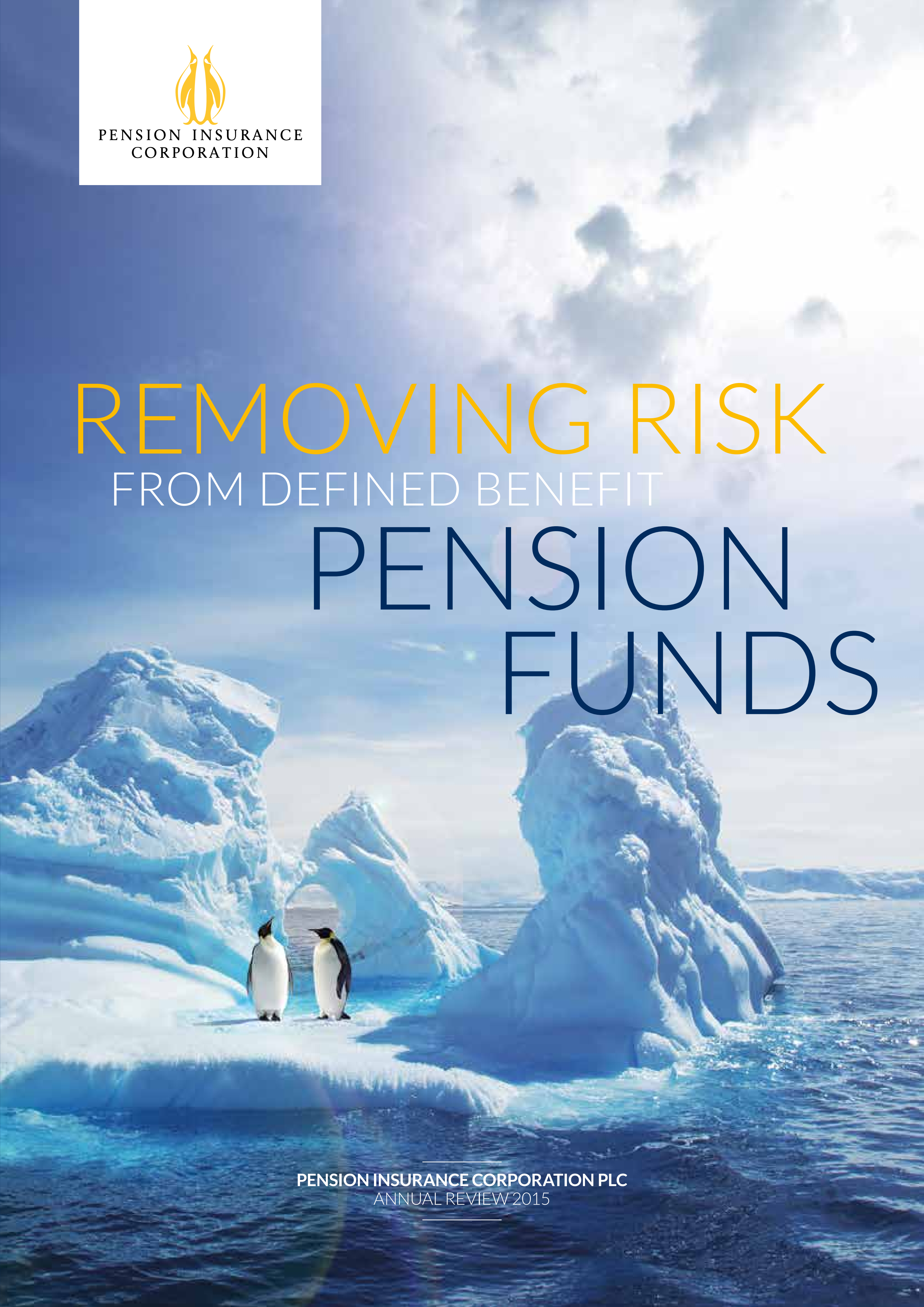


PENSION INSURANCE CORPORATION

REMOVING RISK FROM DEFINED BENEFIT PENSION FUNDS

PENSION INSURANCE CORPORATION PLC
ANNUAL REVIEW 2015

VALUING OUR CUSTOMERS

Specialist insurance to remove risk from defined benefit pension funds

Pension Insurance Corporation plc ("PIC") provides tailored pension insurance buyouts and buy-ins, or bulk annuities, to the trustees and sponsors of UK defined benefit pension funds

132,100
pensions insured

£16.6bn
of financial investments

PENSIONSAge AWARDS 2015 WINNER RISK MANAGEMENT PROVIDER OF THE YEAR

UK PENSIONS AWARDS 2015 WINNER Risk Reduction Provider of the Year

chief investment officer EUROPEAN INNOVATION AWARDS 2015 WINNER

DIRECTOR OF FINANCE AWARDS 2015 Winner

ServiceMark Accredited from Dec '15 to Dec '18 The Institute of Customer Service

Crystal Mark 20064 Clarity approved by Plain English Campaign

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

2015 HIGHLIGHTS

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

Continued strong performance in 2015

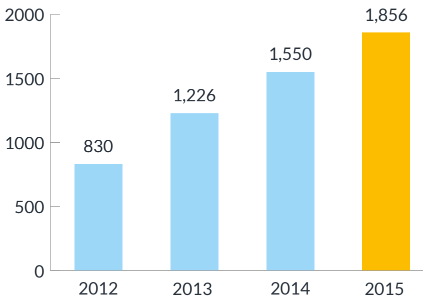
£1,856m
Embedded value

£3,755m
2015 Premiums

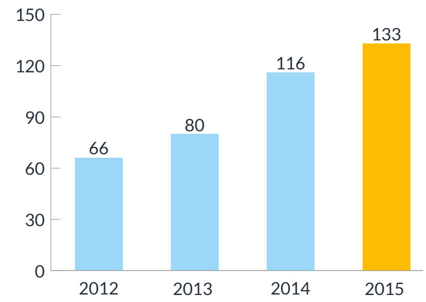
£133m
Underlying operating profit before tax

99.3%
Customer satisfaction ratio

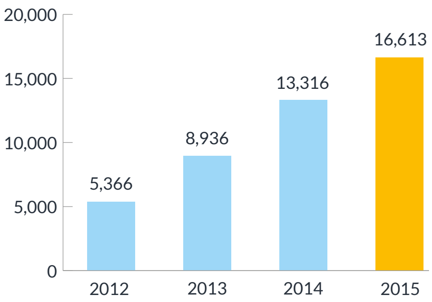
Embedded value
£m



Underlying operating profit
£m



Financial investments
£m



Other highlights

- All Solvency II applications approved, asset portfolio evolved to take advantage of market opportunities and align with Solvency II
- Pillar 1 Regulatory Ratio: 231%; Solvency II ratio of 151%
- Largest ever full buyout transacted
- Clients include Philips, NAPF/PLSA, Sanyo
- £3.8bn of longevity risk reinsured, including an unprecedented level of non-retired members
- Continued innovation in asset strategy with investments in Church of England retirement homes and Heathrow landing slots
- Accredited with the Institute of Customer Service's ServiceMark
- New Chief Executive Officer appointed
- More than 2,000 attendees at our complimentary policyholder events, including the PIC sponsored Ideal Home Show
- Very high levels of customer satisfaction, with 99.3% of our policyholders satisfied or very satisfied with PIC's service

AT A GLANCE

Business

PIC is a specialist UK insurer, authorised by the PRA and regulated by the PRA and FCA

- Insures UK defined benefit pension scheme liabilities
- Ability to price and structure transactions that meet client needs
- New business success reflects confidence shown by trustees and sponsoring companies in the financial strength of PIC's balance sheet

An established, leading player in the growing UK bulk annuity sector

- Superior client service for policyholders, trustees and pension fund sponsors
- Innovation and flexibility to deliver to specific client requirements
- Robust risk management approach

A specialist insurer, PIC is focussed on the UK bulk annuity sector

- No legacy business lines or product exposures
- Deploys capital only if it meets internal economic criteria
- Conservative investment portfolio with ALM focus
- Hedging of interest, inflation and currency risks and reinsurance of majority of longevity risk
- Efficient operating model with substantial economies of scale
- Fit-for-purpose IT and specialised processes

How stakeholders see PIC

"IT'S A LITTLE UNBELIEVABLE, BUT THIS IS THE FIRST TIME THAT I HAVE HAD THE PLEASURE OF DEALING WITH A FINANCIAL ORGANISATION THAT IS PREPARED TO HAVE SUCH PERSONAL CONTACT WITH ITS CUSTOMERS."

Bernard Jamieson, PIC policyholder

"THIS HAS BEEN A COMPLEX TRANSACTION GIVEN THE SIZE AND HISTORY OF THE FUND. I WANT TO THANK PHILIPS FOR THEIR SUPPORT AND PIC FOR THEIR HARD WORK AND FLEXIBILITY IN SECURING THESE PENSION LIABILITIES FOR THE LONG-TERM."

David Jordan, Chairman of Trustees, Philips Pension Fund (£2.4 billion buyout)

Clients

We have successfully completed buy-in and buyout transactions for clients including:

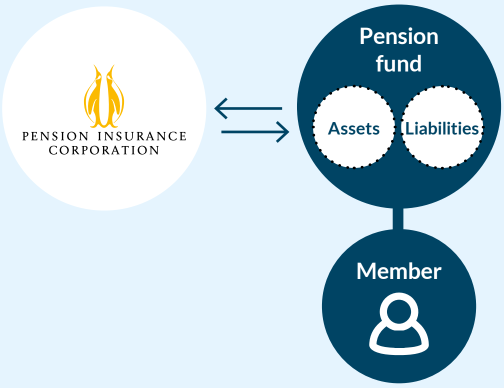
Institute and Faculty of Actuaries
HONDA The Power of Dreams
Alliance Boots
TOTAL
Department for Environment Food & Rural Affairs
AON
London Stock Exchange
citi
PENSIONS AND LIFETIME SAVINGS ASSOCIATION formerly NAPF
Cadbury
EMI
LIBERTY INTERNATIONAL

“OUR PARTNERSHIP WITH PIC SUPPORTS THE GROWING PENSION DE-RISKING TREND IN THE UNITED KINGDOM AND ENSURES THERE IS CAPACITY FOR PENSION SCHEMES SEEKING TO MANAGE THEIR RISK.”

William McCloskey, Vice President, Longevity Reinsurance at Prudential Insurance Company of America

Services and products

What is a pension insurance buy-in?

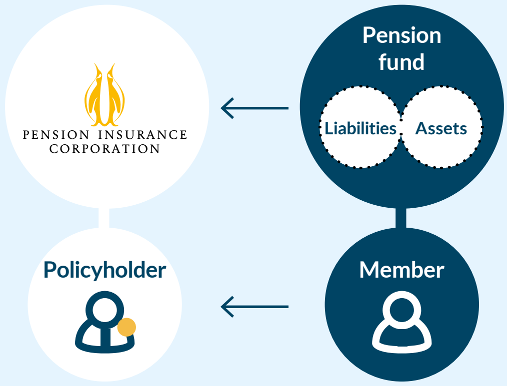


- Pension fund remains in place
- PIC pays a stream of income to the trustees exactly matching the insured liabilities
- PIC has no direct relationship with pension fund members, who continue to be managed by the trustees

In summary:

- An investment decision by the trustee
- A perfectly matching investment for the liabilities that are insured
- Removal of longevity, market, interest rate and inflation risk from the pension fund
- A step on the way to fully insuring all liabilities
- A transaction that is usually, but not necessarily, focused on pensioner liabilities

What is a pension insurance buyout?



- Corporate sponsor is divested of all responsibility for supporting the pension fund
- Pension fund is typically wound up and the trustees discharged
- Assets pass across to PIC, which becomes responsible for paying pensions
- Pension fund members become PIC policyholders following transition period

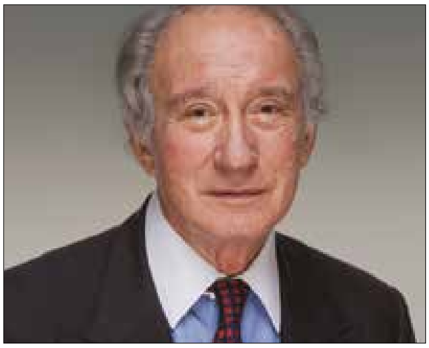
In summary:

- A full and definitive settlement of the liabilities insured
- A transfer of the scheme member’s promise from the pension scheme to the insurer
- The removal of the pension liabilities from the pension fund and the corporate sponsor’s financial reports
- Policyholders have a guaranteed income stream, backed by PIC’s regulatory capital
- Corporate sponsor has no further exposure to DB pension risk – often very attractive to shareholders

How the sector works

Insurance companies operating in the bulk annuity sector transact new business through active engagement with, and marketing to, pension fund trustees and their advisers, as well as to the corporate sponsors of such funds. Specialist advisers in this field, appointed by trustees and corporate sponsors, play a key role in any evaluation or execution of a pension insurance solution.

- The volume of pension fund buy-ins and buyouts will fluctuate over time and from year-to-year as a result of, among other things, changes in the affordability of pension fund buy-in and buyout transactions relative to the level of assets and liabilities in a pension fund.
- Key factors in this level of affordability include the market yield on gilts, long-term inflation expectations and longevity expectations.



Sir Mark Weinberg, Chairman

CHAIRMAN'S REVIEW

ANOTHER STRONG YEAR FOR PIC

2015 was one of the busiest years for PIC since the company was founded 10 years ago. With considerable market volatility, uncertainty about the economy and a changing regulatory environment as backdrop, we were delighted to achieve our business goals. These were: navigating the complexities of Solvency II implementation; sustaining our business momentum with pension funds; and continuing to improve customer service.

At a fundamental level, the risk based approach to managing insurance businesses that is required under Solvency II is an evolution of the ICAS regime, the previous risk-based insurance regulatory framework operated by the PRA. When we established PIC, a risk-based outlook was just how we ran the business. That is why we have always hedged our longevity, interest rate and inflation exposures.

So in implementing Solvency II, we felt comfortable with the underlying approach. I think this, alongside a lot of hard work from the whole team, is why we successfully attained regulatory approvals for our Internal Model, Matching Adjustment and other areas critical to our transition to the new regime.

From a customer perspective, Solvency II ensures that the bulk annuity sector continues to be extremely secure. Pension fund trustees and their advisors will have available enhanced disclosures about insurers' underlying solvency

> "PIC IS WELL KNOWN FOR EXCELLENT CUSTOMER SERVICE, BOTH FOR TRUSTEES AND FOR POLICYHOLDERS. MY PERSONAL EXPERIENCE OF WORKING WITH THEM HAS ENTIRELY BORNE THIS OUT."

Andrew Barnett, Trustee at Watson Petroleum Retirement Scheme (£30 million buyout)

positions. Whilst the new capital requirements will have an impact on pricing, it is our strong view that, in the light of the increasing recognition of the risks associated with defined benefit pension funds, the rapid growth in this class of business will continue.

Although there is increased interest from insurance companies in competing for new business, the barriers to successfully doing so are high. Pension Insurance Corporation has developed an exceptional reputation for transacting business rapidly and efficiently, which we believe gives us a significant competitive advantage.

PIC has worked hard to develop our customer service. We were therefore delighted to have attained accreditation from the Institute of Customer Service for "outstanding customer service". PIC is the only company in the bulk annuity sector to have been so accredited.

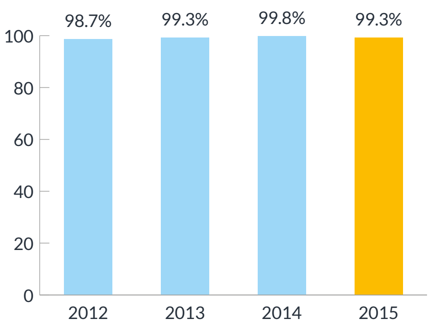
The freedom to address customer needs and concerns at the right level is beneficial on many levels. First, we have satisfied customers, as the many testimonials in this document demonstrate. Second, this type of culture minimises conduct risk, a key focus for regulators. Finally, our competitive offering ultimately delivers strong performance for shareholders.

In 2015, we concluded a company-wide project to help us articulate our values, in which all employees participated. To stress the level of importance the Board and management place on our culture, our values were then incorporated into our appraisal process to ensure there is as much focus on how we behave as what we achieve. This is fully aligned with the focus of regulators on conduct in financial services firms. One practical application of this is that the members of the Board, management and employees attend our policyholder events in order to meet the people whose pensions we are responsible for securing.

Finally, with more than 50 years in the insurance industry under my belt, I have never worked with a better management team and employee base than we have at PIC. John Coomber, our former CEO and ongoing Board member, did a fantastic job of maturing the business as it grew. We were delighted that Tracy Blackwell took over the CEO role in July. She is doing an excellent job building on the solid foundations John laid, whilst positioning the company to deal with the opportunities and challenges of being a market leader in the only growth sector in the UK insurance industry.

I very much look forward to PIC's next 10 years.

Customer Satisfied or Better
%



PHILIPS PENSION FUND

Largest ever full buyout. All risks structure and simultaneous reinsurance of longevity risk

PIC agreed a £2.4 billion buyout of the Philips Pension Fund, covering the benefits of around 26,000 members. The transaction incorporated an "all risks" structure, in that PIC assumed all risks, including future data corrections, on signing of the contract.

- A key feature of the transaction was simultaneous reinsurance of the longevity risk by PIC with Hannover Re, including an unprecedented level of non-retired members.

WATSON PETROLEUM RETIREMENT SCHEME

Taking advantage of a market opportunity

The Trustees were keen to take advantage of a narrow window of opportunity in the markets to complete a £30 million buyout. PIC helped put the structures in place to allow the Trustees to do this.

UNNAMED CLIENT

"All risks" buyout and accelerated transition

PIC concluded a £500 million buyout for a client on an "all risks" basis, which also incorporated an accelerated transition.

- Pricing lock mechanism ensured the pension fund's assets moved in line with the final premium, to prevent market movements making the transaction suddenly unaffordable.
- Accelerated transition meant that policies would be issued within eight months of the transaction. This goal is well on course to be met.

SECTOR OVERVIEW

A growing market with huge potential

- More than £2 trillion of defined benefit corporate pension liabilities in the UK[1]
- More than £60 billion of liabilities insured via buy-in or buyout since 2007[2]
- c. £250 billion paid by UK corporate sponsors to reduce deficits since 2009[3]
- DB pension funds are c.90% closed to new members[4]
- DB pension liability payments are projected to still be at today's level in 40 years' time[5]

1) Data from the PPF's Purple Book as at March 2015
2) Data from the PPF's Purple Book 2015 and PIC analysis
3) Data from the PPF's Purple Book 2009 onwards
4) Data from the PPF's Purple Book 2015
5) Source: Who carries the risk? Published by Fathom Consulting with support from Pension Insurance Corporation, December 2014

Key sector highlights, 2015

- Largest ever buyout completed in 2015 (£2.4 billion Philips Pension Fund, by PIC)
- A significant number of insurers completing deals in the bulk annuity sector
- Pension funds took advantage of de-risking opportunities despite ultra-low gilt yields and asset price volatility
- Continued innovation including reinsurance of non-pensioner lives

Areas to watch in 2016

- Increased demand for longevity risk from the reinsurance market
- Secondary transactions of insurers' back books of annuities in response to Solvency II
- Impact of pensions freedoms and the development of a secondary annuity market

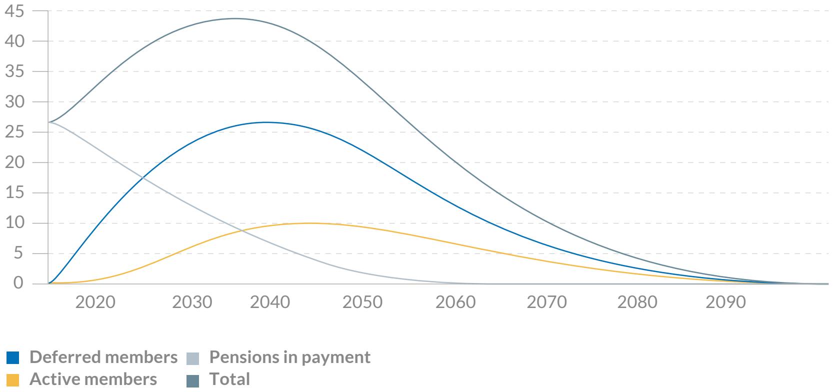
"FOR THE SECOND YEAR RUNNING, BUY-IN AND BUYOUT VOLUMES HAVE EXCEEDED £10BN IN 2015 – THE "NEW NORMAL"."

LCP Pensions De-risking report December 2015

"c.£60 BILLION COULD BE ADDED TO THE LIABILITIES OF UK PRIVATE SECTOR DEFINED BENEFIT PENSION FUNDS IF THEIR PENSIONERS WERE TO LIVE ON AVERAGE ONE YEAR LONGER THAN ASSUMED."

The Institute and Faculty of Actuaries' Longevity Bulletin Issue 7, November 2015

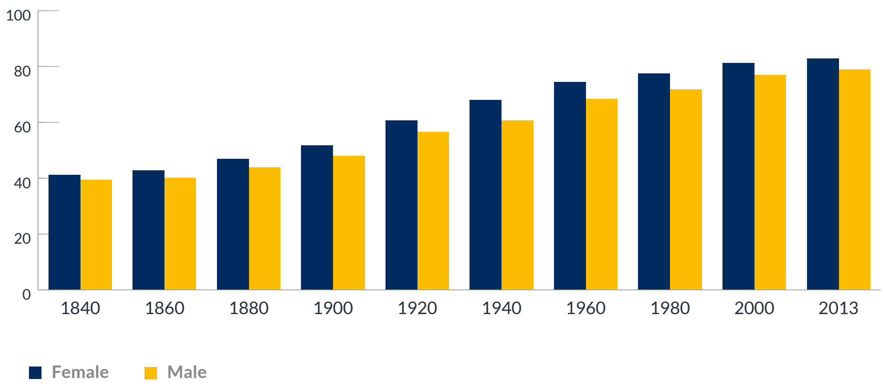
A long-term opportunity
Constant price cash payments across all DB pension funds
£bn, constant 2014 prices



"Total DB-associated pension payments are unlikely to reach a peak for more than 20 years. Even in 40 years, the burden of payments will probably be just as great as it is today."

Source: Who carries the risk?
Published by Fathom Consulting with support from Pension Insurance Corporation, December 2014

Period life expectancy at birth, in England & Wales, by decade and gender



Source: Data from the Human Mortality Database

Strategic drivers of the bulk annuity sector

The changing social contract:

Pension risk is moving away from corporate defined benefit pension funds. On the one hand individuals are being forced to carry more risk through the growth of defined contribution pensions and other arrangements, leaving many uncertain about their retirement plans. On the other, members of DB pension funds who have their pensions insured through buy-ins and buyouts now have guaranteed benefits for life, backed by the expertise and capital of an insurance company. The principle of risk pooling, which has provided relatively secure pensions through DB funds, is being steadily eroded in pension-provision. However, it remains the bedrock principle in the provision of bulk annuities.

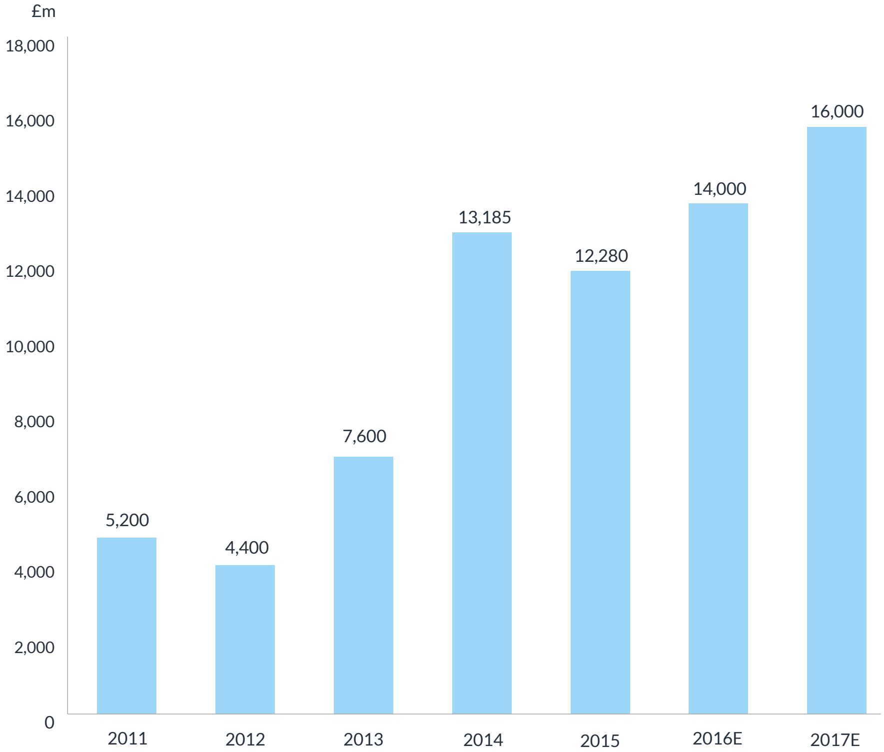
Society's need for patient money:

There is a growing need for infrastructure funding. As DB pension funds move to the insurance sector the liabilities need to be matched with secure long-term cash-flows. Increasingly these liabilities are being secured through funding to capital projects, such as infrastructure. Because policyholder benefits are non-refundable once the pension starts to be drawn, as well as highly predictable, insurance companies are able to commit to funding projects for 20, 30 or more years. In this way pension insurance companies support the economy and benefit all.

Trust and long-term business models:

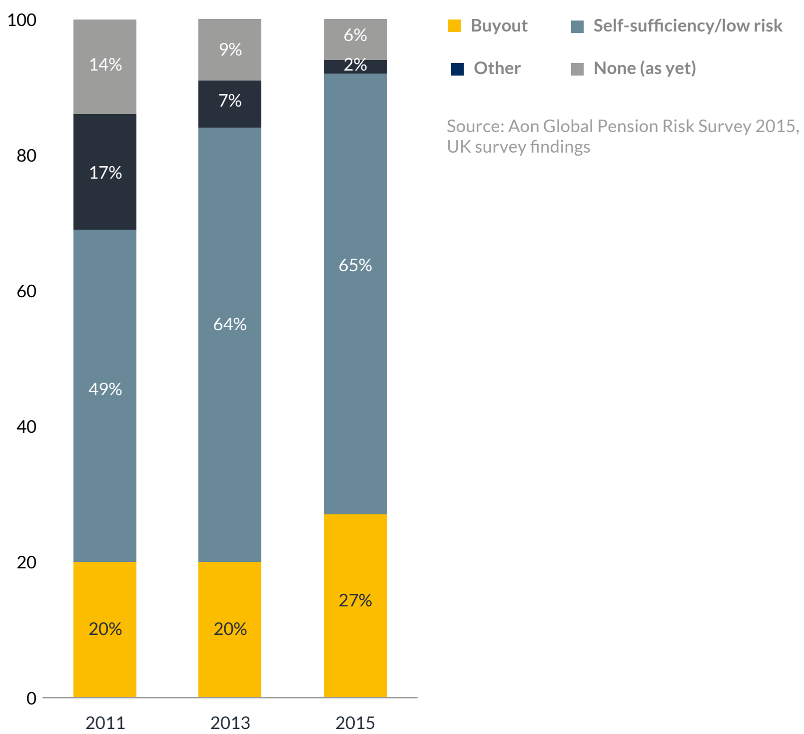
Purpose, transparency, sustainability, a long-term focus and customer service are all moving to the centre of the debate about financial services. In PIC's case these factors ensure security for policyholder benefits and deliver tangible shareholder value.

Uses of capital – Growth: DB pension de-risking
UK bulk annuity sales, 2011–2017E



Data from: LCP Pension De-risking 2015 and 2016 reports, Hymans Robertson, RBC Capital Markets estimates
Source: RBC Capital Markets, European Insurance – 2016 Outlook, December 2015

Long-term pension fund objectives



Source: Aon Global Pension Risk Survey 2015, UK survey findings

Market share

Since 2008, when PIC wrote its first transaction, more than £60 billion of pension insurance buyouts and buy-ins have been completed.*

PIC has a market share in excess of 25% for transactions completed during this period.

*Source: Hymans Robertson and LCP buyout reports

"OUR CURRENT EXPECTATIONS FOR 2016, ALLOWING FOR THE BEDDING-IN OF SOLVENCY II, IS THAT THERE WILL BE CONTINUED GROWTH, WITH AROUND £12 BILLION OF LIABILITIES BEING TRANSFERRED TO INSURERS."

Willis Towers Watson, Market insight – longevity hedging and bulk annuities de-risking report 2016

"WE BELIEVE THE REALISTIC [BULK ANNUITY] MARKET SIZE IS £180BN, WHICH... WOULD EQUATE TO £18BN A YEAR..."

Barclays equity research UK Life Insurance report 16 July 2015

SOLVENCY II

The European Union has developed a new solvency framework for insurance companies, known as Solvency II.

The initial Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009 and has progressed through a series of formal consultations and updates. It was formally implemented across Europe on January 1, 2016.

The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk and enhanced disclosure requirements.

The UK insurance industry in general has been better placed than its European counterparts to implement Solvency II due to the similarity of the previous risk based regulatory system operated by the PRA (ICAS regime) as an enhancement to the basic requirements of Solvency I.

What does Solvency II mean for the trustees of defined benefit pension funds?

1) How does Solvency II increase the security of pension benefits that have been insured via a buyout or buy-in?

a. Generally increases the levels of minimum capital required by insurance companies to protect pension liabilities as compared to the minimum requirements of Solvency I
b. Requires insurers to calculate capital requirements based on the specific risks that they underwrite
c. Seeks to ensure that after a stress event insurers will have sufficient assets to transfer their business to another insurance company, thereby allowing for continuation of protection for policyholders
d. Brings increased levels of transparency to the insurance industry, with regards to the resilience of an insurance company to an economic shock
e. Enforces the principle of cash-flow matching, so that assets and liabilities in an insurer's portfolio now have to be exactly matched for the Matching Adjustment to apply. This ensures that insurance companies are able to pay out pensions at the right point in time across the whole lifetime of the pensioner

2) Other areas of relevance

a. In late 2015 the Financial Services Compensation Scheme (FSCS), the guarantor of policyholder benefits in the unlikely event of insurance company insolvency, changed its terms of reference to bulk annuities. The FSCS is now covering 100% of bulk annuity insured pension benefits. This means that, combined with the increase in security brought about by Solvency II, bulk annuities can be considered an even more secure product than before
b. The European Insurance and Occupational Pension Authority (EIOPA) conducted stress tests for European pension funds in 2015. These results and EIOPA's subsequent comments again raise the prospect of a Solvency II type regulatory regime being enforced for defined benefit pensions in the UK

The change to Solvency II has been significant in a number of ways. It has required insurance companies to change models, processes and systems in fundamental ways. But the concepts of three pillars on which Solvency II is based were all present to a greater or lesser extent under Solvency I.

PIC assiduously monitored the developing requirements of Solvency II and maintained an implementation programme, under direct oversight of the Board, to ensure that the Company was well-placed to achieve compliance with the new solvency regime.

PIC was one of only 19 UK insurance companies to have been granted Internal Model status in the first round. It has been reported that about 120 UK insurers started the application process. PIC was also granted Matching Adjustment and Volatility Adjustment approvals. These have now been implemented alongside full Transitional Measures.

Attaining Internal Model status demonstrates a level of regulatory comfort that the companies which gained approval operate at a level where sound governance and controls are sufficiently well established.

At 31 December 2015, PIC's solvency ratio on the Solvency II basis was 151% and is comparable with the ratio as measured under the former Pillar 2 regime.

What should stakeholders focus on in trying to understand how Solvency II impacts insurance companies?

1) Solvency ratios

a. When Solvency I ended on 31 December 2015 and Solvency II began on 1 January 2016, there was no change to the amount of assets held by insurance companies to protect member benefits. All that changed was how those assets are characterised in terms of being allocated to backing reserves and provisions, capital requirements or surplus resources

b. PIC is well positioned for Solvency II and has an internal risk model which it believes is appropriate for the nature of the risks it underwrites, and more appropriate than the Standard Formula which would otherwise apply. Our analysis indicated that the longevity requirements of the Standard Formula were not necessarily robust enough for a UK annuity business

2) Transparency

a. Regulation has sought to harmonise balance sheets, but the framework is still bedding down. Over time we expect things to become clearer and for insurance company balance sheets to be more comparable

3) Volatility

a. The introduction of the concept of the Risk Margin under Solvency II has increased the volatility of the liabilities side of the balance sheet with respect to interest rate movements. PIC has managed this change by adjusting its hedging programme accordingly

4) Are bulk annuities less profitable as a result of Solvency II?

a. The bulk annuity sector is an important, growing market. Given the demand for our product, a natural balance will be found between increased capital requirements and the cost of insuring liabilities

b. A reasonable level of profitability for insurance companies is important because it ensures that capital will still be available to back future buy-ins and buyouts, protecting the benefits of many more members of DB pension funds in the future

Tracy Blackwell, Chief Executive Officer

CEO Q&A

How did Pension Insurance Corporation do in 2015?
2015 was a landmark year for PIC. We achieved or exceeded our business goals in the key areas of customer service, new business transactions and in positioning our business to implement Solvency II.

Preparations for Solvency II were a major area of focus for us. As one of only 19 UK insurance companies to have had its Internal Model approved by the regulator, out of more than 100 which started the process, I am incredibly proud of the hard work which went into this success.

We insured £3.8 billion of liabilities last year, which just pipped the £3.7 billion of liabilities we insured in 2013. A large part of this total was the largest ever full buyout, a £2.4 billion transaction to secure the Philips Pension Fund. The fact that all our transactions were full buyouts is a testament to the confidence trustees have in our ability to successfully transition members of pension funds to becoming insurance policyholders and to deliver top quality service directly to these individuals.

I was also delighted to have raised, with one of our policyholders (see box), a considerable sum for charity by abseiling down two very tall buildings!

How is the bulk annuity sector developing?
In each of the past couple of years we have seen more than £10 billion per annum of pension fund liabilities secured through insurance. All the signs indicate that the market is set to grow. In terms of context, £10 billion is only about 0.5% of the total universe of defined benefit pension fund liabilities, which currently total more than £2 trillion. An increase in the percentage of the total pension fund liabilities that transacts from 0.5% to between 1% and 2% per year is not implausible. Should that happen, trustees

and their advisers want to know that there is capacity in the market. They will also want to be confident they are getting a fair price. Healthy competition helps bring confidence to the market. At the same time there remain high barriers to entry into this market.

How do you differentiate yourself in the marketplace?

We think we view the world slightly differently from most other companies. Purpose is really critical to how we operate. Our values articulate how this purpose feeds through into the work we do, for example attaining the Institute of Customer Service's Service Mark for outstanding customer service. We are therefore confident that our track record of innovation and flexibility, our reputation for customer service and the quality of our people will stand us in good stead whatever happens in the market.

Gilt yields continue to bump along at record lows. How does this impact your new business pipeline?

Looking back at gilt yields in January and February 2015 and the subsequent deal flow, it's clear that the answer to the question is 'marginally'. With the markets having such a poor start to 2015, we were slightly concerned that pension funds would be put off transacting. However, the pipeline quickly filled up and we had a very busy year.

Our conclusion was that those pension funds with a long-term plan, which includes aligning assets and liabilities as well as putting the right structures and processes in place to facilitate a buyout, can still transact despite market gyrations.

What are the main challenges for you over the next year?

There is a brand new regulatory regime which has just been implemented. This will take some time to bed down. Whilst there may be some effect on pricing in the short term, we do not believe it will unduly impact the bulk annuity sector.

We will also be keeping an eye on the roll-out of the second hand annuities market, which still has plenty of issues to be resolved. Great care needs to be taken over this, so that current holders of annuities are adequately protected.

Finally, we are keen to be involved in the important discussion about the role of the National Infrastructure Commission and the development of further infrastructure projects in which we can invest.

Looking forward

- Disciplined risk management with respect to our assets and liabilities
- Focus on customer service
- Significant cash-flow expected from in-force business
- Attractive risk adjusted returns for our shareholders

RICHARD BALON

I was a member of the Thorn pension scheme, transferring over to PIC in 2010. I was concerned at the time because, whilst I had only worked for Thorn for a few years, the transfer seemed to represent the loss of my affinity with, and emotional connection to, Thorn.

However, I was quickly impressed by PIC, who proved highly efficient, sending regular updates and organising annual Policyholder Days for policyholders to meet senior management.

Then in May 2015 I received some unusual correspondence from PIC, which I dropped into my pending file. I remembered it a couple of weeks later and in a moment of daring, I replied. It was an invitation from Tracy Blackwell, PIC's CEO, to take part in her challenge of abseiling down three of the tallest buildings in the City of London for charity.

Following a training day in east London, as part of a small group of just 40 people, in September 2015 I successfully abseiled from the top of the Gherkin, whilst Tracy successfully abseiled down the Cheesegrater and the Walkie-Talkie.

I was delighted to have had the opportunity to participate in this wonderfully exciting day. My throat went dry as I stepped out into thin air 590 feet above the ground – a truly thrilling experience. I finally dragged myself into bed in the early hours as the buzz of my experience lasted long beyond landing. Returning to normality proved somewhat tricky. I was also delighted to have such strong support from my family and the many PIC employees who turned out.

Richard Balon
Former member of the Thorn Pension Scheme and proud PIC policyholder

OUR BUSINESS MODEL

Rigorous management of risk in the back book underpins future profit, irrespective of quarterly new business flows.

PIC uses its capital resources to insure pension liabilities through bulk annuity transactions. This process provides long-term returns to shareholders and security for the pension benefits of policyholders.

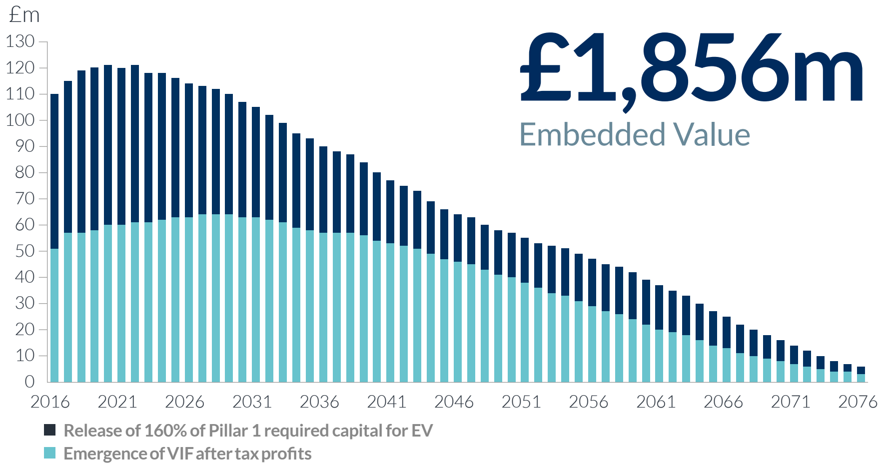
Strengths

- Safety and security for policyholder benefits
- Key focus on risk management
- A strong, conservatively managed balance sheet
- Insurance solutions tailored to meet a client's individual needs
- Outstanding levels of customer service
- Attractive long-term risk adjusted returns for shareholders

Outcomes

- Removal of longevity, market, interest rate and inflation risk from the pension fund
- Policyholders have a guaranteed income stream, backed by PIC's regulatory capital
- Corporate sponsor can be divested of all responsibility for supporting the pension fund
- PIC manages its assets and liabilities such that the profit loading embedded in the premium emerges over time, as its assets deliver returns in excess of reserving and capital requirements

Significant cash-flow expected from in-force business



£1,856m

Embedded Value

Significant cash-flow generated from in-force business through:

- Emergence of value-of-in-force business (VIF)
- Release of required capital (including interest)
- Provides flexibility for the future to invest in new business and or pay dividends

Underlying operating profit – a key performance indicator – is driven by the size of the in-force policyholder liabilities and excludes the immediate profit from new business, reinsurance and investment variances.

PIC's business model is to recognise the IFRS profits over time. This provides a smoother, more predictable profit profile less exposed to varying volumes of new business.

The Emergence of VIF (see graph above) reflects the profits PIC expects to earn from its in-force business. This generates underlying operating profit for future years, which is further enhanced by new business.

SOLVENCY AND RISKS

"VERY SIMPLY IT'S A WELL-RUN BUSINESS WITH STRICT RISK CONTROLS, AND IT'S GROWING STEADILY YEAR ON YEAR."

Gary Kirk, Founding Partner, Portfolio Management, TwentyFour Asset Management

Specialist insurance for defined benefit pension funds

The overall strength of our insurance company is determined by our solvency position, our approach to managing risks and our ability to manage the assets and liabilities through the lifetime of each insurance policy. The key aspects of our financial covenant are:

- A strong solvency ratio
- An active approach to reinsurance of longevity risk, where we have reinsured 73% of our longevity exposure, taking advantage of the reinsurers' ability to diversify the longevity risk with their substantial mortality risks
- Reserving assumptions which are suitably prudent
- A secure and prudent investment approach, where the majority of our liabilities are matched by income streams from long dated and secure assets
- Capital focused solely on securing and managing pension liabilities, free from contamination from other lines of insurance
- Proven track record of successfully managing investments through volatile economic conditions
- A disciplined risk management approach, where we focus our risk taking on those areas where we excel (investment risk) and seek to minimise unrewarded risks, for example interest rates and inflation, which are fully hedged

The role of risk management at PIC

Our risk management approach is designed to support our business ambitions and has the following core objectives:

- To set out the risks that we are able and willing to accept that can give us sustainable returns, and to set out risks we believe are unrewarded and require closely managing
- To optimise the capital that we hold so that we can deliver our strategy
- To provide a framework within which authority for taking risks can be appropriately delegated and controlled throughout the organisation. This enables the Board to draw assurance that the risks to which we are exposed are being appropriately identified, managed and where necessary minimised
- To ensure we remain forward thinking in assessing what could happen to the business and what actions could be taken to manage or mitigate the risks
- Effective risk management is integral to our success and is embedded through the organisation

PIC's risk profile differs from that of a typical defined benefit pension scheme in a number of areas:

- Minimal Equity Risk – through no direct holdings
- Minimal Interest and Inflation Rate Risk – reduced through assets and hedging overlays
- Mitigated Longevity Risk – reduced through reinsurance

SOLVENCY AND RISKS continued

The effective management of risk supports the delivery of our strategy.

Key risk:
Longevity

- Longevity risk is the risk that policyholders living longer than assumed, resulting in higher than expected payments by PIC
- When PIC insures a pension fund through a buy-in or buyout it takes on longevity risk. As a part of its risk management framework, PIC may seek to pass some of its longevity exposure on to the global reinsurance market. Reinsurers are generally more natural holders of this risk because of their offsetting exposure to mortality risk

Mitigation

- Longevity risk is assessed and managed within PIC by our established and experienced in-house team.
- Projected pension payments for prospective new business are underwritten using our proprietary longevity models
- At 31 December 2015 73% of PIC's total longevity exposure on a statutory solvency basis was transferred to third party, investment grade reinsurer counterparties (2014: 66%)
- PIC regularly tenders new blocks of bulk annuities for longevity reinsurance, attracting interest from an increasing number of global reinsurers

Key Risk:
Market Risk

- Market risk is the risk that changes in financial markets adversely impact our business
- Managing Market Risk is critical to meeting policyholder benefits and generating shareholder returns. This requires specialist skills which are attractive to our clients

Mitigation

- Assets selected to optimise capital, risk and return position
- PIC's liability profile is long-term and predictable. This enables the business to select long-term illiquid assets which are often undesirable to other investors
- PIC has appetite for Credit Risk and an active hedging program to manage the economic capital position with interest, inflation and currency risks transferred
- PIC has conservative asset default assumptions relative to experience

LONGEVITY REINSURANCE

In 2015, PIC successfully reinsured the longevity risk associated relating to around £3.8 billion of pension liabilities. There were two noteworthy transactions in the year.

In the first, PIC concluded a £1.6 billion longevity reinsurance agreement with the Prudential Insurance Company of America, capturing in-payment lives across 74 schemes and covering the longevity risk for around 17,000 individuals and, where applicable, their spouses.

- Unprecedented deal due to nature and size of the project
- Despite the complexity PIC concluded the transaction within a short time frame

This transaction demonstrated one of the key attributes and efficiencies PIC brings to the management of pension liabilities: expertise and economies of scale. This transaction only came about as a result of PIC successfully combining these pooled risks across 74 pension schemes.

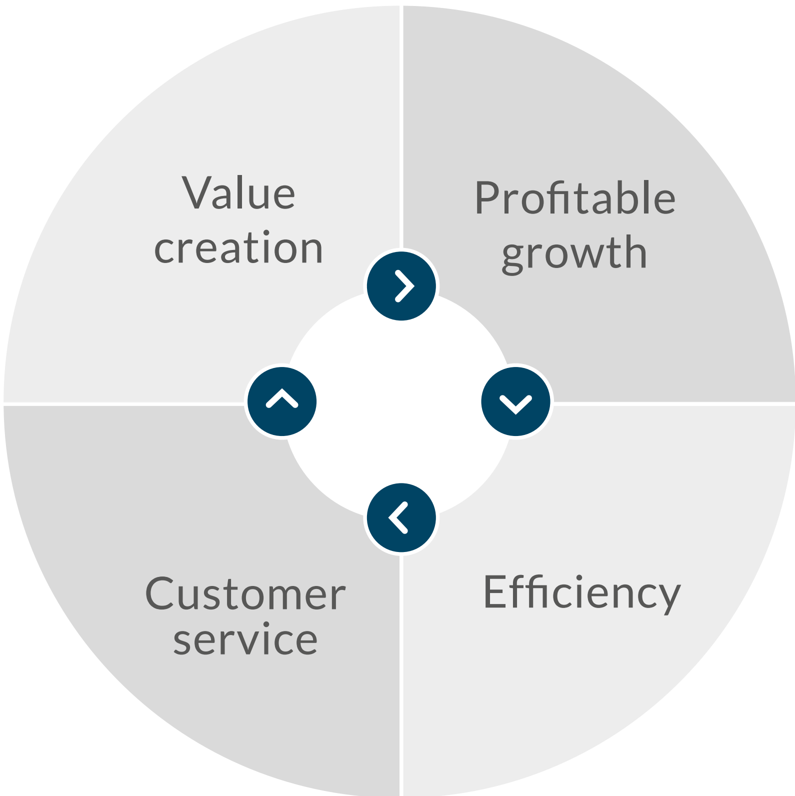
In the second, PIC reinsured an unprecedented level of non-retired lives of the Philips Pension Fund. This reinsurance transaction was unusual, requiring careful structuring, and was concluded simultaneously with the £2.4 billion buyout of the Fund by PIC.

These agreements brought the total amount of business protected from these risks to c.£11bn at 31 December 2015.

STRATEGIC SUMMARY

Strategic Objectives	2015 Progress	KPIs
Growth and focus Grow the value of the business on a focused, secure and sustainable basis	• **Another year of growth across all key metrics** – Embedded Value, IFRS profit and Underlying Operating Profit • Reinsurance of an unprecedented level of non-retired lives increases business sustainability under Solvency II • Development of Solvency II structures and processes, leading to PRA approvals of our Internal Model and Matching Adjustment • Specialisation in fast-growing bulk annuities sector benefits shareholders	• Organic EV growth • More than 50% growth in PIC's embedded value over the past two years
Reputation Long-term value creation through market leading customer service	• PIC attained the Institute of Customer Service's ServiceMark Accreditation for outstanding customer service • PIC won four industry awards recognising the quality of our work with trustees and corporate sponsors • **PIC rated a UK insurance sector leader at customer service**, following research by the Institute of Customer Service	• Sector-leading customer service
Returns Deliver attractive risk adjusted total shareholder returns	• **Continued growth in Underlying Operating Profit** • Rigorous management of risk in the back book underpins future profit, irrespective of quarterly new business flows • Continued innovation in asset and liability management with noteworthy investments in Heathrow landing slots and Church of England homes for retired clergy	• 66% growth in PIC's Underlying operating profit over the past two years
Cost efficient A scalable business model that optimises internal and external resources	• Expenses as a percentage of financial investments continue to fall, meaning **the business is becoming more efficient as we grow** • Completion of review of business scalability for the next five years	• PIC continues to improve efficiency as the business continues to grow
Knowledge and conduct A professional and innovative team with respected business ethics	• PIC completed the **integration of values and culture into employee objectives** and the year-end review process • Continued innovation allowed us to secure the largest ever pension fund buyout	• Knowledge and conduct is not a formal KPI, however, it provides an important foundation stone on which business support is built

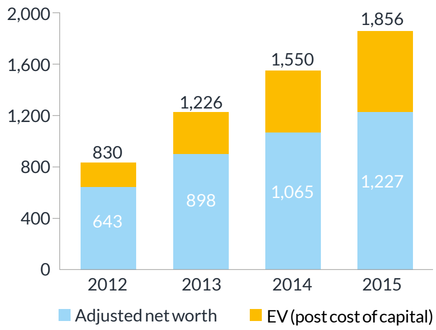
KEY PERFORMANCE INDICATORS



PIC uses its Key Performance Indicators to measure its performance in four main areas:

- Growth and overall value of the business, Customer Service, Total Shareholder Returns, and scale and efficiency
- Proven track record of growth across all metrics

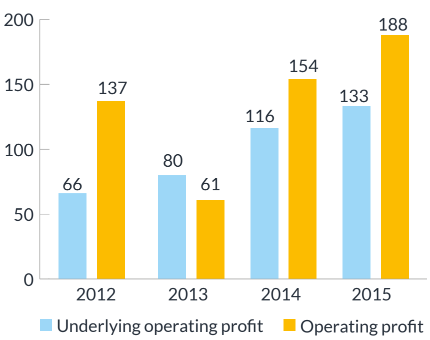
Embedded value
£m



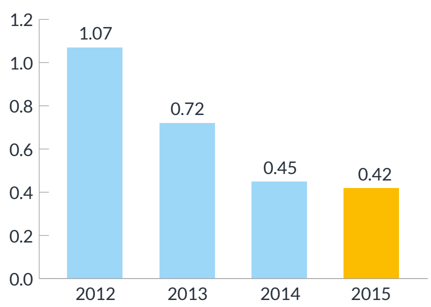
Embedded Value

- Embedded value gives a snapshot of the value created to date and facilitates market comparisons
- It is the key financial metric the Board uses to evaluate the progress of the business. This KPI is supported by the following two factors, which are not KPIs in and of themselves:
  - Change in embedded value split into operating and non-operating components explains how we have grown EV and demonstrates the repeatability of such growth (operating component) in the future, including new business contribution
  - EV per share gives a shareholder measure of overall increase in value, and captures asset strategy as well as new business

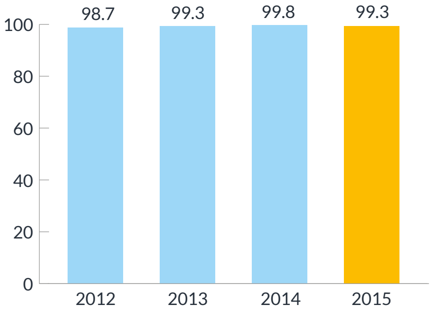
IFRS operating profits before tax £m



Expenses as % of financial investments %



Customer Satisfied or Better %



Operating Profit

- Underlying operating profit evidences the translation of embedded value into reported profits
- Underlying operating profit captures the returns made from the in-force book of insurance liabilities, and expected long-term returns from surplus assets
- Growth of underlying operating profit/operating profit evidences the levels of growth we are achieving in building profitability

Expense Ratio

- Expenses as a % of closing financial investments under management evidences how our cost base relates to our final investments

Customer Service

- As well as the financial metrics as set out in the Annual Report and Accounts, the business also uses customer satisfaction as a Key Performance Indicator. This is done by measuring:
  - % of customers surveyed who give PIC a satisfied or very satisfied rating, evidencing the quality of the service we have given
  - The number of complaints per 1000 policyholders, which evidences how pro-active our service is and the clarity and efficiency of our policyholder communications

For further detail on the key financial metrics summarised above, please refer to the PIC Annual Report and Accounts.

FINANCIAL RESULTS SUMMARY

A strong year, which sets PIC on the path for continued, sustainable growth

At year-end 2015, PIC's IFRS underlying operating profit before tax was £133m (2014: £116m). With the development of a sizeable back book PIC is not reliant on a quarter-by-quarter new business stream to generate profit.

PIC recorded operating profit before tax of £188m (2014: £154m) and IFRS profit before tax of £104m (2014: £170m).

During the year PIC insured 13 (2014: 19) pension funds with a total premium value of £3.8bn (2014: £2.6bn).

PIC concluded three longevity swap reinsurance transactions during the year which covered longevity risk on £3.8bn of insurance liabilities. This includes two landmark reinsurance agreements covering respectively the longevity risk on approximately £1.6bn of liabilities across 74 schemes, and the reinsurance of a significant portion of deferred lives of the Philips Pension Fund. At 31 December 2015, 73% of PIC's total longevity exposure was reinsured to third party, investment grade reinsurance counterparties (2014: 66%).

New business transactions, together with costs incurred, and the reinsurance deals concluded during the year, contributed £59m (2014: £38m) to operating profits.

Other operational highlights

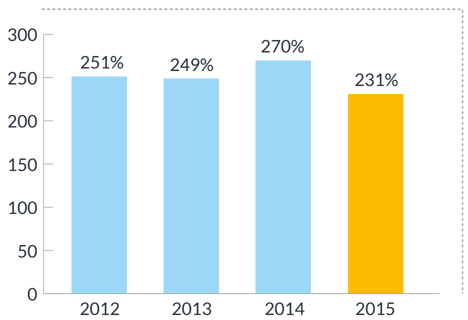
Embedded Value (EV) was £1,856m at year end 2015 (2014: £1,550m). PIC's EV has grown by more than 50% over the past two years.

PIC had total financial investments under management of £16.6bn, (2014: £13.3bn). PIC's financial investments under management have grown by more than 80% since 2013 as a result of new business transacted and market movements.

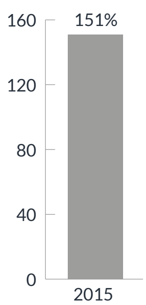
The Company was responsible for paying the pensions of 132,100 individuals at 31 December 2015 (2014: 103,600).

Payment of annuities grew by 16% in 2015 to £484m (2014: £416m) as a result of new business written during the year.

Statutory solvency ratio – Solvency I
%



Solvency II Ratio
%



Continued strong performance

£133m
Underlying operating profit before tax

+15%
Increase on 2014

£188m
IFRS operating profit before tax

+22%
Increase on 2014

£3,755m
New business premiums

+42%
Increase on 2014

£16,613m
Financial investments

+25%
Increase on 2014

£1,856m
Embedded value

+20%
Increase on 2014

FINANCIAL RESULTS SUMMARY continued

Profits generated from release of prudential margin for business written in previous years

Return on shareholder funds based on long-term investment return assumptions

- Profitability depends on mix of plans acquired
- New business written to target IRRs
- Prudential margins and capital released over life of contract
- Creates VIF asset, resulting in increased EV
- Emergence of future profits de-risked through hedges and reinsurance

Short-term fluctuations in investment return, model and assumption changes and non-recurring expenses

IFRS statutory profits

£m	2015	2014
Return earned on insurance book	**87**	65
Return earned on surplus assets	**46**	51
Underlying operating profit	**133**	116
New business operating profit	**59**	38
Other changes to in-force business	**-4**	–
Operating profit before tax	**188**	154
Non-operating profit before tax	**-84**	16
IFRS profit before tax	**104**	170

IFRS balance sheet

£m	31 Dec 2015	31 Dec 2014
Assets		
Investment properties	**96**	96
Reinsurers' share of insurance liabilities	**1,917**	2,164
Receivables and other financial assets	**182**	136
Prepayments	**74**	37
Financial investments	**16,613**	13,316
Derivative assets	**4,900**	2,761
Cash and cash equivalents	**12**	5
Total Assets	**23,794**	18,515
Equity		
Share capital	**757**	692
Other reserves	**60**	60
Retained profit	**479**	396
Total Equity	**1,296**	1,148
Liabilities		
Gross insurance liabilities	**16,480**	13,824
Deferred tax liability	**5**	6
Derivative liabilities	**5,635**	3,093
Borrowings	**295**	294
Insurance and other payables	**53**	118
Current taxation	**15**	17
Accruals	**15**	15
Total Liabilities	**22,498**	17,367
Total Equity and Liabilities	**23,794**	18,515

Embedded value

Embedded value of PIC (£m)	31 Dec 2015	31 Dec 2014
Free surplus	**289**	313
Required capital	**938**	752
Adjusted net worth	**1,227**	1,065
Value of in-force business after tax	**965**	748
EV before cost of capital	**2,192**	1,813
Cost of Capital	**-336**	-263
EV net of cost of capital	**1,856**	1,550

Analysis of movement in embedded value

Change in embedded value (£m)	31 Dec 2015	31 Dec 2014
Opening embedded value	**1,550**	1,226
Operating profit		
– New business contribution	**340**	167
– In-force business contribution	**3**	28
Sub-total	**343**	195
Investment variances	**-108**	174
Other economic variance	**63**	-13
Non-operating profit	**-45**	161
Change in EV pre cost of capital and capital investment	**298**	356
Change in cost of capital	**-74**	-82
Capital injection	**65**	67
Fair value of debt movement	**17**	-17
Closing embedded value	**1,856**	1,550

ASSET AND LIABILITY MANAGEMENT

A strong year, demonstrating continued, sustainable growth

2015 was a year of change to both the investment team and our portfolio. First, from a personal perspective, I was delighted to join Pension Insurance Corporation as Chief Investment Officer in September.

Second, the high level of new business transacted by PIC meant that the team had to work hard to invest a growing portfolio in volatile market conditions. In addition, the implementation of Solvency II meant that our asset and derivative portfolios were refined in preparation for the new regulatory environment.

With investors increasingly nervous about the macroeconomic picture, credit spreads widened over the year. PIC viewed this cheapening of credit as a good opportunity to move a greater proportion of our portfolio into highly rated corporate bonds and loans. We have a positive outlook for investment grade credit over the long term. Additionally we only invest in credits which pass our rigorous due diligence process.

A high quality investment grade credit portfolio provides a regular cash-flow over the long term which we can match to our pension payments. So this shift helped us achieve three goals: maintaining a very high level of security for our policyholder benefits; improving the cash-flow matching characteristics of our portfolio in line with Solvency II; and giving us a better risk adjusted yield than would otherwise be available.

As the chart on the opposite page shows, at year-end 2015 we had about £9.4 billion invested in investment grade credit, compared to £6.2 billion a year earlier. Our overall portfolio stood at £16.6 billion, compared to £13.3 billion at year-end 2014.

Despite the increased credit allocation we have maintained a low risk profile at the overall portfolio level. There is still uncertainty over the prospects for world growth so we have positioned our portfolio in a way that best protects the benefits of our policyholders. There may well be attractive buying opportunities in the future. In the meantime, we are very pleased that we were able to avoid any defaults in the portfolio last year.

However, in a continued low growth, low return environment it is important that we are able to source and invest in opportunities that provide us with investment grade, inflation linked, long term cash-flows. A good example of this is infrastructure debt.

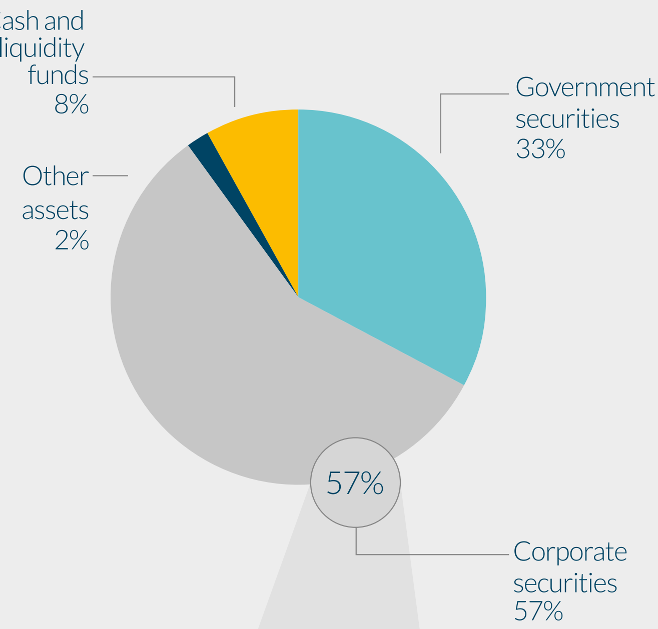
PIC has built an internal team which now has a very strong track record in sourcing and investing directly in infrastructure debt and the private debt markets more widely. Amongst other investments, last year we invested £75 million in debt issued by Virgin Atlantic Airways, secured on its portfolio of landing slots at Heathrow, the first time this type of transaction has been completed. Earlier in the year we invested £70 million in debt ultimately issued by the Church of England Pension Board (see box). Previous investments in this area include investing in the first European solar bond, as well as social housing, hospitals, schools and student accommodation. In effect this means our business is moving capital efficiently through the economy, putting it to work where it can best support jobs and growth. It's a great example of socially useful capitalism.

PIC now has more than £5 billion, or about 30% of our portfolio, invested in infrastructure. We would very much like to invest more infrastructure projects, but a lack of supply has limited our investments over the past year. It is vital that the insurance sector is able to source future opportunities of this nature. As we have consistently maintained, a better managed pipeline of infrastructure projects would also benefit the UK's economic growth. We welcomed the creation of the National Infrastructure Commission and would recommend that infrastructure is depoliticised, in the same way that the interest rate decision was depoliticised. We will continue to engage with the Government and the National Infrastructure Commission to emphasise the importance of this issue both to institutional investors and to the economy.

Rob Groves, Chief Investment Officer

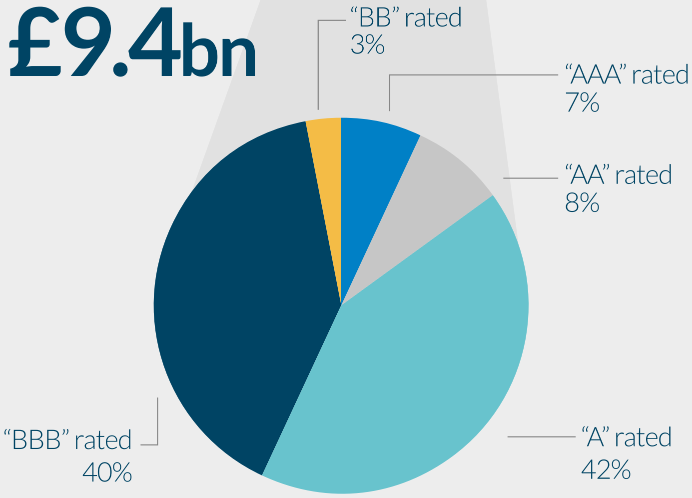
Asset portfolio by asset class (31 December 2015)

£16.6bn



Corporate securities by rating

£9.4bn



INVESTING IN CHURCH OF ENGLAND HOUSING

In September 2015 PIC lent £70 million to the Church of England Pensions Board, which operates the Church's retired-housing scheme, a new source of long-term financing for the scheme.

- The bond is the first ever Sterling issue with the coupon but not the principal linked to CPI and represents a step forward in the CPI linked bond market

PIC has a strong track record of investing in transactions that meet our need for high levels of security, are a match for our liabilities and which are ground-breaking in nature.

We are always happy to speak to other borrowers about similar transactions.

POLICYHOLDER CARE

PIC's success in being chosen by our customers for buy-in and buyout transactions reflects not only our ability to competitively price and structure innovative insurance policies, but also reflects the excellence of our administration and transition teams.

Key stats

(31 December 2015)

- PIC is responsible for paying the pensions of 132,100 individuals (2014: 103,600)
- Payment of annuities grew by 16% in 2015 to £484m (2014: £416m)
- Total pension amounts paid were £581m (2014: £456m), an increase of 27%
- At the end of 2015 PIC had 81,000 current individual policies in issue, in respect of 64 schemes, up from 51,000 in respect of 45 schemes a year ago

Outstanding customer service

- PIC engages with several agencies to provide a layered approach tracing missing policyholders:
  - To date reunited over 2,000 "lost" policyholders and their dependants with pension benefits
  - All of these are people that the Scheme Trustees had previously tried to trace without success
- Platinum status for the Plain English Campaign Crystal Mark for all applicable policyholder communications (over 100)
- PIC attained the Institute of Customer Service's ServiceMark for outstanding customer service
- PIC's Senior Management met and spoke to more than 2,000 customers at our complimentary policyholder events
- We believe that the above characteristics of our service are unique in our sector

"VERY SATISFIED WITH PROFESSIONALISM OF THE SERVICE. IT'S GOOD TO DEAL WITH PEOPLE WHO ACTUALLY KNOW WHAT THEY ARE DOING – RARE THESE DAYS!"

"I AM AMAZED AT THE SPEED OF YOUR SERVICE. 100% SATISFIED CUSTOMER. I WOULD HAVE NO HESITATION IN RECOMMENDING PENSION INSURANCE CORPORATION."

"PENSION INSURANCE CORPORATION HAS 100% IN BUSINESS, QUALITY AND FRIENDSHIP. SIMPLY THE VERY BEST. THANKS AGAIN."

Feedback from PIC policyholders 2015

“ATTAINING SERVICEMARK IS A REAL ACHIEVEMENT WHICH PLACES PIC IN THE COMPANY OF SOME OF THE MOST HIGHLY REGARDED ORGANISATIONS IN THE UK. IT SHOWS THAT CUSTOMER SERVICE REALLY IS AT THE HEART OF PIC'S VALUES. BY ATTAINING SERVICEMARK, PIC IS CLEARLY COMMITTED TO CONTINUOUSLY IMPROVING CUSTOMER SERVICE STANDARDS.”

Jo Causon, CEO at the Institute of Customer Service

Excellent levels of customer satisfaction

Policyholder satisfaction is measured in a number of ways and is a key part of PIC's ongoing commitment to improving customer service:

- Member satisfaction levels are monitored via telephone and paper surveys
- Monitoring of complaint levels and analysis of complaint root cause
- Stringent oversight of administrators such as:
  - Monthly file and call review
  - Regular site visits
  - Weekly operational catch ups and formal monthly service review
- Face-to-face feedback at Policyholder Days
- Institute of Customer Service ServiceMark survey
- All complaints reviewed by senior management and the Board
- 99.3% of policyholders expressed overall satisfaction with our service
- 86.3% gave us the maximum score
- FCA reportable complaints per thousand policyholders of 0.36 for the first half of 2015, and 0.57 for the second half of the year

As far as we are aware, PIC holds the best record in our sector for low levels of complaints

“IT'S A LITTLE UNBELIEVABLE, BUT THIS IS THE FIRST TIME THAT I HAVE HAD THE PLEASURE OF DEALING WITH A FINANCIAL ORGANISATION THAT IS PREPARED TO HAVE SUCH PERSONAL CONTACT WITH ITS CUSTOMERS.”

“A PERSONAL THANK YOU FOR ALL THAT YOU HAVE DONE FOR MY MOTHER-IN-LAW...IT IS WONDERFUL TO DEAL WITH SOMEONE WHO DOES WHAT THEY SAY. WE CAN'T THANK YOU ENOUGH.”

“OF ALL THE PENSION PROVIDERS I HAVE HAD TO DEAL WITH, YOU ARE BY FAR THE BEST.”

“HEARTFELT THANKS FOR SUCH A TROUBLE FREE PROCESS – A STARK CONTRAST TO ANOTHER PROVIDER!”

Feedback from PIC policyholders 2015

BERNARD JAMIESON – SR TECHNICS

I have been a PIC policyholder since November 2015. I am impressed at the very efficient way PIC has handled the transfer from my former pension scheme, SR Technics. I wasn't particularly concerned about my benefits moving from a pension scheme to an insurance company, but nevertheless I was pleased that the information PIC sent to me about the process was easy to read and understand.

Although I have only been a policyholder for a short period of time, I have to say that my contact with PIC has been very positive. I attended PIC's Policyholder Day in London in November, which was very well organised. PIC's staff were very friendly and welcoming and it was a pleasure to see some old friends in an enjoyable setting.

It's a little unbelievable, but this is the first time that I have had the pleasure of dealing with a financial organisation that is prepared to have such personal contact with its customers.

Bernard Jamieson
Former SR Technics Pension Scheme member and proud PIC policyholder

BOARD OF DIRECTORS

1 Sir Mark Weinberg
Chairman
Sir Mark is the Chairman of Pension Insurance Corporation and Life President of St James Place Wealth Management Group, which he co-founded in 1991. In 1961 Sir Mark founded Abbey Life Assurance Company in London. In 1969 he co-founded Hambro Life Assurance (Allied Dunbar), now part of Zurich Financial Services, which grew to become the largest unit-linked life assurance company in the UK. Sir Mark was Deputy Chairman of the principal UK regulatory body, the Securities and Investment Board, from its inception in 1985 until 1990, having been an adviser on insurance affairs to the Secretary of State for Trade and Industry. He has many charitable interests and is a governor emeritus of the London School of Economics.

2 Tracy Blackwell
Chief Executive Officer
Tracy is Chief Executive Officer and a Director at Pension Insurance Corporation. As CIO since joining PIC in 2006, Tracy has had overall responsibility for managing PIC's asset and liability management strategy. Tracy has been a member of the Board since 2011. Prior to joining PIC, Tracy spent 10 years at Goldman Sachs, where she held a variety of roles. In 2013 Tracy was appointed a non-executive Director at United Trust Bank.

3 Rob Sewell
Chief Financial Officer
Rob is a Director and Chief Financial Officer of Pension Insurance Corporation. He was previously Chief Executive of National Westminster Life Assurance, and was the Finance Director for Legal & General Group's UK businesses. Rob is a Fellow of the Institute of Chartered Accountants in England & Wales.

4 Eloy Michotte
Non-Executive Director
Eloy is an Executive Director of Reinet Investments Manager S.A. and Reinet Fund Manager S.A. He is also Group Director of Corporate Finance for Compagnie Financière Richemont SA. In both capacities he has responsibility in particular for mergers and acquisitions. He serves on the boards of a number of companies in which Reinet Investments S.C.A. and Richemont hold interests.

5 John Coomber
Non-Executive Director
John joined the board of PIC in 2006 as a non-executive director. He was CEO from 2009 until June 2015. He was previously Group Chief Executive Officer of Swiss Reinsurance Company, a position from which he retired in December 2005, following a career of 33 years at one of the world's leading reinsurance companies. He was a member of the board of Swiss Re from 2006 to 2014; other past directorships include Euler Hermes, Chairman of The Climate Group and Chairman of ClimateWise. Today, John is a director of the Financial Reporting Council and Chairman of MH (GB) Ltd. He is a Fellow of the Institute of Actuaries and an Honorary Fellow of The Chartered Insurance Institute.

6 Harriet Maunsell OBE
Non-Executive Director
Harriet is a former Chairman of the Occupational Pensions Regulatory Authority (OPRA), was Deputy Director of the Occupational Pensions Board, a member of the Council of the Pensions Advisory Service (OPAS) and a founder member of the Association of Pensions Lawyers. Harriet was a non-executive director of the Serious Fraud Office and a member of the With-Profits Committee of Aviva Life UK. She spent the majority of her career as a solicitor specialising in pensions law at Lovells, now Hogan Lovells, where she was the first woman partner. She was awarded the OBE in 1994.

7 Tim Hanford
Non-Executive Director
Tim is Managing Director of J.C. Flowers & Co. UK Ltd. Prior to his roles at JCF, he was Head of Private Equity at Dresdner Bank and served as a Board Director of Schroders, based in Tokyo and Hong Kong, where he was responsible for structured finance.
Tim is a director of OneSavings Bank plc, Compagnie Européenne De Prévoyance, Castle Trust Capital plc, JCSB Investtradebank and Shelbourne Syndicate Services Limited.

8 **Chris McKechnie**

Non-Executive Director

Chris is a long-standing professional in the global financial services industry, formerly serving as Managing Director and Head of Principal Investments at Swiss Reinsurance Company. He was with Swiss Re for 17 years, initially as part of the formation of Securitas Capital, LLC., a private equity fund focused on investments in the insurance industry. During his tenure he held several key positions, including leading Swiss Re's strategy as well as global M&A and Alternative Investments. Prior to joining Swiss Re, he was an investment banker at Smith Barney.

9 **Mark Stephen**

Non-Executive Director

Mark is a Non-Executive Director of Pension Insurance Corporation. He is also a Non-Executive Director of TransRe London Limited. He is a Chartered Accountant and was previously a partner at PricewaterhouseCoopers where he was UK Insurance sector leader. He has over 30 years of experience of advising, and working with, Boards on many aspect of business, including how they adapt to the changing regulatory and business landscape.

10 **Steve Sarjant**

Non-Executive Director

Steve is a Non-Executive Director of Pension Insurance Corporation. He is also a Non-Executive Director of Vitality Health and Vitality Life, and an Independent Member of the With Profits Committee of Liverpool Victoria Friendly Society, a role he held at Prudential Assurance Company prior to joining PIC. Steve has over 30 years' experience in the financial services industry and is a Fellow of the Institute and Faculty of Actuaries. He spent the last 20 years of his executive career as an actuarial consultant at Towers Watson (previously Watson Wyatt), where he was a Managing Director in their Risk and Financial Services segment and the Global Leader, Mergers and Acquisitions. From 2002 until 2010, he was the London Practice Leader for the Insurance and Financial Services Practice of Watson Wyatt.

11 **Willhelm Van Zyl**

Non-Executive Director

Wilhelm is the chief executive of Reinet Investments Manager S.A. and Reinet Fund Manager S.A.. Prior to this Wilhelm was a director and deputy group chief executive of MMI Holdings. He also serves on the boards of various entities within the Reinet group of companies. He is a Fellow of the Institute and Faculty of Actuaries and also a Fellow of the Actuarial Society of South Africa.

12 **Roger Marshall**

Non-Executive Director

Roger is a Non-Executive Director of Pension Insurance Corporation. He is also a Director of Old Mutual plc and of the Financial Reporting Council, and Chair of the Accounting Council. Roger is a Fellow of the Institute of Chartered Accountants in England and Wales. He spent most of his executive career as a partner in Price Waterhouse in London and Zurich, specialising more recently in large financial services audits in both banking and insurance.

13 **Nick Lyons**

Nick worked for 22 years as an investment banker, specialising latterly in advising banks and insurance companies on M&A and equity and debt capital raising before moving into a global management role at Lehman Brothers. He retired from banking in 2003 and began working as a non-executive director in the financial services industry where he has sat on the boards of Miller Insurance Services LLP, Catlin Group Plc, Quayle Munro Limited, Friends Life Group plc, Longbow Capital LLP and Clipstone REIT plc. He is also a Senior Adviser to HSBC.

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

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

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.

European Insurance and Occupational Pensions Authority (EIOPA)
The EU supervisory body for insurance. It was established in January 2011 as part of wider changes to the European financial services regulatory framework and replaces the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). EIOPA has greater legislative powers than CEIOPS and continues as the regulatory advisory body to the European Commission on Solvency II.

Financial Conduct Authority (FCA)
One of the two bodies (along with the PRA) which replaced the Financial Services Authority from 1 April 2013. The FCA is a company limited by guarantee and is independent of the Bank of England. It is responsible for the conduct business regulation of all firms (including those firms subject to prudential regulation by the PRA) and the prudential regulation of firms not regulated by the PRA.

The FCA has three statutory objectives: securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and promoting effective competition in the interests of consumers.

Individual Capital Adequacy Standards (ICAS)
The capital adequacy requirements regime applicable to UK insurers up until 31 December 2015. The ICAS regime has been replaced by Solvency II.

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

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

Pillar 1
The area of Solvency II concerned with calculation of regulatory capital and defining the financial resources that a company must hold to be considered solvent. It sets out how an insurer should assess and value assets and calculate solvency capital.

Pillar 2
The area of Solvency II that focuses on an insurer's governance and risk management. The cornerstones of Pillar 2 are the Own Risk and Solvency Assessment (ORSA) and the Supervisory Review Process (SRP). If a regulator is unhappy with an insurer's risk management processes it can require it to hold more capital.

Prudential Regulation Authority (PRA)
One of the two bodies (along with the FCA) which replaced the Financial Services Authority from 1 April 2013. 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. The PRA has two statutory objectives: to promote the safety and soundness of these firms and, specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders.

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

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.

CONTACTS

Jay Shah
Head of Business Origination
020 7105 2111
shah@pensioncorporation.com

Jeremy Apfel
Head of Corporate Affairs
020 7105 2140
apfel@pensioncorporation.com

David Collinson
Head of Strategic Development
020 7105 2110
collinson@pensioncorporation.com

Pension Insurance Corporation
14 Cornhill, London EC3V 3ND
Telephone: +44 (0)20 7105 2000
Fax: +44 (0)20 7105 2001
enquiries@pensioncorporation.com
www.pensioncorporation.com

DISCLAIMER

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

The statements and information contained in this document have been compiled as at 31 December 2015 unless otherwise stated herein, from sources believed to be reliable, but which have not been independently verified or, in the case of financial information, audited. The delivery of this document at any time should not under any circumstances imply that the information contained herein is correct as of any time subsequent to such date. Any opinions or estimates expressed in the documents may be subject to change without notice and PIC is under no obligation to update the opinions or estimates and neither PIC nor any of its affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. To the extent permitted by law and regulation, PIC disclaims all warranties, representations, conditions and guarantees (express, implied, statutory or otherwise) in connection with this document.

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

This document is proprietary to PIC. By accepting delivery of this document, the recipient agrees not to reproduce or distribute this document in whole or in part and not to disclose any of its contents (other than to obtain advice on it from a legal, business, investment or tax adviser) without the prior written consent of PIC. No person has been authorised by PIC to give any information or make any representation concerning any transaction that may be described herein other than the information contained in this document and if given or made, such information or representation must not be relied upon as having been so authorised.

The contents of this document are intended for professional/corporate recipients and not for individual/retail customers or pension fund members and should not be passed on to such without the prior consent of PIC.

Designed and produced by Emperor
www.emperordesign.co.uk +44 (0)20 7729 9090

PENSION INSURANCE CORPORATION
14 CORNHILL, LONDON EC3V 3ND

www.pensioncorporation.com