



PENSION FUND CONSOLIDATION

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PENSION INSURANCE
CORPORATION

Risks transferred, pensions insured

■ Bulk annuity insurers are consolidators of DB schemes

■ Regulation

- Regulated by the PRA and FCA on a close and continuous basis
- Solvency II significantly developed

■ Risk based capital

- The level of surplus resources held is directly linked to the level of risk being run

■ Governance

- Board (with independent members) provides oversight and governance
- Separate management team to run the business

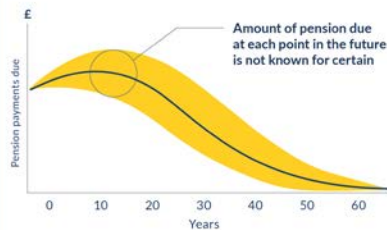
■ Risk management

- “Three Lines of Defence” model with fully formed risk, internal audit and compliance functions

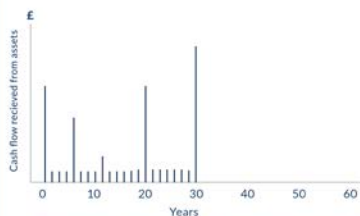
Our business model: key steps to secure member benefits

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

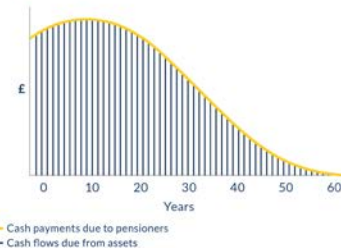
ASSETS RECEIVED ARE REINVESTED TO OPTIMISE RETURNS ON A CASH FLOW MATCHED AND RISK-ADJUSTED BASIS

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

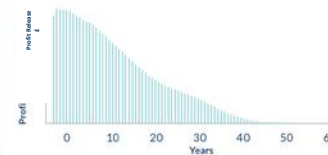
PIC CAPITAL RESOURCES COMMITTED

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

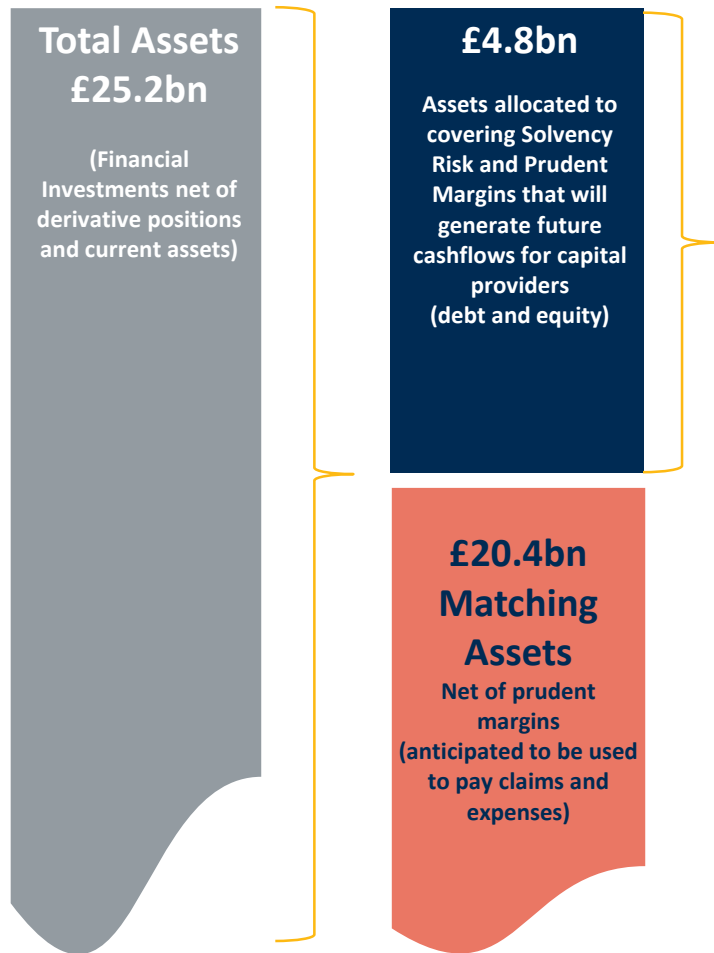
Success in the bulk annuity market requires expertise in

- 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.

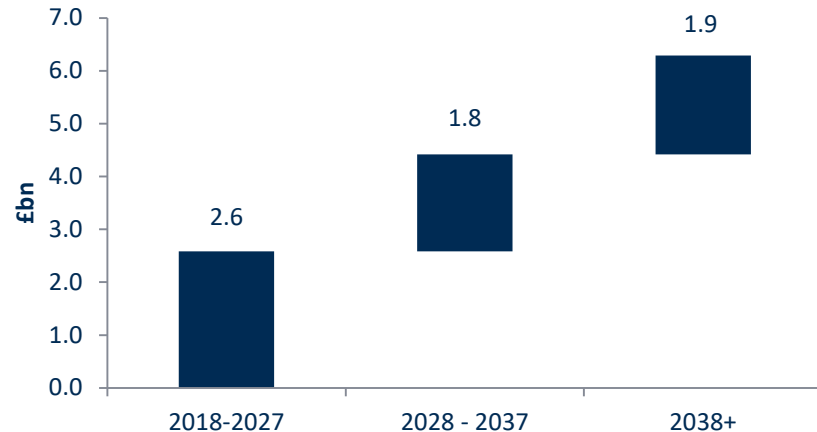
PIC's track record in all of these areas underpins its position as a leader in providing bulk annuities.

Alignment of investor and policyholder interests – PIC balance sheet at year-end 2017

Asset Breakdown:



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 will only flow to shareholders **once the pensions it protects has been paid.**

- Protection of scheme member benefits is at the heart of the system
 - Policyholder benefits guaranteed, and then backed by FSCS to 100%
- Management of the potential for systemic risk
- Robust regulatory framework
- Well-resourced, proactive regulators
- Alignment of interests between investors and policyholders
- All engenders trust in the system

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