Pension Protection Fund Annual Report & Accounts 2015/16

PROTECTING PEOPLE'S FUTURES

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Pension Protection Fund Annual Report & Accounts 2015/16

Annual report presented to Parliament pursuant to Section 119(5) of the Pensions Act 2004 and Accounts presented to Parliament pursuant to paragraph 22(6) (b) of Schedule 5 to the Pensions Act 2004.

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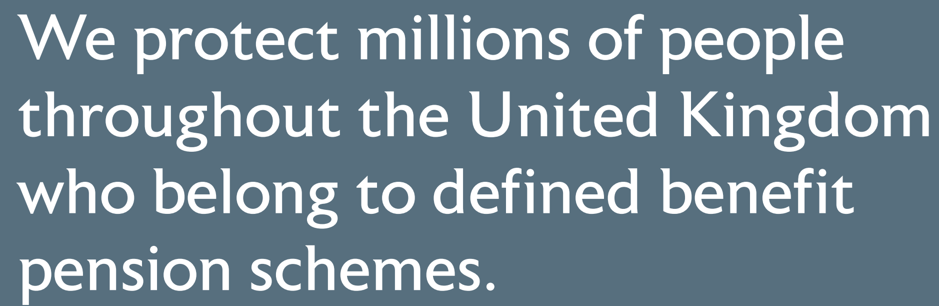
We protect millions of people throughout the United Kingdom who belong to defined benefit pension schemes.

The top team

Chairman

Lady Judge CBE

Chief Executive

Alan Rubenstein

Executive Board Members

Andy McKinnon

David Taylor
(From 1 June 2015)

Non-executive Board Members

Rosemary Hilary
(From 4 January 2016)

Alan Jenkins

Kate Jones
(From 15 February 2016)

Tom Joy

Sharmila Nebhrajani OBE

Arnold Wagner OBE

Baroness Warwick of Undercliffe

Members of the Executive Committee

Hans den Boer

Katherine Easter

Barry Kenneth

Sara Protheroe

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Chairman's statement

Lady Judge CBE
Chairman

The protection we provide to our members is, for many of them, life-changing. The PPF plays a vital role in the UK's pensions landscape. Without it, the 11 million members of defined benefit schemes would have no protection should their employer fail. The service, security and reassurance that the PPF provides to its pension members in unsettling times should not be underestimated.

It has been an honour to be Chairman of the PPF for the last six years. Sadly my term comes to an end this summer but I know the PPF will continue to go from strength to strength.

The organisation has transformed dramatically since it was formed in 2005 – even over the six years since I became Chairman. It has grown to a sophisticated business of more than 300 people, with over £23 billion in assets. The PPF has a unique insight into pensions and now demonstrates real innovation in many areas of business, including investment and member services.

We finished the financial year in a strong position, despite the many challenges of the economy and the defined benefit universe. Our funding ratio increased to 116.3 per cent. This is no mean feat in the current economic environment and should stand as a testament to the effectiveness of our funding strategy and investment principles.

We remain on track to meet our funding target. We will not, however, become complacent; we know that large schemes will come our way from time to time, but we have planned for this and we believe we are well placed to face the challenges the future holds.

Much has altered in the world of pensions since I joined this organisation. In just the last few years we have seen drastic shifts with state pension changes, the introduction of auto-enrolment and greater freedoms for defined contribution scheme members. These changes provide more choice for consumers, address the requirements of an ageing workforce and tackle the need for everyone to save for old age.

Many of the same challenges faced by pensions when the PPF was formed in 2005 still apply today. Our most recent Purple Book, the tenth edition, revealed a decade of change in the defined benefits landscape, with worsening deficits and an increasing likelihood that many schemes will not be able to fulfil their pension promises.

Pensions will continue the process of transformation as society evolves and the economy changes, but the PPF will continue to play an important role in UK pension provision for decades to come. The responsibility we have to our members stretches onwards into the 22nd century. I am confident that the PPF will rise to the challenge, becoming even stronger and more sophisticated as it continues to fulfil its mission.

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Chairman's statement

Societal shifts and an ageing population are beginning to alter our preconceptions about old age. People are working longer – not just because they have to, but in many cases because they want to. I am passionate about the benefits of staying in work. Working enables people to maintain skills, keep their minds active, retain social networks and – crucially – continue to make a contribution to society. Older workers bring invaluable skills to the workforce and the economy risks losing their talents if this issue is not tackled.

In my statement in last year's Annual Report and Accounts I thanked John Bevington and Dick Barfield, whose terms as non-executive directors came to an end during the year. It was a pleasure to continue serving with them for their last months at the PPF.

This year it has given me great pleasure to welcome Rosemary Hilary, Kate Jones and Jayne Nickalls to our Board. Jayne joins the day after my term ends but I was delighted to play a part in appointing her as one of my final duties here. Each of them brings unique experience and abilities to the PPF. I am hugely encouraged by the fact that the PPF's Board now has almost as many women as men. Truly diverse boardrooms make good business sense, and the success of the increasing number of women on boards is a step towards achieving this goal.

I am immensely proud of the work the PPF does and what the organisation has achieved in the last six years. I would like to thank our Board, our Chief Executive, our Executive Committee and everyone at the PPF for their outstanding work and dedication to achieving our mission of protecting people's futures. It has been a pleasure and a honour to serve with them for the benefit of our many stakeholders.

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The Performance Report
Chief Executive's review

Alan Rubenstein
Chief Executive

The PPF was established by the 2004 Pensions Act to restore confidence in occupational pensions. It provides a level of security for members of defined benefit schemes, giving them reassurance that meaningful compensation will be paid even if their employer becomes insolvent.

Over a decade after our creation, we have grown into a sophisticated organisation, with a healthy financial position and a strong balance sheet. At the end of March, the PPF was 116.3 per cent funded with £4.1 billion of reserves and £23.4 billion of assets under management. We have a robust strategy in place to confront current and future scenarios. With recent events bringing the PPF into the public eye more than ever since our foundation, members of defined benefit schemes can be reassured that their financial future remains strongly protected should their employer fail.

Despite the failure of BHS shortly before our year end and the entry of its pension schemes into a PPF assessment period, our long-term risk model predicts that we will achieve financial self-sufficiency in 93 per cent of scenarios – up from 88 per cent last year. We have a clear view of our potential future liabilities and our modelling fully allows for the fact that inevitably, further large schemes will enter the PPF from time to time.

We are very conscious of the risks we face in protecting a universe with an aggregate deficit at the end of March 2016 of £302 billion, but we remain confident that our funding strategy is on track and that we are in a strong position to face uncertainties.

The wider economic environment has presented further uncertainty in the past year, with particularly volatile markets. However, our award-winning investment strategy has helped us to weather these storms. Our return-seeking assets delivered positive returns despite the difficult backdrop, while our liability-driven investment programme continued to be successful in matching the sensitivities of our liabilities.

Since this Annual Report and Accounts was prepared, the United Kingdom has voted to leave the European Union. At this stage, it is not clear how the referendum result might be implemented or what the full consequences of the outcome will be. However, our low-risk approach and hedging strategy, combined with our strong balance sheet, mean we are well placed to cope with any uncertainty or market volatility which follows. We therefore remain confident that we are sufficiently robust to continue to pay compensation to pension scheme members who need it for as long as required.

Two major successes that we have achieved over the last 12 months, both representing great improvements in the experiences of our members and levy payers, have also been milestone events in the PPF's development.

We completed work to bring our PPF member services in-house, giving us more control and flexibility over the service and experience we offer our members. It has been a huge task, which has seen us implement new IT and administration systems and set up a new team of 60 people. The hard work has been well worth it however, as evidenced by our customer satisfaction scores.

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The Performance Report
Chief Executive's review

Another inherent challenge that the PPF faces lies in striking a balance between protecting future compensation for members and keeping the levy at acceptable levels. 2015/16 was the first year in which we calculated levy invoices using our new insolvency risk model. It gives a more accurate assessment of insolvency risk score because it was developed using historical insolvency data from the universe of PPF-eligible employers, rather than the broader UK corporate landscape that generic models are based on. It also provides, for the first time, transparency in how the levy is calculated (including a 'What If' model levy payers can use to assess the impact of any changes to their financial data) and as a result, feedback from our stakeholders has been generally positive, while the number of appeals has actually fallen.

Now that the PPF is equivalent in size to some of the largest pension funds in the UK, we believe it is appropriate to develop our asset management capabilities to reflect this. We have already made substantial progress in laying the groundwork to insource our liability-driven investments and this project will be a significant focus over the coming year.

We will see another significant change in September 2016 as we close the Financial Assistance Scheme (FAS) to new applications. The scheme was originally set to close in 2006 but we have kept it open for a further 10 years to give any remaining schemes the chance to apply. Since taking on responsibility for FAS in 2009 we have successfully transferred in more than 1,000 schemes, providing assistance to 155,000 members.

We will also say goodbye to our Chairman this year. I speak for all of us when I say it has been a pleasure to work with Lady Judge and I would like to thank her for everything she's done for the PPF. We wish her all the very best in her new ventures.

Finally and most importantly of all, I want to say a big thank you to everyone who works at the PPF for their outstanding efforts and their commitment to our mission. Our people never stop looking for ways to improve things for our members and stakeholders. We would be nothing without the talented people who work here so I was delighted that, for the third year in succession, the PPF featured on the Sunday Times list of the Best 100 not-for-profit organisations to work for. It is a fitting recognition.

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The Performance Report
Overview

Fraud Compensation Fund

We also pay compensation to members of work-based pension schemes of all types whose employers become insolvent and their schemes have lost out financially because of dishonesty.

The compensation is paid for through a separate levy on all pension schemes.

Financial Assistance Scheme

The Government handed over responsibility for the day-to-day running of the Financial Assistance Scheme (FAS) to the PPF in July 2009, although all FAS activities remain funded by the taxpayer rather than a levy.

The FAS pays financial assistance to people who belonged to certain defined benefit pension schemes which are ineligible for PPF compensation.

We protect about 11 million people throughout the United Kingdom who belong to defined benefit, e.g. final salary, pension schemes.

If their employers become insolvent, and their pension schemes cannot afford to pay people their pensions, we will compensate them financially for the money they have lost.

More than a hundred and twenty thousand people now receive compensation from us and hundreds of thousands more will do so in the future.

We get the money we need to pay compensation in a number of ways. We:

- charge a levy on all eligible pension schemes
- take on the assets of schemes that transfer to the PPF
- recover money, and other assets, from the insolvent employers of the schemes we take on, and
- invest all income and assets, as part of a prudent yet innovative strategy, aimed at making sure we can pay members' compensation for as long as they are entitled to it.

The PPF is a public corporation, set up by the Pensions Act 2004, and is run by an independent Board. It reports to Parliament through the Secretary of State for Work and Pensions.

The Executive Committee

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The Performance Report
Overview

	At 31 March 2016	At 31 March 2015	
Funding level calculated on an actuarial basis	116.3 per cent	115.1 per cent	↑1.2pts
Likelihood of meeting target of being financially self-sufficient by 2030	93 per cent	88 per cent	↑5pts
PPF investments	£23.4 billion	£22.6 billion	↑4%
Actuarial liability for members transferred to the PPF	£18.3 billion	£17.8 billion	↑3%
PPF compensation paid to date	£2.4 billion	£1.8 billion	↑33%

	Between 1 April 2015 and 31 March 2016	Between 1 April 2014 and 31 March 2015	
PPF compensation paid to members	£616 million	£564 million	↑9%
FCF compensation paid	£ nil	£4 million	-
Total net income generated	£405 million	£1,176 million	↓66%
Total levies raised	£558 million	£574 million	↓3%
Total operating costs	£55 million	£56 million	↓2%
Values of new claims from schemes entering PPF assessment	£476 million	£322 million	↑48%
Investment return	1.7 per cent	25.9 per cent	↓ 24.2pts
Total assets from transferred schemes	£0.6 billion	£1.8 billion	↓ 67%

Unless otherwise stated, references in the Performance Report are for the Pension Protection Fund only.

The Performance Report
Overview

PPF

Between 1 April 2015 and 31 March 2016:

- the number of members increased to 225,534, comprising 105,491 deferred and 120,043 pensioner members
- 16,019 people were members of schemes that completed the PPF assessment period during the year, and
- the excess of assets over liabilities in respect of those schemes already transferred into the PPF has increased from £4.9 billion to £5.3 billion, equivalent to a funding ratio of 129 per cent for schemes already transferred.

By the end of the year, we were supporting 120 schemes in the assessment period, with assets of £5.4 billion and liabilities of £ 6.7 billion.

FAS

Between 1 April 2015 and 31 March 2016:

- 23 FAS schemes completed wind-up. A total of £141 million of scheme assets were transferred to Government, and
- the number of people receiving FAS assistance increased from 48,284 to 54,165 and the FAS paid out £209 million.

Since FAS started, a total of £881 million has been paid out and 1,306 schemes have looked to qualify for FAS. By 31 March 2016, 1,068 of these schemes had actually qualified.

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The Performance Report
Statement on going concern

In order to comply with the Government Financial Reporting Manual when preparing this annual report and accounts, we have to explain why we have adopted a 'going concern' basis for the organisation. An organisation deems itself a going concern if its management believe that the organisation will continue to operate and there is no intention, nor need, to close down its functions. After reviewing the three funds which we operate, cash flow forecasts and our powers to raise levies and control outgoings, we believe it appropriate to adopt a going concern basis for the PPF as a whole because we believe we have enough resources to continue operating for the foreseeable future.

Pension Protection Fund

For the PPF, we considered the following factors when forming this view:

- our cash flow forecasts, which indicate that cash and other asset inflows will significantly exceed outflows for the foreseeable future, supported by:
- our levy raising powers – see **(www.pensionprotectionfund.org.uk/levy/aboutlevy/Pages/AbouttheLevy.aspx)** and
- our reserve powers on compensation levels – see **(www.pensionprotectionfund.org.uk/Pages/Compensation.aspx)**.

Fraud Compensation Fund

The volume of claims on the FCF remains at relatively low levels so we do not have enough statistics to forecast the level of future claims accurately. We therefore remain vulnerable to an unexpected rise in the volume of claims or unusually large or urgent claims.

However we have reviewed our powers and obligations and decided that the going concern basis remains appropriate for the FCF for the following reasons:

- none of the claims which the FCF has received and which it will probably have to pay out on are from schemes that have immediate cash flow requirements
- claims take some time to investigate and validate, which gives us time to plan how we will settle them
- we have powers to settle claims in instalments in order to ease any strain on the Fund's cash flow, and
- during the year, the Board maintained its funding strategy for the FCF which is to build up a small surplus in the Fund by raising a levy where necessary.

Administration Fund

In considering the going concern status of the Administration Fund, we took into account the status of the Board as an independent statutory corporation, while also recognising that the Board receives funding from its sponsor department, the Department for Work and Pensions (DWP), in the form of grant-in-aid, to cover all of its expenditure on its functions as FAS scheme manager, and its expenditure on certain PPF administration functions. We also considered the regulations under which DWP finances its payments to the Board on grant-in-aid for PPF administration functions by raising a PPF Administration Levy from eligible pension schemes. We decided that the going concern basis for the Administration Fund remains appropriate because of the robust financial procedures governing:

- the setting of operating budgets, including administration budgets which inform the setting by DWP of the rates of the PPF Administration Levy
- in-year reviews and forecasts of administration expenditure
- controls over applying for grant-in-aid from DWP, and
- the segregation of levy payer-funded PPF activities and Government-funded FAS-related activities.

Audit disclosures

I confirm that I have taken all appropriate steps to make myself aware of any relevant audit information and made sure that the Board's auditor is aware of that information. As far as I am aware, there is no information that the Board's auditor is unaware of. I also confirm that no remuneration for any work other than the statutory audit has been paid to the auditors.

The Performance Report
Strategic plan

When the PPF was set up over a decade ago, it was to protect the millions of people who belong to defined benefit pension schemes in case their employer, or former employer, failed and the scheme could no longer afford to pay their promised pension.

Our vision to protect people's futures is as strong now as it was then – if the PPF did not exist, many people could face significant financial uncertainty and hardship. We remain resolutely committed to pay the right people the right amount at the right time.

1. Meet our funding target through prudent and effective management of our balance sheets

We need to ensure we can pay members the compensation they are entitled to. Our strategic ambition is to be financially self-sufficient by 2030 which means we will have confidence about being sufficiently funded to meet our long-term liabilities. Our Funding Strategy Update, published alongside our Annual Report and Accounts, details the progress we are making. Our funding ratio has increased slightly, from 115.1 per cent to 116.3 per cent in the last year.

2. Deliver excellent customer service to our members, levy payers and other stakeholders

In 2015 we successfully completed the programme to bring PPF member services in-house. We want to offer a level of service that ensures all our members would choose us if they could. In the past year we have completed the move to our new insolvency risk provider, Experian, and we have implemented changes that we believe significantly improve the pension protection levy. Feedback from stakeholders has been broadly supportive of the new model.

3. Pursue our mission within a high calibre framework of risk management

As the PPF continues to grow and the economic environment remains uncertain, with significant pension scheme deficits, we have worked to ensure that an enhanced risk management framework is embedded across the organisation. We have a good understanding of the exposure of our risks, using a comprehensive data set that we publish in the form of the PPF 7800 Index and Purple Book. This underlying data set supports our modelling and risk management, which feeds into our funding strategy.

Furthermore, we are committed to pursuing the best risk management practice in the industry and this is reflected in the skills, experience and knowledge that we attract into the business.

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The Performance Report
Performance analysis

Andy McKinnon
Chief Financial Officer

The PPF's mission is to pay the right amount to the right people at the right time. In order to do this we must be sufficiently funded to pay compensation to our members now and in the future, including members of schemes which may enter the PPF in years to come.

One of the three cornerstones of our strategy is to ensure we meet our funding objective through prudent and effective management of our balance sheet. Our funding strategy informs the financial decisions we make. We update our strategy annually, reviewing and reporting on the progress towards our funding objective, which is to become financially self-sufficient at a point where future claims become low relative to the size of PPF liabilities.

Performance for the year

2015/16 was a year of change, in which we implemented new models, processes and functions which will enable us to better fulfil our mission in the future. We finished the year in a strong position, with £4.1 billion in reserve. Our funding ratio rose from 115.1 per cent to 116.3 per cent by the end of the year, after taking the BHS schemes into assessment.

While the external environment and the universe of schemes we protect continue to present challenges, our financial position has remained robust. Following a very positive financial performance in recent years, this was a more challenging year, particularly in terms of the volatility in global markets. However our investment strategy and the decisions we have made have served us well, helping us to weather the storm.

Our contingent liabilities have increased significantly to c. £1.6 billion. This increase includes provision for the British Steel Pension Scheme. While we do not know what will be the final outcome of the current well-publicised discussions, we are here to protect the members of all defined benefit pension schemes and based on the information available to us, we believe that we have sufficient reserves should this scheme come to us during the coming year. While we cannot accurately predict whether or when individual schemes may come to us, we have a clear view of our potential future liabilities and our modelling assumes very large schemes from time to time. This enables us to make sure that we are in a position to take on schemes such as this one and to protect members' financial futures.

Overall, during 2015/16 the PPF has maintained a good financial performance and put itself in a strong position to face the uncertainties ahead.

Our probability of success has changed from 88 per cent to 93 per cent at the end of March 2016. The increase is primarily due to enhancements in modelling. This is a key indicator of progress towards our stated funding objective although it is dependent on a number of assumptions. For example, if we were to reduce by one per cent per annum the assumed return on growth assets, then the probability of success would reduce by six per cent.

How the PPF is funded

Compensation, and the cost of running the PPF, is paid for through levies on eligible pension schemes, income from our own investments, and assets from schemes that come into the PPF and recoveries from insolvent employers of the schemes we take on.

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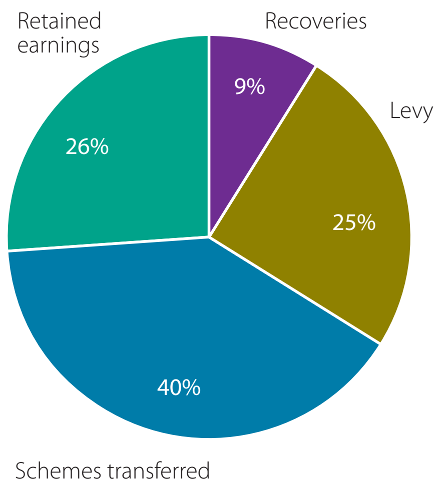
The Performance Report
Performance analysis

Effective stewardship

The PPF now owns and manages £23.4 billion of assets. We have invested carefully, in line with our investment strategy, and managed our risks and costs effectively, with our operating costs coming in under budget again this year. Since its foundation, the PPF has collected levies of £5.9 billion, transferred in assets of £9.3 billion from schemes in deficit and recovered a further £2.0 billion from insolvent employers. The remaining £6.2 billion represents the earnings we have achieved on those assets, after covering compensation payments and our operating costs.

The composition of our assets by source is:



Managing change

Our 2015 Strategic Plan highlighted the extent of change and growth in the organisation since 2005. We said we would complete the insourcing of our member services function and that we would provide a high quality experience for levy payers under our new Experian model. We outlined our plans to enhance our risk management and information management systems, and we planned to implement our revised model for investment operations.

As we evolve as an organisation, we strive for continuous improvement by seeking efficiencies, challenging the way we do things and making sure we have the right processes and structures in place. The PPF began 11 years ago as a small organisation of 20 people. Now that we have grown to over 300 people there are opportunities to review our operating model and test whether we should bring some of our business functions in-house. We do this in a considered and measured way, only where insourcing would be in the interests of our members and levy payers and when we are assured that we are capable of taking on the additional work, responsibilities and risks.

Fund management fees continue to dominate our costs, so we are confident that the move to insource part of our investment function will bring additional savings, alongside the primary objective of giving us greater control over our assets.

Key claims and compensation figures

The number of new claims on the PPF is low compared to recent years, although the value of claims is higher than last year. 47 new schemes brought combined claims of £475.9 million compared to £322.3 million in 2014/15. Of the £2.4 billion total compensation we have paid since we were first set up, £616.0 million was paid out in 2015/16. Between 1 April 2015 and 31 March 2016 10,005 members transferred to the PPF.

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The Performance Report
Managing our balance sheet

Barry Kenneth
Chief Investment Officer

Our overall objective is to ensure that our invested assets are sufficient to enable us to meet claims for compensation. As at 31 March 2016 our assets were valued at **£23.4 billion**. Our investment strategy combines a diversified portfolio of assets with a liability-driven investment programme that ensures we control our portfolio risk and use our target level of investment risk effectively, in order for us to meet our long-term obligations to our members.

Ongoing economic uncertainty and volatile markets resulted in the past year being extremely challenging in terms of making positive returns. As a result of the uncertainty we took a conscious decision to operate at the lower end of our target level of investment risk. However, despite the challenging backdrop we successfully continued to add positive returns to the portfolio versus our liability benchmark, in a year when the FTSE 100 Index dropped 8.8 per cent. The decision to reduce our risk to reflect the economic reality has been beneficial, enabling us to achieve good results in a very tough environment.

Our liability-driven investments (LDI) programme continues to deploy a strategy of matching the interest rate and inflation sensitivity of our liabilities. The increase in the present value of our liabilities has been significant owing to the fall in long-term interest rates. For example, 20 year swaps fell from 1.9 per cent yield at the start of the year to 1.7 per cent at the end of the year – a drop of around 12.8 per cent. Our LDI strategy is designed to largely neutralise these interest rate and inflation moves.

We have also maintained our approach of investing more broadly. Our return-seeking assets returned 1.4 per cent. Although we adopted a revised Statement of Investment Principles in January 2016, our strategic asset allocation, which we believe to be the best strategy to enable us to meet our funding objectives, remained unchanged.

The investment objective is for our assets to outgrow our liabilities by 1.8 per cent annualised on a three-year rolling basis. As previously mentioned this has been a tough year for investments but our assets have continued to outperform our liabilities this year. Over the last three years returns have outperformed liabilities by an annual 2.4 per cent over Libor or 60 bp annualised over our investment target.

Broadening our investments

We have continued to build our exposure to hybrid and alternative assets in line with the evolving asset allocation we announced in July 2014. These provide diversification benefits, as well as an attractive risk adjusted return to benefit our members and levy payers. Given our long-term investment horizons, we are also able to benefit from the premium available from investing in less liquid assets. As part of this, in March 2016 we partnered with Legal & General Retirement to provide £400 million of long-term financing for DP World's London Gateway. This is the most significant port development in the UK in over 20 years.

Infrastructure investment is a key component of long-term alternative strategies, and in August 2015 we became part of a consortium investing £4.2 billion in London's new super-sewer, the Thames Tideway Tunnel. This is one of the biggest infrastructure projects in Europe. We have also remained supportive of the development of the Pensions Infrastructure Platform. As the PPF continues to grow its investment capabilities we will continue to work with other pension providers and institutions on innovative investments where we see collaborative opportunities.

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The Performance Report
Managing our balance sheet

Investment insourcing

The day to day fund management of our assets is performed both by external fund managers and an in-house team of investment professionals. Now that the PPF is equivalent to one of the largest pension funds in the UK, we are developing our asset management capabilities to reflect this. This includes insourcing some aspects of our portfolio and implementing an investment operations function to support the new investment operating model.

The decision to insource part of our investment management capability marks the next step in our evolution, allowing us to more closely control and effectively manage our growing assets. The project is well underway in terms of systems and personnel.

We are planning a phased approach to insourcing, starting with our liability-driven investments, which we are looking to transition part of in 2016. As part of this we announced the appointment of Trevor Welsh into a newly formed role, Head of Liability Driven Investment, in August 2015.

Our new risk management systems are now in place to support insourcing and during the year we procured a portfolio management system which gives us the ability to manage assets in-house, together with other key internal processes which continue to be developed to go live later in the year. However, this is a long-term plan, focused on managing funds in a considered and sustainable way. We will take the time we need to make this work for the long-term interests of our members.

Recoveries

In the last year we have made recoveries of some £94 million from insolvent employers whose pension schemes have entered assessment. This continues to be an important source of assets to reduce the cost to our levy payers.

In January 2016 we reissued our General Guidance for Insolvency Practitioners as a reminder of the circumstances in which the PPF will become involved with a restructuring. In order to ensure employers do not 'dump' schemes in the PPF, we work closely with The Pensions Regulator to ensure any scheme that enters the PPF is the subject of actual or inevitable employer insolvency.

BHS

While most of the year was quiet in terms of insolvencies, a notable event was BHS. Following the lodging of a Company Voluntary Agreement (CVA) the BHS pension schemes entered the PPF assessment process in March. In April the retailer went into administration. The Pensions Regulator is undertaking an investigation into the BHS pension schemes to determine whether it would be appropriate to use its anti-avoidance powers. Members of the BHS schemes have been protected since entering assessment.

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The Performance Report
Risk management

Hans den Boer
Chief Risk Officer

One of the PPF's three key strategic objectives is to pursue our mission within a high calibre framework of risk management. Assessing and managing our risks is crucial to fulfilling our role to provide compensation to our members and to protect the 11 million people with defined benefit (DB) pensions. The PPF risk universe includes the full breadth of our financial and non-financial risks. We categorise these risks as strategic, funding, financial or operational risks and ensure they are monitored and, where appropriate, measured against the Board's risk appetite. Given that the PPF operates over a significant time horizon in continuing uncertainty, risks are considered very carefully.

We are conscious of the risks we face and believe we are in a good position to manage them. Where risks have been within our control we have ensured that they are effectively mitigated. However, some of our risks are not directly within our control, such as the significant worsening of funding levels in the schemes we protect due to low interest rates and low investment returns. Also, insolvencies will happen, and large claims will have a negative effect on our financial position. Through our PPF 7800 Index and Long Term Risk Model we monitor these risks, and continue to work with The Pensions Regulator and others to reduce their impact on the PPF.

The PPF's risk management framework

During the year the PPF continued to develop its risk management framework. This involved reviewing all elements of our approach to create a more coherent set of arrangements. The overall risk universe has been reviewed and revised, supported by the creation of a new risk taxonomy which provides a single view of all the risks to which the PPF is exposed. These risks are categorised by broad type and then further subdivided to give a complete and robust understanding of the risks the PPF faces. Together these then feed into a single set of Board Risks which pose the most significant risk to the PPF meeting its mission. These are regularly reported on, with a supporting suite of Key Risk Indicators, to enable action to be taken where needed. Alongside this, the Board performed its annual review and approval of the Risk Appetite statement.

Understanding our risks has been only part of the development of our risk framework. From October 2015 onwards, teams across the PPF have been producing completely fresh Risk and Control Self Assessments (RCSAs) to strengthen our bottom-up view of our risks. This enables us to better understand what particular risks mean and how they are managed at a team level. We continue to operate a 'three lines of defence' model with clearly defined roles and responsibilities; managers are responsible for overseeing risks in their areas, supported by tools the risk team provides, and overseen by the second and third lines of risk oversight and independent assurance.

We face changing operational risks after bringing member services in-house and planning to bring some of our investment functions in-house. Both these moves will give us greater control but also greater responsibility, with risks that were previously managed by third parties now sitting directly within the PPF. Matters such as cyber-security and fraud risks are also more relevant to us than ever before. During the year we have given a particular focus to ensuring our information security risks are well understood and managed.

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The Performance Report
Risk management

The risk universe

The biggest financial risk that the PPF faces continues to be the claims arising from poorly-funded schemes. While our funding position remains strong relative to our pension liabilities, the risks we face are significant. Although numbers of claims have remained low, a large claim (BHS) arose in March, and the economic environment continues to be uncertain, with poor scheme funding overall – at the end of March 2016 the aggregate deficit of all schemes we protect was £302.1 billion, and the funding ratio 81%.

We use data which schemes provide to The Pensions Regulator to model the state of DB pension scheme funding in the UK. Given the value of this data, we collate and publish this through the Purple Book and the monthly PPF 7800 Index to inform the industry and other stakeholders about the financial health of the DB universe.

The PPF 7800 Index is a monthly estimate of the aggregate financial position of all the pension schemes we protect.

The Purple Book, published in conjunction with The Pensions Regulator, paints a longer-term picture of the health of PPF eligible schemes. The latest edition, published on 3 December 2015, shows that trends in DB pensions have remained stable as the rate of closure of open DB schemes has levelled off. The Purple Book shows that over the last 10 years, the percentage of schemes open to new members fell from 43 per cent in 2006 to 13 per cent in 2015.

Understanding the environment we operate in is crucial. As part of our risk framework we track our external risks, particularly the risks that the schemes we protect pose, on an ongoing basis. We also assess our long-term risks in our Funding Strategy Update, which we publish alongside our Annual Report and Accounts each year. A key contributor to this is our Long Term Risk Model, which gives us a view on our probability of success by calculating the impact from one million different scenarios. We also calculate the sensitivity to specific scenarios and funding stresses as to their potential impact and the implications for our probability of meeting our long-term funding target.

Building our risk management capability

Against this backdrop, ensuring we have the capability to uphold best practice risk management is crucial. In keeping with this, we have taken several steps to ensure we are managing our risks to the best of our ability. Building on the appointment of a dedicated Chief Risk Officer in February 2015, we have re-structured our risk functions to focus on the key risks we face: portfolio risk (including stress testing), operational risk, market risk, credit risk and modelling of risk. Whilst we are not a regulated body we have taken the decision to formalise our compliance activities by setting up a dedicated function, which we expect to be fully in place by the end of 2016.

We have also strengthened our risk team by filling vacancies with more experienced people, which has enhanced our ability to manage our financial risks, and by increasing the size of our operational risk team to undertake the additional RCSA work.

Additionally, we have invested in our infrastructure, including a new investment management system, BlackRock Aladdin, to help us better monitor and measure our investment risks. This risk management tool combines sophisticated risk analytics with comprehensive portfolio management on a single platform. This enables us to better understand and manage the risks that arise from our growing investment portfolio.

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The Performance Report
Strategy, levy and legal

David Taylor
General Counsel

In our 2015 Strategic Plan we set out our plans to ensure we were equipped to meet the challenges we face, ensuring we used our increasing size and capability to provide certainty and excellent service to our members. We said that we would implement two major changes – bringing our member services in-house and bedding in the new insolvency risk model. We believe we have succeeded in these changes and will build on them over the coming year and beyond.

We continue to develop and strengthen our strategy and business planning capabilities to reflect our continuing growth in scale and scope. Alongside our Funding Strategy, which provides a clear framework for the evolution of our balance sheet, we regularly review how we will evolve operationally.

Pension Protection Levy

The pension protection levy continues to make a significant contribution towards funding the compensation the PPF pays to members. It also remains the PPF's key tool for reflecting, and charging for, the risk of each eligible UK defined benefit pension scheme making a claim which results in compensation being payable to members.

The amount of the levy payable by each scheme is based on the scheme's funding level and the risk of its sponsoring employer(s) becoming insolvent. The risk-based part makes up around 95 per cent of the total levy we aim to collect. Given the levy is based on risk, schemes and employers can reduce their levy payments by reducing the risk they pose to us – for example by putting in place contingent assets or making deficit reduction contributions.

New insolvency risk model

2015/16 was the first year for which we calculated levy invoices using our new insolvency risk model. This tailored, PPF-specific model was created in partnership with Experian, providing members with a more predictive insolvency risk model, improving transparency, as well as customer service for levy payers.

Responses from our September levy consultation and feedback suggest the model is working well. The past year has seen lower overall levels of appeals, reflecting the greater transparency of the model and wider improvements in invoicing and customer service.

Following stakeholder feedback, our policy intention remains to keep the levy rules as stable as possible over three year periods. 2015/16 was the first year of our second such triennium. The final levy rules for 2016/17, published in December 2015 following consultation, were largely unchanged relative to 2015/16, reflecting our original intent and stakeholder views. Small changes we made for the second year of the triennium, having listened to feedback, made it easier to certify mortgage exclusions and asset backed structures.

As scheme funding overall has remained low, we took the opportunity to encourage schemes to continue implementing risk reduction measures to improve security for members and to reduce their levy bills.

The final rules for 2016/17 also confirmed the levy estimate of £615 million, lower than our estimate of £635 million for 2015/16.

We are looking ahead to the next levy triennium, commencing in 2018/19, with work already underway. Stakeholder feedback is clear that the system is working well overall and that schemes value stability, so we do not anticipate very substantial change. We will, however, seek to address residual stakeholder concerns and to see whether further changes to the rules are necessary.

Legal

We derive our responsibilities and powers from the Pensions Act 2004 and associated legislation and regulation. As a public body, a significant investor and with responsibility for hundreds of thousands of members we take our duties to act lawfully and appropriately suitably seriously. We have continued to develop our legal function, creating a flexible resource to meet the needs of the organisation, and are in the process of formalising our compliance activities under a new separate team.

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The Performance Report
Scheme and Member Services

Sara Protheroe
Chief Customer Officer

Over 223,000 members have now transferred to the PPF. Putting the customer first remains at the heart of everything we do, more so now than ever before. Although people don't choose to become PPF members, we aim to treat them as though they would if given that choice.

Over the last financial year we have successfully completed the insourcing of our member services function. This was the right decision at the right time in our development. Now that the PPF is equivalent to one of the largest pension funds in the UK, moving to an in-house team instead of outsourcing has enabled us to become closer to our members, giving us more control and flexibility over the service and experience we offer them. For example, we have developed a completely new range of member communications that are clear, simple and jargon-free.

It has been a long process, with the in-house team working to ensure the project was delivered effectively. We learned from the recent experience of other large schemes that have taken member services in-house. We invested in the necessary IT infrastructure and pensions administration system, and spent time recruiting the right people. We now have 60 people working in our member services team and continue to provide tailored development for our staff as we look to improve performance and the experience for our members.

We launched our new member website in 2015 as a way of communicating with members and enabling them to manage their PPF compensation. Members who are yet to retire can view their benefit statement online, giving them an idea of what their compensation might be. The dynamic modeller function allows them to compare the compensation they can expect to receive at different retirement ages. Self-service tools on the site allow members to update their personal details, nominate beneficiaries and view their payslips or P60s. By the end of March 2016, 15,000 of our members had registered to use the site.

Customer Service

Our processes ensure that we are able to provide members with a service tailored to their needs at what can be a difficult time. We hear from members that they are receiving excellent customer service. We are thrilled with early success and positive feedback and we are continuously striving to improve the service which we provide to members.

Customer Satisfaction Scores for 2015/16

PPF: 97.2 per cent
FAS: 96.0 per cent

Since we moved PPF member services in-house, our dedicated team have handled 28,000 telephone calls and have dealt with 24,000 letters and emails. We have also successfully transferred the administration of 22 schemes (totalling approximately 14,000 members) into the PPF in the 12 months to 31 March 2016.

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The Performance Report
Scheme and Member Services

Ensuring accurate data

At the PPF it is essential that we ensure our data quality is of the highest standard. Having accurate data ensures we are able to communicate with our members effectively and pay the right compensation to them at the right time. Accurate data also helps us manage our risks effectively, crucially giving us a clear view of member entitlements and hence our future liabilities, so that we are able to invest to match those liabilities appropriately.

Accurate data also ensures that we exceed the requirements of the Pensions Regulator, the Data Protection Act and the National Fraud Initiative.

We have employed industry data specialists Target Professional Services (UK) Ltd to ensure that member information is correct. We work to the common data accuracy target of 95 per cent data set by The Pensions Regulator and we are meeting that target. As at 31 March 2016 we measured 98.7 per cent for the PPF and 97.6 per cent for the Financial Assistance Scheme (FAS).

Scheme Assessment and Panels

The year saw continuing low levels of claims, albeit with the BHS schemes coming into assessment at the end of the year. The assessment process continues to work well and 33 schemes transferred to the PPF during the year.

We aim for all schemes to complete assessment within two years. This year we have succeeded in this, and on average it takes a scheme 18 months to complete assessment.

We continue to use panels, which are small groups of specialist firms that have expertise in the PPF processes needed to move schemes quickly through assessment in a cost efficient manner. Over the past year we have worked to ensure the panels we have in place continue to deliver excellent quality and value for money. In 2015/16 the panels achieved good performance against their KPIs, demonstrating their ability to reduce the time a scheme spends in assessment, control costs and deliver a good quality of service.

Financial Assistance Scheme

In 2009 we took responsibility for the management of the Financial Assistance Scheme on behalf of the Government. FAS provides financial assistance to members who belonged to specific defined benefit pension schemes which are not eligible for compensation under the PPF including many which wound-up between January 1997 and April 2005.

In 2015/16 we completed the transition of 23 FAS schemes, bringing the total number to 1,027, and the total number of members who have an entitlement to FAS assistance to 155,000. The number of FAS assistance payments has increased from 48,284 to 54,165 and FAS paid out £209 million.

In February 2016 we announced that from September 2016, FAS will be closed to new applications, after having been open 10 years longer than the original deadline set.

All schemes that would qualify for FAS have had ample opportunity to apply, and there are only a very small number of FAS schemes that have yet to transfer, so we have decided to stop taking new applications. We have encouraged trustees, advisors, former trustees and/or former advisors of any remaining pension scheme they believe may be a qualifying scheme to notify us as soon as possible. Members currently receiving, or with a deferred entitlement to receive assistance payments from FAS will not be affected by this.

> "I would just like to say that I have dealt with lots of companies about various things in my life, and to be absolutely honest, your company, the PPF, is one of the best for service, politeness, accuracy and more importantly, responding to customers' requirements. You are doing a great job, keep it up."
>
> "I have never had such wonderful service from a company in all my life."
>
> "Definitely a first class service. Excellent – 10 out of 10"
>
> MEMBER FEEDBACK

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The Performance Report
HR, organisational development and communications

Katherine Easter
Chief People Officer

This has been a significant year of change for the PPF in terms of the number of people who now work for the PPF and the type of work their roles encompass. Throughout this period our focus has remained on providing the best services to our customers at the best value for our stakeholders.

Putting customers at the heart of everything we do

Our vision for the PPF is that by the end of the next two years we will be widely recognised by our customers and our people as being a high-performing Customer Focused Financial Institution. Our ICARE values are central to our reputation, providing a standard which we expect from all our people.

The ICARE values

INTEGRITY – DO THE RIGHT THING

COLLABORATION – WORK AS ONE

ACCOUNTABILITY – OWN YOUR ACTIONS

RESPECT – VALUE EVERY VOICE

EXCELLENCE – BE YOUR BEST

As we continue to grow as an organisation, ensuring that people live these values in their day-to-day interactions with colleagues and customers is vital. We recruit people on the basis of their behaviours, not just their capabilities, and every employee is scored on each behaviour as part of their annual review.

The project to bring PPF member services in-house has been successfully implemented and we are generating consistently high levels of service and performance. We now have the control and flexibility to provide members with a service tailored to their needs. Members are consistently reporting that they are receiving excellent customer service. We are nonetheless continuously striving to improve the service that we provide.

As the organisation has matured we are recruiting people from a wide variety of professions. Retaining their talents depends on us providing tailored development activity that allows everyone to deliver their best contribution.

Best Companies – in the Sunday Times Best 100 not-for-profit organisations

We were pleased to reach our highest ever place in the Sunday Times 2016 list of the Best 100 not-for-profit organisations to work for – an increase of almost 20 places compared to last year. This follows our excellent results in the b heard survey, where we regained our 'one star' accreditation. Of the 1,336 companies which entered, only 206 received this recognition.

The Best Companies report said "Staff feel involved in decisions the senior team make, saying their manager talks honestly with them (76 per cent)."

We have also conducted internal communications surveys and focus groups throughout the year which have helped us understand the needs of our employees. We continue to develop our internal communications approach based on these insights.

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The Performance Report
HR, organisational development and communications

Communications

Our communications objective remains "To promote and protect the reputation of the PPF through active engagement and building understanding". Pensions and retirement issues have been a focus in the UK media this year and we have sought to ensure that where relevant the role of the PPF is portrayed correctly.

We know from our annual perception audit and from our daily experiences that the PPF continues to be well regarded amongst our many stakeholders. Maintaining and building relationships with these audiences forms a key part of managing our reputation and mitigating risk. As a unique organisation, it is important for our stakeholders to have an accurate understanding of us in order to be confident and reassured of our role. It is also vital that we recognise the perspectives of each stakeholder group. We have put in place evaluation measures to ensure that PPF communications are delivering the right messages to the right audiences.

We continue to update and improve our website and intranet, to ensure that we provide the right content to members, stakeholders and employees.

Community

Playing an active role in our local community and helping charity organisations where we can is important to us at the PPF. Our Charity Committee plans and organises a number of events to help us succeed in this area of our work.

Over the past year we have streamlined our approach, choosing one local and one national charity to support.

For local volunteering opportunities we have continued to partner with Croydon Commitment, a local charitable trust. Following a consultation with staff, we supported the national charity Cancer Research UK, raising vital funds for them through activities and events in which staff participated.

All our people are entitled to five days' per year paid volunteering leave to take part in community or charity volunteering activities.

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The Performance Report
General information

During the year, we handled a number of appeals, complaints and requests for information.

Reviewable matters – 2015/16 levy year

We run a statutory appeals process in respect of 'reviewable matters' listed in the Pensions Act 2004. The majority of appeals under this process relate to the pension protection levy.

During 2015/16 we issued 98 review decisions in response to levy appeals. In 67 of these cases, the scheme was found to be levied correctly. In the remaining 31 cases, we agreed with some or all of the scheme's appeal. In 16 cases the applicants further appealed the review decision to our Reconsideration Committee. We issued six review decisions in relation to other levy related reviewable matters. In none of these cases the applicants further appealed the review decision to our Reconsideration Committee.

We also issued 35 review decisions in relation to non-levy related reviewable matters (primarily related to individuals' compensation) during 2015/16. In 13 cases the applicants further appealed the review decision to our Reconsideration Committee.

Maladministration complaints

We dealt with seven formal complaints of maladministration during 2015/16, of which three were appealed to the Reconsideration Committee. Neither the first stage review nor the Reconsideration Committee found that maladministration had occurred in any of the cases.

Freedom of Information (FoI) requests

During the year, we received 54 FoI requests and we disclosed fully the information requested in 37 cases, partially disclosed in five cases and did not hold the information asked for in four cases. Two requests were withdrawn.

We declined to disclose information in six instances by applying statutory exemptions because the information was either restricted information, personal data, commercially sensitive, already published or too costly to disclose.

In line with the cost allocation and charging requirements set out in the relevant HM Treasury and Office of Public Sector Information Guidance, we do not charge for disclosing information.

General complaints

During the year we received 422 PPF complaints. 410 were resolved at Stage One and 12 were escalated to Stage Two.

We logged 203 FAS complaint cases, of which 191 were resolved at Stage One, 11 cases were escalated to Stage Two and one to Stage Three.

For both the PPF and FAS the focus of complaints was around recovery of overpayments. Overpayments can occur for a number of reasons, including poor inherited scheme data, member benefits not being adjusted quickly enough in the assessment period and occasionally administrative errors by the PPF. We have a duty to seek to recover overpayments, even though the member is rarely at fault, and this can lead to complaints. We do, however, write off overpayments where appropriate, and would encourage any members affected by overpayments to contact us to discuss how we may be able to help.

Guidance on how we handle complaints and appeals can be found on our website **www.pensionprotectionfund.org.uk/About-Us/complaintsandconcerns/Pages/Complaintsandconcerns.aspx**.

Alan Rubenstein
Accounting Officer
29 June 2016

The Accountability Report

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Note:
The Accountability Report is not audited by the Comptroller and Auditor General with the exception of the Remuneration and staff report on pages 42-45 (except 'Statistics') and 'Losses and special payments' on page 46.

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Statement of Accounting Officer's responsibilities

Under the Pensions Act 2004, the Board of the PPF is required to prepare for each financial year a statement of accounts in the form and on the basis directed by the Secretary of State for Work and Pensions with the consent of the Treasury. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Board and of its income and expenditure, gains and losses and cash flows for the financial year.

In preparing the accounts, the Board is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by the Secretary of State, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts, and
- prepare the accounts on a going concern basis.

The Secretary of State for Work and Pensions has appointed the Chief Executive as the Accounting Officer for the Board. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Board's assets, are set out in Managing Public Money published by HM Treasury.

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Governance statement

Governance Framework

The Board has eight non-executive members, including the Chairman. Two non-executive Board members stepped down from the Board in 2015/16. There are three executive members of the Board, including the Chief Executive. No executive Board members stepped down from the Board in 2015/16.

The Board has established a number of committees so that it can conduct its business in line with its Statement of Operating Principles.

The Board has also given the Chief Executive delegated powers so he can take decisions to ensure operational effectiveness and provide regular updates to the Board on performance, risks and strategic briefings. The Chief Executive has established a number of internal committees to oversee operations.

Further details of the governance framework are provided in Appendix 1.

Board Performance

The Board met seven times in 2015/16 and also held a Board session on PPF valuation training. Some Board Committees also held training sessions including a Remuneration Committee best practice update.

Board member details, committee memberships and attendance at Board and committee meetings are set out in Appendix 2.

Highlights of Reports

The Board and its committees considered a number of matters during the year which are described more fully in Appendix 3, including:

- 2015/16 valuation assumptions
- Strategic Plan 2016-2019
- funding strategy review
- Board risks and risk appetite
- identified actions in the Board and Committee effectiveness review
- compliance update including the Bribery Act and Health and Safety matters
- regular progress reports on the insourcing of member services project
- consultation on the Levy Determination for 2016/17
- updates on the service provided by the IT managed service supplier
- funding scenario analysis, and
- succession planning and talent management.

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Governance statement continued

Account of Corporate Governance

The Board is committed to adhering to high standards of corporate governance and reviews its compliance against the UK Corporate Governance Code and the HM Treasury/Cabinet Office Corporate governance in central government departments: Code of good practice. Formal reporting of compliance with the HM Treasury/Cabinet Office code on a 'comply or explain' basis is a requirement and is set out in this statement.

The latest review of compliance with the code was considered by the Chairman, the Senior Independent Director and the Chair of the Audit Committee in April 2015. The Board meets the provisions of the code where they apply to the PPF. The next review of the PPF's compliance against the code will be carried out in 2016/17. The Board's Corporate Governance arrangements were audited by the internal auditors, Grant Thornton LLP, in 2015.

Full details of the review can be found in Appendix 4.

The risk and control environment

The PPF's approach to management of risk follows the guidelines provided by HM Treasury in their document 'Orange Book: Management of Risk – Principles and Concepts.'

During the period under review, the Board agreed that the following categories remain the most significant sources of risk to the achievement of its objectives:

- strategic
- financial
- funding, and
- operational.

The Board determines its risk appetite on an annual basis, which is then passed down to risk owners within the PPF who report annually about how they are adhering to the risk appetite. The risk appetite can be found on the PPF website **www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf.**

Significant risks

We have identified the following risks, which have the potential to adversely impact on our ability to deliver on our strategic aims and may jeopardise the achievement of the three-year business plan or the long-term funding objective:

- changes in the PPF's environment arising from adverse economic conditions and/or a failure of the regulatory system (in either its design or operation) may mean assessment of the likelihood that we can achieve our funding horizon falls below tolerance
- political intervention resulting in legislative or policy change in UK or Europe may weaken PPF effectiveness and/or result in higher calls on the Fund
- the PPF organisational structure and operating model is evolving rapidly and failure to manage this effectively and oversee this transformation at a Board and Executive level may have an adverse impact on our ability to deliver our objectives
- PPF policy and/or operational decisions damage the organisation's reputation and licence to operate
- ineffective control of data (including personal/sensitive data) and management of data (including quality) could mean that individuals data falls into the wrong hands or process objectives are not achieved
- failure to deliver excellent customer service leading to member (PPF & FAS) and/or stakeholder dissatisfaction
- failure to effectively procure and manage third party suppliers including change in our strategic suppliers may result in poor value for money and/or lower than expected investment returns, member/stakeholder dissatisfaction
- unexpected material off balance sheet (DB liabilities) risk materialises that may significantly and adversely impact PPF's funding plan
- PPF investment strategy could be inappropriate and/or implemented ineffectively leading to the returns we are targeting not being enough to fund compensation over the long term

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Governance statement continued

- insufficient liquidity to meet margin/collateral calls or member payments constitutes an event of default, and thus will severely impact on the PPF's mission and result in very significant reputational damage
- failures in our risk management and control framework lead to unexpected losses and or reputational damage, and
- failure to create an 'Employer of Choice' would adversely impact our ability to achieve our strategic objectives.

The risks above are maintained and managed as part of the normal course of business. Further details of our risk and control environment can be found in Appendix 5.

Ministerial directions

No directions have been issued.

Personal data related incidents

No material data incidents to disclose.

Significant control issues

There are no significant control issues to disclose.

Review of effectiveness

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

- the assurances I sought and received from other Board members and senior staff of the PPF which detailed the work carried out to make sure management of risk and control is addressed in their areas of responsibility
- the work of the executive directors and senior managers within the PPF who have responsibility for the development and maintenance of the internal control framework
- comments made by the external auditor in his management letter and other reports, and
- the opinion of the Head of Internal Audit on the overall adequacy and effectiveness of PPF's framework of governance, management of risk and control. This states: "It is our opinion that within the scope of work undertaken, and on the assumption that all agreed Internal Audit recommendations are implemented, the PPF's risk management, control and governance processes are effective. The PPF has a control framework in the areas reviewed which we are satisfied is operating as intended to mitigate the key risks in the specific area. Where the assurance provided on internal control design or operational effectiveness has been highlighted as less than high, the remediation of identified findings should elevate the assurance to a high level".

  I have been advised in my review of the effectiveness of the system of internal control by the Risk and Audit Committee, the Investment Committee, the Executive Committee, the Asset and Liability Committee and the Risk Management Committee.

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Governance statement continued

Appendix 1 - Governance Framework

The Pensions Act 2004 requires that the Board has a majority of non-executive members, including a non-executive Chairman. All non-executive members were independent at appointment having no current or previous material relationship with the organisation as an employee, officer or contractor.

The Board must appoint a Chief Executive and at least two further executive Board members. There are currently three executive members, the Chief Executive, the Chief Financial Officer and the General Counsel.

The Board is required under the Pensions Act 2004 to have a Non-Executive Committee. The functions of the Non-Executive Committee are set out under section 112 of the Pensions Act 2004:

- the duty to keep under review the question of whether the Board's internal financial controls secure the proper conduct of its financial affairs
- 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
- 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
- the duty to determine under paragraph 13(3)(b) of that Schedule, the terms and conditions as to the remuneration of any member of staff of a description prescribed for the purposes of that provision.

The Board is also required to have a Reconsideration Committee to reconsider reviewable matters, cases and maladministration complaints.

The Board has also established a Risk and Audit Committee and a Remuneration Committee as the sub-committees of the Non-Executive Committee. Investment, Nomination and Decision Committees have been established as Committees of the Board.

Each committee has a majority of non-executive members. The terms of reference for these committees can be accessed at **www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/TheBoard.aspx** and their activities during the 2015/16 financial year are reported in Appendix 3.

Board procedures are governed by its Statement of Operating Principles and its decision making role by the Schedule of Delegations and Matters Reserved to the Board. The Chief Executive reports to the Board monthly on performance against strategic objectives, and provides a Chief Executive's report and other briefings as required. Papers are circulated a week in advance of meetings.

The roles of internal committees established by the Chief Executive and those of individual post holders are set out in the Authorisations from the Chief Executive document.

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Governance statement continued

Appendix 2 - Board's performance

Attendance at Board and Committee meetings during 2015/16

Board member details are shown in "The top team" on page 7. Committee memberships and attendance at Board and committee meetings are set out below and in the Remuneration and staff report on page 42. All biographies are on the PPF website.
www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/BoardMembers.aspx

	Board	Remuneration Committee	Risk & Audit Committee	Investment Committee	Reconsideration Committee[1]	Decision Committee	Nomination Committee
Lady Judge CBE	7 of 7	2 of 2°	n/a	n/a	n/a	n/a	3 of 3
Dick Barfield[2]	3 of 4	n/a	2 of 2	2 of 2	n/a	n/a	n/a
John Bevington[3]	3 of 4	0 of 1	n/a	2 of 2	n/a	2 of 2	n/a
Rosemary Hilary[4]	1 of 1	n/a	1 of 1	1 of 1	n/a	n/a	n/a
Alan Jenkins	7 of 7	2 of 2	n/a	n/a	9 of 9	3 of 3†	2 of 2
Kate Jones[5]	0 of 0	n/a	n/a	1 of 1	n/a	n/a	n/a
Tom Joy	6 of 7	1 of 2	n/a	5 of 5	n/a	n/a	n/a
Andy McKinnon	7 of 7	n/a	4 of 4°	4 of 5	n/a	2 of 2°	n/a
Sharmila Nebhrajani OBE	5 of 7	n/a	4 of 4	n/a	n/a	n/a	n/a
Alan Rubenstein	7 of 7	2 of 2°	3 of 3°	4 of 5	n/a	3 of 3	2 of 2
David Taylor[6]	7 of 7†	n/a	4 of 4°	3 of 3°	n/a	3 of 3‡	n/a
Arnold Wagner OBE	7 of 7	2 of 2	n/a	2 of 2	n/a	3 of 3	5 of 5
Baroness Warwick of Undercliffe	7 of 7	n/a	2 of 4	n/a	9 of 9	n/a	n/a

[1] The Reconsideration Committee forms a panel of non-executive members of the Board without prior involvement in the matter. When a matter is remitted from the Pension Protection Fund Ombudsman the panel does not include the same members as were previously involved

[2] Stepped down from the Board on 30 September 2015

[3] Stepped down from the Board on 18 October 2015

[4] Joined the Board on 4 January 2016

[5] Joined the Board on 15 February 2016

[6] Joined the Board on 1 June 2015

° Attended meetings as an observer

† Attended one meeting as an observer

‡ Attended two meetings as an observer, one meeting as a member

Board decisions

A number of decisions that fall within the Board's normal cycle of work were also taken. These included:

- approved the Levy Consultation and Levy Determination for 2016/17
- approved the audited Annual Report and Accounts 2014/15
- reviewed Board Risks and Risk Appetite
- approved the 2016-2019 Strategic Plan
- approved the 2015/16 valuation assumptions
- approved the modelling assumptions for the long-term funding strategy, and
- approved the levy estimate of £615 million for 2016/17.

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Governance statement continued

Appendix 3 - Highlights of reports

Remuneration Committee

The Remuneration Committee is chaired by Arnold Wagner OBE. The Committee met twice during the year and agreed objectives for executive directors for the 2015/16 financial year. The Committee also undertook yearly and half-yearly performance reviews of executive directors and approved bonus payments for them based on performance against the objectives set.

The Committee discussed the development of the overall reward strategy of the PPF and received some training on best practice approaches of Remuneration Committees.

Risk and Audit Committee

The Risk and Audit Committee is chaired by Sharmila Nebhrajani OBE. The Committee met four times during the year. The scope of the Committee covers risk, including monitoring compliance with the Board's risk appetite, and the effectiveness of internal controls. Eleven internal audit reports and two deep dives on operational risks and controls (one relating to business continuity and the other information security) were presented.

As part of its normal cycle of work, the Committee reviewed the risk management policy, the Governance Statement, the annual Actuarial Valuation, the whistleblowing policy and the internal audit reports. The Committee also reviewed and recommended the Annual Report and Accounts 2014/15 for approval by the Board. In addition the Committee reviewed the work underway to establish a compliance function and started receiving quarterly reports on the management and progress of major change programmes in the organisation.

The whistleblowing policy applies widely in the PPF, including employees, agency workers, contractors, consultants, volunteers, secondees, interns, non-executives, suppliers and members of the public. The PPF encourages staff to raise serious concerns which are in the public interest, without fear of reprisal or victimisation. The policy was reviewed by the Committee and one matter was raised by a member of staff in the year. All staff affirmed awareness and understanding of the whistleblowing policy during the year.

Colin Smith was appointed as co-opted specialist member of the Risk and Audit Committee to provide additional independent risk management knowledge and experience on the Committee.

Grant Thornton LLP, PPF's internal auditors, continued to provide the internal audit service.

Investment Committee

The Investment Committee was chaired by Dick Barfield until his retirement at the end of September 2015 when Tom Joy took over as Chairman. The Committee met five times during the year and the Committee agreed a number of key proposals including a review of the long-term investment assumptions, an update on credit fixed income, a review of the governance framework for direct alternatives and a policy for the use of special purpose vehicles. The Committee considered plans to insource some aspects of investment management, and to appoint a new global custodian. The Committee also approved the reappointment of Mercers as the Committee's independent investment advisor for a period of two years.

As part of its normal cycle of work, the Investment Committee reviewed:

- four investment update reports including investment activities and the implementation of investment policies
- four reports from the investment advisor
- four reports on the markets and investment strategy
- the key risk indicators for Board Financial Risks, as well as policy reviews on currency risk and alternative credit
- an asset class review of hybrid assets
- the investment risk appetite for review by the Board, and
- the Statement of Investment Principles.

Michael O'Brien, co-opted specialist member of the Investment Committee, continued to provide additional independent investment knowledge and experience on the Committee.

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Governance statement continued

Reconsideration Committee

The Reconsideration Committee is chaired by Baroness Warwick of Undercliffe. The Committee co-opted one specialist member who had an appropriate level of experience to ensure robust decision making. The Committee met on nine occasions during the year and considered, and issued decisions relating to 21 cases where levy payers challenged their levy. Of these 21, two were referred to the Pension Protection Fund Ombudsman.

The Committee also considered 12 non-levy review cases relating to compensation payments, three in relation to the recovery of overpayments, seven in relation to compensation entitlement, and four maladministration complaints. Five cases were referred to the Pension Protection Fund Ombudsman.

Decision Committee

The Decision Committee was chaired by John Bevington until the end of October. From November, Alan Jenkins took over as Chairman. The Committee met three times during the year.

The Decision Committee takes decisions on matters which are normally delegated to the Chief Executive which he refers back to the Committee, as well as any specific cases assigned to it by the Board. This may be due to the particular circumstances or where additional Board member input is thought valuable or where it is judged necessary in the light of the possibility of future review or complaint.

Nomination Committee

The Nomination Committee met five times throughout the year as two non-executive and one executive appointment were made. In circumstances where non-executive appointments were made the Chair of the Nomination Panel was Lady Judge CBE. The Chairman of the Nomination Panel for executive appointments was Alan Rubenstein, Chief Executive.

Board appointments

The Secretary of State for Work and Pensions is responsible for appointing the Chairman of the PPF and as a ministerial appointment this is governed by the Code of Practice for Ministerial Appointments to public bodies. All other Board appointments are made by the Board on the recommendation of the Nomination Committee. However, the Secretary of State must approve the appointment, remuneration and terms and conditions for the Chief Executive and the remuneration for other executive Board members. The Secretary of State also determines the fee for non-executive members.

The appointment of 'ordinary' members to the Board is governed by regulations under which the Board must include an independent member as part of its appointment panel.

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Governance statement continued

Appendix 4 - Account of Corporate Governance

As stated, the Board is committed to adhering to high standards of corporate governance and annually reviews its compliance against the UK Corporate Governance Code and the HM Treasury/Cabinet Office Corporate governance in central government departments: Code of good practice.

The principal areas of compliance are met as follows:

The Board and Board composition

The structure of the Board is underpinned by the framework set out in the Pensions Act 2004 as well as developing governance and operational requirements. Committees have been established to serve these needs. The composition of the Board is determined by the skills, experience and diversity needed to deliver the PPF's statutory functions and is supported by its members' financial, investment, legal, risk management, operational and member representation knowledge.

The Board focuses on strategic issues, supporting the PPF's performance against its strategic objectives, risk management and ensuring that these all support the long-term success of the organisation.

The Board recognises that effective behaviours and culture support organisational delivery and management of risk. The Board operates in accordance with its Board Manual which identifies how meetings should be conducted. Individual members also adhere to the code of conduct, guidance on dealing with potential conflicts of interest and guidance on expenses and hospitality.

Board effectiveness

The Board has an operational framework in place and has determined its behavioural values. The actual operation of this framework and these values as well as Board balance is reviewed through annual Board effectiveness evaluations. These evaluations are conducted internally with facilitation by external consultants every three years.

The Board has regulations in place for the appointment of 'ordinary' Board members and both the Board and its Nomination Committee consider the current and future needs of the Board in order to facilitate the Board appointment process. New Board members receive induction training and ongoing briefings are provided to support non-executive members' understanding of the organisation's operations and key risks. Board and Committee papers are dispatched a week in advance and the Board is supported by a dedicated secretariat.

Management of risk

The Board has set its risk appetite which it reviews at least annually. The Board is supported in its risk management role by its Risk and Audit Committee, its internal and external auditors and its Investment Committee. Regular reports are received from the members of the Executive Committee. The Chief Executive has established a Risk Management Committee and an Asset and Liability Committee to ensure effective day-to-day oversight of operational and financial risks. Information on risks and risk management processes is provided in Appendix 5.

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Governance statement continued

Appendix 5 – The risk and control environment

Our system of internal control is designed to manage risk within our risk appetite 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 management of risks to the achievement of the Board of the PPF's policies, aims and objectives. This process is also designed to evaluate the likelihood of those risks being realised and their impact should they be realised and to manage them efficiently, effectively and economically.

The system of internal control has been in place within the Board of the PPF for the year ending 31 March 2016 and up to the date of signing of this annual report and accounts, and accords with HM Treasury guidance.

Internal audit services are provided on an outsourced basis in accordance with 'Public Sector Internal Audit Standards'. Audits are undertaken in accordance with an internal audit plan approved by the Risk and Audit Committee. Grant Thornton LLP, PPF's internal auditors, continued to provide internal audit services.

The risk and control environment

As stated, our approach to management of risk follows the guidelines provided by HM Treasury in their document 'Orange Book: Management of Risk – Principles and Concepts.'

Risk processes are embedded throughout the organisation and individuals' responsibilities are reinforced through an annual communication. During 2015/16, we have delivered a number of improvements to the management of risk, including:

- roll-out of new risk management framework
- further revision to our risk taxonomy
- enhancement to our stress testing process
- refinement of our Board risks, including two new risks
- introduction of Risk and Control Self Assessments (RCSAs) across the organisation
- refreshed incident management process
- introduction of Aladdin which has significantly enhanced monitoring of financial risks
- planning our approach to adopting Own Risk Self Assessment (ORSA), and
- further strengthening of our in-house risk management team with industry specialists.

We undertake deep dives of particular risk types with risk owners at Board and executive committees to ensure that we are managing all the risks we face and that the controls we have in place are appropriate.

The PPF relies on various models of which some are identified as critical. There is an appropriate quality assurance framework (as defined in the Macpherson Report of March 2014) in place for these models. The quality assurance framework includes, but is not limited to, external audit, internal and external peer review, governance structures for review and challenge of model assumptions and outputs, developer testing and consideration of the relevant actuarial standards.

The PPF recognises the importance of managing information effectively. We therefore operate in accordance with the Security Policy Framework and related Data Security guidance issued by the UK Government. To help achieve this we gained certification to the ISO27001 Information Security standard in 2009 (successfully recertified in 2016) and carry out annual ISO27001 surveillance audits to ensure we maintain compliance with the standard.

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Remuneration and staff report

Remuneration Policy

Our remuneration policy outlines our approach to reward across the entire organisation. We aim to pay market rate for those that are achieving full performance within their role. We set a basic set salary to reflect an employee's professional experience and organisational responsibility. We set variable remunerations to reflect performance in excess of that required to fulfil the employee's job description and terms of employment.

Remuneration and bonuses of directors

Executive directors receive a salary which is reviewed annually by the Remuneration Committee. Their contracts allow for the payment of an annual performance related bonus.

The Chairman was paid a fixed fee and was contracted to work for the PPF for two days a week. All other non-executive directors received a fixed fee, based on working 26 days a year. This fee was not performance-related and there was no provision for compensation if a contract was terminated.

Contracts

Executive directors are employed on a fixed term contract and non-executive directors are appointed for a fixed term of office.

Name	Contract type	Start date	End date
Lady Judge CBE	Term of office (second)	01 July 2013	30 June 2016
Alan Rubenstein	Fixed Term Contract (third)	01 July 2015	30 June 2018
Andy McKinnon	Fixed Term Contract (second)	02 January 2016	01 January 2019
David Taylor	Fixed Term Contract (first)	01 June 2015	31 May 2018
Dick Barfield	Term of office (second)	01 October 2012	30 September 2015
John Bevington	Term of office (second)	19 October 2012	18 October 2015
Rosemary Hilary	Term of office (first)	4 January 2016	3 January 2019
Alan Jenkins	Term of office (first)	07 August 2013	06 August 2016
Kate Jones	Term of office (first)	15 February 2016	14 February 2019
Tom Joy	Term of office (first)	07 August 2013	06 August 2016
Sharmila Nebhrajani OBE	Term of office (second)	27 June 2015	26 June 2018
Arnold Wagner OBE	Term of office (second)	04 January 2014	03 January 2017
Baroness Warwick of Undercliffe	Term of office (second)	07 March 2014	06 March 2017

Notice periods

The executive directors have notice periods of six months. Non-executive directors' appointments can be terminated with one month's notice by either the Board or the individual member. The Chairman's appointment is subject to a six month notice period by either the Secretary of State for Work and Pensions or by the postholder. This can be waived by either party and the postholder can accept payment in lieu of notice.

Executive directors – outside appointments

We recognise the benefits to the individual, and to the organisation, of executive directors of the PPF serving as non-executive directors of other organisations and companies. These roles are undertaken outside of PPF working hours through a combination of paid and unpaid leave. Fees, where applicable, are retained by the executive director for current appointments. External non-executive appointments held by executive directors during the year were:

Alan Rubenstein, non-executive member of the Supervisory Board of Robeco, a Netherlands based asset manager. Investment advisor to the British Coal Staff Superannuation Scheme.

Cash equivalent transfer values

This 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.

CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

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Remuneration and staff report continued

Salary and pension entitlements (subject to audit - see auditor's report pages 47-48)

Year ending 31 March 2016

	Salary (in bands of £5,000)	Bonus[1]	Pensions: Real increase in pension and related lump sum	Pensions: Total accrued pension at pension age	Pensions: Cash equivalent transfer value	Pensions: Real increase in CETV
	£'000	£'000	£'000	£'000	£'000	£'000
Lady Judge CBE, Chairman	55-60	n/a	n/a	n/a	n/a	n/a
Alan Rubenstein[2], Chief Executive	200-205	40-45	n/a	n/a	n/a	n/a
Andy McKinnon, Chief Financial Officer	155-160	15-20	0-5	10-15	136	25
David Taylor, General Counsel (from 1 June 2015)	110-115 (130-135)[4]	10-15	n/a	35-40	358	n/a
Dick Barfield (until 30 September 2015)	5-10 (15-20)[4]	n/a	n/a	n/a	n/a	n/a
John Bevington (until 18 October 2015)	5-10 (15-20)[4]	n/a	n/a	n/a	n/a	n/a
Rosemary Hilary (from 4 January 2016)	0-5 (15-20)[4]	n/a	n/a	n/a	n/a	n/a
Alan Jenkins	15-20	n/a	n/a	n/a	n/a	n/a
Kate Jones (from 15 February 2016)	0-5 (15-20)[4]	n/a	n/a	n/a	n/a	n/a
Tom Joy	15-20	n/a	n/a	n/a	n/a	n/a
Sharmila Nebhrajani OBE	15-20	n/a	n/a	n/a	n/a	n/a
Arnold Wagner OBE	15-20	n/a	n/a	n/a	n/a	n/a
Baroness Warwick of Undercliffe	15-20	n/a	n/a	n/a	n/a	n/a

Year ending 31 March 2015

	Salary (in bands of £5,000)	Bonus[1]	Pensions: Real increase in pension and related lump sum	Pensions: Cash equivalent transfer value
	£'000	£'000	£'000	£'000
Lady Judge CBE, Chairman	55-60	n/a	n/a	n/a
Alan Rubenstein[2], Chief Executive	200-205	40-45	n/a	n/a
Martin Clarke (until 31 July 2014)	55-60 (165-170)[4]	n/a	n/a	71
David Heslop[3] (until 31 December 2014)	100-105 (135-140)[4]	10-15	n/a	n/a
Andy McKinnon, Chief Financial Officer	155-160	15-20	0-5	89
Dick Barfield	15-20	n/a	n/a	n/a
John Bevington	15-20	n/a	n/a	n/a
Alan Jenkins	15-20	n/a	n/a	n/a
Tom Joy	15-20	n/a	n/a	n/a
Sharmila Nebhrajani OBE	15-20	n/a	n/a	n/a
Arnold Wagner OBE	15-20	n/a	n/a	n/a
Baroness Warwick of Undercliffe	15-20	n/a	n/a	n/a

[1] The bonus values disclosed here relate to the executive directors' performance in the year.

[2] Alan Rubenstein chose not to be covered by the Civil Service pension arrangement during 2015/16 as he has reached the maximum lifetime allowance. PPF paid £918 to provide insurance cover.

[3] David Heslop received a compensation payment of £55,000-£60,000 in 2014/15 in line with the terms of his contract and those of the Civil Service Compensation Scheme.

[4] Full year equivalent.

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Remuneration and staff report continued

Salary multiples

Reporting bodies are required to disclose the relationship between the remuneration of the highest paid Board member in their organisation and the median remuneration of the organisation's workforce.

	2015/16	2014/15
Band of highest paid Board member's total remuneration	£240-£245k	£240-£245k
Median total remuneration	£49k	£52k
Ratio	**5.0**	**4.7**

In 2015/16 three employees (2014/15: one) received remuneration in excess of the highest paid Board member. Remuneration ranged from £18k to £565-£570k (2014/15: £18k to £295-300k).

Off-payroll staff

For all off-payroll engagements as of 31 March for more than £220 per day and that last for longer than six months:

	2016	2015
Number of existing engagements	17	34
Number that have existed for less than one year	12	26
Number that have existed for between one and two years	5	7
Number that have existed for more than two years	-	1
Number of new engagements, or those that reached six months in duration, between 1 April and 31 March	9	32

All of these engagements have been subject to a risk-based assessment as to whether assurance was required for the individual paying the right amount of tax. In no instance did we consider it necessary to seek such assurance. All contracts for new engagements contain the right for the PPF to seek this assurance.

All senior managers are on the payroll.

Payroll staff

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

	2016	2015
Permanent employees and fixed term contracts	297	278
Short term, seconded and temporary staff	31	28
Total staff	**328**	**306**

Remuneration and staff report continued

Staff exit packages

Exit package payments agreed to former staff are summarised as follows:

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band	
Exit package cost band	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
< £10,000	-	-	-	-	-	-
£10,000 - £25,000	-	-	1	2	1	2
£25,000 - £50,000	-	-	4	2	4	2
£50,000 - £100,000	-	-	2	1	2	1
Total number of exit packages	**-**	**-**	**7**	**5**	**7**	**5**
Total cost	**-**	**-**	**£275,332**	**£173,594**	**£275,332**	**£173,594**

Statistics

As at 31 March we had:

	2016		2015	
	Men	**Women**	**Men**	**Women**
Total employees	153	159	143	136
Top team	8	7	10	5
Senior management	24	17	26	20

The number of days we lost to sickness during the year averaged 6.5 days per person. This included long-term absences of more than 28 days of which we had two cases of over 6 months for serious health issues. Excluding long-term absences, we only lost 4.2 days per person.

Staff turnover rose from 9.4 per cent in 2014/15 to 14.2 per cent in 2015/16.

Seven of our staff have registered themselves as disabled. We continue to hold the two ticks status awarded by Jobcentre Plus as recognition that we continue to take action to meet five commitments regarding employment, retention, training and career development of disabled employees.

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Parliamentary accountability

The Chairman and Chief Executive meet regularly with Ministers and Senior Officials from the Department for Work and Pensions (DWP) in addition to quarterly accountability review meetings. The Department approves the Board's Strategic Plan and the Board delivers its Annual Report and Accounts to Parliament through the Secretary of State.

The Chief Executive of the PPF is also its Accounting Officer. Compliance with Accounting Officer responsibilities is supported through the Board's risk management procedures and through a shared objective for senior management to support the Accounting Officer in fulfilling his responsibilities.

Losses and special payments

Our mission is to pay the right amount of PPF compensation to the right people at the right time. To do this we rely on complete and accurate data being available, as well as our own administrative processes working effectively.

Incorrect payments do occasionally arise. Sometimes we will pay the best estimate of compensation at the correct time, based on inaccurate or incomplete data from scheme trustees. We may occasionally make errors ourselves in the administration of compensation. When more accurate information is made available, or an error has occurred and is subsequently identified, we will reassess the compensation calculation. This can lead to us making additional compensation payments or to reclaim overpaid compensation from members. We also have to make similar adjustments where amounts have in the past been paid incorrectly by schemes which subsequently transferred into the PPF.

Our policy for overpayments is to seek recovery by offset against future compensation payments or by immediate settlement where this is not possible (or if the member prefers to do so). If the amount is below the level deemed uneconomic to recover, or where the member can demonstrate financial hardship, the overpaid amount will be written off. During the year 828 overpayments totalling £375,496 (2015: 98 totalling £291,894) were written off.

Where members' compensation is found to have been underpaid we pay interest on the backdated amounts. £340,789 (2015: £274,976) of interest on recalculated compensation was paid to 3,205 members (2015: 19,949 members).

Remote Contingent Liabilities

The theoretical value of potential claims on the PPF is measured by the PPF 7800 index, which estimates on a section 179 basis the funding levels of the schemes we protect. The PPF 7800 is published by the PPF each month and is discussed in the Risk Management section of the Performance Report. The aggregate value of all possible claims at 31 March 2016 is £334.2 bn on a section 179 basis excluding those separately disclosed as types 1 to 4 contingent liabilities by the Appointed Actuary in Annex S6 of the Actuarial Valuation.

Long-term expenditure trends

Over the last five years and planned over the next two, expenditure is as follows:

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Planned 2017 £m	Planned 2018 £m
PPF	68.6	103.7	108.2	128.8	144.9	161.5	162.4
PPF Administration Fund	16.5	18.9	18.3	20.8	17.6	17.9	17.9
FAS Administration Fund	8.0	8.5	8.4	8.2	6.4	8.0	7.9
Total	**93.1**	**131.1**	**134.9**	**157.8**	**168.9**	**187.4**[1]	**188.2**[1]

[1] excludes investment transaction fees

Alan Rubenstein
Accounting Officer
29 June 2016

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 2016 under the Pensions Act 2004. The financial statements comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, 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 and Staff Report and the Parliamentary Accountability disclosures that are described in that report as having been audited.

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

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Board of the Pension Protection Fund and the Chief Executive as 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, certify and report on the financial statements in accordance with the Pensions Act 2004. I conducted my audit in accordance with 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 read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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 recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements 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 2016 and of the net income for the year then ended; and
- the financial statements have been properly prepared in accordance with the Pensions Act 2004 and Secretary of State directions issued thereunder.

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Opinion on other matters

In my opinion:

- the parts of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited have been properly prepared in accordance with Secretary of State directions issued under the Pensions Act 2004; and
- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared 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 and the part of the Remuneration and Staff Report and the Parliamentary Accountability disclosures to be audited 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 Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

29 June 2016

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The Board of the Pension Protection Fund

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Chief Financial Officer's Review

The surplus of our assets over our liabilities is a measure at a point in time of our progress towards building sufficient reserves to allow for future claims.

The surplus of the PPF has increased from £3.6bn to £4.1bn over the financial year against a background of challenging market conditions. This has been achieved through the operation of our hedging programme and the decision to reduce risk in the investment portfolio. The investment growth portfolio returned 1.4 per cent for the year, and we have exceeded our target to achieve an annual total return of 1.8 per cent above LIBOR on a rolling three year basis. The total investment return for the year was 1.7 per cent compared to 25.9 per cent in 2014/15 and minus 0.7 per cent in 2013/14.

Claims continued to be low in number, with just 47 for the financial year, compared to 61 for the same period in 2014/15 and 107 in 2013/14 although the BHS claim in March increased the total value to £476m, 148 per cent of last year's figure.

The overall financial position of the PPF at 31 March 2016 remained robust, with an increase in the surplus to £4.1bn (2014/15: £3.6bn) and a funding ratio of 116.3 per cent compared to 115.1 per cent at the same point last year.

Note disclosures and commentary

Alongside the principal financial statements and accompanying notes, we continue to present a commentary to highlight and explain important points in a number of the notes. These are identified by a shaded background and are not audited by the Comptroller and Auditor General, but have been reviewed for consistency. These notes comprise an introductory comment (identified by a shaded background and not subject to audit), a summary of accounting policies specific to individual financial statement items (included in a box) and the disclosures.

The report from the Comptroller and Auditor General on pages 47-48 confirms that there are no matters that need to be brought to readers' attention.

Andy McKinnon
Chief Financial Officer

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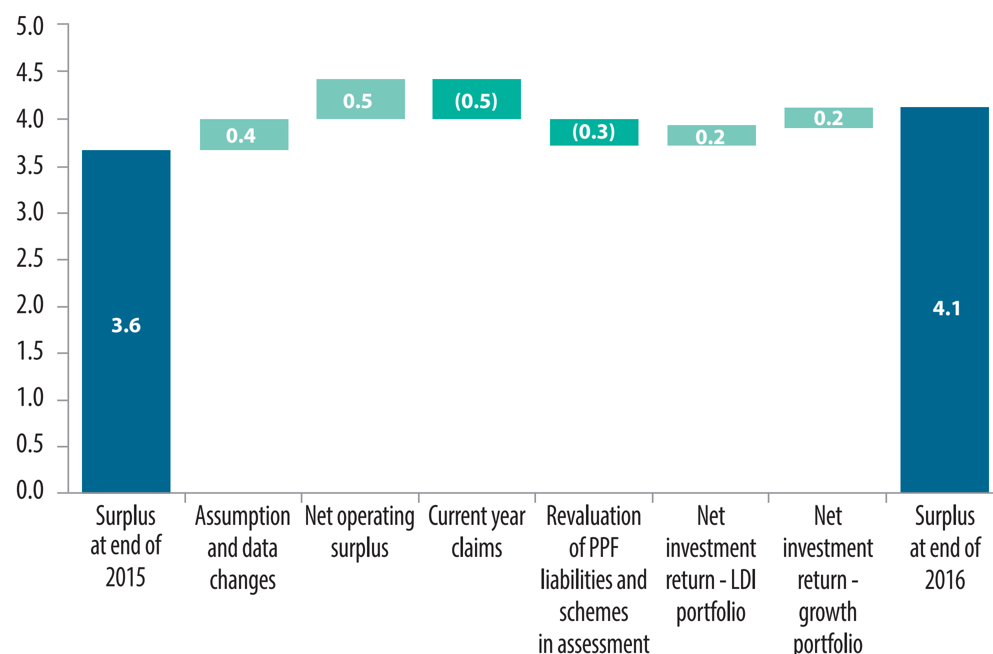
Chief Financial Officer's review continued

Review of the Consolidated Statement of Comprehensive Net Income

The consolidated statement of comprehensive net income together with the consolidated statement of changes in reserves shows the movement in surplus during the reporting year. These are summarised in the following diagram and further explained in the subsequent commentary.

Movement in consolidated surplus 2016 (£bn)



Updates to our actuarial assumptions and corrections to scheme data in the valuation had the impact of increasing the surplus by + £0.4bn.

Net operating surplus of £0.5bn is levy receipts after deducting operating expenses:

- levy receipts of £558m were just sufficient to cover operating costs of £55m and current year claims of £476m.
- levy income was lower than the forecast of £635m primarily due to improvements in employer insolvency risk as measured by the Experian scores and the impact of contingent assets.
- operating expenses were £55m, similar to last year. The in-housing of member services started during the year so we have seen an increase in staff costs but a reduction in member payroll services. Administration expenses have fallen to £72 for each of the 326,485 members of the PPF or schemes in assessment (2015: £78) and, as a percentage of year end total assets, operating costs reduced to 0.14 per cent (2015: 0.16 per cent).

The number of PPF claims was low this year at 47 compared to 61 in 2015 and 107 in 2014. However the value increased from £322m in 2015 to £476m this year following the inclusion of BHS schemes.

Contingent liabilities increased from £1.2bn to £1.6bn reflecting some large claims which we believed at 31 March to be very likely to enter assessment in the near future.

Lower gilt yields at the end of the year held back the surplus. The effect of revaluation changes on actuarial liabilities and our assessment of the provisions for schemes in assessment was a net movement of £0.3bn (2015: £3.8bn). This is largely offset by the net return of the LDI programme of £0.2bn (2015: £3.5bn). The net investment return on the growth portfolio was £0.2bn (2015: £1.0bn).

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Chief Financial Officer's review continued

The consolidated statement of financial position

The consolidated statement of financial position sets out the details at 31 March 2016 of the assets and liabilities held in all the funds for which the Board is responsible.

For schemes in assessment, although the claim has been recognised, the assets and liabilities remain outside of the PPF and the accounting treatment is to include a provision for the net deficit. However, we include the assets and liabilities (calculated on the PPF valuation basis) in full when calculating the funding ratio.

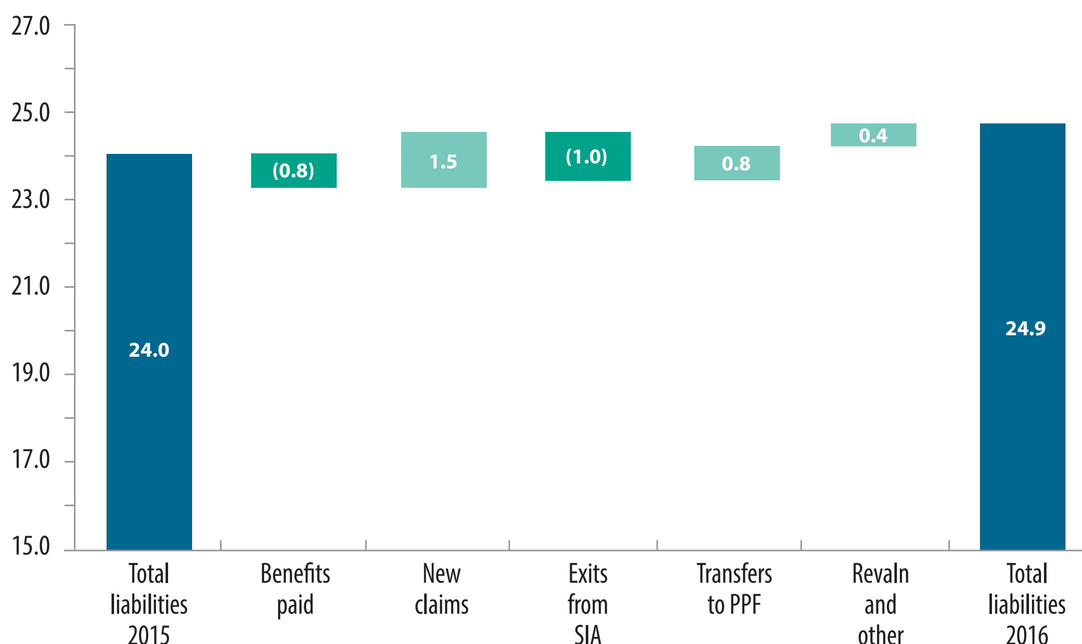
Consolidated net surplus at 31 March 2016

	Consolidated Statement of Financial Position £m	Not separately recorded in the Statement of Financial Position £m	Total £m
Total assets	40,748.8	5,401.4	46,150.2
Investment and other financial liabilities	(17,137.1)	-	(17,137.1)
Net assets	**23,611.7**	**5,401.4**	**29,013.1**
Actuarial estimate of liabilities	(18,284.0)	(6,665.0)	(24,949.0)
Total net surplus/(deficit)	**5,327.7**	**(1,263.6)**	**4,064.1**

Net assets, excluding those for schemes in assessment, have increased in the year from £22.8bn to £23.6bn. Increases have come from the net operating surplus of £0.5bn and assets transferred from schemes in assessment of £0.6bn supplemented by net investment returns. £0.6bn has been paid out in compensation to PPF members. The net increase in assets has been deployed mainly in hybrid and alternative assets including infrastructure projects such as an interest in the DP World's London Gateway.

The following graph summarises the movements in actuarial liabilities from £24,001.1m at the beginning of the year to the closing figure of £24,949.0m. The actuarial liabilities comprise £24,948.3m (2015: £23,998.3m) for the PPF and £0.7m (2015: £2.8m) for the FCF.

Movement in actuarial liabilities & schemes in assessment (£bn)



The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE NET INCOME

For the year ended 31 March

	Notes	2016 £m	2015 £m
Operating income			
Income from levies	3	558.1	574.0
Total operating income		**558.1**	**574.0**
Operating expenses			
Staff costs	11	(27.4)	(24.1)
Other costs	11	(28.0)	(31.6)
Total operating expenses		**(55.4)**	**(55.7)**
Net operating surplus		**502.7**	**518.3**
Investment activities			
Investment income	5	733.4	393.1
Change in fair value of investments	5	(296.7)	4,232.2
Investment expenses	5	(113.5)	(102.1)
Net investment return		**323.2**	**4,523.2**
Claims activities			
Current year claims for compensation	2	(475.9)	(322.3)
Revaluation of claims for compensation	2	386.7	(395.4)
Losses on actuarial liabilities	1	(331.7)	(3,147.4)
Net cost of claims		**(420.9)**	**(3,865.1)**
Comprehensive net income for the year		**405.0**	**1,176.4**

The Board has no comprehensive income or expenditure other than the comprehensive net income disclosed above. There were no discontinued operations, acquisitions or disposals during this period.

The accounting policies and notes on pages 57 to 83 form part of these financial statements.

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The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March

	Notes	2016 £m	2015 £m
Assets			
Operational cash		215.4	176.9
Investment assets	4	40,488.7	35,421.9*
Levy receivables		4.7	5.2
Transfer-in receivables		25.1	32.6
Other financial assets		5.1	2.3
Property and equipment	12	9.7	11.8
Intangible assets	12	0.1	0.5
Total assets		**40,748.8**	**35,651.2***
Liabilities			
Investment liabilities	4	(17,089.4)	(12,841.5)*
Other financial liabilities		(47.7)	(50.7)
Actuarial liabilities	1	(18,284.0)	(17,812.2)
Claims provisions	2	(1,263.6)	(1,311.1)
Total liabilities		**(36,684.7)**	**(32,015.5)***
Total assets less total liabilities		**4,064.1**	**3,635.7**
Represented by			
Total levy and tax payer funds		**4,064.1**	**3,635.7**

The Board of the PPF approved the accounts on 16 June 2016 and authorised the Accounting Officer to sign this Consolidated Statement of Financial Position on the same date.

Alan Rubenstein
Accounting Officer
29 June 2016

The accounting policies and notes on pages 57 to 83 form part of these financial statements.

* Reclassified as disclosed on page 67

The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES

For the year ended 31 March

	Levy payer funds £m	Tax payer funds £m	Total Reserves £m
At 1 April 2014	**2,431.5**	**(0.8)**	**2,430.7**
Total recognised net income for 2014/15	1,184.6	(8.2)	1,176.4
Grant-in-aid received in the year	20.3	8.3	28.6
Balance at 31 March 2015	**3,636.4**	**(0.7)**	**3,635.7**
Total recognised net income for 2015/16	411.5	(6.5)	405.0
Grant-in-aid received in the year	17.5	5.9	23.4
Balance at 31 March 2016	**4,065.4**	**(1.3)**	**4,064.1**

The accounting policies and notes on pages 57 to 83 form part of these financial statements.

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The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	2016 £m	2015 £m
Cash flows from operating activities		
Net operating surplus	502.7	518.3
Compensation payments	(616.0)	(568.3)
Cash receivable from schemes transferring into the PPF	313.0	646.4
Items reported in investment return but settled through operating bank accounts	(9.1)	0.2
Purchase of property and equipment	(1.0)	(5.6)
Depreciation, amortisation and impairment charges	3.5	2.2
Movement in current liabilities	(3.0)	7.3
Movement in receivables	5.2	39.6
Net cash inflow from operating activities	**195.3**	**640.1**
Cash flows to investing activities		
Cash transfers to investment managers	(2,932.1)	(3,274.4)
Cash transfers from investment managers	2,751.9	2,637.2
Net cash outflow to investing activities	**(180.2)**	**(637.2)**
Cash flows from financing activities		
Financing from DWP for PPF activities (levy payer funded)	17.5	20.3
Financing from DWP for FAS activities (tax payer funded)	5.9	8.3
Net cash inflow from financing activities	**23.4**	**28.6**
Net increase in cash and cash equivalents in the year	**38.5**	**31.5**
Cash and cash equivalents at beginning of the year	**176.9**	**145.4**
Cash and cash equivalents at end of the year	**215.4**	**176.9**

The accounting policies and notes on pages 57 to 83 form part of these financial statements.

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The Board of the Pension Protection Fund

Funds for which the Board is responsible

The Board is a statutory public corporation, sponsored by the DWP, incorporated on 6 April 2005 under the Pensions Act 2004. The Act requires the Board to hold and apply statutory funds which constitute the three broad streams in which the financial activities of the Board are accounted for:

- the **Pension Protection Fund** itself
- the **Fraud Compensation Fund**
- the **Administration Funds**.

The **Pension Protection Fund (PPF)** holds substantially all the Board's assets and liabilities, receives protection levy income and incurs much of the Board's costs. Its assets arise from levy income collected, the investment return and assets transferred from schemes for which the PPF has assumed responsibility. The PPF's principal liabilities are to pension scheme members for whom it has assumed responsibility and a provision for the total estimated value of the deficits of schemes where eventual entry to the PPF is judged probable.

The **Fraud Compensation Fund (FCF)** receives fraud compensation levies and holds a fund to compensate schemes which have suffered loss due to acts of dishonesty.

The **Administration Funds** record some of the Board's administrative expense and the related funding. In its role as manager of the Financial Assistance Scheme (FAS) it administers payments to members of certain defined benefit pension schemes which are ineligible for PPF compensation and manages the transition of these schemes to our administrator and the transfer of the schemes' assets to the Government.

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Core accounting policies

This section sets out the core accounting policies which apply throughout the financial statements. Accounting policies specific to particular elements of the financial statements are set out in boxes within the relevant note disclosures. The Board's core and specific accounting policies have been consistently applied.

Basis of preparation

These accounts have been prepared in accordance with an Accounts Direction dated 18 February 2010 issued by the Secretary of State for the Department for Work and Pensions, with the approval of the Treasury, in line with the Pensions Act 2004. The Accounts Direction stipulates compliance with the 2015/16 Government Financial Reporting Manual (FReM), which requires accounts to follow, as far as appropriate, private sector practice based on International Financial Reporting Standards (IFRS).

The accounts have been prepared on the going concern basis under the historical cost convention, except for the measurement at fair value through profit and loss of financial instruments and investment property, deposits with banks at amortised cost and the measurement of compensation benefits and associated provisions at the present value of the obligation.

Accounting standards which are particularly relevant to reporting on the Board's responsibilities and activities include:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 7 Financial Instruments: Disclosures
- IFRS 13 Fair Value Measurement
- IAS 32 Financial Instruments: Presentation
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IAS 40 Investment Property

Standards which are likely to affect future financial statements include:

- IFRS 9 Financial Instruments (currently expected to be effective for periods beginning on or after 1 January 2017)
- IFRS 16 Leases (effective for the Board for the periods beginning on or after 1 January 2019)

These standards are not expected to have a material effect on the Board's financial statements.

Consolidated financial statements

The financial statements consolidate the financial positions and results of the PPF, the FCF and the Administration Funds. The Board holds some investment assets through subsidiaries formed solely for that purpose. The underlying investments, income and gains and losses are recorded in the total investment portfolio. The subsidiaries are listed in note 15. Additionally, the Board holds one investment which it classifies as held for sale. The disposal of this investment is considered highly probable and is valued at the lower of its carrying amount and fair value less costs to sell.

Segmental reporting

To comply with IFRS 8 Operating Segments, note 14 summarises the financial transactions and balances of the three separate streams of activity described in the introduction above: the PPF, the FCF and the Administration Funds. Further information is available in the notes on provisions for claims, levy income and operating expenses.

Foreign currency translation

These financial statements are presented in sterling, which is the functional currency of the Board.

Transactions denominated in foreign currency are recorded at the exchange rates prevailing on the dates of the transactions. All assets and liabilities denominated in foreign currencies are translated into sterling at the rates prevailing at the year end. Exchange differences arising on settlement and on retranslation are recognised in change in fair value. Forward foreign exchange contracts are valued at rates prevailing at the year end.

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Impact of the Board assuming responsibility for schemes

Before entering the PPF, schemes go through an Assessment Period described at **www.pensionprotectionfund.org.uk/AssessmentPeriod/Pages/AssessmentPeriod.aspx**. Schemes which satisfy the criteria for transfer to the PPF (in particular that they have insufficient assets to meet their liabilities) receive a Transfer Notice under section 160 of the Pensions Act 2004, under which all their property, rights and liabilities are transferred to the Board. At the effective date of the Transfer Notice the scheme's net financial assets are transferred at fair value and its actuarial liabilities are valued using the same policies as apply to the Board's existing actuarial liabilities. Where the net deficit of a transferring-in scheme has been provided for at the end of the previous reporting period, changes in the value of the deficit due to changes in the value of the scheme's assets and liabilities from the previous accounting date up to the effective date of the Transfer Notice are accounted for as revaluation of claims.

Taxation

By virtue of the Pension Protection Fund (Tax) Regulations 2006, SI 2006/575, the Board is treated in the same way as UK registered pension schemes. Income from which recoverable withholding tax has been deducted is recorded gross, and the tax recoverable is included in receivables. Where tax withheld cannot be recovered, income is recorded net. The Board does not have to pay tax on its surplus or gains. VAT is normally irrecoverable in the European Union and is recognised as part of the expenditure to which it relates.

Significant estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions. Actual results could differ from estimates. Information about these judgements and estimates is contained in the relevant accounting policies and notes to the accounts. The key areas of estimation uncertainty are:

- actuarial liabilities and gains or losses on actuarial liabilities (note 1)
- claims provisions and contingent liabilities (note 2), and
- techniques for valuing financial instruments for which there is not a quoted price (note 4).

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Paying compensation

This section describes:

- the PPF's liabilities to pay compensation to members
- provisions and contingent liabilities made for potential claims for schemes to enter the PPF and for schemes to be compensated by the FCF for losses caused by dishonesty.

1 - Liabilities to pay compensation to members

The consolidated statement of financial position shows that at 31 March 2016 the PPF estimated the value of ***existing liabilities to pay compensation to members at £18,284.0m****. During the year* ***the PPF paid members compensation of £616.0m****. After the Actuarial Valuation as at March 31 2016 was completed,* ***a net loss of £331.7m to the income statement*** *was recognised to increase estimated liabilities to the amount needed to pay compensation to members.*

The amount of the PPF's liabilities to pay compensation to members (actuarial liabilities) is calculated by the Appointed Actuary – *see the Actuarial Valuation starting on page 85.*

The value is impacted by changes in actuarial assumptions, discount rates, operating expenses and other relevant factors, including the payment of benefits during the period.

Accounting policy

In accordance with IAS 37, the Board recognises its best estimate of the expenditure required to pay compensation to members in the future as disclosed in the Actuarial Valuation. This includes:

- the present value of the liability to pay compensation to the members, both deferred and retired, of all pension schemes for which the Board has assumed responsibility, valued on the assumptions set out in the Actuary's Report
- an allowance for operating expenses permitted to be charged against the PPF, and
- a provision for the cost of eliminating inequalities caused by Guaranteed Minimum Pensions (GMPs).

Where a member retires before the year end but has not received compensation, the transaction is accounted for as a decrease in the actuarial liabilities on a cash basis.

Key judgements and estimates

The calculation of the actuarial liabilities of the PPF relies on assumptions about a number of financial and demographic factors, explained in Annex M2 of the Actuarial Valuation. In particular, attention is drawn to the method used to compute a market-consistent discount rate.

The change in the total value of actuarial liabilities can be analysed as follows:

	2016 **£m**	**2015** **£m**
Actuarial liabilities		
Opening value of actuarial liabilities	17,812.2	12,859.4
Actuarial liabilities of schemes which transferred to the PPF during the year	757.0	2,372.0
Decrease in AVCs to be discharged	(0.8)	(2.2)
Actuarial losses	331.7	3,147.4
Benefits paid to members	(616.0)	(564.4)
Other	(0.1)	-
Total actuarial liabilities	**18,284.0**	**17,812.2**

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Paying compensation continued

Actuarial losses are the net adjustment required to the outstanding amount of actuarial liabilities after accounting for schemes which have transferred into the PPF and the amount of benefits paid during the year. Actuarial losses can be analysed as follows:

	2016 £m	2015 £m
Actuarial losses		
Effect of passage of time on discounting	92.9	70.9
Change in assumptions	457.6	3,448.7
Change in experience	(219.7)	(107.6)
Revaluation of current year transfers at 31 March	-	(227.3)
Other	0.9	(37.3)
Total actuarial losses	**331.7**	**3,147.4**

2 – Provisions for claims on the PPF and the FCF

The consolidated statement of financial position shows ***total provisions of £1,263.6m for claims from pension schemes*** *with £1,262.9m being PPF (see page 62) and £0.7m for FCF (see page 63). The consolidated statement of comprehensive net income shows* ***net cost of claims of £420.9m*** *and also showed a benefit in net* ***decrease to the values of claims previously recorded of £386.7m*** *with £384.6m being PPF and £2.1m for FCF.*

The PPF provision relates to schemes in assessment and is calculated by the Appointed Actuary as the present value of estimated future compensation payments to be made by the PPF, less the value of existing assets in such pension schemes. The consolidated statement of comprehensive net income is affected by two elements of claims: the amount of new claims received in the year, and the effect of re-assessing the value of previously reported claims.

The FCF maintains a provision for claims that a pension scheme, with an insolvent sponsor, has lost money through dishonesty.

Accounting policies

The PPF considers all eligible pension schemes whose sponsoring employers have experienced a qualifying insolvency event before the end of the accounting period. Where eventual entry of the scheme into the PPF is judged probable, the Board recognises a provision.

Where the Board believes no qualifying insolvency event has occurred before the end of the accounting period but nonetheless the event could possibly occur and where it has sufficient information, a contingent liability will be disclosed.

The provision or contingent liability is valued at the net deficit impacting the PPF, that is:

- scheme liabilities calculated on the same basis as actuarial liabilities, less
- assets under the trustees' control, including asset recoveries from insolvent employers.

Within the FCF, the Board recognises provisions for claims where it is probable that an eligible pension scheme has suffered a loss due to an act of dishonesty. Where the success of a claim is judged possible, but less than probable, a contingent liability is disclosed.

Key judgements and estimates

The calculation of the costs of claims on both the PPF and the FCF relies on actuarial assumptions for the valuation of scheme liabilities and techniques such as rolling forward asset values as at a prior date to the Board's accounting date using investment indices (see page 89 for the PPF).

Claims on the PPF

Claims provisions, current year claims for compensation, the revaluation of claims for compensation and the total estimate of contingent liabilities relating to the PPF are summarised on the next page.

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Paying compensation continued

Claims on the PPF

	Number of schemes	2016 £m	Number of schemes	2015 £m
Claims provisions at start of year	**113**	**1,308.3**	**160**	**1,148.4**
Current year claims for compensation				
Protected liabilities		1,535.9		1,429.6
Scheme assets including recoveries		(1,060.0)		(1,107.3)
Total current year claims for compensation	**47**	**475.9**	**61**	**322.3**
Revaluation of claims for compensation				
Release of provision for schemes no longer considered probable for entry	**(7)**	(8.5)	**(12)**	8.6
Revaluation of provisions brought forward from previous year end		(329.4)		416.5
Change in provisions for schemes transferring into the Protection Fund during the year		(46.7)		(29.9)
Revaluation of claims		**(384.6)**		**395.2**
Release of provisions for claims transferred to the PPF	**(33)**	**(136.7)**	**(96)**	**(557.6)**
Claims provisions at end of year	**120**	**1,262.9**	**113**	**1,308.3**

The claims provisions are calculated as the total estimated actuarial liabilities less the total value of assets reported as owned by schemes in assessment at 31 March:

	2016 £m	2015 £m
Total estimated actuarial liabilities for schemes in assessment	(6,664.3)	(6,186.1)
Total assets owned by schemes in assessment	5,401.4	4,877.8
Total net deficits of schemes in assessment	**(1,262.9)**	**(1,308.3)**

Current year claims for compensation on the PPF

Current year claims totalled £475.9m (2015: £322.3m) in respect of 47 (2015: 61) schemes. Provisions were made for 44 new schemes (or individual sections of schemes) (2015: 55 schemes) where eventual entry into the PPF is considered probable, and where reliable estimates can be made of the impact on the PPF. Also included are claims in respect of a further 3 schemes (2015: 6 schemes) in assessment estimated to be in surplus at the prior year end but now estimated to be in deficit.

Protected liabilities include provisions for equalisation of GMPs and expenses. The Appointed Actuary's Supplementary Report, in particular Annex S6, gives further information on these provisions.

Revaluation of claims for compensation on the PPF

In the PPF, of the 113 (2015: 160) schemes for which provisions were made as at the end of the previous year:

- 32 (2015: 88) schemes were transferred into the PPF during the year
- 7 (2015: 12) schemes' provisions have been released because the Board no longer considers it probable that the schemes will eventually transfer to the PPF, and
- the remaining 74 schemes, or scheme sections, (2015: 60) are judged likely to enter the PPF. The associated provisions have been retained and revalued.

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Paying compensation continued

Release of provisions for claims transferred to the PPF

During the year 33 schemes (2015: 96) transferred into the PPF. Provisions had been created as at 31 March 2016 in respect of 32 of these schemes (2015: 88). A further 1 scheme which entered assessment during the prior year completed the assessment process during the year and transferred into the PPF (2015: 8).

Contingent liabilities for possible claims on the PPF

The total value of claims on the PPF identified by the Chief Actuary as reasonably foreseeable at 31 March 2016, net of the value of related scheme assets, was estimated as £1,585.1m (2015: £1,223.1m). This includes an allowance for the impact of changes to the way the PPF compensation cap operates. Further analysis is given in Annex S6 of the Actuarial Valuation.

Claims on the FCF

Claims provisions, current year claims for compensation, the revaluation of claims for compensation and the total estimate of contingent liabilities relating to the FCF are summarised below. There was one new claim and no claims were settled.

	Number of schemes	**2016 £m**	**Number of schemes**	**2015 £m**
Claims provisions at start of year	**2**	**2.8**	**8**	**6.5**
Revaluation of claims for compensation		0.1		0.2
Claims paid	-	-	(6)	(3.9)
New claims	1	-	-	-
Release of provisions no longer needed	(1)	(2.2)	-	-
Claims provisions at end of year	**2**	**0.7**	**2**	**2.8**

Contingent liabilities for possible claims on the FCF

The total value of possible future claims on the FCF at 31 March 2016 was estimated at £2.3m relating to one scheme (2015: less than £0.1m relating to one scheme).

Funding compensation – levy income and investment management

This section describes how the PPF and the FCF fund their obligations to pay compensation to members.

The PPF's Statement of Investment Principles (SIP) describes the primary objective as to have sufficient funds to pay compensation to members of eligible pension schemes. The PPF's funding objective, and managing the financial risks associated with it, is designed to achieve a balance between protecting and securing the compensation payments for current and potential members of schemes that come into the PPF while setting a fair and proportionate levy.

The PPF is funded principally from three main sources:

- private sector defined benefit schemes are charged a protection levy
- certain costs are covered by an administration levy, invoiced by the Pensions Regulator to schemes, which funds payments of grant-in-aid by the DWP to the PPF, and
- funds to pay compensation in the future are invested by external fund managers to earn an investment return. The FCF is mainly funded by the fraud compensation levy and it has its own SIP.

3 - Income from levies

*The consolidated statement of comprehensive net income shows that **total levy income fell by £15.9m to £558.1m, £558.1m for the PPF itself and less than £0.1m for the FCF.** The PPF levy was £77m less than the estimate of £635m primarily due to improvements in employer insolvency risk as measured by the Experian scores and the impact of contingent assets. Protection levies are charged 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). The principles, policies and procedures for levy assessment and invoicing are explained at **www.pensionprotectionfund.org.uk/levy/Pages/ PensionProtectionLevy.aspx.***

Accounting policy

Protection levy and fraud compensation levy income is recognised on an accrual basis. As required by the FReM, DWP GIA, the mechanism used to receive administration levy funds, is credited directly to the General Reserve as contributions from a controlling party.

Provisions are made for amounts which may have to be credited or repaid following levy payers' appeals. Movements on these provisions are accounted for as adjustments to levy income. Invoiced amounts which cannot be collected from schemes are written off to operating expenses.

The Board did not raise a fraud compensation levy in 2015/16 (2014/15: no levy raised). Any levy is collected by the Pensions Regulator on the Board's behalf.

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Funding compensation – levy income and investment management continued

Levy income for the year ended 31 March is summarised as follows:

	2016 £m	2015 £m
Risk-based levies in respect of the current year	536.7	526.1
Scheme-based levies in respect of the current year	24.2	57.5
Total protection levies in respect of the current year	**560.9**	**583.6**
Risk-based levies in respect of prior years	(3.2)	(9.8)
Scheme-based levies in respect of prior years	0.4	0.2
Total protection levies in respect of prior years	**(2.8)**	**(9.6)**
Income from protection levies	**558.1**	**574.0**
Income from fraud compensation levy	**-**	**-**
Total income from levies	**558.1**	**574.0**

The above figures exclude DWP GIA funding which is included in movement in reserves. The consolidated statement of changes in reserves shows that the PPF also received administration levy funding through DWP GIA of £17.5m (2015: £20.3m).

4 - Investment assets and liabilities

*The consolidated statement of financial position shows that at the year end the PPF and the FCF together had **gross investment assets valued at £40,488.7m and investment liabilities of £17,089.4m, a net investment portfolio of £23,399.3m**.*
*The consolidated statement of comprehensive net income shows **a net investment return (income and gains less investment expenses) of £323.2m.***

The Board's approach to investment is summarised in the Statement of Investment Principles ***(http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_January_2016.pdf)*** which summarises investment management governance, objectives, risk management, strategy, fund management and custody. The FCF has its own SIP. The day to day fund management of the assets is performed by external fund managers and an in-house team of investment professionals.

The Board holds a wide range of investment assets and liabilities including UK Government bonds, bonds issued by other governments and corporate entities, public equity and alternative investments. To help manage the risks associated with its long-term liabilities to pay compensation to members, the Board has a programme of UK Government bonds sale and repurchase agreement transactions and derivatives (principally interest rate and inflation swaps). The Performance Report 'Managing our balance sheet' section (pages 19-20) comments on the PPF's investment performance.

Funding compensation – levy income and investment management continued

The change over the year in the net investment portfolio is summarised as follows:

	2015 Reclassified	Assets transferred from Schemes in Assessment	Net purchases / (sales)	Net gains/ (losses)	Other movements	2016
	£m	£m	£m	£m	£m	£m
Annuities	352.3	8.5	-	(7.2)	-	353.6
Corporate Bonds	1,334.9	62.9	971.0	8.9	(3.5)	2,374.2
Index Linked Corporate Bonds	156.5	-	96.5	6.7	(3.2)	256.5
Government Bonds	12,065.2	78.8	(483.0)	254.7	(20.2)	11,895.5
Index Linked Government Bonds	1,911.8	105.3	(259.4)	102.9	9.6	1,870.2
Other debt	2,181.0	9.7	104.6	(1.5)	0.4	2,294.2
Equities	2,602.7	13.7	(202.6)	69.8	-	2,483.6
Equities - held for sale	53.0	-	-	-	-	53.0
Private equity and partnerships	1,302.0	-	190.1	104.4	-	1,596.5
Investment property funds	705.7	18.7	50.1	55.3	-	829.8
Investment property held directly	582.2	-	14.2	41.2	-	637.6
	23,247.3	**297.6**	**481.5**	**635.2**	**(16.9)**	**24,644.7**
Other investment assets						
Unsettled trades	53.2					63.1
Derivatives	9,514.3					12,523.2
Cash at fund managers	2,528.7					3,157.0
Accrued income	78.4					100.7
Total investment assets	**35,421.9**					**40,488.7**
Other investment liabilities						
Unsettled trades	(235.9)					(344.8)
Derivatives	(10,125.3)					(13,584.4)
Repurchase agreements	(2,480.3)					(3,160.2)
Total investment liabilities	**(12,841.5)**					**(17,089.4)**
Net investment portfolio	**22,580.4**					**23,399.3**

Other movements include amortisation. Assets transferred are in specie movements from schemes coming into the PPF.

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Funding compensation – levy income and investment management continued

Reclassification of investments

Following the appointment of our new custodian, we have reclassified some elements of our investment portfolio. For example, cash collateral on derivatives is now shown as cash at fund managers and investments held within pooled funds are now classified according to the underlying holdings. This has led to a reclassification of investments at 31 March 2015 and a restatement of total investment assets and total liabilities as follows:

	Original 2015 £m	Restated 2015 £m
Total investment assets	35,021.8	35,421.9
Total investment liabilities	(12,441.4)	(12,841.5)
Net investment portfolio	**22,580.4**	**22,580.4**

Financial instruments

Investment assets are all financial instruments except for investment property held directly and non-current assets held for sale.

Accounting policies

Classification

Financial instruments are classified at initial recognition as one of:

- Financial assets or liabilities at fair value through profit or loss, separated by:
  (a) those designated at fair value through profit or loss upon initial recognition and
  (b) those classified as held for trading (mainly derivatives - interest rate swaps, inflation rate swaps, options, credit default swaps and forward foreign exchange contracts to support liability-driven investment)
- Loans and receivables.

Recognition and derecognition

Financial assets and liabilities at fair value through profit and loss are recognised initially on trade date. Other financial assets and liabilities are recognised on the date they are originated. Financial assets are derecognised when the right to receive cash flows has expired or the Board 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 or cancelled, or expires.

Securities sold subject to repurchase agreements remain on the consolidated statement of financial position and a liability is recorded for the consideration received.

Measurement

Financial instruments are measured at fair value, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Quoted securities and other exchange-traded assets, including derivative contracts, are valued at closing prices at the end of the reporting period. Prices used are the bid price or last traded price depending on the convention of the stock exchange or other market on which they are quoted. Pooled investment vehicles are valued at closing bid or single prices as appropriate. Assets for which a recognised investment exchange does not exist are valued at a fair value estimated by the Board's appointed fund managers or other appropriately qualified professional adviser. Where possible, the resulting valuations are validated by the Board's custodian. Derivative contracts which are not exchange-traded (often referred to as over-the-counter contracts) are valued at prices calculated by a pricing agent (and compared to the fund managers' own valuations) using valuation methodologies based on market sources as described below.

Key judgements and estimates

The choice of valuation technique and inputs to the valuation methodology (whether based on observable market data or not) are matters of judgment and involve the use of estimates. The amounts eventually realised from these financial instruments may differ from the estimated values disclosed in these accounts.

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Funding compensation – levy income and investment management continued

Financial instruments measured at fair value

The following table analyses the financial instruments of the PPF in accordance with IFRS 13 to reflect the significance of inputs used in assessing fair value.

Level 1 instruments are valued by reference to quoted prices in active markets for identical assets.

Level 2 instruments are valued using inputs (other than quoted prices taken directly from markets) observable either directly (e.g. through market information price feeds) or indirectly (i.e. derived from market rates, prices and other data). Level 2 assets consist mainly of:

- sovereign and corporate debt instruments
- managed funds investing in securities and properties
- derivatives, and
- repurchase agreement liabilities.

Sovereign and corporate debt instruments are valued using prices provided by price aggregation services which source prices from authorised brokers and dealers. These debt instruments are readily realisable.

Holdings of managed funds are normally valued based on unit prices based on current net asset values of the underlying assets. Derivative assets and liabilities are valued using discounted cash flow and options pricing models. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, inflation rates, option volatilities and currency rates.

The valuation of repurchase agreement liabilities reflects amounts borrowed from counterparties.

Level 3 assets are largely private equity funds and other funds not traded in active markets. These funds are asked to supply audited annual accounts which are mostly presented in accordance with IFRS or US generally accepted accounting principles. Insurance policy assets are valued by the PPF using actuarial models.

Financial instruments measured at fair value at 31 March 2016

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Annuities	-	-	353.6	353.6
Corporate Bonds	9.0	2,122.1	243.1	2,374.2
Index Linked Corporate Bonds	9.1	221.5	25.9	256.5
Government Bonds	-	11,895.5	-	11,895.5
Index Linked Government Bonds	-	1,866.3	3.9	1,870.2
Other debt	301.4	1,866.2	126.6	2,294.2
Equities	1,287.8	1,189.1	6.7	2,483.6
Equities - held for sale	-	53.0	-	53.0
Private equity and partnerships	-	29.7	1,566.8	1,596.5
Investment property funds	-	600.1	229.7	829.8
Investment property held directly	-	637.6	-	637.6
Unsettled trades assets	63.1	-	-	63.1
Cash at fund managers	2,830.1	315.6	-	3,145.7
Accrued income	100.7	-	-	100.7
Unsettled trades liabilities	(344.8)	-	-	(344.8)
Derivatives	(5.5)	(1,055.7)	-	(1,061.2)
Repurchase agreements	-	(3,160.2)	-	(3,160.2)
Total	**4,250.9**	**16,580.8**	**2,556.3**	**23,388.0**

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Funding compensation – levy income and investment management continued

Financial instruments measured at fair value at 31 March 2015

	Level 1* £m	Level 2* £m	Level 3* £m	Total* £m
Annuities	-	-	352.3	352.3
Corporate Bonds	9.4	1,325.5	-	1,334.9
Index Linked Corporate Bonds	-	122.6	33.9	156.5
Government Bonds	110.8	11,954.4	-	12,065.2
Index Linked Government Bonds	11.1	1,900.7	-	1,911.8
Other debt	308.2	1,863.3	9.5	2,181.0
Equities	1,629.1	947.7	25.9	2,602.7
Equities - held for sale	-	53.0	-	53.0
Private equity and partnerships	9.1	501.6	791.3	1,302.0
Investment property funds	-	684.4	21.3	705.7
Investment property held directly	-	582.2	-	582.2
Unsettled trades assets	53.2	-	-	53.2
Cash at fund managers	1,961.5	476.1	79.9	2,517.5
Accrued income	78.4	-	-	78.4
Unsettled trades liabilities	(235.9)	-	-	(235.9)
Derivatives	(458.4)	(152.6)	-	(611.0)
Repurchase agreements	-	(2,480.3)	-	(2,480.3)
Total	**3,476.5**	**17,778.6**	**1,314.1**	**22,569.2**

*Certain investments have been reclassified as described on page 67.

The following table summarises the movement between opening and closing balances of Level 3 financial instruments:

	2016 £m	2015 £m
Financial assets		
Balance at start of year	**1,314.1**	**827.4**
Gains included in the statement of comprehensive net income	152.0	133.7
Purchases and assets transferred in	1,191.3	824.7
Sales	(62.1)	(471.7)
Transfers out of Level 3	(39.0)	-
Balance at end of year	**2,556.3**	**1,314.1**

Funding compensation – levy income and investment management continued

Investment property held directly

Accounting policy

Investment properties held directly are measured initially at cost, including transaction costs. The PPF follows the fair value model option in IAS 40 Investment Property. Investment properties are valued at their fair value by independent valuers with recognised and relevant qualifications and recent and relevant experience. Gains or losses arising from a change in the fair value are recognised in the consolidated statement of comprehensive net income for the period in which they arise.

At 31 March 2016, the Board owned 31 (2015: 34) commercial properties in the UK, with a total fair value of £637.6m (2015: £582.2m). Rental income recognised was £30.3m (2015: £26.6m). Direct operating expenses were not material. There were no restrictions on the realisability of property, income or disposal proceeds.

As at the year end total future rental income under the leases were:

	2016 £m	2015 £m
Not later than one year	31.2	29.9
Later than one year and not later than five years	125.8	118.7
Later than five years	449.9	454.8
Total	**606.9**	**603.4**

Non-current assets held for sale

Accounting policy

The Board owns one investment which it classifies as being held for sale under the guidance in IFRS 5. The Board believes that the sale of this investment is highly probable. This asset is valued at the lower of its carrying value and fair value less costs to sell.

The Board received 25 per cent of the issued capital of Harworth Group plc in 2014/15. The Board is entitled to appoint a director at the company but does not consider it can exert significant influence over its operations.

5 - Investment return

Accounting policies

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

- interest income arising from cash deposits, fixed and variable interest securities and similar investments is accounted for using the effective interest rate method, and
- dividends and distributions are accounted for when the dividend or distribution is declared.

Change in fair value of investments includes:

- 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.

Investment expenses are accounted for on an accruals basis.

Funding compensation – levy income and investment management continued

	Net investment income 2016 £m	Change in fair value of investment 2016 £m	Total 2016 £m
Financial assets designated at fair value through profit and loss			
Annuities	27.8	(7.2)	20.6
Corporate Bonds	52.5	8.9	61.4
Index Linked Corporate Bonds	1.6	6.7	8.3
Government Bonds	290.4	254.7	545.1
Index Linked Government Bonds	9.0	102.9	111.9
Other debt	40.3	(1.5)	38.8
Equities	22.4	69.8	92.2
Private equity and partnerships	11.5	104.4	115.9
Investment property funds	13.1	55.3	68.4
Investment property held directly	30.3	41.2	71.5
Unsettled trades assets	-	1.0	1.0
Cash at fund managers	1.5	(32.9)	(31.4)
Accrued income	-	(0.2)	(0.2)
Unsettled trades liabilities	-	(5.5)	(5.5)
Derivatives	255.3	(892.6)	(637.3)
Repurchase agreements	(24.5)	(1.7)	(26.2)
Net gain from financial assets designated at fair value through profit and loss	**731.2**	**(296.7)**	**434.5**
Deposit interest	0.7		0.7
Other investment income	1.5		1.5
Total investment return	**733.4**	**(296.7)**	**436.7**
Total investment expenses			
Fund management fees			(105.5)
Custody charges			(1.8)
Transaction costs			(6.2)
Total investment expenses			**(113.5)**
Net investment return			**323.2**

Funding compensation – levy income and investment management continued

	Net investment income* 2015 £m	Change in fair value of investment* 2015 £m	Total* 2015 £m
Financial assets designated at fair value through profit and loss			
Annuities	26.3	(0.2)	26.1
Corporate Bonds	39.6	130.5	170.1
Index Linked Corporate Bonds	1.1	14.8	15.9
Government Bonds	308.9	1,854.1	2,163.0
Index Linked Government Bonds	274.5	127.2	401.7
Other debt	22.0	276.9	298.9
Equities	22.3	551.2	573.5
Equities held for sale	-	35.2	35.2
Private equity and partnerships	0.1	192.3	192.4
Investment property funds	15.4	64.6	80.0
Investment property held directly	26.6	15.3	41.9
Unsettled trades assets	-	0.6	0.6
Cash at fund managers	20.3	12.0	32.3
Accrued income	-	(0.1)	(0.1)
Unsettled trades liabilities	-	-	-
Derivatives	(351.0)	956.5	605.5
Repurchase agreements	(21.9)	1.3	(20.6)
Net gain from financial assets designated at fair value through profit and loss	**384.2**	**4,232.2**	**4,616.4**
Deposit interest	7.3		7.3
Other investment income	1.6		1.6
Total investment return	**393.1**	**4,232.2**	**4,625.3**
Total investment expenses			
Fund management fees			(92.7)
Custody charges			(1.9)
Transaction costs			(7.5)
Total investment expenses			**(102.1)**
Net investment return			**4,523.2**

*Certain investments have been reclassified as described on page 67.

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Financial risk management

Managing the payment and funding of member compensation described in the previous sections involves financial risk. The most important categories of financial risk, and the ways in which the Board manages them, are described in Section 4 of the PPF SIP **(www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_January_2016.pdf).**

A number of the risks described in the SIP come from holding financial instruments about which further disclosure is given below as required by IFRS 7

- **PPF credit risk** (referred to in the SIP as counterparty risk) – note 6
- **PPF liquidity risk** (which includes SIP valuation risk and currency risk) – note 7
- **PPF market risk** (which includes SIP valuation risk and currency risk) – note 8

These disclosures are followed by notes on:

- **FCF financial risks** – note 9
- **Administration Funds financial risks** – note 10

6 - PPF credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the PPF by failing to discharge an obligation. The main exposure to credit risk in the PPF's financial instruments arises from investments in government bonds, corporate bonds and other debt instruments. The PPF is also exposed to credit risk on derivatives, insurance policies, cash, transfer-in receivables and other receivables.

The principal elements of the PPF's internal policy for managing credit risk include:

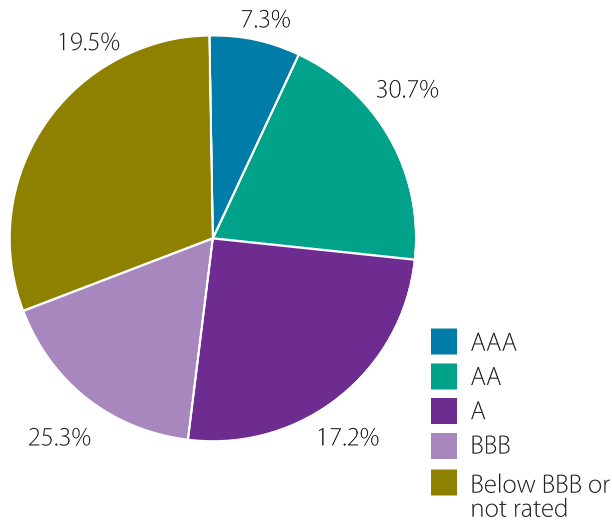
- counterparties to derivative contracts should be rated at least A- (or subject to increased collateral) and are subject to overall exposure limits
- a range of limits apply to counterparties to derivatives contracts and repurchase agreements
- investment management agreements require fund managers to deal with the highest-rated counterparties consistent with best execution, and
- collateral is taken under the terms of the relevant CSA to the ISDA Master Agreement.

The Board is satisfied that credit exposure is in accordance with the risk appetite described in the SIP.

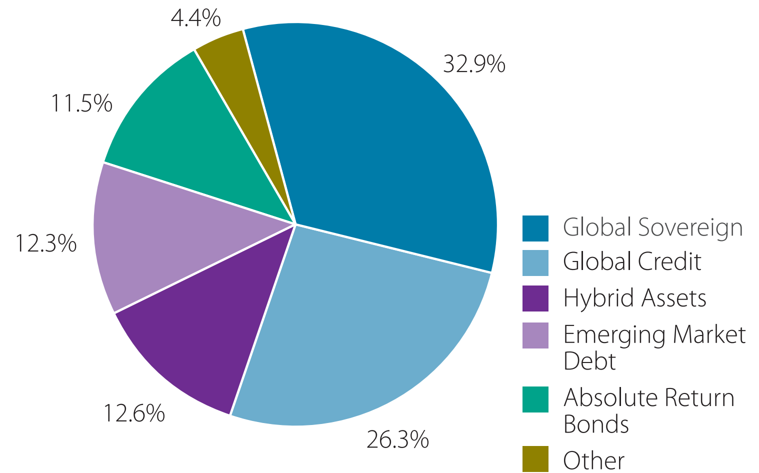
Financial risk management continued

As at 31 March 2016, the rating distribution of the fixed income investment portfolio (excluding UK gilts and derivatives) was as follows:

Fixed Income Portfolio Allocation (£5.5bn) by Rating Category

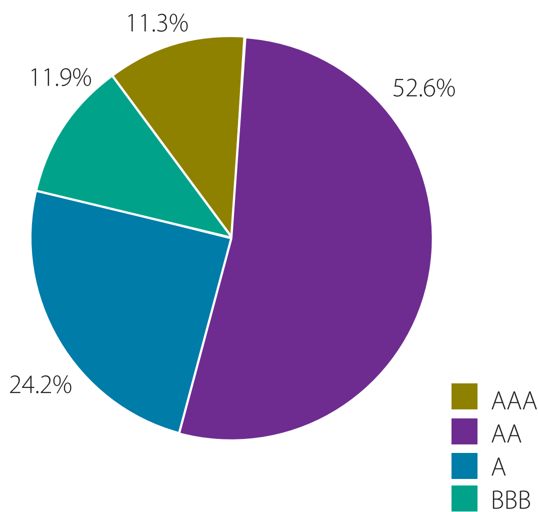


Fixed Income Portfolio Allocation (£5.5bn) by Asset Type

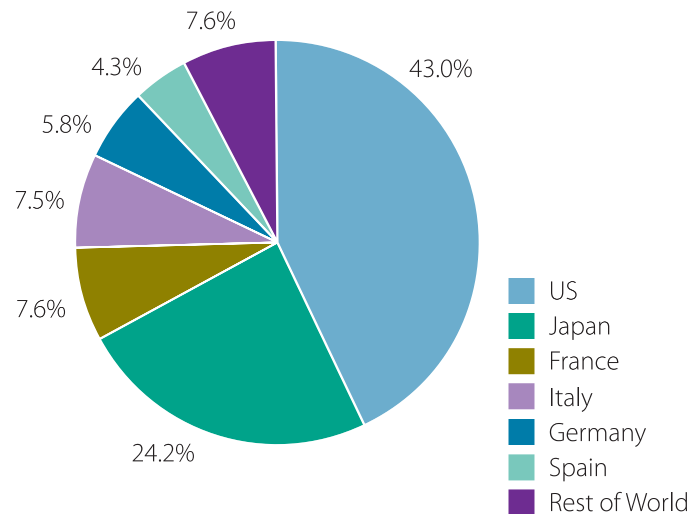


Within Fixed Income, the Global Sovereign portfolio is further analysed below:

Global Sovereign Allocation (£1.8bn) by Rating Category



Global Sovereign Allocation (£1.8bn) by Country



Levy receivables at 31 March are summarised below. 'Past due' is defined as older than 28 days, the time allowed to levy payers either to pay or to request a review of their levy invoice.

	Not yet due £m	Up to 3 months past due £m	3-6 months past due £m	Over 3-6 months past due £m	Total £m
2016	1.2	1.1	0.6	1.8	**4.7**
2015	1.7	1.4	-	2.1	**5.2**

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Financial risk management continued

7 - PPF liquidity risk

Liquidity risk is the possibility that the PPF has insufficient cash available to:

- settle its financial liabilities including repurchase agreements when they fall due
- pay compensation to members
- pay for staff and other operating expenses
- meet investment commitments to fund managers, for example, capital calls on private equity and infrastructure investments, and purchases of investment property, or
- meet collateral calls on the derivative portfolio.

Cash requirements and operational cash balances are forecast regularly. Significant amounts of financial instruments could readily be liquidated should the need arise. Additionally, we have a liquidity risk dashboard and contingency/action plans should the PPF be threatened by liquidity risk issues.

Financial liabilities

Financial liabilities are all due within one year, except for derivative financial instruments. The maturity profile of derivative financial instruments is as follows:

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2016	197.9	355.8	599.3	12,431.4	**13,584.4**
2015	59.5	263.7	327.8	9,474.3	**10,125.3**

Paying compensation to members

Future payments to members are projected in estimating the actuarial liabilities reported in the consolidated statement of financial position – see note 1 and the Actuarial Valuation. Payments to members in the year totalled £616.0m (2015: £564.4m).

Collateral arrangements

At 31 March, the following assets were subject to collateral and similar arrangements with counterparties:

	2016 £m	2015 £m
UK Government securities subject to sale and repurchase agreements	6,634.0	5,856.8
Securities lent to market counterparties	190.6	81.0
Total assets provided subject to collateral and similar arrangements with counterparties	**6,824.6**	**5,937.8**
Funds received as collateral for sale and repurchase agreements	3,160.2	2,480.3
Collateral received from counterparties	198.1	86.0
Total assets received subject to collateral and similar arrangements from counterparties	**3,358.3**	**2,566.3**

Capital commitments

Commitments to pay capital calls to fund managers at 31 March totalled:

	2016	2016 £m	2015	2015 £m
Denominated in US dollars	$1,730.1m	1,204.0	$1,823.4m	1,227.9
Denominated in Euros	€265.5 m	210.6	€269.6m	195.1
Denominated in Australian dollars	A$65.4m	35.0	A$74.6m	38.4
Denominated in Sterling	£80.8m	80.8	£16.3m	16.3
Total		**1,530.4**		**1,477.7**

Financial risk management continued

8 - PPF market risk

Market risk is the risk that the fair value 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.

Overall exposure to market risk is managed and illustrated in a number of ways. Annex S5 of the Appointed Actuary's Supplementary Report illustrates the sensitivity of the values of the Fund's assets and liabilities to changes in the rates of a wide variety of financial and non-financial factors. The scenarios modelled in this analysis cover changes in interest rates, changes in inflation rates (including where CPI rates diverge from RPI), changes in UK Government bond yields and changes in mortality assumptions and other demographic factors.

We estimate the sensitivity of the Fund's financial position to adverse changes in financial markets using a value at risk analysis as part of calculating the risk-based levy. The approach is described in the document Pension Protection Fund Consultation: Guidance for the Bespoke Investment Risk Calculation **(www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_ investment_risk_guidance.pdf).**

We measure, monitor and manage our market risk exposures using a combination of sensitivities, spread measures, tail risk measures and stress tests. Sensitivities we use encompass metrics such as PV01, IE01, convexity, CS01, CS1% and equity delta. For spread measures we typically use vol (i.e. standard deviation) and tracking error (standard deviation of differences of returns relative to benchmark) on a historical basis. For tail risk measures, we use measures such as VaR and expected shortfall, also on a historical basis, typically at a 95 per cent confidence level. Where we want to look at the potential impact of an event or specified shock on the portfolio as a whole, we run stress tests to enable us to quantify the net income impact.

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 PPF's financial instruments are carried at fair value and fair value changes are recognised in the consolidated statement of comprehensive net income, 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, both within the UK and globally, and sets asset allocation guidelines for the fund managers as per the table below at 31 March.

	2016 £m	**Actual %**	**Tolerance range**
Asset Class			
Global bonds	5,057.5		
UK bonds and cash	10,355.5		
Cash and bonds	**15,413.0**	**66.9%**	**65% - 85%**
Public equity	1,833.4	8.0%	5% - 11%
Alternatives (including property)	4,614.5	20.0%	15% - 30%
Hybrid assets	1,184.1	5.1%	3% - 10%
Total assets allocated per SIP	**23,045.0**	**100.0%**	

Alongside the strategic allocation, the SIP permits tactical investment views to enhance return or to control risk, within the overall risk appetite set by the Board. The actual investment values disclosed above incorporate tactical positions held at 31 March 2016 but exclude assets and liabilities held solely for hedging purposes.

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Financial risk management continued

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 valuation of the PPF's liabilities is sensitive to movements in interest rates. This interest rate risk is hedged as part of the LDI programme. The fixed income assets in which the PPF invests as part of its SIP are also sensitive to movements in interest rates.

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 PPF's liabilities are in sterling. The PPF's investment policy is to operate a currency management strategy to apply an optimal currency hedging ratio based on the characteristics of the related asset classes. At 31 March the residual unhedged foreign currency exposure is as follows:

	2016 £m	2016 %	2015 £m	2015 %
Asset Class				
Euro	173.4	20.8%	84.4	12.0%
US dollar	328.6	39.3%	424.0	60.6%
Other currencies	333.2	39.9%	191.7	27.4%
Total	**835.2**	**100.0%**	**700.1**	**100.0%**

9 - FCF financial risks

The FCF has £11.3m (2015: £11.2m) of money market funds (all level 1 according to its fair value classification), and provisions valued at £0.7m (2015: £2.8m). The Board's policy is to build up a small surplus in the Fund by raising levies over a number of years. The FCF is at risk of a large and urgent claim, or a number of such claims occurring closely together. The Board considers this possibility unlikely however, and does not consider it proportionate to build up a large surplus, which would help to mitigate the risk, at the expense of levy payers.

Credit risk – The FCF's funds are principally invested in units in liquidity funds managed by external fund managers.

Liquidity risk – The FCF is not exposed to significant liquidity risks as assets are readily realisable. Additionally, the time required to assess new claims would allow the FCF to raise any further levy income needed.

Market risk – the FCF's holdings in money market funds are subject to some price risk and interest rate risk. Claims can include variable rate interest for the period between the effective date of loss and the date of compensation.

10 - Administration Funds financial risks

Due to 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.

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Operating the business

This section explains the elements of the consolidated financial statements which relate to operating the PPF's business, including operating expenses and infrastructure, and gives other required disclosures.

11 - Operating expenses

Operating expenses fell by £0.3m to £55.4m. The insourcing of member services has led to an increase in staff costs and depreciation of new information and processing systems, with a corresponding reduction in member payroll services.

Total operating expenses are allocated to three funds: the PPF itself, the PPF Administration Fund and the FAS Administration Fund. The PPF is charged with the costs of creating and maintaining records of members entitled to PPF compensation, running payrolls to pay compensation and verifying data for the purposes of creating and maintaining data and running payrolls, investment costs and insolvency costs. Other costs are charged, as appropriate, to the PPF Administration Fund or the FAS Administration Fund.

Total operating expenses are summarised as follows:

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2016 £m
Staff Costs				
Wages and salaries	10.6	5.7	1.7	18.0
Social security costs	1.0	0.6	0.1	1.7
Other pension costs	1.8	1.2	0.2	3.2
Short term, seconded and temporary staff	2.3	2.0	0.2	4.5
Total staff costs	**15.7**	**9.5**	**2.2**	**27.4**
Other Costs				
Member payroll services	3.7	0.3	3.5	7.5
Staff related and recruitment	0.6	1.0	-	1.6
Advisory and other professional services	3.4	1.9	-	5.3
Statutory audit costs	0.2	-	-	0.2
Accommodation and general office	1.5	1.4	0.2	3.1
IT and telephony	3.3	3.0	0.5	6.8
Depreciation and amortisation charges	3.0	0.5	-	3.5
Total other operating expenses	**15.7**	**8.1**	**4.2**	**28.0**
Total operating expenses	**31.4**	**17.6**	**6.4**	**55.4**

Statutory audit costs were £210,000 (2015: £133,000).

Operating the business continued

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2015 £m
Staff Costs				
Wages and salaries	6.3	7.4	2.3	16.0
Social security costs	0.6	0.6	0.2	1.4
Other pension costs	1.2	1.3	0.4	2.9
Short term, seconded and temporary staff	1.3	2.3	0.2	3.8
Total staff costs	**9.4**	**11.6**	**3.1**	**24.1**
Other Costs				
Member payroll services	6.2	0.6	4.2	11.0
Staff related and recruitment	0.6	1.0	-	1.6
Advisory and other professional services	4.5	3.2	0.1	7.8
Statutory audit costs	-	0.1	-	0.1
Accommodation and general office	0.9	1.7	0.3	2.9
IT and telephony	3.2	2.4	0.5	6.1
Depreciation and amortisation charges	1.9	0.2	-	2.1
Total other operating expenses	**17.3**	**9.2**	**5.1**	**31.6**
Total operating expenses	**26.7**	**20.8**	**8.2**	**55.7**

Information on the staff numbers and exit packages can be found in the Remuneration and staff report on pages 42 to 45.

Pensions

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 and the Board is unable to identify its share of 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 2012 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (**www.civilservice.gov.uk/pensions**).

During the year to 31 March 2016, employer contributions of £3.1m (2015: £2.8m) were payable to the defined benefit section of the PCSPS at one of four rates in the range 20.0% to 24.5% (2015: 16.7% to 24.3%). 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. Employer contributions of £77k (2015: £64k) were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions were age-related and range from 3% to 12.5% (2015: 3% to 12.5%) of pensionable pay, and employers also match employee contributions up to 3% 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. Accrued pension contributions at 31 March 2016 were £280k (2015: £244k) and were paid in April 2016.

Operating the business continued

12 - Property and equipment and intangible assets

The PPF's property and equipment comprise IT hardware and furniture and fittings. Intangible assets are mainly the value of internally developed software.

Accounting policies

Property and equipment: IT hardware and furniture and fittings are capitalised if the cost of purchase either as a single item or as a group of related items bought for a common purpose exceeds £1,000.

Intangible assets: The costs of major software licences, development and enhancement are capitalised and amortised over their expected useful lives. Software maintenance costs are written off as incurred.

Depreciation and amortisation: Depreciation and amortisation are provided at rates calculated to write down the cost (less any estimated residual value) of each asset on a straight line basis over its expected useful life as follows:

Leasehold improvements	5 years
IT hardware	4 years
Other assets (including intangibles)	3 years

	IT hardware	Furniture & fittings	Assets under construction	Total property and equipment	Intangible assets
	£m	£m	£m	£m	£m
Cost					
At 1 April 2015	**8.9**	**0.7**	**4.6**	**14.2**	**2.1**
Additions in the year	-	-	1.0	1.0	-
Assets brought into use	4.9	-	(4.9)	-	-
At 31 March 2016	**13.8**	**0.7**	**0.7**	**15.2**	**2.1**
Depreciation and amortisation					
At 1 April 2015	**(2.2)**	**(0.2)**	**-**	**(2.4)**	**(1.6)**
Charged in the year	(3.0)	(0.1)	-	(3.1)	(0.4)
At 31 March 2016	**(5.2)**	**(0.3)**	**-**	**(5.5)**	**(2.0)**
Net book value at 31 March 2016	**8.6**	**0.4**	**0.7**	**9.7**	**0.1**

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Operating the business continued

	IT hardware £m	Furniture & fittings £m	Assets under construction £m	Total property and equipment £m	Intangible assets £m
Cost					
At 1 April 2014	**4.9**	**1.0**	**8.1**	**14.0**	**4.8**
Additions in the year	-	-	5.6	5.6	-
Disposals in the year	(4.4)	(0.9)	-	(5.3)	(2.8)
Assets brought into use	8.4	0.6	(9.1)	(0.1)	0.1
At 31 March 2015	**8.9**	**0.7**	**4.6**	**14.2**	**2.1**
Depreciation and amortisation					
At 1 April 2014	**(4.9)**	**(1.0)**	**-**	**(5.9)**	**(4.0)**
Charged in the year	(1.6)	(0.1)	-	(1.7)	(0.4)
Disposals in the year	4.3	0.9	-	5.2	2.8
At 31 March 2015	**(2.2)**	**(0.2)**	**-**	**(2.4)**	**(1.6)**
Net book value at 31 March 2015	**6.7**	**0.5**	**4.6**	**11.8**	**0.5**

In April 2014 the Board took occupancy of new business premises as described in note 13. As a result of this relocation, a number of substantially and fully depreciated items of property and equipment were written off.

13 - Operating lease commitments

The Board occupies business premises under a commercial lease, comprising rent, property service charges and the installation of certain fixtures and fittings. The lease has a period of 15 years from March 2014 with a rent review due after 5 years.

During 2014/15, the Board permanently vacated premises leased under a number of Memoranda of Terms of Occupancy (MOTO) with DWP as part of a planned notice period.

Accounting policy

The commercial lease and the MOTO with DWP are treated as operating leases as defined in IAS 17 Leases. Payments under these leases are charged to the Consolidated Statement of Comprehensive Net Income on the basis of amounts payable in the year.

As at the year end the total future minimum payments under these arrangements were:

	2016 £m	2015 £m
Not later than one year	1.1	1.1
Later than one year and not later than five years	4.3	4.3
Later than five years	8.6	9.6
Total	**14.0**	**15.0**

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Operating the business continued

14 - Segmental analysis

As indicated earlier, the Board accounts for its financial activities in the following funds:

- The Pension Protection Fund itself
- The Fraud Compensation Fund, and
- The Administration Funds.

The elements of the consolidated financial statements attributable to each segment are summarised in the tables below. Additional information relating to each activity can be found in the following notes:

- Provisions for claims (note 2)
- Levy income (note 3)
- Operating expenses (note 11).

Consolidated statement of comprehensive net income

For the year ended 31 March	2016 £m	2015 £m
Pension Protection Fund		
Net operating surplus	526.7	547.4
Net investment return	323.2	4,523.1
Net cost of claims	(423.1)	(3,864.9)
Net comprehensive income	**426.8**	**1,205.6**
Fraud Compensation Fund		
Net comprehensive income	**2.2**	**(0.2)**
Administration Funds		
Operating expenses	**(24.0)**	**(29.0)**
Consolidated net comprehensive income	**405.0**	**1,176.4**

Consolidated statement of financial position

For the year ended 31 March	2016 £m	2015 £m
Total assets less total liabilities		
Pension Protection Fund	4,056.0	3,629.1
Fraud Compensation Fund	10.7	8.5
Administration Funds	(2.6)	(1.9)
Consolidated statement of financial position	**4,064.1**	**3,635.7**

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Operating the business continued

15 - Subsidiaries

The Board holds a small proportion of its investment portfolio through subsidiaries. As at 31 March 2016 these were:

PPF Nominee 1 B. V. (a company registered in the Netherlands)

PPF Nominee 2 B. V. (a company registered in the Netherlands)

Crown Secondary Placement Plc (a company registered in Ireland)

PPF Real Estate Nominee 1 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 2 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 3 Limited (a company registered in the United Kingdom)

PPF Real Estate Nominee 4 Limited (a company registered in the United Kingdom)

Emso Opportunity Strategies Fund 2 Ltd (a company registered in the Cayman Islands)

Arrowgrass Customised Solutions I International Limited (a company registered as a regulated mutual fund in the Cayman Islands)

The subsidiaries do not operate separately from the PPF's overall investment management processes, and the relevant assets, liabilities, income and expense are recorded with the appropriate asset classes in the PPF's accounting records. All subsidiaries are 100% owned by the Board. The Cayman Islands registered companies have a 31 December year end and all the others have a 31 March year end.

16 - Related party transactions

£23.4 m (2015: £28.6m) was received from DWP in GIA. In addition, accommodation costs totalling £nil (2015: £1.4m) were paid to the Estates Division of DWP under the arrangements described in note 13, Operating lease commitments. DWP is the sponsoring department of the PPF. There are no other related party transactions to disclose other than transactions with subsidiaries shown in note 15.

17 - Events after the reporting period

On 24 June 2016 it was announced following a referendum that the United Kingdom has decided to leave the European Union. This is a significant event for the United Kingdom and the full consequences will emerge over time. However, the PPF's long-standing low-risk approach and hedging strategy mean that we are able to cope with the volatile markets we expect to see. No changes have been proposed which would change the role of the PPF or the compensation which we provide and consequently we do not consider this to materially affect our long-term operations.

The accounts were authorised for issue on 29 June 2016, the date the Comptroller and Auditor General certified them. The accounts do not reflect events after this date.

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Summary of Principal Findings of the Two Actuarial Valuation Reports

The principal findings are:

- 33 schemes have transferred into the PPF since 31 March 2015, bringing the total number of schemes which have transferred into the PPF as at 31 March 2016 to 832.
- the number of members receiving compensation from the PPF increased from 112,392 as at 31 January 2015 to 119,442 as at 31 January 2016, and the number of future retirees who are due to receive compensation from the PPF decreased from 109,102 as at 31 January 2015 to 107,831 as at 31 January 2016.
- the excess of assets over liabilities in respect of those schemes that have transferred into the PPF has increased from £4,937.4m as at 31 March 2015 to £5,318.9m as at 31 March 2016, with the funding level increasing to 129 per cent.
- the number of schemes in the assessment process which contribute to the provisions figure (schemes considered likely to transfer) has increased from 111 as at 31 March 2015 to 120 as at 31 March 2016.
- the excess of liabilities over assets in respect of those schemes forming the provisions has decreased from £1,308.3m as at 31 March 2015 to £1,262.9m as at 31 March 2016.

The combined assets in respect of those schemes that have already transferred into the PPF and those schemes which are considered likely to transfer into the PPF exceeds the combined liabilities, resulting in an overall surplus of £4,056.0m as at 31 March 2016, as summarised below:

	Assets £m	**Liabilities £m**
Schemes already transferred into the PPF	23,602.9	18,284.0
Estimated provisions in respect of schemes likely to be transferred	5,401.4	6,664.3
Total	**29,004.3**	**24,948.3**
Excess of assets over liabilities		**4,056.0**
Funding Ratio (assets / liabilities)		**116.3%**

This compares with a funding ratio of 115.1 per cent as at 31 March 2015.

The key factors over the last year were as follows:

- Over the year to 31 March 2016 gilt yields for most terms fell a little, resulting in a modest increase in liabilities for both transferred schemes and provisions. The PPF's hedging programme broadly provided protection against these movements; however the overall impact was to worsen the funding position.
- Non-hedging investments net of expenses held by the PPF performed positively over the year which acted to improve the funding position.
- Over the year the size of new claims on the PPF was of a similar level to the levy collected during the year.
- I have updated my longevity assumptions as well as the future assumed level of inflation; these changes have together acted to improve the funding position.
- The approach taken to the allowance made for the expense of running the PPF this year was updated. This had a negative impact on the funding level.
- Actual experience compared with expected, including updated data and inflation-linked increases to PPF compensation, has also had a positive impact.

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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 2016

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 eleventh actuarial valuation of the PPF. The effective date of this valuation is 31 March 2016. The previous actuarial valuation was as at 31 March 2015, and the report on that valuation was dated 10 July 2015.

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 help the Board prepare the annual report and accounts as at 31 March 2016 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 PPF. 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, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my supplementary report dated 28 June 2016. Given the scope of the work, I have determined that the process and calculations underlying the report, together with the report itself, should be subject to an independent peer review. This has been undertaken by the Government Actuary's Department. As my reports are prepared solely for the purpose of the PPF's annual report and accounts, I have not produced any projections of future accounting positions in either this report or my supplementary report because the Board does not require them for its accounting disclosures.

The methodology used for the valuation as at 31 March 2016 is broadly the same as that adopted for the valuation as at 31 March 2015. Consistent with last year's approach, liabilities were initially calculated as at 29 February 2016 using membership data as at 31 January 2016 (or in a few cases, at an earlier date) and market conditions as at 29 February 2016, and then adjusted to reflect the passage of time, and changes to market conditions between 29 February 2016 and 31 March 2016. Having considered the experience to 31 March 2016, I believe that adopting this approach does not materially affect the accuracy of the results compared with using data and market conditions as at 31 March 2016.

2. Membership data

As at 31 March 2016, 832 schemes had transferred to the PPF. Compensation payments due in respect of the members of these schemes and their associated expenses form the liabilities reported on in this report. Data in respect of the 832 transferred schemes has been received from three sources:

- For the 818 schemes where responsibility for the administration transferred to the PPF on or before 31 January 2016, individual member data has been provided by the PPF's internal administration team. The effective date of this data is 31 January 2016.
- For the largest of the February and March 2016 transferring schemes, I obtained grouped member data from the scheme administrator and calculated the liabilities in the same way as for schemes that transferred before 31 January 2016.
- For the remaining 13 schemes I determined the liabilities from the latest section 179 valuation provided as part of the scheme returns submitted to the Exchange database maintained by the Pensions Regulator. Liabilities calculated in this way account for about 1.6 per cent of the total liabilities in respect of schemes which have transferred to the PPF.

Owing to the timescale for providing valuation results, it was necessary to receive extracts of data as at a date before the effective date of the valuation. This is the same process as adopted for the valuation at 31 March 2015. Adjustments have been applied to ensure the data is consistent with the valuation date and that the accuracy of the valuation results is not materially affected.

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 2015 and have no material concerns relating to the accuracy of the data provided.

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A summary of the individual member data for the 818 schemes that transferred to the PPF prior to 31 January 2016 is as follows (figures in brackets are the corresponding figures used for the valuation at 31 March 2015):

Deferred pensioners

Sex	Number	Average age	Total accrued compensation revalued to 31 January 2016 (uncapped) (£000s pa)
Male	72,690 (74,025)	51.8 (51.2)	283,782 (309,964)
Female	35,141 (35,077)	50.2 (49.7)	75,130 (78,286)
Total	**107,831 (109,102)**	**51.3 (50.7)**	**358,912 (388,250)**

Pensioners

Status	Sex	Number	Average age	Total compensation at 31 January 2016 (capped where applicable) (£000s pa)
Members	Male	73,404 (69,261)	69.7 (69.3)	385,161 (362,883)
	Female	27,907 (26,268)	70.3 (70.0)	58,772 (55,171)
Dependants (excluding children)	Male	1,724 (1,578)	73.2 (72.5)	2,374 (2,241)
	Female	16,019 (14,943)	75.4 (75.1)	48,106 (44,532)
Children	Male	195 (166)	15.4 (15.3)	288 (225)
	Female	193 (176)	16.2 (15.6)	261 (232)
Total		**119,442 (112,392)**	**70.5 (70.1)**	**494,962 (465,284)**

Individuals who are already receiving one tranche of compensation but are entitled to a further tranche of compensation to be brought into payment after 31 January 2016 are included in both tables.

A summary of the data used for the 14 schemes that transferred to the PPF between 1 February 2016 and 31 March 2016, where individual data was not available is as follows:

	Number of members	Average age	Estimated compensation as at 31 March 2016 (£000s pa)
Deferred pensioners	2,021	50.4	5,049
Pensioners	1,305	69.3	8,855

There are also around 1,000 pensioner members whose compensation payments had been suspended (and not put back into payment) by 31 January 2016. This suspension occurred because the PPF is uncertain about whether these members continue to be eligible to receive compensation. In practice, a small number of these members may have their compensation put back into payment after 31 January 2016.

I will recognise a liability for any such member if and when their entitlement to continuing compensation is established. This matches the approach taken in previous years.

Additionally, there are a presently unknown number of people whom HMRC have on record as having paid contracted-out rate National Insurance contributions in respect of membership of a scheme which has now transferred to the PPF, but who were not deemed by the trustees to be members of that scheme at the time of the transfer to the PPF. Schemes would have had a liability to pay a Guaranteed Minimum Pension (GMP) in respect of individuals who were contracted-out, unless this liability had been discharged. I understand that these people will receive a letter in 2018 from HMRC to confirm that they paid contracted-out rate National Insurance contributions in respect of their former scheme. This letter may be evidence that they are entitled to PPF compensation.

I will recognise a liability for any such member if and when their entitlement to compensation is established.

3. Compensation

Compensation for PPF members 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 for calculating liabilities

The approach to placing a value on the liabilities depends on whether individual membership data is available or not.

Method where individual membership data is available

The expected compensation cash flows have been estimated for PPF members for whom individual data was provided by the internal administration team or an external administrator. In estimating each yearly compensation cash flow for each member, account is taken of:

- the initial amount of compensation or accrued pension
- expected mortality
- the Normal Pension Age (NPA) for deferred members
- compensation increases
- the PPF compensation cap, and
- the probability of survivors' compensation being paid.

The resulting yearly compensation cash flows are discounted back to a present value, and summed to obtain the actuarial present value of each member's liability.

Initially, liabilities were calculated as at 29 February 2016 and based on assumptions derived from market conditions as at 29 February 2016. I then allowed for the change in market conditions between 29 February 2016 and 31 March 2016. I also allowed for the change in calculation date to 31 March 2016 by unwinding the discount rate for one month and deducting the benefit outgo in respect of March 2016.

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

A further adjustment has been applied to the liabilities for the expected cost of GMP equalisation and future expenses. Details on the adjustment applied can be found in Annexes M1 and M2.

Method where individual membership data is not available

Individual membership data was not available for schemes which transferred to the PPF in February or March 2016. For the largest of these schemes, I obtained grouped member data from the scheme administrator and calculated the liabilities in the same way as for schemes that transferred before 31 January. For the remaining 13 schemes, the section 179 values of the liabilities and assets were rolled forward to 31 March 2016 based on market conditions at that date.

The methodology used to roll the section 179 liabilities and asset values forward to 31 March 2016, at the same time changing the valuation assumptions to those described in Annex M2, is broadly consistent with that to be applied for the calculation of levy in the financial year 1 April 2016 to 31 March 2017 (ignoring smoothing and stressing of assets and liabilities, and noting that no scheme for which this roll forward approach was adopted had any Asset Backed Contributions). The 16/17 methodology is available in the Pension Protection Levy section of the PPF website at: **http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1617_transformation_appendix.pdf**

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An adjustment was also made to these rolled-forward assets and liabilities to allow for the payment of benefits from the effective date of the section 179 valuation up to the valuation date.

An additional adjustment was then applied to the resulting liabilities. The roll forward methodology ignores certain items that are expected to impact assets and liabilities by similar amounts, so that the calculated deficit is more reliable than the corresponding asset or liability values in isolation. I therefore used the roll forward to calculate the expected deficit for each of these schemes, then adjusted the liabilities for each scheme by the difference between the actual value of assets that transferred to the PPF and the value of assets anticipated by the roll forward (after deduction of benefit outgo). By adjusting the liabilities in this way, the deficit recorded for each scheme remains unchanged from that calculated in the roll forward.

A further adjustment has been applied to the liabilities for the expected cost of GMP equalisation and future expenses. Details on the adjustment applied can be found in Annexes M1 and M2.

5. Assumptions

The approach to deriving the assumptions also depends on the availability of individual membership data. Where individual data was available, term-dependent financial assumptions were adopted and cash flows were generated. Also, mortality rates related to the circumstances of the individual member were adopted, taking into account the member's sex, postcode and amount of compensation. Where individual data was not available, average assumptions were used. Annex M2 describes in more detail both approaches to deriving the assumptions.

In order to estimate cash flows in respect of future compensation payments to PPF members, I made assumptions about:

- annual increases in payment to elements of compensation which were 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 2016
- future expected mortality and other demographic features, and
- whether the Secretary of State exercises 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 discounted the compensation cash flows, estimated as described above, back to the valuation date, 31 March 2016.

I, as Appointed Actuary, have 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 assets and liabilities 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 2016 actuarial valuation, I have taken note 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 between the Department for Work and Pensions and the PPF Board.

The existing Accounts Direction also states that the discount rate used to discount future cash flows and liabilities should be that advised by the PPF's actuary (in accordance with Schedule 5 Part 4 section 22(4)(b) of the Pensions Act 2004 and the PPF valuation regulations 2005 and 2006).

None of the above provides specific 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, i.e. 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 is also a best estimate. I have chosen to do this using market pricing where possible. 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 of changes in certain key assumptions. The results of this analysis may be seen in Annex S7 of my supplementary report which I have prepared concerning provisions in respect of the PPF as at 31 March 2016.

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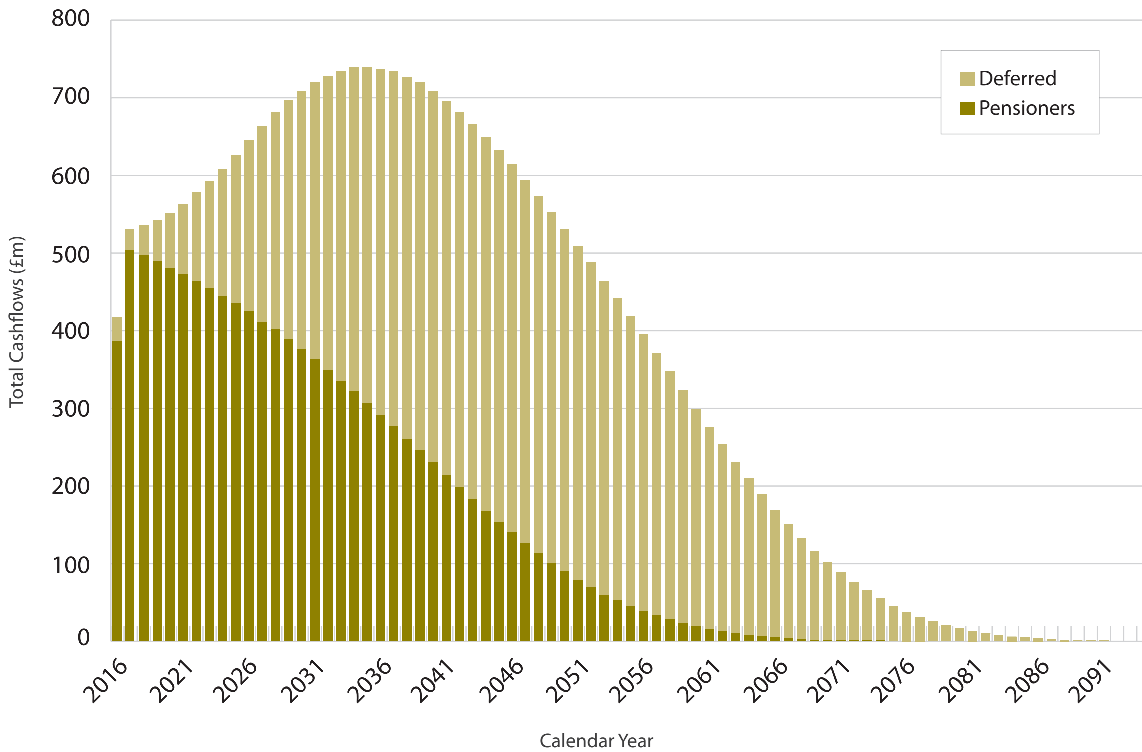
6. Total cash flows expected after 31 March 2016

The chart below summarises the expected cash flows for all schemes that had transferred to the PPF on or before 31 March 2016. It was initially calculated using the membership data, assumptions and valuation process set out in section 2 to section 5 for all the 818 schemes that had transferred to the PPF on or before 31 January 2016. The amounts were then scaled up to reflect the additional liabilities in respect of schemes that transferred in February and March 2016. In calculating the cash flows, I assume that deferred pensioners do not retire early or late, or commute any of their annual compensation for a lump sum.



7. Value of assets

The value of the PPF 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 PPF assets as stated in the relevant accounts prepared by the Board for the financial period ending on 31 March 2016. 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 PPF assets as at 31 March 2016 as £23,602.9m. This includes £0.5m in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with an asset value of £22,749.6m as at 31 March 2015.

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An analysis of the change in the value of the assets of the PPF between 31 March 2015 and 31 March 2016 is as follows:

	£m
Value of assets at the start of the year (31 March 2015)	**22,749.6**
Assets for schemes entering the PPF during the year to 31 March 2016 (measured at their transfer dates)	592.4
Assets received in respect of schemes transferred in prior years	27.8
Income from Pension Protection Levies	558.1
Compensation paid	(616.0)
Change in current assets (AVCs to be discharged)	(0.8)
Change in value of interest rate swaps and inflation swaps	875.3
Change in value of repurchase agreements	(779.7)
Change in value of invested assets on account of changes in bond yields	42.1
Change in value of illiquid hedging assets	55.0
Change in value of invested assets on account of other changes (excluding bond yields, interest rate swaps, inflation swaps and repurchase agreements) net of investment management expenses	244.0
Investment expenses charged directly to the PPF	(113.5)
Staff and other costs	(31.4)
Value of assets at the end of the year (31 March 2016)	**23,602.9**

8. Value of liabilities

The value of the PPF 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 PPF 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 PPF members, on the assumptions described in section 5 and Annex M2, are summarised in the table below:

Type of member	£m
Deferred pensioners	8,993.5
Pensioners	8,753.9
Administration expenses to be met by the PPF	536.1
Current liabilities (AVCs to be discharged)	0.5
Total	**18,284.0**

Accordingly I have taken the value of the liabilities of the PPF as at 31 March 2016 as £18,284.0m. This compares with £17,812.2m as at 31 March 2015.

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An analysis of the change in the actuarial liabilities between 31 March 2015 and 31 March 2016 is as follows:

	£m
Actuarial liabilities at the start of the year (31 March 2015)	**17,812.2**
Liabilities for schemes entering the PPF during the year to 31 March 2016 (measured at schemes' transfer dates)	757.0
Compensation paid	(616.0)
Actuarial (gain) / loss due to inflation being different from what was assumed	(150.6)
Effect of passage of time on discounting	92.9
Actuarial (gain) / loss due to changes in market yields	494.7
Actuarial (gain) / loss due to data changes and other experience	22.3
Calculation methodology changes	(91.4)
Actuarial (gain) / loss due to changes in valuation assumptions	(67.2)
Change in expense loading	30.1
Actuarial liabilities at the end of the year (31 March 2016)	**18,284.0**

It should be noted that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2016.

9. Conclusion

As at 31 March 2016, the value of the PPF's assets was £23,602.9m and the value of the liabilities was £18,284.0m. The excess of assets over liabilities was £5,318.9m as at 31 March 2016, which corresponds to a funding ratio of 129 per cent. These values have been determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597).

This excess of assets over liabilities needs to be understood in the context of additional pension schemes that had entered an assessment period, as defined in section 132 of the Pensions Act 2004, with effect from a date on or before 31 March 2016.

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 PPF. These provisions are shown in my supplementary report to the Board dated 28 June 2016 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2016.

I have also estimated contingent liabilities as at 31 March 2016. For contingent liabilities types I, II and III, the liabilities are in respect of other pension schemes which, in the Board's judgement, may possibly enter an assessment period into the PPF in the near future. For contingent liabilities type IV, the liabilities represent the increase in PPF liabilities as a result of pending legislative changes. These contingent liabilities are shown in my supplementary report to the Board dated 28 June 2016 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2016.

Stephen Rice

Name: Stephen Rice, Appointed Actuary

Date: 28 June 2016

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

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Annex M1 Summary of compensation provided by the Pension Protection Fund

Broadly speaking, the PPF 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 PPF pays a compensation level of **100 per cent.**

   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.

2. For most people aged below their scheme's normal pension age on the assessment date, the PPF pays a compensation level of **90 per cent.**

   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).

   Compensation is revalued in line with the increase in the Retail Prices Index ("RPI") between the assessment date and March 2011, and the increase in the Consumer Prices Index ("CPI") between March 2011 and the commencement of compensation payments. This is subject to a floor of 0 per cent over the whole period. The revaluation is also subject to a maximum increase over the whole period, this being 5 per cent a year for compensation accrued before 5 April 2009 and 2.5 per cent a year for compensation accrued thereafter.

   Compensation is subject to an overall cap, which from 1 April 2016 equates to £37,420.42 a year at age 65 (the cap is adjusted according to the age at which compensation comes into payment).

For both categories of members, once compensation is in payment, the part that derives from pensionable service on or after 6 April 1997 is increased on 1 January each year in line with increase in the CPI capped at 2.5 per cent and with a floor of 0 per cent.

After a member's death, compensation is paid to any children who are under 18 years old, under 23 if they are in full-time education or at any age if they have a disability. Generally compensation will also be paid to any legal spouse, civil partner or other relevant partner. However, individual circumstances may differ in this regard depending on the rules of the former pension scheme.

The Pensions Act 2014 introduced a service-related compensation cap. As at 31 March 2016 the legislation had not been brought into force, so the increase was not a current obligation of the PPF. I have therefore made no allowance for it in this statutory valuation of the assets and transferred liabilities of the PPF, although it is included as a contingent liability in my supplementary report dated 28 June 2016.

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.

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 and Pensions that the percentage of benefits paid as compensation is varied.

It is expected that such provisions would only be used in exceptional circumstances, as the Board has other powers it could use if the financial position did deteriorate; for example, the ability to amend the amount of levy it collects.

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Annex M2 Assumptions

Assumptions in respect of schemes for which the Board assumed responsibility on or before 31 March 2016 will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2015, unless stated otherwise.

a) Compensation levels

As for previous valuations of the PPF, I have continued to assume that the Secretary of State will not exercise 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.

b) Future legislative changes

The new legislation introducing a service-related compensation cap was not in force on 31 March 2016 and therefore, the increase to the cap was not a current obligation of the PPF and as such, I have made no allowance for it in this statutory valuation of the assets and transferred liabilities of the PPF, although it is included as a contingent liability in my supplementary report dated 28 June 2016.

c) Financial assumptions

Financial assumptions where individual membership data is available

For the liabilities in respect of transferred schemes where individual data is available, I have applied the same rationale in setting the financial assumptions as I did in my report as at 31 March 2015. 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, appropriate zero-coupon interest rate swap contracts, nominal gilt strips (or notional gilt strips), and inflation swap contracts provides the best match to the PPF liability cash flows. Setting the financial assumptions equal to the returns on the elements of this notional portfolio represents a low-risk approach to the setting of the financial assumptions. If the PPF was fully funded (given these assumptions) and invested in the notional portfolio, then ignoring non-investment risks such as future claims on the PPF or demographic experience, the PPF would have a very high probability of being able to pay full compensation to all current PPF members and their eligible dependants.

Under the terms of a zero-coupon interest rate swap contract with notional principal P and tenor (=duration) N, the PPF would at time N pay interest to the counterparty on P of the six month London Interbank Offered Rate ("LIBOR") while the counterparty would at the same time pay to the PPF 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 yields at the same duration. I therefore consider it reasonable to construct a notional portfolio so that it contains gilt strips (or more often notional gilt strips) at longer durations and cash and swaps contracts at shorter durations.

Because it is difficult to earn close to six month LIBOR interest on cash, I make a deduction from the zero-coupon interest rate swap yields of 15 basis points at each term.

For each term I assume that the notional portfolio is invested in the higher yielding of the zero-coupon interest rate swaps yield less 15 basis points and gilt strips. In practice, at the valuation date this broadly leads to the use of swaps rate less 15 basis points for terms up to six years and gilt strip yields thereafter.

I obtained a zero-coupon interest rate swaps yield curve constructed from cash rates, future strips and semi-annual swap rates as at 31 March 2016 from Insight Investment who constructed the curve by seeking indicative prices from a combination of major counterparties and inter-dealer brokers.

I also obtained a gilt strips yield curve as at 31 March 2016 from Insight Investment, which was derived from information available from the UK Debt Management Office. This curve shows gilt strips yields at terms of one year to 50 years inclusive. Yields at each of these terms are representative of bonds (or notional bonds) with similar maturities to the indicative terms. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50, I have assumed that the forward rate applying in each year after year 50 is the same as that applying at year 50.

In my opinion, this discount rate derivation is consistent with the PPF's Statement of Investment Principles, despite the fact that the PPF takes some extra investment risk in the expectation of outperformance.

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ii) Revaluation rates

I have assumed that the Board will not exercise its power under paragraph 29 of Schedule 7 of the Pensions Act 2004 to amend the maximum revaluation rate of 5 per cent a year in respect of compensation which derives from service before 6 April 2009 and 2.5 per cent a year in respect of compensation which derives from service thereafter.

Future revaluations of deferred compensation are linked to increases in the CPI. In considering what assumption would be appropriate for future CPI increases, I have noted that at present there is almost no market in CPI swaps or indeed any other instruments from which CPI prices can reasonably be inferred. Such limited current market pricing information as is available from insurance companies would suggest an assumption of CPI increases being 0.5 per cent a year less than RPI increases. I have therefore assumed the same. This compares with an assumption of 0.4 per cent a year less than RPI increases used for the 2015 valuation. Further, I have assumed that the rate of future RPI increases, for the period from the valuation date to normal pension age, is derived from the RPI inflation swap curve (supplied as at 31 March 2016 by Insight Investment).

I am aware that there are other methods of deriving a CPI assumption and these include, for example, deducting a best estimate of the future gap between RPI and CPI from the market-implied measure of RPI. I do not feel that this method is consistent with the setting of the other financial assumptions. Should a deeper market develop, I expect that the implied gap between RPI and CPI will further increase, although the actual gap that would apply in these circumstances is very uncertain. I have shown the sensitivity of the balance sheet to there being a gap of 1.0 per cent (compared with 0.5 per cent in the main results). This can be seen in Annex S7 of my supplementary report, which concerns the provisions of the PPF as at 31 March 2016.

The revaluation rate over a particular period of deferment is assumed to be equal to the increase in the CPI index over that period, restricted to the revaluation cap applied to that same period. The maximum revaluation rate of 5 per cent a year does not apply at any term, for compensation deriving from service before 6 April 2009. The maximum revaluation rate of 2.5 per cent a year applies for all terms greater than twelve years, for compensation deriving from service after 5 April 2009.

iii) Pension increase rates

I have assumed that the Board 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 a year, for compensation accrued after 5 April 1997.

For this compensation increase, therefore, I need an assumption, for each term, for the increase in the CPI capped at 2.5 per cent and with a floor of 0 per cent (referred to as CPI[0, 2.5 per cent]). If there was a market in CPI[0, 2.5 per cent] inflation swaps then a curve of prices for each term would be derivable directly. However such a market does not exist. Therefore, as last year, I have used a CPI[0, 2.5 per cent] curve derived using the Stochastic Alpha Beta Rho ("SABR") model calibrated primarily on market price data from securities that are uncapped and those which are capped at 3 per cent and 5 per cent. This curve was supplied by Insight Investment.

For each year beyond 50 years, I have assumed that the pension increase assumption applying is the same as that at term 50.

The table below shows the annualised average term-dependent rates of discount, inflation and increases to pensions in payment as at 31 March 2016 that I have assumed over the given term. The rates are presented as spot rates. Figures shown in brackets are as at 31 March 2015.

Term	Discount rate pa	CPI revaluation rate pa	Post 1997 pension increase rate pa
1	0.601% (0.564%)	1.490% (1.353%)	1.521% (1.375%)
2	0.645% (0.736%)	1.813% (1.773%)	1.721% (1.633%)
3	0.705% (0.919%)	1.991% (2.025%)	1.795% (1.752%)
4	0.774% (1.074%)	2.095% (2.183%)	1.835% (1.828%)
5	0.854% (1.200%)	2.181% (2.288%)	1.857% (1.881%)
10	1.533% (1.658%)	2.448% (2.534%)	1.935% (1.966%)
15	2.041% (2.016%)	2.630% (2.750%)	1.987% (2.022%)
20	2.352% (2.343%)	2.742% (2.887%)	2.027% (2.059%)
30	2.427% (2.478%)	2.773% (2.957%)	2.068% (2.092%)
40	2.116% (2.344%)	2.720% (2.928%)	2.091% (2.108%)
50	2.131% (2.347%)	2.758% (2.948%)	2.112% (2.117%)

Source: Insight Investment with, in some cases, additional PPF calculations.

Financial assumptions where individual membership data is not available

For these schemes, it is not possible to use term-dependent rates as I do not have the individual member data that is required to project cash flows. A roll forward methodology is therefore needed, together with 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, and
- discount rate in payment for increasing compensation for future pensioners net of increases in payment – see Annex M1 for a description of these increases.

Single rates of discount, inflation and pension increases were determined so that the present values placed on the cash flows for both the pensioners and the deferred pensioners were equal to the present value determined using term-dependent rates. To do this, I used the cash flows of schemes for which I have individual member data. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2015.

Net discount rate	% pa	
In deferment for compensation accrued before April 2009	-0.3	(-0.4)
In deferment for compensation accrued after April 2009	-0.2	(-0.1)
In payment for non-increasing compensation for current pensioners	1.9	(2.1)
In payment for non-increasing compensation for deferred pensioners	2.2	(2.3)
In payment for increasing compensation for current pensioners	0.1	(0.0)
In payment for increasing compensation for deferred pensioners	0.1	(0.2)

d) 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, i.e. it is my view that the assumption is equally likely to overstate as to understate actual experience.

Baseline mortality

For last year's valuation as at 31 March 2015, a mortality analyst, Club Vita, provided me with 250 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode)
- amount of compensation, and
- whether allowance for ill-health retirement is included.

Club Vita has updated its experience dataset since the previous valuation and so has provided me with more up-to-date mortality curves to use this year. A total of 250 different mortality curves have been used for the valuation as at 31 March 2016.

These curves have been derived by analysing a large amount of data from Club Vita's members (including the PPF). These curves are based on mortality experienced over the period 2011-2013.

Where individual life expectancy curves were not available (for example where individual member data was received after the mortality curves were mapped), Club Vita provided us with mortality curves which reflect average assumed mortality across the whole PPF membership. There were ten average mortality curves, which varied according to the factors set out above. The ten average curves are included in the count of the curves used in the valuations.

Allowance for changes in mortality over time

For the valuation as at 31 March 2015, I adopted the CMI-2014 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women.

I have seen no evidence to suggest that the long-term improvement rate should be changed from my assumption adopted last year.

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Over the year the CMI updated its model to reflect more up-to-date data. However, a feature of this additional data has been unusually heavy rates of mortality, and this has been influential in the CMI-2015 tables. If this recent heavy mortality is no more than random fluctuation, then it would be premature to move to the CMI-2015 tables.

For this valuation, I have therefore continued to adopt the CMI-2014 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women.

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 and I have shown the sensitivity of the balance sheet to both the assumed long-term rate of improvement and the use of the new CMI-2015 projection tables. These results may be seen in Annex S7 of my supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2016.

Life expectancies implied by the mortality assumptions

The following table illustrates the range of cohort life expectancies of pensioners and dependants aged 65 on 31 March 2016 and, for non-pensioners, the range of cohort life expectancies once they reach age 65 (based on the mortality assumptions being used for this valuation). The non-pensioners are assumed to be aged 40 currently. Cohort life expectancies are based on the age-specific mortality rates allowing for projected changes in mortality. The figures in brackets show the cohort life expectancies based on the assumptions adopted in my valuation as at 31 March 2015.

Men

Membership group	Median life expectancy in years -weighted by annual compensation	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies
Currently in payment:				
- Pensioners and dependants	22.0 (22.0)	14.7 (18.0)	24.6 (24.3)	20.6-23.9 (20.4-23.6)
- Dependants of members currently in payment	20.9 (19.8)	14.7 (16.0)	21.4 (21.5)	18.7-21.4 (18.6-21.3)
Not currently in payment:				
- Deferred pensioners	24.8 (24.8)	20.9 (21.1)	27.5 (27.2)	23.0-26.0 (23.5-26.0)
- Dependants of members currently deferred	23.8 (22.9)	17.7 (19.2)	24.4 (24.6)	21.7-24.4 (21.7-24.6)

Women

Membership group	Median life expectancy in years - weighted by annual compensation	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies
Currently in payment:				
- Pensioners and dependants	24.4 (24.5)	19.0 (21.1)	27.3 (26.3)	22.7-25.5 (23.1-25.5)
- Future dependants	23.9 (23.7)	19.0 (19.7)	27.3 (26.9)	23.0-25.4 (22.4-25.2)
Not currently in payment:				
- Deferred pensioners	27.5 (27.5)	24.2 (24.2)	29.1 (29.3)	26.2-28.3 (26.2-28.1)
- Future Dependants of deferred pensioners	26.6 (26.1)	22.4 (23.2)	30.0 (29.6)	25.8-27.4 (25.6-27.2)

Note that the minimum life expectancy is the shortest life expectancy of the member in the particular category across the various Club Vita groupings (which vary according to postcode and pension amount). The maximum life expectancy is determined in a corresponding way.

Note also that some of the change in life expectancy from year to year will be due to the actual membership changing (for example, because of newly transferring schemes) and not solely due to changes in actual Club Vita curves.

For deferred members, I use different Club Vita mortality curves before retirement and after retirement. In particular, the pre-retirement curves are based on data for members deemed to be in normal health whereas the pensioner curves also include data for members who have taken ill health early retirement.

ii) Commutation, early retirement and late retirement

No allowance is made for commutation of compensation, early retirement or late retirement. Even though estimated cash flows would be affected by making allowances, these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member exercises the option. The factors used to determine the amount of compensation given up for cash, early retirement compensation or late retirement compensation are determined using assumptions consistent with those adopted for this valuation and are monitored to ensure they remain in line.

iii) Proportion married

For pensioners:

Where there was provision in the former scheme for survivor pensions for relevant partners an assumption consistent with 85 per cent (males) or 75 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 75 per cent (males) or 65 per cent (females) at normal pension age.

For deferred pensioners:

Where there was provision in the former scheme for survivor pensions for relevant partners an assumption, at the assumed date of retirement or earlier death, of 85 per cent (males) or 75 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 75 per cent (males) or 65 per cent (females).

These assumptions are the same as the assumptions adopted last year.

iv) Age difference between member and dependant

Females assumed to be three years younger than males.

This is a standard assumption normally considered reasonable by actuaries measuring liabilities of UK pension funds and is broadly consistent with the recent experience of the PPF.

v) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions that are already in payment are allowed for. They are assumed to cease in accordance with the compensation entitlement, with no allowance for death prior to cessation. Compensation ceases at age 18, or until the person ceases full-time education (up to a maximum of age 23). Where I do not have an anticipated end date for full-time education, I assume age 23.

vi) Expenses

Certain administration expenses are met from the PPF rather than from the Administration Fund.

An allowance equal to 3.0 per cent of the value of the liabilities in respect of members who have transferred into the PPF before 1 April 2016 has been made in respect of the expected future cost of these expenses. This has been derived from a calculation of the present value of the share of future expenses that will be incurred in respect of these members. The starting point for the calculation is the expected budgeted expenses (including the expenses of running a notional, rather than the actual, portfolio of investments) which would be incurred by the PPF in the three years following the valuation date.

In carrying out the calculations, projections of the assets and liabilities in each future year are required. In addition, an estimate of how these values are split between pre 1 April 2016 and post 31 March 2016 insolvency events is needed; this is because the share of expenses apportioned to post 31 March 2016 insolvency events is not included in the calculation of the expense allowance. To determine this split of expenses, estimates from the Long Term Risk Model (used to assess progress towards achieving the PPF's funding objective) have been used for the first 50 years and values extrapolated thereafter. It should be noted that these projections assume that all schemes which are classified as Contingent Liability type II enter assessment shortly after the effective date of the valuation.

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When applying the member-related costs I have assumed that the membership as at 31 March 2016 reduces in line with PPF cash flow projections.

This year I have introduced a cap to the ratio of the estimated total expenses to the estimated compensation due to be paid at all years after year 40. This reflects the fact that we expect that if this expense ratio increased in the future beyond the level of the cap, we would expect to take action in order to reduce the cost of paying the compensation due.

This year's allowance of 3.0 per cent of liabilities compares to an allowance of 2.8 per cent in the previous year's valuation.

vii) GMP equalisation

Schemes for which the Board assumed responsibility on or after 1 June 2013 were required to equalise members' compensation prior to transfer (with a small number of exceptions). For these schemes therefore, the data includes compensation amounts that have already been adjusted for any inequalities on account of GMP.

For former members of all other schemes, the Board has undertaken, although has not yet completed, work to adjust compensation that is unequal (between men and women) on account of inequalities in GMPs. For those members where the Board's equalisation work is not yet complete, I need to make an allowance for the expected cost of increasing compensation in order to achieve equalisation. I have calculated this allowance based on the cost of the compensation increases for that part of the transferred membership whose compensation increases in respect of GMP equalisation had been calculated by 1 July 2015.

The cost included is 0.6 per cent of the actuarial liabilities for deferred pensioners and 1.2 per cent for pensioners who were unequalised at the valuation date.

This allowance was calculated by reference to the actual impact of GMP equalisation implemented for around 160,000 eligible members (deferred pensioners and pensioners) in 2015 equating to around 90 per cent of the membership that will ultimately be assessed by or on behalf of the PPF for potential inequalities in their GMP entitlement.

The allowance is consistent with that used in the valuation as at 31 March 2015.

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Actuary's supplementary report as at 31 March 2016

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 2016

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 PPF. This actuarial valuation is set out in my report to the Board dated 28 June 2016.

The statement of accounts also contains provisions and discloses contingent liabilities that require actuarial estimation. This supplementary report contains these estimates. This supplementary report also contains actuarial balance sheets for the PPF 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 2016. 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 by the PPF. 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, prepared this report having regard to the principles in three Technical Actuarial Standards, namely TAS R (Reporting Actuarial Information), TAS D (Data) and TAS M (Modelling). This report should be considered alongside my report to the Board dated 28 June 2016. Given the scope of the work, I have determined that the process and calculations underlying the report, together with the report itself, should be subject to an independent peer review. This has been undertaken by the Government Actuary's Department. As my reports are prepared solely for the purpose of the PPF Annual Report and Accounts, I have not produced any projections of future accounting positions in this 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 2016 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, i.e. 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 2016 is set out in Annex S2.

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The schemes forming the contingent liabilities of types I, II and III (as defined in Annex S2) are determined by the Board and I have calculated the values accordingly. However, it should be noted that claims arising after 31 March 2016 could arise from sources other than those described in the definitions for these contingent liabilities. For the avoidance of doubt, the contingent liabilities of types I, II and III are not meant to represent the expected claims in the coming year.

I am also required by the FReM to disclose the PPF's material remote contingent liabilities and, where practical, the financial effect. The schemes forming these are those remaining defined benefit schemes which may in the future make a claim on the PPF but which are not included in the provisions or contingent liabilities. I consider it impractical to calculate this liability accurately.

4. Data

The data used for this valuation is summarised in Annex S3.

5. Compensation provided by the PPF

The compensation provided by the PPF is summarised in Annex M1 of my report to the Board dated 28 June 2016.

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 28 June 2016.

The set of assumptions used in order to calculate the provisions and contingent liabilities as at 31 March 2016 are in most respects the same as those used to calculate the actuarial liabilities. The differences are shown in Annex S4.

I 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.

7. Method to calculate the assets, 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 28 June 2016.

b) Provisions

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). This is determined in the first instance from consideration of any notice issued in respect of the scheme under section 144 or 145 of the Pensions Act 2004. Where no such notice has been issued, consideration is then given to any internal reports indicating the likely funded status of the scheme at the insolvency date. Finally, for all schemes not already categorised under the two preceding steps, assumptions to determine the funded status at the insolvency date are derived from market conditions as at the insolvency date following the published guidance on undertaking a valuation in accordance with section 179 of the Pensions Act 2004 (version as in force as at the insolvency date). This guidance is available on the PPF website:

www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx

The method of calculating the provisions varied according to the data that the Board was holding about the relevant schemes as at 31 March 2016.

1. Updated asset value information and recent membership data

This information was obtained from certain schemes classified as 'material schemes'. These are schemes which:

(i) satisfy the definition of a provision as set out in Annex S1

(ii) are sufficiently large (broadly those which were included as material schemes in the valuation as at 31 March 2015 and are still in assessment and expected to transfer, plus new schemes which entered assessment since 31 March 2015 and have estimated liabilities of at least £75m), and

(iii) actually did provide individual membership data and updated asset information when requested.

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For seven of the ten material schemes, membership data and updated asset information were provided at effective dates between October 2015 and December 2015. No further membership data was provided for the remaining three schemes as no material changes to the data had occurred since the previous valuation; for these schemes the membership data was taken to be the same as that used for the 2015 valuation and, after investigation, the asset figures and splits were updated in all but two cases.

For one case where individual member details were provided for the first time, the trustees were unable to provide a recent asset value or split. In this case I used the asset information dating from the most recent section 179 valuation as the starting position for determining the asset value as at 31 March 2016.

For all material schemes, the asset value at 31 March 2016 was determined by rolling forward the latest available asset value in line with the change in a total return index of an appropriate kind for each asset class and making an adjustment for benefits paid between the effective date of the assets and 31 March 2016. For material schemes where no updated asset information was requested, the roll forward value of the assets was checked against updated asset information available for other purposes. These comparisons disclosed no material differences.

In a similar way as for transferred schemes, liabilities were initially calculated as at 29 February 2016, based on assumptions derived from market conditions as at 29 February 2016. I then allowed for the change in market conditions to 31 March 2016 by applying a ratio of the discounted projected cash flows for material schemes payable after 29 February 2016, calculated using the assumptions at the respective dates. I also allowed for the change in calculation date to 31 March 2016 by unwinding the discount rate for one month and deducting the benefit outgo in respect of March 2016.

Allowance has been made for expected member movements between the effective date of the data and the valuation date.

Material schemes in assessment and schemes which have already transferred to the PPF (excluding those valued by rolling forward a section 179 valuation) account for approximately 91 per cent of the total liabilities and provisions.

Note that there were two schemes which entered assessment in March which would have been treated as 'material' were I able to obtain individual member data in time. These schemes were valued in the same way as all the other schemes, as noted below.

2. A section 179 valuation or a section 143 valuation, but not updated asset and membership data

If the scheme was to be included in the provisions, the section 179 or section 143 valuation was rolled forward to 31 March 2016 on the valuation basis.

The methodology used to roll the section 179 or a section 143 valuation results forward to 31 March 2016, at the same time changing the valuation assumptions to those described in Annex S4, is consistent with that to be applied for the calculation of levy in the financial year 1 April 2016 to 31 March 2017 (ignoring smoothing and stressing of assets and liabilities and noting that no scheme for which this roll forward approach was adopted had any Asset-Backed Contributions). The 16/17 methodology is available in the Pension Protection Levy section of the PPF website at:
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1617_transformation_appendix.pdf

3. A Minimum Funding Requirement (MFR) valuation, but not updated asset and membership data, nor a section 179 valuation nor a section 143 valuation

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 PPF website at:
http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1516_mfr_conversion_appendix.pdf

In practice only one scheme was assessed based on an MFR valuation and the transformed section 179 valuation has been used for the purpose of the calculations.

- 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 to be included in the provisions, the resulting section 179 valuation was then rolled forward to 31 March 2016 on the valuation basis using the same methodology.

4. Schemes withdrawn from assessment (as overfunded on a section 143 valuation)

For schemes where it is considered probable that they will ultimately transfer to the PPF, an allowance has been made based on a roll forward of the assets and liabilities. The roll forward is typically based on the latest available s179 valuation.

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5. No updated asset and membership information, nor a section 179 valuation, nor a section 143 valuation, nor an MFR valuation

It was assumed that the scheme was in deficit at the insolvency date. The scheme's provision was estimated as the median provision for schemes where data was available. In total four schemes have been valued in this way.

In a similar way as for schemes that have transferred to the PPF, a provision has been included for the cost of GMP equalisation and future expenses, see Annex S4 for further details.

c) Contingent liabilities

The method adopted for contingent liabilities of type I, II or III was identical to that for the provisions where the Board was in possession of a section 179 valuation. This was the same method as adopted last year. The method adopted for type IV contingent liabilities is set out in Annex S2.

Additionally, loadings to reflect the impact of GMP equalisation and future expenses were applied to the liabilities forming the contingent liabilities of type I, II or III. These loadings were equal to the loadings applied to the provisions, as set out in Annex S4.

The valuation of schemes based on the roll forward method will not be as accurate as one undertaken using individual or grouped membership data for each scheme. The roll forward 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.

8. Results of the calculations

The results of the calculations of the actuarial liabilities, provisions and contingent liabilities are set out in Annex S6. I also show the results as at 31 March 2015 using the assumptions set out in the Report and Accounts as at 31 March 2015.

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 PPF. 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 sheet for the PPF as at 31 March 2016, 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 PPF 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 and the cost of equalising compensation for GMPs on these liabilities. The total value is taken as £18,284.0m, the same figure as was used in my actuarial valuation report of 28 June 2016, 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 £6,664.3m.

Accordingly I have taken the total liabilities including provisions of the Pension Protection Fund as at 31 March 2016 as £24,948.3m.

In the actuarial balance sheets for the PPF as at 31 March 2016, 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 £23,602.9m, the same figure as was used in my actuarial valuation report of 28 June 2016, 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 (£649.3m) - this figure amounts to £5,401.4m.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2016 as £29,004.3m.

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.

Name: Stephen Rice, Appointed Actuary

Date: 28 June 2016

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

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Annex S1 Provisions in the Statement of Accounts for the financial period ending on 31 March 2016

The Statement of Accounts as at 31 March 2016 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 31 March 2016
- the Board had not stated on or before 31 March 2016 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2016
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 March 2016 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner
- 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 (determined on the section 143 basis as at the insolvency date), and
- transfer to the PPF had not taken place on or before 31 March 2016.

It also contains provisions in respect of schemes which have completed an assessment period and which I consider will in due course enter the PPF. For these schemes, a section 143 valuation (or funding determination) has already been completed by the trustees and this showed an excess of assets over Protected Liabilities. They are included as provisions if there is an expectation that they will successfully reapply for PPF entry, either before expiry of the section 143 six month period during which the trustees can attempt to secure a buyout, or after a period of time running as a closed scheme. There are 18 such schemes included in the provisions.

The Board has also considered, but decided against including, the following in the provisions:

- 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. A provision might be appropriate if there are a significant number of schemes in this position. Based on an analysis of the PPF's recent experience, I do not consider that this is so.
- schemes which as a result of the valuation process set out in Annex 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. 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.

Some schemes may have experienced insolvency events that occurred on or before 31 March 2016 but which have not yet been reported. It might be appropriate to set up an 'IBNR' (Incurred But Not Reported) reserve to cover these schemes. Analysis of recent years' claim patterns suggests that there will be very few, if any such schemes, and that such schemes are likely to be immaterial and in any case almost impossible to place a reliable value on. I have therefore not set up an IBNR reserve.

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Annex S2 Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2016

Four types of contingent liabilities are disclosed in footnotes to the Statement of Accounts. The definitions of the four categories are given below.

1. Type I contingent liabilities are in respect of eligible schemes where:

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 31 March 2016
- the Board had stated on or before 31 March 2016 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
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 29 February 2016, 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 II contingent liabilities are in respect of eligible schemes where:

- in the Board's judgement, as at 31 March 2016, 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,
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 29 February 2016, 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 III contingent liabilities are in respect of eligible schemes where:

- the Experian insolvency scores at 31 January 2016 would place the schemes in Levy Band 10 as set out in the Levy Rate Table in the Insolvency Risk Appendix to the Board's Determination for levy year 2016/17. **http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1617_insolvency_risk_appendix.pdf**
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability, and
- as at 29 February 2016, 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.

Type III contingent liabilities exclude any scheme already within the provisions for type I or type II contingent liabilities.

Out of a population of around 6,000 schemes considered, 215 which had not already been included in the allowance for type II contingent liabilities had an insolvency score which placed them in Levy Band 10. Of these 215 schemes, 161 were in deficit on the assumptions used to assess entry to the PPF.

It should be noted that, in practice, the schemes contributing to the type III contingent liabilities often change considerably from one year to the next.

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4. Type IV contingent liabilities relate to legislative changes anticipated to be passed by Parliament, where such changes will impact PPF compensation.

One item of legislative change which falls into this category at 31 March 2016 stems from provisions in the Pensions Act 2014 to increase the PPF compensation cap for members with long service in their schemes. If these provisions are brought into force (alongside new secondary legislation providing the detail on how the increase will operate) there will be an increase to the costs of PPF compensation.

Prior to the provisions coming into force a full rework of benefits for impacted members will be carried out. For the purposes of this assessment, I have therefore estimated the likely impact by identifying members who are likely to qualify under the revised definition and then assessing the approximate increase to their benefits.

The additional cost has then been assessed by simply applying the proportionate increase in total compensation to the total liabilities for transferred schemes and those still in assessment as at 31 March 2016.

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Annex S3 Data

a) Data in respect of PPF members

This data was shown in my report to the Board dated 28 June 2016.

b) Data in respect of provisions and contingent liabilities

There are 120 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2016. Liabilities in respect of another 9 schemes have not been recognised, i.e. 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 I, type II and type III contingent liabilities the recognition test assessment was undertaken at 29 February 2016 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.

For material schemes, the PPF actively seeks from trustees up-to-date individual member data and current asset values where appropriate. For all other schemes the latest section 179 valuation provided for levy purposes or section 143 valuation is used to assess asset and liability values. The section 179 valuation used will be that held on Exchange at the 31 March preceding insolvency. This year I was unable to obtain individual member data for two schemes that came into assessment in March which would usually be deemed material in time for the valuation calculations. These were valued using section 179 data.

In order to identify the schemes to be included in the type I, II and III contingent liabilities, I make use of information that the PPF has gathered from sources such as Experian, negotiations with companies and information submitted by the Pensions Regulator. The data used to place a value on their assets and liabilities is taken from the latest section 179 valuation provided for levy invoicing purposes. Type IV contingent liabilities relate to generic legislative changes rather than specific individual schemes, as detailed in Annex S2.

The numbers of schemes contributing to the various types of provisions and contingent liabilities of type I, II and III are given in the table below. Figures in brackets relate to the total number of schemes considered for inclusion, i.e. it includes schemes where 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 provisions and the calculation date for contingent liabilities. In all of the figures I have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2015.

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Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2016	120 (129 in total)	42,153	49,975
	2015	111 (133 in total)	35,342	40,421
Provision – IBNR	2016	0 (0 in total)	n/a	n/a
	2015	2 (2 in total)	n/a	n/a
Type I contingent liability	2016	0 (0 in total)	0	0
	2015	0 (0 in total)	0	0
Type II contingent liability	2016	9 (9 in total)	101,071	66,064
	2015	6 (6 in total)	1,129	2,188
Type III contingent liability	2016	161 (215 in total)	12,011	17,083
	2015	198 (266 in total)	21,195	41,928

* Data in respect of recognised schemes only.

Information regarding membership splits by sex, category and benefit amounts are not generally collected for the schemes forming the provisions and contingent liabilities; hence it has not been possible to provide such summary data about schemes in the various liability categories.

As the PPF does not hold member-by-member data for all the schemes forming the provisions, I had not been able to indicate the incidence of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes I obtained information relating to the individual pensioners in payment and deferred pensioners and this indicated that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

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Annex S4 Assumptions

All assumptions will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2015, unless stated otherwise.

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 28 June 2016.

b) Basis adopted for Provisions and Contingent Liabilities

1. Discount, inflation and pension increase rates

For the provisions represented by material schemes I have used the term-dependent rates as described in Annex M2. For the provisions represented by non-material schemes and contingent liabilities it is not possible to use term-dependent rates as I do not have individual member data to be able to project cash flows. I 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, and
- 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 PPF liabilities.

Single rates of discount, inflation and pension increases were determined so that the present values placed on each of the cash flows for both the pensioners and the deferred pensioners corresponding to the PPF liabilities were equal to the present values determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rates as set out in the following table. The figures in brackets are those as at 31 March 2015.

Net discount rate	% pa	
In deferment for compensation accrued before April 2009	-0.3	(-0.4)
In deferment for compensation accrued after April 2009	-0.2	(-0.1)
In payment for non-increasing compensation for current pensioners	1.9	(2.1)
In payment for non-increasing compensation for deferred pensioners	2.2	(2.3)
In payment for increasing compensation for current pensioners	0.1	(0.0)
In payment for increasing compensation for deferred pensioners	0.1	(0.2)

2. Mortality

As last year, I have adopted base mortality assumptions provided by the mortality analyst Club Vita.

For material schemes where individual membership data is available, Club Vita provided me with 250 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode)
- amount of compensation, and
- whether allowance for ill-health retirements is included.

This is the same approach used for schemes which had transferred to the PPF on or before 31 March 2016, where individual membership data is available, as described in Annex M2 of my report to the Board dated 28 June 2016.

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Where individual membership data is not available, Club Vita provided me with mortality curves which reflect average mortality across the whole membership. There were ten average mortality curves, which varied according to the factors set out above. The ten average curves are included in the count of the curves used in the valuation as at 31 March 2016.

There is no evidence to suggest that my assumption for long-term mortality improvement used in my previous report should change. I have therefore continued to adopt the CMI-2014 mortality projection model in its core form, without advanced parameterisation, with a long-term improvement rate of 1.5 per cent a year for both men and women for this valuation.

Because the liabilities of non-material schemes' provisions and contingent liabilities are calculated by rolling forward the results of an earlier valuation, it is not possible to use the chosen assumptions precisely. Instead, all members of non-material schemes are assumed to be male and their dependants assumed to be female. Ratios of annuity values using male mortality are therefore 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 and the ratio of joint life annuities for male members with female spouses is not very dissimilar from the ratio of joint life annuities for female members with male spouses.

3. Proportion Married

For material schemes where individual or grouped membership data is available, I have used the proportions married set out in Annex M2.

Where individual or grouped membership data is not available, 75 per cent of members are assumed to be married or to have a relevant partner. Again, because these 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 three years younger than males.

5. Children's pensions

No specific allowance is included for prospective children's pensions. For material schemes where individual or grouped membership data is available, children's pensions already in payment are assumed to cease in accordance with the compensation entitlement with no allowance for mortality prior to cessation.

6. GMP equalisation

Allowance has been made 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 on the liabilities of schemes forming the provisions. The cost is valued in a consistent way to the allowance made in the actuarial liabilities in respect of transferred schemes, as described in Annex M2.

7. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the PPF. I have assumed that these will be the same as the wind-up expenses calculated in accordance with the section 179 methodology. Schemes are assumed to be, on average, midway through the assessment period. Allowance is therefore made only for 50 per cent of the full section 179 wind-up expense cost and, for schemes where the asset value is based on a roll forward of a valuation that pre-dates the insolvency, 50 per cent of the full section 179 wind-up cost is also deducted from the asset value.

In addition, allowance has been made for costs incurred by the PPF of transitioning members across to the PPF. This has been calculated based on my current estimate of these costs.

Allowance has also been made for certain expenses incurred after transfer to the PPF, in respect of schemes which are likely to transfer to the PPF (see Annex M2 of my report to the Board dated 28 June 2016 for an explanation of the expenses that are to be met from the Fund after a scheme transfers to the PPF). The same allowance is used as for transferred schemes (3.0 per cent). Expressed as a percentage of the provisions, the aggregate allowance for expenses incurred during the assessment process, during transition to the PPF and then after transfer is 3.7 per cent. The equivalent figure from last year is 3.9 per cent.

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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. It should be noted that in some cases the results of the scenarios shown below are calculated in a more approximate manner than the results set out earlier in the report.

I have considered ten scenarios covering the main uncertainties.

Scenario 1: Assumptions based purely on the swaps curve at 31 March 2016 but with a deduction of 15 basis points at each term.

Scenario 2: Assumptions based purely on the gilts curve at 31 March 2016.

Under scenarios 1 and 2 the effect of the basis change is on the actuarial liabilities and on the liabilities forming the provisions.

Scenario 3: Nominal yields are assumed to increase by 0.5 per cent per annum at each term.

Scenario 4: Inflation is assumed to increase by 0.5 per cent per annum at each term.

In scenarios 3 and 4, I 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. The result of a decrease in the above yields of the same magnitude has not been shown. This is because the PPF aims to adopt a substantially hedged position with regards to interest and inflation. As a result, the funding position is relatively insensitive to changes in these rates. This is illustrated by the results of scenario 3 and 4 shown in Annex S7.

Scenario 5: Increases in the Consumer Prices Index ("CPI") are assumed to be 1.0 per cent lower than increases in the Retail Prices Index ("RPI"), i.e. assuming that a market had developed in CPI and that it was priced at 1.0 per cent below RPI.

Scenario 6: The probability of death in each year of age is assumed to be 90 per cent of that used in the main basis.

Scenario 7: The long-term projection of mortality improvements is assumed to be increased by 0.5 per cent to 2.0 per cent a year.

Scenario 8: The mortality projection model assumed to be used is CMI-2015 as opposed to CMI-2014.

Scenario 9: The value of return seeking assets (excluding those which are used to hedge against liabilities) is assumed to decrease by 10 per cent at 31 March 2016. The asset value would be expected to change by a similar order of magnitude in the opposite direction if instead these assets are assumed to increase by 10 per cent.

Scenario 10: Assumptions and expense calculation based on s143 entry valuation basis (effective from 1 May 2014).

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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	Scenario 9	Scenario 10
Discount rate in deferment for compensation accrued before April 2009	-0.3%	-1.1%	-0.3%	0.2%	-0.8%	0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-1.2%
Discount rate in deferment for compensation accrued after April 2009	-0.2%	-1.0%	-0.2%	0.3%	-0.3%	0.1%	-0.2%	-0.2%	-0.2%	-0.2%	0.0%
Discount rate in payment for non-increasing compensation for current pensioners	1.9%	1.4%	1.9%	2.4%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Discount rate in payment for non-increasing compensation for future pensioners	2.2%	1.4%	2.2%	2.7%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%	1.9%
Discount rate in payment for increasing compensation for current pensioners	0.1%	-0.6%	0.0%	0.5%	-0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	-0.2%
Discount rate in payment for increasing compensation for future pensioners	0.1%	-0.7%	0.1%	0.6%	0.0%	0.2%	0.1%	0.1%	0.1%	0.1%	-0.2%
Non LDI assets	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Market value	Fall by 10%	Market value
Proportion married	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in s143 guidance (B6)
Mortality	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2	As in Annexes S4 and M2 but with 10% reduction in death rates	As in Annexes S4 and M2 but with 2.0% long-term mortality improve-ments	As in Annexes S4 and M2 but using the CMI-2015 model for mortality improve-ments	As in Annexes S4 and M2	As in s143 guidance (B6)

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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 PPF members plus the cost of equalising compensation for GMPs on those liabilities 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 £18,284.0m.

b) Calculation of provisions

120 schemes were included in the provisions in the statement of accounts for the financial period ending on 31 March 2016. The table below shows the estimated assets held at 31 March 2016 in respect of the 120 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated funding position in respect of those 120 schemes. A comparison is shown with the equivalent figures from the 2014/15 Annual Report and Accounts using the assumptions described in that report):

	31 March 2016 £m	**31 March 2015 £m**
Assets excluding anticipated recoveries	4,752.1	4,441.2
Anticipated recoveries	649.3	436.6
Total assets	**5,401.4**	**4,877.8**
Provisions	**6,664.3**	**6,186.1**
Excess of liabilities over assets	**1,262.9**	**1,308.3**

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 £523.6m and this can be reconciled as follows:

	£m
Assets as at 31 March 2015	**4,877.8**
New claims arising in the year (includes new schemes in assessment and schemes now thought to be in deficit)	1,060.0
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(223.3)
Schemes accepted into the PPF (assets as at transfer date)	(592.4)
Changes in schemes' assets due to benefits paid out	(159.9)
Difference between actual and assumed investment returns	111.7
Data changes (including updated valuation information and changes in recoveries)	327.5
Assets as at 31 March 2016	**5,401.4**

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The provision liabilities have increased by £478.2m and this can be reconciled as follows:

	£m
Provision liabilities at 31 March 2015	**6,186.1**
New Claims arising in the year (includes new schemes entering assessment and schemes now thought to in deficit), valued at month of entry	1,535.9
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(229.2)
Schemes accepted into the PPF (liabilities as at transfer date)	(757.0)
Change in schemes' liabilities due to benefits paid out	(159.9)
Actual inflation experience being different from that assumed	(24.9)
Effect of passage of time on discounting	76.7
Change in yields	187.9
Actuarial (gain) / loss due to experience being different from what was assumed plus data changes	(121.4)
Calculation methodology changes	(19.5)
Change in actuarial assumptions	(22.3)
Change in expense loading	11.9
Provision liabilities at 31 March 2016	**6,664.3**

Please note that the exact values attributed to each driver of change would be slightly different if the order of calculation were different. This does not affect the total liabilities at 31 March 2016.

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 2014/15 Annual Report and Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated net liability as at 31 March 2016 £m	Estimated net liability as at 31 March 2015 £m
I	0	0
II	957.1	128.0
III	588.0	1,055.1
IV	40.0	40.0
Total	**1,585.1**	**1,223.1**

The net liabilities recognised as contingent liabilities are the present value of the aggregate scheme deficits (for types I, II and III) or the present value of the additional liability (for type IV) calculated at each valuation date on the relevant basis.

Shown below are the total assets and total liabilities that correspond to the above net liabilities. A comparison is shown with the equivalent figures from the 2014/15 Annual Report and Accounts under the Main Assumptions basis.

Type of contingent liability	31 March 2016 Assets (£m)	31 March 2016 Liabilities (£m)	31 March 2015 Assets (£m)	31 March 2015 Liabilities (£m)
I	0	0	0	0
II	14,702.0	15,659.1	225.8	353.8
III	2,406.0	2,994.0	4,129.9	5,185.0
IV	0	40.0	0	40.0
Total	**17,108.0**	**18,693.1**	**4,355.7**	**5,578.8**

At this stage it is too early to assess whether any recovery is available for type II or III contingent liability so none has been assumed. Type IV contingent liabilities do not relate to an insolvency event and hence no recovery would apply.

Annex S7 Actuarial balance sheet

On the main 31 March 2016 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	£m	Liabilities	£m
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	23,602.9*	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	18,284.0*
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries**	5,401.4***	The present value of the liabilities of the schemes forming the provisions **	6,664.3
Total assets	**29,004.3**	**Total liabilities**	**24,948.3**
Excess of assets over liabilities			**4,056.0**
Funding Ratio (assets / liabilities)			**116.3%**

* Inclusive of £0.5m in respect of AVC assets that match AVC liabilities yet to be discharged

** Includes a nil allowance for IBNR

*** Inclusive of anticipated recoveries of £649.3m

I have calculated the actuarial liabilities and the liabilities of the schemes forming the provisions using the bases set out in Annex S5.

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as set out below.

	Main Basis	Scenario 1 2016 Swaps less 15 basis points	Scenario 2 2016 gilts	Scenario 3 Nominal plus 0.5%	Scenario 4 Inflation plus 0.5%	Scenario 5 CPI is 1.0% lower than RPI	Scenario 6 10% reduction in death rates	Scenario 7 Long-term mortality improvement plus 0.5%	Scenario 8 CMI-2015 mortality projection model	Scenario 9 Non LDI assets fall by 10%	Scenario 10 S143 Basis
Assets	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**	**£bn**
The value of the Pension Protection Fund assets	23.60	23.60	23.60	21.79	24.38	23.60	23.60	23.60	23.60	22.28	23.60
The values of the assets in the schemes that generated the provisions	5.40	5.40	5.40	5.10	5.51	5.40	5.40	5.40	5.40	5.20	5.40
Total assets	**29.00**	**29.00**	**29.00**	**26.89**	**29.89**	**29.00**	**29.00**	**29.00**	**29.00**	**27.48**	**29.00**
Liabilities											
The present value of the liabilities of the Pension Protection Fund	18.28	21.01	18.30	16.69	18.91	17.67	18.92	18.86	18.13	18.28	20.61
The present value of the liabilities of the schemes forming the provisions	6.66	7.73	6.67	6.05	6.92	6.42	6.89	6.87	6.61	6.66	7.56
Total liabilities	**24.95**	**28.74**	**24.97**	**22.74**	**25.83**	**24.09**	**25.81**	**25.73**	**24.74**	**24.95**	**28.17**
Excess of assets over liabilities	**4.06**	**0.26**	**4.03**	**4.15**	**4.06**	**4.91**	**3.19**	**3.27**	**4.26**	**2.53**	**0.83**
Funding Ratio (assets/ liabilities)	**116%**	**101%**	**116%**	**118%**	**116%**	**120%**	**112%**	**113%**	**117%**	**110%**	**103%**

None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made (figures in this table are subject to rounding discrepancies).

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Annex S8 Comparison with the funding position as at 31 March 2015

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 assets over liabilities on the actuarial balance sheet at 31 March 2015	**3,629.1**
Change in actuarial liabilities (this is further broken down in section 8 of my report on the actuarial valuation of the Pension Protection Fund)	(471.8)
Change in liabilities for schemes forming the Provisions (this is further broken down in Annex S6)	(478.2)
Change in Pension Protection Fund assets (this is further broken down in section 7 of my report on the actuarial valuation of the Pension Protection Fund)	853.3
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	523.6
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2016	**4,056.0**

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Commonly abbreviated terms

AVC – Additional Voluntary Contribution

CETV – Cash Equivalent Transfer Value

CMI – Continuous Mortality Investigation

CPI – Consumer Prices Index

CS01 - Sensitivity of a position or portfolio to a 1bp move in credit spreads

CS1% - Sensitivity of a position or portfolio to a 1% move in credit spreads

CSA – Credit Support Annex

DB – Defined Benefit

DWP – Department for Work and Pensions

FAS – Financial Assistance Scheme

FCF – Fraud Compensation Fund

FReM – Government Financial Reporting Manual

GIA – Grant-In-Aid

GMP – Guaranteed Minimum Pension

IAS – International Accounting Standard

IBNR – Incurred But Not Reported

IE01 – Sensitivity of a position or portfolio to a 1bp move in rates inflation

IFRS – International Financial Reporting Standard

ISDA – International Swaps and Derivatives Association

ISO – International Organization for Standardization

IT – Information Technology

KPI – Key Performance Indicator

LDI – Liability-Driven Investments

Libor – London Interbank Offered Rate

MI– Management Information

MFR – Minimum Funding Requirement

ORSA – Own Risk and Solvency Assessment

PPF – Pension Protection Fund

PV01 - Sensitivity of a position or portfolio to a 1bp move in interest rates

RCSA – Risk and Control Self Assessment

RPI – Retail Prices Index

SIA – Schemes In Assessment

SIP – Statement of Investment Principles

TAS – Technical Actuarial Standard

VaR - Value at Risk

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