PENSION INSURANCE
CORPORATION GROUP LIMITED

Guaranteed pensions, purposeful investments

Pension Insurance Corporation Group Limited
Half Year Report 2021

Guaranteed pensions, purposeful investments

The purpose of Pension Insurance Corporation plc ("PIC") is to pay the pensions of our current and future policyholders.

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

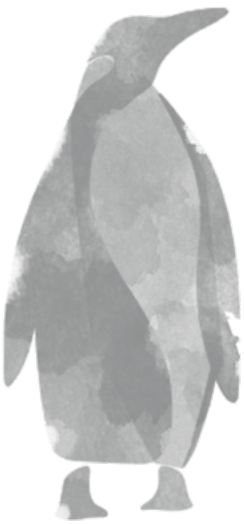
Investments with a lasting impact on current and future generations in areas including renewable energy, social housing and national infrastructure are socially beneficial outcomes of our focus on our purpose. Excellence in customer service and balanced stakeholder relationships are fundamental to our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

PIC has insured 270,800 pension scheme members and has £47.6 billion in financial investments, accumulated through the provision of 218 tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit schemes.

CONTENTS

OUR CLIENTS INCLUDE

AON, BHS, Cadbury, citi, co op, Department for Environment Food & Rural Affairs, HONDA, Institute and Faculty of Actuaries, Kingfisher, London Stock Exchange, M&S, Pensions and Lifetime Savings Association, Old British Steel Pension Scheme, Rentokil Initial, sse For a better world of energy, Total



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.

Front cover image (left): taken at a PIC policyholder day
Front cover image (right): Trident Group

HALF YEAR TO 30 JUNE 2021 HIGHLIGHTS

Premiums

HY 2021

£385m

HY 2020

£3,499m

Adjusted operating profit ("AOPBT")

HY 2021

£221m

HY 2020

£187m

Financial investments

HY 2021

£47.6bn

FY 2020

£49.6bn

Embedded value

HY 2021

£4,426m

FY 2020

£4,964m

Solvency II ratio (PIC)

HY 2021

157%

FY 2020

157%

Assets held to meet solvency and risk margins (PIC)

HY 2021

£8.5bn

FY 2020

£8.9bn

Policyholder satisfaction

HY 2021

99.7%

FY 2020

98.7%

Rating

FitchRatings A+

In May 2021 Fitch Ratings affirmed PIC's 'A+' (Strong) Insurer Financial Strength ("IFS") rating.

OUR AWARDS

PROFESSIONAL PENSIONS UK PENSIONS AWARDS 2020 WINNER Risk Reduction Provider of the Year Pension Insurance Corporation

PENSIONSAge AWARDS 2020 WINNER

European Pensions AWARDS 2020 WINNER Pensions Insurance Firm of the Year

FAST TRACK in association with THE SUNDAY TIMES The network of Britain's top private companies

INVESTORS IN PEOPLE We invest in people Standard

ServiceMark Accredited from Oct '17 to Oct '20 The Institute of Customer Service

CHIEF EXECUTIVE OFFICER'S REVIEW
TRACY BLACKWELL, CHIEF EXECUTIVE OFFICER

A clear and focused strategy

POLICYHOLDER SATISFACTION RATES:

Members scoring satisfied or better	Policyholders giving maximum score
99.7%	86.7%

As ever, our primary focus has been on our policyholders."

PIC is a long-term business with a specific purpose, which is to pay the pensions of our current and future policyholders. We are very fortunate to be part of a huge secular shift of assets and liabilities out of defined benefit pension schemes and into companies like ours. Expectations are for hundreds of billions of Pounds of assets to move to the insurance sector over the next few years. In turn, this will mean tens of billions of Pounds invested in the UK's infrastructure, supporting the Race to Net Zero and the Government's levelling up agenda, as we source the assets that will back the pensions of our increasing policyholder base for decades to come.

I am delighted that we have produced a resilient set of half year results, with an Adjusted operating profit, the Group's preferred assessment of the long-term nature of the business, of £221 million (HY 2020: £187 million), and a Solvency Ratio of 157% (31 December 2020 157%), demonstrating the durability of the balance sheet. We took significant strides in the development of our asset sourcing capability as we plan for future growth, as well as pledging to be Net Zero across all carbon emissions by 2050.

As ever, our primary focus has been on our policyholders and it is pleasing that we have achieved an overall score of 99.7% (31 December 2020: 98.7%) for policyholder satisfaction, following ongoing investment in our customer service throughout the pandemic.

I am very pleased the Board agreed to commit the Group to be Net Zero across all sources of emissions by 2050."

In what has been a much quieter than normal Pension Risk Transfer ("PRT") market, we wrote £385 million of new business. This compares to £3.5 billion of new business during the same period in 2020. The slow start to the year was partly due to the knock-on effect of lockdown disruption on trustee meetings last year, a busy second half of 2020 for the market and lower credit spreads impacting pricing and affordability for schemes. However, towards the end of the first half there was a noticeable pick-up in the number of schemes coming to market as trustee meetings resumed their normal cadence and, as asset values continued to rise, deficits fell, accelerating many de-risking journeys. Since the half year we have signed exclusivity on almost £3 billion of transactions, with more deals to close by year end and into 2022.

In my many years as an investor I have rarely seen the markets this frothy. Credit spreads have been at their tightest since the global financial crisis, and essentially the tightest we have ever seen in the PRT market. This is an inevitable consequence of the huge amounts central banks invested in buying government and corporate debt last year, on top of previous rounds of super-normal monetary policy, combined with the fixed income buying programmes of pension schemes.

So as we think about the pension liabilities we have to match decades into the future, it is imperative that we do not chase assets that are going to underperform over the long-term. Credit spreads are our investment cushion in case something goes wrong and we will not give that protection away lightly.

In practice, the cautious investment approach we started in 2019 means that we have continued to reduce our exposure to higher-risk investments, primarily those related to cyclical consumer industries, as well as more carbon intensive industries. I'm pleased to say that this approach meant zero defaults or downgrades in the credit portfolio in the first half. The overall portfolio at the half year stood at £47.6 billion (31 December 2020: £49.6 billion), with the decrease attributable to higher GBP risk free rates ("interest rates").

To make sure that we are able to price competitively for PRT transactions, however the public markets play out, we have increased and evolved our privately-sourced debt asset origination capability, and enhanced other strategies, such as Build-to-Rent ("BTR").

We have continued investing in sectors like social housing and renewable energy where we have been historically strong, and which are aligned, importantly, to wider social goals and government policy, such as the need for more housing and the path to carbon neutrality. Whilst there has also been some Covid-19 related disruption in these markets, they remain fundamentally strong, with expectations of increased demand to borrow from institutional investors.
By half year we had invested £888 million in these areas, including £416 million with existing borrowers, demonstrating the value of our partnership model, with a significant pipeline of deals for the rest of the year.

We also seek to innovate: to invest in new areas, new sectors, and new geographies. In April we announced our second BTR development, a £90 million investment, in which 35% of the units will be affordable housing, and we have a significant pipeline of similar investments. Earlier in the year we also announced the appointment of Macquarie Asset Management to manage a new mandate in the $60 billion US private placement market. We now have several transactions in the pipeline.

Two further areas of note in the first half. First, I am very pleased the Board agreed to commit the Group to be Net Zero across all sources of emissions by 2050, and within our own emissions by 2025. PIC has also become a member of the United Nations-convened Asset Owner Alliance.

Second, we have increased our focus on making sure that our vulnerable customers are looked after and receive the right outcomes. This has always included accommodating specific needs by, for example, providing letters in large font when requested and making appropriate arrangements at our policyholder events. But given the quite specific issues arising from the pandemic we have evolved our approach, for example by working ever more closely with our charity partners to help vulnerable policyholders find their way when they have additional needs which we aren't able to support, such as advice and information on benefits, or dealing with dementia. This has been a helpful process as we continue to develop our customer service offering and is entirely in line with our values and our overall focus on our policyholders.

Finally, it's pleasing that the business has performed so well in the first half and I want to thank our employees, who have worked hard to support the business and maintain very high levels of customer care for our policyholders. We go into the second half with a real sense of optimism: we have a robust balance sheet with a large, long-term store of value, the PRT market is very busy, and we have full pipelines for our privately-sourced debt investments and our BTR projects.

In our industry we are privileged to be working at the front line of a secular trend that really is changing the face of the country. As we guarantee the pensions of our policyholders we are driving investment into urban regeneration, renewable energy and social housing across the UK, creating jobs, helping fund the Race to Net Zero and supporting the levelling up agenda. It's an exciting time to be leading a company like PIC.

KEY PERFORMANCE INDICATORS

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

GROWTH AND FOCUS

Embedded value ("EV")

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

HY 2021

£4,426m

FY 2020

£4,964m

Adjusted Equity Own Funds ("AEOF")

This is a shareholder view of Solvency II own funds after deducting hybrid debt and removing the impact of transitional measures on technical provisions and risk margin. This metric has been redefined to deduct the notional value of hybrid debt rather than the fair value. The FY 2020 comparative has been restated accordingly.

HY 2021

£5,310m

Restated FY 2020

£6,013m

REPUTATION AND CONDUCT

Policyholder satisfaction

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

HY 2021

99.7%

FY 2020

98.7%

Customer focus

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

FY 2020

92%

COST AND CAPITAL EFFICIENCY

PIC solvency ratio

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

HY 2021

157%

FY 2020

157%

Expense ratio

The expense ratio is a measure of the operating efficiency of PICG and reflects operating expenses as a percentage of closing financial investments. This ratio has been redefined to include the cost of our equity release mortgage origination fees which were previously excluded. The FY 2020 comparative has been restated accordingly.

HY 2021

0.34%

Restated FY 2020

0.38%

RETURNS

Adjusted Operating Profit Before Tax

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

HY 2021

£221m

HY 2020

£187m

Return on equity

Return on equity is a measure of the rolling 12 months after tax profits in relation to average equity (excluding our Restricted Tier 1 ("RT1") notes). This ratio has been redefined to deduct the Tier 1 interest from the profit after tax. The FY 2020 comparative has been restated accordingly.

HY 2021

(1.4)%

Restated FY 2020

6.0%

ASSET AND LIABILITY MANAGEMENT

We have maintained our cautious investment approach which has been a feature of our asset strategy since 2019 in these uncertain times. Covid-19's development, the political responses in the form of various lockdowns, the speed of vaccine roll outs and the amount of timing and financial support have been the big unknowns. These have created conflicting market signals such as concern around the potential for resurgent inflation and asset valuations that have remained extremely rich.

Environmental, Social and Governance ("ESG") factors, and climate change risk management, continue to grow in importance for PIC and the general market. During the first half the Board took the decision to formally commit PIC to Net Zero across all emissions, including within the portfolio, by 2050, as well as to join the United Nations-convened Net Zero Asset Owner Alliance. The significant progress we have made in decarbonising the portfolio to date is a consequence of a clear focus on our purpose to provide the long-term cash flows to pay our policyholders. We have reduced our oil and gas investments to 1.3% of the portfolio (31 December 2020: 1.7%), and maintained our risk averse stance to sectors such as the automotive industry, as well as having taken a much more selective approach to sourcing assets more widely.

As of 30 June 2021, our investment portfolio totalled £47.6 billion (31 December 2020: £49.6 billion). The small reduction in overall portfolio size was primarily due to the rise in bond yields which pushed down their values. A similar reduction was experienced in our insurance liabilities due to our strategy to closely match our assets with our policyholder obligations.

We have maintained significant allocations within the portfolio to cash and liquidity funds, corporate and UK government debt. These allocations totalled 95% of the portfolio at 30 June (31 December 2020: 96%). Corporate bonds represented 54% of our overall portfolio at the half year (31 December 2020: 54%), of which 99% (31 December 2020: 99%) were investment grade rated. We did not have any defaults or downgrades to sub investment grade (31 December 2020: 0.4% downgrades) within the credit portfolio in the first six months of the year.

We did not significantly change our overall industry sector weighting, but now have a slightly higher allocation of 51.2% (31 December 2020: 50.7%) to financial, utilities and non-cyclical consumer industries, which have proved more resilient over recent years. Aside from the UK government, no single counterparty represents more than 1.6% of our portfolio (31 December 2020: 1.7%).

We have continued to make high quality, directly sourced private placements in sectors in which we have a great deal of investment experience, such as social housing and renewable energy, including a £175 million investment in Spanish solar energy. We have also continued to evolve this strategy, as we diversify the portfolio, seeking new issuers, new sectors and new geographies, and in April we announced the appointment of Macquarie Asset Management to manage a new US privately-sourced debt mandate. During the half year we also announced our second fully-owned and self-funded BTR scheme – a £90 million investment – and have a growing pipeline of BTR investments. The total carrying value of privately sourced debt at 30 June 2021 is £10.9 billion (31 December 2020: £9.7 billion). These are included within corporate securities in the tables below.

We continued to manage our longevity risk through an active reinsurance programme which supports our asset strategy, and in turn our new business pipeline.

We are confident that as we remain rooted in our purpose to pay our policyholders, the portfolio's defensive positioning and risk averse stance will continue to deliver cashflows as expected throughout the challenging markets we expect over the coming months and years.

Financial Assets by Credit Rating

Jun 2021 (£m)	AAA	AA	A	BBB	BB	Unrated	Total
Financial Investments							
Debt securities – Government	795	14,890	725	834	–	–	17,244
Debt securities – Corporate	1,556	4,124	9,931	9,818	84	296	25,809
MBS and ABS	–	14	309	51	–	6	380
Participation in investment schemes	816	–	–	–	109	1,325	2,250
Deposits with credit institutions	–	804	370	–	–	39	1,213
Equity release mortgages	–	–	–	–	–	661	661
Total	3,167	19,832	11,335	10,703	193	2,327	47,557
Other assets							
Derivative assets	–	–	–	–	–	16,055	16,055
Receivables and other financial assets	19	42	75	113	1	36	286
Cash and cash equivalents	–	–	–	185	–	–	185
Total	19	42	75	298	1	16,091	16,526

Corporate securities by Country/region of issuance

	Jun 2021		Dec 2020	
	Market Value (£m)	%	Market Value (£m)	%
UK	12,702	49%	12,979	49%
US	8,035	31%	9,034	34%
Europe	3,400	13%	3,057	11%
Rest of the World	1,672	7%	1,569	6%
Total all countries	25,809	100%	26,639	100%

Corporate securities split by Industry sector

	Jun 2021		Dec 2020	
	Market Value (£m)	%	Market Value (£m)	%
Financial	6,640	25.8%	6,743	25.3%
PFI and direct investment loans (unlisted)	5,854	22.7%	5,728	21.5%
Utilities	3,674	14.2%	3,676	13.8%
Consumer, non-cyclical	2,883	11.2%	3,102	11.6%
Communications	2,556	9.9%	2,714	10.2%
Technology	1,516	5.9%	1,722	6.5%
Energy	595	2.3%	791	3.0%
Industrial	853	3.3%	918	3.4%
Consumer, cyclical	644	2.5%	631	2.4%
Basic materials	493	1.9%	512	1.9%
Diversified	63	0.2%	67	0.3%
Quasi-government	38	0.1%	35	0.1%
Total all industries	25,809	100.0%	26,639	100.0%

Corporate securities by currency

	Jun 2021		Dec 2020	
Currency	Market Value (£m)	%	Market Value (£m)	%
GBP (£)	15,350	60%	15,473	58%
USD ($)	9,405	36%	10,436	39%
EUR (€)	1,054	4%	730	3%
Total	25,809	100%	26,639	100%

FINANCIAL RESULTS SUMMARY

INTRODUCTION

Financial markets in the period under review have been dominated by the ongoing impacts of the Covid-19 pandemic, unprecedented levels of financial and monetary support from central banks, and emerging concerns on inflation.

The main market impacts seen in the period were a continued narrowing of credit spreads and a significant increase in nominal interest rates. Our interest rate hedging ensured that our solvency levels remained robust in the period. Narrowing credit spreads, whilst making new investment opportunities less attractive, also provided some scope for de-risking the overall asset portfolio with little impact on solvency levels. Whilst both interest rate movements and de-risking were negative for other measures of value, in particular IFRS and Embedded Value, we believe the asset portfolio is now well positioned to take advantage should there be higher future interest rates and a return, in due course, to more normal credit market conditions.

IFRS results

IFRS Operating profit of £221 million was 18% higher than for the same period in 2020, helped in part by better returns on invested assets and data updates on default and downgrade probabilities for the asset portfolio. Please see page 10 for more details.

Overall IFRS pre-tax profit of £10 million was significantly down on that reported at HY 2020 of £306 million. Non-operating profit was adversely impacted in the period primarily due to increases in interest rates, with our focus being on protecting our solvency balance sheet. The prior year also benefitted from a number of asset related purchases in connection with new business written in the period. The market related impacts in particular were expected given our hedging focus in the period on our solvency balance sheet.

Market Consistent Embedded Value ("MCEV")

Embedded value saw a drop of £538 million versus the end 2020 position. The main drivers of this fall were the adoption of higher corporation tax rates and market related movements, in particular the increase in interest rates in the period. The higher corporation tax rates reflect the passing into law of changes to corporation tax rates in the UK, where they will rise from a current 19% to 25% from April 2023. This prospective change in tax rate will decrease future post-tax profits, and therefore the MCEV of the business. The impact is a £224 million reduction in MCEV. Should interest rates remain higher, then the expectation is that much of the interest rate related reduction in profits will be recovered in due course as we are able to invest at higher interest rates than was the case at the start of the period.

New Business

One new business transaction was completed in the period to an existing client for a total premium of £385 million (HY 2020: £3,499 million). Whilst new business volumes are significantly down on the same period last year, we believe the market more generally was quieter in the first half of this year. We expect a much stronger second half of the year though, and currently have c.£3 billion of new business either completed or in exclusivity which is expected to complete by the end of 2021.

Financial Investments

Financial investments of £47.6 billion at 30 June 2021 decreased from £49.6 billion at 31 December 2020. Higher interest rates contributed to a £3.5 billion decrease in financial investments, with the fall offset by other market movements and new business. Within this total, 36% of the portfolio was invested in UK Gilts or Government guaranteed investments, down slightly from 39% at end 2020 due to market movements, but nevertheless significantly above where we would expect our long-term holdings to be. This presents a significant investment opportunity for the business going forward. We did not experience any defaults on our portfolio, nor did we experience any downgrades to sub-investment grade credit in the period. Our £2.6 billion default provision remains unused.

CAPITAL AND SOLVENCY

Solvency ratio

At 30 June 2021, PIC's Solvency ratio was 157% (31 December 2020: 157%) and it had surplus funds of £2,300 million (31 December 2020: £2,449 million) in excess of its Solvency Capital Requirements ("SCR"). Solvency surplus benefitted in the period from rises in nominal interest rates, but these rises were offset by the net impact of new business written and asset purchases made in anticipation of future new business opportunities.

A summary of the solvency position is set out below.

Solvency ratio (£m)	**30 June 2021**	30 June 2020	31 December 2020
Own funds	**6,306**	5,865	6,710
Solvency capital requirements	**(4,006)**	(3,843)	(4,261)
Solvency II surplus	**2,300**	2,022	2,449
Solvency ratio %	**157%**	153%	157%

Adjusted Equity Own Funds

Adjusted Equity Own Funds ("AEOF") is another KPI of the Group. This metric is a measure of the strategic objective to grow the value of the business on a focused, secure and sustainable basis. AEOF at 30 June 2021 was £5,310 million (31 December 2020: £6,013 million). The decrease in the period was mainly due to the increase in the GBP risk free rates and other market movements. This reflects that we manage interest rate risk on the overall solvency balance sheet, whereas the AEOF metric does not include certain components of the balance sheet, in particular the risk margin and the solvency capital requirement. As such, interest rate movements will impact this metric differently to the overall balance sheet impact. This negative impact on AEOF was offset by reductions in the period in the SCR and Risk Margin, which resulted in a much smaller impact on overall solvency surplus.

PIC AEOF[1] (£m)	30 June 2021	30 June 2020 (Restated)	31 December 2020 (Restated)
Own funds	**6,306**	5,865	6,710
Deduct RT1 and Tier 2 own funds	**(2,050)**	(1,650)	(2,050)
Shareholder equity own funds	**4,256**	4,215	4,660
Add risk margin net of transitionals	**1,054**	1,533	1,353
AEOF	**5,310**	5,748	6,013

1 In 2021, the definition of AEOF was amended to deduct the notional value of the Restricted Tier 1 ("RT1") and Tier 2 debt instead of the fair value of the debt, with the comparatives restated in the table above.

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.

£m	30 June 2021	30 June 2020	31 December 2020
As reported	**157%**	153%	157%
100 bps increase in interest rates[1]	**10.0%**	(2.3)%	3.9%
100 bps reduction in interest rates[1]	**(19.8)%**	(13.1)%	(12.6)%
100 bps increase in credit spreads[1]	**7.0%**	1.9%	(1.0)%
100 bps reduction in credit spreads[1]	**(20.2)%**	(15.5)%	(14.8)%
20% credit downgrade[2]	**(10.3)%**	(18.7)%	(11.1)%
5% reduction in base mortality[3]	**(8.1)%**	(6.0)%	(6.7)%

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

Notes:
1 For the interest rate and credit spread sensitivities, the asymmetry of the results is mainly driven by the recalculation of the TMTP.
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 traded to the original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
3 Equivalent to a 0.4 year increase in life expectancy from 22.9 years to 23.3 years for a typical male aged 65.

FINANCIAL STRENGTH OF THE COMPANY

On 27 May 2021, Fitch Ratings affirmed the Group's regulated subsidiary, Pension Insurance Corporation plc's, Insurer Financial Strength Rating at 'A+' (Strong) and Long-Term Issuer Default Rating at 'A'. Both outlooks were affirmed at 'Stable'.

ALTERNATIVE PROFIT MEASURES

In addition to the statutory results presentation outlined on page 13, the Group also chooses to analyse its IFRS results on an alternative performance metric, 'Adjusted Operating Profit'. This is a non-GAAP measure of performance intended to provide an appropriate assessment of the long-term nature of the business which better reflects the long-term trading activities of the Group than the IFRS reported profit before taxation.

Adjusted operating profit has been defined to reflect the activities which are core to the Group's business, and to reflect the management choices and decisions around those activities. These encompass the writing and management of pension insurance contracts, the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities.

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

£m	6 months to 30 June 2021	6 months to 30 June 2020	12 months to 31 December 2020
Return from operations	**138**	145	274
New business and reinsurance surplus	**4**	84	31
Net release from operations	**142**	229	305
Change in valuation assumptions	**131**	24	292
Experience and other variances	**7**	(14)	(97)
Finance costs	**(44)**	(32)	(73)
Project costs	**(15)**	(20)	(45)
Adjusted operating profit before tax	**221**	187	382
Investment related variances	**(211)**	119	(106)
Profit before tax	**10**	306	276

Adjusted operating profit before tax, a KPI of the business, was £221 million (HY 2020: £187 million). This increase reflects on-going investment returns and release of margins, as well as the impact on the investment portfolio of the adoption of updated long-term default and downgrade assumptions of £116 million partially offset by lower levels of new business and higher debt interest costs.

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

Return from operations

This item comprises the returns arising from the management of the Group's assets and liabilities. This is derived by using assumptions about long-term returns on the underlying investment portfolio backing liabilities, and on the surplus assets of the Group, with allowance for the corresponding expected movements in liabilities (being the release of prudent margins and the unwinding of the discount on the liabilities).

Return from operations was £138 million (HY 2020: £145 million). Within this result, growth in the surplus assets of the Group coupled with an increase in the risk free rate in 2021 resulted in an increase in the return on surplus assets. This was more than offset by a decrease in the return on the insurance book. Although the insurance book was also larger in 2021 compared to 2020, lower credit spreads seen in the latter half of 2020 and the first half of 2021 led to lower expected returns.

New business and reinsurance surplus

This represents the impact on profit of writing new Pension Risk Transfer contracts based on target asset mix assumptions and the impact of entering into new contracts of reinsurance.

New business and reinsurance surplus was £4 million (HY 2020: £84 million) reflecting lower new business volumes in the period of £385 million (HY 2020: £3,499 million). Although new business written in the six months to 30 June 2021 was lower than 2020, this reflected a broader market size reduction, and our pipeline for the remainder of the year is strong.

Changes in valuation assumptions

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

Changes in the valuation basis were £131 million (HY 2020: £24 million), the majority of which relates to the adoption of the latest Moody's default data. To ensure that our default and downgrade expectations are appropriate, we undertake a regular update of our long-term expectations based on data provided by rating agencies. The update for 2021 resulted in a profit of £116 million, which reflects the lesser likelihood of downgrades in our investment portfolio, and has been impacted by various actions taken by the business during the year. The credit default reserve was £2.6 billion as at 30 June 2021 (31 December 2020: £2.9 billion).

Experience and other variances

This item reflects the difference between actual non-economic experience in the period compared to the expected non-economic experience in the period. At HY 2021, experience and other variances amounted to £7 million (HY 2020: -£14 million) mainly reflecting positive scheme data updates and favourable claims experience.

Finance costs

Finance costs of £44 million in HY 2021 were £12 million higher than the corresponding period in 2020 (HY 2020: £32 million). This reflects the additional accrued interest payments on the £300 million Tier 2 debt raised in May 2020 and the £400 million Tier 2 debt raised in October 2020.

Project costs

Project costs of £15 million in HY 2021 were £5 million lower than last year (HY 2020: £20 million) mainly due to less spend on the finance transformation programme as a result of a number of components being successfully delivered.

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 short term actual asset mix against the expected long-term asset mix on new business transactions.

The impact of downgrades and management actions which were taken to improve the resilience of the balance sheet are also both included here.

For the six months to 30 June 2021, investment related variances amounted to a loss of £211 million (HY 2020: £119 million gain). As the Group's hedging strategy is primarily designed to manage risk in the solvency balance sheet, there exists a mismatch between this hedging strategy and the IFRS balance sheet, in particular in relation to economic movements. The negative investment related variances in 2021 primarily relate to an increase in interest rates and inflation which adversely affects IFRS profits. The impact of investment variances are presented separately in the IFRS Income Statement for financial assets and insurance contract liabilities, resulting in negative investment return within revenue that is largely matched by a similar reduction in insurance liabilities within expenses.

Prudent margins

There exist significant prudent margins within the IFRS basis in respect of key underlying assumptions such as longevity, asset defaults and expenses and the discount rate applied to liabilities. These prudent margins represent the difference between the policy liabilities as measured under IFRS and those as measured under the Solvency II regulations. Notwithstanding the changes to credit default assumptions which resulted in a release of reserves in the period, there remains total prudent margins of £2.9 billion at 30 June 2021 (31 December 2020: £3.2 billion).

These prudent margins are expected to be released over the long-term and recognised as profits. They are essentially a future store of value that will emerge should our best estimate assumptions turn out to be correct.

IFRS RECONCILIATION TO SOLVENCY II – PICG

30 June 2021 (£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	44,056	1,589	59	(12)				(168)	(5)	45,519
Insurance liabilities/Best estimate liabilities ("BEL") net of reinsurance assets	(39,888)					2,477	(727)			(38,138)
Risk margin net of transitionals					(1,054)					(1,054)
IFRS net assets/ Solvency II own funds	4,168	1,589	59	(12)	(1,054)	2,477	(727)	(168)	(5)	6,327

EMBEDDED VALUE ("EV") RESULTS

The Group prepares an EV 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 to arrive at a more appropriate quantification of the Group's value.

At 30 June 2021, the Group's EV decreased to £4,426 million from £4,964 million at the end of 2020. This reduction was largely due to the adoption of higher corporation tax rates in the period and the increase in GBP risk free rates along with other adverse market movements, partially offset by the return on the in-force book and new business written.

The UK government announced in March 2021 that future corporation tax rates would increase from 19% to 25% in 2023. This legislation received Royal Assent in June 2021 and so the impact of this increase in future tax rates has been incorporated in the EV for the half year. This amounted to an impact of £(224) million.

£m	**30 June 2021**	30 June 2020	31 December 2020
Adjusted net worth	**6,339**	5,888	6,737
Value of in force business after tax	**1,662**	1,644	1,812
EV fair value of Tier 1 and Tier 2 debt instruments	**(2,487)**	(1,902)	(2,505)
EV before cost of capital	**5,514**	5,630	6,044
Frictional cost of capital	**(357)**	(256)	(243)
Cost of residual non-hedgeable risks	**(731)**	(751)	(837)
EV net of cost of capital	**4,426**	4,623	4,964

FINANCIAL RESULTS SUMMARY CONTINUED

SOLVENCY II TO EV RECONCILIATION – PICG

30 June 2021 (£m)	Solvency II balance sheet	Allow for differences between SII and EV	Allow for sub-debt	Recognise the FCoC	Release (RM minus transitionals), recognise CRNHR	Release MA margins	Tax on future profits	MCEV (£m)
Assets	45,519	12						
BEL (net)	(38,138)							
Risk margin net of transitionals	(1,054)							
SII Own Funds/MCEV net worth	6,327	12						6,339
PVFP					1,054	1,163	(555)	1,662
CRNHR					(731)			(731)
FCoC				(357)				(357)
Subordinated debt			(2,487)					(2,487)
MCEV								4,426

FINANCIAL CONTROL FRAMEWORK AND IFRS 17

IFRS 17 is a new insurance accounting standard that is due to be introduced from 1 January 2023. Our preparations for the introduction of IFRS 17 are well advanced and we have made significant investments in new systems and processes to facilitate the smooth introduction of this new accounting standard. This has included a significant investment in updated accounting and financial control systems, as well as enhanced management information and analysis capabilities.

These investments have also allowed us to improve our supplier payment statistics, through more automated invoicing and settlement capabilities, such that our average supplier payment terms have fallen from 26 days at HY 2020 to 23 days at HY 2021. Over 90% of invoices are now paid within 30 days up from 78% for the first six months of last year.

OUTLOOK

There continues to be financial market uncertainty over the longer term impacts of the Covid-19 pandemic. We remain cautious of any adverse impacts on the investment portfolio and will continue to be vigilant, removing risk from the portfolio if we feel it necessary, even if this comes at short term financial cost.

The overall Pension Risk Transfer market remains robust, and whilst we saw a quieter first half of the year for new business, our pipeline of completed and exclusive business in the second half of this year is promising. The wider market pipeline also remains robust.

STATEMENT OF COMPREHENSIVE INCOME FOR THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2021

	2021 Half year £m	2020 Half year £m	2020 Full year £m
Revenue			
Gross premiums written	385	3,499	5,649
Outward reinsurance premiums	(35)	(484)	(517)
Net premium revenue earned	350	3,015	5,132
Investment return	(1,493)	1,014	4,090
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	(1,143)	4,029	9,223
Expenses and changes in Insurance contract liabilities			
Claims paid – gross	(922)	(868)	(1,730)
Reinsurers' share of claims paid	24	20	47
	(898)	(848)	(1,683)
Decrease/(increase) in insurance liabilities – gross	2,534	(3,474)	(7,172)
(Decrease)/increase in reinsurers' share of insurance liabilities	(360)	731	175
	2,174	(2,743)	(6,997)
Acquisition expenses	(28)	(39)	(75)
Other operating expenses	(51)	(60)	(119)
Finance costs	(44)	(33)	(73)
	(123)	(132)	(267)
Total expenses and changes in Insurance contract liabilities	1,153	(3,723)	(8,947)
Profit before tax	10	306	276
Tax charge	(3)	(55)	(54)
Profit and total comprehensive income for the period	7	251	222

PROFIT BEFORE TAX BY ENTITY

	2021 Half year £m	2020 Half year £m	2020 Full year £m
Pension Insurance Corporation plc	11	306	276
Other Group entities	(1)	–	–
Pension Insurance Corporation Group	10	306	276

STATEMENT OF FINANCIAL POSITION FOR THE GROUP
AS AT 30 JUNE 2021

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Assets			
Property, plant and equipment	**1**	2	2
Right of use assets	**19**	21	20
Investment properties	**117**	62	91
Financial investments	**47,557**	47,693	49,648
Derivative assets	**16,055**	23,856	21,936
Deferred tax assets	**3**	3	3
Current taxation	**5**	–	3
Reinsurers' share of insurance liabilities	**2,413**	3,329	2,773
Prepayments	**101**	89	107
Receivables and other financial assets	**286**	321	283
Cash and cash equivalents	**185**	138	214
Total Assets	**66,742**	75,514	75,080
Equity			
Share capital	**2**	2	2
Share premium	**874**	570	870
Treasury shares	**(19)**	(25)	(25)
Merger reserve	**34**	34	34
Tier 1 notes	**444**	444	444
Capital reduction reserve	**1,055**	1,055	1,055
Share-based payment reserve	**13**	12	14
Retained profit	**1,765**	1,810	1,773
Total Equity	**4,168**	3,902	4,167
Liabilities			
Gross insurance liabilities	**42,301**	41,137	44,835
Borrowings	**1,589**	1,192	1,589
Lease liabilities	**21**	22	22
Derivative liabilities	**18,473**	28,965	24,340
Deferred tax liabilities	**1**	3	2
Current taxation	**–**	39	–
Insurance and other payables	**66**	139	20
Accruals	**123**	115	105
Total Liabilities	**62,574**	71,612	70,913
Total Equity and Liabilities	**66,742**	75,514	75,080

NET ASSETS BY ENTITY

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Pension Insurance Corporation plc	**4,137**	3,881	4,143
Other Group entities	**31**	21	24
Pension Insurance Corporation Group	**4,168**	3,902	4,167

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 "embedded value" basis, which captures the inherent future value to shareholders of the emerging margins in our business.

PRESENTATION OF FINANCIAL RESULTS

The IFRS basis results for the 2021 and 2020 half years are unaudited and they have not been reviewed in accordance with International Standard on Review Engagements 2410. The 2020 full year IFRS basis results have been derived from the 2020 statutory accounts. The auditors have reported on the 2020 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 2021 and 2020 half years are unaudited. The 2020 full year results have been derived from the 2020 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 embedded value results for the 2021 and 2020 half years are unaudited. The 2020 year end embedded value results have been derived from the 2020 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 its Internal Model in areas such as Equity Release Mortgage. 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.

APPENDIX 1: OVERVIEW OF REPORTING BASES

Market Consistent Embedded Value ("MCEV")
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 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 frictional cost of capital for MCEV; and
- risk margin, which is released over time and is replaced with CRNHR, with a cost of capital rate of 3.2%.

Alternative measures of profit or loss ("Adjusted operating profit")
In addition to the statutory results presentation outlined on page 13, the Group also chooses to analyse its IFRS results on an alternative performance metric, 'Adjusted Operating Profit', which is a non-GAAP measure of performance intended to provide an appropriate assessment of the long-term nature of the business. This basis better reflects the long-term trading activities of the Group than the IFRS reported profit before taxation.

Adjusted operating profit has been defined to reflect the activities which are core to the Group's business, and to reflect the management choices and decisions around those activities. These encompass the writing and management of pension insurance contracts, the management of risk through reinsurance, and the day-to-day investment and management of the insurance assets and liabilities. The performance metric is based on expected long-term investment returns and the expected unwind of insurance liabilities, with the impact of any short-term investment variances and economic assumption changes excluded from the measure.

APPENDIX 2: PIC SUPPLEMENTARY INFORMATION

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021

	2021 Half year £m	2020 Half year £m	2020 Full year £m
Revenue			
Gross premiums written	385	3,499	5,649
Outward reinsurance premiums	(35)	(484)	(517)
Net premium revenue earned	350	3,015	5,132
Investment return	(1,493)	1,014	4,090
Commissions earned	–	–	1
Total revenue (net of reinsurance premiums)	(1,143)	4,029	9,223
Expenses and changes in Insurance contract liabilities			
Claims paid – gross	(922)	(868)	(1,730)
Reinsurers' share of claims paid	24	20	47
	(898)	(848)	(1,683)
Decrease/(increase) in insurance liabilities – gross	2,534	(3,474)	(7,172)
(Decrease)/increase in reinsurers' share of insurance liabilities	(360)	731	175
	2,174	(2,743)	(6,997)
Acquisition expenses	(28)	(39)	(75)
Other operating expenses	(50)	(60)	(120)
Finance costs	(44)	(33)	(72)
	(122)	(132)	(267)
Total expenses and changes in Insurance contract liabilities	1,154	(3,723)	(8,947)
Profit before tax	11	306	276
Tax charge	(2)	(55)	(53)
Profit and total comprehensive income for the period	9	251	223

ADJUSTED OPERATING PROFIT STATEMENT

IFRS adjusted operating profit	2021 Half year £m	2020 Half year £m	2020 Full year £m
Return from operations	138	145	274
New business and reinsurance surplus	4	84	31
Net release from operations	142	229	305
Changes in valuation assumptions	131	24	292
Experience and other variances	8	(14)	(98)
Finance costs	(44)	(32)	(72)
Project costs	(15)	(20)	(45)
Adjusted operating profit before tax	222	187	382
Investment related variances	(211)	119	(106)
Profit before tax	11	306	276

APPENDIX 2: PIC SUPPLEMENTARY INFORMATION CONTINUED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	30 June 2021 £m	30 June 2020 £m	31 December 2020 £m
Assets			
Investment properties	117	62	91
Financial investments	47,557	47,693	49,648
Derivative assets	16,055	23,856	21,936
Current taxation	4	–	3
Reinsurers' share of insurance liabilities	2,413	3,329	2,773
Prepayments	94	81	102
Receivables and other financial assets	279	314	284
Cash and cash equivalents	162	125	211
Total Assets	66,681	75,460	75,048
Equity			
Share capital	1,226	1,136	1,226
Share premium	524	314	524
Other reserves	60	60	60
Tier 1 notes	444	444	444
Retained profit	1,883	1,927	1,889
Total Equity	4,137	3,881	4,143
Liabilities			
Gross insurance liabilities	42,301	41,137	44,835
Borrowings	1,589	1,192	1,589
Derivative liabilities	18,473	28,965	24,340
Deferred tax liability	1	2	2
Current taxation	–	36	–
Insurance and other payables	119	197	109
Accruals	61	50	30
Total Liabilities	62,544	71,579	70,905
Total Equity and Liabilities	66,681	75,460	75,048

APPENDIX 3: GLOSSARY

ANNUITIES

A type of insurance policy that pays out regular amounts of benefit to the policyholder for the remainder of insured individual's lifetime and, in certain cases, that of their spouse and/or dependants. The payments may commence immediately ("immediate annuity") or may be deferred to commence from a future date, such as the date of retirement ("deferred annuity"). Immediate annuities and deferred annuities may be purchased for an individual and his or her dependants or on a bulk purchase basis for groups of individuals.

BEST ESTIMATE LIABILITY ("BEL")

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

COST OF RESIDUAL NON-HEDGEABLE RISKS ("CRNHR")

Under 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.

PIC'S INTERNAL MODEL

A risk management system developed by PIC to analyse its overall risk position, to quantify risks and to determine the capital required to meet those risks. PIC has obtained appropriate approval from the PRA to use its internal model to calculate its solvency capital requirement under Solvency II.

PRESENT VALUE OF FUTURE PROFITS ("PVFP")

Represents the present value, after tax, of the future release of regulatory margins, such as risk margin.

PRUDENTIAL REGULATION AUTHORITY ("PRA")

The PRA is a part of the Bank of England and is responsible for the prudential regulation of deposit-taking institutions, insurers and major investment firms.

RISK MARGIN ("RM")

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

SOLVENCY II

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

APPENDIX 3: GLOSSARY CONTINUED

SOLVENCY CAPITAL REQUIREMENT ("SCR")
The SCR represents the capital that the Company needs to hold in order to be able to survive a 1-in-200 year risk event over the 12 months following the balance sheet date. PIC calculates its SCR using a Company-specific model (the internal model) which has been approved by the PRA. The main components of the SCR for PIC are market risk and insurance risk, but the internal model also covers counterparty default risk, expense risk and operational risk.

STANDARD FORMULA
A risk-based mathematical formula used by insurers to calculate their solvency capital requirement under Solvency II. The standard formula is intended for use by most EU insurers, although they may use an internal model instead, subject to regulatory approval.

TECHNICAL PROVISIONS ("TP")
The value of 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, and it runs off linearly to zero over 16 years.

VALUE OF IN-FORCE ("VIF")
VIF is the PVFP less FCoC and CRNHR.

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