PENSION INSURANCE CORPORATION PLC - 2016 RESULTS

23rd March 2017

PENSION INSURANCE CORPORATION

Risks transferred, pensions insured

Today's presenters

Tracy Blackwell – Chief Executive Officer

Tracy is Chief Executive Officer and a Director of PIC. Tracy is responsible for leading the management team in carrying out the Company's strategic plans and policies as established by the Board of Directors. Tracy joined PIC as one of its founders in 2006 and prior to becoming Chief Executive held the role of CIO, where she was responsible for building up PIC's asset management function including full hedging and direct investment capabilities. Prior to joining PIC Tracy spent 10 years at Goldman Sachs, including as Head of Risk Management, EMEA at Goldman Sachs Asset Management, working with pension fund and insurance company clients on investment, risk and strategic issues

Rob Sewell – Chief Financial Officer

Rob is Chief Financial Officer and a Director of PIC and has leadership over the financial aspects of the Company. Rob has led the development of PIC's finance function since joining the Company in 2008. He oversaw the transition of regulatory financial reporting to Solvency II requirements. He previously held roles as UK Financer Director at Legal & General, and as Chief Executive of National Westminster Life Assurance. Rob is a Fellow of the Institute of Chartered Accountants in England & Wales

This presentation, along with our full 2016 results, has been posted on our website www.pensioncorporation.com

Any questions from bond or shareholders can be sent to Jeremy Apfel (Head of Corporate Affairs) via apfel@pensioncorporation.com.

OVERVIEW OF PIC, THE BULK ANNUITY MARKET AND 2016 HIGHLIGHTS

TRACY BLACKWELL - CHIEF EXECUTIVE OFFICER

PENSION INSURANCE CORPORATION

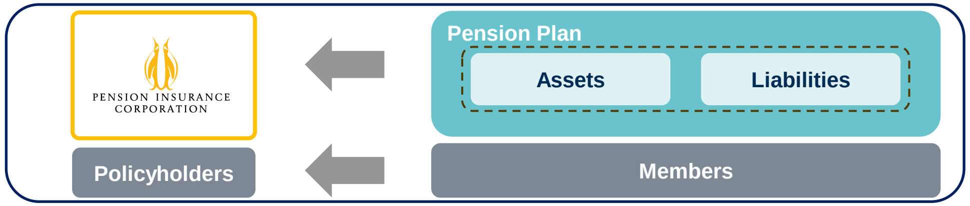
Risks transferred, pensions insured

PIC: a leading UK bulk annuity insurer

- **PIC is a UK insurer with 137 employees, all based in one London office(1)**
- **Founded in 2006, PIC has established itself as a leader in the growing UK bulk annuity sector**
  - Focused on acquiring UK defined benefit pension plan assets and liabilities
  - Delivers excellent client service for trustees and policyholders
  - Earns an attractive risk-adjusted return on capital
- **PIC is focused solely 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 the majority of longevity risk
  - Efficient operating model with substantial scale economies
- **PIC is regulated by the UK's Prudential Regulation Authority and Financial Conduct Authority**

PIC's Offering

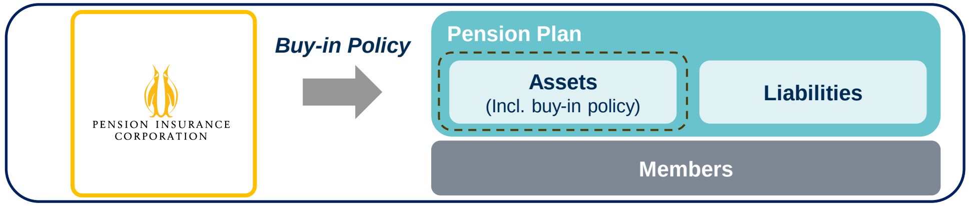
Pension Buy-Outs



- PIC issues individual annuity policies to the members of the pension plan as a replacement for their claim on the pension plan
- Pension plan members become individual policyholders of PIC

Full transfer of assets and liabilities to PIC

Pension Buy-Ins



- The pension plan purchases a UK bulk annuity policy to cover its obligations to a subset of its members
- Removes the pension fund's longevity, market interest rate, inflation and other risks with respect to a subset of the pension plan, as these are transferred to PIC

Perfectly matching investment for the insured liabilities

Notes
1. Excluding board members and part time employees as at 31 December 2016

PIC operates in a large and resilient market with significant growth potential

PENSION INSURANCE CORPORATION

UK Defined Benefit Plans in numbers

£2.1(1)
TRILLION
UK Defined Benefit "DB" Liabilities

£70(2)
BILLION
Liabilities insured through buy-ins and buyouts

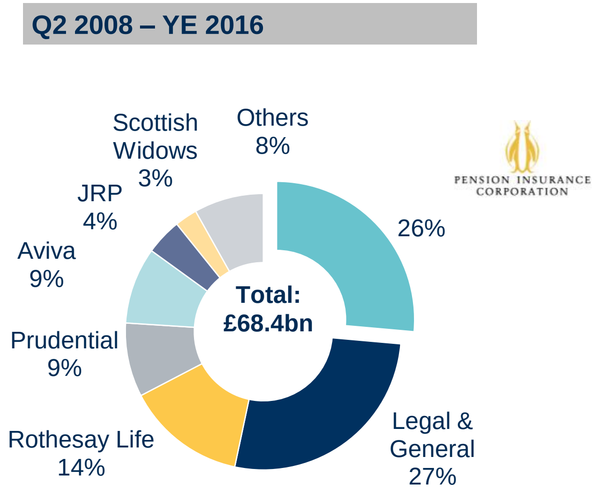
87(1)
PERCENT
UK DB Plans either closed to new entrants or future accruals

£650(1)
BILLION
Held in Gilts and fixed income bonds

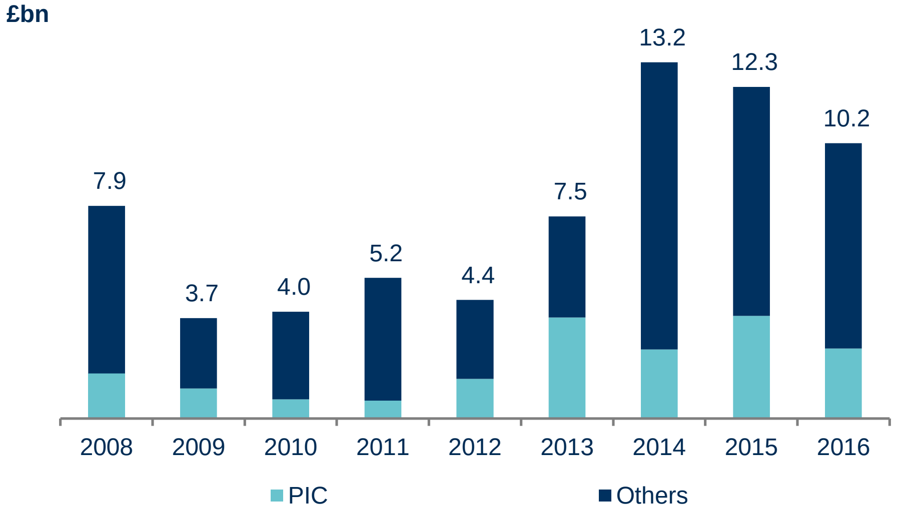
11(1)
MILLION
Members of DB Pension Plans

£400(3)
BILLION
In well funded plans (>75% to the cost of insuring)

UK Bulk Annuity Market Share(4)(5)



UK Bulk Annuity Volumes(4)



Notes
1. PPF Purple Book December 2016
2. LCP Pensions de-risking report, December 2016, figure is since 2007
3. Company estimate based on PPF Purple Book December 2016
4. Only business with a UK pension plan is included, Hymans Robertson and LCP reports
5. Others includes Aegon and Canada Life. Rothesay Life pro-forma for acquisitions of MetLife, Alico and Paternoster. Legal & General pro-forma for acquisition of Lucida

Risks transferred, pensions insured

Key developments over 2016

PENSION INSURANCE CORPORATION

1 New business and market environment

- c.£2.6bn new business premiums resulting from strong sales in H2 2016.
- Bulk annuity sector remained very healthy in H2 2016 despite market volatility following the EU Referendum result

2 Capital and Solvency

- Robust solvency position maintained through market volatility (Solvency Ratio 164%)
- £243m of equity capital injected into PIC following holding company's £250m equity capital raise in June 2016
- £250m Tier 2 debt issued in November 2016

PENSION INSURANCE CORPORATION

3 Assets

- Financial Investments of £22.6bn
- Continued investment into social housing, infrastructure and private bilateral investments
- In 2016 c.£850m was invested in 15 different projects

4 Customers

- Customer satisfaction rating 98.5% (satisfied or better)
- Winner of the Institute of Customer Service's 2017 Quality Service Provider of the Year Award

5 Board and management

- Jon Aisbitt appointed Chairman in October 2016. The PIC Board has a majority of Independent Directors
- Giles Fairhead appointed Chief Risk Officer in March 2017

2016 FINANCIAL RESULTS

ROB SEWELL - CHIEF FINANCIAL OFFICER

PENSION INSURANCE CORPORATION

Risks transferred, pensions insured

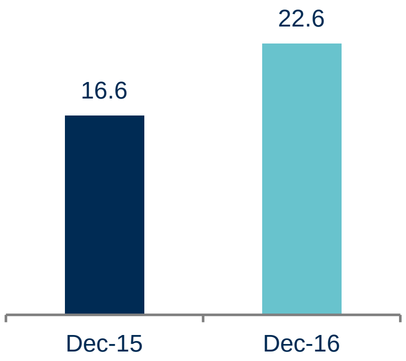
2016 Financial highlights

PENSION INSURANCE CORPORATION

2016 was another very strong year for PIC, with 33% growth in IFRS underlying operating profit and 39% growth in embedded value

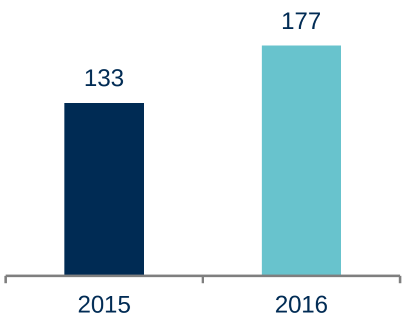
Financial Investments

£bn



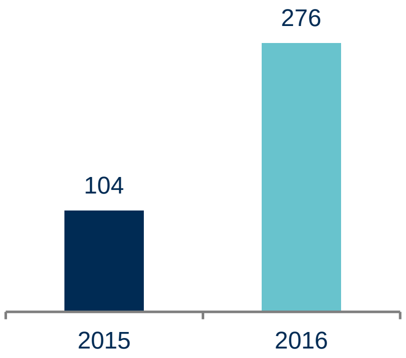
IFRS Underlying Operating Profit

£m



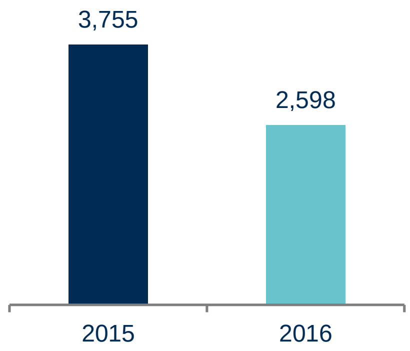
IFRS Profit Before Tax

£m



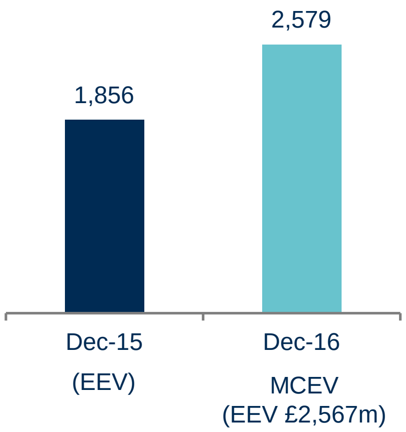
New Business Premiums

£m

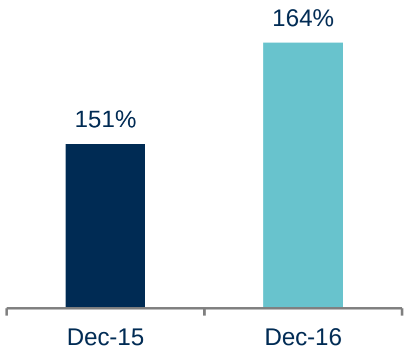


Embedded Value[1]

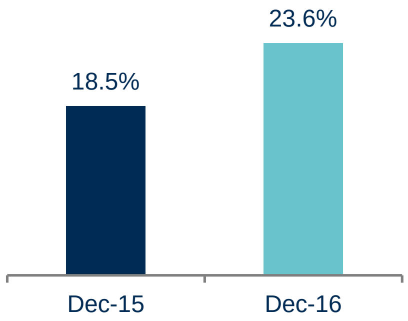
£m



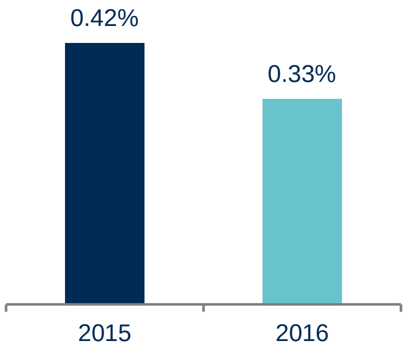
Solvency II Ratio



IFRS Leverage[2]



Expense Ratio[3]



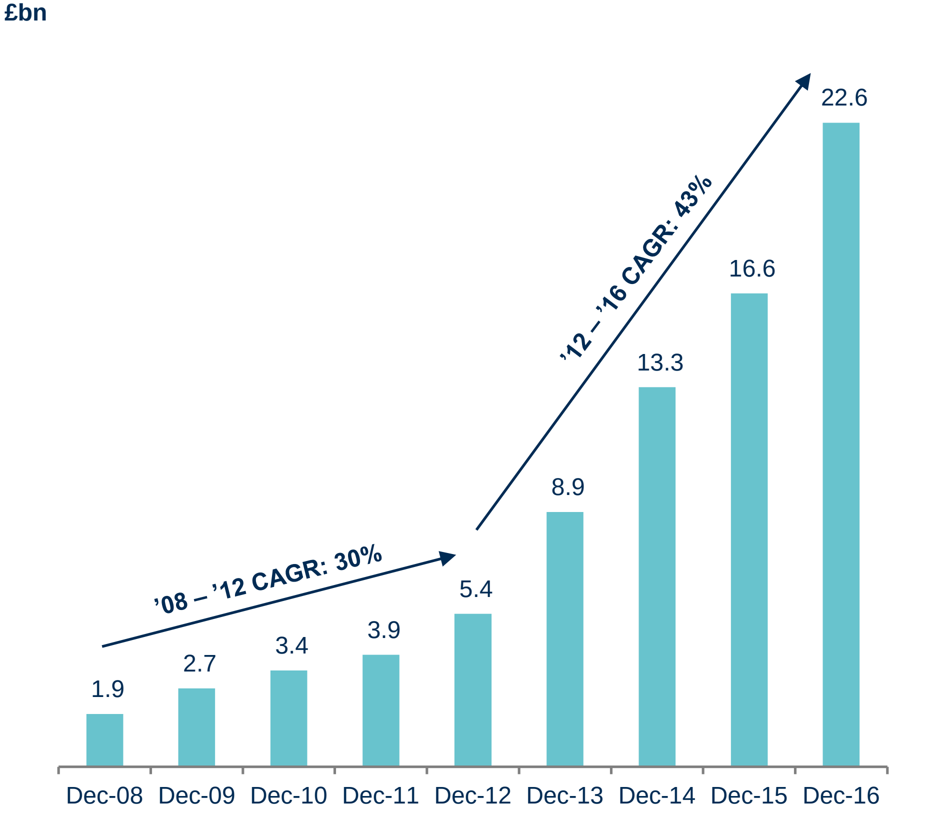
Notes
1. Embedded value methodology changed from EEV to MCEV basis from 1 January 2017
2. Borrowings divided by equity plus borrowings
3. Expenses as a percentage of closing financial investments

Risks transferred, pensions insured

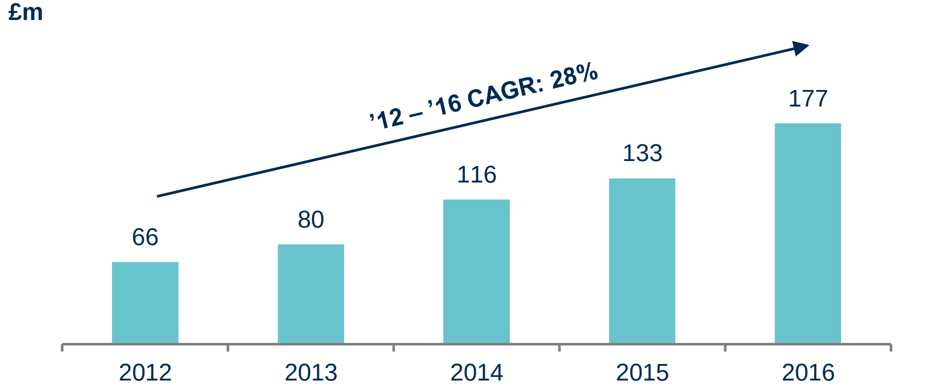
Long term continued growth

PIC has written over £12bn of new business premiums since 2012, driving 43% pa growth in financial investments in that period and over 20% pa growth in underlying operating profit and embedded value

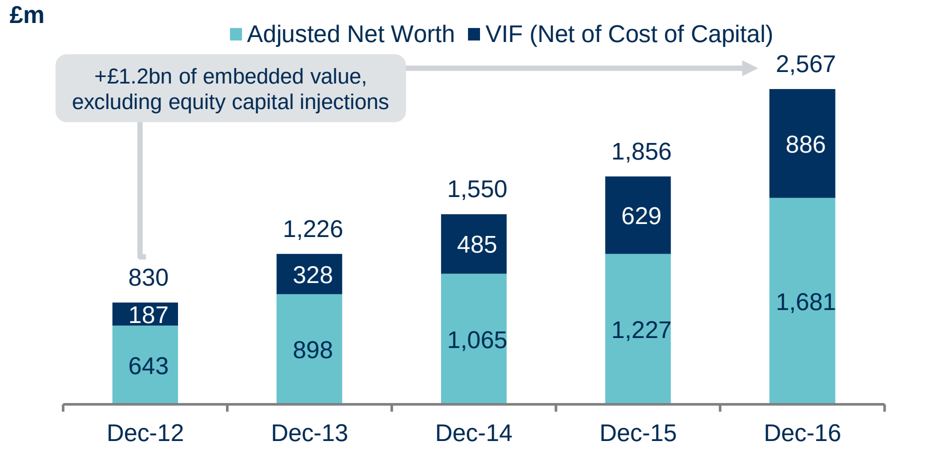
PIC – financial investments



PIC – IFRS underlying operating profit (excl. new business)(1)



PIC – embedded value growth (2)



Risks transferred, pensions insured

Notes
1. Return on existing insurance book and shareholder assets, excluding new business written in the year
2. EEV basis. Embedded value methodology changed from EEV to MCEV basis with effect from 1 January 2017

Underlying value in PIC's back-book

PIC's asset base will be either used to meet claims and expenses or ultimately returned to capital providers

Total Assets: £21.6bn[(1)]

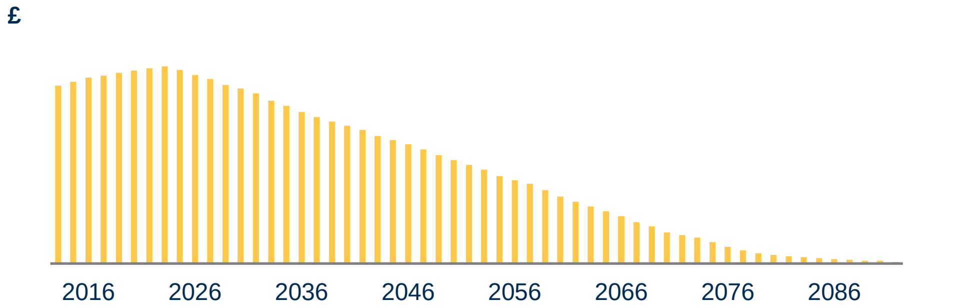
£17.3bn allocated to meeting claims and expenses, including **£1.1bn** allocated to reserve for defaults and downgrades (£0.4bn of which is anticipated to be released in the MCEV calculation)

Assets, available to cover solvency and risk margins **£4.3bn[(2)]**

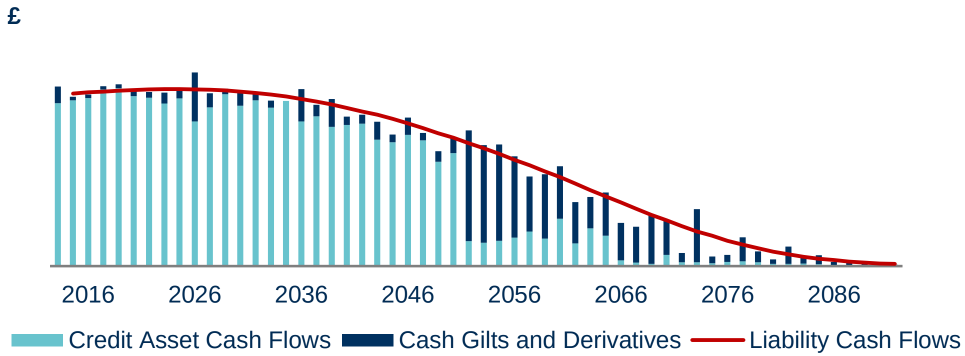
Debt holders **£561m** (fair value)

£3.7bn[(2)] of underlying value, expected to be released over time as capital and risk margins run off. In addition MCEV anticipates a further £0.4bn of prudent margin release

Illustrative Future Capital/Cash return profile from In-force Book



Illustrative In-force Asset and Liabilities Cash Flows



Risks transferred, pensions insured

Notes
1. Comprised of financial investments, derivatives and net current assets
2. After deducting £0.2bn provision for deferred tax on the Solvency II balance sheet

IFRS operating profit

IFRS Operating Profit

	£m	2015	2016	+/-%
1	Return earned on insurance book	87	122	40%
2	Return earned on surplus assets	46	55	20%
	Underlying operating profit	**133**	**177**	**33%**
3	New business and reinsurance operating profit	59	(26)	n.m
	Other changes to in-force business	(4)	(3)	(25%)
	Operating profit before tax	**188**	**148**	**(21%)**
4	**Non-operating profit / (loss) before tax**	**(84)**	**128**	**n.m**
	Total profit before tax	**104**	**276**	**165%**

1. Profits generated from release of prudent margins for business written in previous years
2. Return on shareholder funds based on long-term investment return assumptions
3. Profit generated from new business and reinsurance contracts which have been written during the period
4. Short-term fluctuations in investment return, model and assumption changes and non-recurring expenses

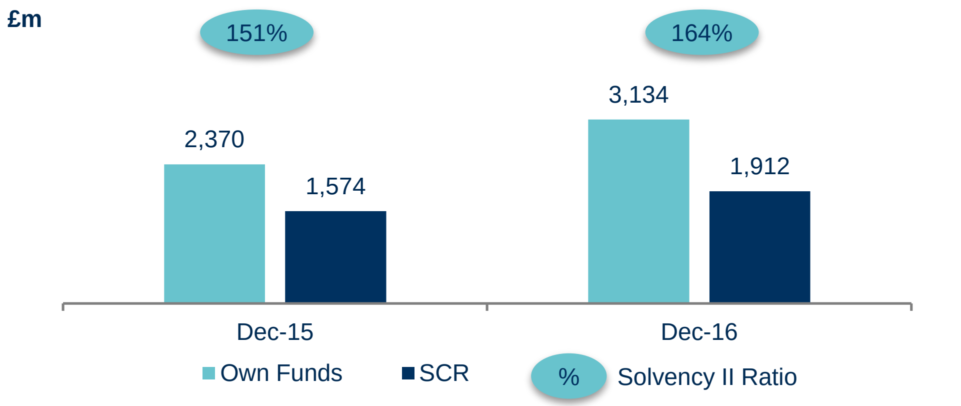
Commentary

- **IFRS methodology unchanged**
- **Underlying operating profit increased by c.33% to £177m in 2016**
  - Driven by growth of the back-book
- **New business and reinsurance deals initially resulted in a charge to operating profits of £26m**
  - Insured 17 pension funds, with a total premium value of c.£2.6bn
  - Concluded two longevity swap reinsurance transactions covering longevity risk on c.£1.4bn of insurance liabilities
    - c.68% of total longevity exposure on a regulatory solvency basis reinsured to third party, investment grade reinsurance counterparties
- **Non-operating profit contributed £128m**
  - Main components of non-operating profit were interest rate and credit movements
- **IFRS 17 – Draft of New Standard due in 2017**

Solvency II position

Solvency II ratio strengthened to 164%

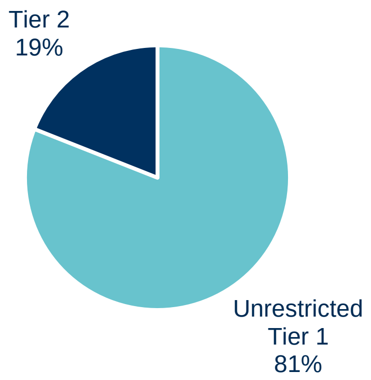
Solvency II Capitalisation



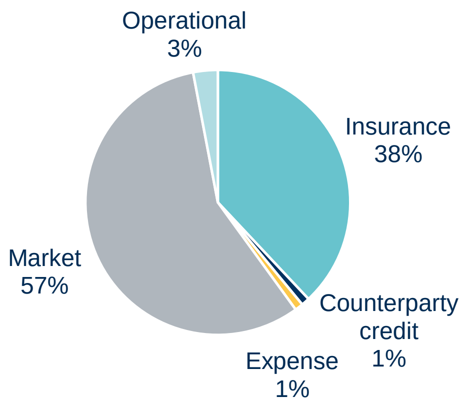
Commentary

- **Own funds benefitted from £493m of new capital**
  - £243m equity capital
  - £250m Tier 2 debt
- **Significant market volatility in rates and currencies managed through hedging programme**
- **Increase in SCR reflects market movements and new business written**

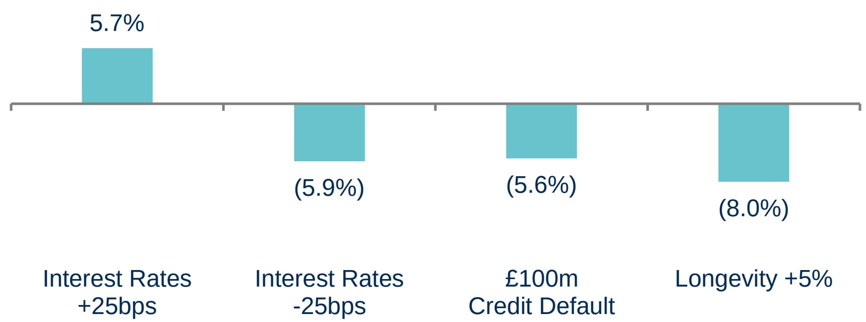
Own Funds by Tier (31-Dec-16)



SCR by Type of Risk[1] (31-Dec-16)



Solvency II Ratio Key Sensitivities[2] (31-Dec-16)



Risks transferred, pensions insured

Notes
1. Post-diversification
2. With recalculation of transitionals

Summary and outlook

PENSION INSURANCE CORPORATION

1 **Leading, focused player in a large, resilient and attractive market with significant future growth potential**

- The UK bulk annuity market has proven resilient to market volatility
- Significant new business opportunities in PIC's pipeline, building on the £12bn+ of premiums written since 2012
- Continued enhancement of asset sourcing and reinsurance abilities to support new business opportunity

2 **Strong financial results with increased solvency cover**

PENSION INSURANCE CORPORATION

- Significant underlying profit and embedded value growth
- Solvency ratio increased to 164%

3 **Growth potential enhanced with new shareholders and customer service focus**

- Legend Holdings became a shareholder in PIC's ultimate holding company in June 2016
- CVC to become a >10% shareholder (pending regulatory approval)
- Recent customer service awards reinforce PIC's position as the provider of choice on customer service grounds

Glossary – General Terms

- **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 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
- **Best Estimate Liabilities (BEL)**
  - The expected present value of future cash flows for a company's current insurance obligations, calculated using best estimate assumptions, projected over the contract's run-off period, taking into account all up-to-date financial market and actuarial information
- **Bulk Purchase Annuity (BPA)**
  - Bulk annuities are annuity policies that insure a group of individuals under a single contract, typically the members of a Defined Benefit Pension Plan, or a defined subset of such members
- **Deferred Tax Liability (DTL)**
  - Liability arising due to timing differences between tax computations and the recognition of items in company accounts
- **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
- **Defined Contribution (DC) Pension Plan**
  - A pension plan on which the employer and / or the employee make regular contributions, where the amount received by the employee on retirement is based on the accumulated fund. The employee normally has the responsibility of deciding how the contributions are invested (though investment choices may be limited by the actual pension fund provider)
- **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

Glossary – General Terms (cont'd)

- **Internal Rate of Return (IRR)**
  - A discount rate used to measure profitability. The rate used is that which will bring a series of cash flows to a net present value of nil
- **Matching Adjustment (MA)**
  - An adjustment made to the risk-free interest rate when the insurer holds certain long-term assets to back a portfolio of their liabilities
- **New Business Strain**
  - The impact of writing new business on the regulatory capital position, including the cost of acquiring new business and the setting up of regulatory reserves
- **Own Funds**
  - The amount of capital a firm actually holds under Solvency II on a market value basis. This is the sum of the economic value of assets less the economic value of liabilities. Basic own funds are calculated as the difference between the assets (including transitional measure on technical provisions) and liabilities (including subordinated liabilities) calculated on a combination of best estimate and market consistent assumptions. Eligible own funds reflect any tiering restrictions and are the amount of own funds eligible to cover the SCR and MCR
- **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
- **Risk Margin (RM)**
  - The amount an insurance company would require, in excess of best estimate liabilities, in order to take over and meet the whole portfolio of insurance and reinsurance obligations. It reflects the cost of providing capital equal to the solvency capital requirement for non-hedgable risks necessary to support the insurance obligations over their lifetime
- **Solvency II**
  - EU-wide regulatory regime which intends to align solvency capital to an insurers risk profile. Solvency II became effective from 1 January 2016
- **Solvency Capital Requirement (SCR)**
  - Is the amount of capital the Regulator requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. Firms may use their own internal model e.g. PIC, the European Insurance and Occupational Pensions Authority (EIOPA) prescribed standard formula or a partial internal model to determine SCR

Risks transferred, pensions insured

Glossary – Embedded Value Terms

- **Embedded Value (EV)**
  - The Embedded Value (EV) of a life insurance company is the estimated value to equity shareholders of the net assets and expected future profits of the company based on historical business written.
- **European Embedded Value (“EEV”)**
  - The methodology for calculating and reporting Embedded Value, as set out by the European Embedded Value Principles. It is made up of three components: Adjusted Net Worth plus Value of In-force less the Cost of Capital
- **EEV – Adjusted Net Worth**
  - Adjusted net worth is essentially the IFRS net assets, but with some adjustments to reflect fair value movements in the Company’s debt as well as differences between IFRS and Pillar 1 solvency reporting
- **EEV – Value In Force (VIF)**
  - The value of in-force is the present value of expected future shareholder after-tax profits expected to emerge on the in-force business. These profits are discounted back at the risk discount rate and arise due to the release over time of prudential margins built in to the Pillar 1 (statutory) reserves in excess of the best estimate of the liabilities
- **EEV – Cost of Capital (CoC)**
  - The cost of capital represents the frictional costs on the required capital as this capital is not immediately available for distribution to shareholders
- **EEV – New Business Contribution (NBC)**
  - NBC is the present value of future profits from new business written at the point of sale. It is calculated using the same operating assumptions as those used to determine the embedded value at the end of the reporting period
- **Market Consistent Embedded Value (“MCEV”)**
  - The methodology for calculating and reporting Embedded Value, as set out by the Market Consistent Embedded Value Principles. It is made up of five components: Adjusted Net Worth plus Present Value of Future Profits less Cost of Residual Non-Hedgeable Risks less Frictional Cost of Required Capital less Subordinated Debt
- **MCEV – Adjusted Net Worth**
  - Adjusted net worth is equal to the unadjusted Own Funds under Solvency II
- **MCEV – Present Value of Future Profits (PVFP)**
  - There are certain regulatory margins within the Solvency II own funds which, in a “best estimate” scenario, are expected to be released to shareholders as free capital over time. These regulatory margins principally relate to prudence within the liability discount rate (also known as the fundamental spread), and the Risk Margin (net of any adjustment for the impact of Transitional Measures on the Own Funds). The present value, after tax, of the future release of these regulatory margins is equal to the “Present Value of Future Profits”
- **MCEV – Cost of Residual Non-Hedgeable Risks (CRNHR)**
  - Under the MCEV methodology 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 is treated as hedgeable but only to the extent that the risks have actually been hedged, typically using reinsurance. Longevity risk that has not been reinsured at the balance sheet date is treated as non-hedgeable for the purpose of calculating the cost of non-hedgeable risks
- **MCEV – Frictional Cost of Required Capital (FCoC)**
  - The minimum amount of regulatory capital the Company expects to hold (the Required Capital) is equal to 130% of the Solvency Capital Requirement. There is a cost associated with the assets used to support this, principally in respect of investment management fees and tax on investment income. This cost is captured as the “Frictional Cost of Required Capital”

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March 2017