PENSION INSURANCE
CORPORATION GROUP LIMITED

PENSION INSURANCE CORPORATION
2018 RESULTS

7 MARCH 2019

PENSION INSURANCE CORPORATION GROUP LIMITED

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 2018 results, has been posted on our website www.pensioncorporation.com. This presentation is based on PICG's Annual Report and Account 2018, but references are made to PIC where it is relevant.

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

PENSION INSURANCE
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OVERVIEW OF PIC, THE BULK ANNUITY MARKET AND 2018 HIGHLIGHTS

TRACY BLACKWELL –
CHIEF EXECUTIVE OFFICER

1. NEW BUSINESS AND MARKET ENVIRONMENT

- £7.1bn of new business premiums with 30 pension schemes representing the best year ever for new business.
- Strong market dynamics reflect focus by pension schemes trustees to better match their assets and liabilities and de-risk in stages. This underpins the bulk annuity market for the future.

2. CAPITAL AND SOLVENCY

- New debt issue of £350m of Tier 2 bonds in September 2018 at a 5.625% coupon with a BBB+ Fitch Rating and PIC's Insurer Financial Strength Rating maintained at A+ (stable).
- Robust solvency ratio of 167%, increasing from 160% FY 17, reflecting strong capital management to support the record new business volumes, resilience of our asset portfolio in difficult conditions and £5.6bn of longevity risk reinsured.
- PIC's Own Funds increased to £3.9 bn from £3.3bn in 2017 and PICG's IFRS NAV £2.5bn from £2.1bn in 2017.

3. ASSETS

- Financial investments of £31.4bn increasing from £25.7bn over the year.
- More than £2.5bn invested directly with long-term borrowers in 2018, to provide secure assets with attractive risk adjusted yields to back our cash flows.

4. CUSTOMERS

- Committed to providing best customer service to our policyholders with 97% of our policyholders expressing overall satisfaction with our service levels, a figure maintained for seven years running.
- Awarded an "Outstanding Employer of the Year" by Korn Ferry.

5. SHAREHOLDERS

- J.C. Flowers disposed of their 21.4% holding and Luxinva, a fully owned subsidiary of ADIA, acquired 17.1% of PICG's shares and the remainder by existing shareholders.

SUBSTANTIAL STORE OF FUTURE CASHFLOW FROM THE IN-FORCE BUSINESS

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PIC asset breakdown at FY 2018

Total assets

£30.2bn

(Financial investments net of derivative positions and current assets)

Excess assets

£5.8bn

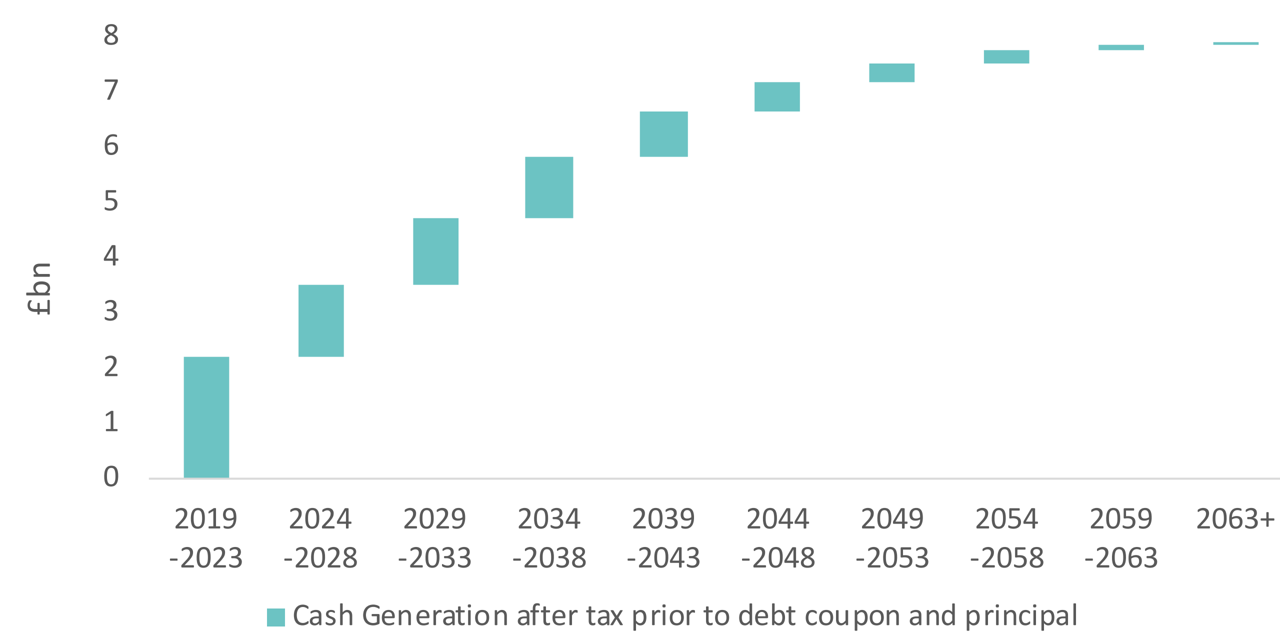
Assets allocated to cover solvency risk and prudent margins that will generate future cashflows for capital providers (debt and equity)

Assets for claims and expenses

£24.4bn

Best estimate liability net of reinsurance and prudent margins

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



- The illustrative net of tax cash generation (pre-debt coupon and principle) compares to the sum of principal and coupon payments of £1.4bn over the same period.
- Over the fifty years of the projections the net of tax cash generation (pre-debt costs) is c£8bn.

PIC'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.

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PIC PARTICIPATES ACROSS THE SPECTRUM OF BULK ANNUITY TRANSACTION SIZES: FROM SMALL (<£50M) TO VERY LARGE (>£500M)

UK Defined Benefit Plans in numbers

£2.2[1]
TRILLION
UK Defined Benefit "DB" Liabilities

£105[2]
BILLION
Liabilities insured through buy-ins and buyouts

88[1]
PERCENT
UK DB funds either closed to new entrants or future accruals

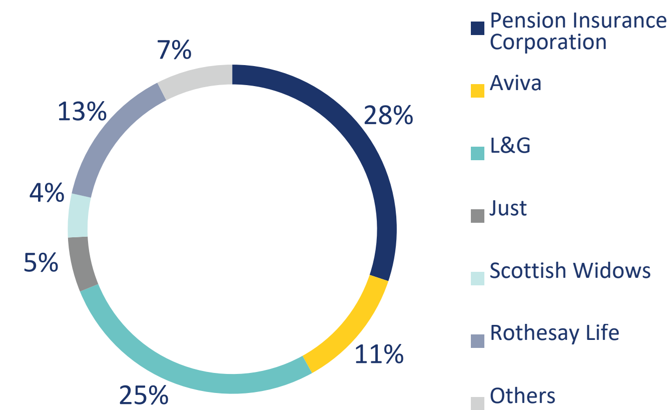
£928[1]
BILLION
Held in gilts and fixed income bonds

10.4[1]
MILLION
Members of DB pension funds

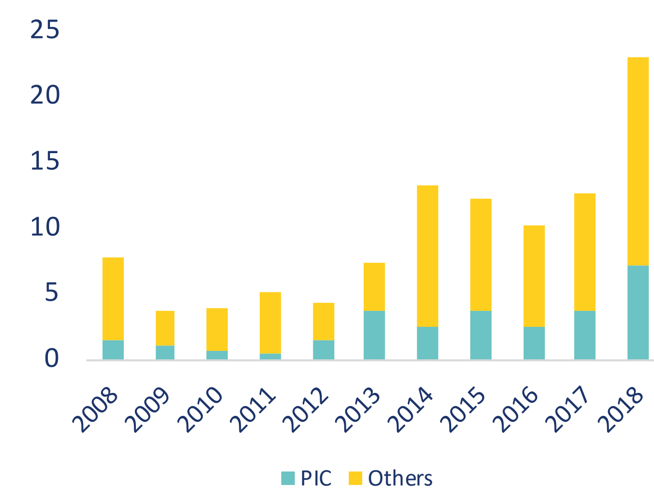
22.1 Males / 24.0 Females
Years
Life Expectancy age 65 [4]

UK bulk annuity market share[2]

2008 – HY 2018



UK bulk annuity volumes[2]



Some of 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

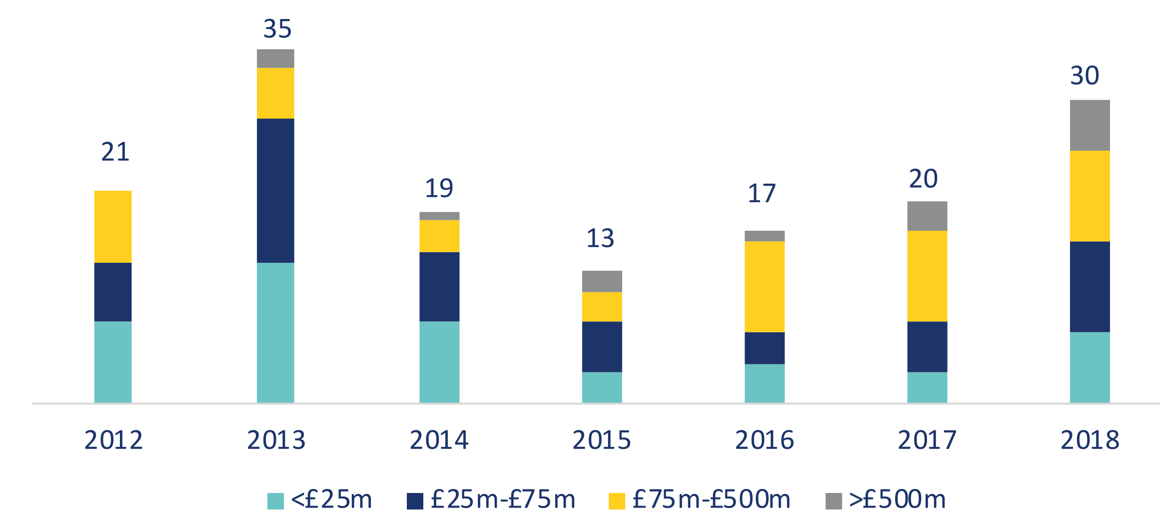
Notes
1. PPF Purple Book December 2018
2. LCP, Willis Towers Watson and company estimate
3. LCP pensions de-risking report, January 2018
4. Institute and Faculty of actuaries, professionalpensions.com

External perspectives[1] on appetite by transaction size

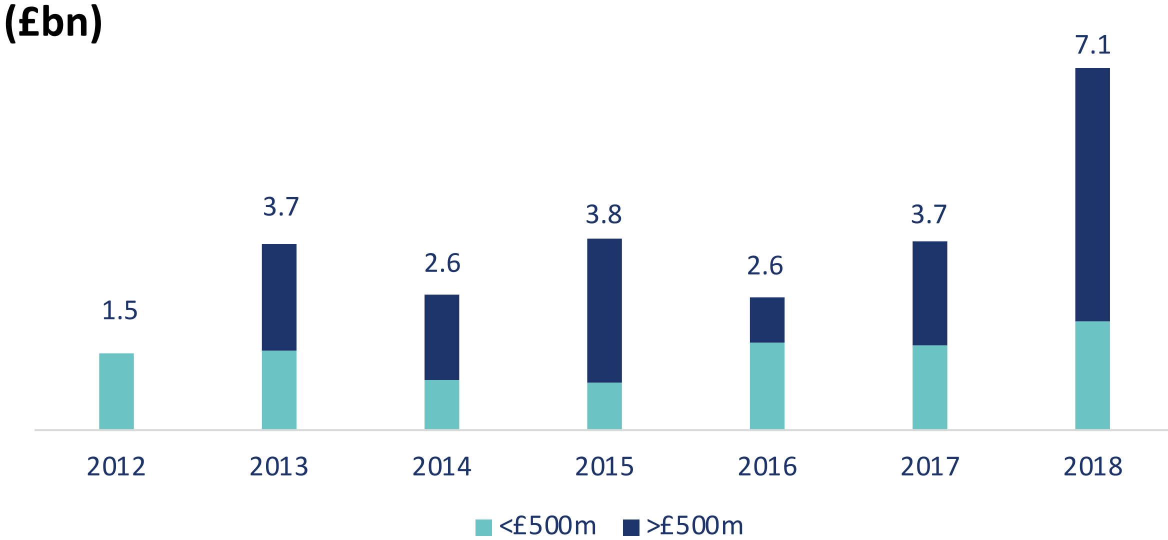
	<£50m	£50m – £100m	£100m – £500m	>£500m
Pension Insurance Corporation	More Selective	Target Market	Target Market	Target Market
Legal & General	More Selective	More Selective	Target Market	Target Market
Aviva	Target Market	Target Market	Target Market	Target Market
Canada Life	Target Market	Target Market	Target Market	Unlikely to Quote
Just	Target Market	Target Market	Target Market / More Selective	Unlikely to Quote
Phoenix Life	Unlikely to Quote	More Selective	More Selective / Target Market	Target Market
Rothesay Life	Unlikely to Quote	Unlikely to Quote	More Selective / Target Market	Target Market
Scottish Widows	Unlikely to Quote	Target Market	Target Market	Target Market

Target Market · More Selective · Unlikely to Quote

PIC transactions by premium size and number of transactions



PIC new business by premium size and annual premiums (£bn)



Notes
1. Hymans Robertson Risk Transfer Report November 2018

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2018 FINANCIAL RESULTS

ROB SEWELL –
CHIEF FINANCIAL OFFICER

OVERVIEW OF FY 2018 RESULTS

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- Record level of new business premium of £7.1bn (FY 2017 £3.7bn).
- Robust PIC solvency ratio of 167% (FY 2017: 160%) achieved through careful capital management and supported by £350m of Hybrid debt issuance in 2018. Our Fitch rating of A+(stable) was re-confirmed in February 2019.
- Assumption changes amounted to £400m. The largest were in respect of mortality and the liability discount rate:
  - The last few years we have seen a shortening of life expectancies versus our assumptions. We are now adopting in full the CMI 2016 model, which added £144m to profits.
  - The level of credit defaults within our credit spread has been reviewed. The default allowance is now based on a fixed % of the Moody's Investor Services long term rates of defaults rather than a variable percentage of the credit spread. This added £320m to profits.
- PIC reinsured a record £5.6bn of longevity risk with 74% of total longevity risk reinsured overall. PIC now has 11 highly rated reinsurance counterparties.
- At FY 18 PIC has £2.5bn of unrecognised IFRS prudent margins relative to the IFRS NAV of £2.4bn. These prudent margins will be recognised over time through future IFRS profits.
- IFRS Profit before tax of £477m (FY 2017: £383m) an increase of 24.5% with PIC leverage at 27.0%.
- EV of £3,638m at FY 2018 (FY 2017: £2,932m), the increase in MCEV of £706m reflects the beneficial impacts of new business written during the period, the in-force business contribution, assumption changes and investment market movements during the period.

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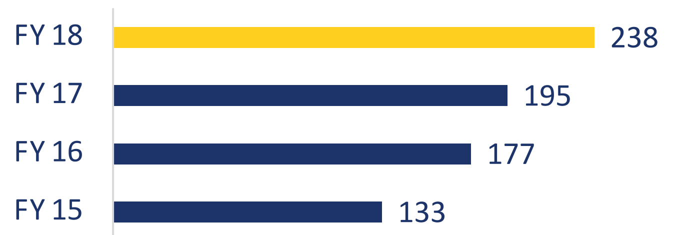
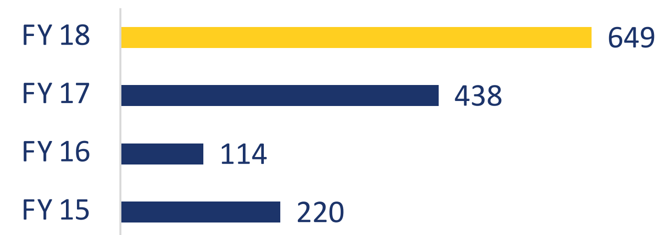
RETURN FROM OPERATIONS IS 22% HIGHER COMPARED TO FY 2017. MCEV HAS GROWN BY 24% SINCE FY 2017

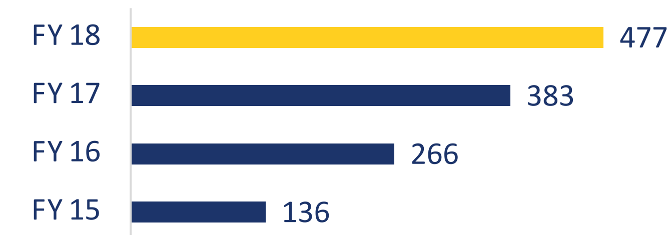
Return from operations[1] (£m)



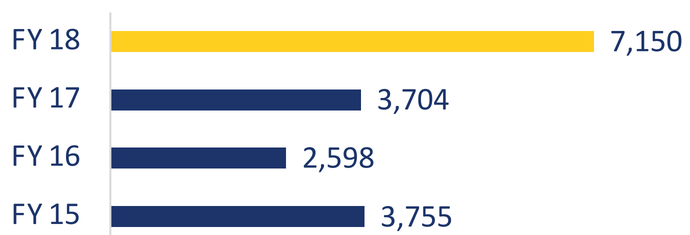
Adjusted operating profit[2] (£m)



IFRS pre-tax profit (£m)

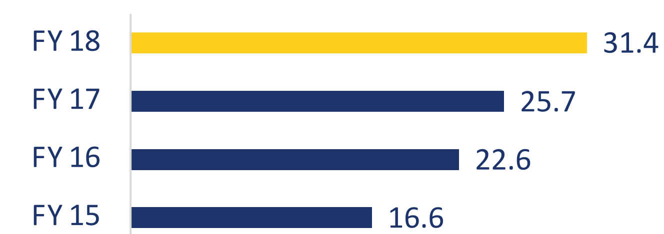


New business premiums (£m)

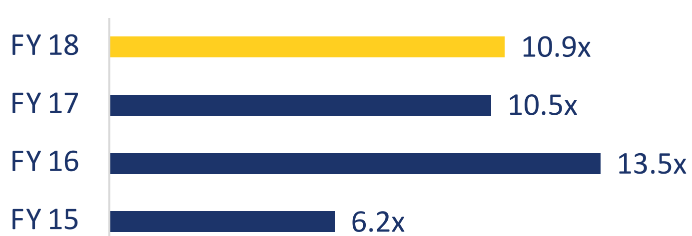


Market consistent embedded value (£m)

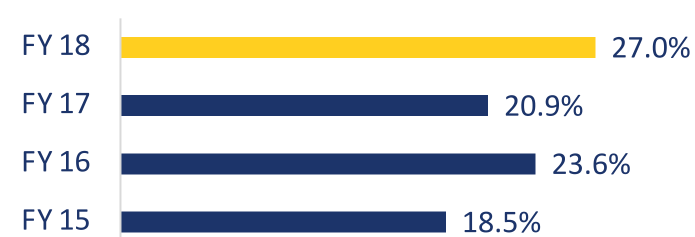
Financial investments (£bn)



PIC interest cover[3]



PIC IFRS leverage[4]



Notes

1. Return from Operations equivalent to Return on Back Book in prior years.
2. Adjusted operating profit basis changed in 2018
3. (Earnings before finance cost and tax) / finance cost.
4. Nominal Borrowings divided by Equity plus Nominal Borrowings.

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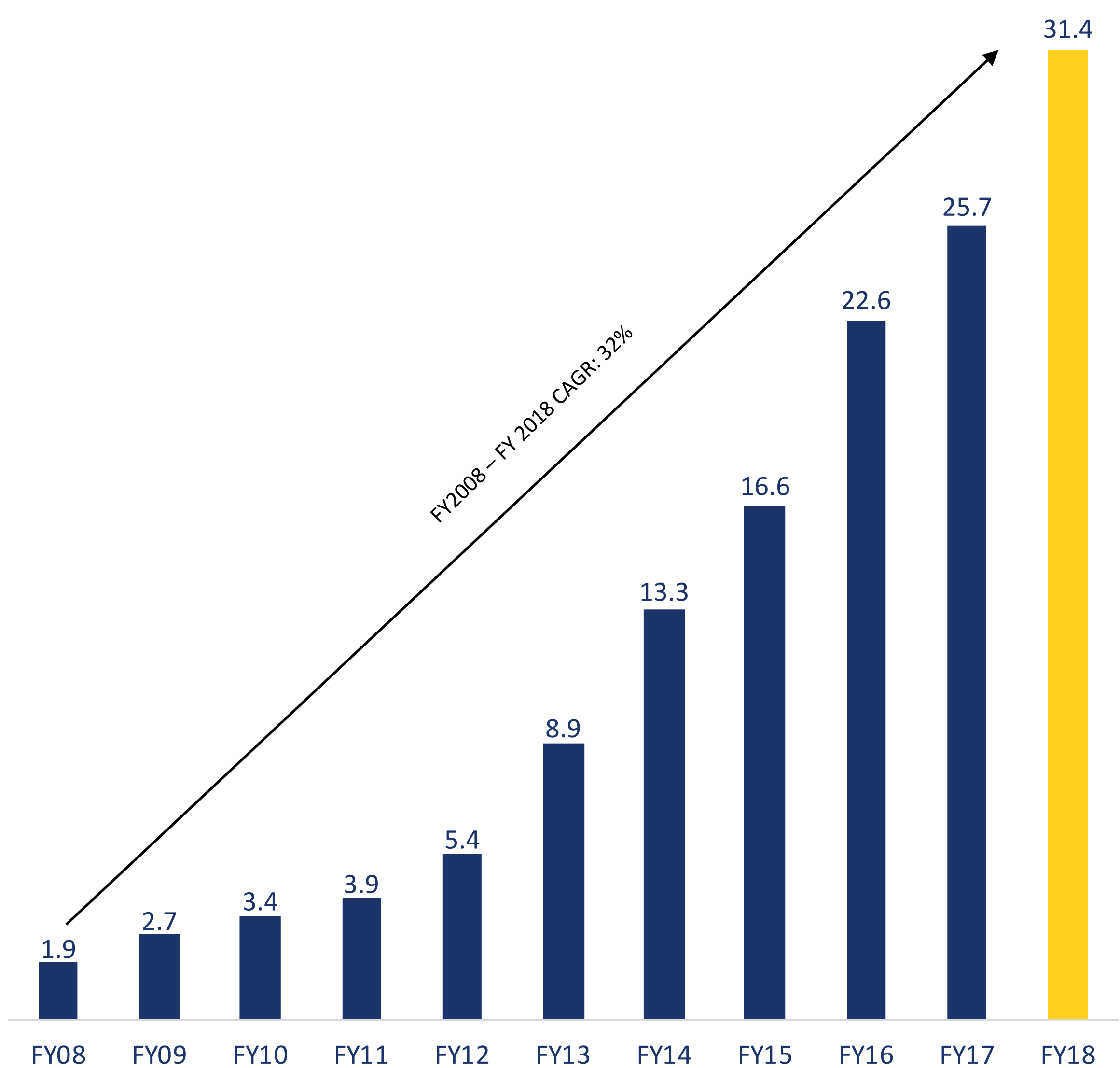
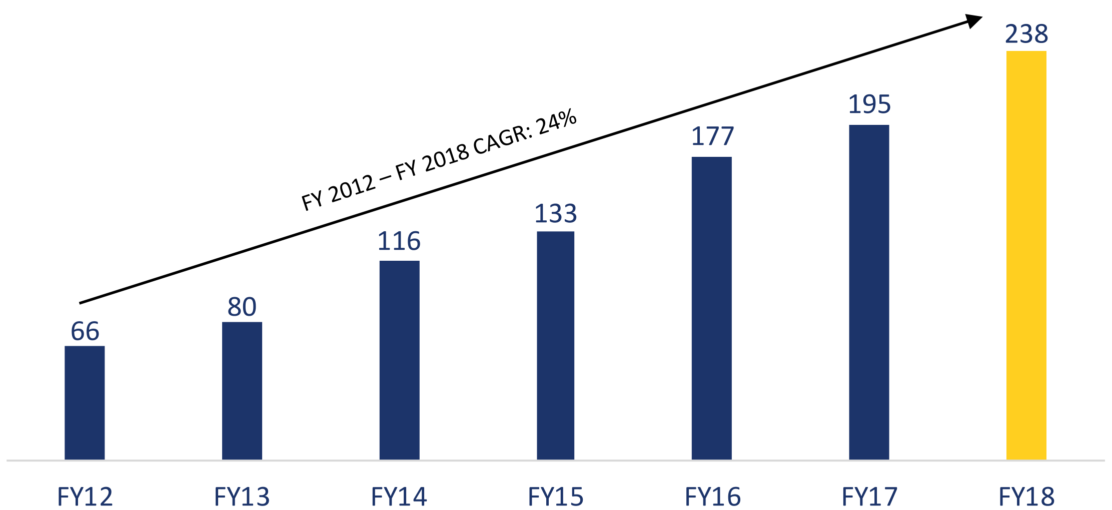
PIC has written over £29bn of new business premiums since 2012, driving 32% annual growth in financial investments in that period and 24% annual growth in Return on Operations. Since 2016, MCEV has grown by 18% per annum

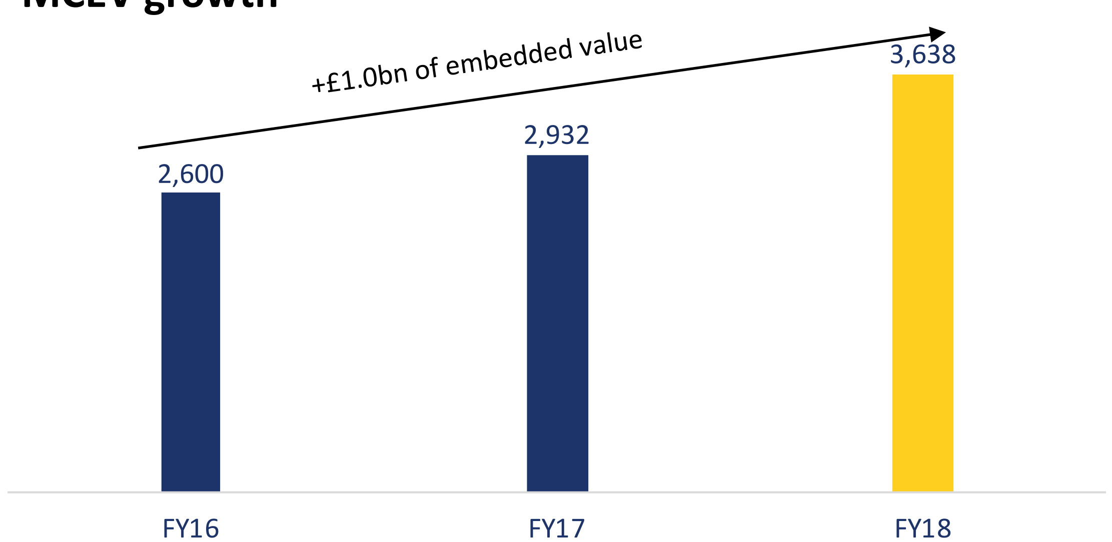
PIC – Financial investments



Return from operations



MCEV growth



SUBSTANTIAL STORE OF FUTURE CASHFLOW FROM THE IN-FORCE BUSINESS

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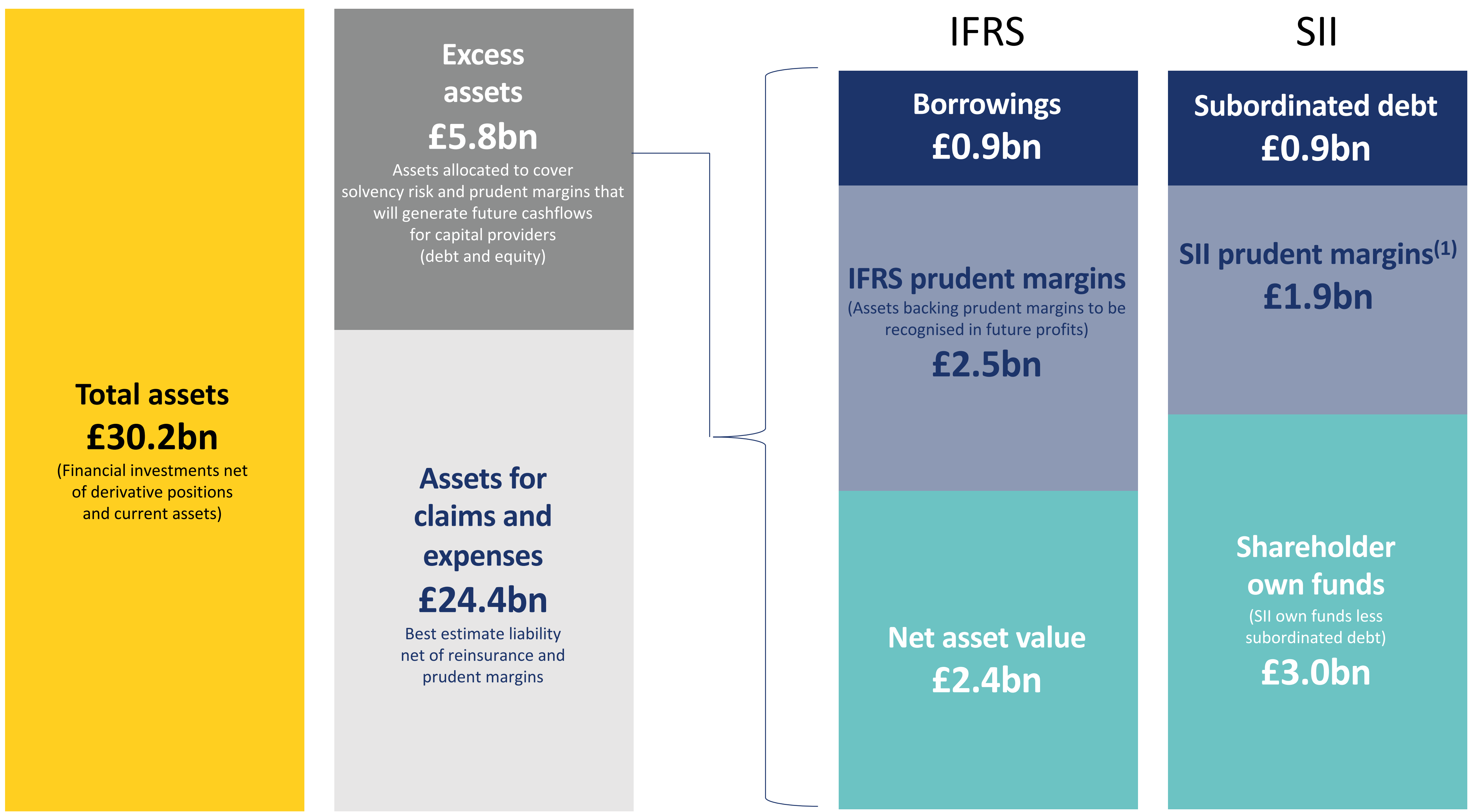
PIC asset breakdown at FY 2018

Excess assets on IFRS and SII bases



Notes

1. SII Prudent Margins and risk margins net of transitional measure on technical provisions, Solvency II and IFRS valuation differences including deferred tax

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Adjusted Operating Profit

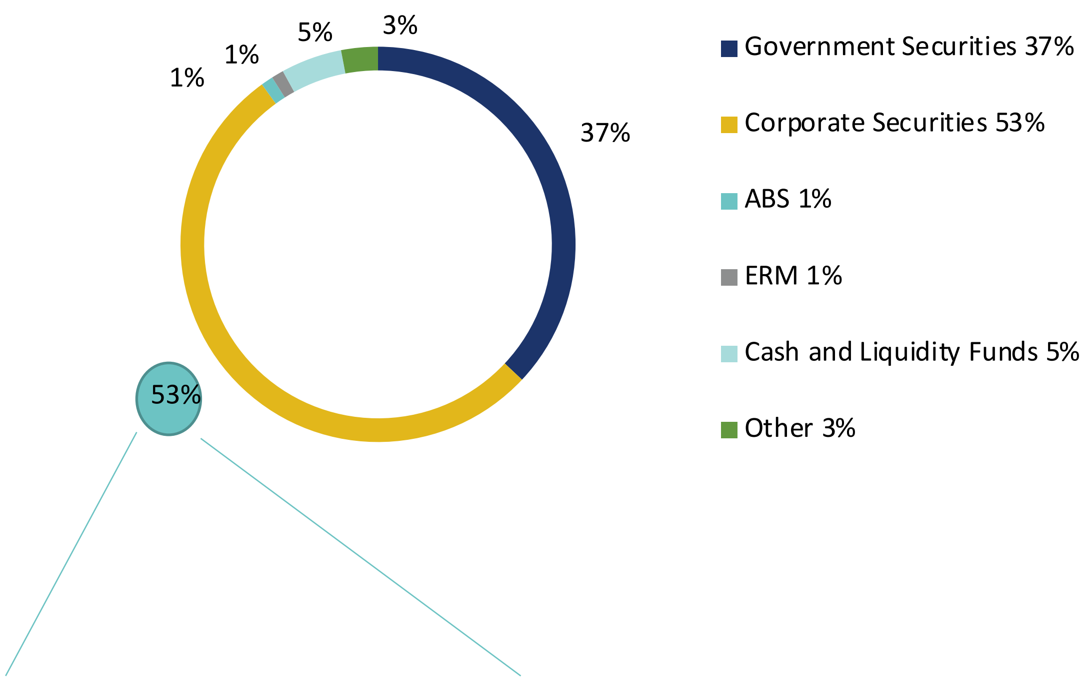
	£m	2018	2017
1	Return from Operations	238	195
2	New business and reinsurance surplus	59	69
	Net release from operations	**297**	**264**
	Change in valuation assumptions	400	172
	Experience Variances	16	53
	Finance and Project Costs	(64)	(51)
	Adjusted operating profit before tax	**649**	**438**
3	Investment volatility	(172)	(55)
	Total profit before tax	**477**	**383**

1. Return from Operations is generated from release of prudent margins for business written in previous years, along with the expected return on shareholder funds based on long-term investment return assumptions.
2. Profit generated from new business (at point of sale) and reinsurance contracts which have been written during the period.
3. Includes short term fluctuations in investment return, model.

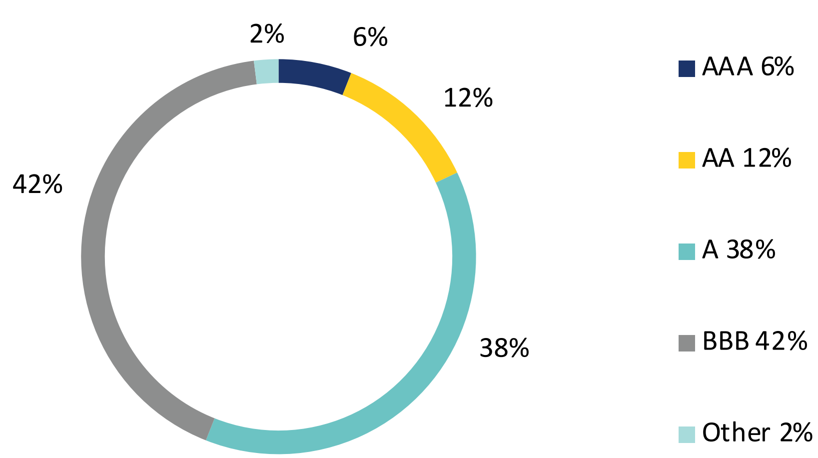
Commentary

- **Adjusted Operating Profit Basis has been amended for 2018 and the 2017 results restated to this basis. The key changes are:**
  - Return from Operations combines the Return on Surplus Assets and the Return from Operations
  - Valuation Assumption changes are now included within Adjusted Operating Profit as these changes are an integral part of the long term value creation of the business
  - Finance and Projects Costs are now also included within the Adjusted Operating Profit
- **Return from Operations increased by c.22% compared to 2017**
  - Driven by growth of the back-book reflecting increase in new business
- **New business and reinsurance deals resulted in a small profit of £59m**
  - The Group's prudent IFRS profit defers a significant amount of future profits which will be expected to emerge over time.
- **Change in Valuation Assumptions increased to £400m over the year reflecting two significant assumption changes:**
  - Mortality basis where the Group fully adopted the CMI 2016 model generating £144m profit; and
  - Change to the Liability discount rate generating £320m of profit due to reduction in the Group's default allowance which is now based on a fixed % of the Moody's Investor Services long term rates of defaults rather than a variable percentage of the credit spread.
- **Finance Costs were £46m 2018 vs £41m in 2017 due to the £350m debt issue in September 2018**
- **Project Costs increased to £18m from £10m**

Financial investments by asset class (FY 2018)



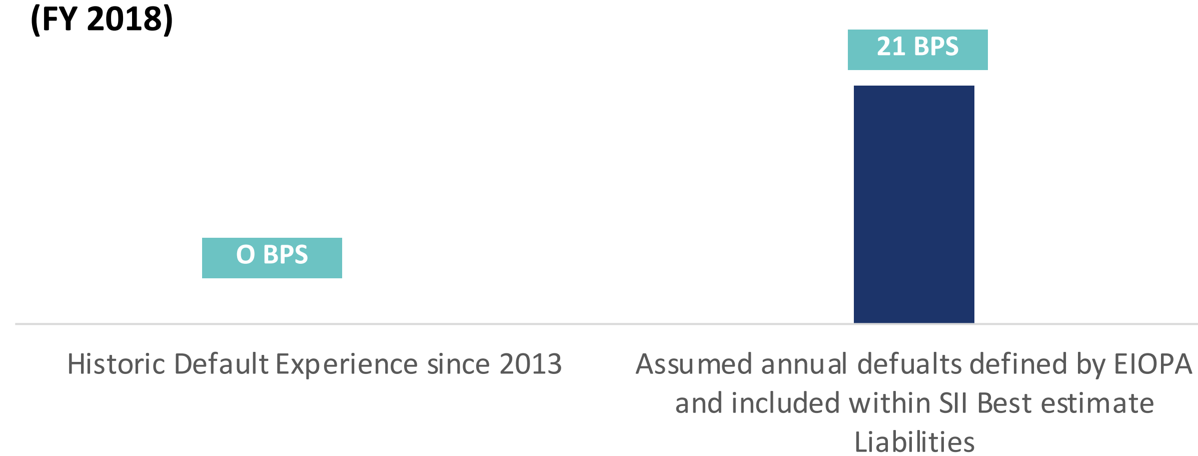
Corporate securities by rating (FY 2018)



Commentary

- 90% invested in government and corporate securities with 98% rated investment grade.
- 1% exposure to Equity Release Mortgages.
- No defaults over the last five years versus 21 bps p.a. assumed annual defaults defined by EIOPA and included within SII Best Estimate Liabilities at FY 2018.
- £2.5bn invested in 40 direct debt investments in the year taking the total amount of private debt to £5.8bn. These constitute 18% of the overall portfolio and enable the company to better match its liability cash flows.

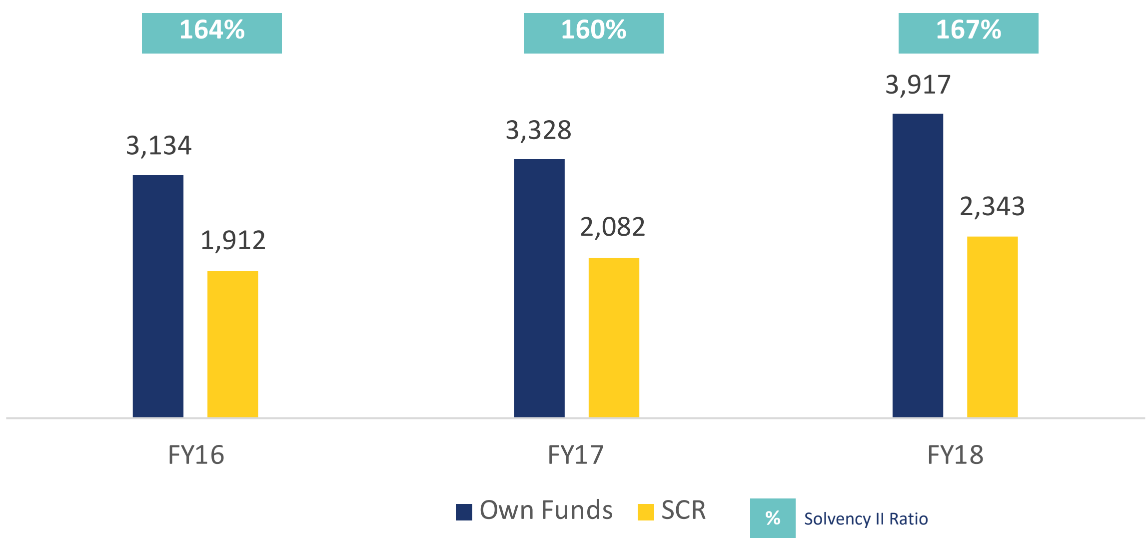
Historic Default Experience (FY 2018)



PIC SOLVENCY II POSITION AS AT FY 2018

PENSION INSURANCE CORPORATION GROUP LIMITED

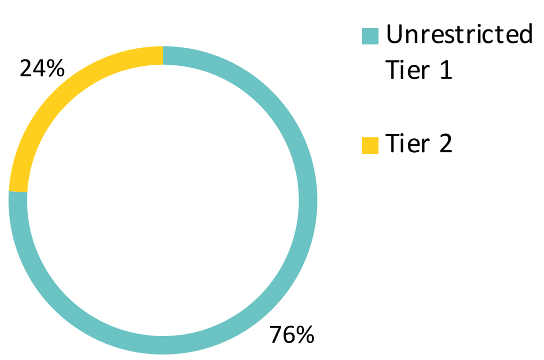
PIC Solvency II Capitalisation



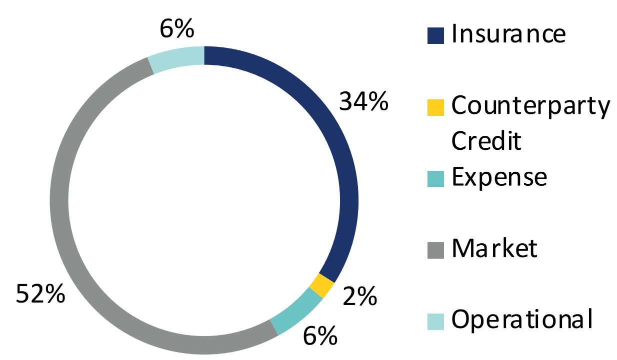
Commentary

- PIC Solvency ratio of 167%
- Significant market volatility in rates and currencies managed through hedging programme
- Increase in SCR reflects market movements and new business written
- Tier II / Hybrid debt capital is comfortably within regulatory limit of 50% of Own Funds

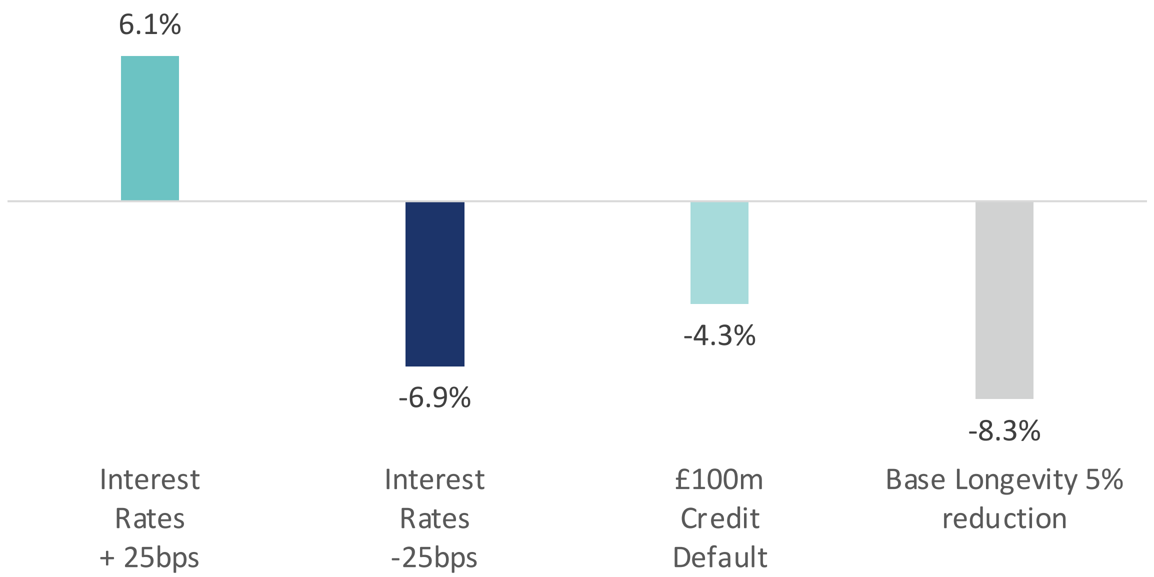
Own Funds by Tier (1) (FY 2018)



SCR by Type of Risk(2) (HY 2018)



Solvency II Ratio Key Sensitivities(3, 4) (FY 2018)



Notes

1. As a percentage of Own Funds.
2. Pre-diversification.
3. Interest Rates + / - 25 bps allows for a transitional measure for technical provisions recalculation
4. 5% reduction in base longevity is equivalent to a 0.4 year increase in life expectancy from 21.7 years to 22.1 years for a typical male aged 65

PENSION INSURANCE CORPORATION GROUP LIMITED

1. LEADING, FOCUSED PLAYER IN A LARGE, RESILIENT AND ATTRACTIVE MARKET WITH SIGNIFICANT FUTURE GROWTH POTENTIAL

- Step up in PIC and market volumes in the year.
- 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

- Insurer Financial Strength credit rating by Fitch of A+.
- Robust Solvency ratio of 167%.
- Strong IFRS results including 24% CAGR in PIC's Return from Operations profit over the past five years.
- Conservative leverage ratio of 27% and consistent downward trend between debt issues.

3. GROWTH POTENTIAL ENHANCED WITH NEW SHAREHOLDERS AND CUSTOMER SERVICE FOCUS

- In-force cash generation is currently reinvested into new bulk annuity transactions at attractive long term IRR's, supported by a healthy balance between demand from trustees and supply from bulk annuity insurers.
- Strong pipeline of asset origination and longevity reinsurance, supporting continued capital efficiency for new business transactions.
- Completion of Luxinva's, a fully owned subsidiary of ADIA, acquisition of a significant shareholding in PICG.
- Policyholder satisfaction levels maintained at over 97% for last seven years, and the only financial services company to be awarded a ServiceMark with Distinction by the Institute of Customer Service.

PENSION INSURANCE
CORPORATION GROUP LIMITED

APPENDIX AND GLOSSARY

PIC: A LEADING UK BULK ANNUITY INSURER

- PIC is a UK insurer with 189 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.

Some of 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

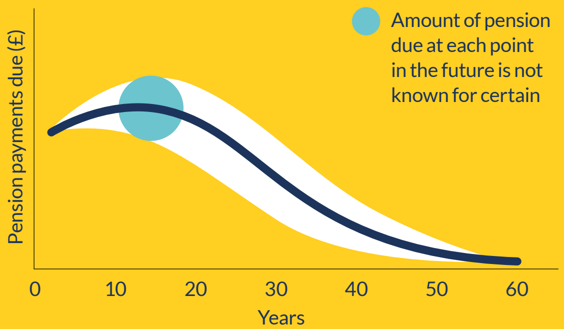
Notes
1. 2018 Average number of employees (Group).

THE BUSINESS MODEL: THREE KEY STEPS IN SECURING PENSIONS AND GENERATING LONG TERM RETURNS

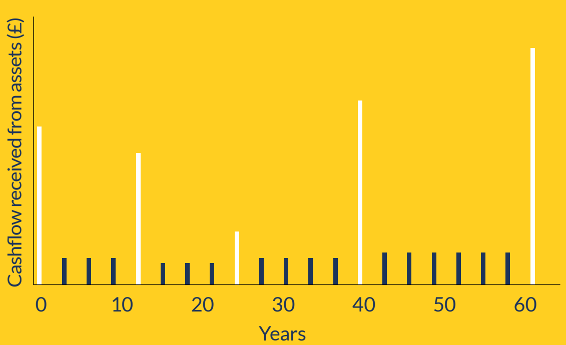
PENSION INSURANCE CORPORATION GROUP LIMITED

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



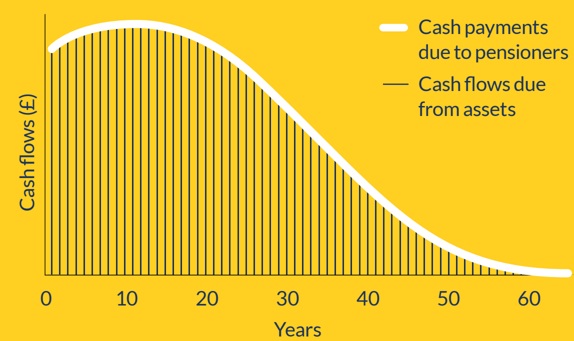
The profile of investment returns from the assets are typically very different to the profile of the cash payments due to pensioners (see chart above)

2. WHAT WE DO

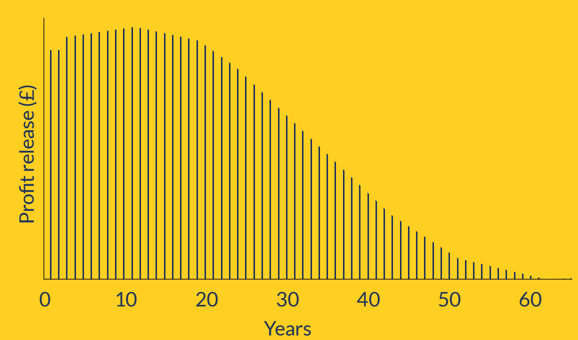
- **Liabilities** are hedged for interest rate and inflation exposure
- **Assets** received are reinvested to optimise returns on a cash flow matched and risk-adjusted basis
- **Longevity risk** is reinsured to remove risk, create certain liability cash flows and optimise capital deployment
- The Group's **capital resources** are committed for the full term of the liabilities

3. THE OUTCOME

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



Margins in the liability together with the committed capital resources, are released over time, generating attractive risk adjusted returns on capital employed



KEYS TO SUCCESS

Success in the bulk annuity market requires expertise in:

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

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

EXAMPLES OF 2018 SCHEMES

SIEMENS

- PIC concluded a buy-in covering £1.3bn of liabilities.
- Deal was the third bulk annuity arrangement between PIC and a Siemens sponsored Defined benefit Scheme.

BHS

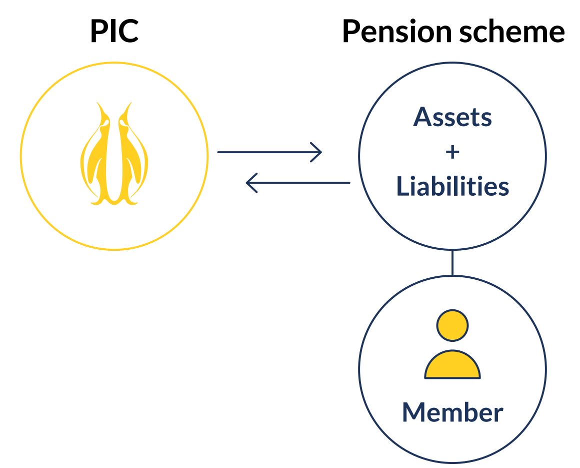
- PIC completed a £0.8bn buyout of the BHS2 Pension Scheme.
- The BHS2 was a new pension scheme set up in 2017 following the collapse of BHS and the subsequent cash injection by Philip Green.

Rentokill Initial

- PIC transacted one of the largest buyouts in the UK.
- The transaction was for £1.5bn of liabilities, providing certainty to 7,500 pensioners and 6,700 deferred pensioners.

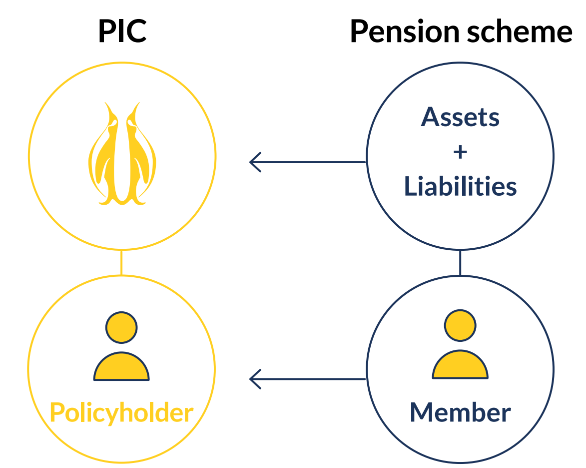
WHAT IS A PENSION INSURANCE BUY-IN?

- The pension scheme purchases a bulk annuity insurance policy to cover its obligations to a subset of the scheme members. The insurance policy is held as an asset of the pension scheme.
- A buy-in is a perfectly matching investment for the insured liabilities.
- A buy-in removes the pension scheme's longevity, market interest rate, inflation and other risks, as these are transferred to PIC.
- PIC has no direct relationship with pension scheme members, whose benefits continue to be managed by the trustees.



WHAT IS A PENSION INSURANCE BUYOUT?

- A buyout removes pension assets and liabilities from a pension scheme and employer's balance sheet. It is a full settlement of the scheme and employer's obligations to the scheme members.
- PIC issues individual annuity insurance policies to the members of the pension scheme as a direct replacement for their claim on the pension scheme.
- Typically, the pension scheme is wound up and assets pass across to PIC.
- The scheme members become policyholders of PIC.

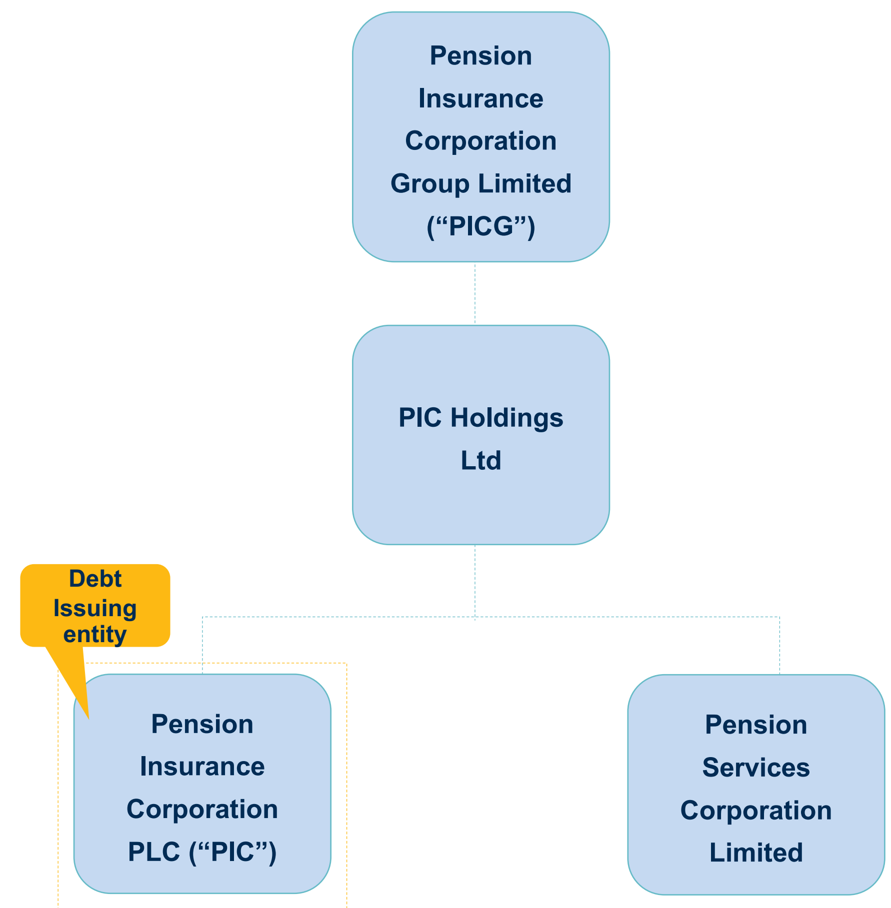


PICG CONSOLIDATED VS PIC PLC – BALANCE SHEET

PENSION INSURANCE CORPORATION GROUP LIMITED

	PICG Cons	PIC plc	Differences
FY 18	**£m**	**£m**	
Assets			
Investment properties	96	96	
Reinsurers' share of insurance liabilities	1,854	1,854	
Receivables and other financial assets	280	276	4
Deferred Tax Asset	3		3
Prepayments	61	58	3
Financial investments	31,371	31,371	
Derivative assets	9,757	9,757	
Cash and cash equivalents	79	67	12
Total Assets	43,501	43,479	22
Total Equity	2,457	2,434	23
Liabilities			
Gross insurance liabilities	28,720	28,720	
Borrowings	891	891	
Deferred tax liability	3	3	
Derivative liabilities	11,303	11,303	
Insurance and other payables [(1)]	14	68	(54)
Current taxation	41	41	
Accruals [(1)]	72	19	53
Total Liabilities	41,044	41,045	(1)
Total Equity and Liabilities	43,501	43,479	22

Group Structure



Notes

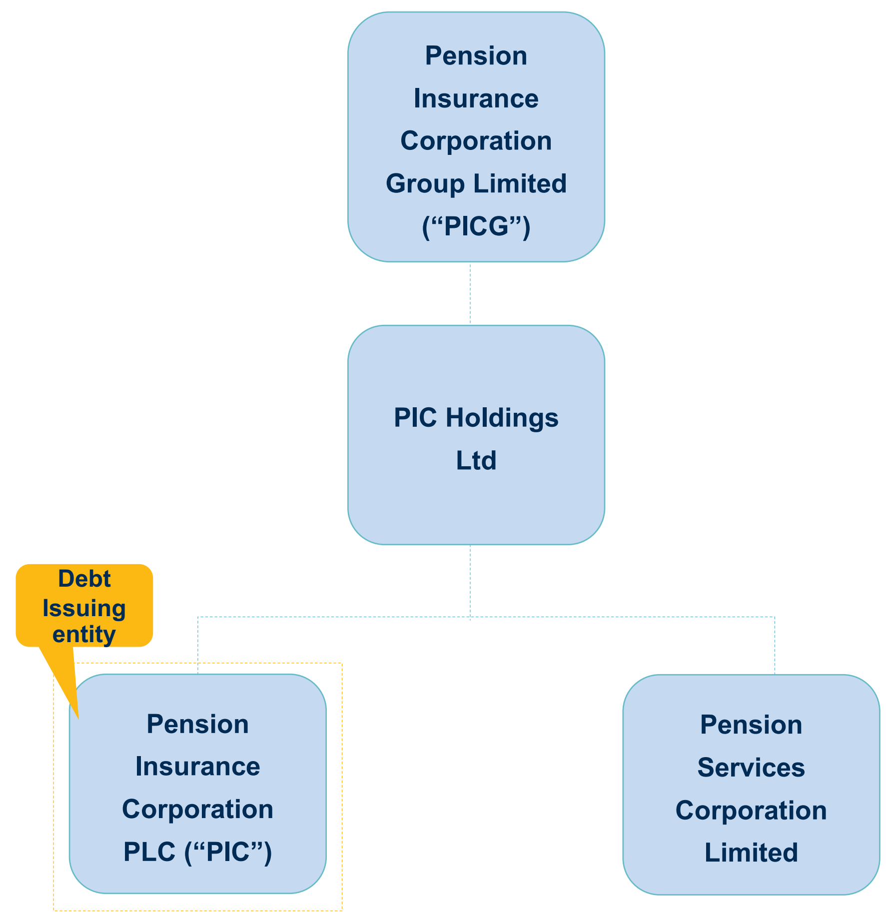
1. Reflects Accounting Consolidation Adjustments.

PICG CONS OLIDATED VS PIC PLC – STATEMENT OF COMPREHENSIVE INCOME

PENSION INSURANCE CORPORATION GROUP LIMITED

	PICG Cons	PIC plc	Differences
FY 18	**£m**	**£m**	
Revenue			
Gross premiums written	7,150	7,150	
Outward reinsurance premiums	(29)	(29)	
Net premium revenue earned	**7,121**	**7,121**	
Investment return	(978)	(978)	
Commissions earned	1	1	
Total revenue (net of reinsurance premiums)	**6,144**	**6,144**	
Expenses			
Claims paid – gross	(1,248)	(1,248)	
Reinsurers' share of claims paid	74	74	
	(1,174)	**(1,174)**	
(Increase) in insurance liabilities – gross	(3,727)	(3,727)	
(Decrease) in reinsurers' share of insurance liabilities	(596)	(596)	
	(4,323)	**(4,323)**	
Acquisition expenses	(52)	(52)	
Other operating expenses [(1)]	(72)	(95)	23
Finance costs	(46)	(46)	
	(170)	**(193)**	**23**
Total claims and expenses	**(5,667)**	**(5,690)**	**23**
Profit before taxation	**477**	**454**	**23**
Tax charge	(91)	(86)	(5)
Profit and total comprehensive income for the year	**386**	**368**	**18**

Group Structure



Notes

1. PIC's 2018 Other Operating Expenses includes amounts relating to Group share based payment costs which were previously incurred in PICG. This has resulted in a one-off charge of £25 million in PIC and a one-off credit in PICG of the same amount, The balance of £2m reflects additional expenses incurred within the Group.

- **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.

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 a third party would require, in excess of best estimate liabilities, in order to take over and meet the whole portfolio of insurance and reinsurance obligations of the company. It reflects the cost of providing capital equal to the solvency capital requirement for non-hedgeable 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 PRA requires an insurer to hold to meet the requirements under the Solvency II regulatory framework. Firms may use their own internal model e.g. like PIC, the European Insurance and Occupational Pensions Authority (EIOPA) prescribed standard formula or a partial internal model to determine SCR.
- **Transitional measure on Technical Provisions (TMTP)**
  > The introduction of Solvency II enabled insurers to apply for transitional relief the "TMTP" from their regulator. This allowed the initial increase in Solvency II capital requirements relative to the previous regime to be phased in over 16 years through applying a TMTP deduction, which for PIC was a deduction to the SII technical provisions.
- **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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March 2019