Pension
Protection
Fund

Annual Report & Accounts **2009/10**

Protecting People's Futures

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Pension

What we do

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We were set up by the Pensions Act 2004 and opened our doors for business in April 2005. We are a public corporation run by an independent Board, which is responsible to Parliament through the Secretary of State for Work and Pensions.

We pay compensation to people belonging to certain defined benefit pension schemes, eg final salary pension schemes whose employer became insolvent – and where there are not enough assets in the scheme to pay protected levels of compensation or above.

Since July 2009, we have been the scheme manager for the Financial Assistance Scheme (FAS) which was announced by the Government in May 2004 and began operating in September 2005.

The FAS provides financial assistance to members of certain defined benefit pension schemes who lost all, or part of, their pensions before April 2005 because their schemes wound up underfunded between January 1997 and April 2005.

We are also responsible for providing compensation to pension schemes of all types whose employer has become insolvent and the scheme has lost out financially owing to dishonesty. The assets held for this purpose are ring-fenced within the Fraud Compensation Fund. Fraud compensation is paid for by a levy payable by eligible pension schemes.

The compensation we pay to scheme members and the administration costs of the PPF are paid for through a pension protection levy and an administration levy on those pension schemes that could make a claim on the PPF now or in the future.

We also generate income from our own investments, taking on the assets of schemes that transfer to the PPF and through the recovery of money, and other assets, from insolvent employers of schemes we take on.

The Financial Assistance Scheme is funded by the Government.

Who we are

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Chairman


Lawrence Churchill
(Until end June 2010)


Lady Judge
(From 1 July 2010)

Chief Executive


Alan Rubenstein

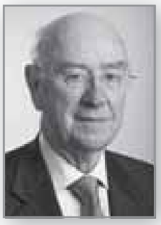
Executive Board Members


Martin Clarke


David Heslop

Non-executive Board Members


John Bevington


Tony Holland


Christopher Hughes


Ann Berresford


Dick Barfield


Jeannie Drake CBE


Michael Deakin

Directors


David Taylor


Sara Protheroe


Graham Crowe


Paul Reynolds


Naomi L'Estrange

Ian Abrams
Left the Board in November 2009.

Mark Baker CBE
Left the Board in November 2009.

Peter Walker
Left the Pension Protection Fund, and the Board, in January 2010.

A statement from the Chairman 3

I have followed the fortunes of the Pension Protection Fund since it was established for business more than five years ago with immense interest. It is clearly evident that it performs a vital role in providing protection for more than 12 million members of PPF-eligible pension schemes throughout the UK.

Accordingly, when I was offered the job as Chairman, I had no hesitation in accepting, particularly at such a challenging time. The country has experienced the worst recession in decades, there is a new Government trying to tackle a massive budget deficit – and, against this background, the PPF is seeking to evolve the way it works to accommodate its important role in the future.

The purpose of this report, however, is to review the work carried out by the organisation during 2009/10. This work was presided over by my predecessor, Lawrence Churchill CBE, and I would like to take this opportunity to formally thank him for his enormous contribution to the success of the PPF during the last five years.

Lawrence has helped build an organisation from scratch, an organisation which launched the world's first risk-based pension protection levy, which, by the end of 2009/10, directly protected more than 46,000 people, protected a further 200,000 people being assessed for entry into the PPF and was holding almost £4.5 billion worth of assets. Lawrence has left an exceptional legacy, and I look forward to hopefully building on that legacy and leading the PPF on to continued success.

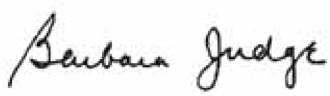
I would also like to thank Ian Abrams and Mark Baker CBE, who left the Board during the year, for their commitment and contribution. Ian and Mark have been with us since we first set up so it is particularly sad to see them go. However, I am also delighted to welcome Dick Barfield and John Bevington to the Board who I am sure will provide more than able replacements.

I am very much encouraged by the achievements set forth in this report. These are just some of the highlights: by the end of the last year, we had paid out almost £138 million in compensation, transferred 150 schemes, beaten our investment benchmarks by 13 per cent and had successfully taken over as scheme manager for the Financial Assistance Scheme. Importantly, I am pleased to note that the deficit we reported in 2008/09 has now been replaced by a reserve of almost £400 million.

We must not, however, be complacent. We are working harder than ever to make sure the PPF operates as efficiently as possible so that we can continue to offer value for money to our levy payers as well as to reassure those receiving our compensation that we are financially sound and will be secure for the foreseeable future.

This means, therefore, that in the coming year we will be concentrating on vital areas such as our funding for the future, accelerating the assessment process and developing our proposals for the long-term future of the levy. I can also reaffirm our commitment to all stakeholders that they will be effectively consulted and their views taken into full consideration before we make any decisions which affect them.

Finally, I would like to pass on my – and, indeed, Lawrence's – appreciation and thanks to all PPF and FAS staff who have worked so hard during the past year to continue the PPF success story. We all look forward to its continuation.



Lady Judge
Chairman

Chief Executive's review

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The last year proved to be something of a watershed for the Pension Protection Fund (PPF) – we marked our fifth anniversary, saw the 150th scheme transfer to us and closed the year with almost £4.5 billion of assets. By 31 March 2010, nearly 400,000 people, including 170,000 covered by the Financial Assistance Scheme (FAS), could be confident that, although their pension scheme might be in the process of wind-up or PPF assessment, their pension was protected to at least the minimum levels prescribed by the PPF or the FAS.

In a year when our financial resilience was firmly in the spotlight, we weathered well the challenges thrown at us by the economic environment. Against a difficult background, I believe the significant improvement in the funding position that we report on below demonstrates once again that the PPF's business model is sound. Our deficit of the previous year has been replaced by a reserve of almost £400 million, equivalent to a funding level of 103 per cent.

The PPF is not a short-term undertaking, however. That is why 2009/10 was also a year in which we set our sights on the years and decades ahead. It is vital to the millions of people whose pensions we protect that we continue to meet our long-term obligations and, to do so, we have to be equipped to meet all future challenges.

The original vision for the PPF was developed in the spring of 2005, just after we opened our doors for business and has served us well during the last five years.

With this five years of experience behind us, we decided that it was the right time to review our vision. Not only did we welcome new Executive and Non-Executive Board members over the year but also, in July, we took on new statutory responsibilities for the FAS. In doing so, we welcomed new colleagues from the FAS Operating Unit, based in York, into the organisation.

During 2009/10, we developed a new streamlined strategic framework made up of a vision, mission and strategic objectives – all underpinned by a set of values that will drive everything that we do. This new framework is detailed later in this report.

We also fulfilled our important commitment to keep the pension protection levy stable for three years – despite facing a sizeable opening deficit and concern in many quarters about the likely trend in insolvencies. This decision reflected our desire not to add to the burden on employers and pension schemes caused by the continuing economic uncertainty. I am pleased to say our actions have proved to be justified.

In addition, we continued to look at the long-term future of the levy. When we first published our proposals, back in the Autumn of 2008, there was general agreement among stakeholders on the principles we were seeking to achieve with a revised levy formula, but real concern about the detail of our proposals. We listened to those concerns, and to help us redefine the approach we set up an industry steering group, supported by a technical working group. I would like to thank once again all those who gave so generously of their time and knowledge as members of either group. I believe that their contribution will help us produce a new levy formula which is demonstrably more stable and more predictable than the current version. In October 2010, we published for consultation with all interested parties our proposals on a new levy approach, which will take effect from 2012/13.

This consultation, alongside our revised Statement of Investment Principles and our recently published Funding Strategy, will lay the strong foundations we need for a fairer levy and, crucially, a financially secure future for millions of pension scheme members.

Following the election of a new Coalition Government in June of this year, the Minister of State for Pensions, Professor Steve Webb MP, announced plans to link the indexation and revaluation of benefits paid under both the PPF and FAS to the Consumer Prices Index (as opposed to the Retail Prices Index). As explained later in this report, this is likely to have a material effect on the finances of the PPF, possibly reducing the value of our liabilities by approximately £500 million. Since legislation formally making this change has yet to be brought forward (the Department for Work and Pensions formally launched a consultation on the proposed changes on 12 August 2010), the accounts presented here make no allowance for the move to CPI.

None of the significant progress we have made over the year could have been achieved without the hard work and dedication of our staff. Since taking over as Chief Executive, I have been constantly impressed by the commitment and enthusiasm they bring to their work, particularly during what has been a difficult and stressful period in the life of the organisation. I would personally like to thank them all for their contribution to the achievements of 2009/10.

I would also like to thank our outgoing Chairman, Lawrence Churchill CBE, for all his endeavours during the last five years and I wish him well for the future. His shoes, I am sure, will be ably filled by our new Chairman, Lady Judge, and I look forward to working closely with her as we embark on the next chapter of the PPF story.

Alan Rubenstein
Chief Executive

Our vision and mission for 2009/10

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Vision

Protecting People's Futures.

Mission

To pay the right people the right amount at the right time.

Strategic Objectives

- Manage schemes through the assessment and wind-up processes in a timely and efficient manner.
- Invest assets prudently and effectively to meet our commitments.
- Set and collect an appropriate levy and allocate it fairly.
- Maintain our reputation by communicating clearly what we do and why.
- Be an efficient organisation where staff are recognised and valued.
- Maintain effective risk management in all areas of PPF business.

Values:

- Integrity – 'Do the right thing'.
- Collaboration – 'Work as one'.
- Accountability – 'Own your actions'.
- Respect – 'Value every voice'.
- Excellence – 'Be your best'.

What we said we would do during 2009/10

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As the recession continued to play out during the year, it was more important than ever that pension scheme members got the protection to which they are entitled.

But, it was also vital that we reassured people who are, or might become, members of the PPF that their compensation is paid by an organisation that is well-positioned to withstand the sort of economic conditions experienced in recent times.

To provide this reassurance - not just to our members but to everyone else we deal with - we remained true to the three key factors to success that we identified when we opened our doors for business in 2005.

These are:

- to use dialogue and consultation to build confidence among our stakeholders that we are a competent and credible organisation – and achieve consensus on the best ways forward
- to employ sound modelling and early warning systems to alert us to the economic and company-specific risks we may face in the future, and
- to encourage schemes, where they could, to provide stronger levels of funding in the long-term.

To meet these keys factors to success during 2009/10, we concentrated on:

- the fairest practical way of sharing the levy among our levy payers, now and in the future
- strengthening our own financial resilience through
    - consulting on proposals on the long-term future of the levy
    - building on our investment strategy
- improving further the way we work, building on the knowledge we have gained through
    - levy invoicing
    - seeing schemes through our assessment period, and
    - paying compensation to members
- delivering a human resource strategy which supports our staff to make the PPF a high-performing organisation, and
- deepening our relationships with our members and all our other stakeholders.

This report will set out how well we performed during the year in aiming to meet these key objectives.

Paying the right people the right amount at the right time

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We faced a number of major challenges during the year to make sure that we fulfilled our main priority to pay the right people the right amount at the right time.

These included dealing with the influx of claims that we saw towards the end of 2008/09, uncertainty around the levels of claims that we might see during 2009/10 – and the need to speed up the PPF assessment process.

By 31 March 2010, 46,429 members had transferred to the PPF, with 20,872 already receiving compensation

It was also important that we reassured people about our ability to provide pension protection, given the strained economic circumstances and the growing number of schemes transferring to us.

During 2009/10, the number of members who had transferred to the PPF had increased from 30,515 at 31 March 2009 to 46,429 at 31 March 2010 – and we expect that figure to double in the near future.

Also, we took over responsibility for managing the Financial Assistance Scheme during the year which brought its own challenges.

Even though the average person getting PPF compensation receives less than £320 a month, they would have got a lot less without our protection – and we know that such amounts make a real difference to their lives.

By the end of 2009/10, we had 341 schemes in our assessment period, compared to 290 at the end of 2008/09. The growing caseload meant that we had to continue to strengthen all aspects of the assessment process during the year.

But challenges such as poor quality scheme records and member data meant that we have yet to fulfil our aspiration of getting 75 per cent of schemes through assessment within two years.

By the end of March 2010, 341 schemes were in the PPF assessment period, representing about 193,000 members who were assured that they would, at least, receive PPF levels of compensation (or more if their schemes can afford it)

Although our achievements to date have seen a significant improvement on the time generally taken to wind-up schemes, the coming year will see a renewed focus - in a programme called Assess & Pay - on improving the performance of everyone involved in getting schemes through assessment.

We continue to support trustees and scheme advisors, producing updates to our trustee guidance – both for the PPF and for FAS – and publishing the first of our technical news updates. These updates provided trustees with some practical guidance on topical and key issues that may affect schemes in the PPF assessment period.

We work with trustees to make sure that members of schemes in assessment are kept informed of progress. Informed by our own research that indicated that less than 50 per cent of trustees pass on information about the assessment process to their members, we have liaised more closely with trustees to ensure that our materials were reaching those members.

150th scheme transferred to the PPF during 2009/10

By law, we have to ensure that equal compensation is paid to comparable male and female members of schemes whose employers have gone bust and are being assessed for entry into the PPF, or who have actually transferred.

During the year, we continued working towards reaching a solution to address this issue for PPF compensation. Once we reach a solution, we will issue PPF guidance on how we will be implementing benefit equalisation for Guaranteed Minimum Pensions (GMPs).

Our financial position

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The PPF is now a firmly established part of the pensions landscape and we are determined to make sure that people receiving our compensation remain confident in our ability to provide that compensation. This means that we have had to demonstrate our financial resilience during the year.

As at 31 March 2009, we reported a deficit in the value of our assets compared to our liabilities of £1.2 billion - a funding position of 88 per cent. This situation improved significantly during the year because of improvements in the financial markets and the fact that claims during the year were less costly than we anticipated.

These improvements mean we are able to report an excess of assets over liabilities of £400 million as at 31 March 2010, representing a funding position of 103 per cent.

The PPF deficit had reduced from £1.2 billion in 2008/09 to an excess of assets over liabilities of £400 million in 2009/10

These short-term balance sheet positions are important measures of our strength. But, we have also evolved a formalised long-term funding strategy through which we can evaluate our capability to accumulate the financial resources needed to pay levels of compensation to current and future PPF members.

Our long-term funding aim is to reach a state of self-sufficiency at the end of the next 20 years, a time when our liabilities will be much more mature and the risk of future claims comparatively small. Self-sufficiency means being fully-funded by 2030, with some protection to cover any remaining risks to our balance sheet.

PPF funding position – the ratio of assets to liabilities – rose from 88 per cent to 103 per cent between 2008/09 and 2009/10

At that point, we aim to have no exposure to interest rate, inflation and market risks and have protection against the risks of future claims and improvements in longevity being greater than our best estimates.

In the year to 31 March 2010, we:

- invested amounts totalling £904 million in line with our Statement of Investment Principles (SIP)
- saw our invested assets grow from £2.9 billion in 2008/09 to £4.4 billion in 2009/10
- transferred £570 million in cash and other assets during the year from schemes which had entered the PPF, and
- made – or expect to realise in the future – recoveries from insolvent employers of a further £270 million.

Our biggest source of income for now is still the pension protection levy. We set a levy estimate of £700 million for 2009/10. We expect to collect a final figure for the levy year of £592 million.

The difference in the final figure is due to a number of factors that turned out to be different from the expectations we had at the time we issued the levy estimate. These factors include:

- we allow schemes to certify risk reduction measures right up to the start of the levy year, ie 31 March 2009
- employers can appeal their D&B insolvency risk score, which means their scheme's bill can be lower than predicted, and
- schemes may no longer be eligible to pay the levy because they have entered a PPF assessment period, or because they have bought out their liabilities with an insurer.

9 Investing for the future

Our invested assets have grown substantially during the last five years. This has meant that it is crucial that we develop the investment portfolio effectively so that we can continue to pay compensation to members, while maintaining a low-risk investment philosophy.

PPF investment portfolio grew from £2.9 billion in 2008/09 to almost £4.5 billion in 2009/10

In March 2010, we unveiled our new Statement of Investment Principles (SIP) which aims to bring greater returns by investing in a broader range of assets – but without increasing the PPF's level of risk. The first step towards implementation of this strategy was to transition our UK equity portfolio into global equity mandates in March 2010.

At the end of the year, our invested assets were valued at almost £4.5 billion – up from £2.9 billion in 2008/09.

Though economic conditions are still fragile, investment markets improved during the year and our portfolio benefited from growth in equity and property values. Our bond managers were also able to beat their targets through selective exposure to recovering markets.

This meant that we saw overall returns of 15.2 per cent by the end of March 2010, 13 per cent higher than our benchmark. We did make a loss on our hedging strategy but this was balanced out by a corresponding gain against our liabilities.

So that we achieve economies and reduce risks linked with transferring assets of schemes coming into the PPF, we group these assets together before transitioning them into the PPF. We undertook two major transition exercises during the year - £194 million in August 2009 and £422 million in March 2010.

We also took the opportunity to extend the reach of our commitment to responsible investment principles to include global equities. Before, the principles only applied to UK equities.

We work with schemes in our assessment period to encourage them to change their investment strategies to more closely mirror the PPF's. This closer tracking of the investments of schemes in assessment means that we are able to manage any risks we are exposed to before schemes transfer.

In March 2010, we began to further diversify our return-seeking assets which, in the short to medium-term, will mean a lower exposure to listed equities and new allocations to private equity and infrastructure investments alongside a more global approach generally.

The PPF earned a return of 15.2 per cent on its invested assets during the year

Our aim is to improve our long-term returns while maintaining our low risk approach. The new target is to outperform our benchmarks during the year by 1.8 per cent a year, rather than our previous target of 1.4 per cent.

This new approach reflects the fact that our portfolio size now means we have far more opportunity to diversify our assets and greater buying power than ever before. Some markets are easier to access for a larger investor and the costs of entry also come down.

Importantly, we will continue with our hedging strategy which seeks to mitigate the risk of a fall in assets against liabilities.

The future of the pension protection levy

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The pension protection levy, which we charge all eligible pension schemes, remains central to our ability to fund the compensation we pay to our members. Whenever we set the amount of levy we need to collect each year, we have to make sure we balance security for our members with setting a levy that pension schemes can afford to pay.

PPF received a total of £1.1 billion from levy receipts and from transferring scheme assets during the year

Throughout the year, we continued to focus on developing a levy which is fairer to levy payers and which more accurately reflects the long-term risk that all levy-paying pension schemes pose to the PPF, no matter how large or small.

In November 2008, we published our initial proposals for a new levy formula but, while most people supported the principles behind them, they were divided on how they should be implemented.

That is why, in July 2009, we announced that we would establish a steering group of senior industry figures and others to help develop our thinking further.

This group looked at developing revised proposals for a new formula. It was supported by a second group of technical experts who helped us and the steering group explore the practical issues of formula design.

The steering group published its findings in March 2010. We have considered the ideas put forward as part of our work to develop detailed levy proposals which were put out to consultation in October 2010.

In June 2009, we announced that we would set a levy estimate of £700 million, indexed to wages. For 2010/11, this resulted in a levy estimate of £720 million. This fulfilled a commitment made in August 2007 when we said we would keep the levy stable for three years.

This announcement was made early to help ease the continuing economic uncertainty being faced at the time by both employers and pension schemes.

The decision was confirmed in September 2009 alongside plans to reduce the levy cap from one per cent to 0.5 per cent. This was aimed at protecting the most vulnerable 10 per cent of schemes.

In November 2009, we put forward proposals for the 2011/12 levy year aimed at improving the way we assess the insolvency risk for sponsoring employers of levy-paying pension schemes.

These proposals were designed to make sure we have a system which accurately reflects the risks posed by a range of different employers, commercial and non-commercial, large and small, UK and foreign.

They reflected industry feedback and a review of methodology and insolvency probabilities carried out by Dun & Bradstreet (D&B) which continues to measure insolvency risk on our behalf.

Invoicing and collecting the 2009/10 pension protection levy started in October 2009. By the end of March 2010, we had invoiced 99.9 per cent of the eligible 2009/10 scheme population (excluding schemes in assessment as at 31 March 2009), and, by the end of May 2010, we had collected 98 per cent of the uncontested levy.

Understanding the UK pensions universe

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Accurate data is vital to our success. We use the data supplied by eligible pension schemes in their annual returns to the Pensions Regulator (the regulator) in many ways.

These include providing an overview of the pensions universe, calculating individual levy bills and helping us see schemes through assessment.

The regulator's online scheme return system, Exchange, has reduced the need for us to check and correct scheme data. But there is still room for improvement, and we worked with trustees and scheme managers throughout 2009/10 to find ways to make sure that the data we receive is the most accurate and up-to-date available.

In January 2010, we published – alongside the regulator – the fourth edition of the Pensions Universe Risk Profile, otherwise known as the Purple Book. The Book used information relating to 97 per cent of the defined benefit schemes eligible for PPF compensation, ie about 7,000 schemes, representing some 12 million members, and 99 per cent of their estimated liabilities.

It highlighted how the dramatic deterioration in the economic and financial environment in the previous year 2008/09 led to heightened risk for the schemes in the PPF universe.

By the end of 2009/10, PPF was responsible for supporting trustees of schemes in PPF assessment with assets of £7.6 billion and liabilities of £9.4 billion

The Book continues to provide important information on trends in defined benefit pension schemes, illustrating the risks these schemes pose to the PPF and the likelihood of claims on us.

During the year, we continued to publish the PPF 7800 Index, which provides regular monthly updates on scheme funding levels.

This allows us to track funding and risk through time and has highlighted the volatility of funding levels over short periods of time. For instance, at the end of March 2009, the aggregate funding level for defined benefit schemes showed a deficit of £242 billion while, at the end of March 2010, the aggregate funding level for those schemes had improved to a surplus of £0.3 billion.

Communicating is a two-way thing

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Clear, open and honest communication is key to building trust with those we work with and those who are interested in our activities.

This was never more important to us than during 2009/10 when we saw increasing numbers of members and industry commentators questioning how we would cope in the recession, with changes to the levy in the pipeline.

To measure how well we communicate, we again commissioned an independent survey among all our stakeholders. The findings continued to be encouraging. For instance, we wanted to make sure all members of schemes entering the PPF receive a Welcome Pack and that most of them find the information they receive understandable.

Our survey found that 72 per cent of members remembered receiving a Welcome Pack and 88 per cent of them found the information in their pack easy to understand.

During 2009/10, we:

- issued 64 different publications, ranging from formal levy publications to trustee guidance, the Purple Book and information for scheme members
- held more than 50 workshops and roadshows on the Financial Assistance Scheme (FAS) and trustee guidance
- arranged for our Chairman and Chief Executive to speak at, or attend, more than 160 meetings and other events, and
- in September 2009, launched a new bulletin on our activities to about 25,000 interested parties.

Our dedicated Stakeholder Support Team (SST) continued to provide the main point of contact for members, industry professionals and employers, among others. During the year, the team handled more than 11,000 telephone calls and almost 5,000 pieces of correspondence, either letters or emails. Many other enquiries were handled by Capita who administer compensation payments to members.

The oldest member of the PPF is 110 years old, the youngest is four and the average age for members is 57

Our latest stakeholder research shows how three quarters (77 per cent) of employers and trustees are satisfied with the overall SST service. 90 per cent felt that the SST team was professional, and 82 per cent felt that the SST team took their issues seriously.

In September 2009, we launched our new website. Our research showed that 71 per cent of people who used the website thought it was an effective communication channel and 77 per cent thought it was easy to navigate. Also, most (71 per cent) liked the look, feel and layout of the site – and about three-quarters (73 per cent) said the information it contained was useful.

During the year, it had more than 250,000 unique visits and almost 1.3 million page views. We also issued 47 alerts, press releases and information notes to almost 2,000 people who have registered their emails with us, as well as other stakeholders.

Continuing to build as an organisation

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Our increasing workload means we are a growing organisation so we need to make sure that our business processes and infrastructure are fit for purpose and can support all our activities.

Our focus during the year, therefore, was on investing in our resources and capabilities by recruiting skilled staff and automating processes, particularly for the assessment period.

By 31 March 2010, we had 296 employees – an increase of 81 from the previous year, and turnover remained low. This increase was predominantly caused by the PPF taking on 47 staff who run the Financial Assistance Scheme Operational Unit in York as part of our appointment as FAS scheme manager in July 2009.

In 2009/2010 days lost due to sickness averaged 6.4 per person (2.45 per cent) and 1.2 days per person excluding long term absences of over 28 days (0.48 per cent) which compares favourably to the Civil Service average.

One of the major achievements of the year was when we gained ISO 27001 accreditation at the end of September, as planned. This is the recognised standard for processing and transmitting personal or sensitive information.

Also during the year, the National Audit Office completed a value for money review of the PPF. It found that we have successfully balanced the need to provide protection for scheme members with making the levy affordable and fair by investing efficiently, having assessed and responded to the potential impact of future claims on the PPF.

The report made recommendations aimed at making sure we continue to provide value for money. We already have plans and processes in place which will enable us to carry out these recommendations quickly and in full.

During the year, we continued to create a culture that encourages the best from our staff. In our latest staff survey, we found overall good levels of employee engagement. Many staff would recommend the PPF to others as a good place to work and had a good understanding of the PPF's values. Feeling motivated to do the best work every day is significantly above the norm.

Since March 2010, we have been developing a culture change programme aimed at making us as high-performing an organisation as possible. This involves strengthening leadership, staff development, performance appraisal processes and our internal communications.

On a more practical note, we were within both our final staffing and administrative budgets for 2009/10 – which is gratifying at a time when budgets are under increasing pressure.

The costs of running the PPF as an organisation are controlled by the management of the PPF working closely with the Department for Work and Pensions (DWP). We agree an operating budget with DWP and formally review our performance against that budget at least quarterly. We draw down funds from the DWP, usually on a quarterly basis, against an agreed expenditure forecast in order to pay staff, service providers and other suppliers.

The DWP have two sources of funds out of which they pay us this money. The money they pay to fund expenditure on our PPF functions is funded by a levy which DWP raise on PPF eligible pension schemes, called the PPF Administration Levy. Expenditure on our FAS functions comes from general taxation. We work particularly hard to make sure we keep our expenditures on PPF and FAS functions separate so that we can make sure there is no confusion of levy payer and tax payer funds.

The PPF operates a system of delegations of authority from the Chief Executive to directors and other managers responsible for managing budgets to ensure we have close control over recruitment, procurement and other expenditure commitments. Directors and managers receive monthly reports comparing their actual costs to budget so that, for example, early action can be taken to avoid overspending.

The PPF's payment practice is to pay our suppliers within 30 days and we abide by these terms. It is our policy to agree alternative settlement terms for small and medium sized enterprises. As at 31 March 2010, the proportion of amounts owed to suppliers in relation to invoices paid during the 2009/10 financial year, expressed as a number of days, is 33/365 days.

During 2009/10, we spent £30 million running the organisation against a budget of £33 million, including expenditure on FAS from the date we were appointed its scheme manager.

One important measure of our efficiency is the average administration cost per PPF member, by which we mean all the members of schemes in PPF assessment periods, and all the members (both deferred and in-payment) who have transferred into the PPF. This average cost per member fell from £122 in 2008/09 to £100 in 2009/10.

The Financial Assistance Scheme

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The Financial Assistance Scheme (FAS) helps people whose pension schemes started to wind up underfunded before April 2005 (with a few exceptions), while the PPF provides help to people whose schemes were underfunded when their employers went bust after that date.

936 schemes had qualified for the Financial Assistance Scheme by the end of the year

Since it was announced in May 2004, the FAS has been extended, covering more people and providing greater levels of assistance. Because of the expertise we have built up since April 2005 – when we opened our doors for business – the Government asked us to play a supporting role in helping manage FAS throughout 2008/09.

This culminated in July 2009 when the Government passed over responsibility for the FAS to the PPF. This meant that we had full responsibility for managing the scheme, although FAS remains funded by the Department for Work and Pensions (DWP).

During the year to 31 March 2010, the number of people receiving FAS assistance increased from 11,363 to 15,218 and the FAS paid out assistance to a total value of £34 million. This means that since FAS started, a total of £91 million has been paid out and over 1250 schemes had looked to qualify for FAS. By 31 March 2010, 936 of these had successfully qualified.

Throughout the year, we developed materials which were sent out to all new FAS members explaining the FAS and how it will operate in the future. We also issued comprehensive guidance to trustees and scheme managers to help them transfer pension schemes under their control to the FAS.

A total of almost £91 million of assistance was paid under the Financial Assistance Scheme by the end of 2009/10

Regulations which allowed assets remaining in relevant FAS qualifying schemes to transfer to government finally came into force on 2 April 2010. These regulations enabled us, as the FAS scheme manager, to publish guidance relating to the way in which the valuation information is to be provided to us.

Fraud Compensation Fund

15

We are responsible for providing compensation to occupational pension schemes where the sponsoring employer has gone bust and where the scheme has suffered a loss through fraud or dishonesty. This compensation is paid out from the Fraud Compensation Fund (FCF).

During the year, we announced for the first time that we would raise a fraud compensation levy during 2010/11. This was deemed necessary in view of the expected cost of current claims. This levy is collected on our behalf by the Pensions Regulator.

The FCF remains in deficit to the tune of almost £8 million. Raising a levy will clear some of this deficit but we may need to raise further levies in the future, depending on the level of claims against the FCF.

During the year, we continued to work with an independent trustee and other authorities to investigate a group of nine pension schemes whose investment assets appeared to have been dishonestly transferred overseas by their original trustee, GP Noble.

Assets worth £32 million were returned to the UK during the year and passed on to the independent trustee in May 2010. This affects the amount of compensation these schemes may claim from the FCF. We expect six of the nine schemes will be eligible to claim – one more than we expected last year.

Acting responsibly

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We remain aware that the PPF, as a responsible employer, has a role to play in contributing to the local community and beyond.

During the year, we continued our membership of Croydon Commitment, a charitable business partnership which bridges the gap between the needs of the local community and that of businesses in the area.

Under its auspices, we took part in three 'community days'. We cleared scrub on conservation land owned by the Corporation of London, created a peace garden for pupils from a local primary school – and, for the second year running, prepared and served Christmas dinner to members of a pensioners' drop-in centre.

We also made Croydon Commitment's Grass Roots Fund our nominated charity. This fund will run for the next few years and the final total raised will be handed out as grants to a raft of local charities. Every pound raised is matched by government.

A six-strong team of PPF people also took part in the Croydon 100 Challenge for the second time. They were given £100 to use to make as much money as possible for the Grass Roots Fund in a six week period. They raised more than £1,500 and came third in the competition.

We are also committed to acting in a socially responsible manner in other aspects of our work. We keep our environmental, equal opportunity and other policies under review during the year to make sure we meet the highest standards.

We also address the impact of our investment activities through responsible investment policies.

Complaints, Appeals and Requests

17

Reviewable matters – 2009/10 levy year

During 2009/10, we received 98 applications from schemes appealing their levy invoice. During the previous year, we received 169.

30 applications were rejected and appealed at stage one of the process, one rejected and appealed at stage two and no complaints rejected at stage three of the process.

The remainder were either rejected because they were out of time, original decisions were revised, were resolved outside the reviews process or were withdrawn.

Freedom of information requests

During the year, we received 41 Freedom of Information requests and we disclosed fully the information requested in 20 cases. Other requests were declined because the information was restricted, commercially sensitive or too costly to disclose.

General complaints

In November 2009, we formalised our complaints process to respond to make sure we handle general complaints in a consistent manner.

Since then, we have received about three complaints a month, all of which have been resolved at the first stage of the process.

The focus of complaints has been around delays in process, and poor communications.

Guidance on how complaints and appeals are handled can be found on the PPF website.

Part 2 Statutory Reports

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2 Directors' Report and Management Commentary

2.1 Board Report

The structure and functions of the Board of the Pension Protection Fund are defined by the Pensions Act 2004, the Pensions Act 2008 and associated regulations. The Members of the Board comprise a Non-executive Chairman, a Chief Executive and at least five ordinary Members, at least two of whom must be appointed from the staff of the Board of the Pension Protection Fund (subject to a majority of the Board being Non-executive members). The Chief Executive and the Members who are appointed from the staff of the Pension Protection Fund are "Executive Members ".

The Board has a Statement of Operating Principles and Scheme of Delegations, which details the functions which are reserved to the Board and where functions have been delegated to the Chief Executive. This document is available at http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/statement_of_operating_principles.pdf

The Board is committed to adhering to high standards of corporate governance and compliance with HM Treasury's 'Corporate governance in central government departments: Code of good practice', originally published in July 2005, is reviewed annually.

All Non-executive Members were independent at appointment, having no current or previous material relationship with the organisation as an employee, officer or contractor. All Board Committees are chaired by Non-executive Members. The Board Secretary acted as Secretary to the Board and its Committees during the reporting period.

The Board has a process for managing conflicts of interests and publishes a register of interests which is available at: http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/board_register_interests.pdf

2.1.2 Board Biographies and Committee Memberships

Lawrence Churchill CBE
Chairman (until end June 2010)

Before joining the PPF, Lawrence was Chief Executive of Zurich Financial Services, UK, Irish and International (2002 to 2004). Lawrence holds a number of non-executive positions, including as Senior Independent Director at Good Energy Group and The Children's Mutual; he was also Chair (Designate) of the National Employment Savings Trust, a member of the Board for Actuarial Standards, a member of the Board of BUPA and a trustee of the International Longevity Centre – UK. He was awarded a CBE for Public Service in the 2010 New Year Honours List.

He was also Chairman of the Non-Executive Committee.

Lawrence stood down as Chairman and left the Board at the end of June 2010.

Dick Barfield
Non-Executive Member

After reading mathematics at Edinburgh University, Dick spent most of his career at Standard Life where he rose to Chief Investment Manager, leading a 140-strong team and managing almost £50 billion worth of assets.

Since leaving Standard Life, Dick has held a number of non-executive roles, including chairing the investment committee at Equitas, chairing the investment sub-committees of the Rio Tinto Pension Fund and the British Coal Staff Superannuation Scheme. He is also Chairman of the Baillie Gifford Japan Trust.

He joined the Board in October 2009 and is Chair of the Investment Committee and a member of the Audit and Non-Executive Committees.

Ann Berresford
Non-Executive Member

Ann is a Chartered Accountant and was Finance Director for the Bank of Ireland's UK Financial Services Division and Bristol & West plc until 2006. She was also a Board member of Bristol & West Pension Trustees Ltd from 2001 to 2006. Prior to this, Ann held a range of senior roles in Clyde Petroleum plc, an independent British exploration and production company, including Group Treasurer and Finance Director for its substantial Dutch operations based in The Hague.

Ann is now a Non-Executive Director for the Bath Building Society and an independent trustee to the local government Avon Pension Fund, administered by Bath & North East Somerset Council.

She is Chair of the Audit Committee and a member of the Non-Executive Committee.

John Bevington
Non-Executive Member

John is an experienced CEO, who has served internationally on Boards in Europe, Asia-Pacific, Africa and the UK. He has worked for Shell and Unilever in operating company and head office strategic roles, in both consumer-branded and business to business sections.

He recently retired as CEO of Leatherhead Food Industrial – a global food and beverage technology driven business. John also established and leads Surrey Hills Footdown Fifteen, a leadership mentoring group in Surrey. He combines this role with selected Non-Executive Director roles in both the private and public sector.

He joined the Board in October 2009 and is Chair of the Remuneration and Decision Committees and a member of the Investment and Non-Executive Committees.

Martin Clarke
Executive Director of Financial Risk

Martin was appointed on an interim basis in July 2006. His appointment was made permanent and he joined the Board in May 2007. He is also a Non-Executive Director of Congregational & General Insurance.

Prior to joining the PPF, Martin's career was spent in retail financial services with Co-operative Insurance Society (CIS), the insurance services arm of the Co-operative Group, which he joined in 1977.

He is a member of Investment Committee.

Michael Deakin
Non-Executive Member

Michael set up a consultancy business in October 2003, providing strategic investment advice to pension funds. Prior to this, Michael was Chief Investment Officer and an Executive Director of Insight Investment (formerly Clerical Medical Investment Group), where he controlled over £65 billion of assets and managed and built a team of 150 investment professionals covering equity, fixed income and property fund management.

He currently holds a number of positions, including Chairman of Manifest Information Services Ltd, Deputy Chairman of the London Pension Fund Authority, and a trustee of the HBOS Final Salary Pension Scheme

He is a member of the Investment, Audit, Decision and Non-Executive Committees.

Baroness Drake of Shene
Non-Executive Member

Baroness Drake retired as Deputy General Secretary of the Communication Workers Union in 2008. Jeannie's current portfolio career includes being a Commissioner of the Equality and Human Rights Commission, and a panel member of the Employment Appeal Tribunal. She has also been President of the TUC, Vice Chair of the National Employment Savings Trust (having previously been Acting Chair of the Personal Accounts Delivery Authority) and was a member of the Pensions Commission. She was educated at Brunel University and the London School of Economics.

She is Chair of the Reconsideration Committee and a member of the Remuneration and Non-Executive Committees.

David Heslop
Chief Operating Officer

David joined the PPF in April 2009 following a 20 year career at Aviva plc, one of the UK's largest insurance and savings groups.

David held a wide variety of senior positions during his time at Aviva including, Director of Customer Experience for Norwich Union Life, Managing Director of Norwich Union Investment Funds and Managing Director of Your Move estate agency.

Sir Anthony Holland
Non-Executive Member

Sir Anthony Holland was a Solicitor who has had extensive experience in private practice and who has held a range of senior appointments in the legal and financial services sectors. He has played an active role in his profession, including being a former President of The Law Society and writing a number of legal textbooks. Sir Anthony is the Independent Complaints Commissioner at the Financial Services Authority, was Chairman of the Standards Board for England and was Chairman of the Northern Ireland Parades Commission.

He is a member of the Reconsideration, Decision and Non-Executive Committees.

Christopher Hughes
Non-Executive Member and Senior Independent Director

Christopher was a Solicitor with Wragge & Co LLP, of which he was formerly Managing Partner. Christopher has also been a Board member of Severn Trent Water Authority and the Chairman of Newman Tonks Group plc, a manufacturer and distributor of industrial and domestic hardware.

In addition to being Senior Independent Director, he is Vice-Chair of the Reconsideration Committee and a member of the Audit and Non-Executive Committees.

Alan Rubenstein
Chief Executive and Accounting Officer

Prior to joining the Pension Protection Fund as Chief Executive in April 2009, Alan Rubenstein was a Managing Director of Lehman Brothers. At Lehman Brothers, Alan was responsible for establishing its Pensions Advisory Group, which brought together Lehman Brothers Equity, Fixed Income and Investment Banking services to pension funds and corporate plan sponsors.

Alan qualified as an actuary with Scottish Widows and then moved into senior executive positions in investment banking with BZW Asset Management, Lucas Varity Fund Management and Morgan Stanley. Alan is a former Vice-Chairman of the NAPF, and chairman of its Investment Council. He is a Governor of the Pensions Policy Institute and is a former member of the Management Board of the UK Actuarial Profession, the Council of the Faculty of Actuaries and the Takeover Panel.

He is a member of the Investment and Decision Committees.

The following were Board members at the date of publication, having joined subsequent to 31 March 2010:

Lady Barbara Judge
Chairman (from 1 July 2010)

Lady Judge has held senior executive and advisory appointments in law, finance, industry, public service, the arts and academic life in the UK and in the United States, Europe and Asia.

In addition to being Chairman of the PPF, she is Deputy Chairman of Forte Energy NL and a Non-Executive Director of NV Bekaert SA (Belgium) and Magna International Inc (Canada). Among other roles, she is also currently Chairman of the Governing Body of the School of Oriental and African Studies, University of London, is a trustee of the Royal Academy of Arts and a Governor of the Ditchley Foundation.

Having commenced her career as a New York based lawyer, rising to Partner, she was previously Chairman of the UK Atomic Energy Authority from 2004 to 2010, Deputy Chairman of Friends Provident plc from 1994 to 2009 and was Deputy Chair of the UK Financial Reporting Council from 2004 to 2007. She has also held a range of other senior positions during her career, including in banking and investment in the US and UK, including as a Non-Executive Director of United Asst Management, and was appointed the youngest ever Commissioner of the US Securities and Exchange Commission in 1980.

The following Board members stood down during the year:

Ian Abrams
Non-Executive Member

Ian is currently a Non-Executive Director of Mizuho International PLC, (having been Managing Director from 1998 to 2003), an independent director of LCH. Clearnet Group Ltd and the Chairman of Orchard Wealth Management Ltd (Jersey). He also serves as a member of The Financial Services and Markets Tribunal, The Pensions Regulator Tribunal and The Accountants and Actuaries Discipline Board.

He left the Board in November 2009.

Mark Baker CBE
Non-Executive Member

Mark was formerly Chairman of Magnox plc and of Electricity Pensions Ltd, having been actively involved with the management and evolution of the Electricity Supply Pension Scheme since 1989. Mark was Deputy Independent Chairman of the Police Negotiating Board from 2000 to 2005 and was a member of the Senior Salaries Review Body from 2005 to 2009.

He left the Board in November 2009.

Peter Walker

Peter was Executive Director of Delivery and was appointed in October 2007. He was previously Chief Operating Officer on an interim basis from July 2006 to February 2007, when his appointment was made permanent and he joined the Board.

Prior to joining the PPF, Peter spent three years working as an interim executive for a number of international companies. Before that, he was Chief Financial Officer for Kleinwort Benson Private Bank.

He left the Pension Protection Fund, and the Board, in January 2010.

2.1.3 Attendance at Board meetings from 1 April 2009 to 31 March 2010

	Board	Non - executive	Audit	Remuneration	Investment	Reconsideration (f)	Nomination (g)	Decision
No. of meetings	9	3	4	4	7	12	4	5
Lawrence Churchill CBE	9	3	2 (d)	3 (d)	-	-	4	-
Ian Abrams (a)	6	2	2	-	2	3	-	-
Mark Baker CBE (a)	6	2	1 (d)	2	3	-	-	3
Dick Barfield (b)	3	1	-	-	4	-	-	-
Ann Berresford	9	3	4	3 (d)	-	-	-	-
John Bevington (b)	3	1	-	2	4	-	-	2
Michael Deakin	7	3	4	-	7	-	2	2
Jeannie Drake CBE	7	3	-	4	-	11	-	-
Sir Anthony Holland	8	3	-	4	-	6	-	5
Christopher Hughes	8	3	4	-	-	9	3	-
Alan Rubenstein	9	1 (d)	3 (e)	4 (h)	7	-	1	5
Martin Clarke	9	-	2 (e)	-	7	-	-	-
David Heslop	8	-	4 (e)	-	-	-	-	-
Peter Walker (c)	7	-	2 (e)	-	-	-	-	4

(a) Ian Abrams and Mark Baker CBE left the Board in November 2009

(b) Dick Barfield and John Bevington joined the Board in October 2009

(c) Peter Walker left the Board in January 2010

(d) In attendance – Non-executive Board Members may elect to attend meetings of the Audit and Remuneration Committees and all Board Members may elect to attend meetings of the Investment Committee. Other Committees could be attended at the request or with the permission of the Chair of the Committee.

(e) A number of Executive Members, including the Chief Executive and Accounting Officer, are regular attendees at Audit Committee meetings.

(f) The Reconsideration Committee has a panel of members not all of whom attend each meeting. Meetings of the Committee are chaired by the Chair or Vice-Chair.

(g) The Nomination Committee is formed from a panel typically comprising the Chief Executive, Chairman and Senior Independent Director for Executive Board Member appointments with other Non-executive Board Members involved as appropriate. In the case of Non-executive Board Member appointments the Nomination Committee panel will be formed from Non-executive Board Members. The Committee may also co-opt Members.

(h) The Chief Executive was invited to attend some Remuneration Committee meetings where Executive Directors' performance was discussed.

2.1.4 Board Governance

Strategy and objectives

The Board is responsible for the strategy of the PPF and has continued to review and revise, as necessary, the direction of the organisation. Following two Board meetings during the year, which were held as 'Strategy Days' to consider issues around future economic scenarios, investment and funding, a revised strategic framework was adopted in December 2009. This included refreshed strategic objectives which were published in April 2010 as part of the PPF's 'Management Plan 2010/11 – 2012/13'.

Strategic oversight and organisational performance

At each of its meetings, the Board received updates from the Chief Executive on contentious, topical or emerging cases or issues. In addition, it received regular briefings on the management of the assessment process, the progress of the NAO Value for Money Audit of the PPF, the management of the Financial Assistance Scheme and equalisation of compensation in respect of GMPs. The Board also agreed a revised Communications Strategy, decided the assumptions to be used for the PPF valuation and those required by s.143 and s.179 of the Pensions Act 2004, agreed a revised Statement of Investment Principles and approved the signing of a tripartite Memorandum of Understanding with the Pension Benefit Guaranty Corporation and the Pensions Regulator.

The annual evaluation of the performance of the Board and governance arrangements was again undertaken by PWC and a number of recommendations implemented. During the year, the Board also reviewed its committee structure.

The Board also ratified the appointment of the two new Board members at the October 2009 meeting.

Levies

The Board considered the continuing development of the pension protection levy during 2009/10. A further consultation was published by the PPF in July 2009, with responses reported to Board, together with progress made in considering those responses and undertaking further engagement with interested groups through the Steering and Technical Groups.

The Board agreed a pension protection levy estimate of £720 million for 2010/11 in September 2009. The Board remained mindful of the need to balance the interests of compensation beneficiaries and levy payers and consulted on the levy estimate figure. Alongside agreeing the quantum of levy to be raised, the Board also made, following consultation, a formal Determination as to rules governing the calculation of individual levy bills. In addition, the Board agreed to raise a fraud compensation levy at the maximum permitted rate (23p per member in eligible schemes) in January 2010.

Risks and Funding

The Board regularly monitored the range of risks to which the PPF was exposed, including receiving updates on the financial and investment position of the Fund. This included reports from the Audit Committee as part of its oversight of risk management processes, incorporating financial ,non-financial and environmental risks. The Board considered non-financial risks through reports on specific cases of interest, major third party supplier contracts and legal issues. The 'Strategy Days' provided an additional opportunity to consider these risks in greater detail and how the Board should respond.

The Board's consideration of the financial position of the organisation shaped the development of a Funding Strategy. The Board used a 'Strategy Day' and a number of further meetings to consider how the risk environment within which the PPF operates might evolve, particularly given the impact of scheme funding, scheme closure and scheme de-risking. This led to the adoption of a 20 year time horizon within which the Board would seek to become fully-funded with an 80 per cent confidence of achieving this objective. The intention is that there would be no exposure to interest rate, inflation or market risks, and with suitable protection against future claims and longevity. The document setting out this Funding Strategy was published on 25 August 2010 and is available on the PPF website (http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/PPF_Funding_Strategy_Document.pdf).

2.1.4.1 The Non-Executive Committee

The Non-Executive Committee met on three occasions between 1 April 2009 and 31 March 2010. The Committee is constituted of all Non-Executive members of the Board.

The matters reserved to the Committee are set out in Section 112 of the Pensions Act 2004, and are:

a) the duty to keep under review the question whether the Board's internal financial controls secure the proper conduct of its financial affairs
b) the duty to determine under sub-paragraph (5) (a) of paragraph 12 of Schedule 5, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any Chief Executive appointed under sub-paragraph (4) of that paragraph
c) the duty to determine under paragraph 13(3)(a) of that Schedule, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any member of staff who is also to be an Executive Member of the Board, and
d) the duty to determine under paragraph 13(3) (b) of that Schedule, the terms and conditions of remuneration of any member of staff of a description prescribed for purposes of that provision.

The Committee has established Audit and Remuneration Committees.

In 2009/10, the Non-executive Committee:

- undertook a review of the effectiveness of its Sub-Committees
- considered issues around the recruitment of Non-Executive Board members and the role of Non-Executives
- considered the bonus arrangements for Executive Directors
- received reports from the Audit and Remuneration Committees at each of its meetings, and
- continued to consider means of reviewing the effectiveness of the Board.

Audit Committee

The Audit Committee met on four occasions between 1 April 2009 and 31 March 2010.

Both the internal and external auditors had full access to meeting papers and minutes and attended meetings of the Committee. Internal audit was provided by BDO Stoy Hayward while the National Audit Office provided the external audit service.

In 2009/10, the Committee:

- reviewed, considered and recommended the Annual Report and Accounts for 2008/09 for the Board's approval. It also commenced planning for the 2009/10 Annual Report and Accounts, including the implementation of IFRS and receiving the NAO's Audit Strategy for the 2009/10 Annual Report and Accounts
- managed the organisation's engagement with the NAO as part of its Value for Money study of the PPF
- reviewed reports received from the internal auditors and the Executive's action plan to implement recommendations
- held separate meetings with both the internal and external auditors without the presence of the Executive, and
- monitored the organisation's top down risk register, including a separate register for FAS work being undertaken, receiving quarterly reports on how these risks were managed and on any specific risk related issues that had arisen.

The Audit Committee monitored and commented on the organisation's risk management processes and reported on these to the Non-Executive Committee after each meeting.

Remuneration Committee

The Remuneration Committee met on four occasions between 1 April 2009 and 31 March 2010.

In 2009/10, the Committee:

- reviewed the performance of the Chief Executive and that of the Executive Directors and agreed annual bonus payments for 2008/09
- ensured that appropriate objectives were in place for the Executive Directors against which performance would be measured in 2009/10 and 2010/11
- was involved in the proposals for staff remuneration arrangements, including performance management and assessment, recruitment and retention issues and pay, and
- examined the pay of high earning non-Board members within the PPF.

2.1.4.2 Board Committees

Decision Committee

Where it is judged necessary in the light of the possibility of a future review or complaint, the Committee meets to support and advise the Chief Executive on novel or contentious issues in respect of issues that would normally be delegated to him or to consider any specific decisions assigned to it by the Board. (Board Members who are members of the Reconsideration Committee asked to reconsider the matter must not have been party to the initial decision.)

The Decision Committee met on five occasions during 2009/10.

Reconsideration Committee

The Reconsideration Committee is a Committee of the Board required to be established by the Pensions Act 2004 for the purposes of carrying out the second stage of the formal appeals process for reviews and complaints. The Committee also acts as the investigatory committee for the purposes of the second stage maladministration complaints.

The Reconsideration Committee met on 12 occasions between 1 April 2009 and 31 March 2010.

In 2009/10, the Committee:

- considered a number of cases where the levy payer challenged the level of levy invoiced vis-à-vis the previous year's levy. In each of these cases the levy figure was found to be correctly calculated
- considered a number of cases where the levy payer challenged the D&B methodology, where it was determined that the process adopted by D&B was not a reviewable matter under Schedule 9 of the Pensions Act 2004
- considered a maladministration complaint and a review of compensation initiated by a beneficiary, and
- considered wider themes in respect of the Board's approach to accepting corrections of data and assessing materiality.

Where the Reconsideration Committee has not upheld a review request or complaint the applicant may take their case to the PPF Ombudsman (this must normally be within 28 days of issue of the Reconsideration Committee's written decision).

The Board received updates from the Committee at each meeting which captured a number of themes that had emerged from the appeals processes specifically considered by the Board.

Nomination Committee

The Nomination Committee met on five occasions between 1 April 2009 and 31 March 2010. The Committee was supported at four of these meetings by an independent assessor and, for the interviewing of candidates, was joined by a representative of the Department for Work and Pensions.

In 2009/10, the Committee:

- managed the recruitment of two new Non-Executive Board members, including drawing up the recruitment process, short-listing and interviewing candidates and then recommending two candidates for ratification by the Board, and
- considered issues in relation to executive succession planning.

The recruitment of the new Chairman of the Pension Protection Fund was carried out by the Department for Work and Pensions.

Investment Committee

The Investment Committee met on seven occasions between 1 April 2009 and 31 March 2010.

In 2009/10, the Committee:

- reviewed and approved a new Statement of Investment Principles in the context of the Board's redefined appetite for risk
- set out a new strategy incorporating lifting the performance target to +1.8 per cent within the same risk budget through a greater emphasis on diversification using alternatives and global allocations
- defined a broader approach to Responsible Investment
- approved asset allocations to, and manager searches for, private equity secondaries and infrastructure managers, and
- approved a framework and risk limits for tactical positions.

In respect of the Fund's Investment Managers, the Committee:

- reviewed PIMCO's and GSAM's appointments at the expiry of their original contract term. Both managers were re-appointed
- approved a panel of global bond manager appointments
- approved a panel of global equity manager appointments
- approved a panel of passive manager appointments
- approved a panel of Global Tactical Asset Allocation (GTAA) managers, and
- approved a panel of private equity secondary managers.

The Committee also considered the management of risks in relation to counterparty exposures, asset transitions and the evolution of the balance sheet, particularly the rates and inflation risk arising from new claims.

Finally, the Committee:

- received updates on Responsible Investment, including reviews of our performance on Environmental, Social and Corporate Governance (ESG) issues
- provided oversight of the activities of the Asset & Liability Committee (ALCo), including the performance of our managers, liability hedging activity and tactical positions, and
- reviewed its own effectiveness and Terms of Reference, in relation to the respective responsibilities of the Board, and of ALCo.

2.2 Investment report

The PPF's growing portfolio has participated in the rebound in markets following the lows of early 2009 caused by the credit crisis. Overall the Fund earned a return in the year to 31 March 2010 of +11.7 per cent including changes in value of its swap portfolio (+15.2 per cent excluding swaps).

Compared to the generality of pension schemes for which PPF provides protection, the Fund has a lower investment risk appetite and has been a much more active in hedging its investment risks. This has been demonstrated over the last two years, where returns have been much less volatile than in the UK pension scheme universe.

This section provides a summary of the Fund's investment activities, including details of cash flows into the Fund, the liability-driven investment (LDI) strategy, risk management and fund manager performance.

1. Governance

The Board of the PPF delegates to the Investment Committee, a committee of the Board, authority to design and implement an investment policy that seeks to meet the Board's funding objectives and its appetite for risk. Key strategic investment decisions remain the responsibility of the Board.

The Investment Committee provides high level oversight of the Fund's investment activities. It is supported by the Asset & Liability Committee (ALCo), an executive committee, which meets frequently to review the financial risk management, including investment strategy implementation, of the PPF and which provides reports to the Investment Committee.

The Fund's investment strategy and guidelines are set out formally within the Statement of Investment Principles (SIP). This document is prepared in accordance with Section 114 of the Pensions Act 2008. It outlines the principles and policies governing investments made by or on behalf of the Board in the management of the Fund's assets.

2. Strategy

The Board's investment strategy is designed to closely match the Fund's liabilities. Until March 2010, it has also targeted an excess return above LIBOR of 1.4 per cent per annum. The strategy has a lower risk than that of a typical UK pension plan. A new strategy published in March 2010 has been implemented with the same risk tolerance but targeting an excess return above LIBOR of 1.8 per cent. To achieve this enhanced return expectation, a revised asset allocation has been established (shown in section 3), which includes a greater level of exposure to "alternatives".

The Fund's portfolio is split into "matching assets" and "return seeking assets". The former refers to the cash and swap portfolio and is described in the section on LDI below. The latter comprises the active equity, bond, property and other mandates, which are discussed in the sections on manager allocations and performance.

The investment strategy is reviewed annually or as required, subject to significant changes in capital markets, the liabilities of the Fund, or governing legislation. Full details of the strategy are provided in the SIP which can be found on www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_Mar2010.pdf

3. Asset Allocation

Asset allocation decisions within the tolerance ranges specified in the SIP are the responsibility of ALCo. The tolerance ranges allow deviation from the strategic allocation and provide the Board with flexibility around the investment of its cash flows. The flexibility is particularly important given the volume of schemes that transfer into the PPF. Asset allocation decisions beyond the authority of ALCo are taken by the Investment Committee. The strategic allocations and tolerance ranges are outlined in the table below:

Asset Class	Strategic Allocation	Tolerance Range	Asset Benchmark
Cash and bonds	70.0%	65.0% - 80.0%	
- Cash			3-month LIBOR
- UK gilts			FTSE gilt all stocks
- Global government bonds			JP Morgan goverment bond
- Global aggregate bonds (including credit)			Barclays global aggregate bond
Public equity	10.0%	5.0% - 20.0%	FTSE all-world index
Alternative (including property)	20.0%	10.0% - 25.0%	3-month LIBOR

ALCo regularly monitors asset allocation against the SIP, taking appropriate corrective actions, principally using cash-flows into the Fund. Any significant deviations are reported immediately to the Investment Committee.

Upon the introduction of the new strategy in March 2010, public equities have been invested on a global basis. Furthermore, the allocation to alternatives (which includes real estate) has been extended to 20 per cent and which will be built up over time.

4. Cash Flows

The Board continues to manage the significant cash flows it receives in the most prudent and cost effective manner. This section summarises key developments over the year in the collection of levy payments, asset transfers and transition management.

4.1. Contributions to the Fund

The collection of levy payments and ongoing transfer of scheme assets helped grow the assets directly held by the Fund considerably over the last financial year. The Fund's invested assets plus cash deposits rose from £2,905 million at 31 March 2009 to £4,408 million at 31 March 2010, an increase of £1,503 million.

New money, arising from levy receipts and assets transferred in from schemes completing the assessment process totalled £1,136 million. The Fund generated a positive investment return of £367 million (excluding management fees and expenses). This return includes a loss on the swap portfolio which fell by £48 million as interest rates rose across the yield curve.

4.2. Transitions

In order to minimise the costs and risks associated with transferring the assets of schemes coming into the PPF, the Board groups together these assets into suitable tranches of critical mass that are then transitioned by specialist managers chosen from the Board's panel of transition managers. The panel currently comprises State Street, Goldman Sachs and BlackRock.

The Board supports the T-Charter – a voluntary code of best practice for transition managers – and has included its principles within the transition management agreements (TMAs).

Prior to the legacy assets of transferred schemes being transitioned to PPF mandates, they are temporarily "parked" within the most widely held pooled investment products. By accumulating assets in this way the number and cost of transitions can be minimised. Accounts are in place to park assets within Legal & General, BlackRock Global Investors, M&G, SSGA and KAS.

As these assets accumulate they present a minor deviation from the SIP until the point at which they are transitioned and transferred to the relevant investment mandate. Owing to the large number of schemes transferring near the end of the financial year, £460 million of assets were parked in this manner as at 31 March 2010. These assets will undergo a transition to PPF mandates in the next financial year.

During the year, two major transition exercises took place (£194m in August 2009 and £422m in March 2010). The first of these used assets from transferred schemes which were migrated into the ongoing PPF investment structure. The second transition exercise was used to migrate assets from our UK equity managers into global equity managers.

5. Manager Allocation

The Board invested £904 million of new funds across its return seeking and matching strategies in 2009/10, using its discretion to allocate assets within the tolerance ranges between managers and to support the hedging activities in the swap portfolio.

In order to further diversify the investment portfolio and reduce manager risk, the Fund approved additional managers for global government bond mandates. We commenced investment on September 2009 with Rogge and Mondrian.

Under our new investment strategy which was adopted in March 2010, our allocation to public equity is entirely global with no specific allocation to UK-only mandates. This led to the termination of our UK equity mandates (Lazard, SSgA and L&G) and the commencement of mandates with two new global equity managers (Arrowstreet and Longview).

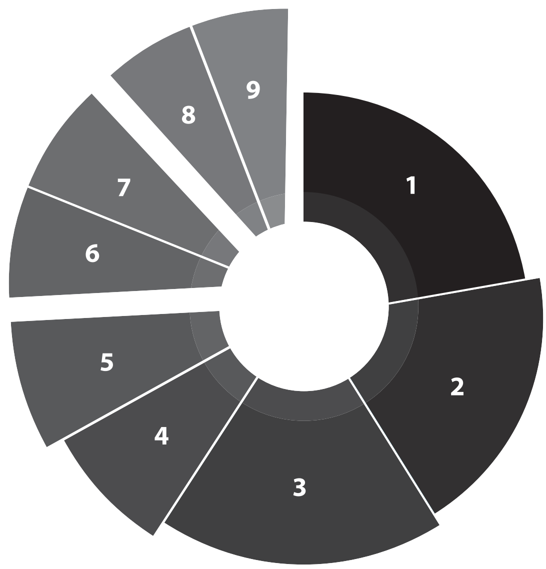
At the financial year end, the Board had the following mandates in operation:

- Insight Investment Management – UK Government Bonds (collateral) and LDI swaps
- Goldman Sachs Asset Management (GSAM) – Global Government Bonds
- PIMCO – Global Government Bonds
- Rogge* – Global Government Bonds
- Mondrian* – Global Government Bonds
- Newton Investment Management – Global Equity
- Arrowstreet Capital LP* – Global Equity
- Longview Partners* – Global Equity
- Aviva Investors – UK Property.

* Denotes mandate receiving initial funding during 2009/10

The chart below illustrates the actual manager allocations as at 31 March 2010.

	Account	%
1	Insight	22.5%
2	PIMCO	18.7%
3	GSAM	18.0%
4	Aviva	7.9%
5	Newton	7.1%
6	Arrowstreet	7.0%
7	Longview	7.0%
8	Rogge	5.9%
9	Mondrian	5.9%



Notes

at 31 March 2010, **£530m** of assets are held in cash or are tranisition assets parked in pooled investment funds and are not included in the above chart.

6. Liability Driven Investments (LDI) – The Swap Portfolio

The 'matching' element of the portfolio is designed to closely follow the sensitivities of the Fund's liabilities to interest rates and inflation and in so doing minimise the Fund's exposure to fluctuations in both.

The swap portfolio is managed by Insight Investment Management using money market instruments, bonds and derivatives. It covers the liabilities of schemes which have transferred to the PPF and any otherwise unhedged liabilities of those schemes that are in the assessment period.

Over the year, the effect of interest rate and inflation expectation was to decrease the Fund's liabilities. At the same time, the swap portfolio delivered a loss of £48 million. Since the Fund takes a total balance sheet approach to liability hedging (ie includes liabilities of transferred schemes in combination with schemes in assessment), this change in value of swaps can be amalgamated with the change in value of gilts and index linked gilts held to compare the effectiveness of the program. This is detailed in section 6 of the actuarial valuation.

7. Responsible Investment

The Board has adopted new responsible investment principles, aligning it closely with the UN Principles for Responsible Investment (UN PRI), to which it is a signatory. It has expanded the implementation of its responsible investment (RI) approach from UK to global equities, including the publication of its voting record. F&C's reo® service engaged on behalf of the PPF with 63 companies on environmental, social and governance issues, including executive remuneration, shareholder rights, climate change, human rights and corruption.

	1 April 2009/ 31 March 2010
Number of companies engaged	63
Number of milestones*	34
Number of meetings (resolutions) voted	150 (1865)
Number of meetings where PPF opposed or abstained on at least one resolution	75
Resolutions opposed/abstained	2%/4%

* Instances of tangible impact on the way that companies manage ESG risks and opportunities.

The PPF continues to work with its fund managers to incorporate its RI principles across all asset classes, and will be integrating RI considerations fully into its manager monitoring processes. The assessment of managers' approach to responsible investment already forms an integral part of manager selection and appointment.

During the year, the PPF participated in the UN PRI Reporting and Assessment Process. It has also become a signatory to the Carbon Disclosure Project and the CDP Water Disclosure Project, which seek disclosures from the world's largest organisations on greenhouse gas emissions and water consumption.

8. Risk Management

The Board considers a wide range of risks on an ongoing basis in order to meet its objective of targeting an appropriate funding level. A full list of these risks is included in the Statement of Investment Principles (www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_Mar2010.pdf).

Manager level risk is monitored in two ways:

8.1. Tracking Error

Tracking error limits (the amount of divergence of the performance of the fund against the specified benchmark) and out-performance targets have been set for each manager. The ex-ante tracking error (TE) figures for 31 March 2010 for each of the PPF's active investment mandates are:

Manager	**Mandate**	**Ex-ante TE @ 31/03/10**	**Max. TE limit**
Insight	UK gov. bonds	0.7%	2.0%
GSAM	Global gov. bonds	1.6%	2.0%
PIMCO	Global gov. bonds	1.0%	2.0%
Rogge	Global gov. bonds	1.2%	2.0%
Mondrian	Global gov. bonds	0.8%	2.0%
Newton	Global equities	3.3%	4.0%

8.2. Compliance Monitoring

State Street, the custodian to the Fund, monitors how the managers meet their requirements under the SIP and the Investment Management Agreements (eg regarding investment restrictions). The Board receives a compliance report each month from the custodian.

Managers are also required to provide reports on their internal controls on an annual basis prepared to Audit and Assurance Faculty of the ICAEW (AAF01/06) or equivalent standard.

9. Market & Investment Commentary

This section provides commentary on the impact of the economic environment on the PPF's asset classes.

Fixed Income: Central banks across the globe have held base interest rates at historic lows over the last year as part of a series of responses to the deteriorating credit situation. These low base rates have allowed governments and investment grade corporates to refinance, producing gains for investors exposed to credit situations. The Fund allows our fixed income managers some limited exposure to non-government issues, and this has produced significant returns over the year.

Equity: Equity markets around the world substantially improved during the year, with the UK equity market increasing by 52 per cent and global equities by 48 per cent (as measured by the FTSE AW Index on a hedged to sterling basis). During this period, it has been the stocks hurt most by the credit crunch that have seen the most significant gains. The Fund operates with a more defensive stance to our equity investments, while losses during the period of extreme stress were not as significant as market indices, gains during the rising market have correspondingly not been as great.

Property: UK commercial property has risen by 16 per cent during the year, as measured by the Investment Property Databank UK Monthly index, as a result of greater levels of comfort in the wider property financing market. The PPF invests in UK property via a series of property funds, and during the year we have increased our exposure (having been significantly underweight) to this asset class in order to benefit from this recovery in sentiment.

10. Performance of the Fund's Assets

The improved market conditions have significantly impacted the invested assets of the PPF during the year. However, this impact is likely to have been lower than the average UK defined benefit pension plan owing to the relatively lower risk nature of the Board's investment strategy. By using a liability hedging approach to investments, the Board can target long-term absolute return growth for the non-hedging assets.

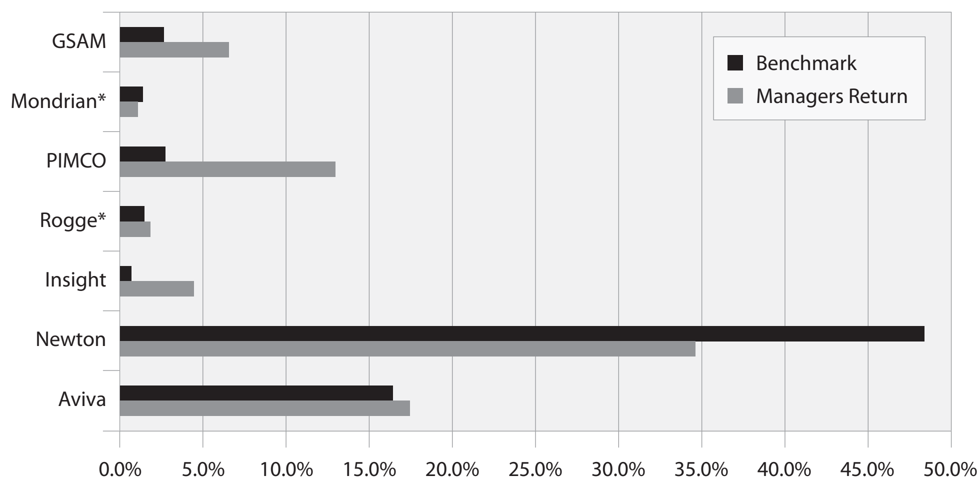
The benchmark for the Fund is the return that would have been achieved on cash earning the three-month LIBOR rate over the same period, which was +0.9 per cent. The Board has targeted a return of 1.4 per cent above the benchmark, giving a target return of +2.3 per cent over the year. The Fund's assets (excluding changes in the value of the swap portfolio which are discussed in section 6) earned a return of +15.2 per cent over the year to 31 March 2010. For comparison, the benchmark asset allocation laid down in the SIP implied a target return of +11.7 per cent.

While the Fund has outperformed the target return over the year, it is important to be mindful of the long term investment horizon to which we aim to achieve low volatility performance. Over the last three years, the benchmark for the Fund (three-month LIBOR) has been +3.9 per cent per annum, giving a target return of +5.3 per cent per annum. During this period, the Fund (excluding the swap portfolio) has achieved a return of +5.1 per cent per annum.

During the year, the fund has largely outperformed the return target through our investment strategy (exposure to asset classes that have benefited from the rebound as markets have recovered from the credit crunch) and positive outperformance from our bond managers.

The annualised performance achieved by the individual managers against their benchmark is shown in the table below.

Financial Year 2009-10 Performance by Manager



* Mondrian and Rogge returns are shown since portfolio start date, 1 Sept 2009

2.3 Statement on Going Concern

The Board is required to comply with the Government Financial Reporting Manual in preparing its annual report and accounts. This Manual says that it is necessary to explain why it has adopted the going concern basis for its accounts. Going concern is the fundamental accounting concept which underlies the preparation of financial statements of entities covered by the Manual. Under the going concern concept, it is assumed that an entity will continue in operation and that there is neither the intention nor the need either to liquidate it or to cease operation.

The Board has reviewed the circumstances of each of the three statutory funds for which it is responsible, and has examined cash flow forecasts, expenditure forecasts, and the Board's powers to raise levies and to control its outgoings.

The Board has followed, where it applies, the guidance issued by the Financial Reporting Council in October 2009 in its publication "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies".

The Pension Protection Fund

The Board continues to adopt the going concern basis in preparing the annual report and accounts in relation to the Pension Protection Fund because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. The following factors were especially relevant to the Board during its considerations:

- The PPF's funding ratio has improved from 88 per cent at 31 March 2009 to 103 per cent at 31 March 2010 due to positive investment returns and to a significant reduction in the assessed value of the Fund's actuarial liabilities and claims provisions
- cash flows out of the Fund for compensation payments will be at a very low level during the early years of the Fund's operation, and the current level of funding is considered adequate to ensure cash will be available to meet compensation payments as they fall due
- the PPF considers that its levy raising powers (and its powers to increase levies up to a ceiling set by the Secretary of State for Work and Pensions) are adequate to protect its liquidity position. The PPF's levy-raising powers are set out in Sections 174 to 181 of the Pensions Act 2004, and
- the PPF also has the reserve powers (in extreme circumstances after due consultation and with approval of the Secretary of State) to amend benefit payments both for scheme members already within the Fund and for new scheme members entering the Fund. These powers are set out in the Pensions Act 2004, Schedule 7, paragraph 29 and 30 covering powers to alter rates of revaluation and indexation, and to vary the percentage paid as compensation. The Board has no current plans to exercise these powers.

The Fraud Compensation Fund (FCF)

The Board continues to adopt the going concern basis in preparing the annual report and accounts in relation to the Fraud Compensation Fund because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. Volumes of claims on the Fund remain at relatively low levels and so the Board has inadequate statistics to forecast future claim volumes or values with any degree of certainty.

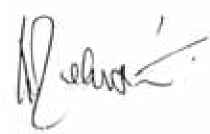
The Fund therefore remains vulnerable to claims at unexpected volumes or for unusually large values. The Board has reviewed its powers and obligations in relation to the Fund, particularly as regards to making interim payments, and concludes the going concern basis remains appropriate for the following reasons:

- Relevant accounting standards require the Fund to recognise the full value of probable claims in the accounting period in which the claim arises. The Board recognised one further claim in the year valued at £1.7 million and discloses a deficit on the Fund of £7.6 million on an accounting basis. This value does not represent an immediate call on the resources of the Fund. The Board considers it very likely that the Fund will have sufficient resources to deal with any calls on the Fund for interim payments from claimant schemes in the foreseeable future. The Board is aware that funds recovered from overseas jurisdictions have recently been ordered by the Courts to be returned to the independent trustee, and this will ensure the schemes can continue to meet their liabilities as they fall due in the foreseeable future, without the need to request interim payments from the Fund
- The Board plans to raise a Fraud Compensation Levy in 2010/11, up to the current Fraud Compensation Levy ceiling of 23p per eligible member, in order to begin to clear the deficit on the Fund. It is likely that the Board will decide to raise levies in future years, and
- The Board also has the power to borrow funds from commercial sources in order to exercise its functions, including settling Fraud Compensation claims or making interim payments. The Board however has no current plans to enter into any such borrowing arrangements.

The Administration Fund

The Board continues to adopt the going concern basis in preparing the annual report and accounts in relation to the Administration Fund because the Board has a reasonable expectation that the Fund will have adequate resources to continue in operational existence for the foreseeable future. In reaching this conclusion, the Board has taken account of the robust financial procedures governing:

- the setting of operating budgets
- in-year reviews and forecasts
- the controls over drawing down grant-in-aid from DWP, and
- the segregation of levy payer-funded PPF activities from Government funded FAS-related activities.



Alan Rubenstein
Accounting Officer

25 October 2010

3 Remuneration Report

Salary and Pension Entitlements (subject to audit- see auditor's report page 52)

	Salary (in bands of £5000) – including bonuses		Pensions				
	Period end 31 March 2010	Period end 31 March 2009	Real increase in pension and related lump sum	Total accrued pension at pension age at 31/3/10	Cash Equivalent Transfer Value at 31/3/10	Cash Equivalent Transfer Value at 31/3/09	Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Lawrence Churchill CBE Chairman	85-90	85-90	0-2.5	0-5	94	74	17
Alan Rubenstein Chief Executive	195-200	N/A	2.5-5	0-5	56	N/A	53
Martin Clarke Director of Financial Risk	165-170	180-185	N/A*	N/A	N/A	N/A	N/A
David Heslop Chief Operating Officer (from 20 April 2009)	135-140	N/A	2.5-5	0-5	35	0	31
Peter Walker Director of Delivery (until 1 January 2010)	115-120	155-160	0-2.5	5-10	106	70	26
Ian Abrams Non-Executive member (until 30 November 2009)	10-15	20-25	N/A	N/A	N/A	N/A	N/A
Mark Baker CBE Non-Executive member (until 30 November 2009)	10-15	20-25	N/A	N/A	N/A	N/A	N/A
Dick Barfield Non-Executive member (from 1 October 2009)	10-15	N/A	N/A	N/A	N/A	N/A	N/A
Ann Berresford Non-Executive member	20-25	20-25	N/A	N/A	N/A	N/A	N/A
John Bevington Non-Executive member (from 19 October 2009)	5-10	N/A	N/A	N/A	N/A	N/A	N/A
Michael Deakin Non-Executive member	20-25	20-25	N/A	N/A	N/A	N/A	N/A
Jeannie Drake CBE Non-Executive member	20-25	20-25	N/A	N/A	N/A	N/A	N/A
Sir Anthony Holland Non-Executive member	20-25	20-25	N/A	N/A	N/A	N/A	N/A
Christopher Hughes Non-Executive member	20-25	20-25	N/A	N/A	N/A	N/A	N/A

* Martin Clarke was not a member of any employer sponsored pension arrangement during the year.

3 Remuneration Report

This report is based on payments made by the Board and amounts receivable by individual directors in respect of the reporting period (rather than, for example, on annual rates of salary).

Contracts

Alan Rubenstein took up the post of Chief Executive from 1 April 2009. His appointment was made on a three-year fixed term contract.

The Chairman of the Pension Protection Fund was appointed by the Secretary of State in July 2004 for a three-year term of office and subsequently reappointed in July 2007 to a further three-year term of office. In March 2010, it was announced that, following an open recruitment exercise, the Secretary of State had appointed Lady Barbara Judge as Chairman of the Pension Protection Fund from July 2010 for a three-year term of office.

The Director of Financial Risk entered into a further three year fixed-term contract in May 2010 having first been appointed in May 2007.

The Chief Operating Officer was appointed in April 2009 on a three year fixed-term contract.

The Director of Delivery was appointed to a three-year fixed-term contract in October 2007. He did not seek an extension to his contract and he left the PPF in January 2010.

Dick Barfield and John Bevington were appointed to the Board in October 2009, while Ann Berresford and Sir Anthony Holland were appointed in September 2007. All other Non-executive Members of the Board having been appointed by the Secretary of State in December 2004 for a three-year term of office were appointed to further three-year terms in December 2007. Following discussions about succession planning, Ian Abrams and Mark Baker CBE stepped down in November 2009.

Executive Directors – Outside Appointments

The PPF recognises the benefits to the individual and to the organisation of Executive Directors serving as Non-Executive Directors of external organisations and companies. These roles were undertaken outside of PPF time through a combination of paid and unpaid leave, and personal time. Fees were therefore retained by the Executive Director.

External Non-Executive appointments held by Executive Directors during the year were:

Martin Clarke: Congregational & General Insurance plc

Remuneration and Bonuses

The Executive Directors received a fixed salary which is reviewable annually by the Remuneration Committee, membership of which is detailed in the Board Report. Executive Directors were eligible for an annual bonus of up to 20 per cent of their base salary, subject to performance. The potential maximum bonus level was recommended by the Remuneration Committee and approved by the Secretary of State as part of the individuals' remuneration packages when the appointments were agreed. It was determined by reference to Executive Directors within comparable organisations.

Base pay covered normal competent performance and any bonus paid represented a significant contribution or achievement in addition to this. Bonuses were determined by the Remuneration Committee which assesses the performance of each Executive Director against the objectives and the targets for meeting these objectives for the year. There was no contractual undertaking to make termination payments for any of the Executive Directors.

The Chairman of the Board was paid a fixed salary together with a pension contribution and was contracted to work for the PPF for two days a week. All other Non-Executive Members received a fixed fee of £21,006 per annum based on an estimated time commitment of 26 days per annum. Non-Executive Board Members' salary was not performance-related and there was no provision for compensation in the event of termination.

Notice periods

The Chief Executive, the Director of Delivery, the Chief Operating Officer and the Director of Financial Risk had notice periods of six months.

Non-executive Members' appointments can be terminated on a month's notice by either the Board or the Non-executive Member. The Chairman's appointment is subject to a notice period of six months, which can be exercised by the Secretary of State or by the postholder in writing. The right to notice can be waived by the Secretary of State or the postholder and the postholder can accept payment in lieu of notice.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. As from 30 July 2007, eligible employees may be in one of four defined benefit schemes; either a 'final salary' scheme (*Classic*, *Premium* or *Classic plus*); or a 'whole career' scheme (*Nuvos)*. These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. The *Partnership* pension account was also available to employees, which is a stakeholder pension arrangement.

Further details about the Civil Service pension arrangements can be found at the website http://www.civilservice.gov.uk/my-civil-service/pensions/index.aspx

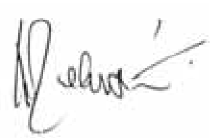
Cash Equivalent Transfer Values (CETV)

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Alan Rubenstein
Accounting Officer

25 October 2010

4 Financial Statements

4.1 Statement of the board of the pension protection fund's and the accounting officer's responsibilities for these accounts

Under paragraph 22 of Part 4 of Schedule 5 to the Pensions Act 2004 the Board is required to prepare a statement of accounts which complies with any accounting directions given by the Secretary of State with the approval of the Treasury.

The accounts direction issued on 18 February 2010 in respect of these accounts requires the Board to prepare accounts which give a true and fair view of the Board's income and expenditure, total recognised gains and losses and cash flows for the financial year and the state of affairs at the year end; and which provide disclosure of any material expenditure or income which has not been applied to the purposes intended by Parliament or material transactions that have not conformed to the authorities which govern them.

In preparing the accounts, the Accounting Officer is required to comply with:

- the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual in force for the financial year
- other guidance which HM Treasury may issue from time to time in respect of accounts which are required to give a true and fair view
- the Framework Document agreed between the Board of the Pension Protection Fund and the Department for Work and Pensions, and
- any other specific disclosure or other requirements required by the Secretary of State for Work and Pensions.

I have been the Accounting Officer for the Board throughout the year and up to the date of signing these accounts. The relevant responsibilities of Accounting Officers, including the responsibility for the propriety and regularity of the public finances and for the keeping of proper records and financial procedures are set out in "Managing Public Money" issued by HM Treasury.

Audit

The Pensions Act 2004 requires the Board of the PPF's accounts to be audited by the Comptroller and Auditor General. The cost of the audit is shown in Note 3.2b and no services other than the audit are provided by the Comptroller and Auditor General. During the year the Comptroller and Auditor General, through the staff of the National Audit Office (NAO), published a Value for Money review of the PPF. The Board did not bear any of the costs of this review.

As far as I am aware, there is no relevant information of which the Board's auditors are unaware, and I have taken all appropriate steps to make myself aware of any relevant audit information and to establish that the Board's auditors are aware of that information.

Alan Rubenstein
Accounting Officer

25 October 2010

4.2 Statement on internal control

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the PPF's policies, aims and objectives, while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

My responsibility to ensure compliance with the requirements of the Board of the PPF's Framework Document with the DWP has been supplemented by regular meetings with our departmental Stewardship team, the Board and the Executive team of the Pensions Regulator. In particular, the Quarterly Accountability Review meetings with the Steward covered updates on the implementation of our strategic objectives, helped formulate our future business direction and highlighted the inherent risks and opportunities in implementing our policies.

The scope of my Accounting Officer responsibilities extends to the functions carried out by the Board in respect of the Financial Assistance Scheme (FAS).

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board of the PPF's policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

The system of internal control has been in place in the Board of the PPF for the year ending 31 March 2010 and up to the date of signing of these accounts and accords with Treasury guidance.

Key systems and procedures were subject to internal audit review during the period ending 31 March 2010.

Capacity to handle risk

The Board of the PPF aims to manage risk at a reasonable level to achieve and add value to its policies, aims and objectives. We do not aim to eliminate all risk of failure but we do aim to eliminate surprises and to maintain risk to as low a level as is reasonably practicable and appropriate to the economic use of levy payers' funds.

The Board monitors the significant risks to achieving our strategic goals and has delegated to the Audit Committee the responsibility for ensuring that an appropriate risk management strategy is in place and embedded throughout the organisation.

The risk management process is led within the executive operations of the Board by the Risk Management Committee, chaired by the Chief Operating Officer. The membership includes a wide spread of skills and knowledge including a specialist risk manager. We have consciously enlisted selected senior managers and Executive Directors into the membership of the Risk Management Committee to embed risk responsibility and ownership across the organisation.

The Executive Committee, which comprises the Executive Directors and selected senior managers from across the organisation, regularly discusses risk management issues, agrees key risk management policies and receives reports from the Risk Management Committee.

The specific risks to the achievement of the Board's objectives relating to asset and liability management are dealt with at an executive level by the Asset and Liability Committee (ALCo). The Committee oversees the financial risk management activities of the Board, including the control of the potential mismatch of the assets of the PPF to its liabilities and other risks affecting the balance sheet of the fund such as large claims made on the PPF in the future.

The ALCo is chaired by the Executive Director of Financial Risk and its membership comprises of the Chief Risk Officer, Chief Actuary, Chief Investment Officer and the Director of Finance.

Staff are trained and equipped to manage risk in a way appropriate to their authority and duties. Guidance is provided to them through risk assessment workshops, communications through the intranet and the induction programme.

In my opinion, the PPF has maintained its risk management processes during the year. Within this overall statement, the following improvements have been made. We have:

- reviewed and improved the risk management policies and procedures, and their communication to staff using, for example, the PPF intranet
- developed the pandemic continuity plan and tested the efficacy of our broader contingency plans
- trained all staff in information classification and handling procedures
- developed controls around information security which comply with ISO 27001 standard and HMG Security Policy Framework
- enhanced risk management processes to incorporate information risk elements.

- developed an internal audit charter and enhanced key performance measures for internal audit in accordance with the revised Government Internal Audit Standards, 2009
- developed the financial risk dashboard, which provides the Board with management information helping them to monitor progress towards the PPF's long term funding objectives, and
- enhanced the framework to review assumptions made for long term risk modelling to control model risk, in particular the risk of wrong decisions based upon model outputs resulting from inappropriate assumptions.

These developments have built on the risk management foundations laid down last year and have continued in the post year end period.

The risk and control environment

The risk management process underpins the risk management strategy and provides a continuous cycle that both informs and is informed by the strategic objectives of the PPF.

The PPF has identified risks at the following levels:

- Risk Universe:
  This is the process whereby we capture the key risks to the achievement of our strategic objectives
- Process or Team Assessment:
  This process drives at the heart of our operational capability and considers those risks which may adversely impact on the objectives of a process or team
- Information Security Risk Assessment:
  Risks to information are being managed and controlled as part of this process
- Project Assessment:
  The final aspect of our risk identification approach looks at the risks that accrue from our change portfolio.

During the year, the Risk Manager undertook an exercise to map risks identified from the 'bottom up' team and project risk assessment with our Risk Universe. While direct one-to-one mapping was not possible in all cases, this process has given me assurance that there was significant alignment and effective ownership of risks throughout the organisation.

Risk management information is recorded in team and project risk registers which are regularly reviewed and updated. The assessment of the level of risk informs both the priority and ownership of risks. Risks are identified and controlled by:

- identifying the objective and the risks which may prevent the achievement of that objective
- assessing the inherent risk with reference to predetermined criteria covering impact and likelihood
- considering risk against the appetite set by the Board
- determining appropriate control strategy (tolerate, treat, transfer, terminate)
- identifying controls in place to manage the risk
- assessing the residual risk after the application of controls
- preparing an action plan for activities to achieve the control strategy
- assigning responsibility for ownership of risk and action plans.

To quantify risks that can adversely affect the balance sheet of the PPF over the medium to long term, the Financial Risk Management teams use the Long-Term Risk Model (LTRM), a stochastic model generating 500,000 scenarios of up to 20 years of claims made on the PPF. The model enables us to estimate the probability distribution of future claims and future funding position of the PPF. The model is run on a quarterly basis and a 'Funding Risk Dashboard' is compiled covering the main risks affecting the balance sheet of the PPF including insolvency risk, investment risk and longevity risk. The Financial Risk dashboard also monitors developments in the economy and pensions industry that may influence the ability of the PPF to achieve its long-term funding objectives, is updated on a monthly basis and circulated on a monthly basis to the Executive Committee and on a quarterly basis to the Board.

To improve collaboration with the Pensions Regulator in the management of risks, a joint Risk Monitoring Group with the Pensions Regulator was constituted in 2008.

The group meets on a monthly basis. Its objectives are:

- to encourage a mutual understanding of both agencies' risks and current risk monitoring
- to inform each other of changes in risk monitoring and risk, and
- to exchange views and discuss how risks are developing and could be mitigated.

Investment performance and risk are monitored by the Asset and Liability Committee (ALCo) on a monthly basis. An 'Omnibus Report' is presented to the ALCo showing the performance of the PPF's assets against its liabilities. The report also shows forward-looking measures of investment risk produced by a market risk management system called WM ALGO.

The Risk Management Committee and the ALCo meet monthly and consider risk and internal control matters across the organisation. There is an independent Audit Committee chaired by a Non-Executive Board Member with appropriate financial expertise which meets quarterly. This Committee oversees the control environment and risk management framework and receives reports from our internal and external auditors on our system of internal control.

As an Arms Length Body we are required to operate in accordance with the Security Policy Framework (SPF) and related Data Security guidance issued by HMG. To assist us in achieving this we have gained certification in the ISO27001 Information Security standard and implemented ongoing six monthly ISO27001 audits to ensure that we maintain compliance with the standard.

The ISO27001 standard provided us with a best practice based process for creating an Information Security Management System (ISMS) for the PPF. The ISMS provides us with a policy and process framework for assessing and treating information security risks.

To ensure an ongoing focus on operating in accordance with the SPF we have created a PPF Information Security Forum, which reports into the Risk Management Committee and is tasked with achieving and maintaining compliance with HMG guidance in relation to data security.

To ensure that PPF data handled by our suppliers is properly protected in accordance with the requirements of the SPF we have:

- incorporated appropriate security clauses (as recommended by the Office of Government Commerce OGC) into all new supplier contracts
- established a review process to ensure that current security requirements are considered prior to renewal or extension of existing supplier contracts, and
- implemented an authorisation process for data sharing/transfer requests that requires full documentation of the intended data flow, completion of a risk assessment and confirmation that appropriate protective measures are in place before approving any new external data flows.

The PPF has an active outsourcing strategy which enables us to utilise market solutions that deliver value for money. The supplier risks associated with such an approach are actively managed when the service/product is procured and throughout the term of the contract including:

- publishing tenders in the Official Journal of the European Union which ensures that we maximise the number of potential bidders.
- competitive tendering to ensure we deliver value for money
- contractual documentation capturing relevant aspects of the contracts, and
- performance management through regular engagement against agreed key performance indicators.

Internal audit services are provided on an outsourced basis by BDO. Internal audits are undertaken on those processes which are considered to be higher risk or as specifically agreed with management or the Audit Committee.

The Audit Committee approves an overall internal audit plan for each financial year. Terms of reference for each internal audit assignment are agreed between BDO and the line manager responsible for each function, process or project. BDO submit reports that include its independent opinion on the appropriateness and effectiveness of the function's internal controls, together with its recommendations for improvement. All finalised BDO reports are included on the agenda of the next available Audit Committee meeting. The completion of accepted recommendations is rigorously monitored by the Risk Management Committee and the Audit Committee.

In my opinion, the PPF has maintained the standard of risk management reported in the last annual accounts. We continually strive to achieve high standards of risk management and further development of the risk universe framework and risk appetite statement are planned to be implemented by 31 March 2011.

Review of effectiveness

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control has been informed by:

- the assurances I sought and received from other Board Members and senior staff of the PPF detailing the work undertaken to ensure risk management and control is addressed in their areas of responsibility
- the work of the internal auditors and the Executive Directors and senior managers within the PPF who have responsibility for the development and maintenance of the internal control framework, and
- comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Audit Committee, the Executive Committee and the Risk Management Committee and a plan to address weaknesses and to ensure continuous improvement of the system is in place.

Significant control issues

There are no significant control issues to disclose.

Alan Rubenstein
Accounting Officer

25 October 2010

4.3 The certificate and report of the comptroller and auditor general to the houses of parliament

I certify that I have audited the financial statements of the Board of the Pension Protection Fund for the year ended 31 March 2010 under the Pensions Act 2004. These comprise the Operating Statement, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Reserves and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Board of the Pension Protection Fund, the Chief Executive and Auditor

The Board of the Pension Protection Fund and the Chief Executive, as the Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law, and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Board of the Pension Protection Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of the Pension Protection Fund; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Audit Opinion on Regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Board of the Pension Protection Fund's affairs as at 31 March 2010 and of its financial position, changes in reserves and cash flows for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and the Secretary of State for Work and Pensions' directions made thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State for Work and Pensions' directions made under the Pensions Act 2004; and
- the information given within the Annual Report, which comprises the Chairman's Foreword, Chief Executive's Report, Board Report, Investment Report and the unaudited part of the Remuneration Report, is consistent with the financial statements.

Matters on which I report by exception:

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SWIW 9SP

25 October 2010

4 Financial Statements

4.4 Primary Financial Statements

THE BOARD OF THE PENSION PROTECTION FUND

OPERATING STATEMENT For the year 1 April 2009 to 31 March 2010

All amounts in £000s	**Pension Protection Fund**		**Fraud Compensation Fund**		**Administration Fund**		**Total Funds**
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	Year ended 31 March 2010
Statutory Operating Activities							
Operating Income							
Income from levies	1.1	589,479	2.1	-		-	589,479
Total Operating Income		**589,479**		**-**		**-**	**589,479**
Operating Expenses							
Staff costs		-		-	3.2a	(17,943)	(17,943)
Other costs	1.2	14,918		-	3.2b	(11,158)	3,760
Depreciation and impairment charges		-		-	3.4	(1,315)	(1,315)
Total Operating Expenses		**14,918**		**-**		**(30,416)**	**(15,498)**
Net Operating Surplus / (Deficit)		**604,397**		**-**		**(30,416)**	**573,981**
Investment Activities							
Interest on operating bank accounts	1.3	400	2.2	1	3.3	11	412
Investment income	1.4	88,877	2.3	23		-	88,900
Change in fair value of investments	1.5	284,601		-		-	284,601
Income from annuity policies		3,045		-		-	3,045
Investment expenses	1.6	(9,818)		-		-	(9,818)
Net Investment Return		**367,105**		**24**		**11**	**367,140**
Claims Activities							
Gains/(losses) on actuarial liabilities	1.7	6,266		-		-	6,266
Current year claims for compensation	1.8	(641,845)	2.4	(1,740)		-	(643,585)
Revaluation of prior year claims for compensation	1.9	1,287,823	2.5	1,943		-	1,289,766
Net Cost of Claims		**652,244**		**203**		**-**	**652,447**
Net Result For Year		**1,623,746**		**227**		**(30,405)**	**1,593,568**

4 Financial Statements

THE BOARD OF THE PENSION PROTECTION FUND

OPERATING STATEMENT For the year 1 April 2008 to 31 March 2009

All amounts in £000s	**Pension Protection Fund**		**Fraud Compensation Fund**		**Administration Fund**		**Total Funds**
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	Year ended 31 March 2009
Statutory Operating Activities							
Operating Income							
Income from levies	1.1	657,315	2.1	-		-	657,315
Total Operating Income		**657,315**		**-**		**-**	**657,315**
Operating Expenses							
Employee benefits		-		-	3.2a	(13,884)	(13,884)
Other costs	1.2	(11,671)		-	3.2b	(8,915)	(20,586)
Depreciation and impairment charges		-		-	3.4	(1,018)	(1,018)
Total Operating Expenses		**(11,671)**		**-**		**(23,817)**	**(35,488)**
Net Operating Surplus / (Deficit)		**645,644**		**-**		**(23,817)**	**621,827**
Investment Activities							
Interest on operating bank accounts	1.3	2,080	2.2	-	3.3	74	2,154
Investment income	1.4	62,752	2.3	147		-	62,899
Change in fair value of investments	1.5	196,114		-		-	196,114
Income from annuity policies		1,693		-		-	1,693
Investment expenses	1.6	(5,772)		-		-	(5,772)
Net Investment Return		**256,867**		**147**		**74**	**257,088**
Claims Activities							
Losses on actuarial liabilities	1.7	44,238		-		-	44,238
Current year claims for compensation	1.8	(1,444,584)	2.4	(12,387)		-	(1,456,971)
Revaluation of prior year claims for compensation	1.9	(215,112)	2.5	1,115		-	(213,997)
Net Cost of Claims		**(1,615,458)**		**(11,272)**		**-**	**(1,626,730)**
Net Result For Year		**(712,947)**		**(11,125)**		**(23,743)**	**(724,815)**

The accounting policies and notes on pages 61 to 100 form part of these financial statements.

THE BOARD OF THE PENSION PROTECTION FUND
STATEMENT OF FINANCIAL POSITION As at 31 March 2010

All amounts in £000s	Pension Protection Fund		Fraud Compensation Fund		Administration Fund		Total Funds
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	As at 31 March 2010
Non-Current Assets							
Property, plant and equipment		-		-	3.4	1,852	1,852
Intangible assets		-		-	3.4	554	554
Financial assets	1.10	4,108,151		-		-	4,108,151
Derivative financial instruments	1.10	511,512		-		-	511,512
Total Non-Current Assets		**4,619,663**		**-**		**2,406**	**4,622,069**
Current Assets							
Amounts receivable from investments sold	1.11	44,908		-		-	44,908
Derivative financial instruments	1.11	1,467		-		-	1,467
Levy receivables	1.11	123,863		-		-	123,863
Transfer-in receivables	1.11	29,963		-		-	29,963
Other current assets	1.11	1,248	2.6	552	3.5	156	1,956
Cash and cash equivalents	1.11	144,235	2.7	4,119	3.5	573	148,927
Total Current Assets		**345,684**		**4,671**		**729**	**351,084**
Total Assets		**4,965,347**		**4,671**		**3,135**	**4,973,153**
Current Liabilities							
Amounts payable for investments purchased	1.12	(108,484)		-		-	(108,484)
Derivative financial instruments	1.12	(134)		-		-	(134)
Other current liabilities	1.12	(3,467)		-	3.6	(5,838)	(9,305)
Total Current Liabilities		**(112,085)**		**-**		**(5,838)**	**(117,923)**
Net Current Assets plus Non-Current Assets		**4,853,262**		**4,671**		**(2,703)**	**4,855,230**
Non-Current Liabilities							
Derivative financial instruments		(195,515)		-		-	(195,515)
Actuarial liabilities	1.13a	(2,447,045)		-		-	(2,447,045)
Claims provisions	1.13b	(1,816,749)	2.8	(12,237)		-	(1,828,986)
Total Non-Current Liabilities		**(4,459,309)**		**(12,237)**		**-**	**(4,471,546)**
Assets Less Liabilities		**393,953**		**(7,566)**		**(2,703)**	**383,684**
Represented by:							
Net result carried forward for tax payers		-		-		(8,957)	(8,957)
General and other reserves for tax payers		-		-		7,695	7,695
Total Tax Payer Funds		**-**		**-**		**(1,262)**	**(1,262)**
Net result carried forward for levy payers		393,953		(10,503)		(21,448)	362,002
General and other reserves for levy payers		-	2.10	2,937		20,007	22,944
Total Levy Payer Funds		393,953		(7,566)		**(1,441)**	**384,946**
Total Levy and Tax Payers' Funds		**393,953**		**(7,566)**		**(2,703)**	**383,684**

The accounting policies and notes on pages 61 to 100 form part of these financial statements. The Board of the PPF approved these accounts on 28 September 2010 and authorised the Accounting Officer to sign this Statement of Financial Position on the same date.

Alan Rubenstein
Accounting Officer

25 October 2010

THE BOARD OF THE PENSION PROTECTION FUND
STATEMENT OF FINANCIAL POSITION As at 31 March 2009

All amounts in £000s	Pension Protection Fund		Fraud Compensation Fund		Administration Fund		Total Funds
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	As at 31 March 2009
Non-Current Assets							
Property, plant and equipment		-		-	3.4	1,549	1,549
Intangible assets		-		-	3.4	202	202
Financial assets	1.10	2,574,960		-		-	2,574,960
Derivative financial instruments	1.10	501,226		-		-	501,226
Total Non-Current Assets		**3,076,186**		**-**		**1,751**	**3,077,937**
Current Assets							
Amounts receivable from investments sold	1.11	203,663		-		-	203,663
Derivative financial instruments	1.11	558		-		-	558
Levy debtors	1.11	186,529		-		-	186,529
Transfer-in debtors	1.11	87,258		-		-	87,258
Other current assets	1.11	559	2.6	1,115	3.5	214	1,888
Cash and cash equivalents	1.11	55,965	2.7	3,442	3.5	362	59,769
Total Current Assets		**534,532**		**4,557**		**576**	**539,665**
Total Assets		**3,610,718**		**4,557**		**2,327**	**3,617,602**
Current Liabilities							
Amounts payable for investments purchased	1.12	(307,072)		-		-	(307,072)
Derivative financial instruments	1.12	(354)		-		-	(354)
Other current liabilities	1.12	(3,298)		-	3.6	(3,244)	(6,542)
Total Current Liabilities		**(310,724)**		**-**		**(3,244)**	**(313,968)**
Net Current Assets plus Non-Current Assets		**3,299,994**		**4,557**		**(917)**	**3,303,634**
Non-Current Liabilities							
Derivative financial instruments		(95,887)		-		-	(95,887)
Actuarial liabilities	1.13a	(1,736,631)		-		-	(1,736,631)
Claims provisions	1.13b	(2,692,992)	2.8	(12,350)		-	(2,705,342)
Other provisions		(4,277)		-		-	(4,277)
Total Non-Current Liabilities		**(4,529,787)**		**(12,350)**		**-**	**(4,542,137)**
Assets Less Liabilities		**(1,229,793)**		**(7,793)**		**(917)**	**(1,238,503)**
Represented by:							
Net result carried forward for tax payers		-		-		(5,494)	(5,494)
General and other reserves for tax payers		-		-		5,413	5,413
Total Tax Payer Funds						**(81)**	**(81)**
Net result carried forward for levy payers		(1,229,793)		(10,730)		(18,249)	(1,258,772)
General and other reserves for levy payers		-	2.10	2,937		17,413	20,350
Total Levy Payer Funds		**(1,229,793)**		**(7,793)**		**(836)**	**(1,238,422)**
Total Levy and Tax Payers' Funds		**(1,229,793)**		**(7,793)**		**(917)**	**(1,238,503)**

THE BOARD OF THE PENSION PROTECTION FUND
STATEMENT OF FINANCIAL POSITION As at 1 April 2008

All amounts in £000s	Pension Protection Fund		Fraud Compensation Fund		Administration Fund		Total Funds
	Notes	Appendix 1	Notes	Appendix 2	Notes	Appendix 3	As at 1 April 2008
Non-Current Assets							
Property, plant and equipment		-		-	3.4	1,253	1,253
Intangible assets		-		-	3.4	669	669
Financial assets	1.10	1,413,943		-		-	1,413,943
Derivative financial instruments	1.10	140,692		-		-	140,692
Total Non-Current Assets		**1,554,635**		**-**		**1,922**	**1,556,557**
Current Assets							
Amounts receivable from investments sold	1.11	126,464		-		-	126,464
Derivative financial instruments	1.11	200		-		-	200
Levy receivables	1.11	218,983		-		-	218,983
Transfer-in receivables	1.11	29,111		-		-	29,111
Other current assets	1.11	438	2.6	-	3.5	83	521
Cash and cash equivalents	1.11	62,542	2.7	3,332	3.5	841	66,715
Total Current Assets		**437,738**		**3,332**		**924**	**441,994**
Total Assets		**1,992,373**		**3,332**		**2,846**	**1,998,551**
Current Liabilities							
Amounts payable for investments purchased	1.12	(225,524)		-		-	(225,524)
Derivative financial instruments	1.12	(2,096)		-		-	(2,096)
Other current liabilities	1.12	(2,575)		-	3.6	(3,649)	(6,224)
Total Current Liabilities		**(230,195)**		**-**		**(3,649)**	**(233,844)**
Net Current Assets plus Non-Current Assets		**1,762,178**		**3,332**		**(803)**	**1,764,707**
Non-Current Liabilities							
Derivative financial instruments		(43,584)		-		-	(43,584)
Actuarial liabilities	1.13a	(880,292)		-		-	(880,292)
Claims provisions	1.13b	(1,355,148)		-		-	(1,355,148)
Total Non-Current liabilities		**(2,279,024)**		**-**		**-**	**(2,279,024)**
Assets Less Liabilities		**(516,846)**		**3,332**		**(803)**	**(514,317)**
Represented by:							
Net result carried forward		(516,846)		395		-	(516,451)
General and other reserves		-	2.10	2,937		(803)	2,134
Total Levy Payers' Funds		**(516,846)**		**3,332**		**(803)**	**(514,317)**

THE BOARD OF THE PENSION PROTECTION FUND

STATEMENT OF CASH FLOWS For the year 1 April 2009 to 31 March 2010

All amounts in £000s	**Pension Protection Fund**	**Fraud Compensation Fund**	**Administration Fund**	**Total Funds**
Cash flows from operating activities				**Year ended 31 March 2010**
Operating surplus / (deficit)	604,397	-	(30,416)	573,981
FAS Operating Unit expenditure not settled through operating bank accounts	-	-	1,059	1,059
Compensation (payments) and recoveries	(81,873)	90	-	(81,783)
Assets from schemes transferring into the PPF receivable as cash	119,462	-	-	119,462
Items reported in "Investment return" but settled through operating bank accounts	(4,428)	24	11	(4,393)
Depreciation and impairment	-	-	1,315	1,315
Movement in current liabilities	(283)	-	2,594	2,311
Movement in receivables	119,275	563	58	119,896
Net cash inflow/(outflow) from operating activities	**756,550**	**677**	**(25,379)**	**731,848**
Cash flows from investing activities				
Cash transfers (to) Fund Managers	(686,405)	-	-	(686,405)
Cash flows to foreign currency deposits	509,214	-	-	509,214
Cash flows from foreign currency deposits	(521,690)	-	-	(521,690)
Gains on foreign currency deposits	30,601	-	-	30,601
Purchase of property, plant and equipment	-	-	(1,064)	(1,064)
Purchase of intangible assets	-	-	(906)	(906)
Net cash (outflow) from investing activities	**(668,280)**	**-**	**(1,970)**	**(670,250)**
Cash flows from investing activities				
Financing from DWP for PPF activities (levy payer funded)	-	-	20,843	20,843
Financing from DWP for FAS activities (tax payer funded)	-	-	6,717	6,717
Net cash inflow from financing activities	**-**	**-**	**27,560**	**27,560**
Net increase in cash and cash equivalents in the year	**88,270**	**677**	**211**	**89,158**
Cash and cash equivalents at beginning of the year	**55,965**	**3,442**	**362**	**59,769**
Cash and cash equivalents at end of the year	**144,235**	**4,119**	**573**	**148,927**

THE BOARD OF THE PENSION PROTECTION FUND

STATEMENT OF CASH FLOWS For the year 1 April 2008 to 31 March 2009

All amounts in £000s	Pension Protection Fund	Fraud Compensation Fund	Administration Fund	Total Funds
Cash flows from operating activities				**Year ended 31 March 2009**
Operating surplus / (deficit)	645,644	-	(23,817)	621,827
FAS Operating Unit expenditure not settled through operating bank accounts	-	-	3,153	3,153
Compensation payments	(37,603)	(37)	-	(37,640)
Assets from schemes transferring into the PPF receivable as cash	154,189	-	-	154,189
Items reported in "Investment return" but settled through operating bank accounts	(1,152)	-	74	(1,078)
Depreciation and impairment	-	-	1,018	1,018
Movement in current liabilities	533	-	(405)	128
Movement in receivables	(25,779)	-	(131)	(25,910)
Net cash inflow/(outflow) from operating activities	**735,832**	**(37)**	**(20,108)**	**715,687**
Cash flows from investing activities				
Cash transfers from / (to) Fund Managers	(721,600)	35	-	(721,565)
Cash flows to foreign currency deposits	231,219	-	-	231,219
Cash flows from foreign currency deposits	(232,157)	-	-	(232,157)
(Losses) on foreign currency deposits	(19,871)	-	-	(19,871)
Cash flows to liquidity funds	-	147	-	147
Cash flows from liquidity funds	-	(35)	-	(35)
Purchase of property, plant and equipment	-	-	(825)	(825)
Purchase of intangible assets	-	-	(22)	(22)
Net cash inflow/(outflow) from investing activities	**(742,409)**	**147**	**(847)**	**(743,109)**
Cash flows from investing activities				
Financing from DWP for PPF activities (levy payer funded)	-	-	18,216	18,216
Financing from DWP for FAS activities (tax payer funded)	-	-	2,260	2,260
Net cash inflow from financing activities	**-**	**-**	**20,476**	**20,476**
Net increase/(decrease) in cash and cash equivalents in the year	**(6,577)**	**110**	**(479)**	**(6,946)**
Cash and cash equivalents at beginning of the year	**62,542**	**3,332**	**841**	**66,715**
Cash and cash equivalents at end of the year	**55,965**	**3,442**	**362**	**59,769**

THE BOARD OF THE PENSION PROTECTION FUND

STATEMENT OF CHANGES IN RESERVES For the year ended 31 March 2010

All amounts in £000s	Pension Protection Fund	Fraud Compensation Fund	Fraud Compensation Fund	Administration Fund	Total Funds
	General Reserve	Donated Assets Reserve	General Reserve	General Reserve	Reserves
Balance at 31 March 2008	(516,846)	2,937	395	(725)	(514,239)
Changes in accounting policy - First time Adoption of IFRS:	-	-			
IAS19 Employee Benefits: accrual for compensated absences	-	-	-	(78)	(78)
IAS 18 Revenue: recognition of levy income where receipt is considered probable	16,622	-	-	-	16,622
IAS 18 Revenue: provide for uncertainty of receipt of levy income	(16,622)	-	-	-	(16,622)
Restated balance at 1 April 2008	**(516,846)**	**2,937**	**395**	**(803)**	**(514,317)**
Changes in reserves 2008-09					
Net result for the year - levy payers' funds	(712,947)	-	(11,125)	(18,249)	(742,321)
Net result for the year - tax payers' funds	-	-	-	(5,494)	(5,494)
Total recognised Income and expense for 2008-09	**(712,947)**	-	**(11,125)**	**(23,743)**	**(747,815)**
PPF Grant-in-aid received in the year	-	-	-	18,216	18,216
Grant-in-aid to finance FAS Activities	-	-	-	2,260	2,260
FAS Operating Unit financing	-	-	-	3,153	3,153
Balance at 31 March 2009	**(1,229,793)**	**2,937**	**(10,730)**	**(917)**	**(1,238,503)**
Changes in reserves 2009-10					
Net result for the year - levy payers' funds	1,623,746	-	227	(21,448)	1,602,525
Net result for the year - tax payers' funds	-	-	-	(8,957)	(8,957)
Total recognised Income and expense for 2009-10	**1,623,746**		**227**	**(30,405)**	**1,593,568**
PPF Grant-in-aid received in the year	-	-	-	20,843	20,843
Grant-in-aid to finance FAS Activities	-	-	-	6,717	6,717
FAS Operating Unit financing (prior to the Board's appointment as FAS Scheme Manager)	-	-	-	1,059	1,059
Balance at 31 March 2010	**393,953**	**2,937**	**(10,503)**	**(2,703)**	**383,684**

4.5 STATEMENT OF ACCOUNTING POLICIES

1. Basis of preparation

These Accounts have been prepared in accordance with the Accounts Direction dated 18 February 2010 given to the Board of the Pension Protection Fund by the Secretary of State for the Department for Work and Pensions, with the approval of the Treasury, in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2) (b)). It requires the Board's Accounts to give a true and fair view of the income and expenditure, total recognised gains and losses and cash flows for the financial year, and the state of affairs at the year end. It requires the Board to prepare accounts in accordance with the 2009/10 Government Financial Reporting Manual (FReM). The FReM requires accounts to be produced on an accruals basis following, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

At the date of authorisation of these financial statements, it is not expected that adoption of Standards (including Interpretations of Standards), which are in issue but not yet effective, will have a material impact on the Board's financial statements, with the exception of IFRS 9 Financial Instruments: Classification and Measurement, due to become effective 1 January 2013. This Standard is a replacement for IAS 39 and introduces new requirements for the classification and measurement of financial assets, together with the elimination of two categories. The Standard does not include financial liabilities. Further proposals are to be introduced during 2010 and the Board will undertake an assessment of the impact of IFRS 9 once these are known

Where the FReM permits a choice of accounting policy, the policy which is judged to be most appropriate to the particular circumstances of the Board, for the purpose of giving a true and fair view, has been selected. The principal accounting policies adopted by the Board are summarised below. They have been applied consistently in dealing with items that are considered material to the accounts.

2. First-time adoption of International Financial Reporting Standards

The Government Financial Reporting Manual requires accounts to be produced following international financial reporting standards. This is the first financial year that the accounts must be prepared using IFRS whereas, in previous years, the accounts were prepared following UK GAAP. The impact on each of the three funds of moving from UK GAAP to IFRS is presented in the notes to the accounts.

In accordance with IFRS 1 First Time Adoption of International Financial Reporting Standards, the Board has presented the following financial statements:

- Statement of Financial Position as at 1 April 2008
- Operating Statement for the year ended 31 March 2009
- Statement of Financial Position as at 31 March 2009
- Statement of Cash Flows for the year ended 31 March 2009
- Operating Statement for the year ended 31 March 2010
- Statement of Financial Position as at 31 March 2010
- Statement of Cash Flows for the year ended 31 March 2010

3. Going concern

These Accounts have been prepared on a going concern basis.

4. Accruals basis

All items of income and expenditure are accounted for on an accruals basis. The application of this general policy to specific items of income and expenditure is detailed in the notes for that specific item within the appendix devoted to the relevant segment.

5. Segmental reporting

The Board of the Pension Protection Fund was created by the Pensions Act 2004 and this Act specifies that the Board must hold, manage and apply two ring-fenced funds:

- The Pension Protection Fund; and
- The Fraud Compensation Fund.

Additionally, as a separate statutory corporate body, the Board is responsible for the management and control of its own administration functions, funded by grant in aid from the Department for Work and Pensions (DWP). The Administration fund figures include expenditure incurred by the Board in providing advice and consultancy to the DWP in connection with the management of the Financial Assistance Scheme (FAS) under the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2008 until July 2009 and thereafter acting as Scheme Manager under the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2009. These activities are taxpayer funded and are therefore disclosed separately in Appendix 3: Notes to the Accounts relating to the PPF Administration Fund.

The Board has, therefore, adopted an accounting policy in compliance with IFRS 8 Operating Segments which presents the financial transactions and balances of these three separate streams of activity in a coordinated set of primary statements in a columnar format. An aggregate total is also presented in order to indicate the total value of the transactions and balances for which the Board is responsible.

To assist users of the Accounts to navigate to their areas of particular interest, an appendix to the Accounts is then devoted to each of the three segments described above, which consists of detailed notes relating only to the transactions and balances of that segment.

6. Machinery of Government Changes

On 10 July 2009, DWP appointed the Board to be scheme manager of the Financial Assistance Scheme. In accounting for this transfer of management responsibility for FAS, the Board has adopted merger accounting, as prescribed by the Government Financial Reporting Manual, in order to account for the costs incurred at the FAS Operating Unit. The FAS OU was the DWP team previously responsible for the administration of FAS, and the Board took over management responsibility for the OU under the terms of its appointment as FAS scheme manager.

IFRS 3 Business Combinations requires the use of acquisition accounting, but excludes from its scope combinations involving entities under common control. The Government Financial Reporting Manual states that public sector bodies are deemed to be under common control and therefore prescribes merger accounting.

The majority of the Board's costs are directly attributable to either its PPF functions or its FAS scheme manager functions. There are certain costs however which are incurred across both functions, such as in HR, IT and other functions which support front line staff in both PPF and FAS. The Board has agreed with DWP a protocol for allocating these costs which is intended to ensure that both PPF and FAS functions bear a fair and equitable share of these costs; and that there are no cross subsidies between PPF levy payers and general tax payers (who bear the cost of FAS). It is based in the main on managers' estimates of the proportion of their resources (for example, staff time) expended on the two functions.

7. Related parties

IAS 24 Related Parties requires the disclosure of transactions and outstanding balances with parties related to the reporting entity. The Board considers the following to be related parties for the purposes of these Accounts:

- Individual Board members and key management
- Close family members of any individual falling under parties mentioned above
- The DWP, to whom the Board is accountable as a Public Corporation for the achievement of a number of pensions policy objectives, and
- The Pensions Regulator, a Non-Departmental Public Body, also accountable to the DWP, with whom the Board shares certain pensions policy objectives.

8. Whole of Government Accounts

HM Treasury is responsible under the Government Resources and Accounts Act 2000 for preparing Whole of Government Accounts for a group of bodies each of which appears to the Treasury to exercise functions of a public nature or to be entirely or substantially funded from public money. The Board of the Pension Protection Fund is not one of these publicly funded bodies and so lies outside of the "Whole of Government Accounts boundary". The transactions and balances of the Board will not therefore be consolidated into the Whole of Government Accounts. However, in line with best practice set out in the Government Financial Reporting Manual, the Board will disclose separately any of its assets and liabilities (in particular, its receivables and payables) related to entities that, to the best of the Board's knowledge, lie inside the Whole of Government Accounts boundary.

9. Events after the reporting period

The Board has carried out a detailed review of events since the end of the reporting period, and has incorporated into these Accounts any material adjustments it considered necessary arising from that review. As far as the Board is aware, at the date of issue of these Accounts, there have been no further material events after the reporting period necessitating adjustment to these Accounts.

The Board's Accounts are laid before the Houses of Parliament by the Secretary of State for the Department for Work and Pensions.

IAS 10 Events after the Reporting Period requires the Board of the Pension Protection Fund to disclose the date on which the Accounts are authorised for issue. This is the date on which the Comptroller and Auditor General certifies the Accounts.

10. Income Recognition

i) Protection Levy Income

Protection Levy income is recognised on an accruals basis, that is, on the basis of the value of levies due in respect of each levy year. This may involve the use of estimation techniques in order to recognise levy income which, for a variety of operational reasons, remains unbilled at the date of preparing the Accounts.

In accordance with IAS 18 Revenue Recognition, the Board recognises Protection Levy income where it judges that the scheme's eligibility for pension protection (or, where relevant, the eligibility of the section of the scheme or part of pension scheme membership) is probable.

Where the Board judges that a scheme's eligibility is less than probable, no income or receivable will be recognised, but the Board will disclose a contingent asset for the value of the levy that is possibly receivable as prescribed by IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Where the Board judges that the scheme's eligibility is remote, no income or receivable will be recognised, neither will any contingent asset be disclosed.

In certain circumstances, schemes may have paid their Protection Levy invoice while they continue to dispute the eligibility status of the scheme (either as a whole or in part). If the Board judges that the scheme's eligibility for pension protection is less than probable, even though the scheme has settled the levy invoice, the Board will establish a payable for any monies already received.

ii) Fraud Compensation Fund

Under the Pensions Act 2004, section 184, trustees of schemes making claims on the Fraud Compensation Fund are obliged to make all reasonable efforts to obtain any recoveries of value before the Fraud Compensation Fund can settle the claim. Under certain circumstances the Board may (and the predecessor body, The Pensions Compensation Board, did) enter into arrangements where a claim is settled contingent on the Board receiving reimbursement of any recoveries made after settlement. These recoveries are accounted for on an accruals basis.

iii) Grant in Aid

In compliance with the Government Financial Reporting Manual, grant in aid received by the Board from DWP is used to finance activities and expenditure which support the statutory and other objectives of the Board. These receipts are treated as financing and credited to the General Reserve, because they are regarded as contributions from a controlling party.

11. Property, Plant and Equipment

In accordance with IAS 16 Property, Plant and Equipment, the Board recognises the following assets:

- IT hardware
  The costs of purchasing hardware are capitalised as property, plant and equipment provided the cost of the hardware, either as a single item or as a group of related items bought for a common purpose, exceeds £1,000.
- Leasehold improvements
  The costs of leasehold improvements, including the refurbishment and fitting out of new premises ready for occupation by the Board's staff, are capitalised as property, plant and equipment. Property repairs and maintenance, and the costs of purchasing individual items of furniture and equipment not exceeding £1,000, are written off in the year of purchase.

12. Intangible Assets

In accordance with IAS 38 Intangible Assets, the Board capitalises the following as intangible assets:

- the costs of purchasing major software licences, and
- the costs of major software and software development and enhancement, including related consultancy costs, are capitalised as intangible assets, where it is considered that the resulting software has an extended useful life. Ongoing software maintenance costs are written off in the year they occurred.

13. Depreciation and Amortisation

Depreciation is provided on property, plant and equipment and all intangible assets at rates calculated to write down the cost or valuation (less any estimated residual value) of each asset evenly over its expected useful life as follows:

• Information technology equipment	*three years*
• Major software licences	*three years or the life of the licence if shorter*
• Software and software development	*three years*
• Leasehold improvements	*five years*

The Board also holds assets as Payments on Account and Assets under Construction, representing payments made and assets purchased as part of larger capital projects. Depreciation is charged on these assets only when the project is complete and the assets brought fully into use.

14. Financial Instruments

i) Definition

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

A financial asset is any asset that is cash, equity, a contractual right to receive cash or another financial asset from another entity, or a contractual right to exchange financial instruments with another entity under conditions that are potentially favourable.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or a contractual obligation to exchange financial instruments with another entity under conditions that are potentially unfavourable.

ii) Recognition

Financial assets and liabilities are recognised when the Protection Fund becomes party to the contracts that give rise to them.

Financial assets are derecognised when the right to receive cash flows has expired or the Protection Fund has transferred substantially all the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation to deliver cash or another financial asset is discharged, cancelled or expires.

iii) Classification of Financial Instruments

Financial instruments are classified under the following categories, which are determined at initial recognition:

- financial assets/liabilities at fair value through the Operating Statement separated by:
  - a) those designated at fair value through the Operating Statement upon initial recognition, and
  - b) those classified as held for trading
- loans and receivables
- held-to-maturity investments
- available-for-sale financial assets, and
- financial liabilities measured at amortised cost.

iv) Financial assets/liabilities at fair value through the Operating Statement upon initial recognition

Financial assets and liabilities that are managed and evaluated on a fair value basis in accordance with the Statement of Investment Principles and reported to key management on that basis are designated at fair value through the Operating Statement at inception.

Investments in this category include debt and equity instruments, managed funds, foreign exchange contracts and units in property funds.

v) Financial assets/liabilities held for trading

Derivative financial instruments held by the Protection Fund are not designated as hedging instruments. Therefore the Protection Fund categorises derivatives as financial assets/liabilities held for trading.

The Protection Fund's derivatives held for trading consist of the swap portfolio.

vi) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost. The fair value of trade receivables is usually the original invoiced amount. Included in this category are protection levy receivables, investment income receivable, transfer-in receivables and cash and cash equivalents.

Cash and cash equivalents comprises cash at bank and cash deposits held by fund managers with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of change in value.

In accordance with IAS 36 Impairment of Assets, impairment is represented by the provision for bad debt against levy receivables where the Board considers that recovery of the debt is lower than the invoiced amount. Therefore the impairment is the difference between the original invoiced amount and the estimated recovery.

In the Fraud Compensation Fund cash equivalents consist of funds held in the form of units in liquidity funds managed by external fund managers, recoveries due from prior year claims and cash at bank.

In the Administration Fund, included in loans and receivables are season ticket loans to staff, other receivables and cash at bank.

vii) Financial liabilities measured at amortised cost

Trade payables and accruals are non interest bearing and are stated at amortised cost. Included in this category are net amounts payable to brokers for outstanding settlements, protection levy refunds due, compensation payments due, money purchase benefits payable and amounts due to suppliers.

viii) Fair Value and Investment return

Investment assets are included in these Accounts at fair value, which is defined as follows:

- quoted securities and other exchange-traded assets, including derivative contracts, are valued at closing prices at the end of the reporting period, which may be defined as bid price or last traded price depending on the convention of the stock exchange or other market on which they are quoted
- derivative contracts which are not exchange-traded (often referred to as over-the counter contracts) are valued at prices calculated by the fund managers, using valuation methodologies based on market sources
- all other assets for which a recognised investment exchange does not exist are valued at a fair value estimated by the appointed custodian, fund manager or other appropriately qualified professional adviser, and approved by the Board
- pooled investment vehicles are valued at closing bid prices or, if single-priced, at the closing single price, and
- investments denominated in foreign currency are valued in sterling using the closing spot rates of exchange from a recognised information source.

Investment return is defined as the net total of:

- Investment income earned on invested assets, including interest and dividends; plus
- The "change in the fair value of investments" defined above, including gains and losses realised on the disposal of investments; unrealised gains and losses on investments held at the accounting date, that is, the difference between acquisition cost and current fair value; and gains and losses arising on the translation of investments (including cash, payables and receivables) denominated in foreign currencies into sterling; less
- Fund management fees, custody charges and trading expenses charged to the Protection Fund, as permitted by the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005 (SI 2005/1610).

Investment income is accounted for on an accruals basis, that is:

- Interest income arising from cash deposits, fixed interest securities and similar investments is accounted for using the effective interest rate
- Dividends and distributions from managed funds, including property funds, are accounted for when the dividend or distribution is declared, for example, when the quoted security is quoted in its investment exchange as "ex-dividend".

15. Actuarial liabilities and changes in value of actuarial liabilities

i) Actuarial liabilities

The Board recognises the full value of the liabilities of the Protection Fund disclosed in the annual actuarial valuation of the Protection Fund, prepared and signed by the appointed actuary in accordance with the Pensions Act 2004 (Schedule 5, Part 4, Paragraph 22 (2)(a)). This represents the present value, as at the end of the reporting period, of the liability to pay compensation to the members, both deferred and retired, of all pension schemes in respect of which Transfer Notices have been issued, valued on the assumptions set out in the actuary's report. It also includes an allowance for the expenses of administering the records of these members and of paying their compensation.

ii) Changes in value

The movement in the value of actuarial liabilities arises:

- in the year of Transfer, from the Transfer Notice date to the end of the reporting period, and
- subsequently, between the end of the current and subsequent reporting periods.

The movement in value will be analysed to distinguish between the impact of changes in actuarial assumptions, discount rates and other relevant factors, including the payment of benefits during the period.

iii) Recognition of payments of compensation

In order to disclose the effect of the payment of benefits on the actuarial liabilities of the Protection Fund, the Board recognises compensation payments on an accruals basis, with the objective of ensuring that all compensation payments that fall due for payment in the accounting period are taken into account.

16. Provisions and contingent liabilities for claims

The Board recognises provisions for claims in respect of schemes where eventual entry into the Protection Fund is judged probable, and discloses contingent liabilities for claims in respect of schemes where eventual entry into the Protection Fund is judged possible. No liability is recognised or disclosed for claims in respect of schemes where eventual entry into the Protection Fund is judged unlikely. In all cases, the liability is valued at the net deficit impacting the Protection Fund, that is, scheme liabilities valued at protected benefit levels, net of assets under the scheme trustees' control, including asset recoveries from insolvent employers. Each element of this process is discussed in greater detail below.

i) Population of schemes

When considering provisions and contingent liabilities for claims on the Protection Fund, the Board reviews schemes in the following categories:

1. Schemes remaining in an Assessment Period at the Protection Fund's accounting date
2. Schemes accepted into an Assessment Period in the post year end period, where the date of employer insolvency (and hence the effective date of the commencement of an assessment period, the "Assessment Date") was prior to the Protection Fund's accounting date
3. Schemes accepted into an Assessment Period in the post year end period, up to the date of approval of the actuarial report, where the Assessment Date was after the Protection Fund's accounting date
4. Schemes in respect of which a notice of employer insolvency has been received by the Board but which the Board has not been able to validate up to the date of approval of the actuarial report, regardless of the date of employer insolvency

5. Schemes where no notice of employer insolvency has yet been received but where, based on the Board's specific knowledge of circumstances prevailing at the accounting date, entry into Assessment is considered likely in the foreseeable future
6. Schemes associated with employers with the lowest failure scores (and hence the highest risk of insolvency in the foreseeable future) as measured by the Board's independent insolvency risk measurer, Dun & Bradstreet.

The Board also reviews the requirement for a reserve for claims incurred but not reported ("IBNR reserve") which, by definition, cannot be associated with individual schemes.

ii) Likelihood

Having established the population of schemes which it needs to consider for the purposes of setting up provisions and disclosing contingent liabilities, the Board then considers claims information on those schemes in order to reach judgements on the likelihood of schemes' eventual entry into the Protection Fund. The following guidelines apply to these considerations:

Schemes judged **"probable"** for eventual entry include:

1. Schemes in Assessment for which a Scheme Failure Notice has been validated;
2. i) Schemes in Assessment at the accounting date for which no Scheme Failure Notice has yet been received

   ii) schemes accepted into Assessment after the accounting date but where the effective Assessment Date is within the accounting period; and

   iii) schemes, in respect of whose employer a Notice of Insolvency had been received but not validated up to the date of approval of the actuarial report, but where the potential effective Assessment Date would be within the accounting period.

In all of the above cases, the Board also applies the following guidelines in considering whether a scheme is to be judged probable for eventual entry into the Protection Fund:

- where there is no reliable evidence that a scheme rescue will occur
- where current estimates of the protected liabilities as at the Assessment Date are in excess of current estimates of scheme assets (including any recoveries from insolvent employers) at the Assessment Date; and
- where those estimates of assets and liabilities are believed to be reliable. Where no reliable estimates are available, the values involved would be considered as contingent liabilities.

Schemes judged **"possible"** for eventual entry include:

1. Schemes accepted into Assessment after the accounting date and schemes, in respect of whose employer a Notice of Insolvency had been received but not validated up to the date of approval of the actuarial report, where the employer insolvency event occurred after the accounting date and where there is no evidence either that a scheme rescue may occur or that scheme assets (including any recoveries from insolvent employers) as at the assessment date are adequate to meet protected liabilities valued at the assessment date
2. Schemes, in respect of whose employer no Notice of Insolvency has been received up to the date of approval of the actuarial report, but where there is reason to believe that entry into Assessment is likely in the foreseeable future, and in respect of which current estimates of the protected liabilities as at the accounting date are in excess of current estimates of scheme assets (including any recoveries from insolvent employers) at the accounting date.

Schemes judged **"unlikely"** eventually to enter the Protection Fund include:

1. Schemes in respect of which there is reliable evidence that a scheme rescue will occur
2. Schemes in respect of which current estimates of scheme assets at the Assessment Date (including any recoveries from insolvent employers) are in excess of current estimates of the protected liabilities at the Assessment Date.

iii) Materiality

Recognising the desirability of minimising the administrative burden on the PPF of schemes in (or being considered for entry into) Assessment, the Board has decided to classify schemes into material and non-material schemes, according to the following criteria for material schemes:

- the scheme's Minimum Funding Requirement (MFR) liabilities according to the latest MFR valuation exceeded £30 million (prior year: £30 million),
  or
- the scheme's protected liabilities according to the latest valuation prepared under either section 179 or section 143 of the Pensions Act 2004 exceeded £40 million (prior year: £40 million),
  and
- with an overriding requirement that a target of at least 75 per cent (prior year: 75 per cent) in aggregate of the Protection Fund's liabilities generating provisions must relate to material schemes and schemes which have already transferred to the Protection Fund.

For material schemes, additional specific information on scheme assets and liabilities was sought, as described in paragraphs iv) 1 and vi) 1 below. For non-material schemes, robust estimation techniques were developed to enable existing information on scheme assets and liabilities to be used without the need to place additional burdens on scheme trustees to provide further detailed information. These techniques are described in paragraphs iv) 2 and vi) 2 below.

iv) Scheme assets

Pension scheme assets will be valued in the deficit calculations described above in ways consistent with the valuation policies for the Protection Fund's own investments, which are also consistent with the valuation policies used in the accounts of pension schemes themselves, as set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes". Scheme asset information has been captured in the following ways:

1. For schemes which are considered material to the Protection Fund's liabilities, actual asset information at the Protection Fund's accounting date has been obtained from scheme trustees and used in the calculations
2. For schemes which are not considered material to the Protection Fund's liabilities, scheme asset information has been extracted from other information readily available to the Board, such as the latest actuarial valuation or audited scheme accounts. These asset values have then been indexed forward to the Protection Fund's accounting date using generally accepted investment return indices appropriate to the asset classes in which the schemes' investments are held. Further adjustments are then made to allow for benefit payments between the valuation date and the Protection Fund's accounting date using assumptions consistent with those used to estimate scheme liabilities.

v) Asset recoveries from insolvent employers

When an employer experiences an insolvency event, may trigger the right for trustees to claim the debt due to a scheme under section 75 of the Pensions Act 1995 (deficiencies in scheme assets). These may be unsecured or secured by charges over other employer assets such as real estate or machinery and equipment. These claims may also entitle trustees to be party to negotiations relating to the reconstruction, re-financing or acquisition by a third party of the employer's business, out of which trustees may acquire assets such as a shareholding in the reconstructed company. Under section 137 of the Pensions Act 2004, these rights to pursue debts and to acquire assets are exercisable by the Board. The Board's policy for recognising these recoverable assets is to take them into account when assessing the net deficit of schemes in the categories described in paragraph 16i) above.

The Board's policy for valuing these recoverable assets at fair value is as follows:

1. Unsecured claims recoverable as cash out of the liquidation of the employer company will be valued at the amount assessed by the Board to be recoverable as dividends from the liquidation (adjusted as necessary to account for the time value of money over the projected future period of dividend distributions). The Board's assessment of recoverable amounts will be based on available evidence.
2. Secured claims will be valued by the Board at the full face value of the claim, provided the Board is satisfied that the value of the security at least covers the claim value. If the Board assesses the value of the security as less than the face value of the claim, it will provide against the shortfall.
3. Other assets acquired by the Board on behalf of trustees will be valued at fair value, in compliance with accounting standards or valuation guidelines appropriate to the type of asset, for example:
   - quoted securities are valued at closing prices, which may be defined as bid price or last traded price depending on the convention of the stock exchange or other market on which they are quoted, and
   - unquoted securities including private equity will be valued in accordance with the "International Private Equity and Venture Capital Valuation Guidelines" issued by the British, French and European venture capital associations. These guidelines emphasise the evidence base required to produce reliable valuations, for example, the enterprise's value implied by a history of dividend payments; the net asset value from the latest audited accounts; the value of recent share dealings, adjusted to take account of the non-open market nature of those dealings; or (for recent acquisitions) the acquisition cost. Where the Board uses acquisition cost to value these assets, the value will normally be assessed at nil, since no explicit purchase price has been paid to acquire the asset.

vi) Scheme liabilities

Scheme liabilities are taken into account in assessing the net deficits of schemes in the categories described in paragraph 16i) above at the net present value, at the Protection Fund's accounting date, assessed by the Protection Fund's appointed actuary as being the realistic cost of settling the liabilities for compensation on a continuing basis from the Protection Fund as a going concern. This realistic cost of settlement includes where relevant the impact of the use of scheme-specific factors (for example, mortality rates) where the Board has reliable evidence from the scheme trustees or their advisers that this has generated a more accurate and robust valuation than the use of generic factors.

This cost will therefore not be the same value as the liabilities disclosed in actuarial valuations obtained under s143 of the Pensions Act 2004 ("valuation of assets and protected liabilities") nor as disclosed in valuations obtained under s179 of the Act ("valuations to determine scheme underfunding").

It should also be noted that the criterion for accepting a scheme into the Protection Fund involves comparing scheme assets with protected liabilities at the Assessment Date. Provisions may, therefore, be recognised (or contingent liabilities disclosed) in respect of schemes where protected liabilities valued on a statutory basis are estimated to exceed assets at the Assessment Date, but where differential movements in asset and liability values mean that assets are estimated to exceed protected liabilities valued on a realistic basis at the accounting date. The aggregate deficit for schemes in (or likely to enter) Assessment recognised as provisions (or disclosed as contingent liabilities) may, therefore, include values for individual schemes "in surplus" at the accounting date.

Consistent with its desire to minimise the administrative burden on schemes in (or being considered for entry into) Assessment, the Board has decided to use liability information already in existence or generated by trustees and their actuaries for other purposes, such as valuations under s143 or s179 of the Act. Methodologies have been developed in consultation with the actuarial profession (and quality-assured by the Government Actuary's Department) for transforming liability information produced for s143 or s179 purposes at past dates into liability values on the Protection Fund's own realistic basis at the accounting date. This transformation is then supplemented as follows:

1. For schemes which are considered material to the Protection Fund's liabilities, further liability information has been obtained from scheme trustees, such as details of changes to benefit designs, material changes to the membership, and significant benefit payments or bulk transfers between the scheme's valuation date and the Protection Fund's accounting date, and used in the calculations;
2. For schemes which are not considered material to the Protection Fund's liabilities, further adjustments may then be made to allow for benefit payments between the valuation date and the Protection Fund's accounting date using assumptions consistent with those used to estimate scheme assets.

17. Fraud compensation claims

Within the Fraud Compensation Fund, the Board recognises provisions for claims where it judges that it is probable that the claim will be validated and a compensation payment to the claimant scheme be made from the Fraud Compensation Fund. Where the Board judges that validation of the claim is possible (ie that the likelihood is greater than remote but lower than probable), a contingent liability will be disclosed. Where the Board judges that the likelihood of validation is remote, the Fraud Compensation Fund will not recognise any provisions nor disclose any specific contingent liabilities.

18. Current assets

Current assets arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all income (for example, protection levies due in respect of periods ending on or before the accounting date) which had not been received by the accounting date, are disclosed within the Board's Accounts. Similarly, items of expenditure paid in advance of the due date (for example, compensation payments) will be accounted for as prepayments.

The Board will recognise and account for receivables where it considers that the recovery of the assets is probable. The application of this policy to protection levy receivables is described in Accounting Policy Note 10(i).

The application of this policy to debts representing assets recoverable for the previous sponsoring employers of pension schemes which have transferred into the Pension Protection Fund is as follows:

- debts (or those portions of debts) which the Board considers probable of recovery (including if appropriate by legal enforcement) will be recognised, and
- debts that are recognised will be valued consistently with the valuation policies set out in Accounting Policy Note 16(v) which governs the valuation of these assets prior to transfer to the Pension Protection Fund.

19. Current liabilities

Current liabilities arise as a consequence of the accruals basis of accounting for income and expenditure, to ensure all liabilities (for example, for compensation payments or for investment management expenses) falling due on or before the accounting date which had not been settled by the accounting date are disclosed within the Board's Accounts.

20. Impact of the issue of Transfer Notices

Schemes may exit the PPF Assessment process through the Board issuing a Transfer Notice under section 160 of the Pensions Act 2004. This Notice has the effect of the Board assuming responsibility for the scheme, so that all the property, rights and liabilities of the scheme are transferred to the Board. The following accounting policies apply to this transfer of assets and liabilities.

- Investment assets are transferred to the legal ownership of the Board at fair value as at the effective date of the Transfer Notice. "Fair value" carries the same meaning as in Accounting Policy Note 14 governing the valuation of the Board's investment assets.
- Asset recoveries from insolvent employers are recognised where the Board judges that the assets are probable of recovery, and are valued using the same policies set out in Accounting Policy Note 16(v), governing the valuation of the same assets prior to transfer to the PPF. In appropriate circumstances, the Board will also disclose contingent assets in respect of recoveries which are less than probable of recovery.
- Current assets and current liabilities are transferred to the Board at fair value using the accruals basis of accounting. Receivables which are probable of recovery are recognised; payables are recognised on an accruals basis including, for example, all outstanding fees to trustees, actuaries, auditors, administrators and other advisers for work commissioned prior to transfer and necessary to complete the transfer of the scheme to the PPF and its subsequent winding-up.
- Actuarial liabilities are transferred to the Board as at the effective date of the Transfer Notice and are valued using the same policies set out in Accounting Policy Note 15(i), that is, as assessed by the Board's appointed actuary as being the realistic cost of settling the liabilities for compensation on a continuing basis from the Protection Fund as a going concern.
- Where the net deficit of a transferring-in scheme has been provided for at the end of the subsequent reporting period, changes in the value of the deficit due to changes in the value of the scheme's assets and liabilities up to the effective date of the Transfer Notice are accounted for as "revaluation of prior year claims".

21. Significant estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions in certain circumstances that affect reported amounts. The Board exercises judgement in making assumptions and producing estimates in the application of its accounting policies. Actual results could differ from these estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts, and the key areas of estimation uncertainty are highlighted below:

Cost of claims, claims provisions and contingent liabilities: the calculation of the costs of claims on both the Protection Fund and the Fraud Compensation Fund relies on the use of actuarial assumptions for the valuation of scheme liabilities. It also relies on techniques such as rolling forward asset values as at a prior date to the Board's accounting date using investment indices. For the Protection Fund, these estimation techniques are described in detail in the Actuary's Supplementary Report included in this Annual Report and Accounts. These assumptions and techniques introduce estimation uncertainty in that the actual value of scheme assets and liabilities at the Board's accounting date may differ from the values estimated and used to calculate provisions and contingent liabilities.

Actuarial liabilities, and gains or losses on actuarial liabilities: the calculation of the actuarial liabilities of the Protection Fund relies on the use of actuarial assumptions about a number of financial and demographic factors. These assumptions are set out in Annex M2 of the Actuarial Valuation included in this Annual Report and Accounts. These assumptions introduce estimation uncertainty in that the Fund's actual experience of these financial and demographic factors may differ from the assumptions used to calculate the actuarial liabilities.

Appendix 1

NOTES RELATING TO THE OPERATION OF THE PENSION PROTECTION FUND FOR THE PERIOD 1 APRIL 2009 TO 31 MARCH 2010

Note 1.1 Income from levies

Income from protection levies derives from:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Risk-based levies in respect of the current year	453,973	535,723
Scheme-based levies in respect of the current year	137,670	125,665
Total protection levies in respect of the current year	**591,643**	**661,388**
Risk-based levies in respect of prior years	(6,780)	(6,017)
Scheme-based levies in respect of prior years	4,616	1,944
Total protection levies in respect of prior years	**(2,164)**	**(4,073)**
Total income from protection levies	**589,479**	**657,315**

Risk-based and scheme-based levies

In respect of levy years 2006/07 onwards, protection levies are chargeable to eligible pension schemes incorporating risk-based factors (principally scheme underfunding and employer insolvency risks) and scheme-based factors (principally the value of scheme liabilities). These two separate sets of factors generate separate levies, known as the Risk-based levy ("RBL") and the Scheme-based levy ("SBL"). The calculation, billing and collection activities for these levies have been carried out in-house by the Board's staff and are therefore subject to the regime of internal control (including internal audit) described in the Statement on Internal Control on page 48 of these Accounts.

Protection levy income is accounted for in these Accounts on an accruals basis, that is, including amounts billed in respect of the year but after 31 March 2010, and including amounts unbilled at the date of preparing these Accounts. Estimates of amounts unbilled have however only been prepared for schemes where the Board judges that the schemes' eligibility for pension protection and consequent liability to pay protection levies is probable; accruals of levies chargeable have been set up on a best estimate basis for schemes where only issues such as clarification of scheme and employer data necessary to calculate levies are outstanding.

The Board is aware that a number of levy issues remain to be resolved, particularly concerning the specific provisions of the PPF Entry Rules and related regulations, and their impact on certain schemes. There has been significant disagreement between the trustees (and sponsoring employers) of those schemes and the Board on their eligibility for pension protection and hence on their liability to pay protection levies. Some of these issues have progressed during the year, and in particular the Pension Protection Fund and Occupational Pension Schemes (Miscellaneous Amendments) Regulations 2010 were laid in March 2010 which were intended to clarify the position regarding some of those schemes' liability to pay the protection levy for the 2009/10 and future levy years. The levy income disclosed in the Board's accounts includes the 2009/10 levy amount for the schemes impacted by those regulations, totalling £7,315,000. The regulations had no retrospective effect, however.

Based on the progress made in resolving these issues during the year, the Board does now consider it probable that it will be entitled to bill protection levies from these schemes for prior years and so, in accordance with the requirements of IAS 18 "Revenue", has adjusted the levy income disclosed for those prior years as part of the adjustments necessitated by its first-time adoption of International Financial Reporting Standards (see Note 1.18). The adjustment totalled £24,033,000. In the Board's view, it remains possible that the legal actions to determine eligibility will conclude that they are not liable to pay protection levies, and this contingent liability is disclosed in Note 1.15, for a total of £31,348,000 covering both the 2009/10 and all prior levy years.

No levy income is recognised in these accounts in respect of schemes where the Board judges their liability to pay protection levies to be less than probable. The Board is not aware of any material amounts of levy income which fall into this description.

Note 1.2 Other Costs

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Bank charges	9	3
Compensation administration costs (i)	920	513
Provision for levy refunds and write offs (ii)	(15,946)	10,869
Write off of levies (iii)	99	286
Other costs	**(14,918)**	**11,671**

i) Compensation Administration costs relate to the costs incurred in administering the records of beneficiaries entitled to PPF compensation, including running a compensation payroll. These costs are charged to the Protection Fund under The Pension Protection Fund (Prescribed Payments) Regulations 2008 (SI2008/664).

ii) As discussed in Note 1.1, there are a number levy issues regarding the PPF Entry Rules and related regulations to be resolved. In prior years, the Board provided against the recoverability of these protection levies. The favourable movement on this account is due to the reclassification of this provision as a contingent liability disclosed in Note 1.15.

iii) When a pension scheme winds-up it could potentially have outstanding unpaid pension protection levy amounts due to the Board. Section 181(2) of the Pensions Act provides that the levy is payable to the Board by or on behalf of the trustees or managers of the pension scheme, or any other prescribed person. In the case of wound-up schemes, the trustees or managers of the pension scheme cease to exercise their previous functions and so cannot be pursued for any outstanding unpaid pension protection levy amounts. Where the Board considers that to pursue outstanding unpaid pension protection levy amounts is no longer possible or cost effective, the levy amount due is written off.

Note 1.3 Interest on operating bank account

The bank account operated by the Board for the Pension Protection Fund was interest bearing. The account was used to collect Protection Levy monies, to fund compensation payments to members and to transfer cash to the custodian for investment by the fund managers. Interest was therefore earned on these monies as funds were building up to the required levels for efficient investment by fund managers.

Note 1.4 Investment income

Investment income earned during the year consists of income arising from:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Financial assets designated at fair value through the operating statement		
Debt instruments	66,564	47,916
Equity	15,340	10,862
Property	5,614	3,476
Total	**87,518**	**62,254**
Financial assets not designated at fair value through the operating statement		
Deposit Interest	42	856
Other	1,317	(358)
Total	**1,359**	**498**
Total investment income	**88,877**	**62,752**

Note 1.5 Change in fair value of investments

The total change in fair value of investments during the year consists of gains and losses arising from:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Financial assets designated at fair value through the operating statement		
Debt instruments	35,378	183,587
Equity	179,000	29,502
Managed funds	53,107	(53,759)
Insurance policies	(12,086)	(4,971)
Property	20,319	(18,614)
Other financial assets	(32)	(36)
Foreign exchange contracts	31,773	85,326
Net gain/(loss) from financial assets designated at fair value through the operating statement	**307,459**	**221,035**
Held for trading		
Derivative financial instruments	**(68,250)**	**299,724**
Loans and receivables		
Provision for reduction in fair value of investments	-	(4,277)
Other investment assets	45,392	(320,368)
	45,392	**(324,645)**
Total change in fair value of investments	**284,601**	**196,114**

Note 1.6 Investment expenses

Investment expenses consist of fund management fees, custody charges and transaction costs charged to the Protection Fund, as permitted by the Pension Protection Fund (Payments to meet Investment Costs) Regulations 2005 (SI 2005/1610).

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Fund management fees	7,631	4,657
Custody charges	242	268
Transaction costs	1,945	847
Total Investment expenses	**9,818**	**5,772**

Note 1.7 Gains and losses on actuarial liabilities

The gains and losses on actuarial liabilities represent the change in value of those liabilities:

- in respect of liabilities transferred in in prior years, from the start of the year to the end of the reporting period, and
- in respect of scheme liabilities transferring in during the year, from the schemes' Transfer Notice dates to the end of the reporting period.

The causes of the changes in value are described in detail in Annex M2 to the accompanying Actuarial Valuation report. The impact of these changes can be summarised as follows:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Gain/(loss) arising from:		
Effect of discounting due to the passage of time	(73,524)	(50,671)
Changes in financial assumptions	28,617	25,298
Changes in mortality assumptions	47,072	25,485
Changes in allowance for future administration expenses	(1,194)	408
Other experience gains and losses	5,295	43,718
Total net gain on actuarial liabilities	**6,266**	**44,238**

Note 1.8 Current year claims for compensation

The claims value recognised consists of the aggregate value, as at 31 March 2010 of provisions for 116 new schemes (or individual sections of schemes) where eventual entry into the Protection Fund is considered probable, and where reliable estimates can be made of the impact on the Protection Fund, in accordance with the policies and processes set out in Accounting Policy Note 16. Also included are claims in respect of a further three schemes which, although already in assessment in the prior year, were not provided for at 31 March 2009 because the schemes were then estimated to be in surplus at their Assessment Dates. Based on further information received during the year, the Board now estimates that these schemes cannot meet their protected liabilities, and so includes the values of these schemes' deficits as current year costs of claims.

The claims in respect of the total of 119 schemes (or individual sections of schemes) (year to 31 March 2009: 115 schemes) are detailed below.

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Scheme assets including recoveries	1,389,750	3,321,331
Protected liabilities	(1,686,083)	(4,634,115)
Scheme specific claims recognised	**(296,333)**	**(1,312,784)**
Provision for equalisation of compensation	(345,512)	(131,800)
New claims recognised	**(641,845)**	**(1,444,584)**

Readers should refer to the Actuary's Supplementary Report as at 31 March 2010, in particular Annexes S6 and S7, for further detailed information on the calculation of these provisions.

Note 1.9 Revaluation of prior year claims

The total revaluation of prior claims charged to the operating statement can be analysed as follows:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Release of provisions for schemes no longer considered probable for entry	56,971	52,597
Release impact of prior year GMP equalisation provision (i)	131,800	-
Revaluation of provisions brought forward from previous year end (ii)	1,002,658	(212,432)
Changes in provisions for schemes transferring into the Protection Fund during the year (iii)	96,394	(55,277)
Total revaluation of prior year claims	**1,287,823**	**(215,112)**

i) The provision for GMP equalisation recognised in 2008/09 has been replaced by the provision disclosed in Note 1.8 as a new provision for the current year. This current year provision incorporates the impact of revaluing the GMP element of actuarial liabilities and claims provisions in 2008/09 surviving up to 31 March 2010. It is not possible to isolate that revaluation impact due to changes in the methodology used to calculate the provision.

ii) Revaluation of provisions brought forward from the previous year end

Of the 292 schemes for which provisions were made as at 31 March 2009:

- 48 schemes were transferred into the Protection Fund during the year
- 41 schemes' provisions have been released as they are no longer considered necessary, and
- three additional scheme sections were recognised within schemes for which full provision had already been made.

The Board considers that the remaining 206 schemes (or scheme sections) will probably enter the Protection Fund in the future and has therefore retained the associated provisions, and revalued them to 31 March 2010. The revaluation impact can be analysed as follows:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Changes in value of scheme assets including recoveries	823,640	(162,787)
Changes in value of scheme liabilities	179,018	(49,645)
Total changes in provisions for schemes remaining in assessment	**1,002,658**	**(212,432)**

iii) Changes in provisions for schemes transferring into the Protection Fund

During the year 50 schemes transferred into the Protection Fund. Provisions had been created as at 31 March 2009 in respect of 48 of these schemes. A further two schemes completed the assessment process during the year and transferred into the Protection Fund in respect of which no provision had been created as at 31 March 2009. The assets and liabilities of these 50 schemes changed in value up to their Transfer Notice dates (when they were incorporated into the assets and liabilities of the Protection Fund); this change in value is made up as follows:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Changes in values of scheme assets	31,478	(64,642)
Change in value of scheme liabilities	64,916	9,365
Total changes in provisions for schemes transferring into the PPF	**96,394**	**(55,277)**

Appendix 1

Note 1.10 Financial assets

a) The table below details the purchases, sales, and realised and unrealised gains or losses achieved by the Protection Fund's appointed investment managers, categorised by asset class. It also includes the value of invested assets transferred in in-specie from schemes transferring into the Pension Protection Fund as a result of the issue of Transfer Notices on the completion by the schemes involved of an Assessment Period.

All amounts in £000s	**As at 1 April 2009**	**Asset transfers**	**Purchases**	**Sales**	**Gain / (Loss)**	**As at 31 March 2010**
Financial assets designated at fair value through the operating statement						
Debt instruments	1,623,395	-	7,198,573	(6,207,757)	35,378	2,649,589
Equity	512,887	-	5,390,897	(5,475,911)	179,000	606,873
Managed funds	351,668	400,195	179,779	(527,034)	53,107	457,715
Insurance policies	42,663	54,284	-	-	(12,086)	84,861
Property	41,253	-	256,186	(46,444)	20,319	271,314
Foreign exchange contracts	-	-	-	-	8,628	8,628
Other financial assets	784	250	-	(423)	(32)	579
Total financial assets at fair value through the operating statement	**2,572,650**	**454,729**	**13,025,435**	**(12,257,569)**	**284,314**	**4,079,559**
Financial assets held for trading						
Derivative financial instruments	**501,226**					**511,512**
Loans and receivables						
Income receivable	**21,178**					**28,592**
Financial liabilities designated at fair value through the operating statement						
Foreign exchange contracts	**(18,868)**					**-**
Total non-current assets	**3,076,186**					**4,619,663**

All amounts in £000s	**As at 1 April 2008**	**Asset transfers**	**Purchases**	**Sales**	**Gain / (Loss)**	**As at 31 March 2009**
Financial assets designated at fair value through the operating statement						
Debt instruments	995,497	-	3,852,196	(3,407,885)	183,587	1,623,395
Equity	224,125	-	523,839	(264,579)	29,502	512,887
Managed funds	116,863	428,959	152,919	(293,314)	(53,759)	351,668
Insurance policies	15,304	32,330	-	-	(4,971)	42,663
Property	55,667	-	4,200	-	(18,614)	41,253
Other financial assets	1	819	-	-	(36)	784
Total financial assets at fair value through the operating statement	**1,407,457**	**462,108**	**4,533,154**	**(3,965,778)**	**135,709**	**2,572,650**
Financial assets held for trading						
Derivative financial instruments	**140,692**					**501,226**
Loans and receivables						
Income receivable	**13,758**					**21,178**
Financial liabilities designated at fair value through the operating statement						
Foreign exchange contracts	**(7,272)**					**(18,868)**
Total non-current assets	**1,554,635**					**3,076,186**

The Management Commentary section of the Annual Report includes, in section 2.2, a detailed Investment Report, covering the investment strategy, governance arrangements and risk management activities undertaken in respect of the Protection Fund.

b) The portfolios managed by the fund managers as at 31 March 2010 were valued as follows:

All amounts in £000s	Value as at 1 April 2009	Capital invested	Investment return	Value as at 31 March 2010
Managed by:				
Insight Investment Management	971,077	220,165	(3,896)	1,187,346
PIMCO	543,996	25,000	75,505	644,501
Goldman Sachs Asset Management	554,603	20,473	44,804	619,880
Auriel Capital Management	4,415	-	(4,414)	1
Lazard Asset Management	159,341	(229,060)	70,390	671
Aviva Investors	43,780	205,504	23,828	273,112
Newton Investment Management	172,789	10,000	61,952	244,741
State Street Global Advisors	40,854	(60,570)	19,890	174
Legal & General Investment	93,473	(147,185)	53,712	-
Rogge	-	200,649	3,237	203,886
Mondrian	-	200,700	1,494	202,194
Longview	-	239,391	1,232	240,623
Arrowstreet	-	239,116	1,523	240,639
Transition Account	321,042	211,893	17,602	550,537
Total	**2,905,370**	**1,136,076**	**366,859**	**4,408,305**

Investment return in this table includes investment income, changes in fair value of investments (other than provisions for reduction in fair value) and certain investment expenses disclosed in note 1.6.

The asset classes in which each of the above managers are mandated by the Board to invest are detailed in paragraph 5 of the Investment Report in section 2.2 of the Annual Report.

The portfolios managed by the fund managers as at 31 March 2009 were valued as follows:

All amounts in £000s	Value as at 1 April 2008	Capital invested	Investment return	Value as at 31 March 2009
Managed by:				
Insight Investment Management	518,704	104,474	347,899	971,077
PIMCO	275,688	234,975	33,333	54,996
Goldman Sachs Asset Management	268,068	235,305	51,230	554,603
Auriel Capital Management	7,392	-	(2,977)	4,415
Lazard Asset Management	70,630	123,666	(34,955)	159,341
Aviva Investors	57,377	4,000	(17,597)	43,780
Newton Investment Management	69,379	141,748	(38,338)	172,789
State Street Global Advisors	59,758	-	(18,904)	40,854
Legal & General Investment	-	94,000	(527)	93,473
Transition Account	132,183	245,540	(56,681)	321,042
Total	**1,459,179**	**1,183,708**	**262,487**	**2,905,370**

c) Reconciliation of non-current assets to fund manager portfolios

Due to the adoption of IFRS 7, certain financial instruments which make up part of the portfolio of assets in note 1.10(b) are presented in categories of assets and liabilities other than non-current assets detailed in note 1.10(a). The table below shows a reconciliation between the asset portfolio managed by fund managers and non-current assets.

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Managed by:			
Total non-current assets (1.10(a))	4,619,663	3,076,186	1,554,635
Derivative financial instruments included in current assets	1,467	558	200
Cash deposits (sterling and foreign) included in current assets	46,400	28,275	49,084
Derivative financial instruments included in current liabilities	(134)	(354)	(2,096)
Derivative financial instruments included in non-current liabilities	(195,515)	(95,887)	(43,584)
Other	-	1	-
Amounts receivable from investments sold	44,908	203,663	126,464
Amounts payable for investments purchased	(108,484)	(307,072)	(225,524)
Total investment portfolio (1.10(b))	**4,408,305**	**2,905,370**	**1,459,179**

Note 1.11 Current assets

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Amounts receivable from investments sold	44,908	203,663	126,464
Derivative financial instruments	1,467	558	200
Invoiced receivables for all levy years	95,718	138,339	198,113
Accrued levies for all levy years	28,145	48,190	20,870
Total levy receivables	**123,863**	**186,529**	**218,983**
Assets receivable from schemes in respect of which Transfer Notices were issued during the year	21,687	78,184	12,871
Asset recoveries	8,276	9,074	16,240
Transfer-in receivables	**29,963**	**87,258**	**29,111**
Money purchase assets awaiting discharge	924	472	438
Prepayments of compensation	-	1	-
Loans to schemes in assessment	324	86	-
Other current assets	**1,248**	**559**	**438**
Cash deposits (sterling and foreign) held by fund managers	46,400	28,275	49,084
Cash at bank	97,835	27,690	13,458
Cash and cash equivalents	**144,235**	**55,965**	**62,542**
Total current assets	**345,684**	**534,532**	**437,738**

i) Invoiced receivables for all levy years consist of protection levies billed to qualifying pension schemes remaining unpaid at the accounting date. They are stated after allowing for provisions of £20,093,000 (31 March 2009: £12,006,000) for bad debts and levies deemed to be uncollectible.

ii) Accrued levies for all levy years represent the estimated value of scheme-based and risk-based levies due from eligible pension schemes not yet billed as at the accounting date.

The value of receivables that falls inside the Whole of Government Accounts boundary is: nil.

iii) All the assets receivable from schemes in respect of which Transfer Notices were issued during the year were received in the immediate post year-end period.

iv) Asset recoveries represent the best estimate of the value of debts and other assets recoverable from the previous sponsoring employers of schemes which have now transferred into the Pension Protection Fund. These assets arise under the operation of Section 75 of the Pensions Act 1995 and associated regulations, and the rights of recovery of these debts and other assets transferred to the Board when the schemes transferred in to the Pension Protection Fund. Assets which the Board considers probable of recovery are accounted for here as receivables. The Board is not aware of any further debts arising in the same way where the Board judges that recoverability is less than probable.

v) Where the Protection Fund inherits the liability to discharge money purchase benefits which the trustees of a pension scheme have been unable to settle prior to the effective date of the Transfer Notice, the Board will account for the money purchase assets transferred to the Protection Fund, and will also account for the liability to discharge the money purchase benefits.

Note 1.12 Current liabilities

Current liabilities consist of:

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Amounts payable for investments purchased	108,484	307,072	225,524
Derivative financial instruments	134	354	2,096
Money purchase benefits payable	924	472	438
Provision for levy refunds	-	1,031	1,049
Compensation payments due	133	236	-
Accruals and other payables	2,410	1,559	1,088
Total current liabilities	**112,085**	**310,724**	**230,195**

Accruals and other payables represent fund management and scheme-related expenses incurred in respect of the year and outstanding at the accounting date.

The value of payables that falls inside the Whole of Government Accounts boundary is: £nil.

Note 1.13 Non-current liabilities

a) Actuarial liabilities

During the year to 31 March 2010, the Pension Protection Fund accepted 50 schemes into the Protection Fund, to add to the 100 schemes which were accepted in previous years. The value of actuarial liabilities disclosed here is the aggregate value of the actuarial liabilities for the members of all these schemes, now beneficiaries of the Protection Fund, revalued to 31 March 2010. It can be analysed as follows:

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Opening value of actuarial liabilities	1,736,631	880,292	536,166
Actuarial liabilities at dates of Transfer	798,259	938,180	266,361
Actuarial (gains)/losses (see note 1.7)	(6,266)	(44,238)	95,078
Benefits paid since transfer	(81,579)	(37,603)	(17,313)
Total actuarial liabilities	**2,447,045**	**1,736,631**	**880,292**

b) Provisions for claims on the Pension Protection Fund

As at 31 March 2010, the Pension Protection Fund recognises provisions in respect of 323 pension schemes or individual sections of pension schemes (31 March 2009: 292 schemes or scheme sections) where the Board considers that eventual entry into the Protection Fund is probable (as defined in Note Accounting Policy Note 16(ii), and where reliable estimates of the difference between those schemes' protected liabilities and assets (including any recoveries from insolvent employers) can be made (as defined in Accounting Policy Note 16 (iv) to (vi)). The total value of provisions also includes an amount of £5,503,000 to provide for an estimated number of 6 claims incurred but not reported (IBNR reserve) following a review of statistical information on the reporting of insolvency events to the Board by insolvency practitioners.

Notes 1.8 and 1.9 give further detail of how the values in the table below were arrived at.

Appendix 1

The aggregate value of provisions can be analysed as follows:

	As at 31 March 2010	As at 31 March 2010	As at 31 March 2009	As at 31 March 2009	As at 31 March 2008	As at 31 March 2008
	Number of schemes	£000s	Number of schemes	£000s	Number of schemes	£000s
Claims provisions at start of year	292	2,692,992	263	1,355,148	207	908,493
Prior year correction for number of scheme sections	3	-		-		-
Release of provisions for schemes transferring into the Pension Protection Fund	(50)	(326,659)	(57)	(267,183)	(32)	(79,507)
Release of provisions for schemes no longer considered probable for entry	(41)	(56,971)	(27)	(52,597)	(17)	(33,343)
Revaluation of remaining provisions (see Note 1.8)		(1,002,658)		212,432		210,653
Provision for new claims arising in the year and remaining outstanding at year end	119	296,333	113	1,313,392	105	348,852
Release of provision for Equalisation of Compensation as at 31 March 2009		(131,800)		-		-
Provision for equalisation of compensation as at 31 March 2010		345,512		131,800		-
Total claims provisions	**323**	**1,816,749**	**292**	**2,692,992**	**263**	**1,355,148**

c) Other provisions

Other provisions represent those created against the likely non-recovery or permanent diminution in value of certain investment assets.

Note 1.14 Contingent assets

The Board is not aware of any contingent assets requiring disclosure.

Note 1.15 Contingent liabilities

As at 31 March 2010, the Pension Protection Fund discloses contingent liabilities in respect of 131 schemes, valued at £935,537,000 (31 March 2009: 103 schemes valued at £695,378,000; 31 March 2008: 80 schemes valued at £735,261,000) where the Board considers that eventual entry into the Protection Fund is possible (that is, the likelihood of entry is less than probable, but higher than remote). The Actuary's Supplementary Report as at 31 March 2010 included in the Annual Report and Accounts classifies these contingent liabilities into five types and readers should refer to the Supplementary Report, in particular Annex S2, for definitions and further detail of these contingent liabilities types.

All amounts in £000s ***Type of contingent liability***	Assets	Liabilities	Net deficit as at 31 March 2010	Net deficit as at 31 March 2009	Net deficit as at 31 March 2008
1	65,201	99,574	34,373	17,395	2,936
2	50,871	59,456	8,585	22,873	725
3	398,437	553,822	155,385	291,809	64,611
4	2,508,622	3,130,515	621,893	315,317	454,162
Sub total for specific schemes	**3,023,131**	**3,843,367**	**820,236**	**647,394**	**522,434**
5	-	115,301	115,301	47,984	212,827
Total	**3,023,131**	**3,958,668**	**935,537**	**695,378**	**735,261**

As discussed in Note 1.1, the Board discloses the contingent liability to write off (where debts are outstanding) or to refund (where debts have been settled) a total of £31,348,000 in protection levy income, should the legal actions currently being pursued result in a determination that the schemes are ineligible to enter the PPF and therefore not liable to pay protection levies. The Board judges that it remains possible that the legal actions to determine eligibility will conclude that they are ineligible and not liable to pay protection levies.

Note 1.16 Financial Instruments and Related Risks

Financial Instruments by category

All amounts in £000s	As at 31 March 2010	As at 31 March 2009	As at 1 April 2008
Financial assets designated at fair value through the operating statement			
Debt instruments	2,649,589	1,623,395	995,497
Equity	606,873	512,887	224,125
Managed funds	457,715	351,668	116,863
Insurance policies	84,861	42,663	15,304
Property	271,314	41,253	55,667
Foreign exchange contracts	8,628	-	-
Other financial assets	579	784	1
	4,079,559	**2,572,650**	**1,407,457**
Financial assets held for trading			
Derivative financial assets	**512,979**	**501,784**	**140,892**
Loans and receivables			
Cash and cash equivalents	144,235	55,965	62,542
Investment income receivable	28,592	21,178	13,758
Levy receivables	123,863	186,529	218,983
Transfer-in receivables	29,963	87,258	29,111
Amounts receivable from investments sold	44,908	203,663	126,464
Other receivables	1,248	559	438
	372,809	**555,152**	**451,296**
Financial liabilities designated at fair value through the operating statement			
Foreign exchange contracts	**-**	**(18,868)**	**(7,272)**
Financial liabilities held for trading			
Derivative financial liabilities	**(195,649)**	**(96,241)**	**(45,680)**
Financial liabilities measured at amortised cost			
Amounts payable for investments purchased	(108,484)	(307,072)	(225,524)
Money purchase benefits payable	(924)	(472)	(438)
Provision for levy refunds	-	(1,031)	(1,049)
Compensation payments due	(133)	(236)	-
Accruals and other payables	(2,410)	(1,559)	(1,088)
	(111,951)	**(310,370)**	**(228,099)**
Total financial instruments	**4,657,747**	**3,204,107**	**1,718,594**
Reconciliation to total net assets/(liabilities)			
Total financial instruments	4,657,747	3,204,107	1,718,594
Actuarial liabilities	(2,447,045)	(1,736,631)	(880,292)
Claims provisions	(1,816,749)	(2,692,992)	(1,355,148)
Other provisions	-	(4,277)	-
Total net assets/(liabilities)	**393,953**	**(1,229,793)**	**(516,846)**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore, the carrying values of these financial instruments approximate fair value.

Appendix 1

Financial Instruments Measured at Fair Value

All amounts in £000s	**Level 1** As at 31 March 2010	**Level 2** As at 31 March 2010	**Level 3** As at 31 March 2010	**Total** As at 31 March 2010	**Total** As at 31 March 2009	**Total** As at 1 April 2008
Financial assets designated at fair value through the operating statement						
Debt instruments	2,540,768	-	108,821	2,649,589	1,623,395	995,497
Equity	606,873	-	-	606,873	512,887	224,125
Managed funds	-	457,715	-	457,715	351,668	116,863
Insurance policies	-	-	84,861	84,861	42,663	15,304
Property	-	-	271,314	271,314	41,253	55,667
Foreign exchange contracts	-	8,628	-	8,628	-	-
Other financial assets	-	-	579	579	784	1
Financial assets held for trading						
Derivative financial assets	-	512,979	-	512,979	501,784	140,892
Total financial assets	**3,147,641**	**979,322**	**465,575**	**4,592,538**	**3,074,434**	**1,548,349**
Financial liabilities held for trading						
Derivative financial liabilities	-	195,649	-	195,649	96,241	45,680
Total financial liabilities	**-**	**195,649**	**-**	**195,649**	**96,241**	**45,680**

Financial instruments measured at fair value based on Level 3

All amounts in £000s	**Designated at fair value through the Operating Statement**
Financial assets	
Balance as at 31 March 2009	**269,305**
Gains or losses in operating statement	(37,531)
Purchases	1,085,891
Issues	-
Settlements	(852,090)
Transfers out of Level 3	-
Balance as at 31 March 2010	**465,575**
Total gains or losses for the period included in profit or loss for assets held at the end of the reporting period	**1,066**

Financial Risks

IFRS 7 Financial Instruments: Disclosures requires disclosures which enable users of financial statements to evaluate the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The Protection Fund holds a variety of financial instruments in compliance with its investment management strategy, as set out in the Protection Fund's Statement of Investment Principles (http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_Mar2010.pdf). The Board's primary strategic objective is to have sufficient funds to pay compensation to members of eligible schemes which have transferred into the Protection Fund, but having regard to the interests of levy payers.

The Board adopts suitable low risk investment strategies to support its target of reaching an appropriate funding level to meet this objective. The investment strategy is designed to match current estimates of the Protection Fund's liabilities and provide out-performance over the estimated liabilities.

Appendix 1

The Protection Fund's investment portfolio comprises quoted equity investments, quoted debt investments, derivatives, and investments in other quoted funds that it intends to hold for an indefinite period of time. Asset allocation is determined by the Board on the advice of the Investment Committee to achieve the investment objectives.

The nature and extent of risks arising from financial instruments to which the Protection Fund is exposed at the end of the reporting period and the methods used to measure and manage the associated risks are discussed below.

a) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, and includes price risk, interest rate risk and currency risk.

i) Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. The Protection Fund's financial instruments are carried at fair value and fair value changes are recognised in the Operating Statement, therefore all changes in market conditions will directly affect total investment return.

The Board manages price risk by diversifying its investments across a range of asset types, and sets asset allocation guidelines for the fund managers as per the table below.

Asset class and Fund Manager	**As at 31 March 2010** *£000s*	**Actual %**	**Tolerance range**
Bonds			
PIMCO global bonds	644,502		
GSAM global bonds	618,725		
Rogge	203,886		
Mondrian	202,194		
Insight UK ILG	342,561		
Insight UK bonds	430,709		
Parked bonds (i)	410,945		
Cash			
Halifax Bank of Scotland	50,679		
PPF internal	10,093		
Parked cash	2,960		
Cash and bonds	**2,917,254**	**73.63%**	**65%-85%**
Newton global equity	244,741		
Longview	240,623		
Arrowstreet	240,638		
Parked equities (i)	45,231		
Public equity	**771,233**	**19.46%**	**5%-20%**
Aviva property	273,112		
Parked property (i)	713		
Alternatives (including property) (ii)	**273,825**	**6.91%**	**10%-25%**
Total	**3,962,312**		

i) For a full explanation of "parked" assets, refer to paragraph 4.2 of the Investment Report in section 2.2 of the Annual Report.

ii) Market events during the previous financial year had a significant unfavourable impact on UK commercial property values and the Protection Fund's holdings in property funds were significantly underweight as a result. UK commercial property values have risen during the current financial year and the Protection Fund has increased its exposure, although holdings remain below the lower limit of the tolerance range.

Appendix 1

Sensitivity Analysis

The Protection Fund's financial assets are, therefore, exposed to equity, debt securities and property price risk. The analysis below shows the impact on the above values of a 10 per cent and 25 per cent increase and decrease in market prices.

All amounts in £000s	**Increase/(Decrease) in value of Financial Instruments**
10% increase	345,818
25% increase	866,149
10% decrease	(344,073)
25% decrease	(854,788)

ii) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Protection Fund is exposed to interest rate risk in that the valuation of its current and potential future liabilities is sensitive to interest rates, as well as to a range of other financial and demographic factors described in more detail in the Protection Fund's Statement of Investment Principles. This sensitivity is explicitly taken into account by the Board when setting the strategic asset allocation for the Protection Fund's investments.

The Board mitigates interest rate risk by applying a portfolio of derivatives to closely match the liability sensitivities to nominal and real interest rates.

At the reporting date, the Protection Fund's financial instruments exposed to interest rate risk amounted to the following:

All amounts in £000s	**Fixed rate financial assets**	**Variable rate financial assets**	**Non interest bearing financial assets**	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Debt instruments	2,649,589	-	-	2,649,589	1,623,395	995,497
Equity	-	-	606,873	606,873	512,887	224,125
Managed funds	243,493	170,405	43,817	457,715	351,668	116,863
Property	-	-	271,314	271,314	41,253	55,667
Other financial assets	579	-	-	579	784	1
Derivative financial assets	-	512,979	-	512,979	512,979	140,892
Foreign exchange contracts	-	-	8,628	8,628	(18,868)	(7,272)
Investment income receivable	-	-	28,592	28,592	21,178	13,758
Cash and cash equivalents	-	144,235	-	144,235	55,965	62,542
Derivative financial liabilities	-	(195,649)	-	(195,649)	(195,649)	(45,680)
Total	**2,893,661**	**631,970**	**959,224**	**4,484,855**	**2,905,592**	**1,556,393**

Sensitivity Analysis

At the reporting date, the effect of both an increase and decrease in interest rates of 100 basis points on the value of the Protection Fund's net financial assets and financial liabilities would be as follows:

All amounts in £000s	**100 basis point increase**	**100 basis point decrease**	**100 basis point increase**	**100 basis point decrease**
	As at 31 March 2010	As at 31 March 2010	As at 31 March 2009	As at 31 March 2009
Derivative financial instruments	(840,752)	1,295,115	(944,989)	1,334,943
Other financial instruments	(138,734)	156,010	(80,701)	101,272
Total increase/(decrease) in financial instruments	**(979,486)**	**1,451,125**	**(1,025,690)**	**1,436,215**

A change in long-term interest rates will have a significant effect on the Protection Fund's long-term liabilities, therefore the particular sensitivity to such changes reflects the Board's use of derivatives to match the liability profile.

Interest income on cash and cash equivalents would have increased by £792,000 as a result of a 100 basis point increase in interest rates.

iii) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Protection Fund's financial liabilities are entirely designated in sterling, and investment in assets denominated in currencies other than sterling is normally hedged to sterling. The Board enters into forward foreign exchange rate contracts to mitigate the risk of unfavourable currency movements and therefore we have not included any sensitivity analysis in respect of currency risk.

At the reporting date, the Protection Fund had the following foreign currency exposure before being hedged into sterling:

	As at 31 March 2010	As at 31 March 2010	As at 31 March 2009	As at 31 March 2009
	£000s	%	£000s	%
Euro	889,614	36.8%	791,015	47.0%
US Dollar	744,091	30.8%	541,381	32.2%
Japanese Yen	377,787	15.7%	250,117	14.9%
Australian Dollar	107,537	4.5%	31,637	1.9%
Canadian Dollar	74,854	3.1%	30,201	1.8%
Other currencies	219,679	9.1%	36,611	2.2%
Total	**2,413,562**	**100.0%**	**1,680,962**	**100.0%**

b) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Protection Fund by failing to discharge an obligation.

As can be seen from the asset allocation, the main concentration of credit risk to which the Protection Fund's financial instruments is exposed arises from investments in gilts and global bonds. The Protection Fund is also exposed to counterparty credit risk on derivatives, cash and cash equivalents, amounts due from brokers and transfer-in receivables. The Board is satisfied that the credit quality of all the financial instruments exposed to credit risk is satisfactory, as the instruments consist of investments in traded government and corporate debt; derivative and other contracts with counterparties of acceptable credit rating; and debtors with levy payers, pension schemes and others where recovery of the debt is probable.

At the reporting date, the Protection Fund's financial assets exposed to credit risk amounted to the following:

All amounts in £000s	As at 31 March 2010	As at 31 March 2009	As at 1 April 2008
Debt instruments	2,649,589	1,623,395	995,497
Equity	606,873	512,887	224,125
Managed funds	457,715	351,668	116,863
Insurance policies	84,861	42,663	15,304
Property	271,314	41,253	55,667
Other financial assets	579	784	1
Derivative financial assets	512,979	501,784	140,892
Investment income receivable	28,592	21,178	13,758
Amounts receivable from investments sold	44,908	203,663	126,464
Cash and cash equivalents	144,235	55,965	62,542
Levy receivables	123,863	186,529	218,983
Transfer-in receivables	29,963	87,258	29,111
Other receivables	1,248	559	438
Total	**4,956,719**	**3,629,586**	**1,999,645**

Appendix 1

Financial Assets Impaired and Past Due

At the reporting date, the financial assets, comprised entirely of levy receivables, past due are set out in the table below. "Past due" in this analysis is defined as outstanding for longer than the 28 day period allowed under the Pensions Act 2004 for affected parties to appeal decisions of the Board. The aged provision for bad debt represents the impairment:

As at 31 March 2010 *All amounts in £000s*	**Not past due**	**0-3 months past due**	**3-6 months past due**	**Over 6 months past due**
Financial assets past due not impaired	**-**	**5,206**	**10,268**	**8,388**
Financial assets before impairment	-	10,980	24,638	32,060
Impairment	-	(3,477)	(7,497)	(9,120)
Impaired financial assets	**-**	**7,503**	**17,141**	**22,940**
Total financial assets past due and impaired	**-**	**12,709**	**27,409**	**31,328**

As at 31 March 2009 *All amounts in £000s*	**Not past due**	**0-3 months past due**	**3-6 months past due**	**Over 6 months past due**
Financial assets past due not impaired	**-**	**14,684**	**55,739**	**17,497**
Financial assets before impairment	5,137	3,680	4,445	7,653
Impairment	(2,080)	(1,173)	(1,346)	(7,407)
Impaired financial assets	**3,057**	**2,507**	**3,099**	**246**
Total financial assets past due and impaired	**3,057**	**17,191**	**58,838**	**17,743**

c) Liquidity Risk

Liquidity risk is the risk that the Protection Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Protection Fund is not exposed to significant liquidity risks as the Board is of the opinion that cash inflows from the collection of Protection Levies will significantly exceed outflows on compensation payments for the foreseeable future; and the assets of the Protection Fund, including its investment assets, are mostly readily realisable.

The following table shows a liquidity ageing analysis for financial liabilities:

Financial liabilities due: *All amounts in £000s*	**Within 1 year** As at 31 March 2010	**1-5 years** As at 31 March 2010	**5-10 years** As at 31 March 2010	**Over 10 years** As at 31 March 2010	**Total** As at 31 March 2010	**Total** As at 31 March 2009	**Total** As at 1 April 2008
Financial liabilities including derivatives settled net							
Derivative financial instruments	134	15,905	26,106	153,504	195,649	96,241	45,680
Amounts payable for investments purchased	108,484	-	-	-	108,484	307,072	225,524
Money purchase benefits payable	924	-	-	-	924	472	438
Provision for levy refunds	-	-	-	-	-	1,031	1,049
Compensation payments due	133	-	-	-	133	236	-
Accruals and other payables	2,410	-	-	-	2,410	1,559	1,088
Total financial liabilities	**112,085**	**15,905**	**26,106**	**153,504**	**307,600**	**406,611**	**273,779**

d) Funding Risk

The Protection Fund's Statement of Investment Principles describes the major risk facing the Protection Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board's primary objective is to achieve a balance between protecting and securing the compensation payments for actual and potential members of schemes that come into the Protection Fund while setting a fair and proportionate levy. The Protection Fund's funding strategy is designed to mitigate the risks, both in the short- and the long-term, that the Protection Fund's assets will be inadequate to meet its liabilities. The Protection Fund's investment strategy is described in detail in the Investment Report in section 2.2 of the Annual Report, together with a commentary on the implementation of this strategy and the investment performance achieved during the year. The report describes the role played by derivatives and financial instruments of other asset classes (equities, bonds, property funds and currency funds) in the Protection Fund's investment strategy.

Specific Instruments

a) Foreign Exchange Contracts

The Board's policy is to normally hedge assets denominated in foreign currencies to sterling in order to match the nature of its liabilities. The Board therefore engages in forward foreign exchange rate contracts in order to mitigate the risk of unfavourable currency movements.

There is no difference between the settlement amount of the contracts and the value disclosed in the accounts as they are valued using forward rates.

b) Swap Agreements

The Protection Fund has entered into a combination of interest rate and inflation swap agreements to adjust the cash flow profile from assets to match the liability cash flow profile. This is primarily to mitigate interest rate and inflation risk.

The value of the portfolio of swap agreements at the reporting date is as follows:

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2010**	**As at 31 March 2010**	**As at 31 March 2009**
	Assets	Liabilities	Total	Total
Swaps due to settle within 1 year				
Interest rate swaps	1,414	(132)	1,282	184
Inflation rate swaps	50	-	50	23
Credit default swaps	4	(2)	2	(3)
	1,468	**(134)**	**1,334**	**204**
Swaps due to settle after more than 1 year				
Interest rate swaps	362,981	(169,133)	193,848	348,013
Inflation rate swaps	135,506	(23,781)	111,725	51,817
Options	11,666	-	11,666	-
Credit default swaps	1,358	(2,601)	(1,243)	5,509
	511,511	**(195,515)**	**315,996**	**405,339**
Total value of swap portfolio	**512,979**	**(195,649)**	**317,330**	**405,543**

Swap Valuation Methodologies

Interest rate swaps are valued using an interest rate swap pricing model, a time series of historic LIBOR rates and a zero coupon interest rate swap curve generated by the fund manager using models based on market sources. Zero coupon interest rate swaps are used for the Protection Fund as its purpose is to match the sensitivity of asset values to the sensitivity of liability values to changes in interest rates. The curve is used in the pricing model to ascertain the future LIBOR rates to be applied in calculating the floating leg cash flows and to calculate the present value of future fixed and floating leg cash flows.

Inflation rate swaps are valued using an inflation swap pricing model, a time series of historic UK inflation rates, a zero coupon swap inflation expectation curve, an inflation seasonality model and the zero coupon interest rate swap curve used in the valuation of interest rate swaps.

The value of paired long and short credit default swaps is derived from calculating the estimated net cash flow between the paired credit default swaps based on the fund manager's pricing models, broker appraisal and third party information, and from calculating a price for the long and short credit default swaps using one of the approved methods for pricing credit default swaps.

The table below shows the impact on the swap portfolio of 100 basis point increase in interest rates and inflation.

All amounts in £000s	**100 basis point increase**	**100 basis points decrease**	**100 basis point increase**	**100 basis points decrease**
	As at 31 March 2010	As at 31 March 2010	As at 31 March 2009	As at 31 March 2009
Effect of change in interest rates	(840,752)	1,295,115	(944,989)	1,334,943
Effect of change in inflation	(138,734)	156,010	342,057	(342,057)

Note 1.17 Related Party Transactions

There are no transactions with related parties to disclose.

Note 1.18 First-time Adoption of IFRS

All amounts in £000s	**General reserve**	**Levy payers' funds**	**General reserve**	**Levy payers' funds**
	As at 31 March 2009	As at 31 March 2009	As at 1 April 2008	As at 1 April 2008
Levy payers' funds under UK GAAP		**(1,229,793)**		**(516,846)**
Adjustments for:				
IAS 18 Revenue: recognition of levy income where receipt is considered probable	23,003		16,622	
IAS 18 Revenue: provide for uncertainty of receipt of levy income	(23,003)		(16,622)	
Total adjustments to levy payers' funds under IFRS		-		-
Levy payers' funds under IFRS		**(1,229,793)**		**(516,846)**

All amounts in £000s	**IFRS Adjustments**	**Net result**	**IFRS Adjustments**	**Net result**
	Year ended 31 March 2009	Year ended 31 March 2009	Year ended 31 March 2008	Year ended 31 March 2008
Net result under UK GAAP		**(712,947)**		**92,299**
Adjustments for:				
IAS 18 Revenue: recognition of levy income where receipt is considered probable	6,381		7,413	
IAS 18 Revenue: provide for uncertainty of receipt of levy income	(6,381)		(7,413)	
IAS 18 Revenue: presentation of movement in provision for bad debt				
Removal from levy income	4,488		-	
Reallocation to provision for bad debts	(4,488)		-	
Total adjustments to levy payers' funds under IFRS		-		-
Net result under IFRS		**(712,947)**		**92,299**

Note 1.19 Events After the Reporting Period

Determination of annual increases to PPF Compensation

On 8 July 2010, the Minister of State for Pensions announced that it was the Government's intention to bring forward legislation to enable the Consumer Prices Index (CPI) to be used in the determination of annual increases to PPF compensation. This index would replace the Retail Prices Index (RPI), which is currently used to uprate compensation. The Department for Work and Pensions issued a consultation on this matter in August 2010.

The Board currently has no further detail of the Government's proposals but anticipates that the change would lead to generally lower future increases to compensation. This would lead to a reduction in the value of the Protection Fund's liabilities.

On the assumption that CPI increases at a rate of 0.5 per cent pa lower than RPI, and that the uprating applies both to compensation in payment and to the revaluation of deferred compensation, the Board's current best estimate is that the Fund's liabilities would decrease by around £500 million. The current excess of assets over liabilities would, therefore, increase to around £900 million, meaning the funding ratio would improve from 103 per cent to approximately 108 per cent. If the proposed legislation is brought forward during the 2010/11 financial year, the full impact of the detailed requirements will be disclosed in the 2010/11 Annual Report and Accounts.

Issue of Financial Support Directions

On 8 July 2010, the Pensions Regulator published a determination to issue a Financial Support Direction (FSD) against 25 companies in the Nortel Group in Canada, the US, Europe and Africa. The FSD would require those companies to provide financial support to the Nortel Networks UK Pension Plan, following the entry into administration of its sponsoring employer, Nortel Networks UK Limited in January 2009, and the entry into a PPF assessment period of the UK Plan.

On 13 September 2010, the Regulator published a determination to issue an FSD against six companies in the Lehman Brothers Group in the US and Europe. The FSD would require those companies to provide financial support to the Lehman Brothers Pension Plan, following the entry into administration of its sponsoring employer, Lehman Brothers Limited in September 2008, and the entry into a PPF assessment period of one Section of the UK Plan.

If the Regulator issues the FSDs in each case, and if the Regulator and the Board succeed in enforcing the FSDs, it is likely that the Plans will be sufficiently resourced to avoid entry into the Protection Fund. It is not possible at this stage to assess the likelihood of successfully enforcing either of the FSDs.

Included in the Protection Fund's claims provisions are assets of £12.2 million (Nortel Networks) and £0.5 million (Lehman Brothers), representing the Board's estimate of the excess of the Plans' assets over their liabilities at the Board's accounting date. As explained in Accounting Policy 16 (vi), it is possible for the Board to judge that a scheme's entry into the Protection Fund is probable based on its funding position at the Assessment Date, but for differential movements in assets and liabilities up to the Board's accounting date to generate a surplus position. In these particular cases, however, should the FSDs be enforced, the proceeds will be applied retrospectively to the position at the Assessment Date, enabling the Plans to avoid entry into the Protection Fund.

Appendix 2

NOTES RELATING TO THE OPERATION OF THE FRAUD COMPENSATION FUND FOR THE YEAR 1 APRIL 2009 TO 31 MARCH 2010

Note 2.1 Income from levies

The Board of the Pension Protection Fund did not raise any Fraud Compensation Levy in the year to 31 March 2010 (year to 31 March 2009: £nil). The Board does plan to raise a levy in 2010/11.

Note 2.2 Interest income

The bank account operated by the Board of the Pension Protection Fund for the Fraud Compensation Fund is interest bearing.

Note 2.3 Investment income

Interest is accounted for on the liquidity funds held by the FCF on a daily basis and is immediately reinvested in new fund units.

Note 2.4 Current year claims for compensation

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Claims arising during the year	1,740	12,350
Claims paid	-	37
Total	**1,740**	**12,387**

The claims arising in the year of £1,740,000 relate to the situation discussed in Note 2.8, in respect of one further scheme where the Board now judges it probable that the Fund has an obligation to settle future claims to compensate them for losses suffered as a result of offences of dishonesty.

Note 2.5 Revaluation of prior year claims for compensation

The revaluation of prior year claims consists of:

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**
Revaluation of provisions (see Note 2.8)	1,853	-
Revaluation of recoveries (see (a) below)	90	1,115
Total revaluation of prior year claims	**1,943**	**1,115**

(a) Last year's accounts disclosed the recoveries due to the Board following Confiscation Orders made against a number of individuals prosecuted for fraud in the case of the Cheney Pension Scheme. (The Fraud Compensation Fund's predecessor body, the Pension Compensation Board, settled a claim from the trustees of the Cheney Pension Scheme in December 2004 but with a proviso that any future recoveries of value would be shared with the Board.) During the year, a further £90,000 was paid to the Board.

Note 2.6 Current assets

Other current assets consisted of:

All amounts in £000s	As at 31 March 2010	As at 31 March 2009	As at 1 April 2008
Recoveries due from prior year claims	552	1,115	-
Levy receivables	-	2	2
Provisions for levy collection costs and doubtful debts	-	(2)	(2)
Total other current assets	**552**	**1,115**	**-**

Note 2.7 Cash and cash equivalents

All amounts in £000s	As at 31 March 2010	As at 31 March 2009	As at 1 April 2008
Cash at bank	**20**	**1**	**3**
Cash equivalents managed by: (i)			
Insight Investment Management	2,051	1,712	1,657
Fidelity Investments	2,048	1,729	1,672
Total cash equivalents	4,099	3,441	3,329
Total cash and cash equivalents	4,119	3,442	**3,332**

i) Cash equivalents are held in the form of units in liquidity funds managed by external fund managers. Interest is accounted on these funds on a daily basis and is settled by the fund managers issuing new units in the liquidity funds which are added to the Board's holdings in those funds. These liquidity funds are, therefore, valued as cash, at £1 per unit.

Note 2.8 Claims provisions

The Board has again considered in preparing these Accounts actual and potential claims from a group of nine pension schemes which shared the same corporate trustee until the Pensions Regulator took action to replace it in August 2008. The present existence, location and value of the schemes' investment portfolios are currently being investigated by the independent trustee appointed by the Regulator in August 2008, and the Board is working closely with the independent trustee and the Regulator to assist in these investigations. The Board is also aware that the Serious Fraud Office (SFO) continues to investigate the situation. As part of these investigations, the SFO (with the support of the independent trustee) has succeeded in repatriating a portion of these funds into the care of the courts in the UK, and these funds were ordered to be returned to the independent trustee in May 2010. The organisations continue to collaborate in order to locate and secure the other invested assets.

Appendix 2

The Board has carried out a thorough review of the evidence currently available, and has in particular considered any new information which has come to light since the Board reached a judgment on how to treat these claims in its accounts to 31 March 2009. Based on this information, the Board is of the opinion that:

- six (2008/09: 5) of the schemes are probably eligible to claim on the Fraud Compensation Fund, and the Board should set up provisions for the net losses suffered by these schemes (revalued where necessary to 31 March 2010)
- one (2008/09: 2) of the schemes may be eligible to claim but the status of the employers associated with the scheme has yet to be finally confirmed. Specifically, it has not yet been established whether all employers associated with the scheme as at the date winding up commenced are insolvent (which is the relevant test for eligibility to claim on the Fund). The Board has therefore disclosed contingent liabilities for the net losses suffered by this scheme, see note 2.9
- two (2008/09:2) of the schemes are almost certainly ineligible to claim, as there are employers associated with the scheme as at the date winding up commenced which appear still to be solvent. Therefore the Board believes the likelihood that any liability will fall on the Fraud Compensation Fund to be remote. No provision is accounted for, and no contingent liability disclosed, in respect of these schemes, and the information on these schemes is contained here for completeness only.

The Board has also taken account of the successful recovery of certain investment assets from overseas jurisdictions, which were ordered to be returned to the independent trustee of these schemes in May 2010. The value recovered has turned out to be higher than the value estimated by the Board as at 31 March 2009 and this increased value has been reflected in these accounts as part of the "revaluation of provisions." Recoveries are stated after allowing for an estimated £2,000,000 in legal and other costs necessary to succeed in recovery actions.

All amounts in £000s	**Schemes probably eligible to claim**	**Schemes which may be eligible to claim**	**Schemes almost certainly ineligible**	**Grand total**
As at 31 March 2009				
Number of schemes	5	2	2	9
Gross losses	24,700	7,500	19,800	52,000
Probable recoveries	(12,350)	(3,750)	(9,900)	(26,000)
Interest	-	-	-	-
	12,350	**3,750**	**9,900**	**26,000**
Movements in the year				
Number of schemes	1	(1)	-	-
Gross losses	4,000	(4,000)	-	-
Probable recoveries	(4,208)	1,731	(1,523)	(4,000)
Interest	95	16	-	111
As at 31 March 2010				
Number of schemes	6	1	2	9
Gross losses	28,700	3,500	19,800	52,000
Probable recoveries	(16,558)	(2,019)	(11,423)	(30,000)
Interest	95	16	-	111
Net losses	**12,237**	**1,497**	**8,377**	**22,111**

Note: these potential claims arose during the the 31 March 2009 financial year, therefore there is no reportable position as at 1 April 2008

Based on the information currently available, the Board is also of the opinion that it is probable that it will eventually find that it has reasonable grounds to consider that the losses suffered by this group of schemes are attributable to acts of dishonesty. This is the test the Board must apply under section 182 of the Pensions Act 2004 (and predecessor provisions) in order to accept and settle fraud compensation claims.

The total net value of claims for which provisions are recognised in these Accounts from this group of schemes is therefore, £12,237,000.

Note 2.9 Contingent liabilities

The Board discloses as at 31 March 2010 a contingent liability of £1,497,000 relating to the scheme discussed in Note 2.8 which may be eligible to claim on the Fraud Compensation Fund. The Board continues to work with the recently appointed independent trustee of this scheme to establish the status of the employers of this scheme. Information currently available indicates there may be employers associated with the scheme which are still solvent, which would render the scheme ineligible to claim on the Fund. The Board considers it possible, however, that this information may prove to be inaccurate or out-of-date, and that the scheme may be able to claim. The Board, therefore, considers it appropriate to disclose a contingent liability in respect of the net potential claim from this scheme.

Note 2.10 Reserves

The general and other reserves figure of £2,937,000 represents the net assets of the Pensions Compensation Board, valued at fair value as at 5 April 2005, which have been brought onto the Statement of Financial Position of the Fraud Compensation Fund under the operation of merger accounting. This is the value categorised in the Statement of Changes in Reserves as the "donated assets reserve".

Note 2.11 Financial instruments

IFRS 7 Financial Instruments: Disclosures requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the Fraud Compensation Fund's activities and the way it is financed, the Fraud Compensation Fund is not exposed in this area to the same financial risks faced by business entities.

Financial Instruments by Category

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Loans and receivables			
Cash and cash equivalents	4,119	3,442	3,332
Recoveries receivable	552	1,115	-
Total financial instruments	**4,671**	**4,557**	**3,332**

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Reconciliation to Total Net Assets/(Liabilities)			
Total financial instruments	4,671	4,557	3,332
Claims provisions	(12,237)	(12,350)	-
Total net assets/(liabilities)	**(7,566)**	**(7,793)**	**3,332**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore, the carrying values of these financial instruments approximate fair value.

Funding risk – The Fraud Compensation Fund's Statement of Investment Principles describes the major risk facing the Fraud Compensation Fund as not having sufficient funds to pay compensation as required under the Pensions Act 2004. The Board has no powers to raise income other than by raising Fraud Compensation levies. Although the Board has powers to borrow funds to finance compensation payments, the Board believes it would be very difficult to exercise these powers in practice. The Fraud Compensation Fund's assets arise from the receipt of Fraud Compensation Levies, so the Fraud Compensation Fund's funding strategy is designed to mitigate the risks, both in the short- and the long-term, that the Fraud Compensation Fund's assets will be inadequate to meet its liabilities. Specifically, the Board will target the Fraud Compensation Fund towards a balance between securing the compensation payments for schemes while setting a fair and proportionate levy. All Fund investments will therefore be held in cash deposits or equivalent vehicles such as liquidity funds.

Liquidity risk – The Fraud Compensation Fund is not exposed to significant liquidity risks as the Board is of the opinion that

- the assets of the Fraud Compensation Fund, including its investment assets, are highly liquid and readily realisable; and
- the time required to investigate claims and decide whether payment (including any interim settlements) should be made is adequate to raise any levy income required over and above the funds already under the Board's control.

Interest rate risk – Dependent on the date of the insolvency of the sponsoring employer of the claimant scheme, claims on the Fund may fall to be considered under the Occupational Pension Scheme (Pensions Compensation Provisions) Regulations 1997, which is the regime operated by the Fund's predecessor body, the Pension Compensation Board. Under this regime, claimants are entitled to interest based on the value of the validated loss, to be calculated at a rate of 2 per cent above base rate, for the period between the effective date of loss and the date of payment of compensation. The Fraud Compensation Fund therefore faces the risk that the return on its investments will be inadequate to cover the interest payments due to claimants whose claims are dealt with under this regime. The Fraud Compensation Fund's Statement of Investment Principles recognises this risk and describes the investment strategy designed to mitigate it.

Other claims on the Fund may fall to be considered under the Occupational Pension Schemes (Fraud Compensation Payments and Miscellaneous Amendments) Regulations 2005, which make no provision for the payment of interest, as claimants are entitled to receive only the value of the net loss suffered.

Foreign currency risk – The Fraud Compensation Fund has no significant exposure to foreign currency in respect of its compensation activities as all of its income, costs, assets and liabilities are denominated in sterling.

Credit risk – The Fraud Compensation Fund's loans and receivables are exposed to credit risk. As explained in note 2.6, receivables of £552,000 relate to Confiscation Orders issued by the SFO, and the Board is of the opinion that the individuals will satisfy those orders in full. Cash and cash equivalents are held in the form of units in liquidity funds managed by external fund managers, as explained in note 2.7.

Note 2.12 First-time adoption of IFRS

First-time adoption of International Financial Reporting Standards did not require any changes to the financial statements of the Fraud Compensation Fund.

Appendix 3

NOTES RELATING TO THE OPERATION OF THE BOARD OF THE PENSION PROTECTION FUND'S ADMINISTRATION FUND FOR THE YEAR 1 APRIL 2009 TO 31 MARCH 2010

Note 3.1 Grant in aid

a) Grant in aid in respect of the Board's PPF functions

The Board is authorised to draw down grant in aid from DWP under s116 of the Pensions Act 2004. Grant in aid is normally drawn down on a quarterly basis to fund the forecast operating and capital expenditure of the Board.

The Pensions Act 2004 also empowers the Secretary of State to raise an Administration Levy to recover these (and other) costs from qualifying defined benefit and hybrid occupational pension schemes. These powers are detailed in s117 (1) of the Act. This levy is raised on an annual basis, using the Board's resource expenditure budget for the relevant year as one source of information in setting the overall levy.

The Board have been advised by DWP that the total Administration Levy raised by the Secretary of State, and its disposition during the year, can be summarised as follows:

All amounts in £000s	**Year ended 31 March 2010**	**Year ended 31 March 2009**
Surplus / (deficit) brought forward	882	(1,733)
Total administration levy raised (including adjustments to prior year levies raised)	21,800	20,864
Resource expenditure of the board for PPF functions	(21,448)	(18,249)
Surplus carried forward to future levy years	**1,234**	**882**

It should be noted that grant-in-aid is used by the Board to finance its capital expenditure; however, the PPF Administration Levy is designed to cover the Board's resource expenditure, which only includes the depreciation on those capital assets. Deficits in previous years included in part the DWP's financing of the net book value of the Board's capital assets, and the surpluses disclosed in the current and immediately prior years would have been higher but for the effect of financing the Board's capital expenditure.

The value of Administration Levy raised disclosed in the above table is on an accruals basis, that is, it includes Administration Levy receivables at the year end. These receivables were valued at 31 March 2010 at £1,000,000 (31 March 2009: £1,396,000). The grant-in-aid process ensures that DWP finance the Board's resource expenditure independent of Administration Levy collections.

b) Grant in aid in respect of the Board's Financial Assistance Scheme functions

In July 2008, the Financial Assistance Scheme (Miscellaneous Amendments) Regulations 2008 came into force. These regulations permitted the Board to provide advice and consultancy to DWP in connection with the current and future management of the Scheme; and to manage relationships with the trustees of qualifying pension schemes which have not yet wound up, in connection with the transfer of their assets and liabilities.

On 10 July 2009, under the Financial Assistance Scheme (Miscellaneous Provisions) Regulations 2009, DWP appointed the Board to be Scheme Manager of the Financial Assistance Scheme. Under the terms of its appointment as FAS Scheme Manager, the Board took over management responsibility for the FAS Operating Unit, which had been the DWP team previously responsible for the administration of FAS.

As the Financial Assistance Scheme is taxpayer funded, all these activities, including the costs of the FAS OU, are funded by separate grants provided by the DWP, and have been separately accounted for by the Board. In order to provide assurance to both levy payers and tax payers that funding and expenditure have been adequately segregated, the Board's activities relating to the Financial Assistance Scheme are presented separately from the Board's PPF's activities in the Notes to these Accounts.

Note 3.2 Operating expenses

a) Employee benefits

Employee benefits charged to the Administration Fund consisted of:

All amounts in £000s	Year ended 31 March 2010			Year ended 31 March 2009		
	PPF	FAS*	Total	PPF	FAS*	Total
Short-term employee benefits	8,250	1,968	10,218	6,798	807	7,605
Social security costs	742	169	911	589	87	676
Other pension costs	1,492	375	1,867	1,267	144	1,411
Temporary staff	133	-	133	312	-	312
Contractors and secondees	2,062	2,632	4,694	2,072	1,808	3,880
Termination benefits	120	-	120	-	-	-
Total	**12,799**	**5,144**	**17,943**	**11,038**	**2,846**	**13,884**

* The Government Financial Reporting Manual requires the use of merger accounting for public sector bodies, which required the Board to disclose the costs of the FAS OU (see Note 3.1b) in its own accounts. The totals for the Financial Assistance Scheme are analysed further in the table below: the Appointment referred to in the table is the appointment by DWP of the Board as FAS Scheme Manager on 10 July 2009.

All amounts in £000s	Year ended 31 March 2010				Year ended 31 March 2009		
	Pre Appointment		Post Appointment	Total	As previously reported		
	PPF Man-aged	FAS OU	FAS Total	FAS Total	PPF Managed	FAS OU	Total
Short-term employee benefits	582	-	1,386	1,968	807	-	807
Social security costs	50	-	119	169	87	-	87
Other pension costs	111	-	264	375	144	-	144
Temporary staff	-	-	-	-	-	-	-
Contractors and secondees	472	471	1,689	2,632	444	1,364	1,808
Total	**1,215**	**471**	**3,458**	**5,144**	**1,482**	**1,364**	**2,846**

Included in short-term employee benefits above is the movement in the accrual for compensated absences.

The average number of staff employed, including secondment and temporary staff, was:

	Year ended 31 March 2010	Year ended 31 March 2009
	No. of employees	No. of employees
Permanent employees	216	142
Short term contract, seconded and temporary staff	32	39
FAS operating unit staff	54	-
Total	**302**	**181**

The average number of staff employed for the year ended 31 March 2010 includes FAS Operating Unit staff employed by the Department for Work and Pensions.

Details of the remuneration of members of the Board of the Pension Protection Fund are given in the Remuneration Report in section 3 of the Annual Report. The employee benefits reported include the costs of all Board members.

Employees of the Board of the Pension Protection Fund are eligible for membership of the Principal Civil Service Pension Scheme (PCSPS) and can opt to join the defined benefit section, or to contribute to a stakeholder (defined contribution) arrangement. The PCSPS is an unfunded multi-employer defined benefit salary related scheme but the Board is unable to identify its share of the underlying assets and liabilities. Defined benefit contributions are therefore accounted for by the Board as if they were contributions to a defined contribution scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2007 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (www.civilservice-pensions.gov.uk).

Appendix 3

During the year to 31 March 2010, employer's contributions of £1,844,000 (year to 31 March 2009: £1,349,000) were payable to the defined benefit section of the PCSPS at one of four rates in the range 17.1 per cent to 25.5 per cent (year to 31 March 2009: same range). The scheme's actuary reviews employer contributions every four years following a full scheme valuation. These contribution rates reflect the benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

Employees of the Board can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £22,000 (year to 31 March 2009: £62,000) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from 3 per cent to 12.5 per cent of pensionable pay, and employers also match employee contributions up to 3 per cent of pensionable pay.

In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

At 31 March 2010, pension contributions in respect of the month of March 2010 totalling £196,000 were outstanding, and were paid over to PCSPS in April 2010 in accordance with legislative requirements.

b) Other costs

Other costs charged to the Administration Fund consisted of:

All amounts in £000s	**Year ended 31 March 2010**			**Year ended 31 March 2009**		
	PPF	FAS*	Total	PPF	FAS*	Total
Training and recruitment costs	832	120	952	369	164	533
Staff travel, expenses and hospitality	124	145	269	165	128	293
Advisory and other professional services	3,645	1,301	4,946	3,417	827	4,244
Audit costs	144	16	160	138	15	153
Accommodation	944	882	1,826	622	607	1,229
General office expenses	387	156	543	278	128	406
IT and telephony	1,330	811	2,141	1,179	640	1,819
Publicity and communications	265	56	321	235	3	238
Total	**7,671**	**3,487**	**11,158**	**6,403**	**2,512**	**8,915**

The audit costs for the year to 31 March 2009 include non-statutory costs of £13,000 in relation to the IFRS transition process.

Other costs include where appropriate Value Added Tax which the Board is not able to recover.

* The totals for the Financial Assistance Scheme can be analysed further as follows: the Appointment referred to in the table is the appointment by DWP of the Board as FAS Scheme Manager on 10 July 2009.

All amounts in £000s	**Year ended 31 March 2010**				**Year ended 31 March 2009**		
	Pre Appointment		Post Appointment	Total for year	As previously reported		
	PPF Man-aged	FAS-OU	FAS Total	FAS Total	PPF Managed	FASOU	Total
Training and recruitment costs	48	15	57	120	164	-	164
Staff travel, expenses and hospitality	15	26	104	145	40	88	128
Advisory and other professional services	111	-	1,190	1,301	80	747	827
Audit Costs	16	-	-	16	15	-	15
Accommodation	120	156	606	882	139	468	607
General office expenses	33	14	109	156	73	55	128
IT and telephony	159	377	275	811	212	428	640
Publicity and communications	4	-	52	56	-	3	3
Total	**506**	**588**	**2,393**	**3,487**	**723**	**1,789**	**2,512**

c) Depreciation and impairment charges

Depreciation charges are made in relation to Property, Plant and Equipment and Intangible Assets in accordance with the policy set out in paragraph 13 of the Statement of Accounting Policies. The charge to the Operating Statement is arrived at as follows:

All amounts in £000s	Year ended 31 March 2010			Year ended 31 March 2009		
	PPF	FAS	Total	PPF	FAS*	Total
Total depreciation charges in the year	**986**	**329**	**1,315**	**882**	**136**	**1,018**
Net charge to operating statement	**986**	**329**	**1,315**	**882**	**136**	**1,018**

Note 3.3 Interest income

As described in Note 3.1, the Board draws down grant in aid from DWP on a periodic (normally quarterly) basis, and these funds are held in interest bearing accounts. This interest is used to reduce the grant in aid requirement in the subsequent period.

All amounts in £000s	Year ended 31 March 2010			Year ended 31 March 2009		
	PPF	FAS	Total	PPF	FAS*	Total
Interest income	8	3	11	74	-	74
Total	**8**	**3**	**11**	**74**	**-**	**74**

Note 3.4 Property, Plant and Equipment and Intangible Assets

Non-current assets included in the Administration Fund consist of information and communication technology assets held for the purposes of the Board's operations and administration and leasehold improvements on premises occupied by the Board.

Appendix 3

The net book value of property, plant and equipment and intangible assets at 31 March 2010 is arrived at as follows:

All amounts in £000s	**Information Technology**	**Plant and Machinery**	**Furniture and Fittings**	**Payments on Account and Assets under Construction**	**Total Property plant and equipment**	**Intangible assets**
Cost						
At 1 April 2008	**2,965**	**2**	**566**	**81**	**3,614**	**2,167**
Additions in the year	249	-	-	847	1,096	22
Assets brought into use	-	-	-	(271)	(271)	-
At 31 March 2009	**3,214**	**2**	**566**	**657**	**4,439**	**2,189**
Additions in the year	930	-	357	1,970	3,257	906
Assets brought into use	-	-	-	(2,193)	(2,193)	-
At 31 March 2010	**4,144**	**2**	**923**	**434**	**5,503**	**3,095**
Depreciation and amortisation						
At 1 April 2008	**(2,228)**	**(1)**	**(132)**	**-**	**(2,361)**	**(1,498)**
Depreciation and amortisation charged in the year	(415)	(1)	(113)	-	(529)	(489)
At 31 March 2009	**(2,643)**	**(2)**	**(245)**	**-**	**(2,890)**	**(1,987)**
Depreciation and amortisation charged in the year	(594)	-	(167)	-	(761)	(554)
At 31 March 2010	**(3,237)**	**(2)**	**(412)**	**-**	**(3,651)**	**(2,541)**
Net book value at 1 April 2008	**737**	**1**	**434**	**81**	**1,253**	**669**
Net book value at 31 March 2009	**571**	**-**	**321**	**657**	**1,549**	**202**
Net book value at 31 March 2010	**907**	**-**	**511**	**434**	**1,852**	**554**
Net book value of PPF assets	**745**	**-**	**208**	**421**	**1,374**	**548**
Net book value of FAS assets	**162**	**-**	**303**	**13**	**478**	**6**

Note 3.5 Current assets

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Prepayments	82	144	33
Staff loans	47	38	24
Other receivables	27	32	26
Other current assets (i)	**156**	**214**	**83**
Cash and cash equivalents	**573**	**362**	**841**
Total current assets	**729**	**576**	**924**

i) The value of current assets that falls inside the Whole of Government Accounts boundary is: nil.

Note 3.6 Current liabilities

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
	Total	Total	Total
Amounts due to suppliers	1,039	258	637
Taxation and social security	317	248	189
Accrual for compensated absences	150	82	78
Other payables	979	165	120
Accruals	3,353	2,491	2,625
Total current liabilities	**5,838**	**3,244**	**3,649**

The value of current liabilities that falls inside the Whole of Government Accounts boundary is £1,096,000 (2009: £413,000; 2008: £309,000).

Note 3.7 Reserves

The general reserve consists of:

All amounts in £000s	**Year ended 31 March 2010**			**Year ended 31 March 2009**			**As at 1 April 2008**
	PPF	FAS	Total	PPF	FAS	Total	Total
Opening balance	(836)	(81)	(917)	(803)	-	(803)	(928)
First time adoption of IFRS	-	-	-	-	-	-	(78)
PPF Grant-in-aid received in the year	20,843	-	20,843	18,216	-	18,216	17,160
Grant-in-aid to finance FAS Activities	-	6,717	6,717	-	2,260	2,260	-
FAS Operating Unit financing	-	1,059	1,059	-	3,153	3,153	-
Net result for the year	**(21,448)**	**(8,957)**	**(30,405)**	**(18,249)**	**(5,494)**	**(23,743)**	**(16,957)**
Closing balance	**(1,441)**	**(1,262)**	**(2,703)**	**(836)**	**(81)**	**(917)**	**(803)**

Note 3.8 Financial Instruments

IFRS 7 Financial Instruments: Disclosures, requires disclosure of the role which financial instruments have had during the year in creating or changing the risks an entity faces in undertaking its activities. Because of the non-trading nature of the Board of the Pension Protection Fund's administration activities and the way it is financed, the Board is not exposed in this area to the degree of financial risk faced by business entities. For example, the Board has no powers to borrow to fund administration activities or to raise income other than by the grant-in-aid process described in Note 3.1. Financial assets and liabilities are generated by the Board's routine operational activities, and are not held to change the risks facing the Board in carrying out its administration functions.

Financial Instruments by Category

All amounts in £000s	**As at 31 March 2010**	**As at 31 March 2009**	**As at 1 April 2008**
Loans and receivables			
Cash and cash equivalents	573	362	841
Staff loans	47	38	24
Other receivables	27	32	26
	647	**432**	**891**
Financial liabilities measured at amortised cost			
Amounts due to suppliers	(1,039)	(258)	(637)
Accrual for compensated absences	(150)	(82)	(78)
Accruals	(3,359)	(2,491)	(2,625)
	(4,548)	**(2,831)**	**(3,340)**
Total Financial Instruments	**(3,901)**	**(2,399)**	**(2,449)**
Reconciliation to total net assets/(liabilities)			
Total financial instruments	(3,901)	(2,399)	(2,449)
Non-current assets	2,406	1,751	1,922
Prepayments	82	144	33
Taxation and social security	(317)	(248)	(189)
Other payables	(979)	(165)	(120)
Total net assets/(liabilities)	**(2,709)**	**(917)**	**(803)**

The amounts stated under loans and receivables and financial liabilities measured at amortised cost have carrying values which are not materially different to their fair values. Therefore, the carrying values of these financial instruments approximate fair value.

Liquidity risk – Both the Board's resource and capital requirements are funded by grant-in-aid from its sponsor department, DWP. The Board is, therefore, not exposed to significant liquidity risks.

Interest rate risk – The Board has no power to borrow to fund administration activities and therefore is not exposed to any interest rate risk. Any surplus funds on its Administration account are held in interest-bearing accounts- see Note 3.5.

Foreign currency risk – The Board has no significant exposure to foreign currency in respect of its administration activities.

Credit risk – The Board has very low exposure to credit risk. Staff travel loans are repaid over a defined period and repaid in full if employment is terminated. Cash and cash equivalents consists entirely of cash held in the Administration Fund's current bank account.

Note 3.9 Related Party Transactions

i) Note 3.2a gives details of transactions relating to the remuneration of all staff, further detail relating to Board members is given in the Remuneration Report section of the Annual Report. Note 3.2b gives details of staff travel, expenses and hospitality. There were no transactions other than the payment of remuneration and travel and other expenses during the accounting period.

ii) Transactions relating to the provision of funding to the Board to cover its operating expenses by the Department for Work and Pensions through the grant-in-aid process, and the related Administration Levy collected by the Pensions Regulator, are disclosed in Note 3.1. Grant-in-aid received from DWP to fund the Board's FAS-related activities, which is sourced from tax payer funds, are disclosed in the same note.

The Board has also been able to procure goods and services at discounted rates by having access to central purchasing arrangements managed by DWP's Commercial Policy and Procurement Division and by the Office for Government Commerce. The Board does not consider it practical to quantify the value-for-money benefit from these arrangements.

Of the accommodation costs disclosed in Note 3.2b, £1,346,000 (year to 31 March 2009: £761,000; year to 31 March 2009: £804,000) was payable to the Estates Division of DWP who manage the facility occupied by the Board and its staff and through whom all related facilities costs, including rent, rates and property service charges, are routed. DWP Estates charge no explicit fee for these property management services.

Note 3.10 First-time Adoption of IFRS

All amounts in £000s	**General reserve**	**Levy and tax payers' funds**	**General reserve**	**Levy and tax payers' funds**
	As at 31 March 2009	As at 31 March 2009	As at 1 April 2008	As at 1 April 2008
Levy and tax payers' funds under UK GAAP		**(835)**		**(725)**
Adjustments for:				
IAS19 employee benefits: accrual for compensated absences	(82)		(78)	
IAS 16 property, plant and equipment: reclassification of software from property, plant and equipment to intangible assets	(202)		(669)	
IAS 38 intangible assets: reclassification of software from property, plant and equipment to intangible assets	202		669	
Total adjustments to levy and tax payers' funds under IFRS		**(82)**		**(78)**
Levy and tax payers' funds under IFRS		**(917)**		**(803)**

All amounts in £000s	**IFRS Adjustments**	**Net result**	**IFRS Adjustments**	**Net result**
	Year ended 31 March 2009	Year ended 31 March 2009	Year ended 31 March 2008	Year ended 31 March 2008
Net result under UK GAAP		**(30,323)**		**(23,665)**
Adjustments for:				
IAS19 employee benefits: accrual for compensated absences	(82)		(78)	
Total adjustments to net result under IFRS		**(82)**		**(78)**
Net result under IFRS		**(30,405)**		**(23,743)**

The net result under UK GAAP has been restated from the financial statements published in respect of the previous year to include the impact of accounting for the merger of the FAS Operating Unit into the results of the Board following the Board's appointment as FAS Scheme Manager in July 2009.

5 Actuarial valuation of the Pension Protection Fund

To: The Board of the Pension Protection Fund

From: Stephen Rice, Appointed Actuary

The actuarial valuation of the Pension Protection Fund as at 31 March 2010

1. Introduction

The Board of the Pension Protection Fund ('the Board') is required by paragraph 22 of schedule 5 to the Pensions Act 2004 to prepare a statement of accounts in respect of each financial year. Each statement of accounts must contain an actuarial valuation of the assets and liabilities of the Pension Protection Fund prepared and signed by the Appointed Actuary.

This is the fifth actuarial valuation of the Pension Protection Fund. The effective date of this valuation is 31 March 2010. The previous actuarial valuation was as at 31 March 2009, and the report on that valuation was dated 14 October 2009.

At its meeting on 26 April 2006 the Board appointed me to prepare the annual actuarial valuation of the assets and liabilities of the Pension Protection Fund. I intend my report to assist the Board with the preparation of the annual report and accounts as at 31 March 2010, and so I see the Board as the user of this report. As required by paragraph 22(5) of schedule 5 to the Pensions Act 2004, the Board will be sending a copy of this report, as part of the statement of accounts, to the Secretary of State and also to the Comptroller and Auditor General. No party, apart from the Board, the Secretary of State and the Comptroller and Auditor General, should rely on any part of this report.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund. In particular, the results of this valuation are not used in the determination of the levy. All the results in this report are outcomes of a valuation exercise involving the quantification of amounts for recording in the annual report and accounts.

In my view, while the Actuaries Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, drawn up these reports having regard to the principles in Technical Actuarial Standards TAS R (Reporting Actuarial Information) and TAS D (Data). This report should be considered alongside my Supplementary Report to follow. As my reports are prepared solely for the purpose of the Annual Report and Accounts of the Pension Protection Fund, I have not produced any projections of future accounting positions in either this or my supplementary report because the Board does not require them for its accounting disclosures.

2. Data

In respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2010, individual member data was obtained from Capita (the administrators). I have carried out some overall checks on this data for general reasonableness and to ensure that it is consistent with that used in the actuarial valuation at 31 March 2009. A summary of the data as at 31 March 2010 is as follows:

Deferred pensioners

Sex	Number	Average age	Total Accrued Pension revalued to 31 March 2010 *(uncapped) (£000s pa)*
Male	20,924	48.9	77,147
Female	5,134	46.9	10,406
Total	**26,058**	**48.5**	**87,553**

Pensioners

Status	Sex	Number	Average age	Total Compensation at 31 March 2010 *(capped where applicable) (£000s pa)*
Members	Male	14,325	67.8	64,814
	Female	3,145	69.6	6,541
Dependants (excluding children)	Male	183	72.3	319
	Female	3,039	73.9	7,589
Children	Male	38	17.3	80
	Female	45	17.0	84
Total		**20,775**	**68.8**	**79,427**

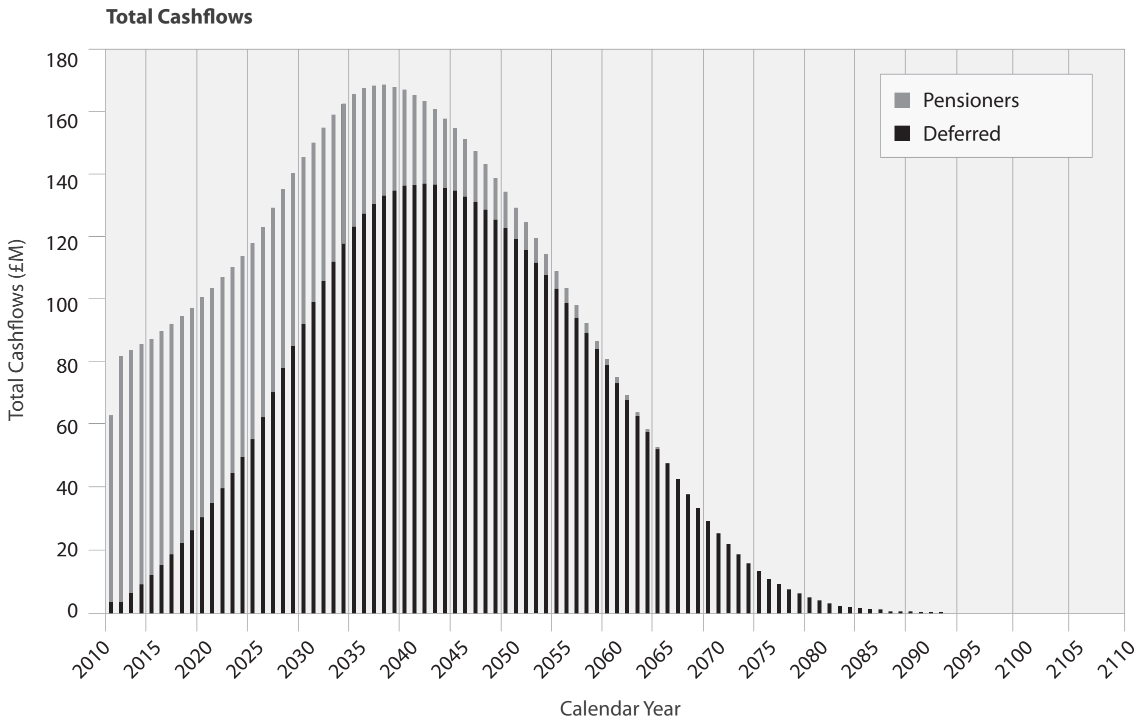
A person who is in receipt of one tranche of compensation as well as being entitled to a further tranche of compensation beginning after 31 March 2010 is included in both tables.

3. Compensation

The compensation in respect of former members of schemes, for which the Board assumed responsibility on or before 31 March 2010, has been determined in accordance with the provisions of Schedule 7 to the Pensions Act 2004 and consequent regulations. A summary of the compensation provisions is shown in Annex M1.

4. Method

In respect of each former member of schemes for which the Board assumed responsibility on or before 31 March 2010, the expected compensation cash flows for each future year are estimated. In estimating each yearly compensation cash flow for each former member, account is taken of the initial amount of compensation or accrued pension, mortality, the Normal Pension Age (NPA) for deferred members, compensation increases and the probability of survivors' compensation being paid. The expected cash flows are shown in the chart below (ignoring early retirement and commutation of annual compensation for a lump sum).



The resulting yearly compensation cash flows are discounted back to a present value at the valuation date, 31 March 2010, and summed to obtain the actuarial present value of each former member's liability.

The financial and demographic assumptions employed are described briefly in the next section of this report and set out more fully in Annex M2.

The sum of all former members' liabilities is the estimated sum required, based on the financial and demographic assumptions employed, to meet liabilities that have been transferred to the Board's responsibility.

5. Assumptions

In order to estimate future compensation cash flows, I have needed, in respect of the former members of schemes for which the Board assumed responsibility on or before 31 March 2010, to make assumptions about:

- annual increases in payment to that element of their compensation which accrued after 5 April 1997
- revaluation of compensation in deferment for those whose compensation does not begin to be paid until after the valuation date, 31 March 2010
- their future mortality and other demographic features, and
- whether the Secretary of State exercises her/his power under paragraph 30 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

In order to determine the present value of the liabilities, I have needed to discount the compensation cash flows, estimated as described above, back to the valuation date, 31 March 2010.

The Appointed Actuary has responsibility for the assumptions used in the statutory valuation of the assets of the PPF and the transferred liabilities, which are the subject of this report. The Board has responsibility for the assumptions used to value the provisions for schemes forming the provisions, as well as contingent liabilities, which are the subject of my supplementary report. Since there is a large overlap in the two sets of assumptions, past practice has been to adopt the same assumptions, as far as possible, for both purposes, which are agreed by the Board.

In proposing the assumptions for the 2010 actuarial valuation, I have taken account of the Accounts Direction which is given by the Secretary of State for Work and Pensions with the approval of HM Treasury in accordance with Schedule 5, Part 4 of the Pensions Act 2004.

Under this direction, the Board is required to prepare accounts in compliance with:

- the accounting principles and disclosure requirements of the current edition of the Government Financial Reporting Manual (the 'FReM') issued by HM Treasury which is in force for the financial year for which the accounts are being prepared
- other guidance issued by HM Treasury in respect of accounts which are required to give a true and fair view, and
- the Framework document agreed with the Board of the Pension Protection Fund.

None of the above provides direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the accounts direction, the Board is required to place a value on the provisions which is best estimate (ie is equally likely to overstate as to understate the actual value). This follows from IAS 37, which the Board is required to take into account in accordance with the FReM. As the same choices of assumptions are made as far as possible for this report as for valuing the provisions the value placed on liabilities of the PPF are also best estimate.

A full description of the assumptions made can be found in Annex M2.

I have also carried out a sensitivity analysis in which the effect on the assets and liabilities is shown by changes in certain key assumptions. The results of this analysis may be seen in the supplementary report which I have prepared concerning the provisions of the Pension Protection Fund as at 31 March 2010.

6. Value of assets

The value of the Pension Protection Fund assets is determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597).

I have adopted the value of the assets of the Fund as stated in the relevant accounts prepared by the Board for the financial period ending on 31 March 2010. I have not adopted either of the adjustments made available by regulations 4 and 5 as I considered that it was not appropriate to do so.

Accordingly, I have taken the value of the assets of the Pension Protection Fund as at 31 March 2010 as £4,658,671,000. This includes £924,000 in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £3,200,302,000 as at 31 March 2009.

An analysis of the change in the value of the assets of the Fund between 31 March 2009 and 31 March 2010 is as follows:

	£000s
Value of assets at the start of the year (31 March 2009)	3,200,302
Assets for schemes entering the PPF during the year to 31 March 2010 (measured at their transfer dates)	570,190
Income from Pension Protection levies	589,479
Compensation paid	(81,579)
Change in value of interest rate swaps and inflation swaps	(47,662)
Change in value of invested assets on account of changes in bond yields	156,307
Change in current assets (AVCs to be discharged)	452
Change in value of invested assets on account of other changes (excluding bond yields, interest rate swaps and inflation swaps)	271,182
Value of assets at the end of the year (31 March 2010)	4,658,671

7. Value of liabilities

The value of the Pension Protection Fund liabilities is determined in accordance with regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597). This requires that:

(a) the liabilities of the Pension Protection Fund shall be any sums or properties falling to be paid or transferred out of the Fund required to meet liabilities listed in section 173(3) of the Pensions Act 2004; and

(b) the value of a liability shall be the present value of that liability at the valuation date.

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2010, on the assumptions described in section 5 and Annex M2, are summarised in the table below:

Type of member	£000s
Deferred pensioners	1,292,783
Pensioners	1,139,668
Administration expenses to be met from the Fund	14,594
Current liabilities (AVCs to be discharged)	924
Total	**2,447,969**

Accordingly, I have taken the value of the liabilities of the Pension Protection Fund as at 31 March 2010 as £2,447,969,000.

This compares with £1,737,103,000 as at 31 March 2009.

An analysis of the change in the actuarial liabilities between 31 March 2009 and 31 March 2010 is as follows:

	£000s
Actuarial liabilities at the start of the year (31 March 2009)	1,737,103
Liabilities for schemes entering the PPF during the year to 31 March 2010 (measured at their transfer dates)	798,259
Effect of passage of time on discounting	73,524
Actuarial (gain) / loss due to change in financial assumptions	(28,617)
Actuarial (gain) / loss due to changes in mortality assumptions	(47,072)
Actuarial (gain) / loss due to experience being different from what was assumed	(5,295)
Change in expense allowance	1,194
Compensation paid	(81,579)
Change in current liabilities (AVCs to be discharged)	452
Actuarial liabilities at the end of the year (31 March 2010)	2,447,969

8. Conclusion

The balance sheet in respect of the assets and liabilities of the Pension Protection Fund determined in accordance with regulation SI 2006 / 597 is as follows:

	£000s
Assets	
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (valuation of the assets and liabilities of the Pension Protection Fund) regulations 2006	4,658,671
Total assets	**4,658,671**
Liabilities	
The actuarial liabilities in respect of former members of schemes for which the board assumed responsibility on or before 31 March 2010	2,432,451
Allowance for certain expenses that are met from the Pension Protection Fund	14,594
The remaining liabilities under regulation 3 of the Pension Protection Fund (valuation of the assets and liabilities of the Pension Protection Fund) regulations 2006	924
Total liabilities	**2,447,969**
Excess of assets over liabilities – before provisions	**2,210,702**
Funding ratio (assets / liabilities) – before provisions	**190%**

5 Actuarial valuation of the Pension Protection Fund

In respect of the Pension Protection Fund as at 31 March 2010, the value of the assets was £ 4,658,671,000 and the value of the liabilities (including those in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2010) was £ 2,447,969,000.

The excess of assets over liabilities of £ 2,210,702,000 in the Pension Protection Fund as at 31 March 2010 needs to be understood in the context of additional pension schemes that had entered into an assessment period, as defined in section 132 of the Pensions Act 2004, with effect from a date on or before 31 March 2010. Therefore, in addition to this formal report on the assets and liabilities, I have estimated provisions in respect of the assets, potential recoveries and liabilities of those schemes which, in the Board's judgement, are likely to be transferred into the Pension Protection Fund. These provisions are shown in my supplementary report to the Board and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2010.

I have also estimated contingent liabilities as at 31 March 2010, including those in respect of other pension schemes which, in the Board's judgement, may possibly be transferred into the Pension Protection Fund in the near future. These contingent liabilities are shown in my Supplementary report to the Board on 25 October 2010 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2010.

Signed: Stephen Rice

Date: 25 October 2010

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute of Actuaries

Employer: The Board of the Pension Protection Fund

Annex M1

Summary of compensation provided by the Pension Protection Fund

Broadly speaking, the Pension Protection Fund provides two levels of compensation:

1. For individuals who have reached their scheme's normal pension age before the assessment date or, irrespective of age, are in receipt of either a survivor's pension or a pension on the grounds of ill health, the Board pays from the Pension Protection Fund -- **100 per cent level of compensation.**

   In broad terms and in normal circumstances, this means a starting level of compensation that equates to 100 per cent of the pension in payment immediately before the start of the assessment period, as defined in section 132 of the Pensions Act 2004. This is subject to a review of the rules of the scheme by the Board.

   The part of this compensation that is derived from pensionable service on or after 6 April 1997 will be increased each year in line with the increase in the Retail Prices Index ("RPI") capped at 2.5 per cent and with a floor of 0 per cent.

2. For the majority of people aged below their scheme's normal pension age the Board pays from the Pension Protection Fund -- **90 per cent level of compensation.**

   In broad terms, and in normal circumstances, this means 90 per cent of the pension an individual had accrued immediately before the assessment date (subject to a review of the rules of the scheme by the Board) plus revaluation in line with the increase in the RPI between the assessment date and the commencement of compensation payments, subject to a floor of 0 per cent over the whole period, and to a maximum increase for the whole period calculated by assuming RPI rose by 5 per cent each year (2.5 per cent each year for pension accrued on or after 6 April 2009). This compensation is subject to an overall cap, which from April 2010 equates to £33,054.09 per annum at age 65 (the cap is adjusted according to the age at which compensation comes into payment).

   Once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 will be increased each year in line with the increase in the RPI capped at 2.5 per cent and with a floor of 0 per cent.

In addition, there is also compensation for certain survivors.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. In meeting this requirement, the Board must take into account any differences in scheme benefits that have arisen owing to differences in the calculation of Guaranteed Minimum Pensions (GMPs) for males and females. The Board has received legal advice confirming the existence of its duty to pay compensation on this basis. The Board has also carried out work on how it might implement equalisation of compensation for members whose schemes have already entered the PPF and on the probable costs of equalisation. These events have led the Board to conclude that it should establish a provision within its financial statements for the cost of equalisation on both the schemes that have transferred to the PPF and those schemes forming the provisions. Additionally, a contingent liability is disclosed in respect of the cost of equalisation in respect of other contingent liabilities in the footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2010.

The Board has the power to alter the amount of the levy that it collects (up to the levy ceiling) to meet its liabilities. Additionally, under paragraphs 29 and 30 of Schedule 7 of the Pensions Act 2004, the Board;

- has the power to alter the rates of revaluation and indexation and
- can recommend to the Secretary of State for Work & Pensions that the percentage of benefits paid as compensation is varied.

Annex M2

Assumptions

a) Compensation levels

As for previous valuations of the Pension Protection Fund, I have continued to assume that the Secretary of State will not exercise her/his power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to vary the 100 per cent level of compensation for those members in category 1 of Annex M1 and the 90 per cent level of compensation for those members in category 2 of Annex M1.

b) Financial assumptions

For the liabilities in respect of transferred schemes I have applied the same rationale in setting the financial assumptions as I did in my report as at 31 March 2009. I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates

I consider that a notional portfolio of assets consisting of cash plus appropriate zero-coupon interest rate swaps contracts and inflation swaps contracts plus gilt strips (or notional gilt strips) provides the best match to the Pension Protection Fund liability cash flows. Calculating the liabilities in this way represents a low-risk approach to the setting of the financial assumptions, in the sense that there should be a low risk of the notional assets being inadequate to pay the PPF members as at the valuation date their full compensation.

Under the terms of a zero-coupon interest rate swap contract with notional principal P and tenor (=duration) N, the Fund would at time N pay interest on P to the counterparty of the London Interbank Offered Rate ("LIBOR") while the counterparty would at the same time pay the Fund a fixed interest rate specified in the contract. Since around August 2008, zero coupon interest rate swap yields for longer tenors have been lower than the gilts strip (one of the individual cash flows stripped out of a gilt) yields at the same duration. It is therefore considered reasonable to construct a notional portfolio so that it contains gilts strips (or more often notional gilts strips) at longer durations and cash and swaps contracts at shorter durations.

Because it is difficult to earn close to LIBOR interest on cash, it is assumed that LIBOR cannot be assumed to be earned on cash and, therefore, a deduction is made from the zero-coupon interest rate swap yields of 15 basis points at each term to allow for this.

The discount rate for each term is, therefore, taken as the higher of the zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield.

A zero-coupon interest rate swaps yield curve as at 31 March 2010 was obtained from Insight Investment constructed the curve by seeking indicative prices from investment banks.

A gilts strip yield curve as at 31 March 2010 was obtained from Bloomberg Finance LP. This curve shows gilt strips yields at terms one year to seven years inclusive and also at terms 9,10,15, 20, 30, 40 and 50 years. Yields at each of these terms are in respect of bonds with the closest nominal maturity to the indicated term. For intermediate terms, I have interpolated between the yields at the given terms. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50, I have assumed that these curves remain flat from term 50 onwards.

In my opinion, the Pension Protection Fund's Statement of Investment Principles is consistent with this discount rate derivation, albeit that the Board takes some extra investment risk in the expectation of outperformance.

ii) Revaluation rates

I have assumed that the Board of the Pension Protection Fund will not exercise its power to amend the maximum revaluation rate of 5 per cent per annum (2.5 per cent per annum in respect of compensation which derives from service after 5 April 2009).

I have assumed, for all deferred pensioners as at 31 March 2010, that the rate of revaluation for the period from their assessment date to normal pension age will be the appropriate increase in the RPI, ie that the maximum revaluation rate will not apply to any of them. The assumed rate of revaluation, for the period from the valuation date to normal pension age (over which period the RPI increase is unknown), was determined from the RPI inflation swap curve (supplied as at 31 March 2010 by Insight Investment for terms up to 50 years). For terms over 50 years, I have assumed that the RPI swap curve remains flat.

iii) Pension increase rates

I have assumed that the Board of the Pension Protection Fund will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum annual increase rate of 2.5 per cent per annum, for compensation accrued after 5 April 1997.

An LPI[0,2.5 per cent] inflation swap is an inflation swap which is subject to an annual floor of 0.0 per cent and an annual cap of 2.5 per cent. It is used to determine the level of increase that will apply in payment each year. The assumed rate of future post-1997 pension increases was determined from the LPI[0,2.5 per cent] inflation swap curve (supplied as at 31 March 2010 by Insight Investment for terms five to 30 years). As at 31 March 2010, it has not been possible to obtain data for terms one to four years or for terms beyond 30 years because Insight Investment did not receive quotes for trading the LPI[0,2.5 per cent] inflation swap for these years on that day. Insight Investment was, however, able to generate notionally a curve for terms one to four years and from 30 years up to 50 years by assuming that the implied volatilities that can be derived from the more heavily traded LPI[0,3.0 per cent] inflation swap curve were applied to the RPI inflation swap curve. For terms beyond 50 years, I have assumed that the LPI[0,2.5 per cent] inflation swap curve remains flat.

The table below shows the annualised average term-dependent rates of discount, inflation and increases to pensions in payment over the given term.

Term	**Discount rate pa**	**Inflation rate pa**	**Post 1997 Pension increase rate pa**
1	0.893%	2.921%	2.029%
2	1.401%	3.087%	2.038%
3	1.945%	3.099%	2.037%
4	2.388%	3.125%	2.043%
5	2.750%	3.167%	2.035%
10	4.233%	3.466%	2.146%
15	4.666%	3.681%	2.202%
20	4.721%	3.784%	2.236%
30	4.709%	3.804%	2.268%
40	4.528%	3.770%	2.285%
50 plus	4.456%	3.755%	2.286%

Source: Insight Investment

Bloomberg Finance LP (for discount rates with terms 6 years and over)

c) Demographic assumptions

i) Mortality

The assumption for mortality is in two parts. The first part is the assumption about baseline mortality. This reflects the rate at which people have been dying in the recent past. The second part of the assumption is an estimate of how mortality rates will change over time. Taken together, these assumptions reflect my best estimate of the mortality that will be experienced by members of the PPF (ie it is my view that the assumption is equally likely to overstate as to understate actual experience).

- Baseline mortality

At this early stage in the establishment of the Pension Protection Fund, the fund has yet to accumulate sufficient own mortality experience to assist in the setting of the mortality assumptions. The mortality assumptions have, therefore, been set having regard to the recent Self-Administered Pension Schemes ("SAPS") mortality tables published in February 2009 by the Continuous Mortality Investigation ("CMI") of the UK Actuarial Profession.

Three SAPS tables are being used as the basis for this valuation:

S1PMA: Male pensioner amounts

S1PFA: Female pensioner amounts

S1DFA: Female dependant amounts

The amount of compensation was used to divide members into three mortality bands; heavy mortality, medium mortality and light mortality. The amounts chosen as the limits for the bands were those used by the CMI to produce its heavy and light tables. I have used these heavy and light tables for the PPF's heavy and light bands. The CMI did not publish a table for use with the middle band so I have made a manual adjustment to the death probabilities in the tables constructed from the whole data set as shown in the following table. This adjustment is necessary because the exclusion of the light amounts means that the mortality experienced by the middle band is significantly heavier than the mortality rates in the all-data table.

Annex M2

Sex	Status	Compensation amount pa	Members' mortality	Dependants' mortality
Male	Deferred	Less than £1,350	S1PMA_H	S1DFA_H
Male	Deferred	£1,350 to £11,700	110% of S1PMA	105% of S1DFA
Male	Deferred	Over £11,700	S1PMA_L	S1DFA_L
Female	Deferred	Less than £675	S1PFA_H	S1PMA_H
Female	Deferred	£675 to £4,275	105% of S1PFA	110% of S1PMA
Female	Deferred	Over £4,275	S1PFA_L	S1PMA_L
Male	Pensioner	Less than £1,500	S1PMA_H	S1DFA_H
Male	Pensioner	£1,500 to £13,000	110% of S1PMA	105% of S1DFA
Male	Pensioner	Over £13,000	S1PMA_L	S1DFA_L
Female	Pensioner	Less than £750	S1PFA_H	S1PMA_H
Female	Pensioner	£750 to £4,750	105% of S1PFA	110% of S1PMA
Female	Pensioner	Over £4,750	S1PFA_L	S1PMA_L
Male	Dependant	Less than £1,500	S1PMA_H	N/A
Male	Dependant	£1,500 to £13,000	110% of S1PMA	N/A
Male	Dependant	Over £13,000	S1PMA_L	N/A
Female	Dependant	Less than £1,500	S1DFA_H	N/A
Female	Dependant	£1,500 to £4,750	105% of S1DFA	N/A
Female	Dependant	Over £4,750	S1DFA_L	N/A

These baseline mortality assumptions are unchanged from those used in the valuation carried out as at 31 March 2009. I will keep them under review at future valuations in the light of relevant experience analyses which become available over time.

- Allowance for changes over time

  For the valuation as at 31 March 2009, I adopted the long-cohort projection, overlaying the projections which had originally been included in the PMA92/PFA92 tables published by the CMI.

  I additionally considered it appropriate, for the valuation as at 31 March 2009, to underpin the rate of each future year's mortality improvements. I decided to underpin the male improvement rate by 1.5 per cent per annum and the female improvement rate by 1.0 per cent per annum, both from 2003 onwards.

  In November 2009, the CMI published the "CMI-2009" mortality projection model which made available for the first time a different approach to projecting changes in mortality rates over time. As well as reflecting a change in methodology, the new model also incorporated new data on how mortality in England and Wales has changed in recent years.

  The Pension Protection Fund scrutinised the suitability of the new model for our valuation purposes and how it might be calibrated to that end. In doing so we had regard for analysis carried out internally, feedback provided to CMI during its consultation period and we took independent advice from Hewitt Associates. In light of this scrutiny, I have adopted the new model for this valuation, having concluded that it represents a technically superior and more up-to-date approach than that which was available in previous years.

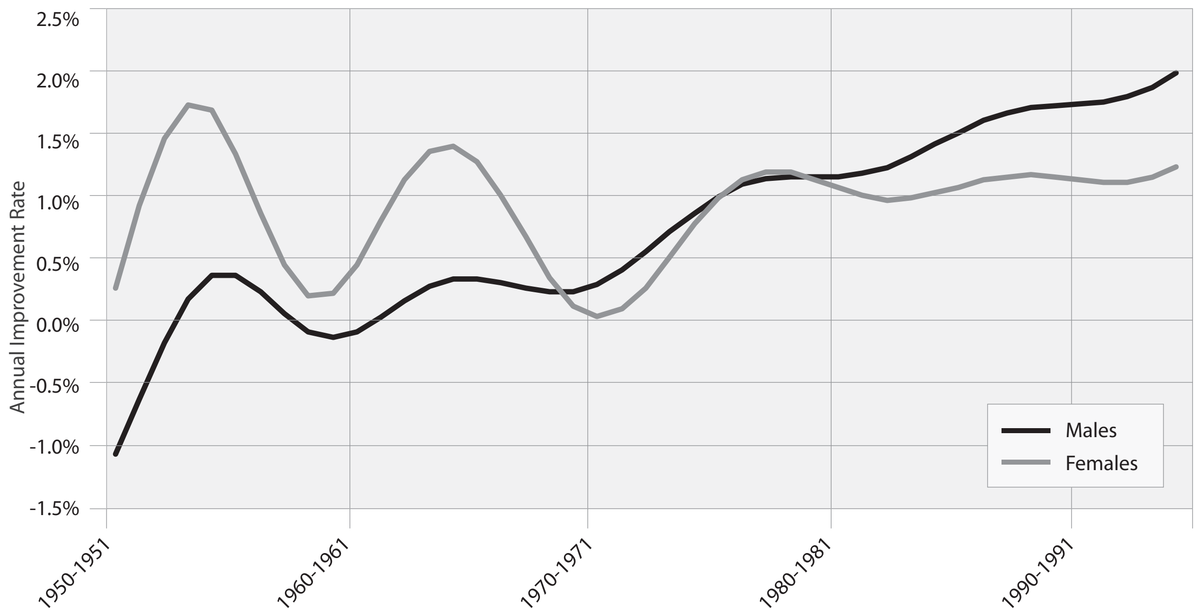
  The assumptions made in respect of changes to mortality rates over time are derived from the CMI-2009 model in its core form, without advanced parameterisation, setting a long term improvement rate of 1.5 per cent per annum for both men and women. In standard notation, my assumption for men is denoted CMI_2009_M [1.50 per cent] and for women is denoted CMI_2009_F [1.50 per cent].

  In selecting a long term rate of improvement in mortality, to which I believe current rates will revert, I am of the understanding and belief that there is no reason to expect men and women to improve their life expectancies at different rates over the very long-term. I have, therefore, adopted an assumption for the long-term rate of improvement that is the same for men and women.

Annex M2

In my analysis of the recent past, I have had particular regard to smoothed annual improvement rates for men and women in the UK over the age of 60 over the second half of the 20th century, shown in the chart below.

Average improvements in mortality over 1 year periods

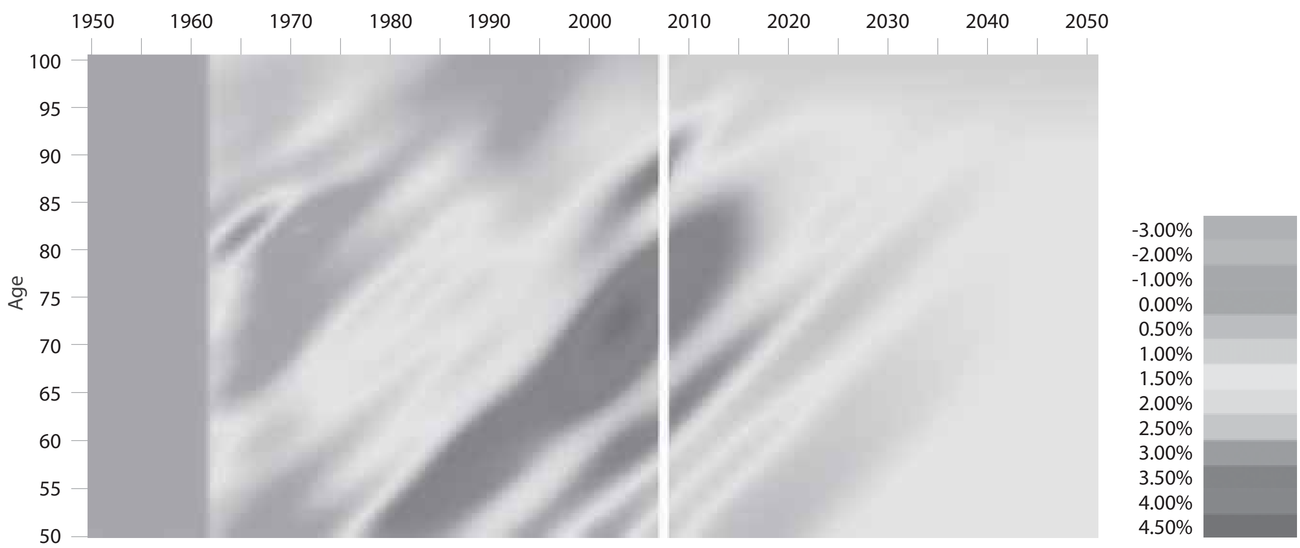


Source: Hewitt Associates

The long-term future rate of improvement in male mortality would on the face of the above graph appear to be above 1.5 per cent per annum. Nevertheless, it could be argued that the male trend observed over the last 50 years will not be sustained, having resulted from one-off social changes such as the reduction in smoking.

Rates of improvement in mortality for men and women in England and Wales over the last 50 years are illustrated in the charts below, alongside the future rates of improvement which are anticipated by my assumptions.

Past and projected future improvement rates for men



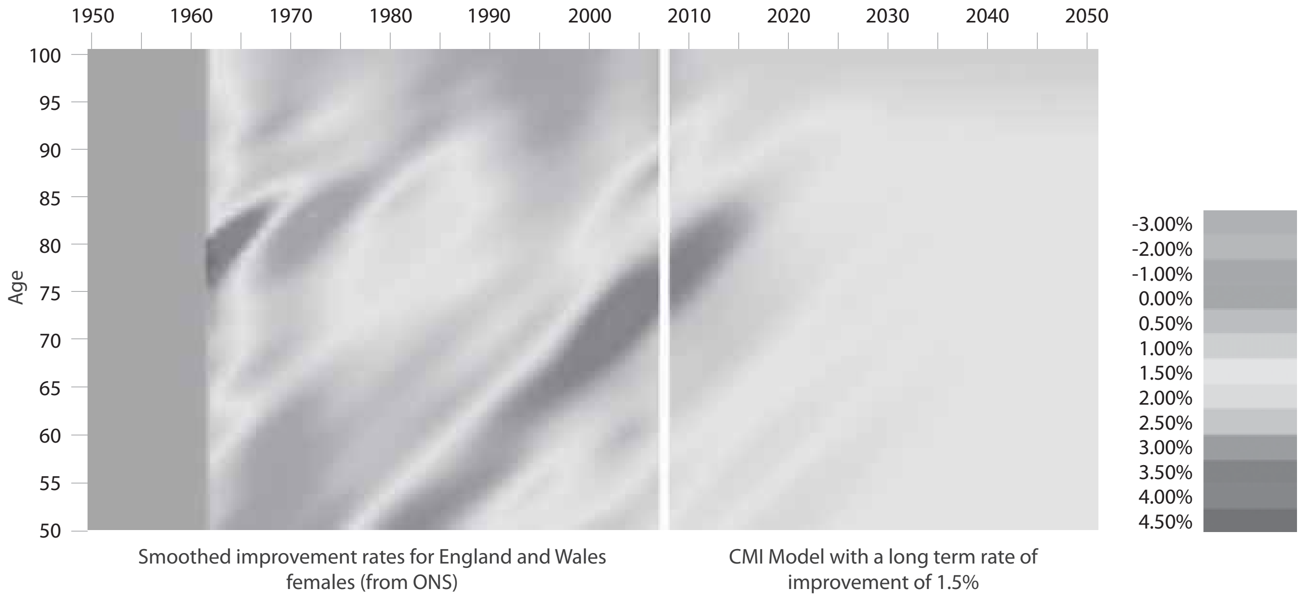
Smoothed improvement rates for England and Wales males (from ONS)

CMI Model with a long term rate of improvement of 1.5%

Source: Hewitt Associates

Annex M2

Past and projected future improvement rates for women



Source: Hewitt Associates

It can be seen that the future rates of improvement anticipated by my assumptions run on smoothly from the observed improvements of the recent past.

One key feature of the CMI model and my assumptions for this valuation is that the gap between the effective date of the mortality base tables (1 September 2002) and the valuation date (31 March 2010) has been partially bridged using smoothed improvement experience data, rather than by using projection. The period bridged is up to 2006 - later data is available but it is unsmoothed and so its use would be likely to lead to volatility from one year to the next.

It should be recognised that there is a substantial element of subjectivity about mortality assumptions and that different actuaries will come to different conclusions. The appropriate mortality assumption for future valuations will be kept under review.

The following table illustrates the cohort life expectancy of pensioners aged 65 on 31 March 2010 (based on the mortality assumptions being used for this valuation). The figures in brackets show the life expectancies based on the assumptions adopted in my valuation as at 31 March 2009. One source of the difference between the 2009 and 2010 expectations of life is due to an additional year's worth of mortality improvements in the 2010 figures.

Compensation amount pa	**Life expectancy (years)**		
	Males	Female pensioners	Female dependants
Lower band	19.9 (20.0)	23.4 (24.0)	22.6 (23.1)
Middle band	21.6 (21.8)	24.0 (24.6)	23.8 (24.3)
Upper band	24.1 (24.7)	25.1 (25.8)	25.4 (26.0)

The following table illustrates the life expectancy at age 65 of deferred pensioners aged 40 on 31 March 2010 based on the mortality assumptions being used for this valuation. The figures in brackets are based on the assumptions used in the 2009 valuation and, as in the table above, one source of the difference is due to an additional year's worth of mortality improvements in the 2010 figures).

Compensation amount pa	**Life expectancy (years)**		
	Males	Female pensioners	Female dependants
Lower band	23.0 (23.9)	26.5 (26.5)	25.8 (25.8)
Middle band	24.5 (25.5)	27.0 (27.0)	26.8 (26.8)
Upper band	27.0 (28.4)	28.1 (28.2)	28.3 (28.4)

The compensation bands vary for males, female pensioners and female dependants. Please see the table earlier in this section for further information.

ii) Commutation

No allowance is made for commutation of compensation because, even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member commutes pension for cash as the factors are assumed to change over time (being reviewed at least annually).

iii) Early retirement

No allowance is made for early retirement because, even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member retires early as the factors are assumed to change over time (being reviewed at least annually).

iv) Proportion married

For pensioners:

Where there is provision for survivor pensions for relevant partners an assumption consistent with 90 per cent (males) or 80 per cent (females) at normal pension age.

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption consistent with 80 per cent (males) or 70 per cent (females) at normal pension age.

For deferred pensioners:

Where there is provision for survivor pensions for relevant partners an assumption, at the assumed date of retirement or earlier death, of 90 per cent (males) or 80 per cent (females).

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption, at the assumed date of retirement or earlier death, of 80 per cent (males) or 70 per cent (females).

v) Age difference between member and dependant

Females assumed to be the years younger than males.

vi) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions already in payment are assumed to cease in accordance with the compensation entitlement with no allowance for mortality prior to cessation.

vii) Administration expenses

Since 1 April 2008, certain administration expenses are being met from the Pension Protection Fund rather than from the Administration Fund as happened before that date.

An allowance equal to 0.6 per cent of the value of the liabilities in respect of former members of schemes that have transferred into the Pension Protection Fund before 1 April 2010 has been made in respect of the future cost of administration for these members. This has been derived from a calculation of the present value of the expected future expenses that will be incurred in respect of these members. This calculation was based on the administration expenses actually being incurred by the Pension Protection Fund during the 2009 / 2010 financial year.

Actuary's supplementary report as at 31 March 2010

To: The Board of the Pension Protection Fund

From: Stephen Rice, Chief Actuary to the Board of the Pension Protection Fund

Actuarial liabilities, provisions and contingent liabilities of the Pension Protection Fund as at 31 March 2010

1. Introduction

The Board of the Pension Protection Fund ("the Board") is required by paragraph 22 of schedule 5 to the Pensions Act 2004 to prepare a statement of accounts in respect of each financial year. Each statement of accounts must contain an actuarial valuation of the assets and liabilities of the Pension Protection Fund. This actuarial valuation is set out in my report to the Board.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This report contains these estimates. It also contains actuarial balance sheets for the Pension Protection Fund showing actuarial liabilities and provisions in comparison with the corresponding assets. The Board is responsible for the accounting policies, and this report has been prepared within the framework which it has determined. Although I have not been explicitly commissioned to provide this report, I have, nevertheless, prepared it for the Board and I intend my report to assist the Board with the preparation of the annual report and accounts as at 31 March 2010. I therefore see the Board as the user of this report and no other party should rely on any part of this report.

This report does not contain advice on the funding of compensation payable from the Pension Protection Fund. In particular, the results of this valuation are not used in the determination of the levy. All the results in this report are outcomes of a valuation exercise involving the quantification of amounts for recording in the annual report and accounts.

In my view, while the Actuaries Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. As described in my Main Report to the Board dated, I have drawn up these reports having regard to the principles in TAS R and TAS D. This report should be considered alongside my report to the Board dated. As my reports are prepared solely for the purpose of the Annual Report and Accounts of the Pension Protection Fund, I have not produced any projections of future accounting positions in either this or my supplementary report because the Board does not require them for its accounting disclosures.

2. Provisions

Under International Accounting Standard 37 (IAS 37) of the International Accounting Standards Board a provision should be recognised when:

- an entity has a present obligation (legal or constructive) as a result of a past event;
- it is probable that a transfer of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The application of this requirement in the accounting standard to the Board's statement of accounts as at 31 March 2010 is set out in Annex S1.

3. Contingent liabilities

Under IAS 37, a contingent liability is not recognised as a liability because it is either:

- a possible obligation (it has not yet been confirmed whether there is an obligation that could lead to a transfer of economic benefits); or
- a present obligation that does not meet the recognition criteria in IAS 37 (ie it is not probable that a transfer of economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

A contingent liability should, however, be disclosed if the possibility of an outflow of economic benefit to settle an obligation is more than remote. The application of this requirement in the accounting standard to the Board's statement of accounts for the financial period ending on 31 March 2010 is set out in Annex S2.

The definitions of contingent liabilities are specified by the Board and I have calculated the values accordingly. However, it should be noted that claims arising after 31 March 2010 could arise from sources other than those described in the definitions for the contingent liabilities. For the avoidance of doubt, the contingent liabilities are not meant to represent the expected claims in the coming year.

4. Data

The data used for this valuation is summarised in Annex S3.

5. Compensation provided by the Pension Protection Fund

The compensation provided by the Pension Protection Fund is summarised in Annex M1 of my report to the Board dated 25 October 2010.

6. Assumptions

The assumptions used to calculate the actuarial liabilities are set out in full in Annex M2 of my report to the Board dated 25 October 2010.

A consistent but, for practical reasons, not identical set of assumptions is used in order to calculate the provisions and contingent liabilities as at 31 March 2010. The differences are shown in Annex S4.

We have performed a sensitivity analysis by amending the valuation basis in key areas. The assumptions adopted for the sensitivity analysis are shown in Annex S5.

To determine whether a provision is required for a scheme, it is necessary to determine whether as at the insolvency date the value of the assets was less than the amount of Protected Liabilities (see Annex S1). The assumptions to determine this are derived from market conditions at the date of calculation following the published guidance on undertaking a valuation in accordance with section 179 of the Pensions Act 2004. This guidance is available on the Pension Protection Fund website; http://www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx

7. Method to calculate the actuarial liabilities, provisions and contingent liabilities

a) Actuarial liabilities

The method of calculating the actuarial liabilities is set out in my report to the Board dated 25 October 2010.

b) Provisions

The method of calculating the provisions (the same as that adopted as at 31 March 2009) varied according to the data that the Board was holding about the scheme as at 30 April 2010.

- If the Board was in possession of a section 143 or a section 179 valuation, then the methodology consistent with that to be applied for the financial year 1 April 2009 to 31 March 2010 was used to roll forward the valuation results on the basis described in paragraph six above. The 09/10 methodology is available in the Pension Protection Levy section of the Pension Protection Fund web-site at: http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/0910_determination_appendix_1.pdf
- If the Board was not in possession of a section 143 or a section 179 valuation, but did have a Minimum Funding Requirement (MFR) valuation, then the MFR valuation was initially transformed to a section 179 valuation (guidance version G3/A3) at the MFR valuation date using a methodology consistent with that available in the Pension Protection Levy section of the Pension Protection Fund website at http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/0910_determination_appendix_2.pdf
- The resulting section 179 valuation was rolled forward to the insolvency date and used as a proxy for a section 143 valuation to determine whether the scheme was in deficit at the insolvency date and hence whether it should be included in the provisions.
- If the scheme was in deficit the resulting section 179 valuation was then rolled forward to 31 March 2010 on the valuation basis using the same methodology .
- If the Board was not in possession of any scheme valuation report then it was assumed that the scheme was in deficit at the insolvency date and that the scheme's provision was estimated as the median provision for schemes where data was available.

Updated asset value information (as at 31 December 2009) and cash flow information for the period from the latest section 143, section 179 or MFR valuation (as appropriate) up until 31 December 2009 was sought from certain schemes classified as 'material schemes'. Material schemes are schemes where:

(i) the scheme satisfied the definition of a provision as set out in annex S1; and

(ii) one of the following applied:

1. Where an MFR valuation was used as the basis of the roll-forward and the MFR liabilities at the MFR valuation date were at least £30 million; or
2. Where a section 179 (or section 143) valuation was used as the basis of the roll-forward and the section 179 (or section 143) liabilities at the section 179 (or section 143) valuation date were at least £40 million

   In aggregate, a target of at least 75 per cent of the total liabilities of the Pension Protection Fund should be made up of material schemes and schemes which have already transferred into the PPF, plus schemes that had been considered material in previous years but no longer fit the definition.

   Where cash flow information was forthcoming from these schemes, this information was used to provide a more precise estimate of the scheme assets and liabilities as at 31 March 2010 than was available solely using the roll-forward methodology. In addition, where a material scheme provided an updated asset value at 31 December 2009, this was used in lieu of a roll-forward asset value.

   Where neither of these items was available, the roll-forward methodology was used without adjustment.

   In addition to the above, a provision is being set up in this valuation for the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997. This provision is to cover the cost of equalisation both on the liabilities of schemes that have already transferred to the PPF and the liabilities of schemes which contribute to the provisions.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990, and this includes equalisation for GMPs.

The Board has considered legal advice on how exactly compensation should be equalised to allow for the difference in the GMP formula for UK pension schemes. Calculations have then been carried out on a sample of notional member profiles broadly representative of schemes that have transferred into the PPF and schemes forming the provisions to determine an overall cost. This has then been used to establish a loading to be applied to all liabilities for schemes forming the provisions and all liabilities for transferred schemes. A separate provision has then been set up equal to the cost of equalising compensation for GMPs. The provision is 3 per cent of the actuarial liabilities and liabilities of schemes forming the provisions. This is a strengthening of the provision compared to that allowed for in my previous report (approximately 1.2 per cent) which takes account of the latest information available.

c) Contingent liabilities

The method adopted for contingent liabilities was identical to that for provisions where the Board was in possession of a section 179 valuation, except that neither cash flow information nor an updated asset value as at 31 December 2009 was sought. This was the same method as adopted last year. Where only an MFR valuation was available the methodology consistent with the determination to be used for the financial year 1 April 2009 to 31 March 2010 was used.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities are set out in Annex S6. We also show the results as at 31 March 2009 using the assumptions set out in the Report and Accounts as at 31 March 2009.

It is my opinion that the data collection processes and calculation methods described in section 7 have resulted in calculations that represent a reasonable estimate of provisions and contingent liabilities in aggregate for the Pension Protection Fund. I recognise that the use of summary data and roll-forward methodologies inevitably introduce approximations into the calculations, but I consider they remain appropriate for calculating aggregate provisions and contingent liabilities for the purposes of this Supplementary Report.

9. Actuarial Balance Sheets

Annex S7 sets out the actuarial balance sheets for the Pension Protection Fund as at 31 March 2010, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

(a) the present value of the liabilities of the Pension Protection Fund to pay sums or transfer property, as required under section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility. The total value is taken as £2,447,969,000, the same figure as was used in my actuarial valuation report of 25 October 2010; and

(b) my estimate of the present value of the liabilities of the schemes forming the provisions, as set out in Annex S6 of this report, which amounts to £9,070,017,000.

(c) my estimate of the present value of the cost of equalising compensation that is unequal on account of inequalities in GMPs, which amounts to £345,512,000.

Accordingly I have taken the liabilities of the Pension Protection Fund as at 31 March 2010 as £11,863,498,000.

In the actuarial balance sheets for the Pension Protection Fund as at 31 March 2010, the assets are:

(a) the value of the Pension Protection Fund assets determined in accordance with regulations 2, 4 and 5 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006/597); this value is taken as £4,658,671,000, the same figure as was used in my actuarial valuation report of 25 October 2010; and

(b) the sum of the estimated values of the assets in the schemes that generated the provisions described in section 2 of this report, plus any anticipated recoveries estimated on a prudent basis (£266,927,000); this figure amounts to £7,598,780,000.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2010 as £12,257,451,000.

10. Reconciliation of the change in the funding position

Annex S8 shows a reconciliation of the opening and closing net funding position in the actuarial balance sheet for the Pension Protection Fund, including the schemes that generate the provisions.

Signed: Stephen Rice

Date: 25 October 2010

Name: Stephen Rice

Job Title: Chief Actuary

Qualification: Fellow of the Institute of Actuaries

Employer: The Board of the Pension Protection Fund

Annex S1

Provisions in the Statement of Accounts for the financial period ending on 31 March 2010

The statement of accounts as at 31 March 2010 contains provisions in respect of eligible schemes, as defined in section 126 of the Pensions Act 2004 in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 30 April 2010
- the Board had not stated on or before 30 April 2010 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2010,
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 30 April 2010 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was in the Board's judgement (if the scheme had not yet transferred to the PPF), likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004 (determined on the section 179 basis as at the insolvency date).

Schemes which had, in the Board's judgement, a surplus of assets over the value of the Protected Liabilities at the insolvency date, but which may ultimately enter the PPF have been considered. A provision might be appropriate if there are a significant number of schemes in this position. I do not consider that this is so.

In addition, the position of schemes which, as a result of the rolling forward process set out in S3, have a surplus of assets over the estimated value of the Protected Liabilities at the valuation date, and therefore contribute a negative amount to the provisions, has also been considered. It might be appropriate to offset some of this negative provision if there are a significant number of schemes in this position because some of these schemes may not ultimately enter the PPF. Again, I do not consider that this is so.

In addition to the above provisions, I considered those schemes where a s143 valuation had been completed by the trustees and this showed an excess of assets over Protected Liabilities. These schemes did not, therefore, transfer into the PPF. There is a possibility that some of these schemes will return to the PPF within six months of the s143 valuation being signed off (for instance if the trustees obtained a buy-out quote that showed a deficit of assets compared with the Protected Liabilities). Of these schemes, it was considered that it was probable one of these schemes would obtain a buy-out quote that showed a deficit of assets compared with the Protected Liabilities. This scheme was, therefore, treated as a provision.

Additionally, an allowance for insolvency events that occurred on or before 31 March 2010 that have yet to be reported has also been made. This takes the form of an 'IBNR reserve' (Incurred But Not Reported reserve) which is determined by estimating the number of schemes where a claim has been incurred but not reported. This is calculated as a percentage addition to the number of schemes which have been reported and included as provisions. This percentage has been determined from an analysis of the average time lag between insolvency event occurrence and notification of such an event to the Board (via a section 120 notice) with consideration of the proportion of events resulting in a claim, as shown in the following table:

Number of months between insolvency event and Board receipt of S120 notice	Cumulative proportion of notifications received by each point in time
0	52%
1	84%
2	89%
6	95%
9	97%
12	97%
18	98%
28	100%

For this estimated number of schemes where a claim is yet to be reported, the provision is based on the median provision of schemes where a claim has been reported.

Additionally, we monitored the movement of the funding position in respect of schemes forming the provisions from 30 April 2010 to 25 October 2010 and our figures include the observed changes of sufficient materiality.

Annex S2

Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2010

Five types of contingent liabilities are disclosed in footnotes to the statement of accounts. The definitions are the same as last year.

1. Type 1 contingent liabilities are in respect of eligible schemes as defined in section 126 of the Pensions Act 2004 in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 had been received by the Board from an insolvency practitioner on or before 30 April 2010
- the Board had stated on or before 30 April 2010 that the insolvency event was a qualifying insolvency event
- the insolvency date was on or after 1 April 2010
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 30 April 2010 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

2. Type 2 contingent liabilities are in respect of eligible schemes in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 30 April 2010
- the Board had stated on or before 30 April 2010 that the insolvency event was NOT a qualifying insolvency event
- in the Board's judgement, a subsequent insolvency event, which will be a qualifying insolvency event, is likely, and
- as at 31 March 2010, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities, as defined in section 131 of the Pensions Act 2004.

3. Type 3 contingent liabilities are in respect of eligible schemes in relation to which:

- in the Board's judgement, as at 30 April 2010, no insolvency event has taken place, but the Board is nonetheless expecting to receive an insolvency event notice under section 120 of the Pensions Act 2004 from an insolvency practitioner in the future, and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability.

4. Type 4 contingent liabilities are in respect of schemes where:

- the Dun & Bradstreet failure scores are available to the Board and, based on the data available as at 21 May 2010, the score corresponding to the weighted insolvency probability of the scheme's participating employers was less than 10 (which means the probability of insolvency over the next year was greater than 4.68 per cent)
- the Board in its view had sufficient information as at 21 May 2010 about the scheme to enable the funding level as at 31 March 2010 to be estimated, and
- as at 31 March 2010, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

Out of a population of around 7,100 schemes considered, 157 had a failure score of less than 10 associated with them. Of these 157 schemes, 107 were in deficit.

There is the potential to have a slight overlap with the IBNR reserve referred to in Annex S1. In the context of the total contingent liabilities, I would expect the overlap to be trivial.

Type 4 contingent liabilities exclude any scheme already within the provisions or other categories of contingent liabilities.

It should be noted that in practice the schemes contributing to the type 4 contingent liabilities often changes considerably from one year to the next.

5. Type 5 contingent liabilities are in respect of the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990.

A contingent liability has therefore been established for the cost of equalising compensation in respect of contingent liability types 1 to 4 above.

Annex S3

Data

a) Data in respect of former members of schemes that were transferred to the Board on or before 31 March 2010

This data was shown in my report to the Board dated 25 October 2010.

b) Data in respect of provisions and contingent liabilities

There are 317 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2010 (and a further six schemes included via the IBNR estimate); liabilities in respect of another 59 schemes have not been recognised (ie not included in the provisions) because the value of their assets was, in the Board's judgement, likely to have exceeded the amount of the Protected Liabilities at their insolvency date. For Type 1 contingent liabilities, this recognition test was also undertaken at the insolvency date. For Type 2, Type 3 and Type 4 contingent liabilities the recognition test assessment was undertaken at the valuation date since a qualifying insolvency event had not occurred.

A database is maintained for schemes forming the provisions. Data used to identify these schemes is obtained from information sent to the PPF on an employer's insolvency. This data is updated when new information arises. For instance, when a claim is rejected by the PPF, the database is updated to reflect this information and the scheme is no longer included in the provisions calculations. In addition, the data used to place a value on the schemes forming the provisions is updated to allow for new information received by the PPF. We start off with data in relation to a s179 or MFR valuation which we already hold for the purposes of invoicing for levies, but as schemes near the end of their assessment period we will obtain a s143 valuation and the data from this will substitute any previous data held once there is confidence in the results of the s143 valuation. In other cases, for instance material schemes, the PPF will actively seek additional information from Trustees so as to supplement or replace the data previously held on its database where it feels this will provide a more accurate valuation.

For contingent liabilities, identification is either through the same database as is used for schemes forming the provisions (type 1 contingent liabilities) or from information that the PPF has gathered from other sources (such as Dun & Bradstreet, negotiations with companies and information submitted by the Pensions Regulator). The data used to place a value on these liabilities is taken from the information we hold for levy invoicing purposes. A database is not maintained over time for these schemes. A separate identification of contingent liabilities is made each year for the annual report and accounts and the latest data available is used in the valuation.

The numbers of schemes contributing to the various types of provisions and contingent liabilities are given in the table below:

Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2010	317 (376 in total)**	74,896	116,125
	2009	287 (326 in total)	71,130	118,302
Provision - IBNR	2010	6 (6 in total)	n/a	n/a
	2009	5 (5 in total)	n/a	n/a
Type 1 contingent liability	2010	8 (8 in total)	579	1,074
	2009	1 (1 in total)	273	763
Type 2 contingent liability	2010	4 (4 in total)	253	591
	2009	3 (3 in total)	472	521
Type 3 contingent liability	2010	12 (17 in total)	3,470	5,277
	2009	15 (15 in total)]	6,335	9,256
Type 4 contingent liability	2010	107 (157 in total)	15,254	35,290
	2009	84 (99 in total)	9,456	16,111

* Data in respect of recognised schemes only.

** As at 31 March 2010 we have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2009.

The valuation of the liabilities of the schemes forming the provisions and contingent liabilities has not been undertaken using member-by-member data as we do not hold this data. Instead, the historic valuation results available for the schemes have been used and rolled forward on a global basis. As such the valuation will not be as accurate as one undertaken using membership data for each scheme. This approach, while perhaps inappropriate for valuation purposes for some schemes on an individual basis, in aggregate is, in my opinion, acceptable for estimating provisions and contingent liabilities. Generally there is no reason to doubt the quality of the information provided within a particular scheme's valuation report. It is important, however, to note that any errors contained within the original scheme valuation will carry through to this valuation.

Because of the lack of uniformity of data summaries in individual schemes' valuation reports, it has not been possible to provide any other summary data about schemes in the various liability categories.

As we do not hold member-by-member data for the schemes forming the provisions, we have not been able to indicate the incidence of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes, we obtained information relating to the pensions in payment and deferred pensions by age band. This indicated that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

Annex S4

Assumptions

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 25 October 2010.

b) Basis adopted for Provisions and Contingent liabilities

1. Discount, inflation and pension increase rates

For the Provisions and Contingent liabilities it is not possible to use term-dependent rates as we do not have individual member data to be able to project cash flows. We have therefore made assumptions about the following:

- Discount rate in deferment (net of revaluation increases in deferment – see Annex M1 for a description of these increases),
- Discount rate in payment for non-increasing compensation for current pensioners,
- Discount rate in payment for non-increasing compensation for future pensioners,
- Discount rate in payment for increasing compensation for current pensioners (net of increases in payment – see Annex M1 for a description of these increases),
- Discount rate in payment for increasing compensation for future pensioners (net of increases in payment – see Annex M1 for a description of these increases).

These financial assumptions have been derived from the term-dependent rates shown in Annex M2. This has been done by assuming that cash flows for provisions will follow the same shape as cash flows for the Pension Protection Fund liabilities (with the exclusion of one scheme which we believe distorts the cash flows due to the fact that there was a high incidence of early retirement and due to the relative size of the cash flows of this scheme).

Single rates of discount, inflation and pension increases were determined so that the present values placed on each of the cash flows for pensioners and deferred pensioners was equal to the present value determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rate as set out in the following table.

Net discount rate	% pa
In deferment	0.9
In payment for non-increasing compensation for current pensioners	4.4
In payment for non-increasing compensation for deferred pensioners	4.6
In payment for increasing compensation for current pensioners	2.1
In payment for increasing compensation for deferred pensioners	2.2

2. Mortality

The mortality baseline in respect of a member is S1PMA with future changes in line with CMI_2009_M [1.50 per cent]. For the member's dependant, the baseline is S1DFA with future changes in line with CMI_2009_F [1.50 per cent]. These baseline tables and future projections have been issued by the CMI.

Because the liabilities are calculated by rolling forward the results of an earlier valuation, it is not possible to use the chosen assumptions precisely. Instead, ratios of annuity values using male mortality are used in the transformation of the valuation result. This straightforward and tractable approach is fit for purpose since men comprise the majority of pension scheme liabilities.

The possibility of scheme-specific mortality was considered for large schemes satisfying the following definition:

- Liabilities at the section 179 (or section 143) valuation date were at least £200 million on the section 179 (or section 143) basis.

Scheme-specific mortality was adopted where the Board had evidence that future mortality for large schemes as defined above was likely to be significantly different from the assumptions set out in the first paragraph. In consequence, in respect of one large scheme where in my opinion there is evidence that mortality is likely to prove significantly heavier than that described above, I have reduced the liability by assuming that the probability of death at each age will be 110 per cent of that used for all other schemes in assessment.

3. Proportion Married

80 per cent of members are assumed to be married or to have a relevant partner. Again, because the liabilities are calculated by rolling forward the results of an earlier valuation it is not possible to use sex-specific proportions married.

4. Age difference between member and dependant

Females assumed to be 3 years younger than males

5. Children's pensions

No specific allowance

6. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the Pension Protection Fund. Allowance has also been made for certain administration expenses incurred after transfer to the Pension Protection Fund, in respect of schemes which are likely to transfer to the Pension Protection Fund. In total these allowances amount to the standard expenses allowances under the section 179 valuation methodology.

Annex S5

Sensitivity analysis

Results have been calculated on the basis described in annex S4. However, the future is never certain, and a wide range of factors could affect the future finances of the PPF. It is possible to capture some measure of how different possible outcomes for these factors affect the PPF by showing different valuation results using different values for the assumptions set out in annexes M2 and S4. For instance, if recipients of PPF compensation were to live longer than expected, the cash flows out of the PPF would rise, other things being equal. The risks that such a change pose to the PPF can be investigated by showing the results of the PPF valuation modified to reflect different assumptions about mortality rates and longevity. Conversely, if the values of (non-bond) assets held as investments by the PPF and schemes in assessment were to rise by 10 per cent, there would be more assets to meet liabilities, which, other things being equal, would be unchanged.

The scenarios considered are as follows:

Scenario one: Identical assumptions as were used for the 31 March 2009 valuation

Scenario two: Assumptions based purely on the swaps curve at 31 March 2010 but with a deduction of 15 basis points, at each term

Scenario three: Assumptions based purely on the gilts curve at 31 March 2010

Under scenarios 1, 2 and 3 the effect of the basis change is on the actuarial liabilities and on the liabilities forming the provisions. For the avoidance of doubt, scenario 1 assumes that the discount rates used for the 31 March 2009 valuation applied as at 31 March 2010.

Scenario four: Assumes nominal yields increase by 0.5 per cent

Scenario five: Assumes nominal yields decrease by 0.5 per cent

Scenario six: Assumes that inflation increases by 0.5 per cent at each term

Scenario seven: Assumes that inflation decreases by 0.5 per cent at each term

In scenarios 4 to 7, we have looked at the effect on the invested assets and assets in respect of schemes forming the provisions as well as the effect on the liabilities.

Scenario eight: Assumes that the probability of death in each year of age is 90 per cent of that used in the main basis

Scenario nine: Assumes that the probability of death in each year of age is 110 per cent of that used in the main basis

Scenario 10: Assumes that the long-term projection in mortality improvement is increased by 0.5 per cent to 2.0 per cent per annum

Scenario 11: Assumes that the long-term projection in mortality improvement is decreased by 0.5 per cent to 1.0 per cent per annum

Scenario 12: Assumes non-bond type assets increase by 10 per cent at 31 March 2010

Scenario 13: Assumes non-bond type assets decrease by 10 per cent at 31 March 2010

Scenario 14: Assumes that the age difference between men and women increases by 1 year so that men will be 4 years older than their spouse or partner

Scenario 15: Assumes that the age difference between men and women decreases by 1 year so that men will be 2 years older than their spouse or partner

Scenario 16: Assumes that the proportion of married members increases by five per cent

Scenario 17: Assumes that the proportion of married members decreases by five per cent

Annex S5

A summary of the assumptions is shown below:

	Main Basis	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8
Discount rate in deferment	0.9%	0.9%	0.3%	0.9%	1.4%	0.4%	0.4%	1.4%	0.9%
Discount rate in payment for non-increasing compensation for current pensioners	4.4%	4.0%	3.9%	4.4%	4.9%	3.9%	4.4%	4.4%	4.4%
Discount rate in payment for non-increasing compensation for future pensioners	4.6%	4.5%	4.0%	4.6%	5.1%	4.1%	4.6%	4.6%	4.6%
Discount rate in payment for increasing compensation for current pensioners	2.1%	1.9%	1.7%	2.1%	2.6%	1.6%	2.0%	2.2%	2.1%
Discount rate in payment for increasing compensation for future pensioners	2.2%	2.2%	1.6%	2.2%	2.7%	1.7%	2.1%	2.3%	2.2%
Non bond assets	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value
Age difference (male age less female age)	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Proportion married	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4
Mortality	As in Annexes S4 and M4	As in 2009 Report	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	10% reduction in death rates

	Scenario 9	Scenario 10	Scenario 11	Scenario 12	Scenario 13	Scenario 14	Scenario 15	Scenario 16	Scenario 17
Discount rate in deferment	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Discount rate in payment for non-increasing compensation for current pensioners	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%	4.4%
Discount rate in payment for non-increasing compensation for future pensioners	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Discount rate in payment for increasing compensation for current pensioners	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%	2.1%
Discount rate in payment for increasing compensation for future pensioners	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%
Non bond assets	Market value	Market value	Market value	Increase by 10%	Fall by 10%	Market value	Market value	Market value	Market value
Age difference (male age less female age)	3 years	3 years	3 years	3 years	3 years	4 years	2 years	3 years	3 years
Proportion married	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4 plus 5%	As in Annexes S4 and M4 less 5%
Mortality	10% increase in death rates	2.0% long term mortality improve-ment	1.0% long term mortality improve-ment	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4	As in Annexes S4 and M4

Annex S6

Calculation results

a) Calculation of actuarial liabilities for members who have transferred into the Pension Protection Fund

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2010 plus a sum required to meet the remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 amount to £2,447,969,000.

b) Calculation of provisions

323 schemes were considered in relation to the provisions in the statement of accounts for the financial period ending on 31 March 2010, yielding the following estimated provisions (a comparison is shown with the equivalent figures from the 2009 Report & Accounts using the assumptions described in that report):

The table below shows the estimated assets held at 31 March 2010 in the 323 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated funding position in respect of those 323 schemes.

All amounts in £000s	**31 March 2010**	**31 March 2009**
Assets excluding anticipated recoveries	7,331,853	5,915,613
Anticipated recoveries	266,927	214,433
Total assets	**7,598,780**	**6,130,046**
Provisions	9,415,529	8,823,038
Excess of liabilities over assets	1,816,749	2,692,992

The liabilities recognised as provisions are the present value of the liabilities calculated at each valuation date on the relevant basis.

The provision assets have increased by £1,468,734,000 and this can be reconciled as follows:

	£m
Assets as at 31 March 2009	**6,130**
New schemes coming into assessment	1,365
Schemes accepted into the PPF (assets as at the transfer date)	(570)
Change in schemes' assets on account of known benefits paid out	(303)
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(176)
Claims now considered probable (schemes estimated to be in deficit at their assessment date)	6
Change in schemes' assets on account of other changes (including updated valuation information, changes in recoveries and investment returns)	1,147
	1,469
Assets as at 31 March 2010	**7,599**

The provision liabilities have increased by £592,491,000 and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2009	8,823
New schemes coming into assessment	1,650
Schemes accepted into the PPF (liabilities as at the transfer date)	(798)
Claims no longer considered probable (exits or schemes estimated to be in surplus as at their assessment date)	(215)
Claims now considered probable (schemes estimated to be in deficit as at their assessment date)	8
Effect of passage of time on discounting	374
Change in schemes' liabilities on account of change in financial assumptions	52
Change in mortality assumptions	(213)
Change in schemes' liabilities on account of known benefits paid out	(303)
Change in allowance for equalisation of GMPs	213
Change in schemes' liabilities on account of updated valuation information	(176)
	592
Provision liabilities at 31 March 2010	**9,415**

c) Calculation of contingent liabilities

The estimated amounts for the various types of contingent liabilities were as follows (a comparison is shown with the equivalent figures from the 2009 Report and Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability *All amounts in £000s*	**Estimated scheme funding positions / GMP equalisation costs (for type 5 contingent liabilities) as at 31 March 2010**	**Estimated scheme funding positions / GMP equalisation costs (for type 5 contingent liabilities) as at 31 March 2009**
1	34,373	17,395
2	8,585	22,873
3	155,385	291,809
4	621,893	315,317
5	115,301	47,984
Total	**935,537**	**695,378**

The liabilities recognised as contingent liabilities are the present value of the deficit calculated at each valuation date on the relevant basis.

Shown below are the total assets and total liabilities that correspond to the above deficits (contingent liabilities). A comparison is shown with the equivalent figures from the 2009 Report and Accounts under the Main Assumptions basis.

Type of contingent liability *All amounts in £000s*	**31 March 2010 Assets**	**31 March 2010 Liabilities**	**31 March 2009 Assets**	**31 March 2009 Liabilities**
1	65,201*	99,574	22,959*	40,354
2	50,871	59,456	37,190	60,063
3	398,437	553,822	757,793	1,049,602
4	2,508,622	3,130,515	933,873	1,249,190
5		115,301	N/A	47,984
Total	**3,023,131**	**3,958,668**	**1,751,815**	**2,447,193**

* at this stage it is too early to assess whether any recovery is available for this type of contingent liability so none has been assumed

Annex S7

Actuarial balance sheet

On the main 31 March 2010 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	*£000s*
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (valuation of the assets and liabilities of the Pension Protection Fund) Regulations 2006	4,658,671
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries*	7,598,780 **
Total assets	**12,257,451**

Liabilities	*£000s*
The present value of the liabilities of the Pension Protection Fund to pay sums or transfer property as required under section 173(3) of the Pensions Act 2004	2,447,969
The present value of the liabilities of the schemes forming the provisions (inclusive of the cost of equalisation for GMP for both the Pension Protection Fund liabilities and the provision liabilities)	9,415,529
Total liabilities	**11,863,498**

Excess of assets over liabilities	**393,953**
Funding ratio (assets / liabilities)	103%

* Inclusive of an allowance for IBNR (scheme assets of £27,599,000 and liabilities of £33,102,000)

** Inclusive of anticipated recoveries of £266,927,000

I have also calculated the actuarial liabilities and the liabilities of the schemes forming the provisions using the bases set out in Annex S5.

Annex S7

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as follows

All amounts in £m	Main Basis	Scenario 1 2009 basis	Scenario 2 2010 Swaps less 15 basis points	Scenario 3 2010 gilts	Scenario 4 2010 Nominal plus 0.5%	Scenario 5 2010 Nominal less 0.5%	Scenario 6 2010 Inflation plus 0.5%	Scenario 7 2010 Inflation less 0.5%	Scenario 8 10% reduction in death rates
Assets									
The value of the Pension Protection Fund assets	4,658	4,658	4,658	4,658	4,104	5,306	5,101	4,253	4,658
The values of the assets in the schemes that generated the provisions	7,599*	7,599*	7,599*	7,599*	7,238*	7,996*	7,680*	7,526*	7,599*
Total assets	**12,257**	**12,257**	**12,257**	**12,257**	**11,342**	**13,302**	**12,781**	**11,779**	**12,257**
Liabilities									
The present value of the liabilities of the Pension Protection Fund	2,448	2,546	2,711	2,448	2,240	2,688	2,545	2,357	2,507
The present value of the liabilities of the schemes forming the provisions	9,415	9,585	10,481	9,417	8,599	10,354	9,913	8,956	9,629
Total liabilities	**11,863**	**12,131**	**13,192**	**11,865**	**10,839**	**13,042**	**12,458**	**11,313**	**12,136**
Excess of assets over liabilities	**394**	**126**	**(935)**	**392**	**503**	**260**	**323**	**466**	**121**
Funding ratio (assets / liabilities)	103%	101%	93%	103%	105%	102%	103%	104%	101%

All amounts in £m	Scenario 9 10% increase in death rates	Scenario 10 Long term mortality improve-ment plus 0.5%	Scenario 11 Long term mortality improve-ment less 0.5%	Scenario 12 Non-bond type assets increase by 10%	Scenario 13 Non bond type assets fall by 10%	Scenario 14 Age difference increased by 1 year	Scenario 15 Age difference reduced by 1 year	Scenario 16 Proportion married increased by 5%	Scenario 17 Proportion married reduced by 5%
Assets									
The value of the Pension Protection Fund assets	4,658	4,658	4,658	4,760	4,559	4,658	4,658	4,658	4,658
The values of the assets in the schemes that generated the provisions	7,599*	7,599*	7,599*	7,806*	7,391*	7,599*	7,599*	7,599*	7,599*
Total assets	**12,257**	**12,257**	**12,257**	**12,566**	**11,950**	**12,257**	**12,257**	**12,257**	**12,257**
Liabilities									
The present value of the liabilities of the Pension Protection Fund	2,394	2,502	2,395	2,448	2,448	2,460	2,435	2,462	2,434
The present value of the liabilities of the schemes forming the provisions	9,219	9,635	9,200	9,415	9,415	9,469	9,363	9,470	9,360
Total liabilities	**11,613**	**12,137**	**11,595**	**11,863**	**11,863**	**11,929**	**11,798**	**11,932**	**11,794**
Excess of assets over liabilities	**644**	**120**	**662**	**703**	**87**	**328**	**459**	**325**	**463**
Funding ratio (assets / liabilities)	106%	101%	106%	106%	101%	103%	104%	103%	104%

*Inclusive of anticipated recoveries of £267m

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made.

Annex S8

Comparison with the funding position as at 31 March 2009

Under IAS 37 a reconciliation is required of the opening and closing net funding position on the actuarial balance sheet, including schemes that generate the provisions. I show this as a table below:

Reconciling item	£m
Excess of liabilities over assets on the actuarial balance sheet at 31 March 2009	**(1,230)**
Change in actuarial liabilities (this is further broken down in section 7 of my report on the actuarial valuation of the Pension Protection Fund)	(711)
Change in liabilities for schemes forming the Provisions (this is further broken down in Annex S6)	(592)
Change in Pension Protection Fund assets (this is further broken down in section 6 of my report on the actuarial valuation of the Pension Protection Fund)	1,458
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	1,469
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2010	**394**

The overall impact on the PPF liabilities and the provision liabilities as a result of the change in mortality assumptions for 2010 was a reduction in liability of £260m.

Pension
Protection
Fund

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
Surrey CR0 6SR

T: 0845 600 2541
F: 020 8633 4903

www.pensionprotectionfund.org.uk

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