

Registered Number OC316967

Pension Insurance Corporation Holdings LLP

**Group Annual Report and Financial Statements
For the year ended 31 December 2010**

Pension Insurance Corporation Holdings LLP

Incorporated and registered in England & Wales Registered Number OC316967

Registered Office: The registered office of the Group is 14 Cornhill, London EC3V 3ND.

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Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2010

The members present their annual report and the audited financial statements for Pension Insurance Corporation Holdings LLP, registered number OC316967, ("the Partnership" or "PICH") and its subsidiaries ("the Group") for the year ended 31 December 2010.

Principal activity

The principal activity of the Partnership is to act as a holding entity for the Group. The principal activity of the Group is the provision of insurance solutions to pension annuity portfolios.

Business Review

PICH has two main trading subsidiary companies, Pension Insurance Corporation Limited ("PIC") a limited company registered in England and Pension Security Insurance Corporation Limited ("PSIC") a limited company registered in Guernsey.

PIC is authorised to write long term insurance business by the Financial Services Authority. Its principal product is the provision of pension insurance and annuities to individuals, corporate pension schemes and other insurance companies through innovative and bespoke risk management solutions. The principal trading activity of PSIC, which is authorised by the Guernsey Financial Services Commission, is the reinsurance of bulk annuity contracts.

In return for receipt of an insurance premium, PIC issues an insurance policy that provides annuity payments to pensioners. The premium received by PIC is usually received from a pension scheme. Typically, the pension scheme is providing benefits to its members as part of a defined benefit pension plan. The pension scheme trustees will purchase PIC's insurance policy either as part of an overall risk mitigation programme, or to pass the scheme's liabilities fully to PIC. By so doing, the pension scheme will benefit from the enhanced protection that is offered by an insurance policy.

PIC also takes a lead role in developing and directing the pensions market through pension trustee training events, publishing regular papers on the pensions market and how to address certain key issues for the commercial and the public sector such as managing pension costs and risk inherent in pension schemes. It has an active thought leadership programme in dealing with Government and working with them on pension solutions in the public sector.

Developments during the year

During the year the Group continued to develop its business writing a further 5 new schemes with a total premium value of £0.7bn. Having written £271m of bulk annuity reinsurance in December 2009, PSIC wrote no further business in 2010.

By the end of 2010 the Group had total assets under management of £3.8bn (including net derivative assets), compared to £3.1bn at the end of 2009. This increase of £0.7bn was primarily due to the new business premiums received in the year.

PIC entered into two reinsurance transactions during the year which covered a further £505m of insurance liabilities. As a result of these transactions 69% of PIC's total longevity exposure on a statutory solvency basis was reinsured to third party, investment grade counterparties at the end of the year (2009: 69%).

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2010 (continued)

Business Review (continued)

2010 was a year of transformation for the Group in respect of administration. During the year 19,000 individual policies were issued to former members of insured pension schemes who have become individual policyholders with PIC, taking the total number of policies issued by the Group to 29,000. These policyholders now benefit directly from the security provided by a regulated insurance company.

The Group is now responsible for paying the pensions of 48,000 members (2009: 43,000) and in 2010 paid out more than £194m in pension payments.

Results

The Group made a pre-tax profit in the year ended 31 December 2010 of £80.5m (2009: £42.1m) an increase of 95%. This increase in profitability reflects the increasing maturity of the Group.

Further details are included in the Statement of comprehensive income.

Members and the Board of Advisors

The following were Designated Members during the period:

Pension Corporation LLP ("PC LLP or the Manager")
Pension Corporation LP Incorporated

The Board of Advisors for Pension Insurance Corporation Holdings LLP during the period, and subsequently, consisted of:

Sir Mark Weinberg (Chairman)	John Narvell
John Coomber (CEO)	Nicholas Parker
Edmund Truell	Robert Scott
Ed Giera	Rob Sewell
Tim Hanford (appointed 15 February 2010)	Kari Stadigh (resigned 18 January 2011)
Sir Martin Jacomb	Ravi Sinha (resigned 15 February 2010)
Sir Nicholas Montagu	John Fitzpatrick (resigned 30 June 2010)
David Morgan (appointed 15 February 2010)	

Members' Profit Allocation and Return of Capital

On a return of capital on winding up or an allocation of profit or otherwise, the Partnership's assets available for distribution among the members shall be applied in the following order of priority:

- First, to PC LLP in respect of amounts owing to the Manager in relation to amounts drawn in advance of the allocation of its entitlement to a priority profit share;
- Secondly, to the holders of the Ordinary Interests, pro rata among all holders of Ordinary Interests.

in accordance with the Members' Agreement.

Members' contributions

Equity commitments are pursuant to the guidelines set out in the Members' Agreement.

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2010 (continued)

Principal risks and uncertainties

The principal risks affecting the Group's business and its strategy for managing those risks are set out in detail in Note 13 to the financial statements.

Creditors Policy

The Group's policy in relation to its suppliers is to set the terms of payment at 30 days and to abide by those terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. Where specific terms and conditions have been agreed which vary from the Group's standard payment terms, it accepts responsibility to comply with them.

Going concern

After making appropriate enquiries, the members consider that the Group and Partnership have adequate resources to continue in operational existence for the foreseeable future. They have therefore adopted the going concern basis in preparing the financial statements.

Disclosure of Information to Auditors

The members who held office at the date of approval of this Members' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director of the subsidiary companies has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

On behalf of the Designated Members



Rob Sewell

14 Cornhill
London
EC3V 3ND

21 March 2011

Pension Insurance Corporation Holdings LLP

Statement of Members' responsibilities in respect of the Members' report and the financial statements

The members are responsible for preparing the Members' Report and the Group and Partnership financial statements in accordance with applicable law and regulations.

The law relating to limited liability partnerships ("LLP") requires the members to prepare Group and LLP financial statements for each financial year. Under that law the members have elected to prepare the Group and LLP financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law.

Under company law the members must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the members are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Under the Limited Liability Partnerships Regulations 2001, the members are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the LLP and enable them to ensure that its financial statements comply with those regulations. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of KPMG Audit Plc to the members of Pension Insurance Corporation Holdings LLP

Independent auditor's report to the members of Pension Insurance Corporation Holdings LLP.

We have audited the financial statements of Pension Insurance Corporation Holdings LLP for the year ended 31 December 2010 set out on pages 8 to 44. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU.

This report is made solely to the members of the limited liability partnership ("LLP"), as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the LLP's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the LLP and the LLP's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Members' Responsibilities Statement set out on page 6, the members are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's ("APBs") Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

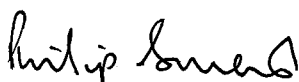
In our opinion the financial statements:

- give a true and fair view of the state of affairs of the group and of the LLP as at 31 December 2010 and of the profit of the group for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the LLP's individual financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as applied to limited liability partnerships by the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 as applied to limited liability partnerships requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the LLP, or returns adequate for our audit have not been received from branches not visited by us; or
- the LLP's individual financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Philip Smart (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc
Chartered Accountants

London

21 March 2011

Pension Insurance Corporation Holdings LLP

Group statement of comprehensive income for the year ended 31 December 2010

	<i>Note</i>	Year ended 31 December 2010		Year ended 31 December 2009	
		£000	£000	£000	£000
Revenue					
Gross premiums written		718,423		1,089,426	
Outward reinsurance premiums		(186,743)		(4,475)	
Net premium revenue earned			531,680		1,084,951
Investment return	2		306,415		186,588
Total revenue (net of reinsurance premiums)			838,095		1,271,539
Expenses					
Claims paid – gross		(194,307)		(107,325)	
Reinsurers' share of claims paid		1,331		1,766	
			(192,976)		(105,559)
Increase in insurance liabilities – gross		(693,892)		(1,105,511)	
Increase in reinsurers' share of insurance liabilities		192,056		17,689	
			(501,836)		(1,087,822)
Acquisition expenses	3	(22,295)		(14,439)	
Other operating expenses	4	(40,450)		(21,593)	
			(62,745)		(36,032)
Total claims and expenses			(757,557)		(1,229,413)
Profit before taxation					
Income tax (charge)/credit	7		80,538 (29,355)		42,126 9,302
Profit for the year			51,183		51,428
Other comprehensive income			-		-
Total comprehensive income			51,183		51,428

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Group statement of changes in equity for the year ended 31 December 2010

31 December 2010	Members' Capital £000	Other Reserves £000	Total £000
At beginning of year	423,311	(27,651)	395,660
Total comprehensive income for the year	-	51,183	51,183
Members' interest after total comprehensive income	423,311	23,532	446,843
Profit share allocated to members	-	(15,750)	(15,750)
At end of year	423,311	7,782	431,093
31 December 2009	Members' Capital £000	Other Reserves £000	Total £000
At beginning of year	423,311	(79,079)	344,232
Total comprehensive income for the year	-	51,428	51,428
At end of year	423,311	(27,651)	395,660

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Statement of changes in equity in the partnership for the year ended 31 December 2010

31 December 2010	Members' Capital £000	Other Reserves £000	Total £000
At beginning of year	423,311	10,524	433,835
Total comprehensive income for the year	-	(17,755)	(17,755)
Members' interest after total comprehensive income	423,311	(7,231)	416,080
Profit share allocated to members	-	(15,750)	(15,750)
At end of year	423,311	(22,981)	400,330

31 December 2009	Members' Capital £000	Other Reserves £000	Total £000
At beginning of year	423,311	(12,033)	411,278
Total comprehensive income for the year	-	22,557	22,557
At end of year	423,311	10,524	433,835

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Group statement of financial position as at 31 December 2010

	Note	31 December 2010		31 December 2009	
		£000	£000	£000	£000
Assets					
Investment properties	8		83,393		-
Reinsurers' share of insurance liabilities	9		344,159		152,102
Deferred tax asset	10		-		18,602
Receivables and other financial assets	11		55,567		73,615
Prepayments			12,609		3,250
Financial investments	11		3,680,854		3,040,683
Derivative assets	12		980,272		627,205
Cash and cash equivalents	11		3,495		28,429
Total Assets			5,160,349		3,943,886
Members' Other Interests					
Members' capital	18		423,311		423,311
Other reserves	18		7,782		(27,651)
Total Members' Other Interests			431,093		395,660
Liabilities					
Gross insurance liabilities	9		3,618,361		2,924,468
Deferred tax liability	10		8,190		-
Derivative liabilities	12		905,109		596,957
Insurance and other payables	11		184,762		4,798
Current taxation	7		2,563		-
Accruals	11		10,271		22,003
Total Liabilities			4,729,256		3,548,226
Total Members' Other Interests and Liabilities			5,160,349		3,943,886
Total Members' Interests					
Amounts due from members			(21)		(32,622)
Members' other interests			431,093		395,660
			431,072		363,038

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

The financial statements were approved by the members on 21 March 2011 and were signed on its behalf by:



Rob Sewell

Pension Insurance Corporation Holdings LLP

Statement of financial position for the partnership as at 31 December 2010

	Note	31 December 2010		31 December 2009	
		£000	£000	£000	£000
Assets					
Investments in subsidiaries	17		400,684		395,784
Receivables and other financial assets	11		10,173		32,622
Prepayments			112		59
Cash and cash equivalents	11		8		13,777
Total Assets			410,977		442,242
Members' Other Interests					
Members' capital	18	423,311		423,311	
Other reserves		(22,981)		10,524	
Total Members' Other Interests			400,330		433,835
Liabilities					
Insurance and other payables	11	10,575		8,377	
Accruals	11	72		30	
Total Liabilities			10,647		8,407
Total Members' Other Interests and Liabilities			410,977		442,242
Total Members' Interests					
Amounts due from members			(21)		(32,622)
Members' other interests			400,330		433,835
			400,309		401,213

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

The financial statements were approved by the members on 21 March 2011 and were signed on its behalf by:



Rob Sewell

Pension Insurance Corporation Holdings LLP

Group statement of cash flows for the year ended 31 December 2010

	Note	Year ended 31 December 2010		Year ended 31 December 2009	
		£000	£000	£000	£000
Cash flows from operating activities					
Profit for the year			51,183		51,428
Comprising:					
Interest income	2		116,619		82,017
Impairment of loans	4		(19,728)		9,599
Other operating activities (net)			(16,353)		(49,490)
Income tax	7		(29,355)		9,302
Adjustments for non-cash movements:					
Impairment of loans			19,728		(9,599)
Movement in accrued interest			(4,562)		(12,876)
Movement in tax provisions			29,355		(9,302)
Profit share allocated to members			(15,750)		-
Depreciation of equipment			-		54
Net amortisation of intangible assets			-		28
			28,771		(31,695)
Changes in operating assets and liabilities					
Decrease/(increase) in receivables and other financial assets			2,884		(1,697)
Increase in financial investments including derivative assets			(993,239)		(1,525,911)
(Increase)/decrease in prepayments			(9,359)		5,330
Increase in reinsurers' share of insurance liabilities			(192,057)		(17,689)
Increase in insurance liabilities			693,893		1,105,511
Increase in financial liabilities including derivative liabilities			308,152		412,337
Increase in insurance and other payables			179,963		2,312
(Decrease)/increase in accruals			(11,732)		20,073
			(21,495)		266
Cash movement generated by operating activities			58,459		19,999
Investing activities					
Purchase of investment properties	8		(83,393)		-
Cash flow from investing activities			(83,393)		-
Net (decrease)/increase in cash and cash equivalents			(24,934)		19,999
Cash and cash equivalents at beginning of year			28,429		8,430
Cash and cash equivalents at end of year			3,495		28,429

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Partnership statement of cash flows for the year ended 31 December 2010

	<i>Note</i>	Year ended 31 December 2010		Year ended 31 December 2009	
		£000	£000	£000	£000
<i>Cash flows from operating activities</i>					
Profit for the year			(17,755)		22,557
<i>Comprising:</i>					
Interest income			305		-
Impairment of loans			(19,728)		9,599
Other operating activities (net)			(332)		(792)
Dividend income			2,000		13,750
<i>Adjustments for non-cash movements:</i>					
Impairment of loans		19,728		(9,599)	
Movement in accrued interest		(92)		-	
Profit share allocated to members		(15,750)		-	
			3,886		(9,599)
<i>Changes in operating assets and liabilities</i>					
Decrease/(increase) in receivables and other financial assets		2,813		(2,401)	
Increase in prepayments		(53)		(5)	
Increase in insurance and other payables		2,198		3,230	
Increase/(decrease) in accruals		42		(16)	
			5,000		808
Cash movement generated by operating activities			(8,869)		13,766
<i>Investing activities</i>					
Investment in subsidiaries		(4,900)		-	
Cash flow from investing activities			(4,900)		-
Net (decrease)/increase in cash and cash equivalents			(13,769)		13,766
Cash and cash equivalents at beginning of year			13,777		11
Cash and cash equivalents at end of year			8		13,777

The accounting policies and notes on pages 15 to 44 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010

1. Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements also comply with the Statement of Recommended Practice on Accounting for Insurance Business (issued by the Association of British Insurers in December 2005, as amended in 2006) in so far as these requirements do not contradict IFRS requirements.

The Group has applied all IFRSs and interpretations adopted by the EU at 31 December 2010, with the exception of the following, which are not yet mandatory;

Amendment to IAS 32 – Classification of Rights Issues – effective 1 February 2010.

Amendment to IAS 24 (revised 2009) – Related Party Disclosures – effective 1 January 2011

Amendment to IFRS 9 – Financial Instruments – effective 1 January 2013

The Group believes the adoption of the above Accounting Standards and Amendments to existing standards will not materially impact the results of the Group.

In publishing its own financial statements here together with the Group financial statements, the Partnership has taken advantage of the exemption in section 408(3) of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these financial statements.

(b) Recognition and derecognition of financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire, or if either the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset are transferred to another party. Regular purchases and sales of financial assets are accounted for at date of trading. Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled.

(c) Contract classification

IFRS 4 "*Insurance Contracts*" requires policyholder contracts written by insurers to be classified as either insurance contracts or investment contracts depending on the level of insurance risk transferred.

Insurance contracts are defined as those contracts containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Policy contracts which do not transfer significant insurance risk to the insurer are classified as investment contracts. The Group has classified all its policyholder contracts as insurance contracts.

(d) Premiums

Premiums are received in consideration for taking on pension scheme liabilities. They are recognised and valued on the day risk is accepted. Retrospective adjustments to premiums may be required following work performed during the transition of a scheme prior to completion of a full buy-out. Such adjustments are recognised and valued at the date they become payable or receivable by the Group.

Premiums reported exclude any taxes or duties based on premiums.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

(e) Acquisition costs

Acquisition costs comprise all direct and indirect costs of obtaining and processing new business. Indirect costs consist primarily of management, staff and related overhead costs.

A deferred acquisition cost asset has not been established in the Statement of financial position. The majority of acquisition costs incurred are not directly related to individual sales and the amount of directly attributable acquisition costs, that would be deferrable, is not considered to be material.

(f) Claims

Claims and benefits payable consist of regular annuities paid to pension scheme members and surrenders which consist of full settlements of transfers out and partial settlement of tax-free cash components of pension benefits. Annuities are recognised when due for payment. Surrenders are accounted for when paid. Death claims are accounted for when notified at which time the policy ceases to be included within the calculation of the insurance contract liabilities.

(g) Investment return

Interest income is calculated using the effective interest method.

Dividend income is recognised when the related investment goes "ex-dividend" and is grossed up where appropriate by the imputed tax credit.

Realised gains or losses represent the difference between net sales proceeds and purchase price or in the case of investments valued at amortised cost, the latest carrying value prior to the date of sale.

Unrealised gains and losses on investments measure the difference between the current value of investments held at the end of each financial year and their purchase price. The net movement reflects both unrealised gains and losses recognised during the year adjusted for any prior period unrealised gains and losses which have been realised in the current accounting period.

(h) Investment expenses and charges

Investment expenses comprise:

- fees payable to investment managers for advisory services including performance related fees, and;
- transaction costs on financial assets at fair value through profit or loss.

Fees payable to investment managers are recognised on an accruals basis.

Performance fees are payable to investment managers who exceed certain targets measured over a number of financial years. The Group recognises the cost of such agreements over the life of each contract on the basis most appropriate to the contract terms. No provision is made for fees on outperformance of targets in future years on the basis of uncertainty.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting Policies (continued)

(i) Investment properties

Investments in freehold properties not for occupation by the Group are carried at fair value, with changes in fair value included in the Statement of comprehensive income.

Properties are valued annually either by the Group's qualified surveyors or professional external valuers using the Royal Institution of Chartered Surveyors ("RICS") guidelines. The RICS guidelines apply separate assumptions to the value of the land, buildings and tenancy associated with each property. Each property is externally valued at least once every three years. The cost of additions and renovations is capitalised and considered when estimating fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific property.

(j) Financial instruments

All financial assets and financial liabilities, with the exception of cash and cash equivalents, are classified at fair value through profit or loss.

Financial instruments at fair value through profit or loss are initially recognised at fair value in the Statement of financial position with transaction costs and any subsequent change in fair value taken directly to the Statement of comprehensive income. All changes in fair value are recognised in the Statement of comprehensive income and are included within the 'Investment return' category as explained in Note 1(g) above.

The amount of each class of financial asset and liability that has been designated at fair value through profit or loss and the methodology for determining the fair value for financial assets and liabilities are set out in Note 11.

(k) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(l) Cash and cash equivalents

Cash and cash equivalents consist of cash balances, including any overdrawn balances, and deposits held at call with banks with less than 90 days maturity from date of acquisition.

(m) Foreign currencies

The functional currency of the Group is pounds sterling. Accordingly the financial statements are presented in this currency.

Assets and liabilities denominated mainly in a foreign currency are translated into the functional currency at the foreign exchange rate ruling at the end of the financial year. All revenue and expense items are reflected in the Statement of comprehensive income at the rate effective at the date the transaction took place.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

(n) Taxation

Current taxation is provided on taxable profits at the corporation tax rate ruling in the year they are earned.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes, and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates ruling at the end of each financial year.

A deferred tax asset is recognised only to the extent that it is probable that future profits will be available against which the asset can be utilised.

(o) Prepayments

Prepayments include annuity payments made to pension schemes in advance of the Statement of financial position date to ensure settlement of the following month's annuity payments to scheme members on a timely basis.

(p) Insurance liabilities

Insurance liabilities are determined by the Group's internal actuarial department using methods and assumptions agreed with the Actuarial Function Holders ("AFH") for both PIC and PSIC. These assumptions are approved by the directors of each company after considering the AFH's advice and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC.

The calculation in PIC is initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The calculation in PSIC is on a statutory basis in accordance with the Insurance Business (Bailiwick of Guernsey) Law, 2002.

The valuation provisions are then modified to remove certain contingency and other reserves required by the Prudential Sourcebook issued by the Financial Services Authority ("FSA") which are not required to be recognised as insurance liabilities under IFRS 4.

Insurance liabilities comprise the discounted present value of future obligations to policyholders, adjusted for investment expenses and future administration costs and their related cash flows. Estimates of future obligations to policyholders allow for the effects of mortality in line with the bases set out in Note 9. These bases have been derived from an analysis of recent population and internal mortality experience and make allowance for improvements in mortality in the future.

The interest rate used for discounting claims payments is derived from the yield on the assets held and makes allowance for the risk, including credit risk, associated with these assets. The calculation of the valuation rate of interest ("VRI") complies with the relevant FSA regulations (INSPRU 1.2.33R and INSPRU 3.1) adjusted for any modifications issued by the FSA in respect of the Group's application of these regulations.

(q) Reinsurance

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Premiums payable for reinsurance contracts and are recognised at the inception of each reinsurance contract. When the amount of premiums due to the reinsurer has not been finalised at the end of a reporting period, an estimate is made in accordance with the terms of each reinsurance contract. Subsequent adjustments to the final premium payable are accounted for in the period which the adjustment arises.

Premiums payable for reinsurance ceded are recognised in the period in which the benefit of the reinsurance treaty is recognised within insurance contract liabilities.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

1. Accounting policies (continued)

(q) Reinsurance (continued)

The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

The Group has entered into a number of longevity swap contracts with reinsurers under which it has committed to pay the reinsurer a schedule of fixed payments ("the fixed line") for each relevant scheme. The reinsurer undertakes to reimburse the actual cost of claims to the Group. Separately, there is also an insurance fee for which the Group is liable. Settlement of the contract is on a net basis and amounts receivable or payable from/to reinsurers are included in the appropriate heading under either receivables and other financial assets or insurance and other payables.

The members are of the opinion that, at this relatively early stage of the contracts, there is no material difference between the fixed line (excluding any fee as described above) and actual claims paid. Consequently no asset or liability in respect of these contracts has been recognised as at 31 December 2010 and claims from reinsurers have been recorded at the amounts paid under the fixed line as described above.

Fees paid in respect of longevity swap contracts are included under outward reinsurance premiums.

Reinsurance recoveries are accounted for in the same period as the related claim.

(r) Critical accounting policies, estimates and judgements

Included in the financial statements are certain critical accounting judgements as described below;

Insurance Liabilities

The Group is exposed to longevity risk. In order to calculate the carrying amount of insurance liabilities and the reinsurers' share of these liabilities, the Group makes estimates of the expected number of deaths for the duration of the insurance contracts. These estimates are reconsidered annually and are based on standard mortality tables adjusted to reflect emerging experience for the schemes acquired.

The Group has reinsured a proportion of its longevity risk through the use of reinsurance contracts. The anticipated effect of these contracts is reflected as an asset within the Statement of financial position.

The carrying value of insurance liabilities net of reinsurance at the end of the financial year is £3.3bn (2009: £2.8bn). The assumptions used to establish insurance contract liabilities and appropriate sensitivities relating to variations in these assumptions are disclosed in Note 9.

Financial Instruments

Where an active market does not exist for a financial instrument, the Group uses financial modelling to ascertain fair value. The models consider the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discount them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the holding in order of repayment.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

2. Investment return

	Year ended 31 December 2010		Year ended 31 December 2009	
	£000	£000	£000	£000
Interest income on cash deposits	4,248		5,156	
Income from debt securities	111,104		75,428	
Income from loans secured by mortgage	1,267		1,433	
Interest income		116,619		82,017
Dividend income	142		12	
Rental income	2,600		-	
Income from other investments				
- Collective investment schemes	912		2,296	
- Other asset backed securities	2,975		1,837	
- Other investments	6,404		4,192	
		13,033		8,337
Total investment income		129,652		90,354
Realised gains on investments	60,010		62,442	
Realised losses on investments	(55,125)		(16,589)	
Net realised gains		4,885		45,853
Unrealised gains on investments	182,397		144,850	
Unrealised losses on investments	(10,519)		(94,469)	
Net unrealised gains		171,878		50,381
Investment return		306,415		186,588

3. Acquisition expenses

	Year ended	Year ended
	31 December 2010 £000	31 December 2009 £000
Acquisition expenses	22,295	14,439

There are no commissions for direct insurance included in acquisition costs (2009: nil). Acquisition expenses relate to direct and indirect costs incurred in the process of acquiring business. No deferral of acquisition expenses has been made as the amount of directly attributable acquisition costs that would qualify as deferrable is not considered to be material.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

3. Acquisition expenses (continued)

Pension Corporation LLP ("PC LLP"), a UK limited liability partnership, is a provider of management, staff, IT and office services to the Group. The majority of management and staff who work for the Group are partners of, or employed by, PC LLP. Certain directors' services are also provided to the Group by PC LLP. Further details of these transactions are explained in Note 16.

To the extent these services relate to the acquisition of new business, they are included in the acquisition costs above. Services which relate to other aspects of the Group's activities are shown as other expenses in Note 4.

4. Other operating expenses

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Investment charges and related expenses	12,825	20,713
Impairment/(reversal of impairment) of loans	19,728	(9,599)
Other expenses	7,897	10,479
	<u>40,450</u>	<u>21,593</u>

Investment charges and related expenses include amounts due at the end of each financial year relating to investment performance fees payable on targets based over a number of financial years. The Group recognises the cost of such agreements over the life of each contract on the basis most appropriate to the contract terms. No provision is made for fees on outperformance of targets in future years on the basis of uncertainty.

During the year PICH impaired loans made to individual partners of CSS (Scotland) LLP and Pension Corporation GP. The carrying value of these loans at 31 December 2010 was nil (2009: £17,602,000).

5. Auditor's remuneration

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Audit of these financial statements	8	16
Audit of financial statements of subsidiaries pursuant to legislation	146	125
Other services pursuant to such legislation	48	28
Other services relating to taxation	173	82
All other services	370	166
	<u>745</u>	<u>417</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

6. Staff costs and headcount

The Group employs no staff and consequently has no direct staff costs. All directors and the majority of staff who work for the Group are partners of, or employed by, PC LLP which makes charges for services provided as set out in Note 3 above. Further details of the charges made by PC LLP in relation to members of the Board of Advisors are included in Note 16.

7. Income tax

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Current Taxation		
Income tax payable for current year	2,563	-
Total current tax	<u>2,563</u>	<u>-</u>
Deferred Taxation		
Recognition of deferred tax liability on temporary timing differences	3,893	-
Reversal/(recognition) of deferred tax asset on temporary timing differences	18,602	(9,302)
Prior year adjustment relating to temporary timing differences	4,601	-
Effect of change in future tax rate	(304)	-
Total deferred tax	<u>26,792</u>	<u>(9,302)</u>
Income tax charge/(credit)	<u>29,355</u>	<u>(9,302)</u>

The current tax charge for the period is higher (2009: lower) than the standard rate of corporation tax in the United Kingdom of 28% (2009: 28%). The differences are explained below:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
<i>Reconciliation of total income to the applicable tax rate</i>		
Profit before taxation	80,538	42,126
Income tax at 28% (2009: 28%)	22,550	11,795
<i>Effects of:</i>		
Additional statutory reserves allowed for tax purposes	-	398
Expenses not deductible for tax purposes	70	140
Utilisation of tax losses brought forward	-	(5,439)
Differences between UK and overseas taxation rates	81	(6,894)
Recognition of deferred tax asset in respect of prior year losses	-	(9,302)
Tax effect of difference between subsidiary and group profits	(3,167)	-
Disallowed provision for impairment of loans	5,524	-
Prior year adjustment relating to temporary timing differences	4,601	-
Effect of change in future tax rate	(304)	-
Income tax charge/(credit)	<u>29,355</u>	<u>(9,302)</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

7. Income tax (continued)

Factors that may affect future tax charges

The Group's tax charge is primarily based on the profits of PIC as disclosed in its annual returns to the FSA. These profits include certain provisions which are required for the calculation of statutory solvency but which are considered unlikely to crystallise and therefore are excluded from insurance liabilities in the accounts. It is expected that the benefit of these expenses, which are additional to allowable expenses under IFRS, is temporary. Consequently the Group has recognised a deferred tax liability at 31 December 2010 in respect of these timing differences which total £30,335,000 with a tax value of £8,190,000 (2009: nil).

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28% to 24% over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28% to 27% was enacted on 22 July 2010 and will be effective from 1 April 2011. Accordingly, this rate reduction has been reflected in the calculation of the deferred tax liability which forms part of the Statement of financial position. The anticipated effect of the additional 3% rate reduction still to be enacted will be to further reduce the Group's current tax charge in the future and reduce its deferred tax liabilities accordingly.

Following the calculation of the income tax charge for the current financial year the Group has no remaining timing differences or tax losses carried forward at 31 December 2010 which may give rise to reduced tax charges in future periods. (2009: tax losses £66,400,000 with a tax value of £18,602,000).

8. Investment property

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
At beginning of year	-	-
Acquired during the year	83,393	-
At end of year	<u>83,393</u>	<u>-</u>

During the year the Group acquired 100% of the issued units in eight Guernsey registered property unit trusts ("GPUTs"). All eight properties are located in the United Kingdom and the freehold of all eight properties is owned by the GPUTs.

Income received in relation to these properties is shown within investment return in Note 2.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related insurance liabilities

In accordance with the accounting policy on product classification, all policyholder contracts since the Group commenced trading in May 2008 have been classified as insurance contracts.

The Group's liabilities in relation to future policyholders' benefits are:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Future policyholders' benefits		
Gross	3,618,361	2,924,468
Reinsurance	(344,159)	(152,102)
Net	<u>3,274,202</u>	<u>2,772,366</u>

The gross insurance liabilities shown above are stated in accordance with the Group's accounting policies as set out in Note 1. The figures exclude reserves which are required for the calculation of statutory solvency under the FSA rules but which are considered unlikely to occur and therefore are excluded from insurance liabilities under IFRS 4 and IAS 37 "Provisions, Contingent Assets and Contingent Liabilities".

The reinsurance liabilities include externally ceded longevity swaps and immediate and deferred annuity payments.

a) Terms and conditions of insurance contracts

The Group's insurance liabilities represent contracts that provide immediate annuities for current pensioners and deferred annuities for members who have not yet reached pensionable age. Annuities in deferment and in payment can be level or subject to fixed increases or increases linked to RPI, or a mixture of the three.

Insurance liabilities are calculated as the present value of future annuity payments and expenses. The principal assumptions used in the calculation are set out below.

b) Principal assumptions used in the preparation of insurance liabilities

Mortality assumptions

The base mortality assumptions as at 31 December 2010 inherent in the projected cash flows used in the valuation of insurance contract liabilities are set with reference to the following standard mortality tables drawn up by the Continuous Mortality Investigation (a research body with strong links to the Institute and Faculty of Actuaries in the UK):

Scheme	Base Mortality Table
Thorn	PCML00 & PCFL00 (for current pensioners) PNML00 & PNFL00 (for deferred pensioners)
Panasonic, Cadbury, Liberty, Aggregate, Alliance Boots, Foster Yeoman, Alitalia, and Arnold Laver	S1PMA & S1PFA
All other schemes	PCMA00 & PCFA00

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related insurance liabilities (continued)

b) *Principal assumptions used in the preparation of insurance liabilities (continued)*

Mortality assumptions (continued)

Adjustments are applied to these according to a number of factors including, but not limited to, an individual's gender, age and pension amount. An allowance for future mortality improvements from 31 December 2010 has been made by applying a separate set of reduction factors to mortality rates relating to future calendar years for each gender.

Valuation rate of interest ("VRI")

The Group has applied the requirements of Rule 1.2.33R of INSPRU, the Prudential Sourcebook for insurers in calculating the VRI for all relevant companies. Within its calculation PIC has applied a direction made by the FSA, on the application of the firm, in May 2010 under section 148 of the Financial Services and Markets Act 2000. The effect of the direction is to modify the provisions of INSPRU 3.1.35R and IPRU(INS) Appendix 9.3 so that PIC can use more appropriate rate of interest for assets taken in combination.

The VRI is adjusted to reflect the risk, including credit risk, associated with the assets held to match liabilities. The regulatory requirements set out in INSPRU 3.1 state that the VRI should be set at 97.5% of the risk-adjusted yield on the assets backing the liabilities. The rate calculated in accordance with these rules at the end of December 2010 for PIC was 4.43% (2009: 4.72%), and 4.38% (2009: 4.62%) for PSIC.

Inflation

Assumptions for expected future RPI inflation are based on a curve derived from market prices of inflation-linked swap contracts. For LPI-linked annuities, which are subject to maximum and minimum percentage annual increases, a mark-to-model approach is used where there is no deep and liquid market in appropriate swap contracts.

Other assumptions

The Group's cost base is factored into the calculation of liabilities by adding an allowance for expenses, including investment management expenses, the costs of acquiring new business and the costs of maintaining the existing insurance contracts.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related insurance liabilities (continued)

c) *Movements*

The movement between the insurance liabilities at the beginning and the end of year is explained as follows:

	Gross £000	Reinsurance £000	Net £000
2010			
At beginning of year	2,924,468	(152,102)	2,772,366
Increase in liability from new premiums	718,423	(187,822)	530,601
Reduction in liability from claims	(194,307)	1,331	(192,976)
Changes in economic assumptions	178,903	(14,780)	164,123
Changes in non-economic assumptions	(92,060)	6,979	(85,081)
Other movements (including net investment return)	82,934	2,235	85,169
	<hr/>	<hr/>	<hr/>
At end of year	3,618,361	(344,159)	3,274,202
	<hr/>	<hr/>	<hr/>
2009			
At beginning of year	1,818,957	(134,413)	1,684,544
Increase in liability from new premiums	1,034,623	(16,913)	1,017,710
Reduction in liability from claims	(107,325)	4,432	(102,893)
Changes in economic assumptions	51,462	(284)	51,178
Changes in non-economic assumptions	16,786	(9,363)	7,423
Other movements (including net investment return)	109,965	4,439	114,404
	<hr/>	<hr/>	<hr/>
At end of year	2,924,468	(152,102)	2,772,366
	<hr/>	<hr/>	<hr/>

Changes in assumptions

The movements during the year relating to economic and non-economic assumptions, as shown in the above table, comprise the following items:

Economic assumptions

The primary economic assumption changes during the year are in respect of the VRI and the assumptions for future rates of inflation. As explained above, the VRI is the rate at which future cashflows are discounted in determining liabilities, so a reduction in VRI will increase the present value of future liabilities. The assumed future inflation rate has a direct impact on both inflation-linked liability cashflows and future expenses, and therefore an increase in inflation will increase the value of future liabilities.

The VRI for PIC decreased during the year by 29bps and for PSIC it decreased by 24bps. This led to an increase in the value of future liabilities. The underlying rate of future inflation also increased during the year, which led to a further increase in the value of liabilities.

Non-economic assumptions

There have been a number of changes to the non-economic assumptions over the year, including:

- Updated per-policy and investment management expense assumptions,
- Updated valuation methodology for certain inflation-linked assets and liabilities.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related insurance liabilities (continued)

d) Analysis of expected maturity of insurance contract balances

The table below indicates the insurance contract balances analysed by duration, showing the discounted values of the policy cash flows estimated to arise during each period.

	Within one year £000	In 1 -5 years £000	In 5 -15 years £000	Over 15 years £000	Total £000
<i>Deferred annuities</i>					
Gross	13,199	55,940	216,952	614,403	900,494
Reinsurance	(721)	(863)	(9,330)	(180,984)	(191,898)
As at 31 December 2010	12,478	55,077	207,622	433,419	708,596
<i>Vested annuities</i>					
Gross	168,303	632,079	1,094,792	822,693	2,717,867
Reinsurance	96	(5,087)	(38,772)	(108,498)	(152,261)
As at 31 December 2010	168,399	626,992	1,056,020	714,195	2,565,606
	Within one year £000	In 1 -5 years £000	In 5 -15 years £000	Over 15 years £000	Total £000
<i>Deferred annuities</i>					
Gross	10,242	38,908	154,269	420,928	624,347
Reinsurance	(1)	8	50	(7,909)	(7,852)
As at 31 December 2009	10,241	38,916	154,319	413,019	616,495
<i>Vested annuities</i>					
Gross	140,331	510,896	906,397	742,497	2,300,121
Reinsurance	(210)	(4,986)	(34,339)	(104,715)	(144,250)
As at 31 December 2009	140,121	505,910	872,058	637,782	2,155,871

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related insurance liabilities (continued)

e) Sensitivity analysis

In accordance with IFRS 4 the members have considered the effect on profit or loss and equity at 31 December 2010 resulting from changes in a number of key assumptions. The effect of each of the assumption changes on net assets is considered in isolation on the basis that all other key assumptions remain unaltered. The impact of this sensitivity analysis is set out in the table below.

	Interest rates		Inflation rate	
	Increase of 50bps £000	Fall of 50bps £000	Increase of 50bps £000	Fall of 50bps £000
Movement in assets	(232,369)	259,373	123,641	(114,032)
Movement in liabilities	202,213	(227,008)	(113,495)	107,222
Tax effect	8,444	(9,062)	(2,841)	1,907
	<hr/>	<hr/>	<hr/>	<hr/>
Movement in profit and equity	(21,712)	23,303	7,305	(4,903)

	Longevity (see below)	Expenses (see below)	Credit spreads Increase of 25bps £000
	£000	£000	£000
Movement in assets	-	-	(63,687)
Movement in liabilities	(83,780)	(8,485)	27,447
Tax effect	23,458	2,376	10,147
	<hr/>	<hr/>	<hr/>
Movement in profit and equity	(60,322)	(6,109)	(26,093)

Parameters for longevity and renewal expense sensitivities

The longevity sensitivity is measured at 50% of the effect of a 15% decrease in the base mortality rates and a 1% increase in the mortality improvement floor.

The renewal expense sensitivity is based on an increase in annual maintenance expenses of 15%.

The key assumptions, methodology and limitations of sensitivity analysis are as follows:

- The effects of the specified changes in factors are determined based on the year end financial instrument values. The level of movements in market factors on which the sensitivity analyses are based were determined based on economic forecasts and historical experience of variations in these factors. The sensitivities used are based around the core assumptions in the financial statements rather than considering more extreme scenarios.
- The sensitivity table demonstrates the effect of a change in a single key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor will often lead to changes in other market factors. In particular the Group's use of derivatives is designed to ensure that its exposure to market risk is hedged.
- There is no significant currency risk on the Group's business and the associated sensitivity analysis has therefore not been shown.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

9. Insurance contracts and related reinsurance (continued)

f) Reinsurance results

The effect of reinsurance contracts entered into by the Group on profit before taxation is as follows:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
Reinsurance premiums ceded	(186,743)	(4,475)
Reinsurers' share of claims paid	1,331	1,766
Changes in reinsurers' share of liabilities	192,056	17,689
Net effect of reinsurance contracts on profit before taxation	6,644	14,980

10. Deferred tax

At 31 December 2010 the Group's deferred tax balances calculated in accordance with IAS 12 "Income Taxes" were as follows:

	Asset £000	Liability £000	Total £000
31 December 2010			
Additional statutory reserves allowed for tax purposes	-	(8,190)	(8,190)
31 December 2009			
Unutilised tax losses	18,602	-	18,602

The movement in the deferred tax balance during the year was as follows:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
At beginning of year	18,602	9,300
Amount utilised in respect of current year taxable profits	(18,602)	-
Recognition of deferred tax asset in respect of prior year losses	-	9,302
Recognition of deferred tax liability on temporary timing differences	(3,893)	-
Prior year adjustment relating to temporary timing differences	(4,601)	-
Effect of change in future tax rate	304	-
At end of year	(8,190)	18,602

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that sufficient future taxable profits will arise from which the underlying temporary differences can be deducted.

Following the calculation of the income tax charge for the current financial year the Group has no remaining timing differences or tax losses at 31 December 2010 which may give rise to reduced tax charges in future periods.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities

GROUP

The Group's financial assets and liabilities have been valued using the following methods in accordance with IAS 39 "Financial Instruments":

Financial Assets	31 December 2010		31 December 2009	
	Fair value through profit and loss £000	Amortised cost £000	Fair value through profit and loss £000	Amortised cost £000
<i>Financial investments</i>				
Debt securities	2,954,234		2,444,849	
Shares and units in unit trusts	24,527		20,720	
Loans secured by mortgages	106,825		87,207	
Deposits with credit institutions	39,529		22,272	
Participation in investment schemes	334,353		259,117	
Other asset backed securities	111,386		86,518	
Other loans	-	110,000	-	120,000
Total financial investments	3,570,854	110,000	2,920,683	120,000
Derivative assets	980,272		627,205	
<i>Loans and receivables and other financial assets</i>				
Debtors arising out of direct insurance operations		5,420		5,407
Other debtors		10,000		32,623
Accrued interest		40,147		35,585
Total receivables and other financial assets		55,567		73,615
Cash and cash equivalents		3,495		28,429
Total Financial Assets	4,551,126	169,062	3,547,888	222,044
Financial Liabilities				
Derivative liabilities	905,109		596,957	
Creditors arising out of reinsurance operations		180,914		1,124
Other creditors		3,848		3,674
Insurance and other payables		184,762		4,798
Accruals		10,271		22,003
Total Financial Liabilities	905,109	195,033	596,957	26,801

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities (continued)

GROUP (continued)

Amounts due in more than one year in the above table are as follows:

	31 December 2010 £000	31 December 2009 £000
<i>Loans and receivables and other financial assets</i>		
Debtors arising out of direct insurance operations	3,200	-
Other debtors	10,000	-
	<u>13,200</u>	<u>-</u>

All amounts relating to insurance and other payables and accruals are expected to be settled within one year.

Included within other loans is a loan of £110.0m (2009: £120.0m) from PIC to Pension Corporation Investments LP Inc ("PCI"), a limited partnership based in Guernsey. PIC receives interest on the loan at a rate of LIBOR plus 2.25%. The loan is due for full repayment on or before 16 December 2011. The members have performed a review of the assets and security supporting this loan and have concluded that the fair value at the end of the financial year is £110.0m (2009: £120.0m) as PCI is expected to be able to meet all its obligations.

PARTNERSHIP

The Partnership's financial assets and liabilities have been valued using the following methods in accordance with IAS 39:

	31 December 2010 Amortised cost £000	31 December 2009 Amortised cost £000
Financial Assets		
<i>Loans and receivables and other financial assets</i>		
Other debtors	10,081	32,622
Accrued interest	92	-
	<u>10,173</u>	<u>32,622</u>
Total receivables and other financial assets	10,173	32,622
Cash and cash equivalents	8	13,777
	<u>10,181</u>	<u>46,399</u>
Financial Liabilities		
Other creditors	10,575	8,377
	<u>10,575</u>	<u>8,377</u>
Insurance and other payables	10,575	8,377
Accruals	72	30
	<u>10,647</u>	<u>8,407</u>
Total Financial Liabilities	10,647	8,407

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities (continued)

PARTNERSHIP (continued)

Amounts due in more than one year in the above table are as follows:

	31 December 2010 £000	31 December 2009 £000
<i>Loans and receivables and other financial assets</i>		
Other debtors	10,000	-

All amounts relating to insurance and other payables and accruals are expected to be settled within one year.

Measurement of financial assets and liabilities

The fair values of quoted investments are based on their bid market prices. For unlisted securities and all other financial assets for which there is no active market, the Group establishes fair value using valuation techniques as appropriate. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, counterparty and broker valuations and option pricing models. These assessments are based largely on observable market data.

The specific valuation techniques used for the main classifications of financial assets and liabilities are:

a) *Investments in shares, debt securities, unit trusts and participation in investment schemes*

The fair value of shares and debt securities is determined by reference to their quoted bid price at the reporting date. Fair values for unlisted shares and variable yield schemes are estimated using applicable valuation techniques such as price/earnings or price/cash flow ratios or other measures refined to reflect the specific circumstances of the issuer. Fair values for unlisted debt securities are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

b) *Derivatives*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair value of foreign exchange forward contracts, futures and swaps are based on market prices, where available.

For swaps market prices are calculated using discounted cash flow techniques based on adjusted market data such as composite curves derived from a number of market counterparties. Where the market is illiquid or inactive so that market prices do not provide an accurate indication of fair value, the data inputs to the discounted cash flows may be drawn from historic trends or other appropriate information sources. At 31 December 2010 the Group has used the historic volatility in the Retail Price Index to derive the implied future volatility implicit in the pricing of its Limited Price Index swaps as if the market in those swaps were liquid.

All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Net gains or losses arising from changes in the fair value of the derivative financial instruments are recognised immediately in the Statement of comprehensive income within the heading investment return.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities (continued)

Measurement of financial assets and liabilities (continued)

c) Loans secured by mortgages

The fair value of loans secured by mortgages is determined by reference to their listed market price. The loans are not expected to be recovered within 12 months of the end of the financial year.

d) Other asset backed securities

The fair value of other asset backed securities is determined by reference to their listed market price. The assets are not expected to be liquidated within 12 months of the end of the financial year.

e) Deposits with credit institutions

The fair value of deposits held with credit institutions represents their cash value in current terms. All deposits are redeemable within three months and consequently no discounting adjustment has been made at the period end.

f) Other loans

The value of other loans is based on their amortised cost adjusted for any impairment in value. In determining the value at the Statement of financial position date, the directors consider the specific circumstances surrounding the value of each loan on an individual basis.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities (continued)

Measurement of fair value

The following table analyses the Group's financial investments according to the basis of measurement as required by IFRS 7 "Financial Instruments".

31 December 2010	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities	1,435,235	1,518,999	-	2,954,234
Shares and units in unit trusts	18,676	5,851	-	24,527
Loans secured by mortgages	-	106,825	-	106,825
Deposits with credit institutions	39,529	-	-	39,529
Participation in investment schemes	72,786	261,567	-	334,353
Other asset backed securities	-	111,386	-	111,386
Other loans	-	-	110,000	110,000
Financial investments	1,566,226	2,004,628	110,000	3,680,854
Net derivative assets	7,634	43,775	23,754	75,163
	1,573,860	2,048,403	133,754	3,756,017
31 December 2009	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Debt securities	1,084,898	1,359,951	-	2,444,849
Shares and units in unit trusts	18,861	1,859	-	20,720
Loans secured by mortgages	-	87,207	-	87,207
Deposits with credit institutions	22,272	-	-	22,272
Participation in investment schemes	64,878	194,239	-	259,117
Other asset backed securities	-	86,518	-	86,518
Other loans	-	-	120,000	120,000
Financial investments	1,190,909	1,729,774	120,000	3,040,683
Net derivative assets	10,909	19,339	-	30,248
	1,201,818	1,749,113	120,000	3,070,931

Level 1 assets are those assets for which the fair value has been measured using quoted prices, without adjustment, in an active market.

Level 2 assets are those assets for which the fair value has been measured using observable inputs other than quoted prices included within level 1.

Assets classified as Level 3 are those assets for which no observable data exists or where a significant element of the fair value measurement has been made by the application of internal valuation systems.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Financial assets and financial liabilities (continued)

Movements relating to Level 3 assets during the reporting period, are analysed as follows:

	Year ended 31 December 2010 £000	Year ended 31 December 2009 £000
At beginning of year	120,000	123,185
Impairment of investments	-	(3,185)
Part repayment of loan by PCI	(10,000)	-
Swaps valued at mark to model	23,754	-
	<hr/>	<hr/>
At end of year	133,754	120,000
	<hr/> <hr/>	<hr/> <hr/>

Within the Statement of comprehensive income the investment return includes interest income of £3,287,000 (2009: £4,534,000) on other loans classed as level 3 assets and an unrealised loss of £13,197,000 (2009: £nil) on swaps valued at mark to model.

12. Derivative financial instruments

The Group enters into a number of inflation rate and interest rate swap agreements during the ordinary course of business as part of its risk management strategy. Inflation swaps protect the Group against the adverse effects of inflation over a period of time while the Group enters into interest rate swap transactions to assist in hedging contractual liabilities. Currency swaps are entered into to eliminate the majority of the currency risk on financial assets invested in non-Sterling based debt securities where liabilities are denominated in Sterling.

	31 December 2010		31 December 2009	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	158,956	(93,210)	54,152	(40,166)
Inflation swaps	47,169	(46,920)	43,059	(36,567)
Credit default swaps	-	-	-	(401)
Currency swaps	-	(1,699)	-	-
Foreign exchange forward contracts	766,494	(763,261)	519,082	(519,820)
Futures	7,653	(19)	10,912	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
Total derivative position	980,272	(905,109)	627,205	(596,957)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. Risk management

As a provider of insurance solutions to defined benefit pension schemes, the Group's business involves the acceptance and management of risk to achieve its strategic objectives.

The primary risk factors which affect the Group's operating results and financial condition include financial risks such as market risk, credit risk and liquidity risk, and other risks such as insurance risk and operational risk. Insurance risk is implicit in the Group's business and principally arises from exposure to longevity in respect of annuity payments to pension scheme members.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Risk management (continued)

The Board of Advisors has overall responsibility for the management of the exposure to these risks. They are supported through formal committees of the Board including the Audit Committee, Investment Committee and Board Risk Committee. The membership of these committees is mainly comprised of non-executive directors. Executive directors and relevant senior management attend meetings as requested.

The management and control of the Group's risks is a significant focus area for management as an uncontrolled and unmanaged development in various risks may affect the Group's performance and capital adequacy. The Group adopts an integrated view to the management and qualitative assessment of risk under risk acceptance guidelines set and regularly reviewed by the Board of Advisors and aims to minimise its exposure to risks such as longevity risk, interest rate risk and inflation risk, which carry no reward for the Group. Such risks are managed and mitigated to the extent that it is cost effective to do so.

The Group uses derivatives for the purpose of efficient portfolio management or to reduce risk in aspects of the Group's investment activities such as the implementation of tactical asset allocation changes around the strategic benchmark, the hedging of cash flows, and the control of the risk profile of an identified strategy. The Group uses forward exchange contracts and futures for these purposes. It also uses interest and inflation rate swaps for the purpose of matching assets and liabilities.

The members have chosen not to apply hedge accounting to the Group's derivatives. The Group monitors its exposure to risks through regular reviews of its portfolios of assets and liabilities and their underlying characteristics.

a) *Market risk*

The Group is exposed to market risk as a consequence of fluctuations in values or returns on assets and liabilities which are influenced by one or more external factors. These include changes and volatility in interest rates, inflation expectations and currency exchange rates.

The Group manages market risk through an asset liability management ("ALM") framework that has been developed to closely match the investment portfolio duration and income to its obligations under insurance contracts.

Within the context of the ALM framework the Group uses derivative financial instruments to reduce market risk. Interest rate and inflation swaps are entered into to improve the matching of asset and liability cash flows. Currency swaps are entered into to eliminate the majority of the currency risk on financial assets invested in non-Sterling based debt securities where liabilities are denominated in Sterling. Currency risk in the assets at the fund or mandate level is at least 95% hedged.

The Group is also exposed to risks of movements the property market through its investment in the GPUts. The short term market risk is mitigated by the fact that all eight of its properties are occupied on leases extending to 1 April 2033. The Group performs regular reviews of both the movement in the property market specific to these properties and the financial status of the tenants.

b) *Credit risk*

Credit risk is the risk of loss due to the default of another party in performing its financial obligations to the Group. The Group is primarily exposed to credit risk through its investment in debt securities and cash deposits within both the long term business fund and shareholder fund of PIC and PSIC.

Credit risk also arises in respect of derivative contracts to the extent that there is the potential for the counterparties to default on their obligations.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Risk management (continued)

b) Credit risk (continued)

The Group manages exposure to credit risk by placing limits on exposures to individual counterparties, limits on exposures within individual credit rating levels and by remaining within the FSA INSPRU guidelines for minimising the exposure to single counterparties as well as groups of counterparties with the same characteristics. Counterparty risk on derivatives is controlled through establishment of collateral agreements and master netting agreements on interest rate and currency swaps. To further minimise credit risk, the financial condition of counterparties is monitored on a regular basis.

The following table sets out the credit risk exposure and ratings of financial assets which are susceptible to credit risk:

31 December 2010	AAA £000	AA £000	A £000	BBB £000	BB £000	Unrated £000	Total £000
Loans and debt securities							
Debt securities	1,332,612	230,635	744,696	420,022	41,058	185,211	2,954,234
Loans secured by mortgages	56,499	28,511	12,713	3,130	-	5,972	106,825
Other asset backed securities	36,240	18,144	42,255	11,282	158	3,307	111,386
Other loans	-	-	-	-	-	110,000	110,000
	<u>1,425,351</u>	<u>277,290</u>	<u>799,664</u>	<u>434,434</u>	<u>41,216</u>	<u>304,490</u>	<u>3,282,445</u>
Other assets							
Collateralised derivative assets	-	-	-	-	-	980,272	980,272
Participation in investment schemes	-	-	-	-	-	334,353	334,353
Receivables and other financial assets	6,082	4,608	19,810	9,398	943	14,726	55,567
Deposits with credit institutions	-	39,529	-	-	-	-	39,529
Cash and cash equivalents	-	-	3,495	-	-	-	3,495
	<u>6,082</u>	<u>44,137</u>	<u>23,305</u>	<u>9,398</u>	<u>943</u>	<u>1,329,351</u>	<u>1,413,216</u>
31 December 2009							
Loans and debt securities							
Debt securities	1,194,671	172,490	602,524	351,083	32,619	91,462	2,444,849
Loans secured by mortgages	60,674	20,272	729	-	-	5,532	87,207
Other asset backed securities	36,969	11,556	35,336	2,657	-	-	86,518
Other loans	-	-	-	-	-	120,000	120,000
	<u>1,292,314</u>	<u>204,318</u>	<u>638,589</u>	<u>353,740</u>	<u>32,619</u>	<u>216,994</u>	<u>2,738,574</u>
Other assets							
Collateralised derivative assets	-	-	-	-	-	627,205	627,205
Participation in investment schemes	-	-	-	-	-	259,117	259,117
Receivables and other financial assets	8,099	4,051	14,202	7,035	765	1,433	35,585
Deposits with credit institutions	-	-	19,923	-	-	2,349	22,272
Cash and cash equivalents	-	-	18,089	-	-	10,340	28,429
	<u>8,099</u>	<u>4,051</u>	<u>52,214</u>	<u>7,035</u>	<u>765</u>	<u>900,444</u>	<u>972,608</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Risk management (continued)

c) *Liquidity risk*

Liquidity risk is the risk that the Group, although solvent, either does not have sufficient financial resources available to it in order to meet its obligations when they fall due, or can secure them only at excessive cost. The Group's ALM framework is designed to ensure that sufficient cash is available from the investment portfolio to support the anticipated pension annuity payments as they fall due. In addition to holding liquid financial assets within the long term business fund, liquidity risk is managed through modelling detailed forecasts of annuity payments, ensuring counterparties for cash deposits are highly rated and regular monitoring of the overall liquidity position.

The following table sets out the contractual maturity analysis of financial liabilities:

	Within one year £000	In 1 -5 years £000	In 5 -15 years £000	Over 15 years £000	Total £000
31 December 2010					
Creditors arising out of reinsurance operations	180,914	-	-	-	180,914
Other creditors	3,848	-	-	-	3,848
Accruals	10,271	-	-	-	10,271
Derivative liabilities	773,068	9,695	50,195	72,151	905,109
	<u>968,101</u>	<u>9,695</u>	<u>50,195</u>	<u>72,151</u>	<u>1,100,142</u>
	Within one year £000	In 1 -5 years £000	In 5 -15 years £000	Over 15 years £000	Total £000
31 December 2009					
Creditors arising out of reinsurance operations	1,124	-	-	-	1,124
Other creditors	3,674	-	-	-	3,674
Accruals	22,003	-	-	-	22,003
Derivative liabilities	520,112	17,275	28,970	30,600	596,957
	<u>546,913</u>	<u>17,275</u>	<u>28,970</u>	<u>30,600</u>	<u>623,758</u>

All amounts due to group undertakings or other creditors are expected to be paid in the next financial year.

d) *Specific insurance risk*

Longevity risk is the risk that mortality experience of the Group's policyholders is less favourable than assumed thus requiring claims to be paid for a longer period than anticipated resulting in a higher than expected cost to the Group.

In order to help minimise this risk and also volatility arising through future longevity experience, the Group adopts an active approach to reinsuring these risks. This policy is founded on a principle of efficient capital management and as such targets a specific ratio of liabilities. This reinsurance can be classified into two broad categories:

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Risk management (continued)

d) *Specific insurance risk (continued)*

Longevity reinsurance in swap format

This provides longevity cover in respect of certain in-payment policyholders. Under these contracts, the Group has committed to pay the reinsurer the fixed line for each relevant scheme. The reinsurer undertakes to reimburse the actual cost of claims to the Group. Separately, there is also an insurance fee for which the Group is liable. Settlement of the contract is on a net basis. These contracts also transfer the contingent risk relating to spouses of relevant policyholders.

Longevity reinsurance via the transfer of assets

This provides longevity cover in respect of certain policyholders whose pensions are not yet in-payment. Under such contracts, the Group transfers agreed values and categories of assets and in return the reinsurer agrees to reimburse the actual cost of future claims to the Group in respect of an agreed set of policyholders. These contracts also transfer the contingent risk relating to spouses of relevant policyholders.

The Group monitors the levels of its counterparty risk and actively seeks to reinsure with a wide range of providers to help mitigate its exposure to any one such entity.

One aspect of deriving overall best estimate longevity assumptions is to establish the "current" or "initial" rates of mortality. These assumptions are set on a scheme by scheme basis but with appropriate variation and granularity for individual members within that scheme. These individual variations are subject to a number of factors including, but not limited to, an individual's gender, age and pension amount. Furthermore, the size of the pension scheme and availability of scheme-specific statistically-credible experience data largely determines the type of mortality analyses that are available and appropriate.

Another aspect is the allowance for future improvements in mortality. The pattern in which mortality is projected to improve over time is an important but complex assumption for cash flow and liability calculations. These assumptions currently only differ according to gender. They are regularly reviewed in the light of a number of factors including evolving methodologies for these projections together with views from industry and professional bodies on the factors driving mortality change.

Whilst longevity risk is the fundamental risk relating to the portfolio maintained by the Group, it also considers the following risks;

Concentration of risk within a particular industrial, geographic, sociological or business segment area

The Group considers, as part of its risk management process, how each new contract will impact its concentration in any specific area.

Risk arising from a specific insurance contract

The Group considers, as part of its risk management process, the risk attached to each new contract accepted and the mitigation of such risk.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

13. Risk management (continued)

d) *Specific insurance risk (continued)*

Exposure to unexpected changes in trends

The Group considers, as part of its risk management process, the risk attached to unexpected changes in trends relating to contracts held. The main insurance risk of the portfolio is related to longevity. This risk has been mitigated by the placing of reinsurance treaties.

Exposure to changes in financial market conditions

The Group prepares information based upon a series of possible market conditions. The results of this exercise are then considered with regard to the effect on the current portfolio.

e) *Operational risk*

Operational risk is the potential for loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group's internal control processes are supported by the maintenance of a central risk register and an independent internal audit review. The risk of internal fraud is managed through a number of processes including the screening of staff at recruitment, a continuous training programme, segregation of duties and whistle-blowing policies.

The Group has significant outsourcing arrangements of pension payrolls and other functions. These arrangements are subject to agreements with formal service levels, operate within agreed authority limits and are subject to regular review by senior management.

Emergency and business continuity plans have also been established to counter external occurrences.

14. Operating lease commitments

The Group has no future commitments under operating leases.

	31 December 2010 £000	31 December 2009 £000
Other operating leases		
Due within one year	-	7
Due within two to five years	-	7
	<hr/>	<hr/>
Total future commitments	-	14
	<hr/> <hr/>	<hr/> <hr/>

15. Contingent liability

PIC has a potential obligation to pay £5.5m to Henderson Global Investors Limited in performance related management fees based on investment performance to September 2009. Both parties agreed that this potential obligation would be settled by the company investing seed capital into a number of Henderson investment funds at its own discretion.

The seed capital invested by PIC during the year will clear any potential liability within three years providing they continue to be held for that period.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

16. Related party transactions

a) Transactions with PC LLP

PC LLP is a provider of management, staff, IT and office services to the Group and the Partnership and is a partner in PICH. The majority of management and staff who work for the Group are members of, or employed by, PC LLP. Total charges for the services received by the Group during the year were £16,003,000 (2009: £15,980,000). Included within this total were the following amounts paid to members of the PICH Board of Advisors and directors of the subsidiary companies of PICH.

	31 December 2010 £000	31 December 2009 £000
Members of the Board of Advisors	2,389	2,814
Directors of subsidiary companies not members of the Board of Advisors	466	496
	<hr/>	<hr/>
Total remuneration for members of the Board of Advisors and subsidiary directors	2,855	3,310
	<hr/> <hr/>	<hr/> <hr/>
Highest paid member	695	628
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2010 PC LLP had made advance drawings of £21,000 (2009: £15,021,000) against its entitlement to a priority profit share as a member of PICH under the terms of the partnership agreement.

b) Transactions with PCI and its subsidiaries

Loan from PIC to PCI

At 31 December 2009 PIC had a loan balance of £120.0m outstanding with PCI. Interest is payable on the loan at a rate of LIBOR plus 2.25% and it is repayable on 16 December 2011 or earlier at the discretion of the borrower. On 18 June 2010 an amount of £10.0m was repaid by PCI and the balance outstanding at 31 December 2010 was £110.0m.

During the year interest of £3.4m was charged by PIC (2009: £4.6m) and it received £3.4m in cash payments during the year (2009: £4.9m). Receivables and other financial assets includes an amount of £253,000 (2009: £254,000) in respect of interest accrued between the last payment date and the end of the financial year.

Loan from PICH to Co-Investment Limited

On 31 March 2010 the Partnership made a loan of £10.0m to Co-Investment Limited, a limited company registered in Guernsey and subsidiary of PCI. Interest is payable on the loan at a rate of LIBOR plus 5.00% and it is repayable on 31 March 2013 or earlier at the discretion of the borrower. The balance outstanding at 31 December 2010 was £10.0m.

During the year interest of £423,000 was charged by the Partnership and it received £330,000 in cash payments during the year. Receivables and other financial assets includes an amount of £93,000 in respect of interest accrued between the last payment date and the end of the financial year.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

17. Additional information on subsidiaries

Subsidiary Undertakings	Activity
Pension Corporation Holdings (Gibraltar) Limited*	Holding Company
Pension Holding Company (UK) 1 Limited	Holding Company
Pension Holding Company (UK) 2 Limited	Holding Company
Pension Holding Company (UK) 3 Limited	Holding Company
Pension Insurance Corporation Limited	Bulk Annuity Insurance
PSIC Holdings (Guernsey) Limited	Holding Company
Pension Security Insurance Corporation Limited	Bulk Annuity Reinsurance

* denotes investment held directly by the Partnership at 31 December 2010.

PICH owns 100% of the ordinary share capital of all the above companies. Investment in subsidiaries in the Statement of financial position represents the fair value of the Partnership's investment in Pension Corporation Holdings (Gibraltar) Limited and its subsidiaries. All subsidiaries have been consolidated in the accounts.

Pension Corporation Holdings (Gibraltar) Limited is incorporated, registered and operates in Gibraltar. PSIC Holdings (Guernsey) Limited and Pension Security Insurance Corporation Limited are both incorporated and registered in Guernsey and operate there.

All other subsidiaries are incorporated in Great Britain and are registered and operate in England and Wales.

18. Statement of capital resources

The Board of Advisors policy is to maintain a strong capital base to protect policyholders' and creditors' interests and ensure compliance with the financial services regulations which are relevant to certain subsidiaries whilst still creating shareholder value. Full details of the Group's capital resources are given in the table below.

The Group's objectives in managing its capital are:

- to match the profile of its assets and liabilities, taking account of the risks inherent in the business;
- to maintain financial strength to support new business growth;
- to satisfy the requirements of its policyholders and regulators;
- to retain financial flexibility by maintaining strong liquidity and access to a range of capital markets;
- to allocate capital efficiently to support growth; and
- to manage exposure to movements in exchange rates.

The Group currently has sufficient capital available to meet all its present capital requirements and does not utilise debt capital, financial reinsurance or securitisation.

The regulated subsidiaries in the Group review their capital resources at least monthly and have complied with all externally and internally imposed capital requirements during the year. It remains the intention of management of both PIC and PSIC to ensure that there is adequate capital to exceed the relevant regulatory requirements. This is managed through the Group's internal policy of maintaining capital at a level which exceeds the higher of its internal capital requirement and the relevant regulatory capital requirement plus a specified margin.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

18. Statement of capital resources (continued)

The following table analyses the Group's capital resources between those held within the long term insurance business fund ("LTIBF") and other capital resources. The total available capital resources indicates the capital that is available to meet the regulatory capital requirements of the business.

31 December 2010	UK Non-participating £000	Overseas £000	Life Business Shareholders funds £000	Total Life Business £000	Other Activities £000	Group £000
Members' Other Interests outside LTIBF	-	19,655	268,089	287,744	(452)	287,292
Members' Other Interests held in LTIBF	143,801	-	-	143,801	-	143,801
Total Members' Other Interests	143,801	19,655	268,089	431,545	(452)	431,093
<i>Adjustments onto regulatory basis:</i>						
Adjustments to net assets	-	-	-	-	-	-
Other adjustments for statutory solvency	(30,335)	-	-	(30,335)	-	(30,335)
	113,466	19,655	268,089	401,210	(452)	400,758
Other qualifying capital	-	-	-	-	-	-
Total available capital resources	113,466	19,655	268,089	401,210	(452)	400,758
31 December 2009	UK Non-participating £000	Overseas £000	Life Business Shareholders funds £000	Total Life Business £000	Other Activities £000	Group £000
Members' Other Interests outside LTIBF	-	3,654	239,021	242,675	-	242,675
Members' Other Interests held in LTIBF	152,985	-	-	152,985	-	152,985
Total Members' Other Interests	152,985	3,654	239,021	395,660	-	395,660
<i>Adjustments onto regulatory basis:</i>						
Adjustments to net assets	(13,463)	-	(2,534)	(15,997)	-	(15,997)
Other adjustments for statutory solvency	(16,430)	-	-	(16,430)	-	(16,430)
	123,092	3,654	236,487	363,233	-	363,233
Other qualifying capital	-	-	-	-	-	-
Total available capital resources	123,092	3,654	236,487	363,233	-	363,233

The Group does not write any with profit or unit linked business.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2010 (continued)

18. Statement of capital resources (Continued)

Group capital is generally subject to restrictions on transfers between different parts of the Group. The principal restriction is that the available surplus held in the LTIBF is attributable to policyholders and is not available to meet requirements elsewhere in the Group unless the regulatory requirements regarding the maintenance of capital in the LTIBF are met.

There have been no material changes in the Group's management of capital during the period.

Capital composition

The Group's capital comprises total Members' Other Interests. The component parts are:

Total Members' Other Interests	2010	2009
	£000	£000
Members' capital	423,311	423,311
Other reserves	7,782	(27,651)
	<hr/>	<hr/>
At end of year	431,093	395,660
	<hr/> <hr/>	<hr/> <hr/>