

Registered Number OC316967

Pension Insurance Corporation Holdings LLP

**Group Annual Report and Financial Statements
For the year ended 31 December 2009**

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 2009

The members present their annual report and the audited financial statements for Pension Insurance Corporation Holdings LLP ("the Partnership" or "PICH") for the year ended 31 December 2009.

Principal activity

The principal activity of PICH is to act 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 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. The principal trading activity of PSIC, which is authorised by the Guernsey Financial Services Commission, is the underwriting of bulk annuity reinsurance, principally from PIC.

In return for receipt of an insurance premium PIC issues an insurance policy that provides annuity payments due to pensioners. The premium received by PIC is usually received from a pension scheme acting on behalf of its members. 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 beneficiaries will benefit from the enhanced protection that is offered by an insurance policy.

During 2009 there has been a continued increase in the recognition of the benefits offered to pension schemes by purchasing annuity insurance (often referred to as "buy-ins" or "buy-outs").

The financial market disruption in late 2008 and early 2009 had the effect of subduing the market for annuity insurance. Notwithstanding this, PIC wrote ten insurance contracts in 2009 with a total premium of £1.1bn (*2008: five contracts with a total premium of £1.6bn*). The schemes written during the year include a buy-in of part of the Cadbury Pension Scheme, a buy-out of the Leyland DAF scheme and a buy-out of the Food From Britain pension scheme, the first in the market involving a UK Government "quango".

As a result PIC continued to develop on the foundations laid in 2008 and achieved leadership in the pension risk transfer market with an estimated market share of 30%.

During the year PIC reinsured £271.0m (*2008: £29.0m*) of its liabilities with PSIC. This represented 50% of the liabilities acquired in respect of seven of the schemes acquired in the first nine months of the year.

The members remain very positive about both the Company and the Group's financial position and the growth potential of its market.

Results

The Group made a profit for the year before taxation of £42.1million (*2008: loss of £66.2 million*).

Further details are included in the Statement of comprehensive income.

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2009 (continued)

Members and the Board of Advisors

The following were Designated Members during the period:

Pension Corporation LLP ("PCLLP or the Manager")
Pension Corporation LP Incorporated - Appointed 18 August 2009

The following members sat on the Board of Advisors for Pension Insurance Corporation Holdings LLP during the period and subsequently:

John Amato	Sir Nicholas Montagu	Ravi Sinha
John Coomber	David Morgan	Kari Stadigh
John Fitzpatrick	John Narvell	Edmund Truell
Ed Giera	Nicholas Parker	Sir Mark Weinberg
Sir Martin Jacomb	Robert Scott	
Tim Hanford	Rob Sewell	

Members Profit Allocation and Return of Capital

The terms of the Members Agreement state that 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:

- Firstly, to PCLLP 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;
- Any further surplus to be distributed pro rata among all holders of Ordinary Interests.

Members' contributions

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

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.

Creditors Policy

The Group's policy in relation to its suppliers is to set the terms of payment at 30 days when agreeing a transaction 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 suppliers to comply with these.

Pension Insurance Corporation Holdings LLP

Members' report for the year ended 31 December 2009 (continued)

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

In accordance with Section 384 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Group is to be proposed at the forthcoming Annual General Meeting.

Rob Sewell
On behalf of the Designated Members

30 April 2010

Pension Insurance Corporation Holdings LLP

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

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 ("LLPs") 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.

Independent auditors' report to the members of Pension Insurance Corporation Holdings Limited Liability Partnership

We have audited the financial statements of Pension Insurance Corporation Holdings Limited Liability Partnership for the year ended 31 December 2009 which comprises the Statement of comprehensive income, the Statement of changes in equity, the Statement of financial position, the Statement of cash flows and the 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 495 of the Companies Act 2006, as required by Regulation 39 of the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008. 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 auditors' 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

The members' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and for being satisfied that the financial statements give a true and fair view are set out in the Statement of Members' Responsibilities on page 6.

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, have been properly prepared in accordance with IFRSs as adopted by the EU and have been prepared in accordance with the Companies Act 2006.

We also report to you if, in our opinion, the LLP has not kept adequate accounting records, if we have not received all the information and explanations we require for our audit, or if certain disclosures of members' remuneration specified by law are not made. 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 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 Limited Liability Partnership

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the LLP as at 31 December 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the Companies Act 2006.

Philip Smart (**Senior Statutory Auditor**)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

London

April 2010

Pension Insurance Corporation Holdings LLP

Group statement of comprehensive income Year ended 31 December

	Note	2009 £000's	2009 £000's	2008 £000's	2008 £000's
Revenue					
Gross premiums written		1,089,426		1,571,759	
Outward reinsurance premium		<u>(4,475)</u>		<u>(842)</u>	
			1,084,951		1,570,917
Net premiums revenue earned					
Investment return	2	186,588		83,179	
Commission receivable on reinsurance placed		<u>-</u>	<u>186,588</u>	<u>-</u>	<u>83,179</u>
Total revenue (net of reinsurance premiums)			1,271,539		1,654,096
Expenses					
Claims incurred					
Claims paid					
Gross claims amount		(107,325)		(15,965)	
Reinsurers share of claims paid		<u>1,766</u>	<u>(105,559)</u>	<u>-</u>	<u>(15,965)</u>
Change in insurance liabilities					
Gross amount		(1,105,511)		(1,818,957)	
Reinsurers' share		<u>17,689</u>	<u>(1,087,822)</u>	<u>134,413</u>	<u>(1,684,544)</u>
Acquisition expenses	3	(14,439)		(11,821)	
Other operating expenses	3	<u>(21,593)</u>	<u>(36,032)</u>	<u>(7,934)</u>	<u>(19,755)</u>
Total claims and expenses			(1,229,413)		(1,720,264)
Profit / (loss) before tax			42,126		(66,168)
Income tax	6		<u>9,302</u>		<u>9,300</u>
Profit / (loss) for the year			51,428		(56,868)
Other comprehensive income			<u>-</u>		<u>-</u>
Total comprehensive income			51,428		(56,868)

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Group statement of changes in equity

Year ended 31 December 2009	Members' Capital	Other Reserves	Loans and other debts due from members	Total
	£000's	£000's		£000's
Balance at 1 January 2009	423,311	(79,079)	(20,622)	323,610
Total comprehensive income	-	51,428	-	51,428
Amounts due from members			(12,000)	(12,000)
At 31 December 2009	423,311	(79,079)	(32,622)	363,038

Year ended 31 December 2008	Members' Capital	Other Reserves	Loans and other debts due from Members	Total
	£000's	£000's		£000's
Balance at 1 January 2008	50,000	(22,211)	(3,007)	24,782
Total comprehensive income	-	(56,868)	-	(56,868)
Capital introduced by members	373,311	-	-	373,311
Amounts due from members	-	-	(17,615)	(17,615)
At 31 December 2008	423,311	(79,079)	(20,622)	323,610

The amount shown in loans and other debts due from members is net of an amount of £15,020,724 (2008: £3,020,141), which represents advance drawings made by PCLLP against their entitlement to a priority profit share as a member of PICH under the terms of the partnership agreement.

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Partnership statement of changes in equity

Year ended 31 December 2009	Members' Capital £000's	Other Reserves £000's	Loans and other debts due from members £000's	Total £000's
Balance at 1 January 2009	423,311	(12,033)	(20,622)	390,656
Total comprehensive income	-	22,557		22,557
Amounts due from members			(12,000)	(12,000)
At 31 December 2009	423,311	10,524	(32,622)	401,213
Year ended 31 December 2008	Members' Capital £000's	Other Reserves £000's	Loans and other debts due from members £000's	Total £000's
Balance at 1 January 2008	81,492	(11,798)	(2,835)	66,859
Total comprehensive income	-	(235)		(235)
Capital introduced by members	341,819	-	-	341,819
Amounts due from members			(17,787)	(17,787)
At 31 December 2008	423,311	(12,033)	(20,622)	390,656

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Group statement of financial position as at 31 December

	Note	2009 £000's	2008 £000's
ASSETS			
Intangible assets	7	-	28
Equipment	8	-	100
Reinsurers share of insurance liabilities	9	152,102	134,413
Deferred tax assets	10	18,602	9,300
Receivables and other financial assets	11	73,615	49,445
Prepayments		3,250	8,580
Financial investments	11	3,667,888	2,141,929
Cash and cash equivalents	11	28,429	8,430
TOTAL ASSETS		3,943,886	2,352,225
MEMBERS' OTHER INTERESTS			
Members' capital		423,311	423,311
Other reserves		(27,651)	(79,079)
TOTAL EQUITY		395,660	344,232
LIABILITIES			
Gross insurance liabilities	9	2,924,468	1,818,957
Derivative liabilities	12	596,957	184,620
Insurance and other payables	11	4,798	2,486
Accruals	11	22,003	1,930
TOTAL LIABILITIES		3,548,226	2,007,993
TOTAL EQUITY AND LIABILITIES		3,943,886	2,352,225
MEMBERS' OTHER INTERESTS			
Members' Capital		423,311	423,311
Other Reserves		(27,651)	(79,079)
		395,660	344,232
TOTAL MEMBERS' INTERESTS			
Members' other interests		395,660	411,278
Amounts due from Members		(32,622)	(20,622)
		363,038	390,656

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements were approved by the members on 30 April 2010 and were signed on its behalf by:

.....

Rob Sewell

Pension Insurance Corporation Holdings LLP

Partnership statement of financial position as at 31 December

	Note	2009 £000's	2008 £000's
ASSETS			
Investments in subsidiaries		395,784	395,784
Receivables and other financial assets	11	32,622	20,622
Prepayments		59	54
Cash and cash equivalents	11	13,777	11
TOTAL ASSETS		442,242	416,471
LIABILITIES			
Insurance and other payables	11	8,377	5,147
Accruals	11	30	46
TOTAL LIABILITIES		8,407	5,193
NET ASSETS ATTRIBUTABLE TO MEMBERS		433,835	411,278
REPRESENTED BY:			
MEMBERS' OTHER INTERESTS			
Members' Capital		423,311	423,311
Other Reserves		10,524	(12,033)
TOTAL MEMBERS' INTERESTS		433,835	411,278
Members' other interests		433,835	411,278
Amounts due from Members		(32,622)	(20,622)
		401,213	390,656

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

The financial statements were approved by the members on 30 April 2010 and were signed on its behalf by:

.....
Rob Sewell

Pension Insurance Corporation Holdings LLP

Group statement of cash flows

	Year ended 31 December 2009	Year ended 31 December 2008
Note	£000's	£000's
Cash flows from operating activities		
Profit / (loss) for the year	51,428	(56,868)
Profit / (loss) for the year comprises:		
Interest Income	82,017	9,302
Other operating activities	(30,589)	(66,170)
Depreciation of equipment	8 54	221
Net amortisation of intangible assets	7 28	425
Operating profit / (loss) before changes in operating assets and liabilities	51,510	(56,222)
Increase in provision for deferred tax asset	10 (9,302)	(9,300)
Increase in receivables and other financial assets	(24,172)	(44,376)
Increase in financial investments	(1,525,911)	(2,014,542)
Decrease / (increase) in prepayments	5,330	(7,899)
Increase in reinsurance assets	(17,689)	(134,413)
Increase in insurance liabilities	1,105,511	1,818,957
Increase in financial liabilities	412,337	103,965
Increase / (decrease) in insurance and other payables	2,312	(605)
Increase in accruals and deferred income	20,073	1,700
Cash inflow / (outflow) generated from operating activities	19,999	(342,735)
Cash flow from investing activities		
Proceeds from sale of intangible assets	-	4,181
Purchase of equipment	8 -	(64)
Purchase of intangible assets	7 -	(411)
Net cash from investing activities	-	3,706
Cash flows from financing activities		
Proceeds from the issue of ordinary shares	-	341,819
Net cash from financing activities	-	341,819
Net increase in cash and cash equivalents	19,999	2,790
Cash and cash equivalents at 1 January	8,430	5,640
Cash and cash equivalents at 31 December	28,429	8,430

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Partnership statement of cash flows

	Year ended 31 December 2009	Year ended 31 December 2008
	£000's	£000's
Cash flows from operating activities		
Profit / (loss) for the year	22,557	(235)
Profit / (loss) for the year comprises:		
Dividend received	13,750	-
Other operating activities	8,807	(235)
Operating profit / (loss) before changes in operating assets and liabilities	22,557	(235)
Increase in receivables and other financial assets	(12,000)	(9,256)
(Increase) in prepayments	(5)	(54)
Decrease in insurance and other payables	3,230	3,163
Increase / (Decrease) in accruals and deferred income	(16)	16
Cash inflow / (outflow) generated from operating activities	13,766	(6,366)
Interest Received	-	
Net Cash inflow / (outflow) generated from operations	13,766	(6,366)
Cash flow from investing activities		
Proceeds from sale of intangible assets	-	
Purchase of subsidiary investments	-	(335,584)
Purchase of intangible assets	7	-
Net cash from investing activities	-	(335,584)
Cash flows from financing activities		
Members capital received	-	341,819
Net cash from financing activities	-	341,819
Net increase in cash and cash equivalents	13,766	(132)
Cash and cash equivalents at 1 January	11	143
Cash and cash equivalents at 31 December	13,777	11

The accounting policies and notes on pages 16 to 47 form an integral part of these financial statements.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009

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 2009, with the exception of the following, which are not yet mandatory;

Amendment to IFRS 1 First-time adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters – effective 1 January 2010.

Amendment to IFRS 2 – Group Cash – settled Share based payments – effective 1 January 2010

Amendment to IFRS 3 – Business Combinations – effective 1 July 2009

Amendment to IAS 27 – Consolidated and Separate Financial Statements – effective 1 July 2009

Amendment to IAS 39 – Financial Instruments: Recognition and Measurement (eligible hedged items) – effective 1 July 2009

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 the parent company financial statements here together with the Group financial statements, Pension Corporation 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) Changes from previous accounting basis and reconciliation to previously published 2008 results on first-time adoption of IFRS

The Group has adopted IFRS and restated its UK GAAP financial statements for the year ended 31 December 2008, to be compliant with a first time adoption of IFRS. All comparative figures in these financial statements are stated in accordance with the (IFRS compliant) accounting policies detailed below.

There are no significant changes in accounting policy resulting from the adoption of IFRS and consequently the retained loss for 2008 and total equity as at 31 December 2008 are unchanged from those reported under UK GAAP.

There are a number of presentational and disclosure changes that arise from the conversion from UK GAAP to IFRS. The primary differences are:

i) Statement of comprehensive income

The Statement of comprehensive income prepared under IFRS incorporates the entire trading result of the Group which combines the Technical and Non-technical Statement of profit and loss accounts which were shown separately under UK GAAP.

ii) Statement of financial position

The presentation of individual classes of asset, liability and equity prepared under IFRS differs from UK GAAP as follows:

Computer software purchased by the Group is redesignated from tangible to intangible fixed assets;

Assets and liabilities have been reordered in ascending order of their liquidity;

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

(b) Changes from previous accounting basis and reconciliation to previously published 2008 results on first-time adoption of IFRS (continued)

ii) Statement of financial position (continued)

Certain lines under UK GAAP have been combined on the face of the statement of financial position to provide a wider ranging classification supported by further detail provided in the notes to the accounts, in accordance with IFRS. A number of asset and liability classes have also been renamed as follows:

UK GAAP disclosure	IFRS disclosure
Debtors	Receivables and other financial assets
Prepayments and accrued income	Prepayments are shown separately whilst accrued income is incorporated within financial investments
Other financial investments	Financial investments
Assets held to cover linked liabilities	
Technical provisions	Gross insurance liabilities
Technical provisions for linked liabilities	
Creditors	Insurance and other payables

(c) 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 if 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.

(d) Contract Classification

Insurance contracts are defined in IFRS 4 "*Insurance Contracts*" 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 outside this definition are classified as investment contracts.

The Group has not entered into any contracts which are defined as investment contracts during the year ended 31 December 2009.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting Policies (continued)

(e) Premiums

Premiums written are valued on the day risk is accepted. Estimates are made at the end of each financial year to recognise retrospective adjustments to premiums or commissions where required. 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.

(f) 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 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.

(g) Claims

Claims paid reflect the cost of all claims arising during the year. Claims on insurance contracts are charged against revenue when due for payment. Reinsurance recoveries are accounted for in the same period as the related claim.

The Group has entered into a number of longevity swap contracts with reinsurers under which it commits to pay the reinsurer in accordance with an expected profile (“the fixed line”) for each scheme and the reinsurer reimburses the actual cost of claims to the Company. Settlement of the contract is on a net basis and amounts receivable or payable from/to reinsurers are included in the appropriate heading in 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 and actual claims paid. Consequently no asset or liability in respect of these contracts has been recognised as at 31 December 2009 and claims have been recorded at the amounts paid.

(h) 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 measures 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.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting Policies (continued)

(i) 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.

Certain investment performance fees are payable on targets based over a number of financial periods. Amounts accrued within the financial statements to 31 December 2009 reflect the payment which the Group expects to pay within the next financial year, based upon performance to the end of the current financial year. No provision is made for fees due on future performance within existing contracts on the basis of uncertainty.

(j) Financial Instruments

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

Financial assets and financial liabilities are categorised as fair value through profit or loss either at inception or when held for trading. A financial asset or liability is classified as held for trading if acquired principally for the purpose of generating a profit from short term fluctuations in price or if it is part of a portfolio of investments that are managed with a view to short term profit taking. The Group generally manages its investments in accordance with its liability profile and consequently takes a long term view. No financial assets are currently designated as held for trading.

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

The internal reporting and performance of all financial assets and liabilities is measured 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. The methodology for determining the fair value for financial assets and liabilities is 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) Intangible Assets

Intangible fixed assets are capitalised at original cost. Intangible fixed assets are amortised in equal instalments over their useful economic lives of between 2 and 5 years according to the nature of the asset.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting Policies (continued)

(m) 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

(n) 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.

(o) Foreign currencies

The Group's financial statements are presented in pounds sterling. Assets and Liabilities denominated mainly in a foreign currency are translated into pounds sterling 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 using average rates for the period in which the transaction took place.

(p) 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.

(q) Leases

The rental costs relating to operating leases are charged to the Statement of comprehensive income account on a straight line basis over the life of the lease.

(r) Insurance Liabilities

Insurance Liabilities are determined using methods and assumptions determined by the directors of each relevant entity in accordance with the rules prevailing in the local jurisdiction after considering advice from the Actuarial Function Holder ("AFH") and using recognised actuarial methods with due regard to the actuarial principles laid down in Directive 2002/83/EC. Where relevant 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 ("FSA") or other relevant regulatory body which are not required to be recognised as insurance liabilities under IFRS 4.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

1. Accounting Policies (continued)

(r) Insurance Liabilities (continued)

Insurance liabilities comprise the discounted value of estimated future claims payments, adjusted for investment expenses and future administration costs. Claims payments 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 obtained from each 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 ("VRI") complies with the relevant regulations in each jurisdiction (INSPRU 1.2.33R and INSPRU 3.1 in the UK).

The Group makes an assessment at each reporting date as to whether the recognised insurance liabilities are adequate, using current estimates of future cash flows. If the assessment indicates that the carrying amount of liabilities (less related assets) is insufficient, the deficiency is recognised in the Statement of comprehensive income by making an additional provision in the Statement of financial position.

(s) Outward reinsurance premiums

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

(t) 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. The Group makes estimates of the expected number of deaths for each of the years that it is exposed to risk when calculating the carrying amount of insurance liabilities and the reinsurers' share of these liabilities. 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 swap contracts. The anticipated effect of these contracts is reflected in the calculation of insurance liabilities.

The carrying value of insurance liabilities net of reinsurance at the end of the financial year is £2.772 billion (2008: £1.685 billion). 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 their fair value. The model considers the anticipated future cash flows expected to be derived from the assets or paid in respect of the liabilities and discounts them to reflect the timing of payments and, for debt assets, the likelihood of default given the relative seniority of the Group's holding in order of repayment.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

2. Investment return

	Total 2009 £000	Total 2008 £000
Investment return		
Interest income on cash deposits	5,156	1,466
Dividend income	12	79
Income from other investments		
- Debt securities	75,428	11,035
- Collective investment schemes	2,296	4,443
- Loans secured by mortgage	1,433	437
- Other asset backed securities	1,837	206
- Other	4,192	(29)
Realised gains on Investments	62,442	697
Realised (losses) on Investments	(16,589)	(11,084)
	136,207	7,250
Unrealised gains on Investments	144,850	115,043
Unrealised (losses) on Investments	(94,469)	(39,114)
Net unrealised gain	50,381	75,929
Total Investment return	186,588	83,179

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

3. Acquisition expenses

	2009 £000's	2008 £000's
Acquisition Costs	14,439	11,821
Commissions	-	-
	<u>14,439</u>	<u>11,821</u>

There are no commissions for direct insurance included in acquisition costs (2008: nil). The majority of acquisition costs are not directly related to individual sales. 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 Corporation LLP ("PCLLP"), a UK limited liability partnership is a provider of management, IT and office services to the Group. All management and staff who work for the Group are partners of, or employed by, PCLLP. All directors' services are also provided by PCLLP. 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 the note below.

Other operating expenses

	2009 £000's	2008 £000's
Investment charges and related expenses	20,713	882
Other expenses	880	7,052
	<u>21,593</u>	<u>7,934</u>

Included in Investment charges and related expenses are amounts due at 31 December 2009 relating to investment performance fees payable on targets based over a number of financial periods. The amounts included represent payments which the Group expects to pay within the next financial year, based upon performance to the Statement of financial position date, rather than the amount payable over the entire contract.

4. Auditors' remuneration

	2009 £000's	2008 £000's
Audit of these financial statements	116	196
Other services pursuant to such legislation:		
Other services relating to taxation	82	115
All other services	<u>219</u>	<u>24</u>
	<u>417</u>	<u>335</u>

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

5. Staff costs and headcount

The Group employs no staff and consequently has no staff costs. All members, directors and staff are employed by PCLLP which makes charges for services provided as set out in Note 3 above.

6. Income Tax

	2009 £000's	2008 £000's
Current Taxation		
Income tax receivable / (payable) for current year	-	-
Adjustments in respect of prior years	-	-
Total current tax	-	-
Deferred Taxation		
Origination and reversal of temporary differences	(9,302)	(9,300)
Total deferred tax credit	(9,302)	(9,300)
Income tax credit	(9,302)	(9,300)

Reconciliation of total income to the applicable tax rate

	2009 £000's	2008 £000's
Income tax at 28% (2008: 28.5%)	4,901	(16,702)
Adjustments for effects of:		
Disallowable expenses	-	-
Adjustment in respect of prior years - current tax	-	-
Tax losses not recognised	-	7,402
Reserves on an FSA regulatory basis	398	
Disallowed expenditure	140	-
Utilisation of tax losses brought forward	(5,439)	
Recognition of deferred tax asset in respect of prior year losses	(9,302)	-
Income tax credit	(9,302)	(9,300)

Factors that may affect future tax charges

The Group has the following timing differences which may give rise to reduced tax charges in the future:

Tax losses as at 31 December 2009 amounted to £66,400,000 (£18,601,000 tax value) (31 December 2008: £85,861,000, £24,041,000 tax value). The losses are all classed as trading losses and are available to offset future taxable profits arising from the same trade. The Group's projections suggest that sufficient taxable profits will arise in the next three financial years to utilise these losses. Consequently the Group has recognised a deferred tax asset of £18,602,000 (see note 10).

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

7. Intangible assets

	Computer Software
	£000's
<i>Cost</i>	
Restated opening balance	76
Additions in year	-
Disposals	-
At end of year	76
<i>Amortisation</i>	
Restated opening balance	(48)
Charge for year	(28)
On disposals	-
At end of year	(76)
Restated Net Book Value	
At 31 December 2009	-
At 31 December 2008	28

The restated opening balance figures comprise assets which had previously been classified as Equipment, as required IFRS (IAS 38 "Intangible Assets").

All assets were acquired externally.

8. Equipment

	Computer Hardware	Furniture and Fittings	Total
	£000's	£000's	£000's
<i>Cost</i>			
Restated opening balance	470	46	516
At end of year	470	46	516
<i>Depreciation</i>			
Restated opening balance	(374)	(42)	(416)
Charge for year	(96)	(4)	(100)
At end of year	(470)	(46)	(516)
Restated Net Book Value			
At 31 December 2009	-	-	-
At 31 December 2008	96	4	100

The restated opening balance figures exclude computer software which has been reclassified as Intangible Assets, as required by IFRS (IAS 38) (see Note 7).

There are no assets held under finance leases.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Insurance Contracts and Related Insurance liabilities

	2009		
	Gross £000's	Reinsurance £000's	Net £000's
Future policyholders' benefits	2,924,468	152,102	2,772,366
	2008		
	Gross £000's	Reinsurance £000's	Net £000's
Future policyholders' benefits	1,818,957	134,413	1,684,544

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 certain reserves which are required for the calculation of statutory solvency but which are considered too unlikely to occur, and therefore are not included in insurance liabilities under IFRS 4.

The reinsurance liabilities include externally ceded longevity swap arrangements and a tranche of insured Delta annuities.

a) Terms and conditions of insurance contracts

The Company's liabilities represent contracts that provide individual and bulk immediate annuities for current pensioners and deferred annuities for members who have not yet reached pensionable age. Both annuities in deferment and in payment can be level or subject to fixed increases or increases linked to RPI.

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 preparation of insurance liabilities

Mortality assumptions

The mortality tables used for each scheme are adjusted versions of the following standard tables:

Scheme	Base Mortality Table
Thorn	PCML00 & PCFL00 (for current pensioners) PNML00 & PNFL00 (for deferred pensioners)
Panasonic, Cadbury & Liberty	S1PMA & S1PFA
All other Schemes	PCMA00 & PCFA00

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Insurance Contracts and Related Reinsurance (continued)

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

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 2009.

An allowance for future mortality improvements from 31 December 2009 has been made by applying bespoke sets of reduction factors.

Valuation discount rate of interest (“VRI”)

The methodology supporting the calculation of the VRI complies with the requirements of Rule 1.2.33R of INSPRU, the Prudential Sourcebook for insurers.

Inflation

Assumptions for expected future inflation are based on the available prices of inflation-linked swap contracts. The difference between the swap rate for interest-rate swap contracts and the swap rate applying on real-rate swaps is used to calculate a ‘breakeven’ inflation assumption. The breakeven inflation curve increased significantly over the year to 31 December 2009.

Other Assumptions

The Company’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 maintaining the current insurance book.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Insurance Contracts and Related Reinsurance (continued)

Insurance liabilities (continued)

c) Movements

	Gross £000's	Reinsurance £000's	Net £000's
31 December 2009			
Carrying amount			
At 1 January 2009	1,818,957	(134,413)	1,684,544
Increase in liability from premiums	1,034,623	(16,913)	1,017,710
Release of liability due to 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
At 31 December 2009	<u>2,924,468</u>	<u>(152,102)</u>	<u>2,772,366</u>
31 December 2008			
Carrying amount			
At 1 January 2008	-	-	-
Increase in liability from premiums	1,834,922	135,197	1,699,725
Release of liability due to claims	(15,965)	(784)	(15,181)
At 31 December 2008	<u>1,818,957</u>	<u>134,413</u>	<u>1,684,544</u>

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:

The primary economic assumption changes during the year are the increase to the VRI and an increase in future inflation assumptions.

The decrease in liabilities caused by the increase in the VRI was more than offset by an increase in liabilities caused by an increase in future inflation 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
- Change from RPI to LPI inflation curves

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Insurance Contracts and Related Reinsurance (continued)

Insurance liabilities (continued)

d) Analysis of expected maturity of insurance contract balances

The table below indicates the insurance contract balances analysed by duration, taking into account payments in proportion to the policy cash flows estimated to arise during that period.

31 December 2009	Within 1 year £000's	1-5 years £000's	5-15 years £000's	Over 15 years £000's	Total £000's
<i>Assurances and deferred annuities</i>					
Gross	10,242	38,908	154,269	420,928	624,347
Reinsurance	(1)	8	50	(7,909)	(7,852)
	10,241	38,916	154,319	413,018	616,495
<i>Vested annuities</i>					
Gross	140,331	510,896	906,397	742,497	2,300,121
Reinsurance	(210)	(4,986)	(34,338)	(104,715)	(144,250)
	140,121	505,909	872,058	637,782	2,155,871

e) Sensitivity analysis

In accordance with IFRS 4 the members have considered the effect on assets and liabilities resulting from changes in a number of key assumptions. The impact of this sensitivity analysis is set out in the table below:

31 December 2009	Interest Rates +1% £000's	Interest Rates -1% £000's	Inflation Rate +5% £000's	Inflation Rate -5% £000's	Longevity (see below) £000's	Expenses (see below) £000's	Credit Spread +1% £000's	Credit Spread -1% £000's
Gross	79,491	(108,719)	(34,893)	33,752	(142,343)	(6,221)	(79,593)	58,895
Reinsurance	(30,258)	41,007	1,383	(1,160)	91,288	27	(1,069)	2,984
	49,233	(67,712)	(33,510)	32,592	(51,055)	(6,194)	(80,662)	61,879

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 renewal expenses of c.15%.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

9. Insurance Contracts and Related Reinsurance (continued)

Insurance liabilities (continued)

e) Sensitivity analysis (continued)

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 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 as a result of correlations. In particular the Group's use of derivatives is designed to ensure that its exposure to market risk is hedged.
- 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.

f) Reinsurance results

	2009	2008
	£000's	£000's
Reinsurance premiums ceded	(4,475)	(842)
Reinsurers' share of claims paid	1,766	-
Changes in Reinsurers' share of liabilities	17,689	134,413
Effect of Reinsurance on Income Statement	14,980	133,571

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

10. Deferred tax asset

	Asset £000's	Liability £000's	Total £000's
31 December 2009			
Unutilised tax losses	18,602	-	18,602

The movement in the deferred tax balance was as follows;

	2009 £000's
Net balance at 1 January 2009	9,300
Amount credited to comprehensive income statement	<u>9,302</u>
Net balance 31 December 2009	<u>18,602</u>

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. The Group has made projections which forecast the profits arising from the current business portfolio which indicate that sufficient taxable profit will arise in the next three financial years to utilise the £66.4m tax losses arising in prior periods.

Consequently the Group has recognised a deferred tax asset of £18.6m based on these projections. The amount recognised in the current financial year includes the value of tax losses incurred in prior years which, based on the Company's projections, are now considered recoverable within three years.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Financial assets and financial liabilities

GROUP

31 December 2009	Financial investments at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities measured at amortised cost £000
Financial Assets			
Debt securities	2,444,849		
Shares and units in unit trusts	20,720		
Loans secured by mortgages	87,207		
Deposits with credit institutions	22,272		
Participation in investment schemes	259,117		
Other asset backed securities	86,518		
Other loans	120,000		
Derivative assets	<u>627,205</u>		
Total Financial Investments	3,667,888		
Debtors arising out of direct insurance operations		5,407	
Other Debtors		32,623	
Accrued Interest		<u>35,585</u>	
Total receivables and other financial assets		73,615	
Cash & cash equivalents		<u>28,429</u>	
Total Financial Assets	3,667,888	102,044	
Financial Liabilities			
Derivative liabilities	596,957		
Creditors arising out of reinsurance operations			1,124
Other Creditors			<u>3,674</u>
Insurance and other payables			4,798
Accruals			<u>22,003</u>
Total Financial Liabilities	596,957		26,801

All amounts relating to receivables and other financial assets and creditors and accruals are expected to be settled within one year.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Financial assets and financial liabilities (continued)

GROUP (continued)

Included within other loans is a loan of £120,000,000 to Pension Corporation Investments LP Inc (“PCI”), a limited partnership based in Guernsey. The Company receives interest on the loan at a rate of LIBOR plus 2.25%. The loan is due for full repayment on or before December 2011. The directors 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 £120,000,000 as PCI is expected to be able to meet all obligations.

31 December 2008	Financial investments at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities measured at amortised cost £000
Financial Assets			
Debt securities	1,394,062		
Shares and units in unit trusts	2,134		
Loans secured by mortgages	68,700		
Deposits with credit institutions	23,546		
Participation in investment schemes	223,411		
Other asset backed securities	49,961		
Other loans	123,185		
Derivative assets	<u>256,930</u>		
Total Financial Investments	2,141,929		
Debtors arising out of direct insurance operations		6,114	
Other Debtors		20,622	
Accrued Interest		<u>22,709</u>	
Total receivables and other financial assets		49,445	
Cash & cash equivalents		<u>8,430</u>	
Total Financial Assets	2,141,929	57,875	
Financial Liabilities			
Derivative liabilities	184,620		
Creditors arising out of reinsurance operations			842
Other Creditors			<u>1,644</u>
Insurance and other payables			2,486
Accruals			<u>1,930</u>
Total Financial Liabilities	184,620		4,416

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Financial assets and financial liabilities (continued)

PARTNERSHIP

31 December 2009	Financial investments at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities measured at amortised cost £000
Financial Assets			
Other loans	<u>32,622</u>		
Total Financial Investments	32,622		
Cash & cash equivalents		<u>13,777</u>	
Total Financial Assets	32,622	13,777	
Financial Liabilities			
Other Creditors			<u>8,377</u>
Insurance and other payables			8,377
Accruals			<u>30</u>
Total Financial Liabilities			8,407

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Financial assets and financial liabilities (continued)

PARTNERSHIP (continued)

31 December 2008	Financial investments at fair value through profit and loss £000	Loans and receivables £000	Financial liabilities measured at amortised cost £000
Financial Assets			
Other loans	20,622		
Total Financial Investments	20,622		
Total receivables and other financial assets		-	
Cash & cash equivalents		11	
Total Financial Assets	20,622	11	
Financial Liabilities			
Other Creditors			5,147
Insurance and other payables			5,147
Accruals			46
Total Financial Liabilities			5,193

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

11. Financial assets and financial liabilities (continued)

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

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 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

The fair value of forward exchange contracts futures and swaps are based on listed market prices, where available. For those forward exchange contracts and futures where a listed market price is not available, 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 an appropriate risk-free interest rate (based upon the rate applicable to government bonds of a similar duration). For those swaps where a listed market price is not available, then fair value is determined by using composite curves, which are derived from a number of market counterparties.

The Group has entered into a number of forward and future agreements in 2009. The Group enters into such transactions for efficient portfolio management purposes. The Group has also entered into a number of inflation and interest rate swap agreements during 2009 for the purpose of asset and liability matching.

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 assets 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 an amortised cost basis less any impairment made. 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 2009 (continued)

11. Financial assets and financial liabilities (continued)

The following table analysis the Company's financial investments in accordance with the Amendment to IFRS 7 "Financial Instruments". This Amendment is only applicable to financial years commencing on or after 1 January 2009. Comparative information for the previous financial year is not required..

Financial investments are analysed as follows;

	31 December 2009			
	Level 1	Level 2	Level 3	Total
	£000s	£000s	£000s	£000s
Debt securities	1,084,898	1,359,937	-	2,444,835
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	194,253	-	259,131
Other asset backed securities	-	86,518	-	86,518
Other loans	-	-	120,000	120,000
Derivative assets (net)	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 other observable valuations such as unquoted prices, interest rates, adjusted quoted prices or quoted prices in an inactive market.

Assets classified as Level 3 are those assets for which no observable data exists. The fair value measurement has been made by the application of internal valuation systems. All assets within Level 3 relate to loans with other entities within the Pension Corporation group.

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

	Total £000s
Level 3 asset value 1 January 2009	123,185
Adjustment relating to impairment of Investment	(3,185)
Level 3 asset value 31 December 2009	120,000

The adjustment indicated above relates to an investment held by the Group in Pension Corporation Investment No 3 LP Inc.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

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. 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 matching investment assets to contractual liabilities.

	Fair Value	
	Assets £000's	Liabilities £000's
At 31 December 2009		
Interest Rate Swaps	54,152	(40,166)
Inflation Swaps	43,059	(36,567)
Credit Default Swaps	-	(401)
FX Forwards	519,082	(519,820)
Futures	10,912	(3)
	627,205	(596,957)
At 31 December 2008		
Interest Rate Swaps	135,282	(46,326)
Inflation Swaps	43,937	(55,049)
FX Forwards	76,694	(82,818)
Futures	1,017	(427)
	256,930	(184,620)

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.

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. The Group is also exposed to longevity risk and operational risk.

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 and aims to minimise its exposure to unwanted risks. These risks are those which are not actively sought, such as longevity risk, interest rate risk and inflation risk, and 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.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Risk Management (continued)

Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value. Changes in fair value are included in the Statement of comprehensive income. 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

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 to the extent that the value of its assets is not matched by changes in the value of its liabilities. This risk is largely hedged by the use of derivatives.

Interest rate risk and inflation risk with regard to liabilities are hedged, primarily through the use of relevant swaps. Currency risk in the assets at the fund or mandate level is at least 95% hedged.

b) Credit risk

Credit risk is the risk of loss due to another party failing to meet all or part of their obligations.

The Group manages exposure to credit risk by placing limits on exposures to individual counterparties and limits on exposures within individual credit rating levels.

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.

During the year the members consider there have been no significant concentrations of credit risk based on the maximum exposure to credit risk being represented by the carrying amount of each financial asset.

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Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Risk Management (continued)

b) Credit risk (continued)

Credit and counterparty risks for assets are limited to within the FSA INSPRU 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 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	1,194,671	172,490	602,524	351,083	32,619	91,461	2,444,848
Loans secured by mortgages	60,674	20,272	729	-	-	5,532	87,207
Other asset backed securities	36,969	11,556	35,336	2,658	-	-	86,519
Other loans	-	-	-	-	-	120,000	120,000
As at 31 December 2009	1,292,314	204,318	638,589	353,741	32,619	216,993	2,738,574
Other assets:							
Collateralised derivative assets	-	-	-	-	-	627,205	627,205
Participation in investment schemes	-	-	-	-	-	259,117	259,117
Other receivables	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
As at 31 December 2009	8,099	4,051	52,214	7,035	765	900,444	972,608
Loan and debt securities:							
Debt securities	808,340	116,098	336,230	87,475	8,068	37,851	1,394,062
Loans secured by mortgages	61,087	4,030	-	-	-	3,583	68,700
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
Other assets:							
Collateralised derivative assets	-	-	-	-	-	176,592	176,592
Participation in investment schemes	-	-	-	-	-	223,609	223,609
Other receivables	6,203	2,690	8,659	2,996	195	28,703	49,446
Deposits with credit institutions	-	-	-	-	-	23,546	23,546
Cash and cash equivalents	-	-	4,929	-	-	3,501	8,430
As at 31 December 2008	6,203	2,690	13,588	2,996	195	455,951	481,623

c) 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. The Group's liquidity management procedures are designed to ensure that, even under adverse conditions, the Group has access to the funds necessary to cover its liabilities.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Risk Management (continued)

c) Liquidity risk (continued)

Liquidity risk is managed through an asset and liability management framework by modelling detailed 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.

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

As at 31 December 2009

	Within 1 year £000	1 - 5 years £000	5 - 15 years £000	Over 15 years £000	Total £000
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
	546,913	17,275	28,970	30,600	623,758

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

As at 31 December 2008

	Within 1 year £000	1 - 5 years £000	5 - 15 years £000	Over 15 years £000	Total £000
Other creditors	2,386	100	-	-	2,486
Accruals	386	1,544	-	-	1,930
Derivative liabilities	83,244	18,570	44,008	38,797	184,619
	86,016	20,214	44,008	38,797	189,035

d) Specific insurance risk

The Group operates in a specific market. Longevity risk is the fundamental insurance risk that it assumes and represents the risk that the Group may not be able to meet payment of its obligations as a result of pensioners living longer than expected in the Company's projections.

The Group seeks to reduce exposure to longevity risk through the use of longevity swaps 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 Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Risk Management (continued)

d) Specific insurance 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%.

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

1. 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.

2. 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.

3. 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.

4. 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.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

13. Risk Management (continued)

e) 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.

An outsourced Internal Audit function was put in place during the year to review specific business areas and to assist in ensuring risk is minimised by the preparation of documented business processes for all material areas and through training..

14. Operating lease commitments

The Group has the following future commitments under operating leases:

	2009 £000's	2008 £000's
Other operating leases		
Due within one year	7	22
Due within two to five years	7	11
Due over five years	-	-
	14	33

15. Contingent Liability

On 22 December 2009 PIC entered into an agreement with Henderson Global Investors Limited under which it provisionally agreed to place seed capital into a number of Henderson investment funds, at its own discretion. PIC will receive a notional credit at a rate of 5% per annum in respect of the funds invested which will be used to remove PIC's potential obligation to pay an additional £5.5m in performance related management fees based on investment performance to September 2009.

At the date of signing these financial statements no such investment had been made.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

16. Related party transactions

PCLLP is a provider of management, IT and office services to the Group and the Partnership and is a partner in PICH. All 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 was £15,979,987 (2008: £10,794,109). Included within this were following amounts paid to members of the PICH Board of Advisors and directors of subsidiary companies of PICH (primarily PIC and PSIC).

	2009 £	2008 £
PICH Advisory Board		
Total Payments	2,814,431	2,571,465
Highest Paid Member	628,833	650,000
Other Subsidiary Board Directors		
Total Payments	495,706	887,424

As at 31 December 2009 PC LLP had made advance drawings of £15,020,724 (2008: £3,020,141) against their entitlement to a priority profit share as a member of PICH under the terms of the partnership agreement.

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

PICH owns 100% of the ordinary share capital of all the above companies either directly or indirectly through the holding companies shown above.

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.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (continued)

18. Statement of Capital Resources

The Board's 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 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 regulated subsidiaries in the Group review their capital resources on a monthly basis and have complied with all externally and internally imposed capital requirements during the year. It remains the intention of management of both companies 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 2009 (continued)

18. Statement of Capital Resources (continued)

	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	-	3,654	239,021	242,675	-	242,675
Shareholders' funds held in fund	152,985	-	-	152,985	-	152,985
Total shareholders' funds	152,985	3,654	239,021	395,660	-	395,660
Adjustments onto regulatory basis:						
Adjustment to assets	(13,463)	-	(2,534)	(15,997)	-	(15,997)
Other adjustments	(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
31 December 2008						
	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 year indicates the capital that is available to meet the regulatory capital requirements of the business.

Pension Insurance Corporation Holdings LLP

Notes to the financial statements for the year ended 31 December 2009 (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 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.

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.

	2009	2008
	£000's	£000's
Members' capital	423,311	423,311
Retained reserves	(27,651)	(79,079)
Group capital	<u>395,660</u>	<u>344,232</u>