Creating long-term social value.

Pension Insurance Corporation Group Limited
Results Presentation – half year to 30 June 2022

8 September 2022

PIC completed the first phase of our £130 million Build-to-Rent development in Manchester, which will provide cashflows to pay our policyholders' pensions for decades to come.

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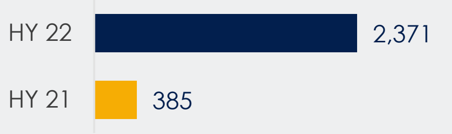
Delivering for our stakeholders: A strong set of results for the first half of 2022

Business Overview

- Simple purpose which is to pay the pensions of our current and future policyholders
- Clear and focused strategy as one of the leaders in the UK Pension Risk Transfer ("PRT") market; 22% long-term market share[1]
- Delivery of excellent customer service for Policyholders and Trustees; 99.7% policyholder satisfaction score at H1 2022
- Focused on maintaining a robust balance sheet and long-term profitability
  - Prudent, highly-rated investment portfolio and resilient business model
- Commitment to be carbon neutral by 2050 across all sources of emissions
- Shareholder base aligned with PIC's long-term growth prospects

Recent awards:

New business premiums (£m)



Solvency II coverage ratio (PIC)

Policyholder satisfaction

Financial investments (£bn)

Adjusted operating profit before tax[2] (£m)

IFRS profit before tax (£m)

Shareholder equity own funds (PIC) (£m)

Market Consistent Embedded Value ("MCEV") (£m)

Fitch Insurer Financial Strength ("IFS") rating

A+

Affirmed in May 2022

[1] PIC estimates for long-term market share from 2008 to 2021
[2] HY 2021 adjusted operating profit before tax has been restated to include the Restricted Tier 1 coupon in operating profit.

Key highlights

1	**Supportive market dynamics driving a good HY and a strong pipeline**	• Rising interest rates and widening credit spreads mean that defined benefit pension schemes are coming to the PRT market in greater numbers • PIC completed £2.4bn of new business over the first six months of 2022 • The market is presenting a strong pipeline of new business for the second half of the year and into 2023
2	**Significant new investments across the UK and good progress on our build-to-rent ("BTR") developments**	• Invested over £400m in social housing and the university sector across the UK • Announced our third BTR development; £80m redevelopment of a brown field site in Milton Keynes • Two further regeneration leases which support local councils; £83m regeneration lease in Newham to help manage the area's housing shortfall, and a £130m regeneration lease project in the Wirral • Inaugural investment into the retirement living sector through a new joint venture with Octopus Real Estate to develop up to 10 retirement villages across the UK
3	**Maintained excellent customer service**	• Paid out £860m in pensions to our 293,400 policyholders over the first six months of the year, and continued to receive excellent feedback from them, achieving an overall satisfaction score of 99.7%
4	**Strong balance sheet and low risk portfolio**	• Solvency ratio of 192% at 30 June 2022, underpinned by an active hedging strategy prioritising protecting the solvency balance sheet to allow us to meet our purpose of paying the pensions of our policyholders • Zero defaults and more upgrades than downgrades in the listed credit portfolio over the period
5	**Building on our Diversity and Inclusion ("D&I") initiatives, and recognising economic distress**	• Partnered with Women in Banking and Finance, GAIN[1] and Red Start Educate[2], alongside long-term partnerships with AMP for actuarial mentoring, 10,000 Black Interns and LGBT Great • We recognise the impact that the cost of living crisis is having on many of our stakeholder groups, including our pensioners, and will be making a significant charitable donation in the near term[3]
6	**Completed our search for a new PICG and PIC Chair**	• David Weymouth has been appointed as PICG and PIC Chair, and subject to regulatory approval, is expected to start in October 2022

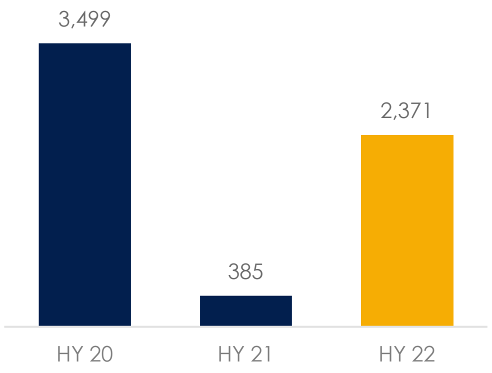
[1] Group for Autism, Insurance, Investment and Neurodiversity ("GAIN")
[2] Red Start Education provides financial education for some of the UK's most disadvantaged primary school children
[3] We will make an announcement regarding this in the coming weeks, once the details have been confirmed

Strong financial performance

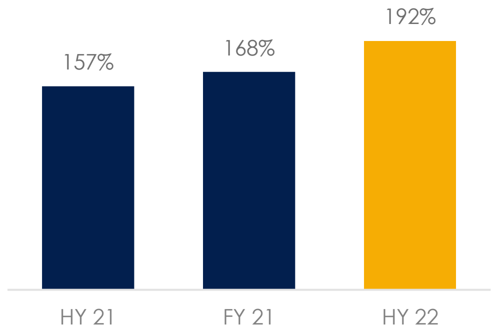
The business continues to remain resilient in the face of challenging economic conditions, underpinned by our focus on our purpose

- Solvency ratio increased to 192%, with surplus funds of £3.3bn in excess of SCR at HY 22
- £587m of total surplus generated reflecting the beneficial impact of economic variances
- IFRS profit before tax of £923m driven by economic variances, alongside returns from our in-force book
- £44.1bn total financial investments at HY 22
    - Zero defaults and more upgrades than downgrades
- In May 2022, Fitch affirmed PIC's IFS rating of A+

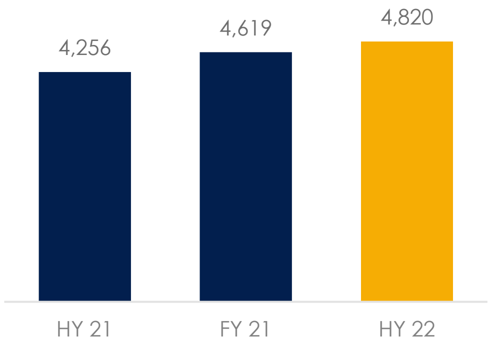
New business premiums (£m)



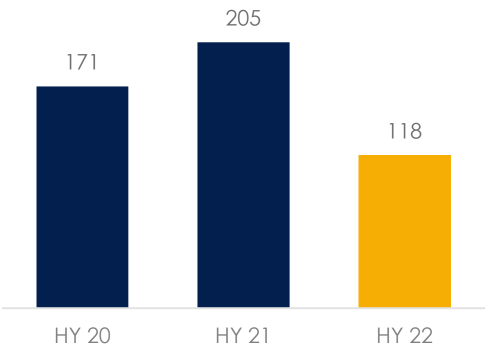
Solvency II coverage ratio (PIC)



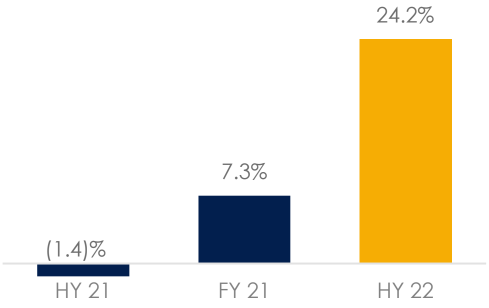
Shareholder equity own funds (PIC) (£m)



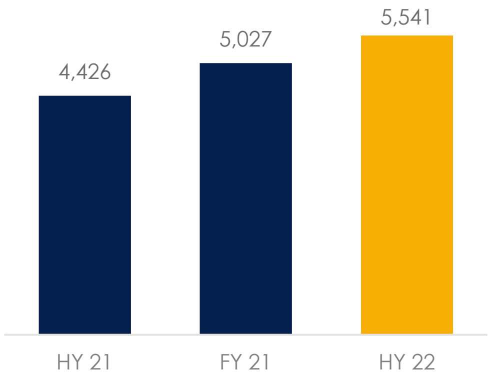
Adjusted operating profit before tax[1] (£m)



IFRS return on equity



MCEV (£m)

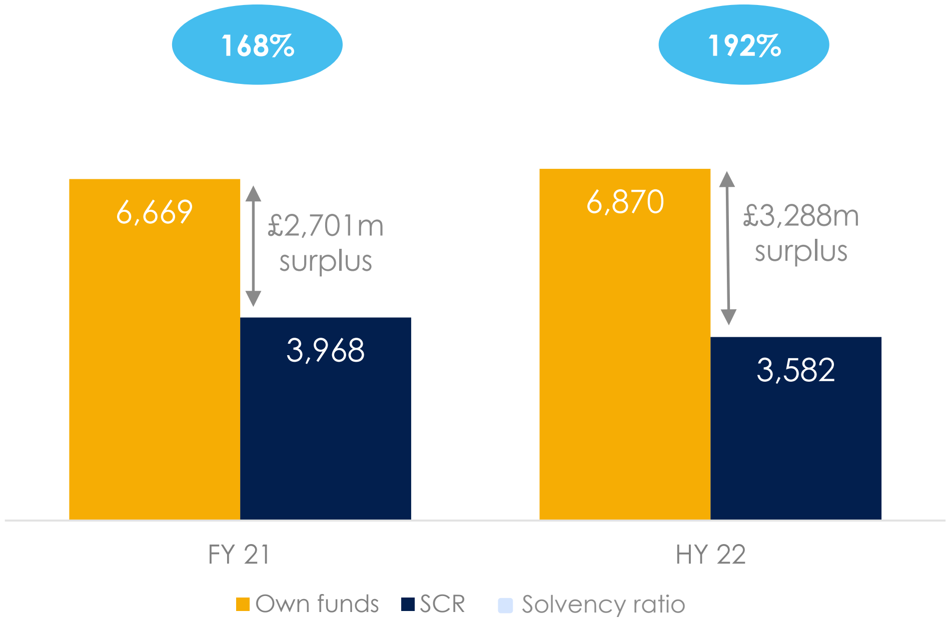


[1]Adjusted operating profit before tax for HY 20 and 21 has been restated to include the Restricted Tier 1 coupon in operating profit.

Robust and resilient solvency II balance sheet

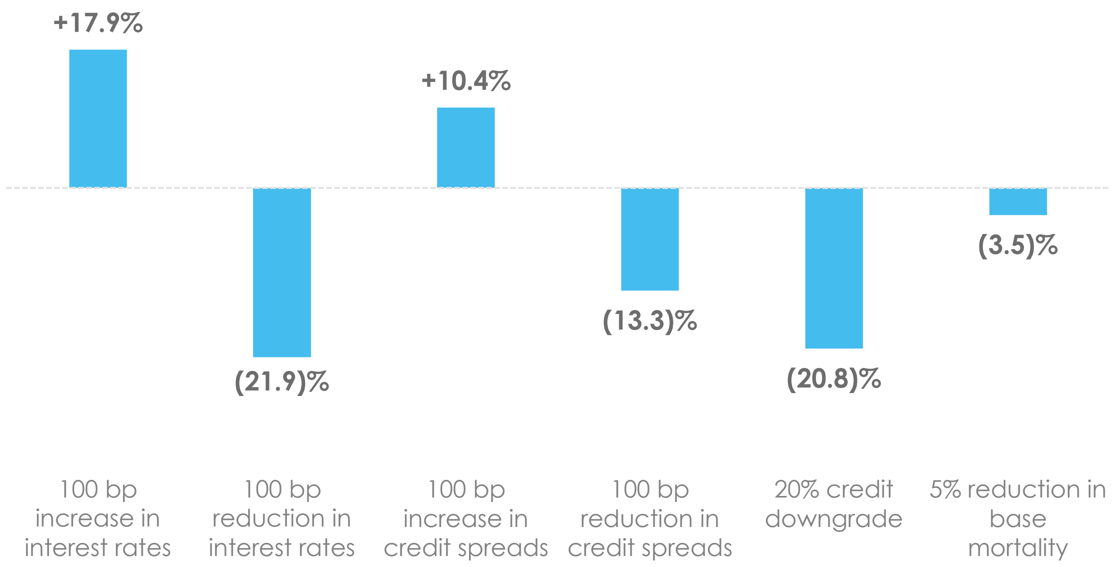
Maintained a robust Solvency position supported by a hedging strategy that prioritises the Solvency II balance sheet, which provides capacity to take on new business in the second half of 2022 and into 2023

Solvency II balance sheet (£m)



- **Solvency II coverage ratio increased to 192%** with the improvement primarily driven by favourable market movements
- **£3.3bn of surplus funds** in excess of solvency capital requirements ("SCR")

Key solvency ratio sensitivities[1234]

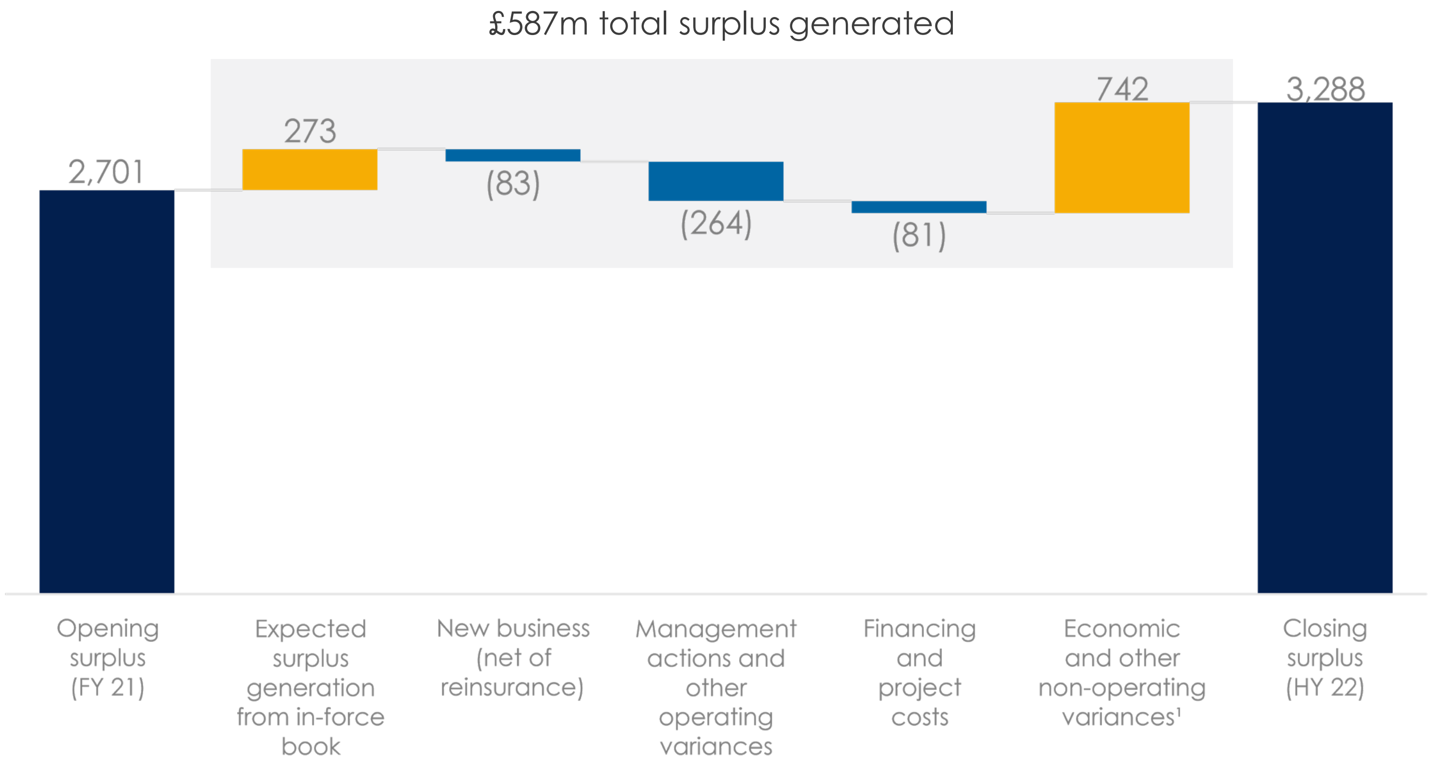


Sensitivity notes:

1. All sensitivities allow for a notional Transitional Measure on Technical Provisions ("TMTP") recalculation
2. For the interest rate and credit spread sensitivities, due to the nature and size of the impact, the recalculation of the TMTP results in a different test biting and causes asymmetry of the results.
3. For the credit downgrade sensitivity, this shows an immediate full letter downgrade on 20% of all assets where the capital treatment depends on a credit rating. Downgraded assets are assumed to be traded to the original credit rating, so the impact is primarily a reduction in Own Funds from the loss of value on downgrade. The impact of the sensitivity will depend upon the market levels of spreads at the balance sheet date.
4. For the 5% reduction in base mortality sensitivity, this is equivalent to a 0.4 year increase in life expectancy from 23.0 years to 23.4 years for a typical male aged 65.

Net positive investment variances contributed to a growth in total surplus generation

Surplus generation over the period (£m)



[1]This includes the recalculation of the TMTP which has been performed as a consequence of significant increase in interest rates observed in the period

Total surplus generated of £587m reflecting the favourable market conditions, partially offset by the capital required to write new business and progressing liability reinsurance after HY

- Expected surplus generation increased to £273m (HY 21: £205m), due to higher risk-free rates driving a higher return on both the in-force book and on capital assets
- £83m of total capital consumed writing new business alongside the benefit from reinsurance within the in-force book
- £264m reduction in surplus from management actions and other operating variances largely reflects timing variances from not having yet reinsured certain new schemes, which is expected to reverse in H2, and adverse expense variance on new schemes
- £742m[1] surplus generated mainly in respect of market volatility. This also reflects short-term variances between the actual asset mix on new business compared to that which was assumed in pricing, some of which is anticipated to reverse in H2 upon further optimisation of the asset portfolio

Growth in underlying profit over the period

IFRS profit has been strong in the first half of the year, largely driven by economic variances

£m	6 months to 30 June 2022	6 months to 30 June 2021 (restated)	12 months to 31 December 2021
Expected return from operations	178	138	288
New business and reinsurance profit	118	1	167
Underlying profit	**296**	**139**	**455**
Changes in valuation assumptions	0	131	315
Experience and other variances	(97)	10	(77)
Finance costs	(60)	(60)	(122)
Project costs	(21)	(15)	(38)
Adjusted operating profit before tax	**118**	**205**	**533**
Investment related variances[1]	789	(211)	(173)
Add back: RT1 coupon *(treated as a dividend for statutory purposes)*	16	16	33
Profit before tax	**923**	**10**	**393**

Favourable market movements (gain of £789m), as well as operating profit movements, increased IFRS profit before tax to £923m (HY 21: £10m)

- Increase in expected return from operations compared to HY 21
- £2.4bn of UK PRT new business (HY 21: £385m)
- No significant assumption changes
  - HY 21 operating profit benefitted from favourable assumption changes which has not recurred
- Hedging strategy primarily designed to match the solvency balance sheet, resulting in short-term volatility in the IFRS results
  - Gain of £789m (HY 21: loss of £211m) related to the effects of the significant increase in risk-free rates and volatility of short term inflation, alongside management actions to optimise the risk profile of the portfolio
- £2.2bn total prudent margins at HY 2022

Note: HY 2021 adjusted operating profit before tax has been restated to include the Restricted Tier 1 coupon in operating profit.

[1]Includes the impact of credit rating changes and management actions which were taken to improve the resilience of the balance sheet

£44.1bn diversified and high-quality investment portfolio

- £44.1bn of financial investments as at HY 22 (FY 21: £51.1bn). The portfolio reduced in the period by c£7bn, due to economic conditions
- Low risk, cautious investment approach. No defaults and more upgrades than downgrades within the credit portfolio over the period
- 92% of the total portfolio investment grade rated of which £1.2bn are BBB-rated assets
- Geographically diverse corporate securities and private investments portfolio; 47% UK, 29% US, 16% Europe (excl. UK) and 8% Rest of the World
- £8.1bn private investment portfolio of which 98% is investment grade rated
- Eight private investment deals announced over HY. Sectors include; higher education, student accommodation, urban regeneration and social housing
- Limited exposure to consumer cyclicals

Financial investments by asset class (30 June 2022)

Debt securities - Government	32.4%
Debt securities – Corporate	35.6%
Debt securities - private investments	18.4%
Mortgage backed and other asset backed securities	0.7%
Equity release mortgages	2.4%
Deposits with credit institutions	2.1%
Participation in investment schemes	8.4%

Corporate securities and private investments by rating

AAA	5.9%
AA	16.5%
A	37.3%
BBB	38.7%
BB	0.3%
Unrated	1.3%

Corporate securities and private investments by industry sector

Financial	27.7%
Utilities	13.2%
Consumer, non-cyclical	10.1%
Communications	9.0%
Energy	1.9%
Consumer, cyclical	3.4%
Industrial	3.1%
Basic materials	1.7%
Technology	5.1%
Diversified	0.2%
Quasi-Government	0.1%
Other[1]	24.5%

[1]Other is comprised mainly of unlisted private investments and bilateral loans, including investment in social housing and student accommodation

Key messages

1. **Attractive and growing UK PRT market:** commentators estimate the total UK PRT market volumes could reach £35bn[1] by the end of 2022. We are well positioned to address the growing pipeline of new business opportunities in the second half of 2022 and into 2023
2. **Track record of a resilient balance sheet:** strong solvency position (HY 22 Solvency II coverage ratio: 192%) underpinned by an active hedging strategy, which prioritises protecting the solvency balance sheet to enable us to meet our purpose of paying the pensions of our current and future policyholders
3. **£44.1bn high-quality, diversified and well cash-flow matched investment portfolio:** Improved the quality of the portfolio - experienced more upgrades in our portfolio than downgrades
4. **Evolving our private placement investment strategy:** building on our capabilities developed through our built-to-rent transactions, we announced a new joint venture with Octopus Real Estate to develop retirement villages across the UK. Invested a further c£700m into social housing, the university sector, regeneration leases and into the build-to-rent sector
5. **Continued commitment to provide excellent customer service for our Policyholders and Trustees:** 99.7% overall policyholder satisfaction score over the period
6. **Recognising the impact of the cost of living crisis:** the first half of the year has been marked by the increasingly difficult economic environment and the growing cost of living crisis in the UK. We recognise the impact that this is having on many of our stakeholder groups and will be making a significant charitable donation in the near term[2]

[1]Source: Pensions-expert.com.

[2]We will make an announcement regarding this in the coming weeks, once the details have been confirmed

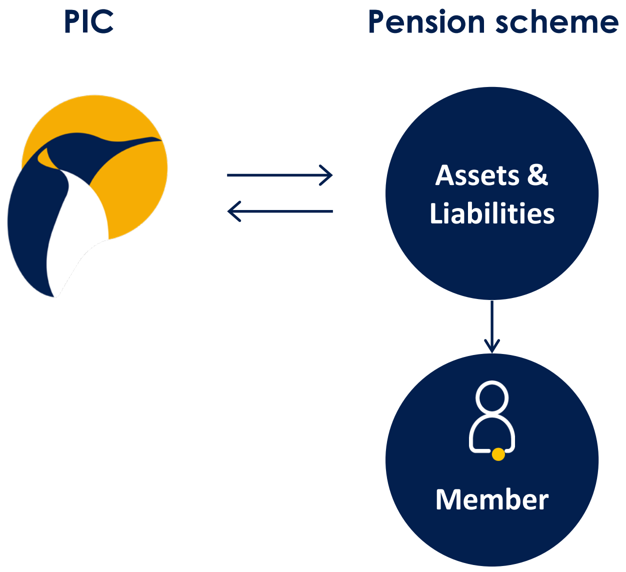
1.

Appendix

Description of a pension risk transfer buy-in and buyout

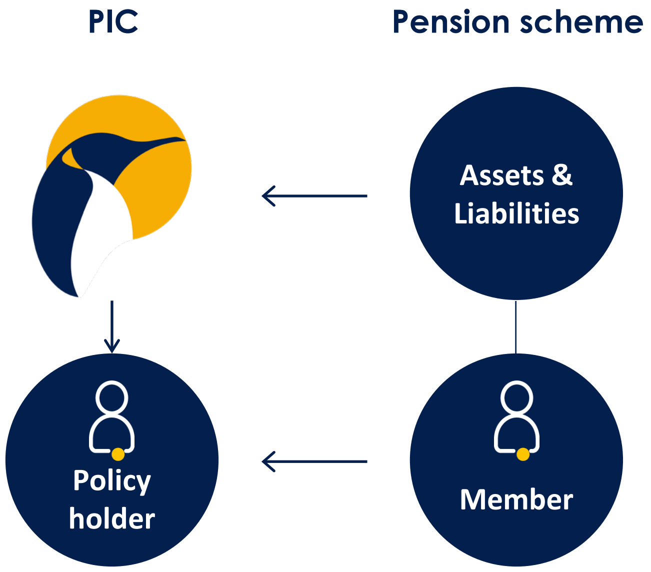
What is a pension insurance buy-in?

- 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

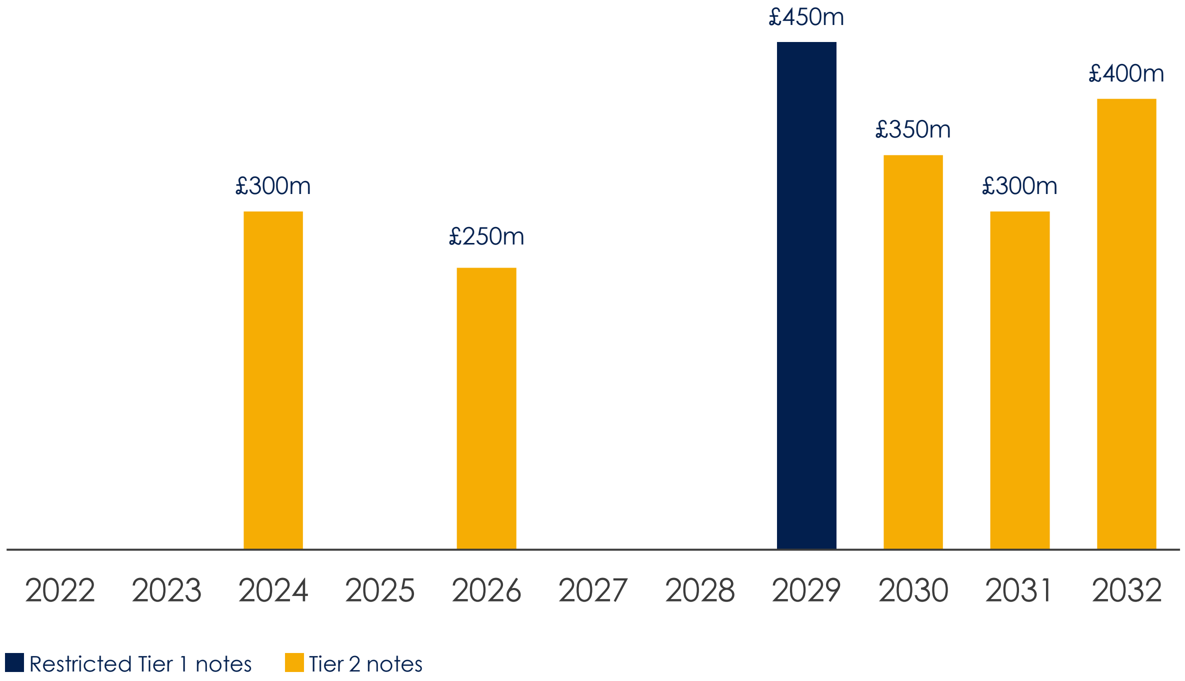


PIC plc's outstanding bonds

£2,050m of outstanding debt, comprising of £450m of Restricted Tier 1 bonds and £1,600m of Tier 2 bonds

Instrument	Key terms
£300m Tier 2 Note	• Issued in 2014 • 10 year bullet • 6.500% fixed coupon
£250m Tier 2 Note	• Issued in 2016 • 10 year bullet • 8.000% fixed coupon
£350m Tier 2 Note	• Issued in 2018 • 12 year bullet • 5.625% fixed coupon
£450m Restricted Tier 1 Note	• Issued in July 2019 • Perpetual • 7.375% fixed coupon
£300m Tier 2 Note	• Issued in May 2020 • 11 year bullet • 4.625% fixed coupon
£400m Tier 2 Note	• Issued in October 2020 • 12 year bullet • 3.625% fixed coupon

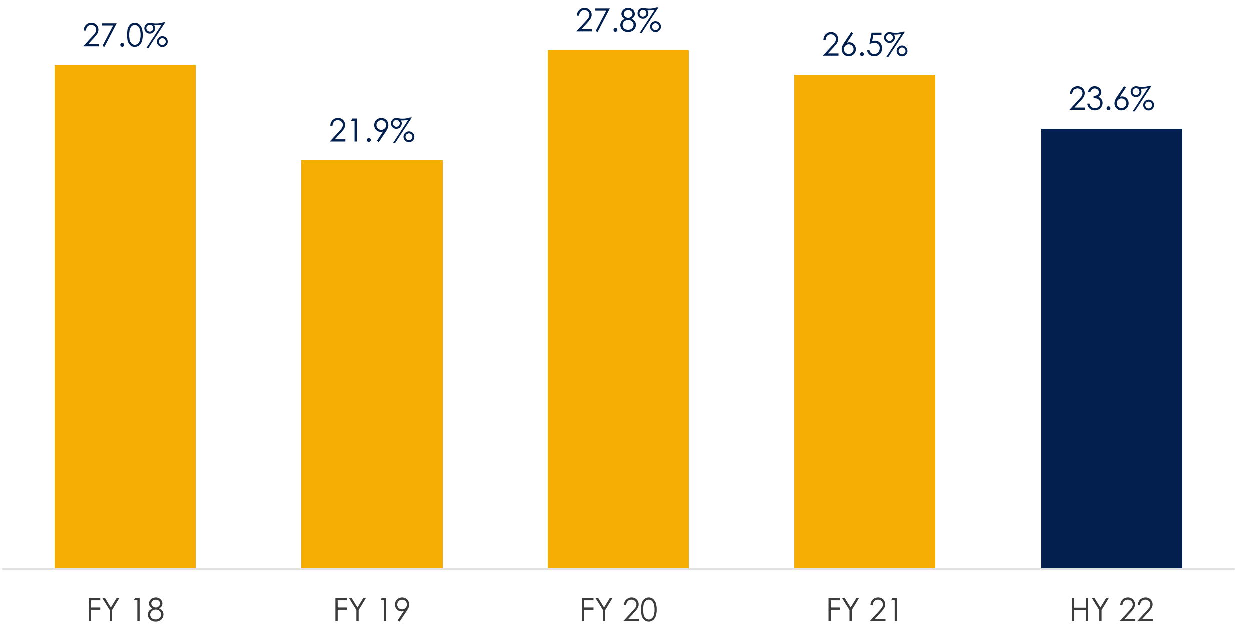
Debt profile as at 30 June 2022[1,2]



Notes:
1. PIC's five hybrid Tier II debt issues (issued in 2014, 2016, 2018, 2020 and 2020) are bullet structures and will be redeemed as per their maturity subject to satisfying the Solvency Condition
2. In July 2019, PIC issued £450m of perpetual RT1 notes. The first call date is 2029 and on every fifth anniversary from that date. For the purposes of this presentation, it has been assumed the bond will be redeemed on the first call date

PIC's leverage over time

Fitch financial leverage



A+
Fitch Insurer Financial Strength Rating

23.6%
Fitch leverage as at HY 22

30.3%
IFRS Leverage as at HY 22

Notes:
1. Figures shown at PIC plc.
2. Fitch leverage is calculated as notional value of debt / (notional value of debt + equity) where RT1 notes are classified as equity
3. IFRS leverage is calculated as notional value of debt / (notional value of debt + equity) where RT1 notes are classified as debt

Thank you.

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