PENSION INSURANCE CORPORATION PLC – 2017 RESULTS

7 March 2018

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 Finance 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 2017 results, has been posted on our website www.pensioncorporation.com

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

OVERVIEW OF PIC, THE BULK ANNUITY MARKET AND 2017 HIGHLIGHTS

TRACY BLACKWELL - CHIEF EXECUTIVE OFFICER

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Key developments over 2017

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1 New business and market environment

- £3.7bn of new business premiums, with increased number of repeat transactions via buy-ins
- Fourth year in a row bulk annuity sector surpassed £10 billion of liabilities insured

2 Capital and Solvency

- Robust solvency ratio of 160%, supported by new reinsurance in 2017 of £4 billion of longevity exposure (73% of total reserves reinsured for longevity risk)
- PIC's Own Funds increased to £3.3 billion
- PIC assigned Insurer Financial Strength rating by Fitch of A+, reflecting PIC's very strong capitalisation, low investment risk and very strong asset-liability management

PENSION INSURANCE CORPORATION

3 Assets

- Financial Investments of £25.7billion
- More than £1 billion invested directly with long-term borrowers in 2017, to provide secure assets with attractive risk adjusted yields to back pension cash flows

4 Customers

- Customer satisfaction rating higher than 98% (satisfied or better) for seventh year running
- Awarded ServiceMark with Distinction by the Institute of Customer Service, the only financial services company to hold this award

5 Board, management and shareholders

- Completion of CVC's acquisition of a significant shareholding in Pension Insurance Corporation Group
- Giles Fairhead appointed Chief Risk Officer in March 2017

PIC's credit highlights

- Pension Insurance Corporation plc has been assigned an inaugural Insurer Financial Strength credit rating by Fitch of A+
- Market leader in bulk purchase annuities, with long term market share of 27%
- Significant balance sheet with £4.8 billion of assets in excess of best estimate liabilities[(1)] that could result in over £6 billion of future cash flow for equity and debt capital providers from the current in-force business
- Underlying operating profit of £195 million in 2017, demonstrating strength of long term profit generation from in-force business.
- Robust solvency position of 160% at YE 2017
- Limited solvency sensitivity to market risks from interest rate and inflation movements, supporting longer term stability of cash generation
- Strong pipeline of asset origination and longevity reinsurance, supporting continued capital efficiency for new business transactions
- In-force cash generation is currently reinvested into new bulk annuity transactions at attractive long term IRR's, supported by strongly growing markets and a healthy balance between demand from trustees and supply from bulk annuity insurers

(1) After allowing for potential prudent margins in the Solvency II Best Estimate Liability, pre debt.

Substantial store of future cashflow from the in-force business

PENSION INSURANCE CORPORATION

Asset Breakdown:

Total Assets £25.2bn

(Financial Investments net of derivative positions and current assets)

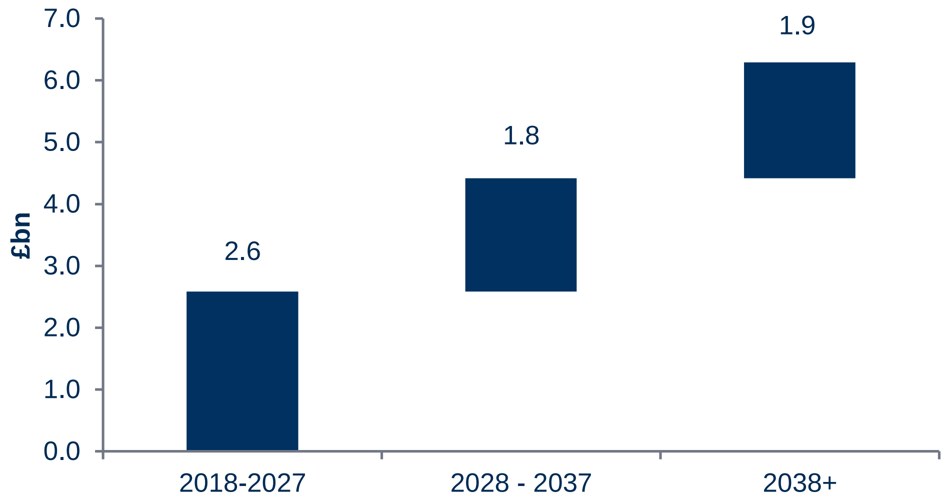
£4.8bn

Assets allocated to covering Solvency Risk and Prudent Margins that will generate future cashflows for capital providers (debt and equity)

£20.4bn Matching Assets

Net of prudent margins (anticipated to be used to pay claims and expenses)

Illustrative profile of future cash generation from current in-force business



The £4.8bn of assets held in excess of that allocated to meet claims and expenses could potentially generate over £6bn of future cash flow (post tax and pre debt costs) for capital providers.

Risks transferred, pensions insured

PIC's strategy

PENSION INSURANCE CORPORATION

The company's overall strategy is focused on the growth potential of the UK bulk annuity market and has remained broadly unchanged over the last decade, resulting in the creation of a strong and successful track record for the group

- **Objective: grow the business on a focused, secure and sustainable basis**
- **Key features of PIC's strategy:**
  - **Focus on the UK bulk annuity market for new business**
  - **Focus on the growth opportunity rather than prioritise dividends, at least in the short term**
    - Cash generated is fully deployed in writing new business
  - **Business focus viewed as more attractive than revenue source diversification**

Risks transferred, pensions insured

Why focus on UK Bulk Annuities?
A large and resilient market with significant growth potential

PENSION INSURANCE CORPORATION

PIC participates across the spectrum of bulk annuity transaction sizes; from small (<£50m) to very large (>£500m)

UK Defined Benefit Plans in numbers

£2.3(1)
TRILLION
UK Defined Benefit "DB" Liabilities

£81(2)
BILLION
Liabilities insured through buy-ins and buyouts

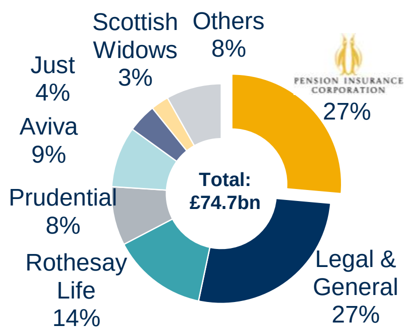
88(1)
PERCENT
UK DB funds either closed to new entrants or future accruals

£840(1)
BILLION
Held in gilts and fixed income bonds

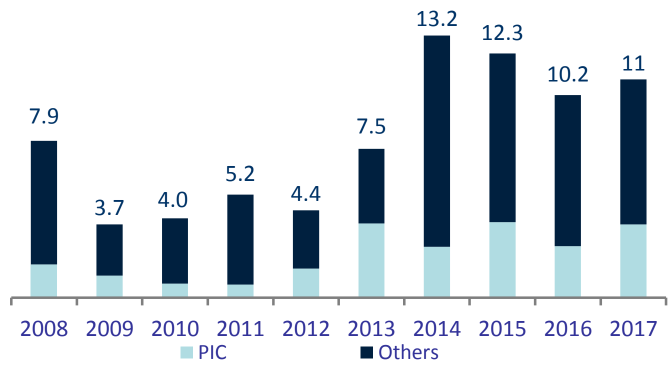
11(1)
MILLION
Members of DB pension funds

20(3)
PERCENT
FTSE 100 companies over 80% funded on a buyout basis

UK Bulk Annuity Market Share[(2)(4)]



UK Bulk Annuity Volumes[(2)]



Notes
1. PPF Purple Book December 2017
2. LCP and Willis Towers Watson (data from 2017 includes transactions announced at the time of going to press).
3. LCP pensions derisiking report, Jan 2018
4. 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

2017 FINANCIAL RESULTS

ROB SEWELL - CHIEF FINANCIAL OFFICER

PENSION INSURANCE CORPORATION

Risks transferred, pensions insured

FY 2017 Financial highlights

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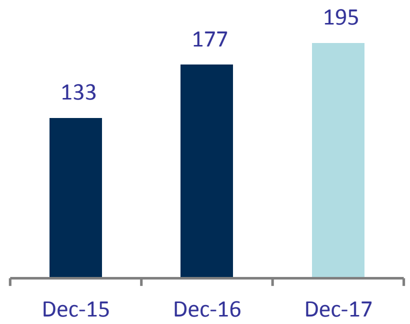
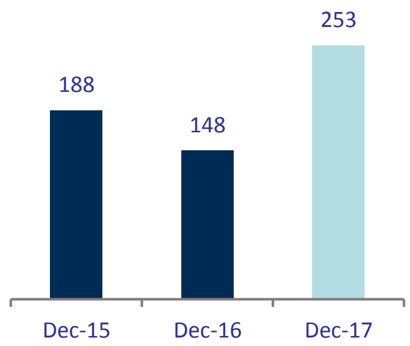
IFRS underlying operating profit is 10% higher than in 2016 and MCEV grew by 13%

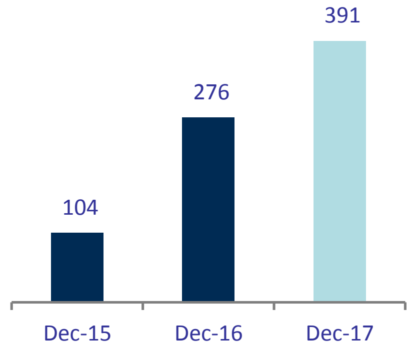
Underlying Operating profit
£m



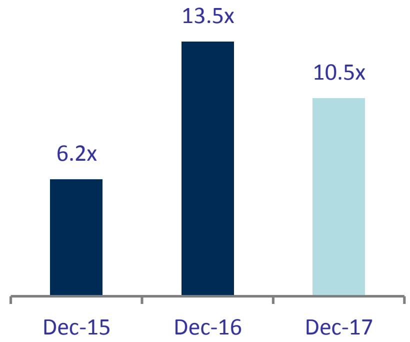
Adjusted Operating Profit
£m



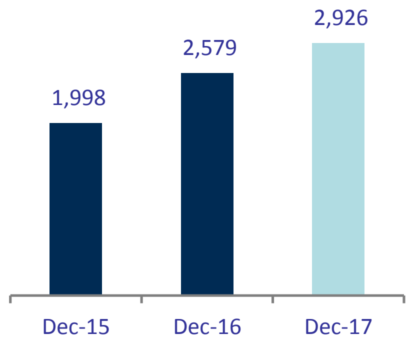
IFRS Pre-Tax Profit
£m



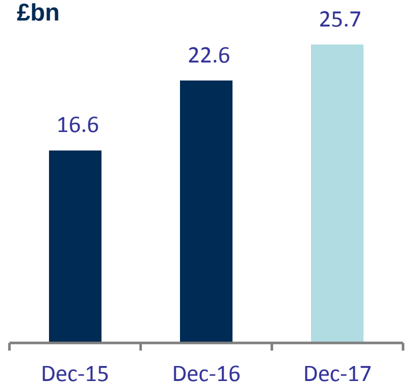
Interest Cover[1]



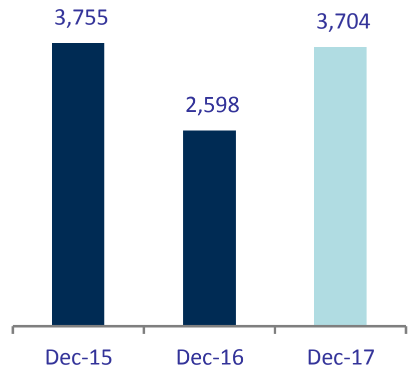
Embedded Value[2]
£m



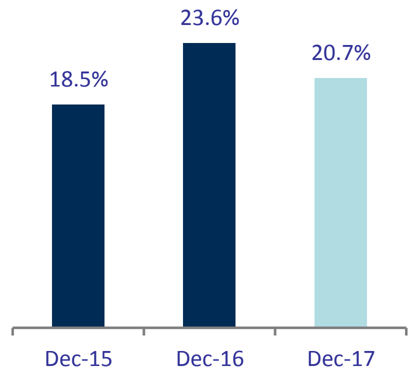
Financial Investments
£bn



New Business Premiums
£m



IFRS Leverage[3]



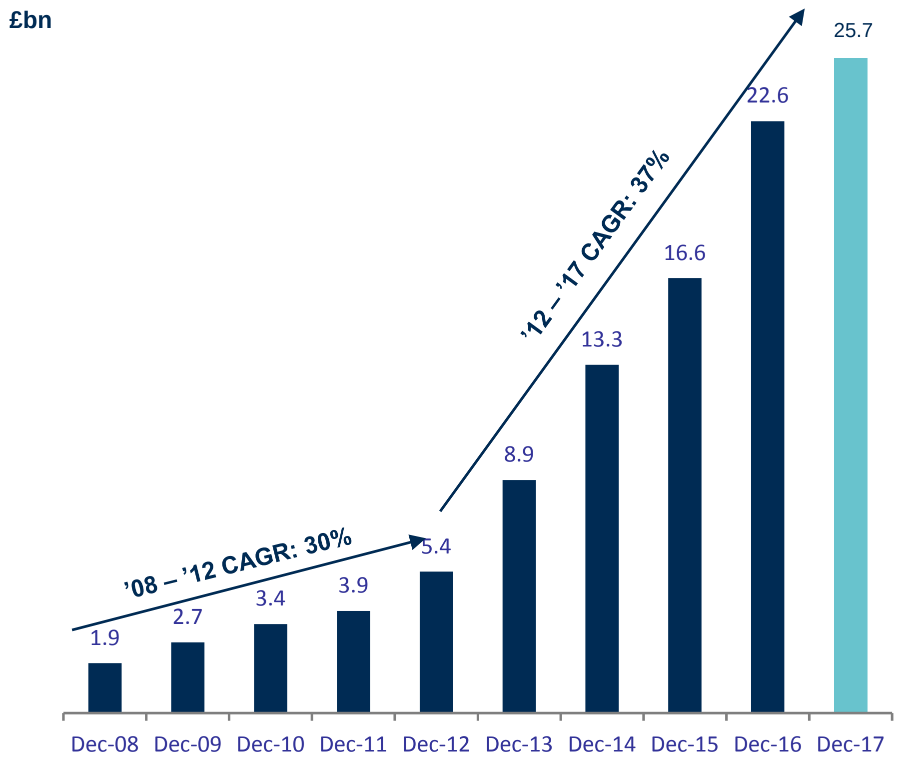
Notes
1. (Earnings before interest expense and tax) / interest expense
2. Embedded value methodology changed from EEV to MCEV basis from 1 January 2017
3. Borrowings divided by equity plus borrowings

Risks transferred, pensions insured

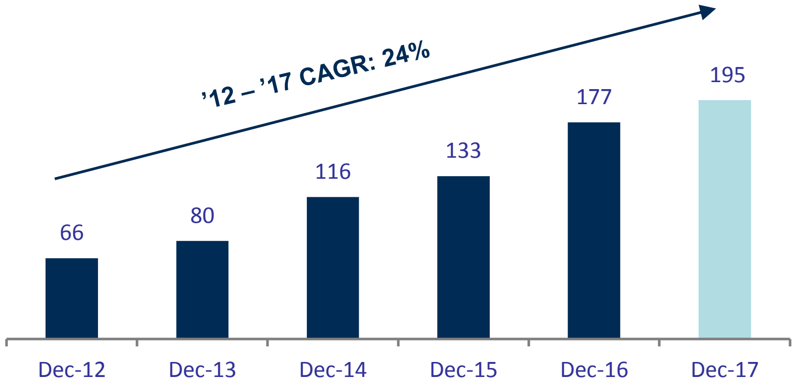
Long term continued growth

PIC has written over £16bn of new business premiums since 2012, driving 37% annual growth in financial investments in that period and 24% annual growth in underlying operating profit

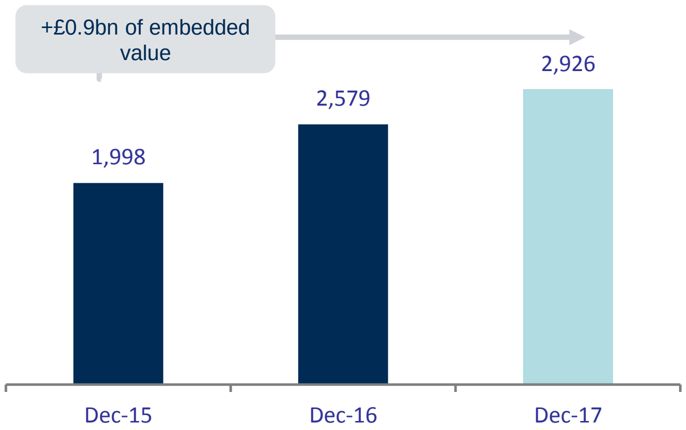
PIC – financial investments



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



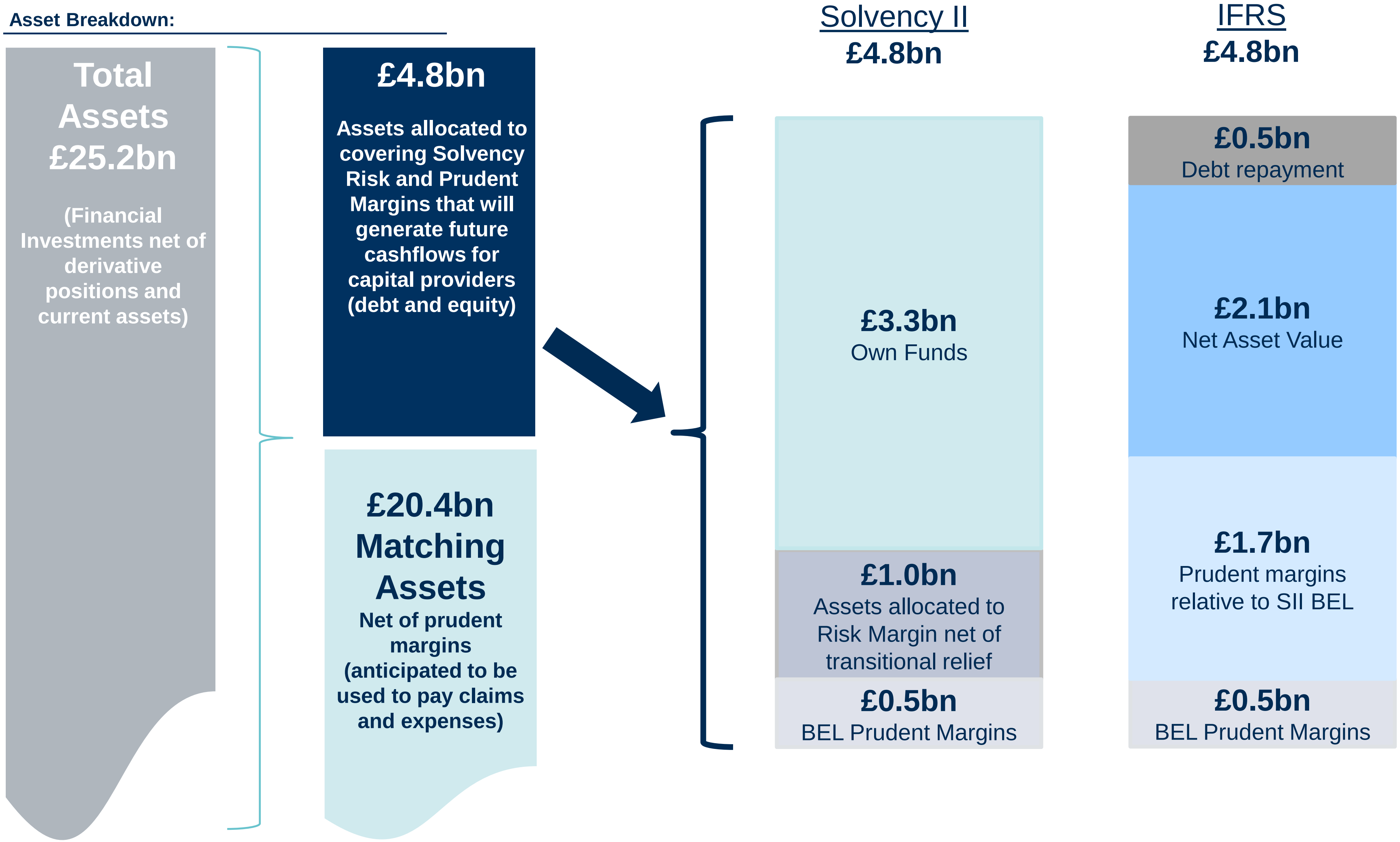
PIC – MCEV growth [2]



Notes
1. Return on existing insurance book and shareholder assets, excluding new business written in the year
2. Includes £0.2bn of new equity capital raised in 2016

Risks transferred, pensions insured

IFRS and Solvency II balance sheet comparison



Risks transferred, pensions insured

IFRS Operating profit

IFRS Operating profit

£m	YE 2017	YE 2016	YE 2015
1 Return earned on insurance book	143	122	87
2 Return earned on surplus assets	52	55	46
Underlying operating profit	**195**	**177**	**133**
3 New business and reinsurance operating profit	70	(26)	59
Other changes to in-force business	(12)	(3)	(4)
Adjusted operating profit before tax	**253**	**148**	**188**
Non-economic assumption changes	170	21	30
Finance costs	(41)	(22)	(20)
Other movements	9	129	(94)
4 **Non-operating profit before tax**	**138**	**128**	**(84)**
Total profit before tax	**391**	**276**	**104**
Interest cover	*10.5x*	*13.5x*	*6.2x*

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 Includes short term fluctuations in investment return, model and assumption changes, non-recurring expenses and finance costs

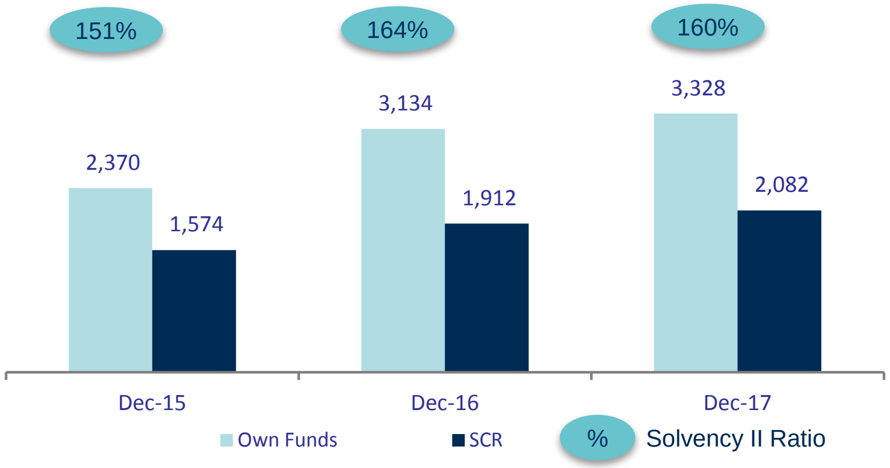
Commentary

- **Underlying operating profit increased by c.10% compared to 2016**
  - Driven by growth of the back-book
- **New business and reinsurance deals in 2017 resulted in a gain to adjusted operating profits of £70m**
  - Insured 20 pension funds, with a total premium value of £3.7bn
  - Concluded seven longevity swap reinsurance transactions covering longevity risk on c.£4bn of insurance liabilities
    - c.73% of total longevity exposure on a regulatory solvency basis transferred to strongly rated reinsurance counterparties
- **Non-operating profit contributed £138m**
  - Assumption changes in respect of prudent margins held in IFRS liabilities, together with positive impacts from data updates, offset by an increase in reserves due to updated long-term expense assumptions, contributed £170m to the profits
  - PIC incurs an annual interest expense of £41m on its two subordinated debt instruments
  - Other movements include project costs and the net impact of short-term market movements, which are not hedged in the IFRS balance sheet.
- **Significant IFRS financial and demographic margins expected to be released from the back book and recognised through the “Return earned on insurance book” reporting line**
- **IFRS 17 – Final standard published on 18 May 2017 and effective from 1 January 2021. The results shown are based on the current IFRS methodology, which is unchanged from previous periods**

Risks transferred, pensions insured

Solvency II position

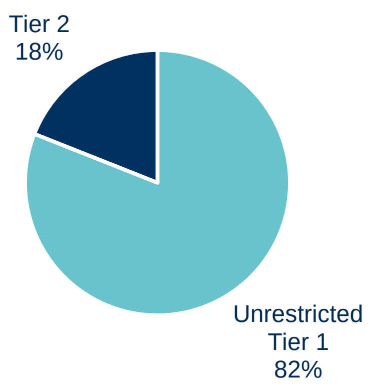
Solvency II Capitalisation



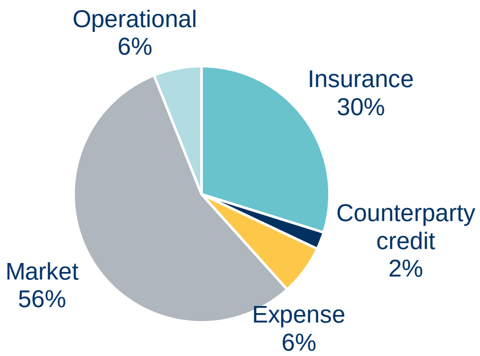
Commentary

- **Solvency ratio of 160%**
- **Significant market volatility in rates and currencies managed through hedging programme**
- **Increase in SCR reflects market movements and new business written**

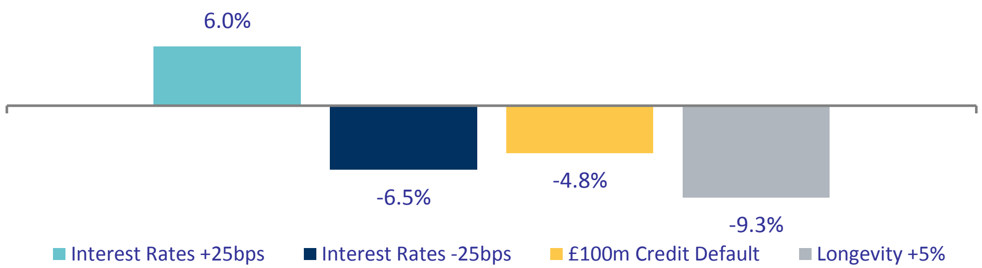
Own Funds by Tier (1) (31-Dec-17)



SCR by Type of Risk(2) (31-Dec-17)



Solvency II Ratio Key Sensitivities(3) (31-Dec-17)



Notes
1. As a percentage of Own Funds
2. Pre-diversification
3. With recalculation of transitionals other than the £100m Credit Default sensitivity

Summary and outlook

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

- Fourth consecutive year of total liabilities insured via bulk annuities being in excess of £10 billion
- PIC has maintained a long term market share of 27%, with focus on pricing discipline
- Ongoing development of asset sourcing team and reinsurance counterparties to support new business

2 Strong financial position

- Assigned an inaugural Insurer Financial Strength credit rating by Fitch of A+
- Robust Solvency ratio of 160%
- Strong IFRS results including 24% CAGR in PIC's underlying operating profit over the past five years

3 Growth potential enhanced with new shareholders and customer service focus

- Completion of CVC's acquisition of a significant shareholding in Pension Insurance Corporation Group
- Policyholder satisfaction levels maintained at over 98% for last seven years, and the only financial services company to be awarded a ServiceMark with Distinction by the Institute of Customer Service

APPENDIX AND GLOSSARY

PENSION INSURANCE CORPORATION

Risks transferred, pensions insured

PIC: a leading UK bulk annuity insurer

PENSION INSURANCE CORPORATION

- **PIC is a UK insurer with 167 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**

Our Clients

AON
Cadbury
citi
Civil Aviation Authority
Department for Environment Food & Rural Affairs
EMI
HONDA The Power of Dreams
Institute and Faculty of Actuaries
London Stock Exchange
PENSIONS AND LIFETIME SAVINGS ASSOCIATION
TOTAL
WPP

Our Customer Awards

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

The Institute of Customer Service
UK Customer Satisfaction Awards 2017
WINNER : Quality Service Provider

Risks transferred, pensions insured

Notes
1. Excluding board members, as at 31 December 2017.

The business model: Three key steps in securing pensions and generating long term returns

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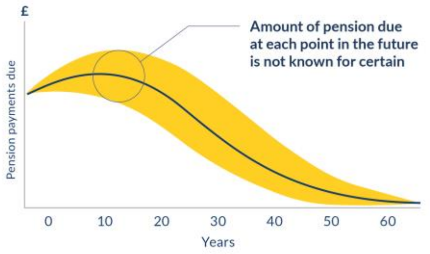
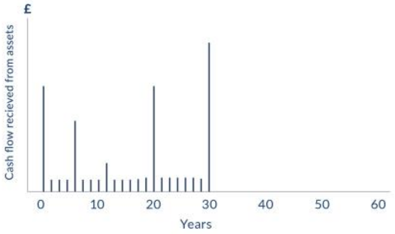
1 What we receive

Pension liabilities taken on are uncertain in both timing and amount (longevity and inflation uncertainty)



Assets are typically received in cash and gilts and are not cash flow matched to the liabilities



The profile of cash returns from the assets are typically very different to the profile of the cash payments due to pensioners (see chart above)

2 What we do

LIABILITIES ARE HEDGED FOR INTEREST RATE AND INFLATION EXPOSURE

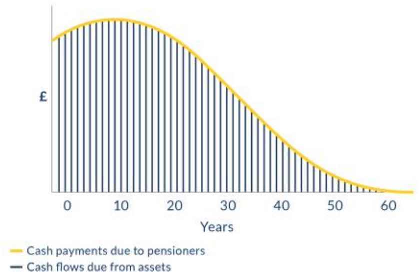
ASSETS RECEIVED ARE REINVESTED TO OPTIMISE RETURNS ON A CASH FLOW MATCHED AND RISK-ADJUSTED BASIS

LONGEVITY RISK IS REINSURED TO REMOVE RISK, CREATE CERTAIN LIABILITY CASH FLOWS AND OPTIMISE CAPITAL DEPLOYMENT

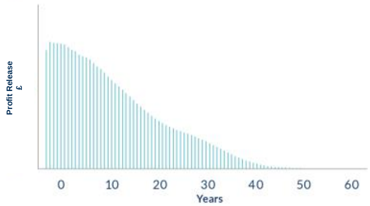
PIC CAPITAL RESOURCES COMMITTED

3 The outcome

Best estimate liabilities are made certain and cash flow matched with high quality assets to provide secure long-term pensions for our policyholders



Underlying profit loading in premium is optimised and, together with the committed capital resources, is released over time, generating attractive risk-adjusted returns on capital employed



Keys to success

PIC is a specialist insurer completely focused on the activities required to succeed in its chosen sector

Success in the bulk annuity market requires expertise in

- looking after policyholders
- structuring transactions
- investing assets
- hedging liabilities
- reinsuring longevity risk
- raising capital
- bringing all these skills together on a coordinated and efficient basis for transacting and transitioning new business.

PIC's track record in all of these areas underpins its position as a leader in providing bulk annuities.

What are buyouts and buy-ins?

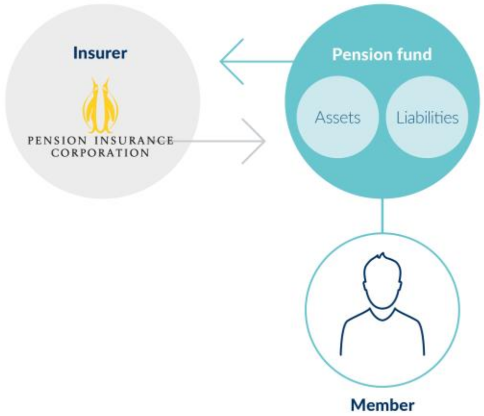
What is a pension insurance buy-in?

> The pension fund purchases a bulk annuity insurance policy to cover its obligations to a subset of the fund members. The insurance policy is held as an asset of the pension plan.

> A buy-in is a perfectly matching investment for the insured liabilities.

> A buy-in removes the pension fund's longevity, market interest rate, inflation and other risks, as these are transferred to PIC.

> PIC has no direct relationship with pension fund members, who continue to be managed by the trustees.

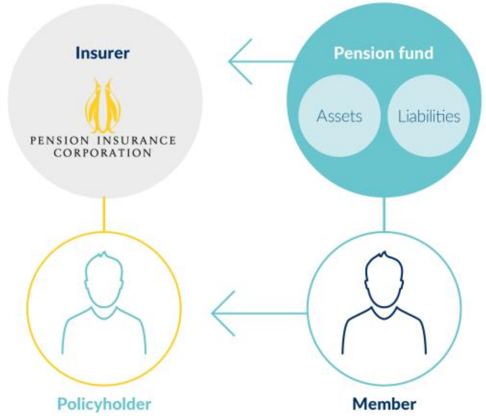


What is a pension insurance buyout?

> A buyout removes pension assets and liabilities from a pension fund and employer's financial reports i.e. a full settlement of the pension fund and employer's obligations to the fund members.

> PIC issues individual annuity insurance policies to the members of the pension fund as a replacement for their claim on the pension fund.

> The pension fund is typically wound up and assets pass across to PIC.



Examples of 2017 new schemes

Pirelli pension schemes

- PIC concluded a c.£100 million full scheme buy-in with the Trustees of three defined benefit pension schemes sponsored by Pirelli UK Limited and Pirelli Tyres Limited.
- Each of the three schemes were completely de-risked providing greater security to members.

WPP pension schemes

- PIC simultaneously insured £140 million of liabilities of five pension schemes sponsored by WPP, covering pensioner and deferred liabilities.
- WPP is a British multinational advertising and public relations company, listed on the LSE and is a constituent of the FTSE 100.

Wolseley Group Pension Plan

- PIC concluded a £600 million pension insurance buy-in of the Wolseley Group Retirement Benefits Plan covering all of the pensioner liabilities.
- Trustees de-risking strategy allowed them to take advantage of market conditions.

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 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 dependent's 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
- **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

Risks transferred, pensions insured

Glossary (cont'd)

- **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
- **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 – Frictional Cost of Required Capital (FCoC)**
  - There is a cost associated with the assets which cover the minimum amount of regulatory capital the Company expects to hold (the Required Capital). This is principally in respect of investment management fees and tax on investment income. This cost is captured as the "Frictional Cost of Required Capital"
- **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

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