose of paying the pensions of our current and future policyholders.

We are delivering on this core purpose while also delivering for shareholders. We paid a final dividend of £147 million in May 2024 in respect of the year ended 31 December 2023. Our solvency ratio continues to be materially above our long-term level and is projected to continue to be so based on our lower capital usage investment strategy and thoughtful approach to writing to new business. Recognising this, on 11 September 2024, the Board approved a special dividend of £107 million, as well as an interim dividend of £147 million as part of the annual dividend cycle, to be paid in September 2024.

PIC's pro forma solvency ratio at 30 June 2024 was 226% allowing for the payment of the interim and special dividends.

Our portfolio of financial investments was broadly in line with full year 2023 at £47.7 billion (31 December 2023: £46.8 billion) primarily driven by new business written in the period, offset by payments made to policyholders and rising interest rates. Market conditions continue to be challenging for backing new business transactions with credit assets at higher prices compared to long-term norms as measured by extremely tight credit spreads. Our low risk investment strategy ensures that our asset portfolio continues to perform well, and that we make investment decisions that secure our pension payments to policyholders, whilst investing in a purposeful way to create long-term social value. Over 99% of the value of our debt securities are rated investment grade and we continue to manage our exposures carefully in the current economic environment.

We welcome the PRA's final policy on the reform of the Matching Adjustment ("MA"), published in early June. Within our regulatory results, we have already adopted the requirements to increase the granularity of the fundamental spread to reflect differences in the credit quality of assets by rating notch and the removal of the limit on the amount of MA that may be claimed from sub-investment grade assets. We are on track to implement all other required changes in accordance with the legislation and policy statements published to date. We also welcome the widening of the range of investments that can be held in MA portfolios, and we are exploring assets with cash flows which may be suitable for the "highly predictable" classification.

Looking forward, the pipeline of schemes at or approaching the point at which trustees would seek to transact remains strong though the market remains competitive. We continue to maintain pricing discipline to ensure that we are appropriately rewarded for the risks we take on. We believe that our focus on excellence of customer service, on social value creation, our track record of delivery, and our flexibility and innovation in helping trustees secure their members' pensions for the long-term gives us an advantage in the market across all sizes of schemes and we remain one of the few firms able to take on and successfully execute the biggest transactions. This is demonstrated by the completion of the RSA transaction in 2023 and the strength of our balance sheet.

IFRS

Our half year 2024 results are presented on an IFRS 17 basis, consistent with 2023.

IFRS statement of comprehensive income

Statement of comprehensive income – summarised	**6 months to 30 June 2024 £m**	6 months to 30 June 2023 £m	12 months to 31 December 2023 £m
Insurance service result	**103**	98	202
Net financial result	**92**	52	365
Other operating expenses	**(85)**	(72)	(173)
Other finance costs	**(57)**	(44)	(91)
Profit before taxation	**53**	34	303
Tax charge	**(9)**	(4)	(64)
Profit and total comprehensive income for the period	**44**	30	239

Please refer to page 13 for the detailed reconciliation between AOPBT and IFRS profit before tax.

Insurance service result

The insurance service result consists of the net revenue and expenses earned from insurance and reinsurance contracts. It is comprised of the release of the CSM based on coverage provided in the period, the release of the risk adjustment ("RA") for expired non-financial risk, as well as any variances between actual and expected claims and insurance related expenses, alongside any losses and associated reversals on onerous contracts.

The insurance service result for the period was £103 million (30 June 2023: £98 million). The increase from 2023 was primarily due to a higher CSM release.

Net financial result

The net financial result includes the net investment return from financial investments as well as finance income and expense from the Group's insurance and reinsurance contracts. Finance income and expense on insurance contracts is generated by movements in their carrying value due to the time value of money and changes in financial risk assumptions from economic factors such as changes in interest rates, inflation and credit spreads.

The net financial result for the period was £92 million (30 June 2023: £52 million). The increase from 2023 primarily reflects the higher return on surplus assets due to larger opening balances.

Other operating expenses

Other operating expenses consist of project and shareholder costs, plus new business, maintenance and investment costs that are not directly attributable to selling and servicing insurance contracts.

Other operating expenses for the period to 30 June 2024 were £85 million (30 June 2023: £72 million). The increase is primarily due to growth in the business and includes project spend of £33 million (30 June 2023: £30 million) which has increased since prior year reflecting a higher spend on business-wide initiatives.

Other finance costs

Other finance costs represent the interest payable on borrowings and interest on tax payable. In May 2024, PIC issued a £500 million debt instrument with a coupon of 6.875%. At the same time, PIC repurchased £173 million of the 2014 debt issue and £21 million of the 2016 debt issue. Finance costs of £57 million (30 June 2023: £44 million) primarily reflects the interest payable on the seven (30 June 2023: five) subordinated debt instruments issued by PIC, the Group's regulated insurance company.

The Restricted Tier 1 ("RT1") debt issued in July 2019 has been accounted for as equity under IFRS and as such interest on these notes is not included in finance costs and is instead recognised in the statement of changes in equity when paid.

IFRS statement of financial position

Statement of financial position- summarised	**6 months to June 2024 £m**	6 months to 30 June 2023 £m	31 December 2023 £m
Financial investments	**47,695**	44,888	46,849
Derivative and other financial assets	**29,700**	30,458	27,977
Reinsurance contract assets	**2,135**	1,895	2,321
Insurance contract liabilities – BEL	**(36,968)**	(34,401)	(36,008)
Insurance contract liabilities – RA	**(1,208)**	(1,194)	(1,228)
Insurance contract liabilities – CSM	**(3,957)**	(3,065)	(3,970)
Derivative and other financial liabilities	**(32,600)**	(33,738)	(30,830)
Borrowings	**(2,092)**	(1,593)	(1,789)
Other net assets	**1,624**	1,008	1,127
Total Equity	**4,329**	4,258	4,449
CSM net of reinsurance and tax	**2,477**	2,191	2,427
Exclude RT1 debt	**(444)**	(444)	(444)
Adjusted Equity	**6,362**	6,005	6,432

Financial investments

At 30 June 2024, the Group had total financial investments of £47.7 billion (31 December 2023: £46.8 billion). The increase was primarily due to £3.0 billion of new business written, partly offset by payments made to our policyholders and the impact of rising interest rates. Our investment strategy is to select assets that generate cash flows to match our future claims payments in both timing and amount. Therefore, the value of our assets and liabilities move broadly in tandem as factors such as interest and inflation rates change.

The credit quality of our investment portfolio is actively managed and remains strong. Our cautious, sustainable investment strategy and our management of key risks, prioritises long-term stability to protect the pensions of our policyholders in the future. In the period, the Group did not experience any defaults (2023: none) and we continue to monitor our exposures carefully in the light of economic uncertainty.

Reinsurance contract assets

The decrease in reinsurance contract assets during the period is primarily driven by a reduction in the reinsurance best estimate liabilities ("BEL") and RA due to an increase in risk-free rates, partly offset by interest accretion on the BEL and RA. At 30 June 2024, 84% (31 December 2023: 85%) of the Group's gross longevity related reserves had been reinsured. The Group has 14 (31 December 2023: 14) reinsurance counterparties, all of which have a credit rating of A or above.

Insurance contract liabilities

Insurance contract liabilities comprise three components. Our BEL reflects the present value of best estimate cash flows to fulfil our insurance contracts; the CSM represents the deferred new business profit that we expect to earn from providing insurance services; and the RA is the compensation that the Group requires for taking on non-financial risk.

Total insurance contract liabilities have increased by £0.9 billion in the period, primarily due to the impact of new business written in the period, partly offset by the release of cash flows and higher risk-free rates.

Derivative and other financial assets and liabilities

The Group uses derivatives to hedge certain market risks associated with both new and existing business. Gross derivative assets and derivative liabilities have both increased by similar amounts in the period, leading to a broadly unchanged net liability position.

Total equity

Total equity decreased by £120 million to £4.3 billion compared to 31 December 2023 (£4.4 billion). Adding back the CSM (net of reinsurance and tax) and excluding RT1 debt, adjusted equity was £6.4 billion (31 December 2023: £6.4 billion).

Adjusted operating profit before tax

In addition to the statutory results presentation outlined above, the Group also chooses to analyse its IFRS results using an alternative performance measure ("APM"), adjusted operating profit before tax ("AOPBT").

The Group considers this APM to be an important metric for stakeholders as it reflects the Group's operating activities that are core to our business alongside certain management choices and decisions around those activities. This includes the writing and management of pension insurance contracts and the management of risk through reinsurance. The operating performance of the Group includes the full value generated from writing new business prior to the new business deferral and subsequent in-force release of profit via the CSM, and excludes investment related variances.

AOPBT for the period decreased to £272 million (30 June 2023: £506 million), largely resulting from lower new business volumes written in the period compared to the first half of 2023 which included the record RSA transactions.

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

Adjusted operating profit	**6 months to 30 June 2024 £m**	6 months to 30 June 2023 £m	12 months to 31 December 2023 £m
Expected return from operations	**280**	241	495
New business and reinsurance profit	**106**	412	444
Underlying profit	**386**	653	939
Changes in valuation assumptions	**6**	18	194
Experience and other variances	**(2)**	(66)	(18)
Finance costs	**(74)**	(60)	(124)
Project and other costs	**(44)**	(39)	(98)
Adjusted operating profit before tax	**272**	506	893
Movement in CSM	**(68)**	(271)	(585)
Investment related variances	**(167)**	(217)	(38)
Add back: RT1 coupon (treated as a dividend for statutory purposes)	**16**	16	33
Profit before tax	**53**	34	303

Expected return from operations

Expected return from operations reflects the long-term expected returns arising from the management of the Group's assets and liabilities. It is based on opening economic assumptions applied to the opening assets and liabilities.

The economic assumptions used are dependent on the nature of the underlying assets and whether the assets are held to back policyholder liabilities or are shareholder assets.

1. The investment return assumption on assets held to back policyholder liabilities is calculated with reference to the one-year swap rate, to align with the unwind of the valuation discount rate for liabilities, plus a spread reflecting the nature of the assets backing the liabilities.

2. The investment return assumption for shareholder assets is calculated with reference to the ten-year swap rate plus a spread relating to the underlying assets held. The inclusion of the spread reflects management's long-term expectations of asset returns in excess of the long-term risk-free rate and reflects the nature of the assets held.

The opening rates used for the disclosed reporting periods are set out in the table below:

	30 June 2024	30 June 2023	31 December 2023
One-year swap	**4.7%**	4.5%	4.5%
Ten-year swap	**3.3%**	3.7%	3.7%

The expected spread on fixed interest and index-linked securities held to back policyholder liabilities is set with reference to the average opening yields for the actual opening assets held less an adjustment for credit risk (assessed on a best estimate basis). Expected return also includes the expected run-off of the risk adjustment.

The impact on expected return of changes to shareholder assets or the investment portfolio backing liabilities in respect of new business or new reinsurance, capital raises or distributions in the year, and assumption changes, is calculated at the point of transaction.

Any differences between the actual return in the year and the long-term expected return are presented in investment variances outside of AOPBT, but are included in profit before tax.

Expected returns of £280 million were above the prior year (30 June 2023: £241 million), primarily due to an increase in opening surplus assets and an increase in the spread relating to the underlying assets held.

New business and reinsurance profit

New business and reinsurance profit represents the impact on profit of writing new pension risk transfer contracts and the impact of entering into new reinsurance contracts on the in-force book. The profit is calculated using the economics at the initial recognition date, the locked-in liquidity premium, expected reinsurance, pricing demographic and maintenance expense assumptions, the target asset portfolio mix assumptions and the actual acquisition expenses incurred.

New business and reinsurance profit was lower at £106 million (30 June 2023: £412 million) as a result of the £3.0 billion of new business premiums written (30 June 2023: £6.5 billion). The PRT market in the first half of 2024 was impacted by very tight credit spreads on transaction pricing. 2023 benefited from the record RSA transaction.

Changes in valuation assumptions

Our focus remains on long-term profitability and so we set assumptions in respect of the in-force liabilities and new business acquired during the year using our best estimate and applying an adjustment for non-financial risk. Under IFRS, the impact of changes in such items is added to the CSM and spread over the future expected duration of the contracts. We show AOPBT before this deferral. Management regularly review these assumptions to ensure that they reflect the characteristics of our book and wider market practice.

Assumption changes in the first half were £6 million (30 June 2023: £18 million).

Experience and other variances

Experience and other variances include the variance between the actual non-economic assumptions used in determining IFRS liabilities and the assumptions on a pricing basis which are used in the new business line.

Experience and other variances gave rise to a loss of £2 million in the first half of the year (30 June 2023: loss of £66 million). In 2024, the loss primarily related to differences between the expense assumptions used for pricing and reserving on new business alongside data updates, offset by favourable claims experience. 2023 included non-recurring variances relating to the implementation of the RSA transaction.

Finance costs

Finance costs reported as part of AOPBT reflect interest costs on both the RT1 and Tier 2 debt and interest on tax payable. The increase in finance costs in 2024 primarily reflects the additional Tier 2 debt raised in the second half of 2023 and first half of 2024.

Project and other costs

Project and other costs for the period to 30 June 2024 were £44 million (30 June 2023: £39 million). Project spend of £33 million (30 June 2023: £30 million) reflects costs associated with higher business-wide initiatives and regulatory costs.

Movement in CSM

The movement in CSM comprises the deferral of new business profits on contracts written in the year and interest accretion on the opening CSM, alongside the impact of changes in future cash flows from non-financial assumptions and non-financial experience variances, partly offset by the amortisation of CSM in respect of in-force business.

During the period, the total increase in CSM was £68 million (30 June 2023: £271 million). The increase compared to year end 2023 is primarily due to the deferral of new business profits and interest accretion on the CSM partly offset by amortisation of the CSM on the larger in-force book.

The following table reconciles the movement in CSM on the IFRS balance sheet.

Movement in CSM (net of reinsurance)	**6 months to 30 June 2024 £m**	6 months to 30 June 2023 £m	12 months to 31 December 2023 £m
CSM opening balance	**3,236**	2,651	2,651
New business CSM recognised	**103**	297	337
Interest accretion on CSM	**54**	43	92
Amortisation of CSM	**(95)**	(76)	(181)
Other movements	**6**	7	337
Movement in CSM	**68**	271	585
CSM closing balance	**3,304**	2,922	3,236

Investment related variances

AOPBT is based on the expected investment returns on opening surplus assets and the expected release of discount rate margins using consistent assumptions. Variances between actual and expected investment return, differences in asset and liability values due to economic movements compared to those at the start of the year, and the impact of changes in credit ratings are disclosed outside of AOPBT.

We carefully manage our risk to market and other economic factors and enter into derivative hedging contracts to manage these exposures in accordance with our risk appetite.

Our hedging strategy is primarily designed to actively manage risk over the long-term in the solvency balance sheet, and there exists a mismatch between this hedging strategy and the IFRS balance sheet. This mismatch, and the resulting volatility, is included within the investment related variances line.

Investment related variances resulted in a loss of £167 million in the period (30 June 2023: loss of £217 million), largely driven by the increase in interest rates in both periods.

Capital and solvency

Solvency II ratio

At 30 June 2024, the Solvency II ratio increased to 233% (31 December 2023: 211%), with surplus funds of £4.7 billion (31 December 2023: £4.3 billion) in excess of the SCR. The increase in the year was primarily due to the expected return from the in-force book, an increase in risk-free rates and an update to the property and hedging risk SCR modules to better capture the underlying risks and dependencies between risks, partly offset by the impact of writing £3.0 billion of new business in the period. Own funds eligible to meet the SCR have been restricted by £193 million due to eligibility restrictions on Tier 2 debt.

PIC solvency	**30 June 2024 £m**	30 June 2023 £m	31 December 2023 £m
Own funds eligible to meet SCR	**8,308**	7,276	8,210
Solvency capital requirements	**(3,562)**	(3,472)	(3,890)
Solvency surplus	**4,746**	3,804	4,320
Solvency II ratio (%)	**233%**	210%	211%
Matching adjustment (%)	**1.505%**	1.583%	1.588%

Surplus generation

Surplus generation	**6 months to June 2024 £m**	6 months to June 2023 £m	12 months to 31 December 2023 £m
Opening surplus	**4,318**	4,011	4,011
Expected surplus generation from in-force book	**343**	350	613
New business (net of reinsurance)	**(120)**	(108)	(143)
Management actions and other operating variances	**304**	(120)	170
Financing, project and other costs	**(121)**	(100)	(221)
Operating surplus generation	**406**	22	419
Economic and other non-operating variances	**56**	(127)	(210)
Total surplus generation	**462**	(105)	209
Increase in Tier 2 Debt	**113**	–	200
Dividend	**(147)**	(100)	(100)
Closing surplus	**4,746**	3,806	4,320

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

Operating surplus generated in the period was £406 million (30 June 2023: £22 million). The increase compared to 2023 primarily reflects updates to the methodology for calculating the SCR for property risk and hedging risk.

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

Total surplus generated amounted to £462 million, a significant increase on prior year (30 June 2023: total surplus consumed of £105 million). This was primarily due to the operating impact described above and the prior year including the impact of not having fully sourced the target asset portfolio for the RSA transaction. The closing surplus at 30 June 2024 benefited from the impact of raising additional Tier 2 debt net of repurchases and ineligible capital. The payment of the final dividend declared for the year ended 31 December 2023 decreased the surplus by £147 million in 2024.

Expected surplus generated from the in-force book

Expected surplus generation comprises the:

- Expected investment return on shareholder assets (non-matching fund assets);
- Expected margins earned on the matching fund assets;
- Expected release of the in-force risk margin and SCR; and
- Amortisation of the Transitional Measure on Technical Provisions ("TMTP").

In the first half, the expected surplus generation of £343 million (30 June 2023: £350 million) was broadly in line with prior year.

New business (net of reinsurance)

New business (net of reinsurance) is the expected impact on surplus of writing new business based on pricing assumptions and target asset mix, and the impact of entering into new reinsurance contracts on the in-force book. Any differences between actual reserving assumptions and the pricing basis, including the timing of reinsurance, are reported as experience variances within Management actions and other operating variances.

New business (net of reinsurance) consumed surplus of £120 million in the first half of 2024 (30 June 2023: surplus consumed of £108 million). The primary component was new business strain of £118 million (30 June 2023: £110 million) which was slightly higher than last year despite lower volumes due to the completion of asset-backed reinsurance in 2023.

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 assumptions in expected surplus generation, plus the difference between pricing and reserving assumptions.

Management actions and other operating variances generated a surplus of £304 million in the period compared to surplus consumed of £120 million in the first half of 2023. The 2024 result was largely driven by an update to the property and hedging risk SCR modules to better capture the underlying property risks and correlations between risks. The surplus consumed in 2023 was largely due to differences between pricing and reserving assumptions on new business.

Financing, project and other costs

Financing, project and other costs reflect the accrued interest due on the RT1 and Tier 2 debt issues, coupled with shareholder expenses and project costs, which include business-wide initiatives and other regulatory costs. Financing costs were £73 million (30 June 2023: £60 million), whilst project and other costs of £48 million increased in 2024 (30 June 2023: £40 million) reflecting a higher spend on business-wide initiatives.

Economic and other non-operating variances

Economic and other non-operating variances include the difference between actual economic movements and the economic assumptions within expected surplus generation, alongside variances between the actual asset mix on new business compared to that which was assumed in pricing, and tax impacts.

Economic and other non-operating variances generated a surplus of £56 million in the first half of 2024 (30 June 2023: surplus consumed of £127 million). This was predominantly due to management actions to optimise the in-force book alongside surplus generated from higher risk-free rates partially offset by the impact of narrower credit spreads and higher inflation. In 2023, the result was caused by the impact of not yet having fully sourced the target asset portfolio for the RSA transaction, which has now largely reversed.

Equity own funds

Equity own funds/Adjusted equity own funds	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Own funds eligible to meet SCR	**8,308**	7,276	8,210
Add back: Ineligible capital	**193**	–	–
Own funds available to meet SCR	**8,501**	7,276	8,210
Deduct notional RT1 and Tier 2 own funds	**(2,556)**	(2,050)	(2,250)
Shareholder equity own funds	**5,945**	5,226	5,960
Add risk margin ("RM") net of TMTP	**298**	748	310
Adjusted equity own funds	**6,243**	5,974	6,270

EOF, a KPI of the Group, is defined as Solvency II own funds available to meet the SCR less the notional value of RT1 and Tier 2 debt.

EOF increased by £132 million before the payment of the 2023 final dividend of £147 million as profits emerging from the in-force book and new business were partly offset by headwinds from adverse economics, primarily an increase in risk-free rates. After the payment of the 2023 final dividend, EOF was £5.9 billion (31 December 2023: £6.0 billion).

Adjusted equity own funds ("AEOF") removes the impact of the risk margin and TMTP from EOF and at £6.2 billion at 30 June 2024, was also in line with the end of last year (31 December 2023: £6.3 billion).

The value of the risk margin net of TMTP was £0.3 billion at 30 June 2024, in line with the balance at 31 December 2023 of £0.3 billion. The risk margin decreased in the second half of 2023 due to the impact of changes to risk margin legislation.

Key solvency sensitivities

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

The sensitivities have been calculated using own funds available to meet the SCR, to better reflect the long-term impact.

	30 June 2024	30 June 2023	31 December 2023
As reported	**233%**	210%	211%
100 bps increase in interest rates[1]	**22%**	16%	15%
100 bps reduction in interest rates[1]	**(29%)**	(21%)	(18%)
100 bps increase in credit spreads[1]	**6%**	17%	16%
100 bps reduction in credit spreads[1]	**(2%)**	(7%)	(12%)
10% increase in house price index	**–%**	–%	–%
10% reduction in house price index	**–%**	–%	–%
20% credit downgrade[2]	**(6%)**	(9%)	(10%)
5% reduction in base mortality[3]	**(3%)**	(4%)	(2%)

1 For the interest rate and credit spread sensitivities, the nature and size of the impacts of the notional recalculation of the TMTP, 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 depends on the market levels of spreads at the balance sheet date.
3 Equivalent to a 0.4 year increase in life expectancy from 22.5 years to 22.9 years for a typical male aged 65.

Dividend

In recognition of the continued financial and strategic strength of the business, the Board has approved a special dividend of £107 million, as well as an interim dividend of £147 million as part of the annual dividend cycle, to be paid in September 2024. The dividend is recognised when approved under Solvency II and when paid under IFRS.

The impact on our results will be a decrease to IFRS equity and Solvency II own funds of £254 million and to the Solvency II ratio of 7%. Our Solvency II ratio continues to be significantly ahead of our long-term range post the payment of these dividends.

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

IFRS reconciliation to Solvency II - PIC

IFRS Reconciliation to Solvency II	**30 June 2024 £m**	30 June 2023 £m	31 December 2023 £m
IFRS net assets	**4,329**	4,258	4,449
Add amortised cost value of Tier 2 subordinated debt and related accrued interest	**2,153**	1,653	1,820
Differences in accrued interest on RT1 notes	**(14)**	(12)	(16)
Add back CSM (net of reinsurance)	**3,304**	2,922	3,236
Difference in BEL and removal of RA (net of reinsurance)	**(238)**	(252)	(281)
Add risk margin net of TMTP	**(298)**	(748)	(310)
Differences in deferred tax	**(732)**	(548)	(694)
Differences in other asset values	**(3)**	3	6
Solvency II Own Funds - Available	**8,501**	7,276	8,210
Ineligible capital	**(193)**	—	—
Solvency II Own Funds - Eligible	**8,308**	7,276	8,210

Financial statements (unaudited)

Statement of comprehensive income for the Group
For the six months ended 30 June 2024

	6 months to 30 June 2024 £m	6 months to 30 June 2023 £m	12 months to 31 December 2023 £m
Insurance revenue	**1,151**	1,043	2,187
Insurance service expense	**(1,015)**	(904)	(1,877)
Net expense from reinsurance contracts held	**(33)**	(41)	(108)
Insurance service result	**103**	98	202
Total investment (loss)/return	**(591)**	119	3,210
Net finance income/(expense) from insurance contracts	**838**	(77)	(3,327)
Net finance (expense)/income from reinsurance contracts	**(155)**	10	482
Net financial result	**92**	52	365
Other operating expenses	**(85)**	(72)	(173)
Other finance costs	**(57)**	(44)	(91)
Profit before taxation	**53**	34	303
Tax charge	**(9)**	(4)	(64)
Profit and total comprehensive income for the period	**44**	30	239

Statement of financial position for the Group
As at 30 June 2024

	30 June 2024 £m	30 June 2023 £m	31 December 2023 £m
Assets			
Investment properties	**739**	618	663
Financial investments	**47,695**	44,888	46,849
Derivative and other financial assets	**29,700**	30,458	27,977
Deferred tax assets	**299**	334	317
Current taxation	**54**	43	1
Reinsurance contract assets	**2,135**	1,895	2,321
Prepayments	**33**	22	—
Receivables	**42**	134	47
Cash and cash equivalents	**680**	279	303
Total Assets	**81,377**	78,671	78,478
Equity			
Share capital	**1,226**	1,226	1,226
Share premium	**523**	523	524
Other reserves	**60**	60	60
Tier 1 notes	**444**	444	444
Retained profit	**2,076**	2,005	2,195
Total Equity	**4,329**	4,258	4,449
Liabilities			
Insurance contract liabilities	**42,133**	38,660	41,206
Borrowings	**2,092**	1,593	1,789
Derivative and other financial liabilities	**32,600**	33,738	30,830
Other payables	**142**	349	140
Accruals	**81**	73	64
Total Liabilities	**77,048**	74,413	74,029
Total Equity and Liabilities	**81,377**	78,671	78,478

Appendix 1: Overview of reporting bases

The financial model

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

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. 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 insurance contract 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, using an alternative performance measure ("APM"), adjusted operating profit before tax ("AOPBT"), which captures the inherent future value to shareholders of the emerging margins in our business.

Presentation of financial results

The IFRS results for 2024 and 2023 half years are unaudited and they have not been reviewed in accordance with International Standard on Review Engagements 2410. The 2023 full year IFRS results have been derived from the 2023 statutory accounts. The auditors have reported on the 2023 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 2024 and 2023 half years are unaudited. The 2023 full year results have been derived from the 2023 Solvency and Financial Condition Report ("SFCR"), which included an unqualified audit report from the auditor in respect of compliance with the rules and Solvency II regulations as set out by the PRA.

Because of the nature of our business, we present our results on two different bases, both of which provide different insights into the Group.

The following paragraphs provide a summary of the two 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. On 27 March 2024, the PRA approved a major model change application for the calculation of the Solvency Capital Requirement in respect of credit risk, effective from the date of approval.

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 an IFRS 17 basis, measuring liabilities using best estimate assumptions of the present value of future cash flows and an explicit RA for non-financial risk. Any new business profits at inception are deferred as a CSM on the statement of financial position and are released as revenue over the lifetime of the business as coverage is provided.

The discount rate used to value the future cash flows and the RA is derived from the yield on the asset portfolio that reflects the characteristics of the liabilities that we hold, as well as anticipated assets which collectively represent a reasonable reference portfolio. An adjustment is made to the asset yield to remove the impact of credit risk and any remaining cash flow mismatches.

Appendix 2: Glossary

Term	Definition
Adjusted operating profit before tax ("AOPBT")	AOPBT reflects the IFRS result relating to core business activities, alongside certain management choices and decisions around those activities. This metric reflects value generated prior to the new business deferral and subsequent in-force release of profit via the contractual service margin ("CSM") and excludes investment related variances.
Alternative Performance Measure ("APM")	An alternative metric used to assess the financial performance and position of the Group.
Annuity	A type of insurance policy that pays out amounts of benefit to the policyholder for the remainder of an 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 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.
Carbon intensity	Defined as the Weighted Average Carbon Intensity ("WACI") (Scope 1 and 2) in emissions per $ million revenue.
Contractual service margin ("CSM")	A component of the liability for a group of insurance contracts representing the unearned profit that will be recognised as the insurance services are provided. A reinsurance CSM is held for contracts in either a net gain or net cost position.
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.
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.
Equity own funds ("EOF")	EOF is a shareholder view of the Group's Solvency II Own Funds after deducting hybrid debt and aligns to the way the business is managed.
Financial investments	Represents all assets actively managed or administered by or on behalf of the institution including those assets managed by third parties.
Fitch Insurer Financial Strength Rating	An independent opinion of an insurer's financial strength and ability to meet its ongoing insurance contractual obligations.
Greenhouse gas ("GHG") emissions	Gases released into the Earth's atmosphere that contribute to climate change.
International Financial Reporting Standards ("IFRS")	UK endorsed International Financial Reporting Standards, are issued by the Internal Accounting Standards Board.
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.

Term	Definition
Longevity	A measure of how long policyholders, or pension scheme members, will live.
Matching adjustment	The matching adjustment is an upward adjustment to the risk-free rate where insurers hold certain long-term assets with cash flows that match the liabilities. It reflects the fact that long-term buy-and-hold investors are not exposed to spread movements in the same way that short-term traders of such assets are.
Net zero	A state where no incremental greenhouse gases are added to the atmosphere, with remaining emissions output being balanced by the removal of carbon from the atmosphere.
New business premiums (or premiums)	The premium acquired from new policies by an insurance company within a specific period or a transaction.
Own Funds	Own Funds represent the equity base of the Group under the Solvency II regime. Own Funds can be classified as 'basic own funds' or 'ancillary Own Funds', and are structured into Tiers (Tier 1, Tier 2 and Tier 3) which broadly represent the quality and permanency of the capital.
Pension Risk Transfer ("PRT") (or bulk annuities)	A defined benefit pension scheme seeks to remove some or all of its obligation to pay guaranteed post-retirement benefits.
Policyholders	A term PIC uses to define an individual who holds an insurance policy with PIC. This is typically through a buyout where the administration of an individual's policy has been transferred from the pension scheme to PIC.
Private investments	Unlisted private and bilateral loans between PIC and one or more investment counterparties. Private investments include investments such as physical assets (e.g. infrastructure, social housing, student accommodation, housing association amongst other investments) and other bilateral loans.
Prudential Regulation Authority ("PRA")	The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.
Risk Adjustment for non-financial risk ("RA")	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
Scope 1 emissions	GHG emissions released from sources that an organisation owns or has direct control over, such as burning gas to heat an office space.
Scope 2 emissions	GHG emissions caused by the energy that an organisation purchases, such as gas burned to generate electricity that is used by an organisation.
Scope 3 emissions	GHG emissions that an organisation is indirectly responsible for in its value chain, such as the GHG emissions of companies that an organisation invests in.
Solvency II	An EU-wide regulatory regime, also applicable in the UK, which intends to align solvency capital to an insurer's risk profile. Solvency II was implemented on 1 January 2016.
Solvency II best estimate liability ("BEL")	The BEL 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.

Appendix 2: Glossary continued

Term	Definition
Solvency II ratio	The Solvency II ratio is a regulatory capital measure that demonstrates the Group's financial strength. It shows the ratio of available capital to required capital, which is defined as our Solvency II Own Funds as a percentage of Solvency Capital Requirement.
Solvency II 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 surplus generation	Surplus generation measures the amount of solvency surplus capital generated in the year, being the excess of Own Funds over Solvency Capital Requirement.
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 SCR 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.
Stewardship Code (UK)	Stewardship is the responsible allocation, management and oversight of capital. The Stewardship Code sets standards for those investing money on behalf of UK savers and pensioners. It is a voluntary code for asset owners, asset managers and service providers.
Subordinated debt	A fixed interest bond issued by an insurance company. Subordinated debt ranks below other debt in order of priority for repayment in a situation where the issuer defaults or is liquidated.
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 on technical provisions ("TMTP")	PIC uses a transitional measures deduction on technical provisions in its Solvency II balance sheet. The TMTP allows companies to smooth the transition from the previous regulatory regime to the Solvency II approach, for example in having to set up the risk margin. The TMTP only applies in respect of business that was in force at 31 December 2015. 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.
Transition Plan	The Group's transition plan sets out the its approach for how it proposes to align all its activities to net zero.
Trustee(s)	A Trustee is an individual or company, acting separately from the employer, who holds assets in the trust for the beneficiaries of the pension scheme. Pension scheme trustees are obliged to act in the best interests of the scheme members.

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