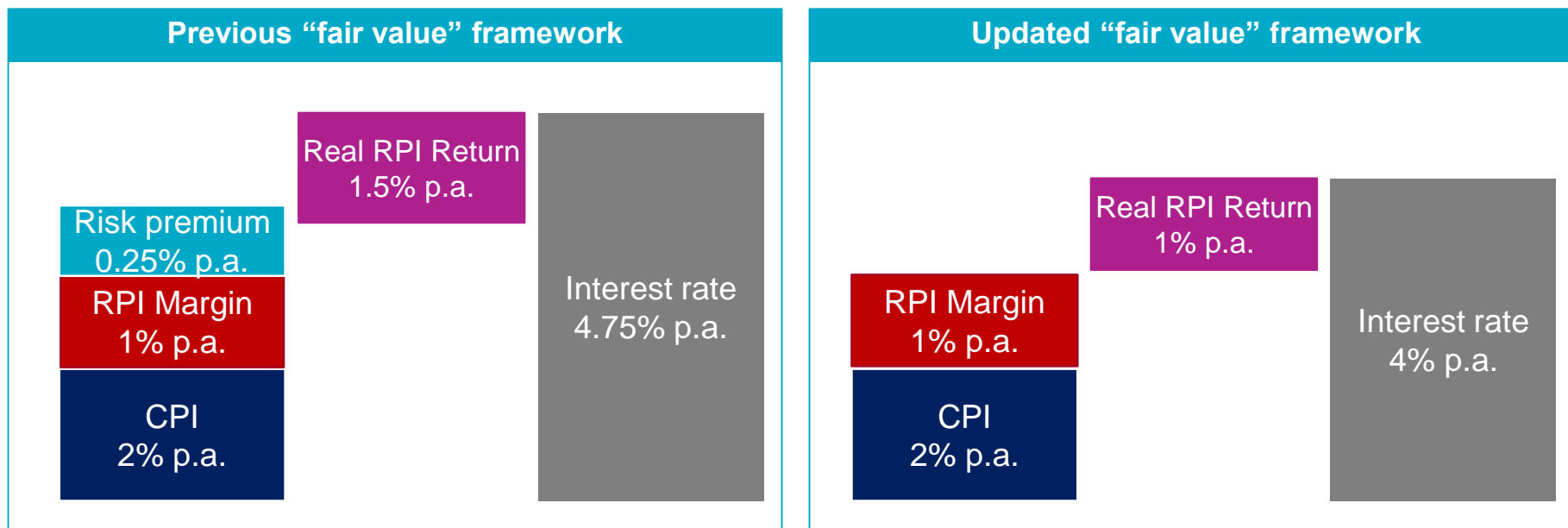


# LDI TRIGGERS UPDATING FOR MARKET CONDITIONS



## Previous fair value framework

Starting point is CPI at 2% p.a. (Bank of England long term target). We then add on 1% for the expected difference between RPI and CPI.

- ✓ BoE expect the difference to be c1%-1.4% p.a.
- ✓ RPI higher due to "formula effect" and allowance for housing costs

The real return assumption is somewhat subjective but reflects the expected real growth of the UK economy over the long term.

All else being equal a higher target means more potential benefit if we can capture such an increase but also a lower chance of ever triggering. Since inception of the framework market conditions have changed significantly, most notably large falls in interest rates have been observed.

# LDI TRIGGER FRAMEWORK

## Current LDI triggers

Current triggers	Hedge ratio	Interest rate triggers				Inflation triggers				Real rate above CPI			
		15y	20y	30y	40y	15y	20y	30y	40y	15y	20y	30y	40y
Trigger 1	20%	3.36%	3.56%	3.76%	3.85%	3.35%	3.40%	3.45%	3.48%	1.01%	1.16%	1.31%	1.37%
Trigger 2	30%	3.43%	3.63%	3.84%	3.94%	3.32%	3.37%	3.41%	3.43%	1.11%	1.26%	1.43%	1.51%
Trigger 3	40%	3.49%	3.71%	3.92%	4.03%	3.29%	3.33%	3.37%	3.39%	1.20%	1.38%	1.55%	1.64%
Trigger 4	50%	3.56%	3.78%	4.00%	4.12%	3.25%	3.29%	3.33%	3.35%	1.31%	1.49%	1.67%	1.77%
Trigger 5	60%	3.63%	3.86%	4.09%	4.20%	3.22%	3.25%	3.29%	3.30%	1.41%	1.61%	1.80%	1.90%
Trigger 6	70%	3.69%	3.93%	4.17%	4.29%	3.19%	3.22%	3.24%	3.26%	1.50%	1.71%	1.93%	2.03%
Trigger 7	80%	3.76%	4.01%	4.25%	4.38%	3.15%	3.18%	3.20%	3.21%	1.61%	1.83%	2.05%	2.17%

## Proposed LDI triggers

Proposed triggers	Hedge ratio	Interest rate triggers				Inflation triggers				Real rate above CPI			
		15y	20y	30y	40y	15y	20y	30y	40y	15y	20y	30y	40y
Trigger 1	30%	3.25%	3.25%	3.25%	3.25%	-	-	-	-	-	-	-	-
Trigger 2	40%	3.40%	3.40%	3.40%	3.40%	-	-	-	-	-	-	-	-
Trigger 3	50%	3.55%	3.55%	3.55%	3.55%	3.15%	3.15%	3.15%	3.15%	1.40%	1.40%	1.40%	1.40%
Trigger 4	60%	3.70%	3.70%	3.70%	3.70%	3.10%	3.10%	3.10%	3.10%	1.60%	1.60%	1.60%	1.60%
Trigger 5	70%	3.85%	3.85%	3.85%	3.85%	3.05%	3.05%	3.05%	3.05%	1.80%	1.80%	1.80%	1.80%
Trigger 6	80%	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%

Based on market conditions as at 30 September 2016