

Registered Number OC316967

Pension Insurance Corporation Holdings LLP

**Group Annual Report and Financial Statements
For the year ended 31 December 2008**

Pension Insurance Corporation Holdings LLP

Registered in England & Wales Registered Number OC316967

Registered Office: Until 20 December 2008 the registered office of the Group was Almack House, 28 King Street, London SW1Y 6XA. Subsequently the registered office of the Group is 14 Cornhill, London EC3V 3ND.

Contents	Page
Members' report	3 - 5
Statement of Members' responsibilities in respect of the Members' Report and the financial statements	6
Independent Auditors' Report	7 - 8
Consolidated Profit and loss account	9 - 10
Consolidated Balance sheet	11 - 12
Partnership Balance sheet	13
Consolidated Cash flow statement	14 - 17
Notes to the financial statements	18 - 45

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2008

Principal activity

Pension Insurance Corporation Holdings LLP ("the Partnership" or "PICH") was registered on 3 January 2006. The principal activity of PICH is as a holding entity for the Pension Insurance Corporation Group ("the Group"). The principal activity of the Group is the provision of insurance solutions to defined benefit pension portfolios. This will continue for the foreseeable future.

Business Review

The principal operating companies in the Group are Pension Insurance Corporation Limited ("PIC") and Pension Security Insurance Corporation Limited ("PSIC"). PIC was authorised to write long term insurance business by the Financial Services Authority in 2006. Its principal product offered is the provision of pension insurance and annuities to individuals, corporate pension schemes and other insurance companies. PSIC is a reinsurer authorised by the Guernsey Financial Services Commission who principally provides reinsurance to PIC.

The Group has continued to strengthen its infrastructure during the year and has put in place the capital necessary to enable it to become a significant participant in the market place.

In May 2008 PIC wrote its first long term insurance business and followed this with a further four pieces of business, including the single largest ever pension scheme insurance buy-out transaction in the UK, in December 2008. This acquisition, of the Thorn Limited pension scheme annuity liabilities brought in £1bn of further business to the Group.

The Group targets large pension schemes as potential customers. This market is characterised by a small but increasing number of willing customers. The interest in these products has developed significantly over the course of the last twelve months as pension scheme sponsors recognise the true cost and volatility of maintaining pension scheme risks on their balance sheets.

The number of potential customers is steadily increasing and is influenced by the perceived affordability of these products. This perception of affordability is dependent upon a number of factors including the view of future life expectancy of pensioners, the investment performance of assets within an individual scheme, and the competitiveness of the marketplace. The Group believes these solutions will continue to be perceived as increasingly affordable and necessary.

In bringing together skills from the insurance and reinsurance industry, the asset management industry and the private equity industry, the Group believes it provides a unique proposition. This mixture of skills and experience provides a broad product delivery and encourages innovation in this relatively new market segment.

The products which the Group is providing are exposed to investment and longevity risks. Management of these risks is dependent upon developing well judged assumptions as to life expectancy of specific blocks of lives and the ability to achieve investment return targets. During the year the Group arranged longevity swap reinsurances with a major reinsurer, thus providing a further level of protection against unexpected mortality outcomes.

Further discussion of the principal risks the Group is exposed to is shown in Note 17 to the Financial Statements.

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2008 (continued)

Results

The Group's profit and loss account for the technical account appears on page 9 and the profit and loss account for the non - technical account appears on page 10.

Members and Board of Advisors

The following were Designated Members during the period:

	Date appointed	Date resigned
Pension Corporation LLP (<i>formerly Duke Street Capital Structured Solutions Management LLP</i>)	15 November 2006	-

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

John Amato	Nicholas Parker	Ravi Sinha
John Coomber	Richard Priestley	Kari Stadigh
John Fitzpatrick	Robert Scott	Edmund Truell
Sir Martin Jacomb	Rob Sewell	Sir Mark Weinberg
Sir Nicholas Montagu		

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 the Manager (Pension Corporation LLP) in respect of amounts owing to the Manager in relation to the Priority Profit Share and not yet paid to it;
- 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 2008 (continued)

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 Member has taken all the steps that he ought to have taken as a Member to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

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.

Auditors

The Members appointed KPMG Audit Plc as auditors of the Partnership for the current financial period. KPMG Audit Plc will be proposed for reappointment.

On behalf of the Members

Rob Sewell
On behalf of the Designated Members
31 March 2009

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 LLP financial statements in accordance with applicable law and regulations.

The law relating to limited liability partnerships ("LLP"s) 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 UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and LLP financial statements are required by law to give a true and fair view of the state of affairs of the Group and the LLP and of the profit or loss of the Group for that period.

In preparing each of the Group and LLP 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the LLP 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.

Independent auditors' report to the members of Pension Insurance Corporation Holdings LLP

We have audited the Group and LLP financial statements ("the financial statements") of Pension Insurance Corporation Holdings LLP for the year period ended 31 December 2008 which comprise the primary statements such as the Consolidated Profit and Loss Account, the Consolidated and LLP Balance Sheets, the Consolidated Cash Flow Statement, and related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the members of the limited liability partnership (LLP), as a body, in accordance with section 235 of the Companies Act 1985, as required by Regulation 3 of the Limited Liability Partnerships Regulations 2001. 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 members and auditors

As described in the Statement of Members' Responsibilities on page 6, the members are responsible for the preparation of the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the LLP has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed.

We read the Members' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the members in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and LLP's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Independent auditors' report to the members of Pension Insurance Corporation Holdings
LLP (continued)**

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and the LLP as at 31 December 2008 and of the loss of the Group for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

London
31 March 2009

Pension Insurance Corporation Holdings LLP

Consolidated Profit and Loss Account for the year ended 31 December 2008

	Note	12 months to 31 December 2008 £000's	9 months to 31 December 2007 £000's
Technical Account - Long Term Business			
Earned premiums, net of reinsurance			
Gross written premiums	2	1,571,759	-
Outward reinsurance premium		(842)	-
Net earned premiums		1,570,917	-
Investment income	3	18,589	-
Unrealised gains on investments	3	112,835	-
		131,424	-
Claims incurred, net of reinsurance			
Claims paid:			
Gross claims paid		(15,965)	-
		(15,965)	-
Change in other technical provisions, net of reinsurance			
Technical provision for linked liabilities, net of reinsurance:			
Gross amount		(1,465,058)	-
Reinsurers' share		105,985	-
		(1,359,073)	-
Long Term business provision, net of reinsurance		(325,471)	-
		(1,684,544)	-
Net Operating Expenses	4	(14,297)	-
Investment expense and charges	5	(11,277)	-
Unrealised losses on investments	3	(38,069)	-
Tax attributed to the long term business		15,765	-
Sub-total (balance on the technical account for long term business)		(46,046)	-

Pension Insurance Corporation Holdings LLP

Consolidated Profit and Loss Account for the year ended 31 December 2008

Non - Technical Account	Note	12 months to 31 December 2008 £000's	9 months to 31 December 2007 £000's
Balance on the long term business technical account		(46,046)	-
Tax attributed to shareholders' arising from long term business		(15,765)	-
Pre-tax profit arising on long term business		(61,811)	-
Investment income	3	2,469	(721)
Unrealised gains on investments	3	2,208	2,876
Investment expense and charges	5	(3,424)	(256)
Unrealised losses on investments	3	(1,045)	(545)
		208	1,354
Other charges	6	(4,565)	(12,242)
Loss on ordinary activities before tax		(66,168)	(10,888)
Tax on loss on ordinary activities	8	9,300	-
Retained loss for the financial year available for discretionary division amongst members		(56,868)	(10,888)

All of the amounts above are in respect of continuing operations. There are no gains and losses other than the amounts shown in the profit and loss account above, therefore no Statement of total recognised gains and losses is presented.

The accounting policies and notes on pages 18 to 45 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Consolidated Balance sheet as at 31 December 2008

	Note	2008 £000's	2008 £000's	2007 £000's	2007 £000's
ASSETS					
Intangible Assets					
Development Costs	10		-		4,191
Investments					
Other financial investments	11		702,518		47,049
Assets held to cover linked liabilities	11		1,359,073		-
Reinsurers share of technical provisions					
Long Term Business Provision		28,428		-	
Technical Provision for Linked Liabilities		105,985		-	
			134,413		-
Debtors					
Debtors arising from insurance operations	13	6,114		-	
Other Debtors	14	20,622		4,783	
			26,736		4,783
Other Assets					
Tangible assets	15	128		289	
Cash at bank and in hand		8,430		5,640	
			8,558		5,929
Deferred tax	19		9,300		-
Prepayments and accrued income					
Accrued interest	16	22,709		286	
Other prepayments and accrued income	16	8,580		681	
			31,289		967
TOTAL ASSETS			2,271,887		62,919

Pension Insurance Corporation Holdings LLP

Consolidated Balance sheet as at 31 December 2008 (continued)

	Note	2008 £000's	2008 £000's	2007 £000's	2007 £000's
LIABILITIES					
Derivative liabilities	12		104,282		317
Technical Provisions					
Long Term business provision		353,899		-	
Technical Provision for linked liabilities		<u>1,465,058</u>		<u>-</u>	
			1,818,957		
Creditors: amounts falling due within one year					
Creditors arising from reinsurance	20	842		-	
Other creditors	21	<u>1,644</u>		<u>3,091</u>	
			2,486		3,091
Accruals and deferred income			1,930		230
TOTAL LIABILITIES			<u>1,927,655</u>		<u>3,638</u>
NET ASSETS			<u>344,232</u>		<u>59,281</u>
REPRESENTED BY:					
Members' Other Interests					
Members' capital	22(a)		423,311		81,492
Other reserves	22(a)		<u>(79,079)</u>		<u>(22,211)</u>
			<u>344,232</u>		<u>59,281</u>
TOTAL MEMBERS' INTERESTS					
Members' other interests	22(a)		344,232		59,281
Amounts due (from)/to Members	22(a)		<u>(20,622)</u>		<u>(3,007)</u>
			<u>323,610</u>		<u>56,274</u>

The financial statements on pages 9 to 45 were approved by the Members on 31 March 2009 and were signed on their behalf by:

.....
Rob Sewell

The accounting policies and notes on pages 18 to 45 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Partnership Balance sheet as at 31 December 2008

	Note	2008 £000's	2008 £000's	2007 £000's	2007 £000's
ASSETS					
Investments					
Investment in subsidiaries	9		395,784		60,200
Debtors					
Other Debtors	14		20,622		11,366
Cash at bank and in hand					
			11		143
Prepayments and Accrued Income					
Prepayments	16		54		-
TOTAL ASSETS			416,471		71,709
LIABILITIES					
Creditors: amounts falling due within one year					
Other creditors	21		5,147		1,984
Accruals					
			46		31
TOTAL LIABILITIES			5,193		2,015
NET ASSETS ATTRIBUTABLE TO MEMBERS					
			411,278		69,694
REPRESENTED BY:					
Members' Other Interests					
Members' capital	22(b)		423,311		81,492
Other Reserves	22(b)		(12,033)		(11,798)
			411,278		69,694
TOTAL MEMBERS' INTERESTS					
Members' other interests	22(b)		411,278		69,694
Amounts due from Members	22(b)		(20,622)		(2,835)
			390,656		66,859

The financial statements on pages 9 to 45 were approved by the members on 31 March 2009 and were signed on their behalf by:

.....
Rob Sewell

The accounting policies and notes on pages 18 to 45 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Consolidated Statement of Cash Flows

Reconciliation of loss on ordinary activities before tax to net cash outflow from operating activities	2008	2008	2007	2007
	£000's	£000's	£000's	£000's
Loss on ordinary activities before tax		(66,168)		(10,888)
Losses relating to long-term business		60,974		-
		<u>(5,194)</u>		<u>(10,888)</u>
Cash transferred to long-term business		(230,333)		-
Depreciation of tangible fixed assets		252		168
Unrealised gains on investments		(285)		-
Unrealised losses on investments		220		-
Net cash outflow from operating activities		<u>(235,340)</u>		<u>(10,720)</u>
CASHFLOW STATEMENT				
<i>Shareholders net cash outflow to long-term business</i>	(230,333)		-	
<i>Other operating cash flows attributable to shareholders</i>	<u>(5,007)</u>		<u>(10,720)</u>	
Net cash outflow from operating activities		(235,340)		(10,720)
Capital expenditure		(91)		(2,634)
Financing (note 1)		325,980		-
Disposals of investments		21,704		-
Disposals of Intangible assets		4,191		-
		<u>116,444</u>		<u>(13,354)</u>

Pension Insurance Corporation Holdings LLP

Consolidated Statement of Cash Flows for the year ended 31 December 2008 (continued)

CASHFLOWS WERE INVESTED AS FOLLOWS

	2008	2008	2007	2007
	£000's	£000's	£000's	£000's
Increase in cash holdings		2,790		(19,032)
Net portfolio investment				
Debt securities	(23,243)		26,308	
Deposits with credit institutions	1,120		(24,000)	
Shares and other variable yield securities	(4,416)		(8,301)	
Participation in investment schemes	(582)		11,671	
Derivative assets	9,050		-	
Accrued interest	3,263		-	
Other loans	128,462		-	
		<u>113,654</u>		<u>5,678</u>
Net investment of cash flows		116,444		(13,354)
Movement in opening and closing portfolio investments net of financing (note 2)				
Net cash inflow for the period	2,790		(19,032)	
Cash flow				
<i>Portfolio investments</i>	<u>113,654</u>		<u>5,678</u>	
Movement arising from cash flows		116,444		(13,354)
Movement in long-term business		1,743,418		-
Changes in market values		<u>75,928</u>		<u>1,732</u>
Total movements in portfolio investments net of financing		1,935,790		(11,622)
Opening portfolio investment net of financing 1 January		52,658		64,280
Closing portfolio investment net of financing at 31 December		1,988,448		52,658

Pension Insurance Corporation Holdings LLP

Consolidated Statement of Cash Flows for the year ended 31 December 2008 (continued)

Note 1 - ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2008 £000's	2007 £000's
Financing		
Capital introduced by members	341,819	-
Increase in PICH Intercompany amounts	(15,839)	-
	<u>325,980</u>	<u>-</u>

Note 2 - MOVEMENTS IN CASH , PORTFOLIO INVESTMENTS AND FINANCING

2008	At 1 January	Cash Flow	Changes in long-term business	Changes to market values	At 31 December
	£000's	£000's	£000's	£000's	£000's
Cash at bank and in hand	5,640	2,790	-	-	8,430
Debt securities	29,188	(23,243)	615,076	43,400	664,421
Deposits with credit institutions		1,120	22,426	-	23,546
Shares and other variable yield securities	4,164	(4,416)	751,288	(21,395)	729,641
Participation in investment schemes	13,612	(582)	210,997	1,518	225,545
Loans secured by mortgages	-	-	69,924	(1,224)	68,700
Derivatives	(232)	9,050	11,752	51,740	72,310
Other asset backed securities	-	-	48,072	1,889	49,961
Other loans	-	128,462	(5,277)	-	123,185
Accrued interest	286	3,263	19,160	-	22,709
Total	<u>52,658</u>	<u>116,444</u>	<u>1,743,418</u>	<u>75,928</u>	<u>1,988,448</u>

Pension Insurance Corporation Holdings LLP

Consolidated Statement of Cash Flows for the year ended 31 December 2008 (continued)

Note 2 - MOVEMENTS IN CASH , PORTFOLIO INVESTMENTS AND FINANCING (continued)

2007	At 1 April	Cash Flow	Changes in long-term business	Changes to market values	At 31 December
	£000's	£000's	£000's	£000's	£000's
Cash at bank and in hand	24,672	(19,032)	-		5,640
Debt securities	2,382	26,281	-	525	29,188
Deposits with credit institutions	24,000	(24,000)	-	-	-
Shares and other variable yield securities	11,854	(8,301)	-	611	4,164
Participation in investment schemes	1,448	11,671	-	493	13,612
Loans secured by mortgages	-	-	-	-	-
Derivative assets	(142)	(45)	-	(45)	(232)
Other asset backed securities	-	-	-	-	-
Other loans	-	-	-	-	-
Accrued interest	66	220	-	-	286
Total	64,280	(13,206)	-	1,585	52,658

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008

1. Accounting Policies

(a) Basis of preparation

The financial statements have been prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985 and 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 and with the Statement of Recommended Practice 'Accounting by Limited Liability Partnerships' issued in March 2006.

The financial statements have been prepared in accordance with applicable accounting standards under the historical cost convention as modified to include the revaluation of certain investments.

Under Section 230(4) of the Companies Act 1985, the Partnership is exempt from the requirement to present its own profit and loss account.

The Group accounts for derivatives at fair value and consequently is required to comply with the package of accounting standards FRS23, FRS24, FRS25, and FRS26.

The Group has adopted the requirements of FRS 29 in preceding financial years as permitted by the Standard.

The principal accounting policies set out below have been applied consistently throughout the year.

(b) Basis of consolidation

The consolidated financial statements include the results of the partnership and its subsidiary undertakings for the year ended 31 December 2008. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

(c) Basis of accounting for long term insurance business

The Group has adopted the Modified Statutory Solvency Basis of accounting for long term business.

Where long term reinsurance contracts are structured to provide financing as well as transfer of risk, they are accounted for as insurance contracts. A linked presentation is adopted in the balance sheet to reflect the liability due to the reinsurer for longevity reinsurance where there is a net settlement and a legal right of offset.

(d) 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 the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

(e) Contract Classification

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. Any contracts not considered to be insurance contracts under FRS 26 are classified as investment contracts.

The Group has not entered into any investment contracts during the period.

(f) Premiums

Premiums written are valued on the day risk is accepted, for in-specie premiums this is usually the date of receipt of the assets, i.e. the settlement date. Estimates are made at the balance sheet date to recognise retrospective adjustments to premiums or commissions. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

Premiums reported exclude any taxes or duties based on premiums. Outward reinsurance premiums are accounted for on a payable basis.

(g) Acquisition Costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts.

A deferred acquisition cost asset has not been established in the balance sheet. 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.

(h) Investment Return

Interest receivable is accounted for on an accruals basis. Dividend income, grossed up where appropriate by the imputed tax credit, is recognised when the related investment goes "ex-dividend".

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.

Unrealised gains and losses on investments represent the difference between the current value of investments at the balance sheet date and their purchase price. The movement in unrealised investment gains/losses includes an adjustment for previously recognised unrealised gains/losses on investments disposed of in the accounting period.

Investment return (including realised and the movement in unrealised investment gains and losses) on investments attributable to the long term business and associated shareholders' funds is reported in the technical account for long term business. Other investment return is reported in the non-technical account.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

(i) Claims

Claims reflect the cost of all claims arising during the year. Claims on insurance contracts are charged against revenue when due for payment or, if earlier, on the date when the policy ceases to be included within the calculation of policyholder liabilities. Reinsurance recoveries are accounted for in the same period as the related claim.

The Group has entered into mortality swap contracts on a net settlement basis where it will pay an expected claim and be reimbursed the actual. Both legs of the swap are included net under amounts due from reinsurers. As of 31 December 2008 no net settlement has taken place and the two amounts are estimated to be equal. The amount of claims incurred covered by the swap contracts in the year to 31 December 2008 was £11,223,000.

(j) Long Term Business Provision

The long term business provision has been computed having due regard to the principles laid down in Council Directive 92/96/EEC. A prospective gross premium valuation method has been adopted for the business, with the exception of linked contracts where the provisions are based on the market value of the related assets.

(k) Investment expenses and charges

Investment expenses comprise:

- fund managers' fees; and
- transaction costs on financial assets at fair value through profit or loss.

Fund manager's fees are recognised on an accruals basis.

(l) Financial Investments

Fair value through profit or loss

This category has two sub-categories: those designated at fair value through profit or loss at inception and financial assets/liabilities held for trading. A financial asset/liability is classified in the latter category if acquired principally for the purpose of selling in the short term and is not designated as fair value through profit or loss at inception. The Group has designated financial assets/liabilities at fair value through profit or loss where the Group's strategy is to manage those financial assets/liabilities on a fair value basis. Internal reporting and performance measurement of these assets/liabilities are on a fair value basis. Note 11 sets out the amount of each class of financial asset and liability that has been designated at fair value through profit or loss.

Financial instruments at fair value through profit or loss are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to profit or loss. All changes in fair value are recognised in profit or loss as described in the 'Investment return' accounting policy. The methodology for determining the fair value for financial assets and liabilities is set out in Note 11.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

(m) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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

Derivatives held in the portfolio of linked assets are presented within Assets held to cover linked liabilities. Derivatives held outside of the linked assets portfolio are presented separately as financial assets and liabilities on the balance sheet.

(n) Foreign exchange

Assets and liabilities denominated mainly in a foreign currency are translated using the closing rate method. Other exchange differences are dealt with in the profit and loss account through either the non-technical account or, in the case of long term insurance business, the long term business technical account.

(o) Intangible Assets

Intangible fixed assets are capitalised at their cost. Intangible fixed assets are amortised to nil by equal instalments over their useful economic lives of between 2 and 5 years.

(p) Technical Provisions

The long term business provision and the technical provision for linked liabilities are determined by the Group's internal Actuarial department using methods and assumptions determined by the Group's Actuarial Function Holder as agreed with the directors after considering his advice and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. They are calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation provisions are then modified to remove certain contingency and other reserves required by the Prudential Sourcebook issued by the Financial Services Authority.

The technical provision is the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in note 18. These bases have been derived from an analysis of recent population and internal mortality experience obtained from the pension scheme administrator and make allowance for improvements in mortality in the future.

The interest rate used for discounting claim 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 complies with the relevant FSA regulations (INSPRU 1.2.33R and INSPRU 3.1).

Linked liabilities include long term insurance business where liabilities are determined by reference to an index. The Group writes business linked to the Retail Prices Index (RPI). All linked contracts transfer significant insurance risk, including guaranteed benefits, and are classified as insurance contracts.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

(q) Investment in subsidiary undertakings (LLP only)

Investments in subsidiary undertakings are stated at cost less impairment.

(r) Tangible Assets

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Furniture & Fittings	2 years
Computer Hardware	2 years
Computer Software	2 years

(s) Taxation

Taxation on all partnership profits is solely the personal liability of individual members. Consequently, neither taxation nor related deferred taxation arising in respect of the partnership is accounted for in these financial statements. Amounts retained for tax are treated in the same way as other profits of the partnership and so are included in members' other interests or in loans and other debts due to members' depending on whether or not division of profits has occurred.

The companies dealt with in these consolidated financial statements are subject to corporation tax based on their profits for the accounting period. The tax liabilities and any deferred taxation of these companies are recorded in the profit and loss account under the relevant heading and any related liability is carried as a creditor in the consolidated balance sheet. Deferred tax assets are recognised to the extent that they are regarded as recoverable.

(t) Leases

The rental costs relating to operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

(u) Outward reinsurance premiums

Management fees paid in respect of mortality swap contracts are included under outward reinsurance premiums.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

2. Segmental Analysis

In the opinion of the directors, the Group operates in a single business segment, being that of long term insurance business.

	2008 £000's	2007 £000's
Gross premiums written		
Bulk Pension annuities	1,571,759	-
Total	1,571,759	-

All premiums are single premium business, under group, non-participating contracts. All business is written in the United Kingdom and relates to group pension buyouts and include both immediate and deferred annuities.

3. Investment income

	Technical Account		Non-Technical		Total	
	2008	2007	2008	2007	2008	2007
	£000	£000	£000	£000	£000	£000
Investment Income						
Interest income on cash deposits	562	-	348	1,677	910	1,677
Dividend income	79	-	-	71	79	71
Income from other investments						
- Debt Securities	11,327	-	-	-	11,327	-
- Collective Investment schemes (UCITS)	3,309	-	1,134	-	4,443	-
- Other	614	-	555	-	1,169	-
Realised gains from Investments	2,698	-	432	-	3,130	-
	18,589	-	2,469	1,748	21,058	1,748
Unrealised gains on Investments	112,835	-	2,208	2,876	115,043	2,876
Unrealised (losses) on Investments	(38,069)	-	(1,045)	(545)	(39,114)	(545)
Net unrealised gain	74,766	-	1,163	2,331	75,929	2,331
Total Investment return	93,355	-	3,632	4,079	96,987	4,079

Realised gains from investments comprises £3,130k (2007: £nil) on financial instruments designated at fair value through profit or loss upon initial recognition and £nil (2007: £nil) on financial instruments held for trading.

The net unrealised gain on financial instruments comprises gains of £75,929k (2007: £1,854k) on financial instruments designated at fair value through profit or loss upon initial recognition and £nil (2007: £477k) on financial instruments held for trading.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

4. Net Operating Expenses

	2008 £000's	2007 £000's
Acquisition Costs	11,821	-
Administrative Expenses	2,476	-
Net Operating Expenses	<u>14,297</u>	<u>-</u>

Acquisition costs included commissions amounting to £nil (2007: nil) for direct insurance accounted for by the Group during the year. The majority of these 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, therefore no deferral of acquisition expenses has been made.

Net operating expenses include management services provided to the Group by Pension Corporation LLP. Management and staff are members of, or employed by, Pension Corporation LLP.

5. Investment Expenses and Charges

	Technical Account		Non-Technical		Total	
	2008 £000	2007 £000	2008 £000	2007 £000	2008 £000	2007 £000
Investment management expenses, including interest	896	-	(1)	256	895	256
Realised losses on Investments	10,381	-	3,425	2,469	13,806	2,469
	<u>11,277</u>	<u>-</u>	<u>3,424</u>	<u>2,725</u>	<u>14,701</u>	<u>2,725</u>

Realised losses from investments comprises £13,806k (2007: £2,747k) on financial instruments designated at fair value through profit or loss upon initial recognition and £nil (2007: Gain £278k) on financial instruments held for trading.

6. Other charges

Included within charges made against profit are:

	Group 12 months to 31 December 2008 £000	Group 9 months to 31 December 2007 £000
Depreciation of tangible assets	252	158
Amortisation of intangible assets	394	10
Other operating leases	25	436
	<u>671</u>	<u>604</u>

Included within other charges are amounts paid in return for management services provided to the Group by Pension Corporation LLP ("PC LLP"). Management and staff are members or employees of PC LLP.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

7. Auditors' remuneration

The remuneration of the auditors in respect to the statutory audit amounted to £196,000 (2007: £62,300) for the Group. Fees payable to the auditors and their associates other than for the statutory audit amounted to £115,175 (2007: £149,922) for the Group.

	Group 12 months to 31 December 2008 £000	Group 9 months to 31 December 2007 £000
Audit Fees – audit of Group financial statements	8	9
Audit Fees – audit of financial statements of subsidiaries pursuant to legislation	188	53
	<hr/> 196	<hr/> 62
Other services relating to taxation	115	97
Services relating to information technology	-	52
All other services	-	1
	<hr/> 311	<hr/> 212

8. Taxation

a) Partnership

No provision has been made for taxation in the financial statements. Each partner is exclusively liable for any tax liabilities arising out of their interest in the Partnership which will be assessed on the individual partners and not on the Partnership.

b) Group

A deferred tax asset of £9,300,000 has arisen in Pension Insurance Corporation Limited and has been recognised as it is anticipated that taxable profits will exist in future periods which will crystallise this asset.

In 2007 a deferred tax asset of £782,000 arose which was not recognised due to the uncertainty of the timing of taxable profits in future years which would crystallise the deferred tax assets.

The Group has assessed the recoverability of deferred tax by reference to the expected release of surplus over four years from the in force book at 31 December 2008. The amount considered recoverable has not been discounted.

The UK corporation tax charge in subsidiary undertakings in the period was nil (2007: nil) as a result of the losses arising in the period.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

9. Investment in subsidiary undertakings

PARTNERSHIP

	Shares in subsidiary undertakings	Loans to subsidiary undertakings	Capital Contributions to subsidiary undertakings	Total
	£000	£000	£000	£000
At 31 December 2007	50,000	10,200	-	60,200
Additions	275,584	-	60,000	335,584
At 31 December 2008	325,584	10,200	60,000	395,784

The principal wholly owned subsidiaries of the LLP are Pension Insurance Corporation Limited, which is wholly owned and incorporated in England and Wales, and Pension Security Insurance Corporation Limited, which is incorporated in Guernsey. Both of these subsidiaries are insurance companies.

10. Intangible assets

	Software Development costs £000	Software Licenses £000	Total £000
<i>Cost</i>			
At beginning of year	3,569	633	4,202
Additions	364	20	384
Disposals	(3,933)	(653)	(4,586)
At end of year	-	-	-
<i>Amortisation</i>			
At beginning of year	(11)	-	(11)
Charge for year	(340)	(54)	(394)
On disposals	351	54	405
At end of year	-	-	-
Net Book Value			
At 31 December 2008	-	-	-
At 31 December 2007	3,558	633	4,191

During the current year the Group sold the intangible assets it held at net book value to Pension Corporation LLP.

There were no intangible assets in the Partnership as at 31 December 2008.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

11. Financial assets and financial liabilities

	31 December 2008		31 December 2007	
	Financial £000	Financial £000	Financial £000	Financial £000
Financial Assets				
Shares and other variable yield securities and units in unit trusts	729,641		4,164	
Debt securities and other fixed income securities	664,421		29,188	
Loans secured by mortgages	68,700		-	
Deposits with credit institutions	23,546		-	
Derivative assets	176,592		85	
Participation in investment schemes	225,545		13,612	
Other asset backed securities	49,961		-	
Other loans	123,185		-	
Total Investments	2,061,591		47,049	
Assets held to cover linked liabilities	1,359,073		-	
Other Financial Assets	702,518		47,049	
Total Investments	2,061,591		47,049	
Debtors arising out of direct insurance operations	6,114		-	
Other Debtors	20,622		4,783	
Accrued Interest	22,709		286	
Other Prepayments and accrued income	8,580		681	
Other Receivables	58,025		5,750	
Cash & cash equivalents	8,430		5,640	
Total Financial Assets	2,128,046		58,439	
Financial Liabilities				
Derivative liabilities		104,282		317
Creditors arising out of reinsurance operations		842		-
Other Creditors		1,644		3,091
Accruals and deferred income		1,930		230
Other liabilities		4,416		3,321
Total Financial Liabilities		108,698		3,638

No assets were classified as held for trading at the end of the year.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

11. Financial Assets and financial liabilities (continued)

Basis for determining fair values

The following summarises the significant methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

i) Investments in shares, debt securities and 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 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.

ii) Derivatives

The fair values of forward exchange contracts and futures are based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The Group has entered into a number of forward and future agreements in 2008. The Group enters into such transactions for efficient portfolio management purposes.

12. Derivative Financial Instruments

The Group has entered into a number of inflation rate and interest rate swap agreements in the year 2008. Inflation swaps protect the Group against the adverse effects of inflation over a period of time. Interest rate swap agreements involve the exchange of fixed and floating payments over the life of the agreements without an exchange of the underlying principal amount. The Group enters into interest swap transactions to assist in the matching of contractual liabilities.

These inflation rate and interest rate swap agreements are accounted for on a market value basis, consistent with the assets and liabilities hedged.

	Contract / Notional £000	Fair Value	
		Assets £000	Liabilities £000
At 31 December 2008			
Interest Rate Swaps	397,785	135,282	(46,326)
Inflation Swap	41,014	43,937	(55,049)
FX Forwards	(23,899)	76,694	(82,818)
Futures	-	1,017	(427)
	414,900	256,930	(184,620)
Reallocated to linked assets		(80,338)	80,338
		176,592	(104,282)

There were no interest rate or inflation swaps at 31 December 2007.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

13. Debtors arising from insurance activities

GROUP	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Policyholders	6,114	-
	<u>6,114</u>	<u>-</u>

14. Other Debtors

GROUP	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Amounts due from Pension Corporation LLP	3,020	-
Loans due from DSCSS Scotland LP	9,631	-
Amounts due from Pension Corporation LP	-	4,782
Loan due from Pension Corporation GP	7,971	-
Other Debtors	-	1
	<u>20,622</u>	<u>4,783</u>

PARTNERSHIP

	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Amounts due from Pension Corporation LLP	3,020	-
Amounts due from Pension Insurance Corporation Ltd	-	6,584
Loans due from DSCSS Scotland LP	9,631	-
Amounts due from Pension Corporation LP	-	4,782
Loan due from Pension Corporation GP	7,971	-
	<u>20,622</u>	<u>11,366</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

15. Tangible Assets

	Computer Hardware	Computer Software	Furniture and Fittings	Total
	£000	£000	£000	£000
<i>Cost</i>				
At 1 January 2008	409	49	43	501
Additions in year	61	27	3	91
At 31 December 2008	470	76	46	592
<i>Depreciation</i>				
At 1 January 2008	(178)	(17)	(17)	(212)
Charged for year	(196)	(31)	(25)	(252)
At 31 December 2008	(374)	(48)	(42)	(464)
Net Book Value				
At 31 December 2008	96	28	4	128
At 31 December 2007	231	32	26	289

There are no assets held under finance leases.

16. Prepayments and Accrued Income

	Group 12 months to 31 December 2008 £000	Group 9 months to 31 December 2007 £000	Partnership 12 months to 31 December 2008 £000	Partnership 9 months to 31 December 2007 £000
Accrued income on deposits	22,709	286	-	-
Prepayments	8,580	681	54	-
	31,289	967	54	-

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

17. Risk Management

The Group's business involves the acceptance and management of risk.

A number of risk factors affect the Group's operating results and financial condition. The financial risk factors affecting the Group include the effects of market risk, credit risk and liquidity risk, longevity risk and operational risk on the financial position of the Group.

Managing 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. The Group aims to minimise its exposure to unwanted risks – those risks that are not actively sought and which carry no reward for the Group, 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, specific examples being to implement tactical asset allocation changes around the strategic benchmark, hedge cash flows, or control the risk profile of an identified strategy. The Group uses forward exchange contracts and futures.

Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in the profit and loss account. The Group has not applied hedge accounting to its derivatives. The Group monitors its exposure to risks through regular reviews of its portfolios of assets and liabilities and their underlying characteristics.

1) Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The portfolio of investment assets is subject to market risks in the form of interest rate risks, currency risks, volatility risks, inflation risks as well as price risks.

The primary market risk that the Group faces is interest rate risk because many of its assets are investments that are bonds, and cash deposits, the values of which are subject to interest rate risk. This risk is largely hedged by the use of derivatives.

Interest rate risk and inflation risk with regard to liabilities should be hedged, with swaps being the preferred option. Currency risk in the assets at the fund or mandate level must be at least 95% hedged.

The Group actively monitors market risk according to the ICA framework with a range of stress and sensitivity tests being performed based on various market conditions.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

17. Risk Management (continued)

The table below shows the results of sensitivity analysis testing on the Group's profit and loss and equity (both after tax) of its largest individual entity, Pension Insurance Corporation Limited, which represents 98% of the Group by asset value. The impact on the other group companies of changes in these key sensitivities is considered to be immaterial.

	31 December 2008 £000	31 December 2007 £000
Interest rate risk		
+ 100 basis points change in interest rates	(11,248)	551
- 100 basis points change in interest rates	19,035	(551)
Inflation risk		
+ 100 basis points change in inflation	23,656	1,778
- 100 basis points change in inflation	(20,625)	(1,778)

Assumptions, methodology and limitations of sensitivity analysis:

- 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 which the sensitivity analyses are based were determined based on economic forecasts and historical experience of variations in these factors.
- The sensitivity table demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.
- There is no significant or measurable effect of currency risk on the Group's business and the associated sensitivity analysis has therefore not been shown.

2) Credit risk

Credit risk is risk that a counterparty or an issuer of securities, which the Group holds in its asset portfolio either,

- defaults;
- has a change to its rating;
- has spread widening; or
- another party fails to perform according to the terms of the contract.

Certain over-the-counter derivatives contain a credit risk element that is controlled through establishment of collateral agreements and master netting agreements on interest rate and currency swaps. The Group is also exposed to credit-related losses in the event of non-performance by counterparties.

During the period there were no significant concentrations of credit risk with the maximum exposure to credit risk being represented by the carrying amount of each financial asset.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

17. Risk Management (continued)

In line with the Group's investment guidelines, bonds should have a minimum investment grade credit rating. Credit and counterparty risks for assets will be limited to within the FSA guidelines by minimising the exposure to single counterparties as well as groups of counterparties with the same characteristics.

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

	AAA £000	AA £000	A £000	BBB £000	BB £000	Unrated £000	Total £000
Loan and debt securities:							
Debt securities and other fixed income securities	326,474	71,119	208,085	49,848	323	8,572	664,421
Variable yield securities	481,866	44,979	128,145	37,627	7,745	29,280	729,642
Loans secured by mortgages	61,087	4,030	-	-	-	3,582	68,699
Other asset backed securities	13,251	15,890	16,947	3,873	-	-	49,961
Other loans	-	-	-	-	-	123,185	123,185
As at 31 December 2008	882,678	136,018	353,177	91,348	8,068	164,619	1,635,908
Debt securities and other fixed income securities	26,593	2,017	-	-	-	578	29,188
Variable yield securities	-	-	-	-	-	4,164	4,164
Loans secured by mortgages	-	-	-	-	-	-	-
Other asset backed securities	-	-	-	-	-	-	-
Other loans	-	-	-	-	-	-	-
Derivative liabilities	-	-	-	-	-	-	-
As at 31 December 2007	26,593	2,017	-	-	-	4,742	33,352
Other assets:							
Collateralised derivative assets	-	-	-	-	-	176,592	176,592
Collateralised derivative liabilities	-	-	-	-	-	(104,282)	(104,282)
Deposits with approved credit institutions	-	-	-	-	-	23,546	23,546
Participation in investment schemes (UCITS)	-	-	-	-	-	225,545	225,545
As at 31 December 2008	-	-	-	-	-	321,401	321,401
Collateralised derivative assets	-	-	-	-	-	86	86
Collateralised derivative liabilities	-	-	-	-	-	(317)	(317)
Deposits with approved credit institutions	-	-	-	-	-	-	-
Participation in investment schemes (UCITS)	-	-	-	-	-	13,612	13,612
As at 31 December 2007	-	-	-	-	-	13,381	13,381

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

17. Risk Management (continued)

3) Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Group seeks to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover its liabilities.

Liquidity risk is managed through an asset / liability management framework by maintaining forecasts of cash requirements and by adjusting investment management strategies as appropriate to meet these requirements. In most cases liquidity risk will be avoided by holding sufficient assets in investments which are readily marketable in a sufficiently short timeframe to be able to settle benefits as they fall due. Safeguards are in place to ensure that the liquidity position remains sufficient at all times.

The following table sets out the contractual maturity analysis for financial liabilities

GROUP	Up to 1 year £000	1 - 5 years £000	Over 5 years £000	Total £000
Amounts owed to group undertakings	100	-	-	100
Other creditors	1,544	-	-	1,544
Derivative liabilities	83,244	2,394	18,644	104,282
As at 31 December 2008	84,888	2,394	18,644	105,926
Amounts owed to group undertakings	-	-	-	-
Other creditors	3,091	-	-	3,091
Derivative liabilities	317	-	-	317
As at 31 December 2007	3,408	-	-	3,408

4) Longevity risk

Longevity risk is the risk that a pension fund or life insurance Group takes on, due to the possibility that the Group could pay out more than anticipated due to increasing life expectancy.

The Group has a low appetite for longevity risk. Thus, the preferred option is to hedge out as much longevity risk as possible when schemes are acquired. In cases where this is not possible, the Group may look at assets that are positively correlated to longevity to offset some of the impact.

The Group monitors the longevity profile of the insurance pool regularly and actively sources counterparties for reinsurance. Further, it also monitors counterparty risks with all associated reinsurers.

Pension Insurance Corporation Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

17. Risk Management (continued)

4) Longevity risk (continued)

Current mortality rates for pensioners are derived (on a case by case basis) using models that account for age, gender, annuity amount and indicators of socio-economic class. The output from each model is then used to arrive at an overall consensus view.

Furthermore, for schemes where sufficient and credible experience data exists, this is utilised to (a) provide another view for the purposes above and (b) to calibrate the above models against the experience results derived from a wide pool of schemes. As such, appropriate adjustments to the mortality models may be made periodically if justified by emerging experience.

The allowance for future improvements in mortality is reviewed periodically in the light of evolving methodologies for these projections together with views (from industry and professional bodies) on the factors driving mortality change.

The exposure to (sensitivities in) this latter assumption can be managed to an extent by ensuring that the mix of business is suitably weighted towards current pensioners who are less exposed to long-term improvements in mortality rates than younger deferred pensioners. This exposure can be quantified to a degree by calculating the increase in liabilities that would result if rates of improvement at every age in each future calendar year were higher than the best-estimate projection would imply.

The impact of a one year reduction in age of each pensioner, which is broadly consistent with an increase in life expectancy of 1 year, would increase reserves by approximately 3%.

5) Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The Group's operational risks and control environment are currently assessed with a view to ensuring the necessary safeguards, controls and contingency planning. The extent of these risk assessments and safeguards are balanced against the expenses related to the initiatives.

Emergency and business continuity plans have also been established to counter external occurrences. Risk is also being minimised by documented business processes for all material areas and through training.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

18. Technical Provisions

	Long term business provision £000	Technical provisions for linked liabilities £000
2008		
Gross	353,899	1,465,058
Reinsurance	(28,428)	(105,985)
Net	325,471	1,359,073
2007		
Gross	-	-
(a) Rates of Interest		
<i>Assurances</i>		
Without Profit	4.55%	n/a
<i>Annuities</i>		
With Profit - deferred	0%	0%
Without Profit - deferred	4.55%	n/a
- vested	4.55%	n/a

(b) Mortality tables

Assurances and deferred annuities	PCMA00 / PCFA00
Vested annuities	PCMA00 / PCFA00

The Group's liabilities represent contracts that provide individual and bulk immediate and deferred annuities.

Annuities in deferment can be level or subject to fixed increases or increases linked to RPI. Annuities in payment can be level or subject to fixed increase or increases linked to RPI.

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

Mortality

The mortality tables used are adjusted versions of the PXMA00 and PXFA00 standard tables. The adjustments applied to these tables vary according to gender, age and geographical location. The adjustments also allow for improvements in mortality rates up to 31 December 2008.

An allowance for future mortality improvements from 31 December 2008 has been made by applying bespoke sets of reduction factors. For ages between 90 and 120 the improvement "floor" reduces linearly to zero. The reduction factors are applied to both annuities in payment and deferment.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

18. Technical Provisions (continued)

Interest Rate

The valuation interest rate complies with the requirements of Rule 1.2.33R of INSPRU, the Prudential Sourcebook for insurers.

The valuation interest rate is adjusted to reflect the risk, including credit risk, associated with the assets held to match liabilities. The regulatory requirements (INSPRU 3.1) state that the valuation interest rate should be set at 97.5% of the risk-adjusted yield on the assets backing the liabilities, which gives a rate at the end of December of 4.55%

Other Assumptions

An allowance is made for expenses, including investment management expenses, following an investigation into the Group's costs.

19. Deferred tax asset

	2008 £000's	2007 £000's
At beginning of year	-	-
Movement in the year	9,300	-
At end of year	9,300	-

The amounts provided for deferred taxation and the amounts unprovided are set out below:

	2008		2007	
	Provided £000	Unprovided £000	Provided £000	Unprovided £000
Tax on operating loss at standard rate of corporation tax of 28%	9,300	7,402	-	1,331
Difference between accumulated depreciation and amortisation and capital allowances	-	316	-	-
Expenses not deductible for tax purposes	-	(2)	-	-
Other timing differences	-	-	-	-
	9,300	7,716	-	1,331

The Group has assessed the recoverability of deferred tax by reference to the expected release of surplus over four years from the in force book at 31 December 2008. The amount considered recoverable has not been discounted.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

20. Creditors arising from reinsurance activities

GROUP

	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Other creditors	842	-
	<u>842</u>	<u>-</u>

All creditors are payable within a period of one year.

21. Other Creditors

GROUP

	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Amounts owed to Pension Corporation LLP	100	1,775
Other creditors	1,544	1,316
	<u>1,644</u>	<u>3,091</u>

PARTNERSHIP

	12 months to 31 December 2008 £000	9 months to 31 December 2007 £000
Amounts owed to Pension Corporation LLP	-	1,947
Amounts owed to Pension Insurance Corporation Ltd	5,147	-
Other creditors	-	37
	<u>5,147</u>	<u>1,984</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

22. Reconciliation of movement in Members' Other Interests

a) Group

	<i>Members' capital £000</i>	<i>Other reserves £000</i>	Total £000	<i>Loans and other debts due to/(from) members £000</i>	Total £000
At 31 December 2007	81,492	(22,211)	59,281	(3,007)	56,274
Capital introduced by members	341,819	-	341,819	-	341,819
Loss for the financial period available for division amongst members	-	(56,868)	(56,868)	-	(56,868)
Amounts due to / from members	-	-	-	(17,615)	(17,615)
At 31 December 2008	423,311	(79,079)	344,232	(20,622)	323,610

b) Partnership

	<i>Members' capital £000</i>	<i>Other reserves £000</i>	Total £000	<i>Loans and other debts due to/(from) members £000</i>	Total £000
At 31 December 2007	81,492	(11,798)	69,694	(2,835)	66,859
Capital introduced by members	341,819	-	341,819	-	341,819
Loss for the financial period available for division amongst members	-	(235)	(235)	-	(235)
Amounts due to / from members	-	-	-	(17,787)	(17,787)
At 31 December 2008	423,311	(12,033)	411,278	(20,622)	390,656

The amount shown in Loans and Other Debts due to/(from) members is net of an amount of £3,510,319 (2007: £6,941,000), which represents amounts due to PC LLP under the terms of a contractual agreement to fund PC LLP's expenses incurred during the period.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

23. Members remuneration and numbers

The average number of members of the partnership during the period was two.

No remuneration was paid to members during the period.

24. Operating lease commitments - Group

	2008 £000's	2007 £000's
Other operating leases		
Due within one year	22	909
Due within two to five years	11	35
Due over five years	-	-
	33	944

Operating leases that the Group have entered into relate to items of office equipment.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

25. Related party transactions

a) Transactions with subsidiaries

The partnership has paid £21,109 (2007: £30,500) of costs on behalf of its subsidiaries during the period. As at 31 December 2008 the partnership was owed £10,200,000 (2007: £16,784,000) from its subsidiaries.

b) Transactions with Pension Corporation Investments LP Inc

The Group made a loan on commercial terms, repayable within three years, of £160,000,000 to Pension Corporation Investments LP Inc during the year. At 31 December 2008 £120,000,000 remained due to the Group.

c) Transactions with Pension Corporation LLP

The Group and the Partnership have a related party relationship with Pension Corporation LLP, which provides various management services on behalf of the Group. Remuneration to certain key management personnel of the Group is incurred by PC LLP, part of which was recharged as a management fee to Pension Insurance Corporation Limited ('PIC') and Pension Security Insurance Corporation Limited ("PSIC").

Management, advisory and directors services provided to PIC and PSIC during the period amounts to £10,794,109 (2007: £984,000). Included within this, were amounts paid to John Coomber, Graham Cooper, John Fitzpatrick, Richard Priestley, Rob Sewell, Edmund Truell, Malcolm Thomson and Sir Martin Jacomb who are directors of Pension Insurance Corporation ('PIC') and partners of PC LLP.

The total amount of profit and loans received by these directors were £2,377,761 (2007: £1,343,616) which includes amounts paid for part of the period only where those directors commenced employment during the period.

The emoluments of the highest paid director of PIC were £650,000 (2007: £512,500). All directors of PIC are indirect investors of Pension Insurance Corporation Holdings LLP

As at 31 December 2008, PICH was owed £3,020,141 by PC LLP (2007 PICH owed: £1,946,858), representing funding by PICH under the terms of a contractual agreement to fund the PC LLP expenses incurred during the period.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

26. Statement of Capital Resources

The Board's policy is to maintain a strong capital base to protect policyholders' and creditors' interests and satisfy regulators whilst still creating shareholder value.

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 movement 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 Group is required to hold sufficient capital to meet the FSA's capital requirements. The capital requirement is calculated on the statutory basis, which is based on EU Directives. For all regulated insurance business, account is also taken of the Individual Capital Assessment which considers certain business risks not reflected in the statutory and realistic bases.

The available capital is subject to certain restrictions as to its use. In particular, no transfers from long-term funds can take place without an up to date actuarial valuation.

The majority of surplus can be distributed to shareholders subject to meeting the requirements of the business.

The capital held within the members' funds is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Group's regulatory requirements.

The capital held by the insurance business is constrained by regulatory requirements.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

26. Statement of Capital Resources (Continued)

Available Capital Resources

	UK non- participating £000	Overseas £000	Life Business Shareholders' funds £000	TOTAL LIFE BUSINESS £000	Other activities £000	Group Total £000
Shareholders funds outside fund	-	4,264	165,933	170,197	-	170,197
Shareholders funds held in fund	174,035	-	-	174,035	-	174,035
Total shareholders' funds	174,035	4,264	165,933	344,232	-	344,232
Adjustments onto regulatory basis:						
Adjustment to assets	-	-	(107,359)	(107,359)	-	(107,359)
Other adjustments	(17,502)	(3,029)	-	(20,531)	-	(20,531)
	156,533	1,235	58,574	216,342	-	216,342
Other qualifying capital:	-	-	-	-	-	-
Total available capital resources	156,533	1,235	58,574	216,342	-	216,342

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

The total available capital resources for each section of the statement show the capital on a regulatory basis that is available to meet the regulatory capital requirements of that part of the business.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

26. Statement of Capital Resources (Continued)

Such Group capital is generally subject to restrictions as to its availability to meet requirements that arise elsewhere in the Group. The principal restriction is that the available surplus held in a life fund is attributable to members and, subject to meeting the regulatory requirements of that business, this capital is available to meet requirements elsewhere in the Group.

For the UK Life fund the Group is required to hold sufficient capital in the life company to meet the FSA requirements, based on the 'capital resources requirement' (CRR) determined in accordance with the FSA's Statutory Solvency rules, together with the Individual Capital Assessment (ICA). Management intends to maintain surplus capital in excess of the CRR and ICA and to maintain an appropriate additional margin over this to absorb changes in both capital and capital requirements.

The relevant capital requirement is the minimum solvency requirement determined in accordance with FSA's Statutory Solvency regulations. At 31 December 2008 the available capital was 232% (2007: 1533%) of the capital requirement of £86.2 million (2007: £2.2 million).

It is the Group's policy to hold the higher of its internal capital requirement and the FSA capital requirement plus a specified margin over this to absorb changes in both capital and capital requirements.

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' equity.

	2008	2007
	£000's	£000's
Members capital	423,311	81,492
Retained reserves	(79,079)	(22,211)
Group capital	<u>344,232</u>	<u>59,281</u>

The Group has complied with all externally and internally imposed capital requirements throughout the period.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2008 (continued)

27. 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	Insurance of defined benefit pension schemes
PSIC Holdings (Guernsey) Limited	Holding Company
Pension Security Insurance Corporation Limited	Bulk Annuity Reinsurance

All subsidiary undertakings are owned as to 100% of ordinary share capital.

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 registered and operate in England and Wales.