Pension
Protection
Fund

Annual Report and Accounts 2012/13

Pension
Protection
Fund

Annual Report & Accounts 2012/13

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.

Ordered by the House of Commons to be printed on 24 October 2013.

HC 687 London: The Stationery Office £30.00

Any enquiries regarding this publication should be sent to us at 0845 600 2541.

This publication is also for download from our website at **www.pensionprotectionfund.org.uk**.

ISBN: 9780102986747

Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID 2591935 10/13

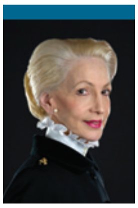
Printed on paper containing 75% recycled fibre content minimum.

Contents

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

1 The top team

Chairman



Lady Judge CBE

Chief Executive

Alan Rubenstein

Executive Board Members

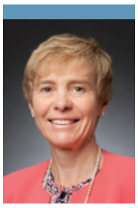
Martin Clarke

David Heslop

Andy McKinnon
(joined January 2013)

Non-executive Board Members

Dick Barfield



Ann Berresford
(left the Board July 2013)

John Bevington

Sir Anthony Holland
(left the Board July 2013)

Alan Jenkins
(joined August 2013)

Tom Joy
(joined August 2013)

Sharmila Nebhrajani
(joined June 2012)

Arnold Wagner OBE

Baroness Warwick of Undercliffe

Directors

Katherine Easter

Sara Protheroe

David Taylor

Clive Lewis-Jones (interim appointment – left June 2013)

2 Chairman's statement

Lady Judge CBE
Chairman

Much of the year was spent laying the groundwork for future growth while building on the success of previous years. We were particularly focused on the management of our asset portfolio and the way we are ensuring schemes are transferred quickly to provide real certainty for our members.

I believe that this past year will be seen as a pivotal one for the PPF. We have now reached a mature state and it is time to reinforce our position as an established financial institution which has an important societal purpose of providing security for millions of members of UK pension schemes.

Much of the year was spent laying the groundwork for future growth while building on the success of previous years. We were particularly focused on the management of our asset portfolio and the way we are ensuring schemes are transferred quickly to provide real certainty for our members.

This work was carried out against a backdrop of continuing economic upheaval with pension scheme funding suffering even further than last year – which included high-profile insolvencies resulting in greater claims on the PPF and continuing regulatory uncertainty from Europe.

While we are unusual as an organisation in that we do not actively seek customers, I feel very proud that we can now directly protect hundreds of thousands of people who might otherwise have lost their pensions. We know that this figure will, unfortunately, only increase in the future so we need to be prepared to meet that challenge and continue to put our customers at the heart of everything we do.

Accordingly, we believe it is important to treat our members like much-valued customers who, in other circumstances, would recommend us to their friends and family. The first step to achieving this, as I highlighted last year, was the announcement that we plan to bring our member service administration in-house. Great progress was made during 2012/13 toward this goal which we believe will be a reality by 2014.

This initiative is key to ensuring that we fulfil our mission - paying the right people the right amount at the right time. Concurrently, however, we are ever-mindful of one of our other important goals that is to meet our long-term funding target. We know the defined benefit pensions universe is shrinking which will mean, over the next few decades, fewer schemes will be in existence to pay our pension protection levy.

It is, therefore, essential that we remain on track to meet our long-term target for self-sufficiency by 2030. This means being fully-funded and hedged against inflation and interest rates, with an appropriate reserve to meet any new claims.

I was again very encouraged by our investment performance during the year. We continued to demonstrate a commitment to innovation, while at the same time working within the low investment risk budget that we, as a Board, have set for the organisation.

Indeed, we continued to receive industry recognition during the year, winning further awards both nationally and internationally for, among other things, our investment strategy, and our approach to innovative risk management. I would like to congratulate all those who contributed to our notable successes as recognised by these awards for their achievements.

There was further good news when the European Commission's plans to introduce Solvency II insurance measures to cover all defined benefit pension schemes throughout Europe were postponed.

We believe these proposals would have had the unintended consequences of increasing costs and providing people with less security, and with no incentives to encourage or improve retirement savings. So we were pleased by the Commission's decision although we will maintain a watching brief on any developments.

2 Chairman's statement

The long-term decline of defined benefit schemes is clear. That is why we applaud the Government's plans for 'defined ambition' pension arrangements. We are very supportive of these proposals and we will be watching developments with interest.

It was not just these specific issues which have occupied my thoughts this year. I have been revisiting my views about pensions in general and some of the major issues that will be encountered by what is an increasingly ageing society. The more I consider these issues, the sad conclusion is that the ultimate solution for the pensions problems we face as a society is that we must all: save more, work longer and expect less.

Of course, a great deal is already being done to address three points, not least the successful launch of auto-enrolment, the introduction of a single-tier pension system and abolition of the default retirement age. However, I believe the one point that should be addressed as a matter of priority is 'work longer'. There have already been moves to raise the retirement age but that is not the only answer. By 2032, one in four of us will be over 65 years old so there clearly needs to be real support for older workers to remain in employment.

I believe there should be more help for companies to keep their older employees working beyond traditional retirement age. Not only could this reduce the burden on younger people having to pay for ever-increasing pension costs, but also may help companies fill the skills shortage they often claim they are facing.

A real solution to this shortage is to keep skilled people in the workforce, rather than encourage them to retire. Companies should also be providing retraining, specific support and even offer apprenticeships for older people to learn new skills. Young people on these apprenticeships would also benefit by working alongside people with real knowledge and experience.

This is only a start, of course. There is much more for all of us to consider. We are all getting older and there is no escaping that fact. Society, therefore, needs to adapt accordingly and to provide real solutions to help individuals, as they approach the ends of their working lives, and our society as a whole.

On a more personal level, it was my pleasure during the year to announce two new appointments to our Board. In June 2012, we were joined by Sharmila Nebhrajani as a non-executive member. She brings with her a wealth of knowledge and expertise in the fields of health, technology and media. In January 2013, we appointed our Chief Financial Officer, Andrew McKinnon, as an executive Board member. His experience in financial services will be vital to ensuring the PPF remains financially stable, enabling us to continue to provide security to our members.

By the time this document is published, we will have bid farewell to non-executive members, Ann Berresford and Tony Holland. I would like to take this opportunity to formally thank them for their energy and commitment during their tenure on the Board and I wish them well in their future roles. To replace Ann and Tony, we have appointed Tom Joy and Alan Jenkins both of whom have the specific experience we need on the Board at this time and I look forward to working with them.

Finally, I would like to thank our entire Board, the executive team and all people at the PPF who have worked extremely hard during the year to make sure we fulfil our vision to protect people's futures, and our mission of paying the right people the right amount at the right time. I look forward to all of us working together as we face the great challenges ahead.

3 Chief Executive's review

Alan Rubenstein
Chief Executive

Our resilience during the toughest economic conditions many of us can remember is a testament to how well we have managed our continuing growth and the skill and commitment of our people to make things work.

Whether measured by number of members or assets under management, 2012/13 has been another year of rapid growth for the PPF. Our focus over the past twelve months has been to manage that growth effectively in the face of continuing turbulent markets.

By the end of the year, over 172,000 members had transferred to the PPF, up from almost 128,000 the previous year, and we were managing £14.9 billion of assets, an increase of £3.8 billion on 2011/12. While the number of new claims we experienced during the year was not significantly higher than average, the weak state of funding of pension schemes - in large part a reflection of current levels of interest rates - meant that the claims experienced by the PPF were at a record level of £1.0 billion.

I am pleased to report that despite these challenges, we remain on track to meet our long-term target of being financially self-sufficient by 2030. Our resilience during the toughest economic conditions many of us can remember is a testament to the successful management of our continued growth and the skill and commitment of our people to make things work. This should, I hope, give our members continued confidence in our commitment to provide their compensation and assistance for as long as they need them.

The PPF surplus at 31 March 2013 was £1.8 billion, corresponding to a funding level of 109.6 per cent. These figures represent an improvement over the previous year but should more properly be seen in the context of our long-term funding objective rather than in isolation.

Each year we try and distil our business plan into three big objectives to help us focus our efforts. For 2012/13 they were to:

- seek to maintain the probability of being self-sufficient by 2030
- secure 87,000 more members' futures, and
- achieve customer satisfaction scores of 80 per cent or more.

By the end of the year, our long-term risk modelling showed that we could be 87 per cent confident of being fully-funded by 2030, we had secured the futures of a further 87,927 PPF and FAS members during the year and we had achieved a customer satisfaction score of 92.1 per cent. While we are naturally pleased with this performance, we do not intend to sit on our laurels. We have set ourselves even more testing targets for 2013/14.

The step change we are planning in customer experience for both PPF and FAS members, which we announced at the beginning of 2012/13, continued apace during the year. Our customer experience team, under the leadership of Sara Protheroe, has made significant progress on our main project of bringing our member administration services in-house in 2014. The highlight was the signing of a 10 year pensions administration and payroll software contract with Civica, shortly after the year-end.

We now believe we are mature enough as an organisation to make this in-house option viable, so that we have greater control and flexibility over the services we provide. It also means that our workforce will be expanding by nearly 100 people. Partly as a consequence of this, we will be relocating to new offices in Croydon towards the end of 2013/14 – a move which we believe is both timely and cost-effective.

3 Chief Executive's review

Our investment strategy continued to deliver strong returns despite the continuing economic and financial pressures. Our overall return for the year of 11.1 per cent – equivalent to a gain in asset value of £1.6 billion – was partly a result of the growth in our portfolio of hedging assets, as they kept pace with an increase in our overall liabilities. Returns on our managed assets, which ignores the impact of hedging, were also positive, outpacing their benchmark by 4.6 per cent. Further details of our investment performance are in the 'Funding for the future' section of this report.

During the year, we continued to build on the success of our Assess & Pay programme, launched in 2010 to help schemes complete our assessment period more quickly. To improve our processes further, we have developed an approach for using panels of experts in a variety of areas such as actuarial and scheme administration. These panels will provide specialist support to trustees overseeing their schemes through assessment. We believe this model will help us make the assessment process as fast and as painless as possible.

2012/13 was the first year of our new levy framework. We introduced the framework to improve the stability and predictability of levies, so that changes in a scheme's levy will be more closely linked to changes in the risk it poses to the PPF.

Under these new rules, we saw a fall in the number of contingent assets and other risk reduction measures submitted for individual levy purposes. This meant we collected about 18 per cent more for the 2012/13 levy year than our original £550 million estimate.

To help clarify issues around contingent asset submissions, we issued revised guidance during the year. This was in response to a number of cases where the contingent assets offered failed to provide a genuine reduction in the scheme's risk. That is why we now ask trustees to verify that any contingent asset is really worth what is claimed and why in some cases we test the guarantor strength ourselves.

Our role in restructuring deals came under the spotlight during the year. In July 2012, the chairman of Dawson International publicly criticised both the PPF and the Pensions Regulator for rejecting a deal which he claimed would have saved the company. We also found ourselves in the spotlight when the high street retailer, Jessops, went into administration in January 2013.

It is sometimes difficult for people outwith the PPF to fully appreciate our role in such deals. Often we are constrained by commercial confidentiality or other legal requirements when asked about what was agreed and why.

On occasion we, alongside the Regulator, do consider, and agree, transactions which allow a company to continue trading, with the pension scheme being taken on by the PPF. We will only agree to such transactions if they satisfy the statement of principles which appears on our website.

We don't enter into such agreements lightly and, importantly, we will not agree to any transaction that does not secure a significant uplift for the pension scheme, compared to what it would have received had we allowed the company to go bust in the normal way. I also want to stress that we will never agree a deal unless the company insolvency is otherwise inevitable. I am sure we will be involved in more restructuring deals in the future and we will continue to do our best to explain our role in as clear and understandable way as possible, subject to the constraints we work under.

3 Chief Executive's review

I am delighted to report that by the end of 2012/13, the Pensions Infrastructure Platform (PIP) – aimed at encouraging UK pension funds to invest in infrastructure projects – had secured the founding investors it needed to move to the next stage of development.

There are now 10 funds, including us, committed to support the development of the PIP and we continue to target a fund of £2 billion before leverage. The next phase of selecting a manager to run the platform is underway and we hope that the fund's initial investments are not too far off.

We are proud to have played an integral role in getting this exciting and innovative project off the ground and I want to thank our partners in that initial work, the National Association of Pension Funds (NAPF), and in particular their Chief Executive, Joanne Segars, for their dedication and commitment. We are now looking forward to contributing to the PIP as an investor and so working in the best interests of our members and levy payers.

At the end of the year, we made two important executive appointments. Firstly, Barry Kenneth became our new Chief Investment Officer, a crucial role in developing further our investment function and building on our strong record of innovation and performance.

Secondly, we welcomed Malcolm Weir as our new Head of Restructuring and Insolvency. Malcolm brings to the role extensive experience in restructuring, reorganisation and corporate recovery. He will replace Richard Favier OBE who has been with us since the PPF was established in 2005.

We were again named in the 'One to Watch' category of the Best Companies to Work for in the Public Sector list, a national award scheme which allows us to compare our performance with others in the public sector. While we saw some improvement on the previous year, we continue to work hard at being the best we can to improve our ranking.

Finally, I would like to, as ever, thank all the PPF staff for their hard work and commitment throughout the year. There is no PPF without them and it is always nice to be able to put on record my appreciation of all their efforts. I am sure the coming year will be just as challenging as the last with some big changes afoot – single tier basic state pension and Defined Ambition among them. We are looking forward to an exciting future.

4 This is what we do

Fraud Compensation Fund

The PPF also pays compensation to members of occupational pension schemes of all types whose employers go bust and their schemes have lost out financially owing to 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 government-funded.

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

- We protect millions of people throughout the United Kingdom who belong to defined benefit pension schemes.
- If their employers go bust, and their pension schemes can't afford to pay what they promised, we will compensate them financially for their lost pensions.
- Tens of thousands of 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 and we take on the assets of schemes that transfer to the PPF.
- We also recover money, and other assets, from the insolvent employers of the schemes we take on.
- All income and assets are then invested, 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.

5 Our strategic framework and values

David Taylor
Director of Strategy and Legal Affairs

"Our vision is to protect people's futures – this is what the PPF is all about, providing a secure future for people of all ages. To do this we must fulfil our mission of paying the right people the right amount at the right time and play our part in strengthening confidence in defined benefit pensions as a whole.

"We constantly measure our performance against our strategic objectives for the year.

"We must ensure that we have the knowledge and expertise to negotiate the risky landscape we are operating in and achieve high levels of business excellence."

Strategic objectives

Manage schemes through the assessment and wind-up processes in a timely and efficient manner.

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

Set and collect an appropriate levy and allocate it fairly.

Maintain our reputation by communicating clearly what we do and why.

Be an efficient and effective organisation where staff are recognised and valued.

Maintain effective risk management in all areas of PPF business.

6 Financial highlights

Andy McKinnon
Chief Financial Officer

"Our financial position strengthened during the year as returns from our investment portfolio surpassed the changes in our liabilities and the record level of claims.

"Another 114 schemes made a claim on the Pension Protection Fund and whilst that was a modest decrease from the previous year, the average size more than doubled. We held levy collections to an increase of just 7 per cent, and it was the return on our risk-seeking assets which contributed most to a positive net income. Improved data on some of the larger schemes in assessment also generated a positive contribution, underlining the dependency on reliable data for continued stability in our management of the balance sheet.

"At the same time we were able to reduce the average administration cost per member from £83 to £81 demonstrating continued tight control over the resources allocated to running this increasingly complex operation."

	At 31 March 2012	At 31 March 2013	
Likelihood of meeting target of being financially self-sufficient by 2030	84 per cent	87 per cent	↑3pts
Funding level calculated on an actuarial basis	106.9 per cent	109.6 per cent	↑2.7pts
PPF investments	£11.05 billion	£14.86 billion	↑34%

	Between 1 April 2011 and 31 March 2012	Between 1 April 2012 and 31 March 2013	
Total compensation paid to Members	£203 million	£332 million	↑64%
Total net income generated	£370 million	£669 million	↑81%
Total levies raised, including Fraud Compensation Fund (FCF)	£601 million £4 million (FCF)	£644 million £4 million (FCF)	↑7%
Operating costs	£40 million	£45 million	↑13%
Values of new claims from schemes entering PPF assessment	£471 million	£1,028 million	↑118%
Investment return	25.2 per cent	11.1 per cent	↓14.1pts
Total assets from transferred schemes	£2.47 billion	£2.15 billion	↓13%
Actuarial liabilities for members transferred to the PPF	£8.37 billion	£11.83 billion	↑41%

7 Putting our members first

Strategic objective: manage PPF and FAS schemes through the assessment and wind up processes in a timely and efficient manner.

David Heslop
Chief Operating Officer

"We are here to pay the right compensation and assistance at the right time to all our members. Because it is such an uncertain time when an employer goes bust and pension scheme members are unsure about their financial futures, it is vital that we provide peace of mind to those affected as soon as we can.

"An important way to provide the reassurance people are looking for is to move schemes through PPF assessment and FAS wind-up processes as quickly as possible and to the highest possible standards. Also, when members do finally transfer, we are committed to maintaining their confidence as customers."

Highlights

By 31 March 2013,

- 172,018 people were receiving PPF compensation, or will do in the future
- Since 2005, we have paid out a total of £793 million in PPF compensation
- 30,927 people were receiving FAS assistance, or will do in the future
- Since 2009, we have paid out a total of £319 million in FAS assistance.

Speeding up assessment and wind-up

During the year, we continued to build on the success of our Assess & Pay programme, launched in 2010 to reduce the typical assessment period from 35 months to less than two years. This success means that we now apply the principles we have developed to most schemes in our assessment period and will provide greater certainty to our members.

That's not to say we are resting on our laurels. We have continued to work closely with trustees, administrators and insurers to make sure the process for both PPF assessment and FAS wind-up run smoothly, costs are kept down and the basics, such as providing correct and up-to-date data, are done properly. We also introduced new case management and knowledge systems to support our work even further.

Last year, we announced two professional panels – actuarial and specialist services – from which we can draw specialist help and support to help schemes complete assessment and wind-up more quickly and effectively. This model has worked so well that in January 2013, we announced our intention to expand these panels to include trustee advisory, assessment process and auditors' panels.

It has never been more important to provide certainty to both PPF and FAS members as soon as we can. We have made great strides but believe the setting up of these three new panels will bring substantial benefits not just for our members but for our levy payers too.

On top of this, we applied the lessons learned to put one scheme through an accelerated assessment process which meant that its 300 members were transferred into the PPF in a record six months. This was made possible by a change in the law which means that schemes no longer have to spend a minimum of one year in the assessment period. This change does not damage our ability to pursue cases of fraud – which was the original reason for the one year minimum when we were first set up.

We are currently looking at ways we can use this accelerated process with other appropriate schemes.

Of course, we depend on effective working relationships with our scheme assessment partners and we now have an effective system in place with Punter Southall, which manages segments of PPF and FAS schemes for us, in case claims are higher than expected.

7 Putting our members first

Customer services

Our dedicated Stakeholder Support Team continued to provide the main point of contact for industry professionals and employers, among others. During the year, it handled 10,287 telephone calls and 2,412 letters and emails.

Our payments administration customer services team handled 93,964 written enquiries and 61,885 telephone enquiries for both PPF and FAS throughout 2012/13.

Funding determinations

Following a consultation launched in July 2012, we published formal statements setting out the detail of changes to the funding determination and reconsideration process.

The changes:

- make it possible for the PPF to use a funding determination in place of a section 143 valuation, and
- allow a scheme to make an application for reconsideration under section 151 if they are unable to obtain a protected benefits quotation.

These changes will make the assessment process quicker and easier for schemes and provide greater certainty to members. These determinations were a good example of applying what we have learnt to making processes more efficient.

GMP equalisation

In November 2011, after a lengthy consultation, we confirmed how we propose to calculate compensation for men and women being assessed for entry into the PPF – or who are already PPF members – to make sure they are treated equally, as required by law.

At the same time, we undertook a pilot project with selected schemes so we could put this calculation method through its paces and iron out any teething problems before rolling it out to all schemes in assessment.

In December 2012, we announced that the pilot project was complete, we had studied all the findings and confirmed that the calculation method was fit-for-purpose.

We thank all the schemes in the pilot as their efforts meant that we are now confident that we can apply the method to all schemes successfully.

7 Putting our members first

Overpayment principles

Because of the complexities of winding up FAS schemes, there have been examples of members receiving overpayments – and then being asked to pay back the money owed.

To help these people deal with what can be a distressing situation, we published principles about what we expect from people and the circumstances in which we are permitted to waive recovery, including on grounds of financial hardship.

End of year figures

PPF

Between 1 April 2012 and 31 March 2013:

- 43,904 people transferred to the PPF, making a grand total of 172,018 people who have transferred since the PPF began
- 56,578 people completed the PPF assessment period during the year
- since 2005, we have paid out a total of £793 million in compensation, more than £331 million of that was paid out in 2012/13, and
- by the end of the year, we were supporting 223 schemes in the assessment period, with assets of £5 billion and liabilities of £6.5 billion.

FAS

Between 1 April 2012 and 31 March 2013:

- 171 FAS schemes completed wind-up and, as a result, nearly £346 million of scheme assets had transferred to Government
- the number of people receiving FAS assistance increased from 22,844 to 30,927 and the FAS paid out nearly £111 million, and
- we also transferred 173 schemes to our administrators, Capita Hartshead, close to the target we set ourselves at the beginning of 2012/13 of 177.

This means that since FAS started, a total of more than £320 million has been paid out and 1,289 schemes had looked to qualify for the FAS. By 31 March 2013, 1,046 of these schemes had actually qualified.

8 Customer experience

Sara Protheroe
Director of Customer Experience

"By 2014, we expect to have about 365,000 members who have transferred to us. That is why, last year, we began to look at ways we can enhance the customer experience for both PPF and FAS members.

"Our vision for our members is that they will experience exceptional service whenever they contact us, and however they choose to do so. Our people will be proud to be part of the team, so they will be motivated to provide the best service . And our services will be innovative, with members able to manage almost all their contact with PPF online, if they want to.

"This is an exciting step for the PPF and demonstrates our desire to put customers at the heart of everything we do."

In April 2012, we announced our plan to bring PPF member services in-house from 2014. We decided to do this because, by that time, we will be mature enough as an organisation to make bringing these services in-house a viable option.

Bringing PPF member services in-house will give us greater flexibility and control over the services we provide, and enable us to bring administration costs down over time.

During 2012/13, we have been building up our customer experience team and working on a number of key areas which will help make sure we can launch our in-house service successfully. From then on we will directly employ the people who make sure that PPF members get the correct payments on time.

Our vision for the Customer Experience programme sets out our ambitions in relation to our members, the people we employ to serve them, and the services we provide:

Our Members will experience exceptional service. They will be able to:

- trust us because we do what we say we'll do
- choose how they interact with us, and
- obtain accurate and relevant information that is easy to understand.

Our People will be proud to be part of the team. They will:

- trust, encourage and inspire each other
- be motivated and take personal responsibility for our work, and
- have opportunities to develop skills and knowledge.

Our Services and the way we operate will be innovative. We will:

- challenge the way things are done and make quality our priority
- adapt our services to meet our members' needs, and
- be recognised within the customer service industry for delivering excellence.

Meanwhile, Capita Employee Benefits, which currently handles our member services, will remain an important strategic partner for the PPF and will continue to provide the member services for the FAS, which we run on behalf of the Government. We have begun to work with Capita and others to concentrate on making us a market leader in accurate member data, with enhanced existence checking and member tracing.

During the year, we improved the letters Capita sends out to members so they are easy to read and understand. We will also work with Capita to deliver an improved members' website for FAS, so that we offer a similar customer experience to all our members.

Review

9 Funding for the future

Strategic objective: meet our funding target through prudent and effective management of our balance sheet.

Review

Martin Clarke
Executive Director for Financial Risk

"We will balance our commitments to members and our levy payers by pursuing a low-risk but highly-efficient glide path towards our target of self-sufficiency in 2030.

"As we grow, so do the opportunities to improve portfolio efficiency through better diversification, the ability to exercise the advantage of scale and apply our knowledge and expertise in a fully-informed manner. We will do this within a rigorous framework of quantitative and qualitative financial risk management that has been the hallmark of our progress to date.

"Success depends on more than managing our investment portfolio. We also have to transition the investment strategies of transferring schemes to match our own, put levy collections to work with our fund managers quickly and make sure we get the best deal for members when sponsoring employers fail."

Highlights

By 31 March 2013,

- we were 87 per cent confident of reaching our target of self-sufficiency by 2030
- our balance sheet was £1.8 billion in surplus, an increase of £0.7 billion from the previous year
- our investment portfolio had grown from £11.1 billion in 2011/12 to £14.9 billion
- we had recorded a total return of 11.1 per cent on our own invested assets for the financial year.

Our long-term funding target of self-sufficiency by 2030 is the backdrop against which we set our investment strategy and the amount of pension protection levy we charge.

Self-sufficiency means that we will then be fully-funded with minimal exposure to interest rate, inflation and other market risks and with protection against future claims and the risks of people living longer than we estimate. By this time, we expect to be funded to a level of 110 per cent and that we will be far less reliant on future levy income.

Long-term funding

At the beginning of 2012/13, we were in good shape to face future challenges. A robust investment performance, based on our sophisticated liability-matching strategies and which saw returns of 25.2 per cent, was more than sufficient to offset the rise in our liabilities and led to a balance sheet surplus of £1.1 billion as at 31 March 2012.

Alongside our financial report, we published an update to our funding strategy which estimated that we had a 84 per cent probability of achieving self-sufficiency in 2030, a level with which our Board was comfortable.

At the time, we warned against complacency, not least because of the impacts of record low levels of long bond yields that had inflated the value of pension scheme liabilities and increased levels of underfunding in our insured universe to historic levels.

Our expectations were, unfortunately, met and 2012/13 proved to be a record year for claims on the PPF of £1.0 billion. Although pension scheme funding – as measured by our 7800 Index – worsened further during the year, long bond yields have recovered a little since the end of the 2012/13 financial year. But, pension scheme funding is still at an extremely low level, leaving us in 2013 with a similar heightened expectation of future claims as the previous year.

9 Funding for the future

Our financial position

The financial impact of a record year of claims has been offset by pension protection levy collections of £650 million and excess investment returns ahead of the growth in our liabilities of some £480 million (these liabilities include those schemes in our assessment period).

Other favourable balance sheet movements have led to an improved funding level and, as at 31 March 2013, we can report a surplus of £1.8 billion, representing a funding position of 109.6 per cent.

The improvement in our balance sheet is mirrored in our long-term funding prospects, the first review of which we published in 2010. The third such review is published at the same time as this document and discusses various developments during the year. It also estimates that our probability of reaching self-sufficiency by 2030 has improved to 87 per cent and explains how we have reached that view.

But, as in last year's report, we are mindful of the historically low levels of pension scheme funding we are currently experiencing and the impact these levels may have on future claims on the PPF. The entry of the UK Coal pension schemes in July 2013 into our assessment period proved a timely reminder of this impact and, importantly, how important it is to have a financially strong PPF.

Investment Performance

A major contributor to this strength in recent times has been our investment strategy that has ensured the value of our investments was able to more than keep pace with the increasing value of our liabilities.

The main objective of our investment programme is to grow the assets faster than the liabilities. We target a growth rate in the assets of 1.8 per cent per annum relative to liabilities.

During 2012/13, our invested assets beat our liability benchmark by 4.6 per cent (during 2011/12, the figure was 2.1 per cent) – more than double our targeted growth rate. Our assets delivered a total return of 11.1 per cent, compared with 25.2 per cent in 2011/12, while our liabilities continued to increase as the yields of long dated bonds fell.

The main reason for this outperformance came from global equities which delivered a 16.3 per cent average index return and global bonds which delivered a 4.8 per cent average index return. We added a further 1.4 per cent over these indices by actively managing the portfolio.

Our investment strategy has been particularly robust throughout the protracted recovery from the global financial crisis. Our invested assets have outperformed their liability benchmark by an average of 3.8 per cent a year during the past three financial years. In absolute terms, the rate of return on assets has averaged 14.4 per cent a year during this period.

Again, our invested assets continued to grow substantially during the year, incorporating the transfer of assets from schemes entering the PPF (£2.2 billion), levy collection (£0.6 billion) and investment returns on our assets (£1.6 billion).

We continued to develop our investment strategy during the year by evolving our global bond investment strategies and progressing our 20 per cent strategic allocation to alternatives, including timberland and farmland strategies.

9 Funding for the future

Recoveries, transfers and transitions

Recoveries from insolvent employers continued to be an important income stream. We have now made – or expect to realise in the future - £1.4 billion in recoveries since we were first set up.

About a third of this sum has come from restructuring deals affecting firms which are certain to go bust otherwise and for which we become responsible for paying compensation to their pension scheme members. We will support such deals only if they offer a better return to the company creditors than if the company were to go bust in the normal way.

During the year, we collected £2.2 billion in cash and other assets from schemes which had entered the PPF. To transfer these assets into the PPF's investment strategy economically and with minimum risk, we transition them in batches throughout the year.

In 2012/13, we completed four large scale transitions which totalled a record amount of more than £4 billion worth of assets. Such transitions, which are carried out by specialist managers under the close supervision of our in-house team and independent advisors, involve a complex series of transactions between many different fund managers and portfolios.

Funding and investment risk

Managing risks to our funding and investment strategies are the priority areas for our risk management activity. During the year, we began the implementation of an enhanced framework for managing our financial and investment risks.

This involved the formalisation of more than 20 financial risk policies, the creation of a separate financial risk function to act as a 'second line of defence' in risk management and an upgrade to the financial risk data available to help us manage the risks.

Because our balance sheet includes a provision for the deficits of schemes in assessment, the investment risks within these funds can have a material effect on our overall funding level.

During the year, we increased our level of scrutiny of the investment risks of schemes in assessment and proposed a de-risking plan to such schemes with the aim of halving our exposure to equity risk from schemes in assessment by the end of 2014.

9 Funding for the future

Responsible investment

We remain committed to being a responsible and vigilant asset owner which means we will exercise our rights, including voting rights, to safeguard sustainable returns in the long-term.

To support this aim, we announced in October 2012 the appointment of Hermes EOS as our new voting and engagement advisor. The new advisor will vote shares, monitor portfolio companies for environmental, social and governance (ESG) risks and, where concerns arise, engage company managements on those concerns.

During the year, we continued to participate in a number of industry initiatives. We have now signed up to the private equity principles spearheaded by the Institutional Limited Partners' Association (ILPA), a not-for-profit organisation committed to serving institutional investors of private equity. These principles outline best practices with respect to establishing strong governance, appropriate transparency and the alignment of interests between Limited Partners and General Partners.

We continue to support the Principles of Responsible Investment (PRI), the Carbon Disclosure Project – and work with our fund managers to actively encourage them to improve their responsible investment practices.

Fund managers

During the year, we appointed 15 specialist firms to an enlarged panel of bond managers to give us the flexibility to access a broader range of bond strategies. We have a 70 per cent strategic allocation to cash and bonds and, as we grow, we are looking to source a broader range of fixed income investment opportunities, while staying true to our low-risk appetite.

Because of the level of growth in our assets, we have been able to have greater and more cost-effective access to certain investments. For example, during the year, we began to invest in direct real estate in the UK, rather than through a third party fund. This provides the direct relationships we are looking for to achieve a stable growth through long-lease commercial property, with a focus on rental income as a source of return.

During the year, we completed a major project to upgrade our innovative and award-winning liability driven investment (LDI) programme that helps us hedge our growing liabilities. The objective of the project was to reduce our reliance on our lead LDI manager, Insight Investments, by appointing a second manager, Legal & General Investment Management.

We have also taken more direct control of the LDI investment process by establishing relationships and agreements directly with more than a dozen counterparty banks, creating a dedicated central collateral pool under the management of our custodian, State Street. The move to this new operating model was completed shortly after the end of the financial year.

In November 2012, we announced the appointment of seven farmland and timberland managers – a move which is part of the development of our alternative investment portfolio so we can benefit from greater diversification and reduce our overall risk. These investments will be predominantly in land and the operations needed to cultivate and market agricultural produce, or to grow and sell timber.

9 Funding for the future

Awards

During the year, our investment strategy continued to be well recognised and highly praised in the industry.

Date	Award	Category
May 2013	amici European Innovation Awards 2013	Public Pension Scheme Above 15 Billion Euros
May 2013	Portfolio Institutional Awards 2013	Best Implementation of Responsible Investment
May 2013	Financial News Excellence in Pensions 2013	Best Investment Strategy (DB)
November 2012	Investment Pensions Europe Awards 2012	Gold Award - Best Long-Term Investment Strategy
November 2012	Investment Pensions Europe Awards 2012	Best Liability Driven Investment Programme
May 2012	Portfolio Institutional Awards 2012	Portfolio Construction Award
April 2012	Financial News Excellence in Pensions 2012	Best Investment Strategy (DB)
April 2012	Professions Risk Managers' International Association Awards	New Frontiers in Risk Management Award

Purple Book

We published the seventh edition of the Purple Book, in conjunction with the Pensions Regulator, which focuses on the risks faced by predominantly private sector defined benefit pension schemes throughout the UK. Movements in these risks can have an impact on our aim to be financially self-sufficient by 2030.

Data in the Purple Book 2012 is comprehensive. It is based on 6,316 schemes that, collectively, have about 12 million members. This accounts for about 98 per cent of the estimated total number of PPF-eligible schemes in the UK and more than 99 per cent of estimated total liabilities.

Each month, we continued to publish the PPF 7800 Index which provides regular updates on scheme funding levels. This allows us to track funding and risk through time.

10 Setting and collecting the pension protection levy

Strategic objective: set and collect an appropriate levy and allocate it fairly.

Andy McKinnon
Chief Financial Officer

"The pension protection levy remains a high-profile issue for the pension schemes that pay it and the people who advise them. Although it is a decreasing proportion of our overall income, it makes a fundamental contribution to achieving our long-term funding aim.

"The levy is also the main reason for contact between ourselves and the pension schemes we protect so making sure it is fair, stable and understandable is crucial to building good relationships with those schemes and maintaining our reputation.

"Some people will always complain about the levy they pay but everyone should bear in mind that if our protection regime in the UK is to be credible, then it needs to be funded. The alternative, an inadequately resourced PPF, would fail to offer the security that scheme members deserve."

Highlights

During 2012/13, we collected cash totalling £650 million, relating to all levy years.

We collected 98 per cent of uncontested levies by 31 December 2012, beating our target of 90 per cent.

We set a levy estimate of £630 million for 2013/14, compared with £550 million for 2012/13.

Income from the levy which we charge all eligible schemes remains essential to fund the compensation we pay, even though our own investment returns are becoming increasingly important to our future.

Our aim during the year – and the years to come – is to provide predictability in individual levy bills while, as ever, balancing security for our members with setting a levy that pension schemes can afford to pay.

New levy framework

2012/13 was the first year of the new levy framework, the culmination of a project which began with a chapter in an August 2007 levy consultation document.

We established the new framework, following lengthy consultation, to make levy bills more predictable than ever before – something levy payers had been asking for.

The new levy framework sought to achieve this by maintaining fixed parameters for the levy calculation for a three year period – so that levies would rise or fall depending on the risk of the scheme.

In practice, maintaining fixed parameters for 2013/14 would have resulted in too high a levy estimate, i.e. a levy increase of more than 25 per cent. Two main factors lay behind this. The most significant was the decrease in scheme funding levels resulting from the impact of continuing low gilt yields, leading to the deficit of those schemes in deficit more than doubling.

A second major factor was the change in scheme behaviour in certifying risk reduction measures - especially the dramatic reduction in contingent assets submitted when assessment of the strength of the guarantor was introduced.

Accordingly, the Board set a levy estimate of £630 million, with the aim of providing a balance between the need to charge an appropriate levy for the increased risk we face and recognising the challenging economic environment for pension schemes generally.

During the year, developments continued apace. In the first half of 2012/13, we began preparing for the first invoicing of the new levy framework. We wanted to invoice 90 per cent of schemes by the end of October – a target we achieved. We want to improve on that in 2014/15 so we hit a similar target by the end of September, bringing the total invoicing period down to one month.

This means that schemes will have a better idea when their invoice will arrive as well as how much it is likely to be. The invoicing period will be matched by a shorter collection period so that our investment managers can put the money to work as soon as possible. This will not only benefit our members but also provide certainty for levy payers.

10 Setting and collecting the pension protection levy

To make that happen, we have enhanced the validation rules in the Pensions Regulator's Exchange system to make sure we have access to the best quality data available about all eligible schemes.

We have continued to work on developing our own in-house verification capabilities, particularly in relation to insolvency risk scores, investment risk stress tests and contingent assets. We remain committed to ensuring that guarantees we accept reflect a genuine reduction in risk and we are endeavouring to speed up the process this year.

Throughout the year, we have again done all we can to make sure levy payers were aware of the need to hit important deadlines for providing us with information and to think carefully about what action they can take to reduce their levy bills, e.g. putting in place contingent assets.

We are applying our greater focus on customer service to levy payers and we have worked hard to engage those schemes which have had data issues, queries and reviews in the past and communicate with them in the best way we can.

Contingent assets

During 2012/13, the level of certified deficit reduction contributions (DRCs) and contingent assets certified was lower than we expected. Since these risk reduction measures were allowed for in our levy estimate, the increase in risk meant that we collected about 15 per cent more for the 2012/13 levy year than our original £550 million estimate.

In December 2012, we issued revised guidance on contingent assets and, in early 2013, we published further observations about guarantor strength to help schemes when submitting or re-certifying contingent assets.

We encourage schemes and guarantors to put in place guarantees, and certify them, where these reflect a real reduction in risk. But we need to make sure that any contingent assets that are submitted do offer that reduction in risk if we are to recognise them through the levy – otherwise other levy payers end up paying too much.

We had seen examples where contingent assets were being certified that obviously could not provide a reduction in risk commensurate with the levy reduction. That is why we now ask trustees to certify that the guarantee – if called upon – will be worth what is claimed and test the guarantor strength ourselves.

Fraud Compensation Fund

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

During the year, we decided that we would not have to raise a fraud compensation levy for 2013/14. A levy was raised during 2012/13 due to the expected cost of current claims but the FCF is now £10.5 million in surplus so we decided another levy was unnecessary.

The levy is collected on our behalf by the Pensions Regulator.

11 Communicating is a two-way thing

Strategic objective: maintain our reputation by communicating clearly what we do and why.

Richard Williams
Head of Corporate Affairs

"We have always placed a great emphasis on communicating what we do and why to everyone who is affected by, or are interested in, our work. This is fundamental to maintaining confidence in the protection that we provide.

"Two-way communications and an open, accessible approach underpin good relationships with our stakeholders, allowing us to work together to achieve mutually beneficial results.

"This is our eighth year of operation and we are now mature as an organisation. Therefore, we remain committed to improving the way we communicate as we grow and develop."

Highlights

- We issued 95 different publications for scheme members and industry.
- Our customer service teams handled more than 61,000 enquiries.
- We arranged for our Chairman, Chief Executive and other senior leaders to speak at, or attend, more than 83 meetings and events.

Throughout the year, we have continued to maintain open channels of communication with everyone interested in the PPF to make sure we benefit from strong relationships – this doesn't just mean levy payers or industry professionals but also the Government, Europe and, crucially, our members.

We want to help those who are affected by our work understand the 'PPF story', making sure that they remember why we were created and that they fully understand why we are moving in a certain direction so they know what to expect from us in the future.

Communications channels

Our website remains the first port of call for many professionals seeking information about the PPF. During the year, it had 195,648 unique visitors who made 296,920 visits in total. Also, our separate PPF and FAS member websites received 245,000 hits in 2012/13. Plans are now in place to revamp our website, for a proposed re-launch in 2014.

We issued 51 alerts, press releases, industry bulletins and information notices to the 4,049 people who have registered their emails with us, as well as other interested parties such as professional organisations and the media.

We arranged for either our Chairman or Chief Executive to speak at, or attend, 83 events during the year. We also published 95 documents which included consultation, decision and guidance documents on issues such as the pension protection levy, contingent assets and revised actuarial factors.

Member communications

All PPF members received a copy of an annual review called 'Member Focus' which summarised what we did during 2011/12. Independent research carried out on our behalf shows that this is hugely welcomed by members as a way of keeping them in touch with what we are up to.

We also worked with our customer experience team to improve the letters we send out to members so they are easy to read and understand.

12 Our developing organisation

Strategic objective: be an efficient and effective organisation where staff are recognised and valued.

Katherine Easter
Director of HR and Organisational Development

"We are a high-performing organisation that focuses on our objectives and, more importantly, how we set about achieving them. Demonstrating to all those affected by, and interested in, our work that we offer the best value for money is key to maintaining our success and customer confidence in us.

"Our maxim is 'inspire and be inspired by each other'. Our senior managers lead in developing an environment of inspiration in an organisation with the right mix of skills. What matters at the PPF is getting the right people who will grow with the organisation as we broaden our influence.

"The experience they gain gives them a competitive edge as they move on in their careers which benefits us as the wider world then has a better understanding of our aims and the way we work."

Highlights

- We spent £45 million running the organisation against a budget of £47 million.
- The average administration cost per PPF member fell from £83 in 2011/12 to £81 in 2012/13.

ICARE

Our staff work towards achieving our vision, mission and strategic objectives while adhering to the values that drive everything that we do.

Our values define the way we work. They are integral to our success in fulfilling our mission and realising our vision. In living up to these values, we maintain an environment where our staff value each other, enjoy their work and produce excellent results.

The quality of performance in every job, activity and action is assessed in terms of five core values, called our ICARE values.

INTEGRITY – DO THE RIGHT THING

COLLABORATION – WORK AS ONE

ACCOUNTABILITY – OWN YOUR ACTIONS

RESPECT – VALUE EVERY VOICE

EXCELLENCE – BE YOUR BEST

Performance and development

As an organisation, we are committed to embedding a culture where people strive for excellence and feel that their contributions are valued. Therefore, we need to make sure our people continue to be the best they can so they can fully support the achievement of our strategic objectives.

Just as importantly, this year we have spent considerable time and effort looking at how we can retain our staff following public sector pay freezes, as many people join us from the private sector and we have seen pay falling below what they might expect in the last few years.

That is why, during 2012/13, we reinvigorated our efforts to develop the PPF's employer brand, making it clear why it is great to work here and how the organisation supports its employees.

In the year, we have improved our recruitment and selection processes to make them more efficient and effective and bedded in our new reward strategy which we rolled out in August 2012 after a lengthy benchmarking exercise. We also put in place an improved talent management and development strategy, making sure our people managers will be developed as leaders.

This activity was backed up by internal activity and events which helped foster a supportive and productive workplace, for example a successful Diversity Awareness Week.

12 Our developing organisation

Efficiencies

During the year, we spent £45 million, £2 million under budget.

An important measure of our efficiency is the average administration cost per PPF member, including all those in assessment and those that have transferred. This average cost fell from £83 in 2011/12 to £81 in 2012/13.

The PPF's payment practice is to pay our UK suppliers in accordance with the terms of business agreed with them. As at 31 March 2013, the aggregate amount owed to suppliers other than fund managers, compared to the total amount billed by suppliers during the year, expressed as a number of days, was 35 (compared to 28 days as at 31 March 2012). We have excluded from this statistic supplier invoices which were under query or dispute with the suppliers at the end of the year.

Survey and recognition

An important measure of success is what our own staff say about us. We were again pleased to be named in the 'One to Watch' category of the Best Companies to Work for in the Public Sector list, a national award scheme which allows us to compare our performance with others in the public sector.

Again we showed encouraging progress over the previous year but, while we have improved, we believe that by continuing to strengthen our employee engagement activities, we will see further improvement next year.

Community involvement

We have a community responsibility policy which has long recognised that, as a responsible employer, we have a role to play in contributing to the local community and beyond.

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

Under its auspices, we undertook three community days, one of which was to prepare and serve Christmas dinner for about 100 members of a local drop-in centre for older people – the fifth year running we have taken part in this event.

We also took part in a range of fundraising events such as an abseil and bike ride for a number of charities, including Save the Children and Comic Relief, and raised almost £6,500.

Statistics

At 31 March 2013, we had 240 employees.

During the year, the number of days we lost to sickness averaged 3.7 days per person (8.8 per cent). This included long-term absences of more than 28 days.

Excluding long-term absences, we only lost 2 days per person (4.8 per cent) which compares favourably with the Civil Service average of 7.7 days per person.

13 Managing our risks

Strategic objective: maintain effective risk management in all areas of PPF business.

Jeff Wickett
Head of Levy, Risk and Facilities

"Good and effective risk management allows us to have increased confidence in achieving our objectives, effectively constrain threats to acceptable levels and take informed decisions about exploiting opportunities.

"We have a cautious risk appetite for all of our operational activity and, in our investment activities, we are extremely careful as this is where we generate the bulk of our income to fund our compensation to members.

"Our current approach to risk has served us well and helped us successfully manage our risks since we started in 2005. But we have not rested on our laurels and, as our business grows, we continue to refine our processes to manage the risks the PPF faces."

Highlights

- Risk appetites set and refreshed for three operational areas.
- We again achieved important data security accreditation.
- Non-financial risk training rolled out to all staff.

Risk appetite and universe

We have set risk appetites for three main areas: funding, operational and environmental.

In line with the general principles of risk management, we adopt the following cycle: our Board decides on its risk appetite, we identify and assess our main risks, agree how to mitigate and control those risks and establish comprehensive monitoring and reporting.

Our Board's risk appetite statement, which we refresh every year, forms the bedrock of our risk management activity and can be found on our website.

We monitor financial risks at our monthly Asset and Liability Committee and all our other risks are monitored at a monthly Risk Management Committee.

Managing risks to our funding and investment strategies is an important aspect of our risk management activity and throughout the year we have made a number of improvements. See Chapter 9, 'Funding for the future', for more details (page 20).

Best practice

We continue to manage risk effectively in all areas of the PPF. An important element of this is maintaining our ISO 27001 data security accreditation which we secured once more in 2012/13.

Protecting the data we hold on our members is vital to our aims as a provider of quality customer experience and gives members confidence in the PPF.

Risk training

To help embed our risk appetite and raise knowledge of risk management, we continue to develop new non-financial risk training and roll this out to all staff.

14 General information

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

Reviewable matters – 2012/13 levy year

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

During 2012/13, we issued 70 review decisions in response to levy appeals, compared with 99 the previous year. In 36 of these cases, the scheme was found to be levied correctly. In the remaining 34 cases, we agreed with some or all of the scheme's appeal. In 11 cases, the applicants further appealed the review decision to our Reconsideration Committee.

We also issued 21 review decisions in relation to other reviewable matters (primarily individuals' compensation) during 2012/13.

Maladministration complaints

We dealt with 6 formal complaints of maladministration during 2012/13. In one of the cases, our Board found that maladministration had occurred.

Freedom of Information (FoI) requests

During the year, we received 24 FoI requests and we disclosed fully the information requested in 12 cases, partially disclosed in five cases and did not hold the information asked for in three cases.

Other requests were declined because the information was restricted, commercially sensitive or too costly to disclose.

We do not charge for disclosing information. In this way, we comply, as a public sector information holder, with the cost allocation and charging requirements set out in the relevant HM Treasury and Office of Public Sector Information Guidance.

General complaints

During the year, we received 73 PPF complaints, 72 of which we resolved at Stage One and 1 was escalated to Stage Two.

We logged 81 FAS complaint cases, of which 76 were resolved at Stage One and 5 cases were escalated to Stage Two.

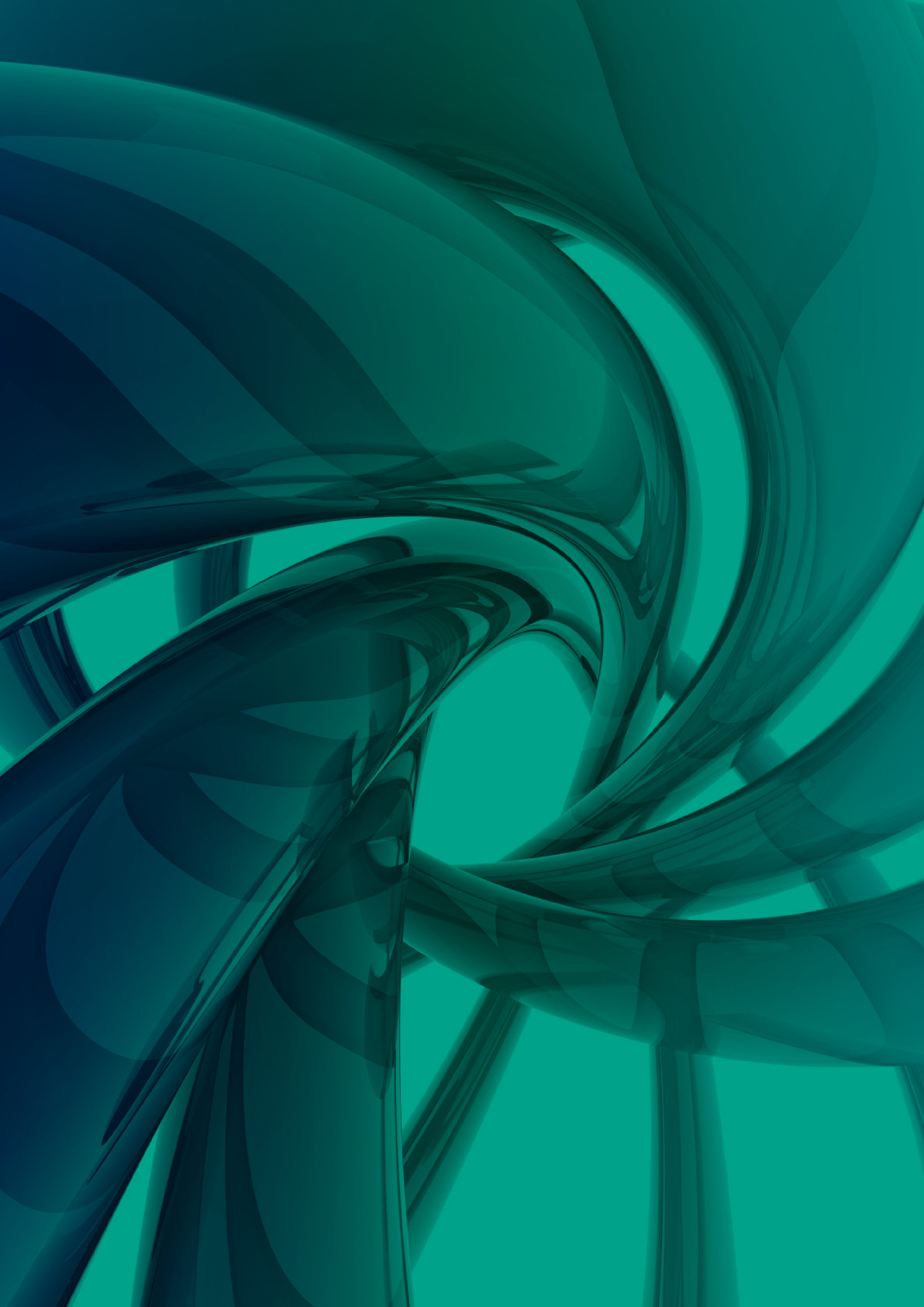
One PPF complainant approached our Stage Three Independent Case Adjudicator (ICA), ICRS, but the complaint was no longer about PPF's service, so the complainant was signposted to another organisation.

One FAS complainant approached the Stage Three independent Case Examiner (ICE), but the complaint was not upheld.

For the PPF, the focus of complaints was around overpayments, time taken to resolve issues and the levy.

For FAS, complaints were mostly about recalculation of benefits, time taken to resolve issues and communicating information about benefits reductions and overpayments.

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



Statutory Reports

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.

Alan Rubenstein
Accounting Officer
14 October 2013

Governance statement

Governance Framework

The Board has eight Non-Executive Members, including the Chairman. A Chief Financial Officer was recruited and joined the Board in January 2013, bringing the total Executive Members, including the Chief Executive, to four.

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 reference to the governance framework is provided in Appendix 1.

Board Performance

The Board appointed an external provider to conduct a full evaluation of the effectiveness of the Board and its committees. This was carried out through a questionnaire completed by each member, followed up by individual meetings of members with the external facilitator and culminating in a report to the Chairman. Recommendations from the report are detailed in Appendix 1.

The Board met seven times in 2012/13 and attended a Board training session. Training was received on LDI and its impact on the PPF.

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 issues during the year which are described more fully in Appendix 3, including:

- reviewing
  - the assumptions used in the long-term risk model, and
  - the funding strategy,
- approving the Strategic Plan 2013 (including the Management Plan 2013/14—2015/16 and Business Plan 2013/14)
- reviewing the effectiveness of the Board and its committees,
- undertaking yearly and half-yearly performance reviews of Executive Directors and recommending bonus payments (Remuneration Committee), and
- conducting a reverse stress test exercise by the Board, which was designed to identify and analyse scenarios in which the PPF may fail to achieve its strategic objectives. The reverse stress test did not identify new risks but highlighted the high level of connection between different categories of risks and different areas of the organisation. It also led to a number of actions to further enhance the risk management framework of the PPF.

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 in central government departments: Code of good practice annually. 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 Audit Committee in February 2012. To adapt to changed provisions in the code, the Board has included individual board member performance and assessment of training and development needs as part of the discussions between each board member and the Chairman following the annual performance evaluation. Changes to encourage Boardroom diversity have also been noted and factored into the Nomination Committee's appointment criteria. The Board meets the provisions of the code where they apply to the PPF.

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

The risk and control environment

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

The Board has determined that the following list represents the most significant sources of risk to the achievement of its objectives:

- funding
- operational and
- environmental.

The Board determines its risk appetite on an annual basis, which is then passed down to risk owners within the PPF who report quarterly about how they are adhering to the risk appetite. The risk appetite can be accessed by clicking on the following link: **http://www.pensionprotectionfund.org.uk/About-Us/Documents/Risk_Appetite_Statement.pdf**

Significant Risks

We have identified the following risks, managed as part of the normal course of our business, which have the potential to impact on our ability to deliver our objectives and may pose a risk to 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 may mean the assessment of the likelihood that we cannot achieve our funding objective by 2030 falls below tolerance
- significant systemic or idiosyncratic risk materialises that may significantly and adversely impact PPF's funding plan
- PPF investment strategy is inappropriate to meet the long-term objectives of the fund which could lead to the return objectives being inadequate to fund compensation over the long term, and
- the PPF operating model is evolving rapidly and failure to manage our significant change portfolio may have an adverse impact on our ability to deliver our objectives.

Further details of our risk and control environment can be found in Appendix 5.

Governance statement continued

Ministerial directions

No directions have been issued.

Personal data related incidents

No material data incidents to disclose.

Review of effectiveness

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

- the assurances I sought and received from other board members and senior staff of the PPF which detailed the work carried out to make sure risk management 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 auditors in their 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, risk management and control. This states "It is our opinion that, and on the assumption that Internal Audit recommendations are implemented, the Pension Protection Fund has a sound framework of control in the areas reviewed which we are satisfied should provide assurance regarding the effective and efficient achievement of the Pension Protection Fund's objectives."

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

Alan Rubenstein
Accounting Officer
14 October 2013

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 four Executive Members, including the Chief Executive.

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:

(a) the duty to keep under review the question whether the Board's internal financial controls secure the proper conduct of its financial affairs

(b) the duty to determine under sub-paragraph (5) (a) of paragraph 12 of Schedule 5, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any Chief Executive appointed under sub-paragraph (4) of that paragraph

(c) the duty to determine under paragraph 13(3)(a) of that Schedule, subject to the approval of the Secretary of State, the terms and conditions as to remuneration of any member of staff who is also to be an executive member of the Board

(d) the duty to determine under paragraph 13(3)(b) of that Schedule, the terms and conditions as to 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 an Audit Committee and Remuneration Committee as the sub-committees of the Non-Executive Committee and Investment, Nomination and Decision Committees 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 **http://www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/TheBoard.aspx** and their activities during the 2012/13 financial year are reported below.

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 Executive reports to the Board through monthly reports on performance against strategic objectives, the Chief Executive's report and other briefings as required. The data included in these reports is reviewed by the Executive Committee prior to circulation. Papers are circulated a week in advance of meetings and feedback on the quality and timeliness of the information provided was sought as part of the review of the Board and Committee's effectiveness carried out in early 2013.

The internal committees established by the Chief Executive, their roles and those of individual postholders are set out in the Authorisations of the Chief Executive document.

The Board effectiveness review was carried out during the year by an external evaluator. Overall the report concluded that the Board of the PPF was very well run, and that the Government should hold up the organisation as an example for others to follow. Recommendations in the report have been addressed.

Governance statement continued

Appendix 2 - Board's performance

Board member details, committee memberships and attendance at Board and Committee meetings are set out below.

Chairman
Lady Judge CBE

Chief Executive
Alan Rubenstein

Executive Members
Martin Clarke
David Heslop
Andy McKinnon (with effect from January 2013)

Non-Executive Members
Dick Barfield
Ann Berresford
John Bevington
Sir Anthony Holland
Sharmila Nebhrajani (with effect from June 2012)
Arnold Wagner OBE (also Senior Independent Director of the Pension Protection Fund)
Baroness Warwick of Undercliffe

All biographies are on the PPF website **www.pensionprotectionfund.org.uk/About-Us/TheBoard/Pages/BoardMembers.aspx**

The following Board member(s) stood down during the year:
None

Governance statement continued

Attendance at Board and Committee meetings during 2012/13

	Board	Remuneration Committee	Audit Committee	Investment Committee	Reconsideration Committee	Nomination Committee	Decision Committee
Lady Judge CBE	7 of 7	3 of 3°	n/a	n/a	n/a	1 of 1****	n/a
Dick Barfield	6 of 7	n/a	4 of 4	4 of 4	1 of 10***	n/a	n/a
Ann Berresford	7 of 7	n/a	4 of 4	n/a	n/a	4 of 5	n/a
John Bevington	6 of 7	3 of 3	n/a	4 of 4	n/a	n/a	1 of 1
Martin Clarke	7 of 7	n/a	4 of 4 °	4 of 4	n/a	n/a	n/a
David Heslop	7 of 7	n/a	3 of 4 °	n/a	n/a	n/a	n/a
Sir Anthony Holland	6 of 7	3 of 3	n /a	n/a	7 of 10***	n/a	n/a
Andy McKinnon*	4 of 7*	n/a	2 of 4 °	n/a	n/a	n/a	n/a
Sharmila Nebhrajani**	6 of 7	n/a	1 of 4	n/a	2 of 10***	n/a	n/a
Alan Rubenstein	7 of 7	3 of 3 °	4 of 4 °	3 of 4	n/a	4 of 5	1 of 1
Arnold Wagner OBE	5 of 7	3 of 3	n/a	n/a	n/a	4 of 5	1 of 1
Baroness Warwick of Undercliffe	6 of 7	n/a	4 of 4	1 of 4°	10 of 10***	n/a	n/a

* Joined the Board in January 2013. Attended first two Board meetings as observer
** Joined the Board in June 2012
*** 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 PPFO (Pension Protection Fund Ombudsman) the panel cannot be formed from the same members as were previously involved.
**** Lady Judge chaired the Appointment Panel to appoint a Non Executive Member of the Board during the year
° Attended meetings as an observer

Board decisions

Board Members approved the risk appetite statement and risk universe.

A number of decisions that fall within the Board's normal cycle of work were also taken. These included: approving the Strategic Plan for 2013 , (made up of the Management Plan 2013/14—2015/16 and Business Plan 2013/14), the Annual Report and Accounts 2011/12 and updated modelling assumptions for the Long-Term Risk Model. The Board also agreed a target levy collection of £630 million for 2013/14, the assumptions for setting the levy parameters and in December 2012, after consultation, the final levy Determination for 2013/14 . Proposals for the assumptions to be used for the PPF valuation for 2013 were also approved.

Governance statement continued

Appendix 3 - Highlights of reports

Audit Committee

The Audit Committee was chaired by Ann Berresford (until 05 February 2013) and is now chaired by Sharmila Nebhrajani. The Committee met four times during the year. The agenda continued to be busy, including monitoring compliance with the Board's risk appetite. Two "deep dive" internal audit reports and two "deep dives" on operational risks and controls (in-sourcing member payments and investment operations) were presented.

As part of its normal cycle of work, the Committee reviewed the risk management policy, the whistleblowing policy, governance statement and the internal audit reports including the Board's corporate governance arrangements. The Committee also approved the Annual Report and Accounts 2011/12, including the actuarial valuation, for recommendation to the Board.

BDO LLP, PPF's internal auditors, continued to provide internal audit service until the 31 March 2013. During the year we undertook a tender process to review our internal audit service and the contract was awarded to Grant Thornton LLP with effect from 1 April 2013.

Committee Members met separately four times with the internal and external auditors.

Remuneration Committee

The Remuneration Committee is chaired by Arnold Wagner OBE. The Committee met three times during the year and

- received a report on Executive coaching programmes
- agreed objectives for Executive Directors in 2012/13 and
- undertook yearly and half-yearly performance reviews of Executive Directors and recommended bonus payments.

Investment Committee

The Investment Committee is chaired by Dick Barfield. The Committee met four times during the year and the Committee agreed a number of key proposals including moving to using a second LDI manager. The Committee received updates on progress establishing the Pensions Infrastructure Platform, the Investment Team Strategic Plan, and participated in a workshop on voting and engagement.

The Committee considered: the long-term investment and risk assumptions and the next steps; the impact of the potential off-balance sheet hedging programme; and, approved the comprehensive framework for managing liquidity risk including repo roll-risk. The Committee approved a panel of eight managers with the ability to access farmland and /or timberland opportunities in a range of markets globally. The Committee also approved a panel of thirteen fixed income managers to enable the PPF to implement the bond portfolio strategy.

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

- considered four investment update reports
- considered four reports from the Investment Advisor
- received four reports summarising the activity of the Asset and Liability Committee
- received two reports on the markets and investment strategy
- reviewed two "deep dive" reports including gilt repo and liquidity risk and credit risk
- received a report on responsible investment
- reviewed the risk and return assumptions
- reviewed the Statement of Investment Principles.

The Board had previously approved the co-option of a specialist member to the Investment Committee for a period of three years to ensure sufficient independent investment knowledge and experience on the Committee.

Governance statement continued

Decision Committee

The Decision Committee is chaired by John Bevington. The Committee met once 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 circumstance of the issue 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.

Reconsideration Committee

The Reconsideration Committee was chaired by Sir Anthony Holland (until 31 July 2013) and is now chaired by Baroness Warwick of Undercliffe. The Committee met on 10 occasions during the year and considered, and issued decisions relating to, 23 cases where levy payers challenged their levy. The Committee also considered seven non-levy review cases relating to compensation payments. The Committee found in favour of applicants in four cases.

On three occasions a differently constituted Committee met with Non-Executive members of the Board who had no prior involvement with the cases. On these occasions the Committee considered four cases which had been remitted back to the Board from the PPFO (Pension Protection Fund Ombudsman).

Nomination Committee

The Nomination Committee met five times during the year. These meetings were chaired by Lady Judge CBE (one meeting) and Alan Rubenstein (four meetings). The Nomination Committee recommended the appointment of Andy McKinnon to the Board as Chief Financial Officer, and he joined the Board on 2 January 2013.

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 guidance set by the Office for the Commissioner of Public Appointments. All other Board appointments are made by the Board on the recommendation of the Nomination Committee. However, the Secretary of State must approve the 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.

Governance statement continued

Appendix 4 - Account of Corporate Governance

As stated, 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 in central government departments: Code of good practice** annually.

The principal areas of compliance are met as follows:

Parliamentary accountability

The Chairman and Chief Executive meet regularly with Ministers and Senior Officials from the Department for Work and Pensions 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 are 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.

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 risk management. The Board operates in accordance with its Board Manual which identifies how meetings should be conducted and individual members also adhere to the code of conduct, guidance on dealing with potential conflicts of interest and 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 Board balance is reviewed through annual Board effectiveness evaluations. These evaluations are conducted internally with periodic facilitation by external consultants.

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 to focus 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.

Risk Management

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

Governance statement continued

Appendix 5 – The risk and control environment

Our system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can, therefore, only provide reasonable, and not absolute, assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board of the PPF's policies, aims and objectives. 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 in the Board of the PPF for the year ending 31 March 2013 and up to the date of signing of these accounts and accords with Treasury guidance.

Internal audit services are provided on an outsourced basis in accordance with "Government Internal Audit Standards". Audits are undertaken in accordance with an internal audit plan approved by the Audit Committee. BDO LLP, PPF's internal auditors continued to provide internal audit service until the 31st March 2013. During the year we undertook a tender process to review our internal audit service and the contract was awarded to Grant Thornton with effect from 1st April 2013

The risk and control environment

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

This is complemented by risk reviews at both a team and process level with identified risks and controls captured in risk registers and monitored regularly.

Risk processes are embedded throughout the organisation and individuals' responsibilities are communicated annually.

During 2012/13, the capacity of the PPF to handle the financial risks associated with the management of a growing and complex balance sheet was enhanced. This has delivered a number of improvements including:

- enhancement of the financial risk policies which provide full coverage of the financial risks facing the PPF
- further development of the risk indicators underlying financial risk management, including enhancement of daily risk/ position data provision
- embedding of independent performance and risk measurement following the establishment of the Risk Practice
- establishment of a "deep dive" framework for risk reviews of third party fund managers and commencement of reviews, and
- deepening of engagement with the risk team at the Pensions Regulator to support off balance sheet risk management.

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.

As an organisation that deals with a lot of data we take this very seriously and operate in accordance with the Security Policy Framework (SPF) and related Data Security guidance issued by HMG. To help achieve this we gained certification to the ISO27001 Information Security standard in 2009, successfully recertified in 2012 and going forward will carry out annual ISO27001 surveillance audits to ensure we maintain compliance with the standard.

Remuneration report

Remuneration and bonuses

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 of up to 20 per cent of their base salary.

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 salary 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 (second)	01 July 2012	30 June 2015
Martin Clarke	Fixed Term Contract (third)	17 May 2013	16 May 2016
David Heslop	Fixed Term Contract (second)	01 July 2012	30 June 2015
Andy McKinnon	Fixed Term Contract (first)	02 January 2013	01 January 2016
John Bevington	Term of office (second)	19 October 2012	18 October 2015
Dick Barfield	Term of office (second)	01 October 2012	30 September 2015
Ann Berresford	Term of office (second)	01 August 2010	31 July 2013
Sir Anthony Holland	Term of office (second)	01 August 2010	31 July 2013
Alan Jenkins	Term of office (first)	07 August 2013	06 August 2016
Tom Joy	Term of office (first)	07 August 2013	06 August 2016
Arnold Wagner OBE	Term of office (first)	04 January 2011	03 January 2014
Baroness Warwick of Undercliffe	Term of office (first)	07 March 2011	06 March 2014
Sharmila Nebhrajani	Term of office (first)	27 June 2012	26 June 2015

Notice periods

The Chief Executive, Executive Director of Financial Risk, Chief Financial Officer and the Chief Operating Officer 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:

Martin Clarke, Congregational & General Insurance plc and the UK Sustainable Investment & Finance Association.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. Further details can be found on the Civil Service website **http://www.civilservice.gov.uk/pensions/**.

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.

Remuneration continued

Salary and pension entitlements (subject to audit - see auditor's report pages 49 - 50)

	Salary (in bands of £5,000)				Pensions				
	Year ending 31 March 2013		Year ending 31 March 2012		Real Increase in pension and related lump sum	Total accrued pension at pension age at 31/3/2013	Cash equivalent transfer vale at 31/3/2013	Cash equivalent transfer vale at 31/3/2012	Real increase in CETV
	Salary £'000	Bonus £'000	Salary £'000	Bonus £'000	£'000	£'000	£'000	£'000	£'000
Lady Judge CBE Chairman	55-60	N/A	55-60	N/A	N/A[1]	N/A	N/A	N/A	N/A
Alan Rubenstein Chief Executive	195-200	35-40[2]	195-200	35-40[2]	0	10-15	205	189	0
Martin Clarke Director of Financial Risk	165-170	20-25[2]	165-170	20-25[2]	N/A[1]	N/A	N/A	N/A	N/A
David Heslop Chief Operating Officer	135-140	25-30[2]	135-140	25-30[2]	0	5-10	122	113	0
Andy McKinnon Chief Financial Officer (from 2 January 2013)	35-40 (Full year equivalent: 150-155)	0-5[2]	N/A	N/A	0.5-1	0.5-1	9	N/A	7
John Bevington Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Christopher Hughes Non-Executive member (until 30 November 2011)	N/A	N/A	10-15 (Full year equivalent: 15-20)	N/A	N/A	N/A	N/A	N/A	N/A
Dick Barfield Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Ann Berresford Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Sir Anthony Holland Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Arnold Wagner OBE Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Baroness Warwick of Undercliffe Non-Executive member	15-20	N/A	15-20	N/A	N/A	N/A	N/A	N/A	N/A
Sharmila Nebhrajani Non-Executive member (from 27 June 2012)	10-15 (Full year equivalent: 15-20)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[1] Neither Lady Judge nor Martin Clarke were members of any employer sponsored pension arrangement during the year.

[2] The bonus values disclosed here relate to the Executive Directors' performance in the 2012/13 year (paid in 2013/14). The bonus values disclosed in the year ended 31 March 2012 relate where applicable to the Executive Directors' performance in 2011/12 (paid in 2012/13). Bonus figures for 2011/12 have been restated due to these being finalised after the publication of last year's accounts. This has subsequently impacted the fair pay note.

Two directors have life insurance cover provided by the PPF as in both cases the individuals reached the maximum lifetime allowance so could no longer contribute to the pension scheme.

Remuneration continued

Salary multiples

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

	2012/13	**2011/12**
Band of highest paid director's total remuneration	£235-240k	£235-240k
Median total remuneration	£50k	£45k
Ratio	**4.8**	**5.3**

The banded remuneration of the highest paid director in the organisation in the financial year 2013 was £235k-240k (2012: £235-240k). This was 4.8 (2012: 5.3) times the median remuneration of the workforce, which was £50k (2012: £45k). The decrease in the ratio is because following a robust re-evaluation and benchmarking of salaries across all job families, some salaries were uplifted by more than in previous years, although many received minimal increases and some did not change.

In 2012/13 and 2011/12 no employees received remuneration in excess of the highest paid director. Remuneration ranged from £16k to £235-240k. (2012: £17k to £235-240k).

Alan Rubenstein
Accounting Officer
14 October 2013

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 decided 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 making this decision:

- 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 (**http://www.pensionprotectionfund.org.uk/levy/aboutlevy/Pages/AbouttheLevy.aspx)** and
- our reserve powers on compensation levels – see (**http://www.pensionprotectionfund.org.uk/Pages/Compensation.aspx**)

Fraud Compensation Fund (FCF)

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
- in addition, we have powers to settle claims in instalments in order to ease any strain on the Fund's cash flow
- during the year, the Board maintained its funding strategy for the FCF which is to build up a small surplus in the

Fund over a number of years by raising a fair and proportionate levy.

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 auditors are aware of that information. As far as I am aware, there is no information that the Board's auditors are unaware of. I also confirm that no remuneration for any work other than the statutory audit has been paid to the auditors.

Alan Rubenstein
Accounting Officer
14 October 2013

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 2013 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 Report that is described in that report as having been audited.

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

As explained more fully in the Statement of Accounting Officer's Responsibilities the Board of the Pension Protection Fund and the Chief Executive, as the Accounting Officer, are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, 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. 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 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 2013 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 the Secretary of State's directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Secretary of State's directions issued under the Pensions Act 2004; and
- the information given in the Annual Report and CFO Review 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 Report 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.

Amyas C E Morse
Comptroller and Auditor General

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

16 October 2013

The Board of the Pension Protection Fund

Chief Financial Officer's Review

In this, my first year as CFO of the Board of the Pension Protection Fund, I have made some changes to how the financial statements are presented. I hope these changes will make the financial statements easier to follow and help readers to better understand the Board's financial position.

There are three main changes to the presentation of the financial statements.

Commentary

Alongside the principal financial statements and notes to the accounts, I have introduced a commentary to highlight and explain important points. These are identified by a shaded background and are not audited by the Comptroller and Auditor General but have been reviewed for consistency.

Accounting policies

Traditionally, accounting policies have been presented in a single note or separate statement. I have moved accounting policies which are specific to individual financial statement items so that they appear with the note disclosures to which they relate.

Note disclosures

I have introduced a number of the notes with a straightforward explanation of the related financial statement items. Many notes now comprise an introductory comment (identified by a shaded background and not subject to audit), a summary of accounting policies (included in a box) and the disclosures.

The report from the Comptroller and Auditor General on pages 49-50 confirms that there are no matters that need to be brought to readers' attention.

The financial position of the PPF at 31 March 2013 is summarised in the funding ratio of 109.6%. The note on contingent liabilities on page 66 highlights the significance of the post-balance sheet claim in respect of the two UK Coal schemes which have been taken into assessment before the date of signing and which have a material effect. The effect of these schemes had they been recognised at 31 March 2013 would have been to reduce the PPF funding ratio to 107.1%.

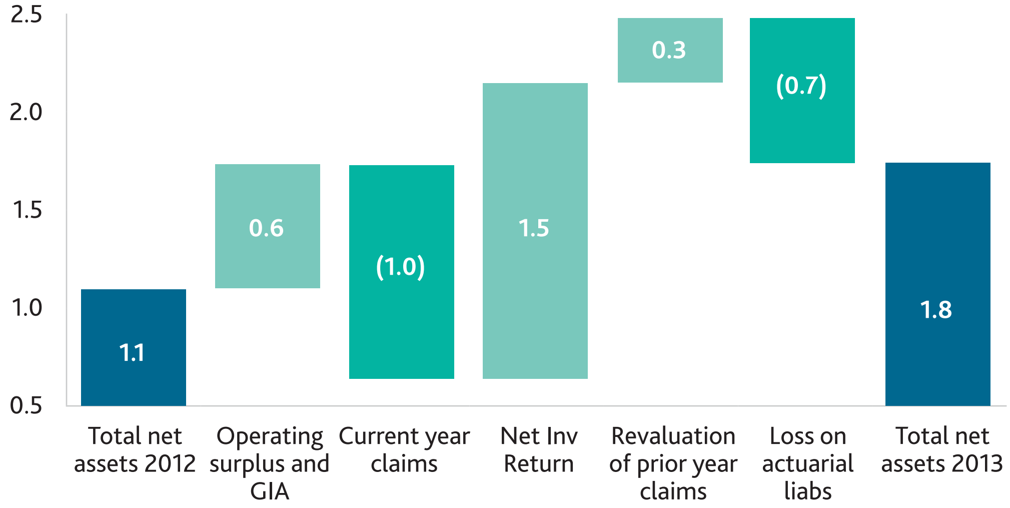
Andy McKinnon
Chief Financial Officer

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 statement of changes in reserves summarise the sources of the change in net assets during the reporting year. These are summarised in the following diagram and further explained in the subsequent commentary.

PPF Net asset position movement 2013 (£bn)



Net operating surplus

This is the retained levy income after covering operating expenses. It excludes the effect of the administration levy which is received via DWP as grant in aid (GIA) and is required to be accounted for within the statement of changes in reserves.

Levy income of £647.7m shown in the consolidated statement of comprehensive net income was 7% higher than the prior year figure of £604.8m. Most of this, £645.6m (2012:£607.3m) is the current year protection levy which was higher than our original published estimate as a result of the significant level of contingent assets not being renewed as well as lower than expected data corrections.

Operating costs include the expenses of administering the Financial Assistance Scheme (FAS) on behalf of DWP which are recoverable as GIA, again shown separately the statement of changes in reserves. Other operating costs (excluding FAS) rose by £4.7m as the operation continued to grow in scale and complexity and after providing for £2.1m of costs related to our planned move into more efficient accommodation in the spring of 2014. Allowing for this one-off item, underlying operating expenses have fallen to £111.47 for each of the 384,851 members of the FAS and PPF schemes or in PPF assessment (2012: £126.56) and as a percentage of year end total assets, PPF costs have dropped to 0.17% (2012: 0.19%).

After operating costs, the net operating surplus of £602.7m was sufficient to cover just 59% of this year's record claims figure of £1,027.9m or 61% after taking into account the GIA (2012: 125% of claims of £471.0m).

Chief Financial Officer's review continued

Net investment return

The net return on investments for the year after investment expenses was £1,490.1m (2012: £1,686.9m). This total comprises mainly the return on the LDI portfolio – designed to match gains and losses on liabilities of the PPF and those of schemes in assessment – and the remainder of the PPF investment assets, which are managed as a diversified growth portfolio as set out in the SIP.

The LDI portfolio returned £798.0m (2012: £1,131.3m) and the growth portfolio exceeded its target of libor + 1.8%, returning a net £692.1m (2012: £555.6m). In total, investment returns exceeded liability movements by enough to cover the high level of claims this year.

Net cost of claims

The net cost of claims was £1,424.0m including PPF claims for the current of £1,027.9m (2012: £471.0m), the loss on actuarial liabilities and movements in the provision for schemes in assessment. The loss on actuarial liabilities was £703.2m (2012: £914.8m), driven by the effect on the PPF liabilities of falling interest rates, other market movements and changes in actuarial assumptions. The net movement in the provision for schemes in assessment was a positive figure of £307.1m, the effect of the same market movements and changes in actuarial assumptions being more than offset by the impact of 37 schemes no longer considered probable for entry into the PPF and more than £300m arising from updated scheme data.

The consolidated statement of financial position

The consolidated statement of financial position sets out the details at 31 March 2013 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 simply to include a provision for the net deficit. However, we include the assets and liabilities in full when calculating the funding ratio.

Net assets, including schemes in assessment (SIA) now stand in excess of £20bn and at 31 March, represented 109.6% (2012: 106.9%) funding of the total liabilities.

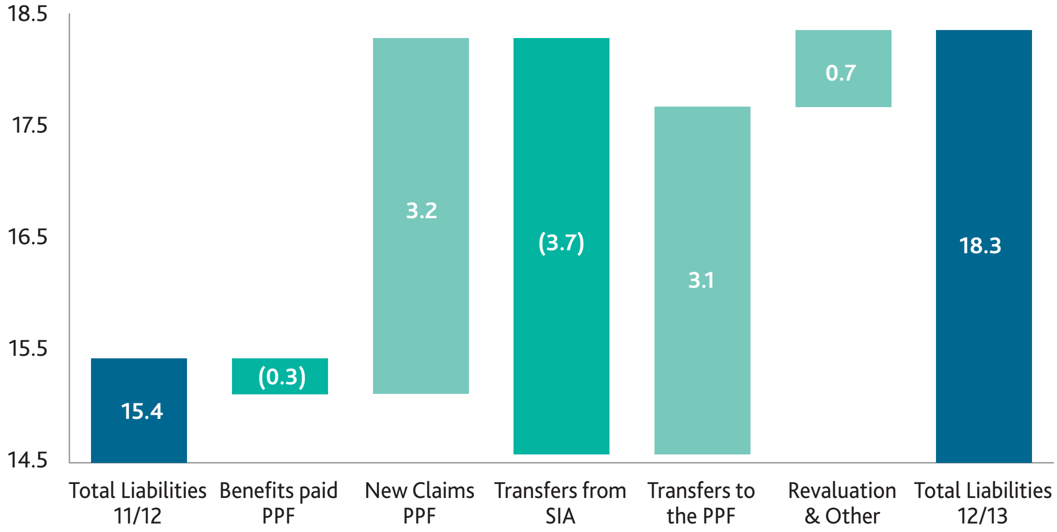
Total net assets at 31 March 2013

	PPF Statement of Financial Position £m	Not separately recorded in the Statement of Financial Position £m	Total £m
Assets and liabilities:			
Total assets	22,170.4	5,019.4	27,189.8
Investment and other financial liabilities	(7,091.5)	-	(7,091.5)
Net assets	**15,078.9**	**5,019.4**	**20,098.3**
Actuarial estimate of liabilities	(11,827.3)	(6,518.5)	(18,345.8)
Total net surplus/(deficit)	**3,251.6**	**(1,499.1)**	**1,752.5**

Chief Financial Officer's review continued

The following graph summarises the movements from £15,444m at the beginning to the closing figure of £18,346m. The Actuarial valuation starting on page 86 gives details of how the liabilities have been calculated.

Movement in Actuarial Liabilities PPF & SIA (Schemes in Assessment) (£bn)



The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF COMPREHENSIVE NET INCOME

For the year ended 31 March

	Notes	2013 £m	2012 £m
Operating income			
Income from levies	3	647.7	604.8
Total operating income		**647.7**	**604.8**
Operating expenses			
Staff costs	11	(20.3)	(16.8)
Other costs	11	(24.7)	(23.0)
Total operating expenses		**(45.0)**	**(39.8)**
Net operating surplus		**602.7**	**565.0**
Investment activities			
Investment income	5	336.7	283.9
Change in fair value of investments	5	1,239.5	1,456.3
Investment expenses	5	(86.1)	(53.3)
Net investment return		**1,490.1**	**1,686.9**
Claims activities			
Current year claims for compensation	2	(1,027.9)	(471.0)
Revaluation of prior year claims for compensation	2	307.1	(496.2)
Losses on actuarial liabilities	1	(703.2)	(914.8)
Net cost of claims		**(1,424.0)**	**(1,882.0)**
Comprehensive net income for the year		**668.8**	**369.9**

The Board has no comprehensive income or expenditure other than the comprehensive net income disclosed above.
The accounting policies and notes on pages 60 to 85 form part of these financial statements.

The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 March

	Notes	2013 £m	2012 £m
Assets			
Operational cash		82.3	42.6
Investment assets	4	21,914.2	17,135.9
Levy receivables		30.7	42.7
Transfer-in receivables		133.2	29.9
Other financial assets		26.3	19.1
Property, plant and equipment	12	0.3	0.7
Intangible assets	12	0.9	0.1
Total assets		**22,187.9**	**17,271.0**
Liabilities			
Investment liabilities	4	(7,056.6)	(6,080.9)
Other financial liabilities		(38.7)	(43.0)
Actuarial liabilities	1	(11,827.3)	(8,373.3)
Claims provisions	2	(1,503.7)	(1,709.2)
Total liabilities		**(20,426.3)**	**(16,206.4)**
Total assets less total liabilities		**1,761.6**	**1,064.6**
Represented by **Total levy and tax payer funds**		**1,761.6**	**1,064.6**

The Board of the PPF approved these accounts on 16 September 2013 and authorised the Accounting Officer to sign this Consolidated Statement of Financial Position on the same date.

Alan Rubenstein
Accounting Officer
14 October 2013

The accounting policies and notes on pages 60 to 85 form part of these financial statements.

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
Balance at 31 March 2011	**672.4**	**(0.5)**	**671.9**
Total recognised net income for 2011-12	377.9	(8.0)	369.9
Grant in aid received in the year	15.3	7.5	22.8
Balance at 31 March 2012	**1,065.6**	**(1.0)**	**1,064.6**
Total recognised net income for 2012-13	677.2	(8.4)	668.8
Grant in aid received in the year	19.0	9.2	28.2
Balance at 31 March 2013	**1,761.8**	**(0.2)**	**1.761.6**

The accounting policies and notes on pages 60 to 85 form part of these financial statements.

The Board of the Pension Protection Fund

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March

	2013 £m	2012 £m
Cash flows from operating activities		
Operating surplus	602.7	565.0
Compensation payments	(331.8)	(203.1)
Assets from schemes transferring into the PPF receivable as cash	535.6	321.8
Items reported in "Investment return" but settled through operating bank accounts	(12.2)	(21.5)
Purchase of intangible assets	(0.9)	-
Purchase of property, plant and equipment	(0.1)	(0.3)
Depreciation, amortisation and impairment charges	0.7	1.0
Movement in current liabilities	(4.3)	26.7
Movement in receivables	(98.5)	66.4
Net cash inflow from operating activities	**691.2**	**756.0**
Cash flows to investing activities		
Cash transfers to investment managers	(1,118.5)	(1,471.8)
Cash transfers from investment managers	438.8	627.8
Net cash outflow to investing activities	**(679.7)**	**(844.0)**
Cash flows from financing activities		
Financing from DWP for PPF activities (levy payer funded)	19.0	15.3
Financing from DWP for FAS activities (tax payer funded)	9.2	7.5
Net inflow from financial activities	**28.2**	**22.8**
Net increase/(decrease) in cash and cash equivalents in the year	**39.7**	**(65.2)**
Cash and cash equivalents at beginning of the year	**42.6**	**107.8**
Cash and cash equivalents at end of the year	**82.3**	**42.6**

The accounting policies and notes on pages 60 to 85 form part of these financial statements.

Statutory Reports

The Board of the Pension Protection Fund

Notes to the financial statements

The notes to the financial statements are presented differently from previous years. To make the financial statements easier to follow, the notes have been regrouped to:

- Summarise the **funds for which the Board of the Pension Protection Fund (the Board) is responsible**
- Summarise **core accounting policies**. Core accounting policies are those that apply to multiple line items and are not attributed to a specific balance or note disclosure. Accounting policies which relate to particular items within the financial statements ("specific accounting policies") have been moved to the relevant note disclosures
- Bring **notes and specific accounting policies** relating to the principal elements of the Board's business together as follows;
  - **Paying compensation (Notes 1 & 2, pages 63 to 66)**
  - **Funding compensation – levy income and investment management (Notes 3 to 5, pages 67 to 74)**
  - **Financial risk management (Notes 6 to 10, pages 75 to 79)**
  - **Operating the business (Notes 11 to 17, pages 80 to 85).**

Funds for which the Board is responsible

The Board is a statutory corporation, sponsored by the Department for Work and Pensions (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.

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 2012/13 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 7 *Financial Instruments: Disclosures*
- IAS 32 *Financial Instruments: Presentation*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Property*.

No new standards or interpretations were implemented during the year.

Standards which are likely to affect future financial statements (all effective for annual periods beginning on or after 1 January 2013 except where noted) include:

- IFRS 9 *Financial Instruments (for annual periods beginning on or after 1 January 2015)*
- IFRS 10 *Consolidated Financial Statements*
- IFRS 12 *Disclosure of interests in other entities*
- IFRS 13 *Fair Value Measurement*

These statements 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.

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

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.

Core accounting policies continued

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) 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 prior year claims'.

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, page 63)
- Claims provisions and contingent liabilities (note 2, page 64)
- Techniques for valuing financial instruments for which there is not a quoted price (note 4, page 70).

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. Value added tax is normally irrecoverable and is recognised as part of the expenditure to which it relates.

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
  - 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 2013 the PPF estimated the value of ***existing liabilities to members to pay compensation at £11,827.3m****. During the year* ***the PPF paid members compensation of £331.8m****. After the actuarial valuation as at March 31 was completed* ***a net charge of £703.2m to the income statement*** *was required to increase estimated liabilities to the amount needed.*

The amount of the PPF's liabilities to pay compensation to members ("actuarial liabilities") is calculated by the Chief Actuary – see the Actuarial valuation report starting on page 86.

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

Accounting policy

The Board recognises the full value of the liabilities of the PPF disclosed in the annual Actuarial valuation of the PPF. 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
- a provision for the cost of eliminating inequalities in Guaranteed Minimum Pensions (GMPs).

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.

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

	2013 £m	2012 £m
Actuarial Liabilities		
Opening value of actuarial liabilities	8,373.3	4,076.1
Actuarial liabilities of schemes which transferred to the PPF during the year	3,082.6	3,585.5
Actuarial losses (see below)	703.2	914.8
Benefits paid to members	(331.8)	(203.1)
Total actuarial liabilities	**11,827.3**	**8,373.3**

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:

	2013 £m	2012 £m
Actuarial Losses		
Effect of passage of time on discounting	123.6	71.5
Change in assumptions	565.3	764.2
Change in experience	(52.0)	(4.0)
Other	2.3	-
Revaluation of current year transfers at 31 March	64.0	83.1
Total actuarial losses	**703.2**	**914.8**

Paying compensation continued

2 – Provisions for claims on the PPF and the FCF

The consolidated statement of financial position shows ***total provisions for £1,503.7m for claims from pension schemes*** *with £1,499.1m being PPF (see page 65) and £4.6m for FCF (see page 66). The consolidated income statement shows* ***net cost of claims valued at £1,424.0m*** *but also showed a benefit in net* ***reductions to the values of claims recorded in previous years of £307.1m*** *with £298.2m being PPF (see page 65), and £8.9m for FCF (see page 66).*

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 claims reported at the end of the previous year.

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 is likely to 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 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 88 for the PPF).

Claims on the PPF

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

Paying compensation continued

Claims on the PPF

	Number of schemes	2013 £m	Number of schemes	2012 £m
Claims provisions at start of year	**256**	**1,695.7**	**322**	**1,846.4**
Current year claims for compensation				
Protected liabilities		3,121.8		1,913.6
Scheme assets including recoveries		(2,093.9)		(1,442.6)
Total current year claims for compensation	**114**	**1,027.9**	**116**	**471.0**
Revaluation of prior year claims for compensation				
Release of provision for schemes no longer considered probable for entry	**(37)**	(123.6)	**(35)**	(72.1)
Revaluation of provisions brought forward from previous year end		(92.5)		483.6
Change in provisions for schemes transferring into the Protection Fund during the year		(82.1)		84.0
Revaluation of prior year claims		**(298.2)**		**495.5**
Release of provisions for claims transferred to the PPF	**(142)**	**(926.3)**	**(147)**	**(1,117.2)**
Claims provisions at end of year	**191**	**1,499.1**	**256**	**1,695.7**

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

	2013 £m	2012 £m
Total estimated actuarial liabilities for schemes in assessment	(6,518.5)	(7,069.3)
Total assets owned by schemes in assessment	5,019.4	5,373.6
Total net deficits of schemes in assessment	**(1,499.1)**	**(1,695.7)**

Current year claims for compensation on the PPF

Current year claims totalled £1,027.9m (2012: £471.0m) in respect of 114 (2012: 116) schemes. Provisions were made for 108 new schemes (or individual sections of schemes) (2012: 100 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 6 schemes (2012: 16 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 guaranteed minimum pensions (GMP) and expenses. The Actuary's Supplementary Report, in particular Annex S6, gives further information on these provisions.

Revaluation of prior year claims for compensation on the PPF

In the PPF, of the 256 (2012: 322) schemes for which provisions were made as at the end of the previous year:

- 133 (2012: 131) schemes were transferred into the PPF during the year
- 37 (2012: 35) schemes' provisions have been released because the Board no longer considers it probable that the schemes will eventually transfer to the PPF
- The remaining 86 schemes, or scheme sections, (2012: 156) are judged likely to enter the PPF. The associated provisions have been retained and revalued.

Release of provisions for claims transferred to the PPF

During the year 142 schemes (2012: 147) transferred into the PPF. Provisions had been created as at 31 March 2012 in respect of 133 of these schemes (2012: 131). A further 9 schemes (2012: 16) completed the assessment process during the year and transferred into the PPF, including 4 (2012: 5) which entered assessment during 2011/12.

Paying compensation continued

Contingent liabilities for possible claims on the PPF

The total value of possible future claims on the PPF at 31 March 2013, net of the value of related scheme assets, was estimated as £2,676.4m (2012: £1,968.9m). Further analysis is given in Annex S6 of the Actuarial valuation.

Following an insolvency event involving UK Coal on 9 July 2013, the Board expect that the associated pension schemes, namely the UK Coal Operations Limited sections of the Industry Wide Mineworkers' Pension Scheme and of the Industry Wide Coal Staff Superannuation Scheme, will enter the PPF. The impact on the funding ratio is estimated to be no more than 2.5pts.

Claims on the FCF

Claims provisions, current year claims for compensation, the revaluation of prior year claims for compensation and the total estimate of contingent liabilities relating to the FCF are summarised below. There were no new claims and one claim was settled. Provisions to settle outstanding claims were reduced because of the success of an independent trustee's asset recovery activities.

	Number of schemes	2013 £m	Number of schemes	2012 £m
Claims provisions at start of year	**8**	**13.5**	6	12.8
Current year claims for compensation				
New claims - FCF	-	-	3	-
Claims paid - FCF	(1)	-	(1)	-
Total current year claims for compensation	**(1)**	**-**	**2**	**-**
Revaluation of prior year claims for compensation		(8.9)		0.7
Claims provisions at end of year	**7**	**4.6**	**8**	**13.5**

Contingent liabilities for possible claims on the FCF

The total value of possible future claims on the FCF at 31 March 2013 was estimated at £1.1m relating to 5 schemes (2012: £2.1m relating to 3 schemes).

Funding compensation – levy income and investment management

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

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
- **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 Statement of Investment Principles (SIP).

3 - Income from levies

*The consolidated statement of comprehensive net income shows that **total levy income rose by £42.9m to £647.7m, £644.1m for the PPF itself and £3.6m for the FCF**. The PPF levy was £97.7m more than the estimate of £550m mainly because under the risk-based levy assessment process risk turned out to be higher than had been assumed – the levels of certified deficit reduction contributions and contingent assets were lower than had been assumed in the estimate.*

*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/invoicing/Pages/invoicing.aspx**.*

Accounting policy

Protection levy and fraud compensation levy income is recognised on an accrual basis. As required by the FReM, DWP grant-in-aid, 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 raised a Fraud Compensation Levy in 2012/13, at the rate of 25p per eligible pension scheme member. The levy is collected by the Pensions Regulator on the Board's behalf.

Funding compensation – levy income and investment management continued

Levy income is summarised as follows

	2013 £m	2012 £m
Risk-based levies in respect of the current year	573.8	489.0
Scheme-based levies in respect of the current year	71.8	118.3
Total protection levies in respect of the current year	**645.6**	**607.3**
Risk-based levies in respect of prior years	(3.4)	(9.0)
Scheme-based levies in respect of prior years	1.9	2.8
Total protection levies in respect of prior years	**(1.5)**	**(6.2)**
Income from protection levies	**644.1**	**601.1**
Income from fraud compensation levy	**3.6**	**3.7**
Total income from levies	**647.7**	**604.8**

Contingent liabilities relating to levy protection income

Some levy income amounts invoiced and paid over a number of years remain subject to the possibility of legal action concerning scheme eligibility. The Board considers, having taken legal advice, these amounts have been fairly invoiced and recognised as income, but it remains possible that the outcome of legal action could be that one or more of these amounts will be written off and money refunded. The total of these amounts is £70.8 million (2012: £52.0 million).

The above figures exclude DWP grant in aid funding which is included in movement in reserve. The consolidated statement of changes in reserves shows that the PPF also received administration levy funding through DWP grant in aid of £19.0m.

Funding compensation – levy income and investment management continued

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 £21,914.2m and investment liabilities of £7,056.6m, a net investment portfolio of £14,857.6m**. The consolidated statement of net income shows **a net investment return (income and gains less investment expenses) of £1,490.1m**.*

The Board's approach to investment is summarised in the Statement of Investment Principles (SIP) (**www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_November_2012.pdf**) which summarises investment management governance, objectives, risk management, strategy, fund management and custody. FCF has its own SIP. The day to day fund management of the assets is performed by external fund managers.

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 transactions and derivatives (principally interest rate and inflation swaps). The 'Funding for the future' section (page 20) comments on the PPF's investment performance.

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

	2012 £m	Assets transferred from Schemes in Assessment £m	Net purchases / (sales) £m	Net gains/ (losses) £m	2013 £m
Investment assets					
Debt instruments	10,697.7	-	2,629.7	639.4	13,966.8
Money Market funds	649.6	-	271.8	14.9	936.3
Equity	880.8	-	138.1	211.4	1,230.3
Securities funds	1,591.5	1,537.2	(1,870.8)	100.3	1,358.2
Private equity funds	227.1	1.4	35.9	54.5	318.9
Infrastructure funds	33.4	1.9	19.2	4.8	59.3
Investment property funds	546.8	8.5	71.7	5.4	632.4
Investment property held directly	-	-	46.1	(1.4)	44.7
Insurance policies	195.4	63.0	-	(7.1)	251.3
Other financial assets	4.4	6.4	-	(2.4)	8.4
	14,826.7	**1,618.4**	**1,341.7**	**1,019.8**	**18,806.6**
Other investment assets	2,309.2				3,107.6
Total investment assets	**17,135.9**				**21,914.2**
Total investment liabilities	(6,080.9)				(7,056.6)
Net investment portfolio	**11,055.0**				**14,857.6**

Net gains/(losses) include fund manager fees settled through disinvestment

Other investment assets and investment liabilities comprise:

	2013 £m	2012 £m
Other investment assets		
Foreign exchange contracts	11.0	80.2
Other derivative financial instruments	2,597.5	1,890.2
Investment income receivable	89.6	82.9
Amounts receivable from investments sold	168.3	245.9
Cash at fund managers	241.2	10.0
Total other investment assets	**3,107.6**	**2,309.2**
Investment liabilities		
Repurchase agreements	(4,277.6)	(3,753.8)
Amounts payable for investments purchases	(380.1)	(517.7)
Derivative financial instruments	(2,398.9)	(1,809.4)
Total investment liabilities	**(7,056.6)**	**(6,080.9)**

Funding compensation – levy income and investment management continued

	2013 £m	2012 £m
Debt instruments form the main element of our portfolio and consist of		
UK Government securities	8,908.2	6,338.2
Other government securities	2,894.6	2,426.6
Total government securities	**11,802.8**	**8,764.8**
UK corporate debt	173.4	198.7
Other corporate debt	770.2	844.9
Other debt instruments	1,220.4	889.3
Total debt instruments	**13,966.8**	**10,697.7**

UK Government securities include £4,277.6m (2012: £3,753.8m) sold under agreements to repurchase. Other debt instruments include mortgage-backed securities, alternative credit instruments, asset-backed securities and senior loans (introduced during the year).

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

Financial instruments

Investment assets are all financial instruments except for investment property held directly.

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 amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

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.

Statutory Reports

Funding compensation – levy income and investment management continued

Financial instruments measured at fair value

The following table analyses the financial instruments in accordance with IFRS 7 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
- 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. The 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. During 2013/14 the valuation of collateralised interest rate swaps is likely to follow developing market practice for standard valuation of collateral based on the increasing use of Credit Support Annex agreements.

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.

	Level 1 £m	Level 2 £m	Level 3 £m	2013 £m
Financial instruments measured at fair value				
Debt instruments	495.5	13,413.4	57.9	13,966.8
Money market funds	936.3	-	-	936.3
Equity	1,230.3	-	-	1,230.3
Securities funds	-	1,358.2	-	1,358.2
Private equity funds	-	-	318.9	318.9
Infrastructure funds	-	-	59.3	59.3
Investment property funds	-	632.4	-	632.4
Investment property held directly	-	44.7	-	44.7
Insurance policies	-	-	251.3	251.3
Other financial assets	-	-	8.4	8.4
Foreign exchange contracts	11.0	-	-	11.0
Other derivative financial assets	-	2,597.5	-	2,597.5
Investment income receivable	89.6	-	-	89.6
Amounts receivable from investments sold	168.3	-	-	168.3
Cash at fund managers	241.2	-	-	241.2
Repurchase agreements	-	(4,277.6)	-	(4,277.6)
Amounts payable for investments purchased	(380.1)	-	-	(380.1)
Derivative financial liabilities	-	(2,398.9)	-	(2,398.9)
Total	**2,792.1**	**11,369.7**	**695.8**	**14,857.6**

Funding compensation – levy income and investment management continued

	Level 1 £m	Level 2 £m	Level 3 £m	2012 £m
Financial instruments measured at fair value				
Debt instruments	622.4	10,047.4	27.9	10,697.7
Money market funds	649.6	-	-	649.6
Equity	880.8	-	-	880.8
Securities funds	-	1,591.5	-	1,591.5
Private equity funds	-	-	227.1	227.1
Infrastructure funds	-	-	33.4	33.4
Investment property funds	-	546.8	-	546.8
Insurance policies	-	-	195.4	195.4
Other financial assets	-	-	4.4	4.4
Foreign exchange contracts	80.2	-	-	80.2
Derivative financial assets	-	1,890.2	-	1,890.2
Investment income receivable	82.9	-	-	82.9
Amounts receivable from investments sold	245.9	-	-	245.9
Cash at fund managers	10.0	-	-	10.0
Repurchase agreements	-	(3,753.8)	-	(3,753.8)
Amounts payable for investments purchased	(517.7)	-	-	(517.7)
Derivative financial liabilities	-	(1,809.4)	-	(1,809.4)
Total	**2,054.1**	**8,512.7**	**488.2**	**11,055.0**

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

	2013 £m	2012 £m
Financial assets		
Opening balance as at 1 April	**488.2**	**851.9**
Gains (losses) in the statement of comprehensive net income	45.0	5.3
Purchases and assets transferred in	176.0	253.8
Sales	(5.8)	(111.8)
Transfers out of Level 3	(7.6)	(511.0)
Closing balance as at 31 March	**695.8**	**488.2**

Investment property held directly

The PPF invested directly in investment property for the first time during the year. Investment property does not include the office accommodation occupied by the Board.

Accounting policies

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 it arises.

At 31 March 2013 the Board owned 5 commercial properties in the UK, with a total fair value of £44.7m.

Rental income recognised was £0.7m. Direct operating expenses were not material. There were no restrictions on the realisability of property, income or disposal proceeds. At 31 March 2013 the PPF had exchanged contracts to buy investment properties for £10.2m (2012: nil) subject to approval by the local council.

Funding compensation – levy income and investment management continued

5 - Investment return

Accounting policies

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

- Interest income arising from cash deposits, fixed interest securities and similar investments is accounted for using the effective interest rate method
- 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
- 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 accrual basis.

	Net investment income 2013 £m	Change in fair value of investment 2013 £m	Total 2013 £m
Financial assets designated at fair value through profit and loss			
Debt instruments	344.6	656.9	1,001.5
Money market funds	2.7	18.6	21.3
Equity	18.0	211.4	229.4
Securities funds	-	111.1	111.1
Private equity funds	-	62.3	62.3
Infrastructure funds	-	7.7	7.7
Investment property funds	22.1	3.4	25.5
Investment property held directly	0.7	(2.5)	(1.8)
Insurance policies	16.3	(4.5)	11.8
Foreign exchange contracts	-	(136.0)	(136.0)
Interest payable	(19.2)	-	(19.2)
Net gain from financial assets designated at fair value through profit and loss	**385.2**	**928.4**	**1,313.6**
Financial assets not designated at fair value through profit and loss			
Deposit interest	0.6	-	0.6
Other investment expense	(49.1)	-	(49.1)
Net (loss) from financial assets not designated at fair value through profit and loss	**(48.5)**	**-**	**(48.5)**
Held for trading			
Derivative financial instruments	-	314.6	314.6
Loans and receivables			
Other investment assets	-	(3.5)	(3.5)
Total investment return	**336.7**	**1,239.5**	**1,576.2**
Total investment expenses			
Fund management fees			(78.8)
Custody charges			(1.1)
Transactions cost			(6.2)
Total investment expenses			**(86.1)**
Net investment return			**1,490.1**

Funding compensation – levy income and investment management continued

	Net investment income 2012 £m	Change in fair value of investment 2012 £m	Total 2012 £m
Financial assets designated at fair value through profit and loss			
Debt instruments	317.2	994.8	1,312.0
Money market funds	-	0.4	0.4
Equity	12.1	34.6	46.7
Securities funds	-	37.4	37.4
Private equity funds	-	31.1	31.1
Infrastructure funds	-	0.3	0.3
Investment property funds	15.5	18.2	33.7
Investment property held directly	-	-	-
Insurance policies	12.0	8.1	20.1
Foreign exchange contracts	-	67.0	67.0
Interest payable	(23.1)	-	(23.1)
Net gain from financial assets designated at fair value through profit and loss	**333.7**	**1,191.9**	**1,525.6**
Financial assets not designated at fair value through profit and loss			
Deposit interest	0.6	-	0.6
Other investment expense	(50.4)	-	(50.4)
Net (loss) from financial assets not designated at fair value through profit and loss	**(49.8)**	**-**	**(49.8)**
Held for trading			
Derivative financial instruments	-	258.2	258.2
Loans and receivables			
Other investment assets	-	6.2	6.2
Total investment return	**283.9**	**1,456.3**	**1,740.2**
Total investment expenses			
Fund management fees			(47.8)
Custody charges			(0.7)
Transactions cost			(4.8)
Total investment expenses			**(53.3)**
Net investment return			**1,686.9**

Statutory Reports

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 Statement of Investment Principles (SIP) (**www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/SIP_November_2012.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 Financial Instruments: Disclosures :

- **PPF credit risk** (referred to in the SIP as counterparty risk) – note 6, page 75
- **PPF liquidity risk** – note 7, page 76
- **PPF market risk** (which includes SIP valuation risk and currency risk) – note 8, page 77

These disclosures are followed by notes on:

- **FCF financial risks** – note 9, page 79
- **Administration Fund financial risks** – note 10, page 79

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 sovereign, corporate and other debt instruments (further analysis is given in note 4). 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- and are subject to overall exposure limits
- A range of limits applies 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
- Collateral is taken under the terms of the relevant ISDA Master Agreement.

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

Financial assets exposed to credit risk were:

	2013 £m	2012 £m
Debt instruments	13,966.8	10,697.7
Insurance policies	251.3	195.4
Derivative financial assets	2,597.5	1,890.2
Amounts receivable from investments sold	168.3	245.9
Cash at fund managers	241.2	10.0
Investment income receivable	89.6	82.9
Operational cash	81.4	30.7
Levy receivables	30.7	42.7
Transfer-in receivables	133.2	29.9
Other receivables	2.5	1.5
Total	**17,562.5**	**13,226.9**

Past due levy receivables 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.

	Up to 3 months past due	3-6 months past due	Over 6 months past due	Total £m
2013	**0.1**	**0.3**	**30.3**	**30.7**
2012	**-**	**7.6**	**33.4**	**41.0**

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 when they fall due
- pay compensation to members
- pay for staff and other operating costs
- meet investment commitments to fund managers, for example, capital calls on private equity and infrastructure investments, and purchases of investment property.

Cash requirements and operational cash balances are regularly forecast. Significant amounts of financial instruments could readily be liquidated should the need arise.

Financial liabilities

Financial liabilities are all due within one year, except for derivatives financial instruments, as follows:

	Within 1 year £m	1-5 years £m	5-10 years £m	Over 10 years £m	Total £m
2013	223.8	29.9	106.0	2,039.2	2,398.9
2012	222.0	75.0	46.4	1,466.0	1,809.4

Paying compensation to members

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 £331.8m (2012: £203.1m).

Collateral arrangements

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

	2013 £m	2012 £m
UK Government securities subject to sale and repurchase agreements	4,277.6	3,753.8
Securities lent to market counterparties	21.5	103.0
Total assets subject to collateral and similar arrangements with counterparties	**4,299.1**	**3,856.8**
Collateral received from counterparties	25.3	132.1
Total assets subject to collateral and similar arrangements from counterparties	**25.3**	**132.1**

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

	2013	2012
Denominated in US Dollars	**$1,198.5m**	**$855.0m**
Denominated in Euros	**€97 .6m**	**€112.0m**

At 31 March 2013 the PPF had exchanged contracts to buy investment properties for £10.2m (2012:nil) subject to approval by the local council.

Statutory Reports

Financial risk management continued

8 - PPF market risk

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

Overall exposure to market risk is managed and illustrated in a number of ways. Annex S5 of the 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.

The PPF estimates 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/1213_Investment_%20Risk_Guidance.pdf). Investment risk is monitored by reference to the impact of stress scenarios on assets and liabilities. Data on market movements and asset allocations is used to test the sensitivity of funding ratios across the PPF universe to changes in these factors. The asset and risk factor stresses applied reflect an immediate one standard deviation fall in funding (or asset value) calibrated over a one year period.

As at 31 March 2013, an immediate combination of the circumstances reflected in this scenario would result in an increase in assets of £1.7 bn (2012: £1.7 bn) and an increase in liabilities of £2.4 bn (2012: £2.4 bn), a net negative impact on the statement of financial position of £0.7 bn (2012: negative £0.7 bn).

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.

	2013 £m	Actual %	Tolerance range
Asset Class			
Global bonds	4,649.5		
UK bonds and cash	2,821.1		
Cash and bonds	**7,470.6**	**67.6%**	**65%-85%**
Public equity	1,244.8	11.3%	5%-20%
Alternatives (including property)	2,340.3	21.1%	10%-25%
Total assets allocated per SIP	**11,055.7**	**100%**	**-**

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 but exclude assets and liabilities held solely for hedging purposes.

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 interest rates, which is taken into account in setting the PPF's strategic asset allocation. The Board mitigates interest rate risk by using derivatives and repurchase agreements to closely match the sensitivities of liabilities to interest rates.

At the reporting date, PPF financial instruments exposed to interest rate risk were:

	Fixed rate 2013 £m	Variable rate 2013 £m	Non-interest bearing 2013 £m	2013 £m
Debt instruments	13,052.3	914.5	-	13,966.8
Money market funds	-	-	936.3	936.3
Equity	-	-	1,230.3	1,230.3
Securities funds	244.5	973.1	140.6	1,358.2
Private equity funds	-	-	318.9	318.9
Infrastructure funds	-	-	59.3	59.3
Investment property funds	-	-	632.4	632.4
Investment property held directly	-	-	44.7	44.7
Insurance policies	-	-	251.3	251.3
Other financial assets	8.4	-	-	8.4
Foreign exchange contracts	-	-	11.0	11.0
Derivative financial assets	-	2,597.5	-	2,597.5
Investment income receivable	-	-	89.6	89.6
Amounts receivable from investments sold	-	-	168.3	168.3
Cash at fund managers	-	241.2	-	241.2
Repurchase agreements	(4,277.6)	-	-	(4,277.6)
Amounts payable for investments purchased	-	-	(380.1)	(380.1)
Derivative financial liabilities	-	(2,398.9)	-	(2,398.9)
Total	**9,027.6**	**2,327.4**	**3,502.6**	**14,857.6**

	Fixed rate 2012 £m	Variable rate 2012 £m	Non-interest bearing 2012 £m	2012 £m
Debt instruments	9,682.3	1,015.4	-	10,697.7
Money market funds	-	-	649.6	649.6
Equity	-	-	880.8	880.8
Securities funds	1,246.3	345.2	-	1,591.5
Private equity funds	-	-	227.1	227.1
Infrastructure funds	-	-	33.4	33.4
Investment property funds	-	-	546.8	546.8
Insurance policies	-	-	195.4	195.4
Other financial assets	4.4	-	-	4.4
Foreign exchange contracts	-	-	80.2	80.2
Derivative financial assets	-	1,890.2	-	1,890.2
Investment income receivable	-	-	82.9	82.9
Amounts receivable from investments sold	-	-	245.9	245.9
Cash at fund managers	-	10.0	-	10.0
Repurchase agreements	(3,753.8)	-	-	(3,753.8)
Amounts payable for investments purchased	-	-	(517.7)	(517.7)
Derivative financial liabilities	-	(1,809.4)	-	(1,809.4)
Total	**7,179.2**	**1,451.4**	**2,424.4**	**11,055.0**

Debit instruments amounting to £1,015m have been reclassified from fixed rate to variable rate in 2012.

Financial risk management continued

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 un-hedged foreign currency exposure is as follows:

	2013 £m	2013 %	2012 £m	2012 %
Asset Class				
Euro	125.4	10.4%	141.6	11.3%
US Dollar	464.0	38.7%	897.6	71.3%
Other currencies	611.4	50.9%	219.2	17.4%
Total	**1,200.8**	**100.0%**	**1,258.4**	**100.0%**

9 - FCF financial risks

The FCF has some £15.1m of money market funds, and provisions valued at £4.6m. The Board's policy is to build up a small surplus in the Fund by raising levies over a number of years. The FCF remains at risk of a large and urgent claim, but this is considered unlikely and the Board does not consider it proportionate to build up a large surplus at the expense of levy payers.

Credit risk – The FCF's funds are principally 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, the time required to assess new claims would allow the FCF to 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 Fund financial risks

Because of the non-trading nature of the Board of the Pension Protection Fund's administration activities and the way it is financed, the Board is not exposed in this area to the degree of financial risk faced by business entities.

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 costs rose by £5.2m to £45.0m. Staff and recruitment costs rose by £3.5m to £20.3m as staff numbers increased to resource major projects and develop control and management functions, and in response to staff turnover. Increased member numbers increased the external cost of running payroll services by £0.2m to £2.9m. The increasing volume and complexity of member service and investment management have required additional information and processing systems increasing the cost by £1.0m to £2.9m. The cost of legal and professional advisory services has increased by £2.7m to £12.1m, particularly on systems development and procurement and investment management. Accommodation costs include a provision of £2.1m for future costs under existing premises lease contracts which will not yield future benefits.

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 costs are summarised as follows:

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2013 £m
Staff Costs				
Wages and salaries	3.5	6.2	2.6	12.3
Social security costs	0.4	0.6	0.2	1.2
Other pension costs	0.7	1.1	0.4	2.2
Contractors and secondees	0.8	3.3	0.5	4.6
Total staff costs	**5.4**	**11.2**	**3.7**	**20.3**
Other Costs				
Member administration costs	1.3	0.9	0.7	2.9
Staff related and recruitment	0.3	1.1	0.1	1.5
Advisory and other professional services	7.1	2.3	2.7	12.1
Statutory audit costs	-	0.1	-	0.1
Accommodation and general office	2.1	1.6	0.8	4.5
IT and telephony	1.4	1.2	0.3	2.9
Depreciation and amortisation charges	-	0.5	0.2	0.7
Write off receivables	-	-	-	-
Total other operating expenses	**12.2**	**7.7**	**4.8**	**24.7**
Total operating expenses	**17.6**	**18.9**	**8.5**	**45.0**

Statutory audit costs were £130,000 (2012: £130,000).

Operating the business continued

	Pension Protection Fund £m	PPF Administration Fund £m	FAS Administration Fund £m	2012 £m
Staff Costs				
Wages and salaries	2.2	6.6	2.2	11.0
Social security costs	0.2	0.6	0.2	1.0
Other pension costs	0.5	1.3	0.4	2.2
Contractors and secondees	0.1	1.9	0.6	2.6
Total staff costs	**3.0**	**10.4**	**3.4**	**16.8**
Other Costs				
Member administration costs	1.2	-	1.5	2.7
Staff related and recruitment	0.1	0.8	0.1	1.0
Advisory and other professional services	5.8	2.0	1.6	9.4
Statutory audit costs	-	0.1	-	0.1
Accommodation and general office	-	1.3	0.7	2.0
IT and telephony	0.4	1.1	0.4	1.9
Depreciation and amortisation charges	-	0.8	0.3	1.1
Write off of receivables	4.8	-	-	4.8
Total other expenses	**12.3**	**6.1**	**4.6**	**23.0**
Total Operating expenses	**15.3**	**16.5**	**8.0**	**39.8**

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

	2013	2012
Permanent employees	227	194
Short term contracts, seconded and temporary staff	35	49
FAS Operating Unit staff	-	13
Total staff	**262**	**256**

The FAS Operating Unit was closed during 2011/12.

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 but the Board is unable to identify its share of the underlying assets and liabilities. Defined benefit contributions are therefore accounted for by the Board as if they were contributions to a defined contribution scheme. A full actuarial valuation of PCSPS was carried out as at 31 March 2010 and details can be found in the Cabinet Office: Civil Superannuation Resource Accounts (**www.civilservice.gov.uk/pensions**).

During the year to 31 March 2013, employer contributions of £2.2m (2012: £2.1m) were payable to the defined benefit section of the PCSPS at one of four rates in the range 16.7% to 25.8% (2012: 16.7% to 25.8%). 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 £47k (2012: £10k) 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% of pensionable pay, and employers also match employee contributions up to three per cent of pensionable pay. In addition, employer contributions were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees. Accrued pension contributions at 31 March 2013 were £190k (2012: £169k) and were paid in April 2013.

Operating the business continued

Staff exit packages

As required by the FReM, exit package payments made 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	2013	2012	2013	2012	2013	2012
< £10,000	-	-	1	-	1	-
£15,000 - £20,000	-	-	1	-	1	-
£25,000 - £50,000	-	1	1	-	1	1
£50,000 - £100,000	-	-	1	-	1	-
Total number of exit packages	**-**	**1**	**4**	**-**	**4**	**1**
Total cost	**-**	**£29,087**	**£160,833**	**-**	**£160,833**	**£29,087**

12 - Property, plant and equipment and intangible assets

The PPF's property, plant and equipment comprise information technology hardware and furniture. Intangible assets are mainly the value of internally developed software.

Accounting policies

Property, plant and equipment: Information technology hardware, plant and machinery, 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. Software maintenance costs are written off as incurred.

Depreciation and amortisation: Depreciation is provided at rates calculated to write down the cost (less any estimated residual value) of each asset straight line over its expected useful life. Leasehold improvements have a useful life of 5 years and all other assets have 3 years.

	Information Technology £m	Furniture & Fittings £m	Payment on account & assets under construction £m	Total property, plant and equipment £m	Intangible assets £m
Cost					
At 1 April 2012	**4.5**	**1.0**	**0.3**	**5.8**	**3.4**
Additions in the year	-	-	1.0	1.0	0.1
Disposals in the year	-	-	-	-	-
Assets brought into use	0.3	-	(1.2)	(0.9)	0.9
At 31 March 2013	**4.8**	**1.0**	**0.1**	**5.9**	**4.4**
Depreciation					
At 1 April 2012	**(4.3)**	**(0.8)**	**-**	**(5.1)**	**(3.3)**
Depreciation and amortisation charged in the year	(0.4)	(0.1)	-	(0.5)	(0.2)
Disposals in the year	-	-	-	-	-
At 31 March 2013	**(4.7)**	**(0.9)**	**-**	**(5.6)**	**(3.5)**
Net book value at 31 March 2013	**0.1**	**0.1**	**0.1**	**0.3**	**0.9**

Operating the business continued

	Information Technology £m	Furniture & Fittings £m	Payment on account & assets under construction £m	Total property, plant and equipment £m	Intangible assets £m
Cost					
At 1 April 2011	**4.5**	**1.0**	**0.1**	**5.6**	**3.4**
Additions in the year	-	-	0.3	0.3	-
Disposals in the year	(0.1)	-	-	(0.1)	-
Assets brought into use	0.1	-	(0.1)	-	-
At 31 March 2012	**4.5**	**1.0**	**0.3**	**5.8**	**3.4**
Depreciation					
At 1 April 2011	**(4.0)**	**(0.6)**	**-**	**(4.6)**	**(2.9)**
Depreciation and amortisation charged in the year	(0.4)	(0.2)	-	(0.6)	(0.4)
Disposals in the year	0.1	-	-	0.1	-
At 31 March 2012	**(4.3)**	**(0.8)**	**-**	**(5.1)**	**(3.3)**
Net book value at 31 March 2012	**0.2**	**0.2**	**0.3**	**0.7**	**0.1**

13 - Operating lease commitments

The Board occupies premises under a number of Memoranda of Terms of Occupancy (MOTO) with DWP under which a bundled facilities price comprising rent, rates and property service charges is payable to DWP Estates.

Accounting policy

The Memoranda of Terms of Occupancy (MOTO) with DWP are treated as operating leases as defined in IAS 17 Leases. Payments under these MOTOs are charged to the 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:

	2013 £m	2012 £m
Not later than one year	1.6	1.3
Later than one year and not later than five years	-	4.7
Total	**1.6**	**6.0**

Before the year end the Board was in advanced negotiations to take new office accommodation in 2014. The required 12 months notice to leave three floors of Knollys House was given in April 2013 and the lease for the new premises was signed in June 2013. The commitments reported above reflect these changes. The financial statements include a provision for £2.1m for the amounts estimated to be payable to DWP in 2014 for early termination of the MOTO.

Operating the business continued

14 - Segmental analysis

As indicated earlier the Board operates three broad streams in which financial activities are accounted for:

- The Pension Protection Fund itself
- The Fraud Compensation Fund
- 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 page 64)
- Levy income (note 3 page 67)
- Operating expenses (note 11 page 80).

Consolidated statement of comprehensive net income

	2013 £m	2012 £m
Pension Protection Fund		
Net operating surplus	626.5	585.8
Net investment return	1,490.0	1,686.8
Net cost of claims	(1,432.9)	(1,881.3)
Net comprehensive income	**683.6**	**391.3**
Fraud Compensation Fund		
Net comprehensive income	**12.6**	**3.1**
Administration Fund		
Operating expenses	**(27.4)**	**(24.5)**
Consolidated net comprehensive income	**668.8**	**369.9**

Consolidated statement of financial position

	2013 £m	2012 £m
Total assets less total liabilities		
Pension Protection Fund	1,752.5	1,068.9
Fraud Compensation Fund	10.5	(2.1)
Administration Fund	(1.4)	(2.2)
Consolidated statement of financial position	**1,761.6**	**1,064.6**

15 - Subsidiaries

The PPF owns a small proportion of its investment portfolio through subsidiaries. As at 31 March 2013 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).

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.

Operating the business continued

16 - Related party transactions

Accommodation costs totalling £1.8m (2012: £1.6m) were payable to the Estates Division of DWP under the arrangements described in note 13, Operating lease commitments. DWP is the sponsoring department. In addition to the accommodation costs in the year £28.2m (2012: £22.8m) was received from DWP in grant in aid. There are no other related party transactions to disclose.

17 - Events after the reporting period

The Government announced on 25 June 2013 its intention to change the maximum level of compensation payable by the PPF. The proposed legislative amendments mean that members of schemes entering assessment after the new legislation is passed will have an increased level of entitlement for each full year after 20 years service in their scheme. It is also proposed that members of schemes that have already transferred to the PPF will have their compensation increased prospectively, once the legislation has been commenced. At the date of publication, the proposed legislative changes have not been finalised and as a result the financial impact is uncertain.

The accounts were authorised for issue on 16 October 2013, the date the Comptroller & Auditor General certified them. The accounts do not reflect events after this date.

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 2013

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 eighth actuarial valuation of the Pension Protection Fund. The effective date of this valuation is 31 March 2013. The previous actuarial valuation was as at 31 March 2012, and the report on that valuation was dated 3 October 2012.

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 2013 and so I see the Board as the user of this report. As required by paragraph 22(5) of Schedule 5 to the Pensions Act 2004, the Board will be sending a copy of this report, as part of the statement of accounts, to the Secretary of State and also to the Comptroller and Auditor General. No party, apart from the Board, the Secretary of State and the Comptroller and Auditor General, should rely on any part of this report.

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

In my view, while the Actuaries' Code issued by the Actuarial Profession applies to the preparation of this report, there are no professional practice standards which directly apply. I have, however, 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 11 October 2013. 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 or my supplementary report because the Board does not require them for its accounting disclosures.

2. Data

Individual member data was obtained from Capita (the administrators) in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2013. For one scheme only, the data was obtained from its previous administrator. 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 2012. A summary of the data as at 31 March 2013 is as follows (figures in brackets are as at 31 March 2012):

Deferred pensioners

Sex	Number	Average age	Total Accrued Pension revalued to 31 March 2013 (uncapped) (£000s pa)
Male	60,892 (48,115)	50.1 (49.5)	238,469 (184,233)
Female	30,461 (22,493)	48.5 (47.8)	64,025 (46,082)
Total	**91,353 (70,608)**	**49.6 (49.0)**	**302,494(230,315)**

Pensioners

Status	Sex	Number	Average age	Total Compensation at 31 March 2013 (capped where applicable) (£000s pa)
Members	Male	48,107 (35,493)	68.9 (68.4)	250,795 (181,512)
	Female	20,493 (13,633)	68.8 (67.8)	41,414 (28,887)
Dependants (excluding children)	Male	1,146 (746)	71.3 (69.9)	1,631 (1,144)
	Female	10,640 (7,493)	74.4 (74.0)	29,541 (20,394)
Children	Male	134 (71)	15.9 (15.6)	174 (111)
	Female	145 (70)	15.5 (16.4)	201 (166)
Total		**80,665 (57,506)**	**69.4 (68.9)**	**323,756 (232,214)**

Individuals who are receiving one tranche of compensation as well as being entitled to a further tranche of compensation, beginning after 31 March 2013, are included in both tables.

In respect of the one scheme for which the individual membership data was not complete, a loading of 50 per cent was added to the calculated liabilities of the incomplete membership of that scheme. The loading was derived from an analysis of the grouped member data and liabilities provided in conjunction with the scheme's s143 valuation.

For one large scheme that transferred to the PPF just prior to the valuation date, complete membership data was not available from Capita and data was provided by the Administrator instead. Some data cleansing tasks remain outstanding for this case; however the expectation is that no material changes will be made.

3. Compensation

Compensation for former members of schemes for which the Board assumed responsibility on or before 31 March 2013 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.

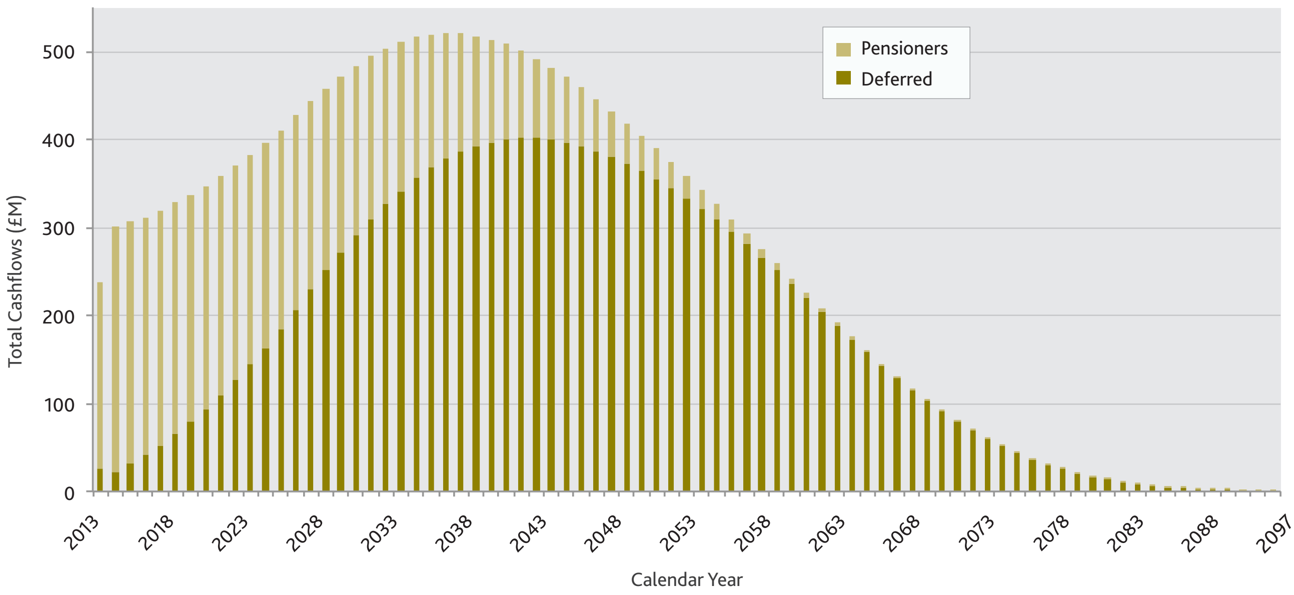
4. Method

The expected compensation cash flows have been estimated for these former members. In estimating each yearly compensation cash flow for each former member, account is taken of:

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

The expected cash flows are shown in the chart below (ignoring early and late retirement, and commutation of annual compensation for a lump sum). Note that this cash flow projection takes no account of schemes for which the Board assumes responsibility after 31 March 2013.

Total Cashflows



The resulting yearly compensation cash flows are discounted back to a present value at the valuation date, 31 March 2013, and summed to obtain the actuarial present value of each former member's liability.

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

An allowance has been included for the cost of equalising former members' compensation that is unequal on account of inequalities (as between men and women) in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997.

Based on the Board's proposed method for equalising compensation, loadings have been calculated to apply to compensation payable from Normal Pension Age 60 to 65 inclusive for men and women separately in respect of transferred schemes. These calculations use assumptions that I believe to be appropriate for schemes that have transferred into the PPF allowing for the Board's methodology. In addition, a loading was calculated for transferred schemes equal to the expected arrears of compensation due to these inequalities in GMPs.

The sum of all former members' liabilities, as well as the expected cost of equalising compensation for GMPs, is the estimated sum required, based on the financial and demographic assumptions employed, to meet liabilities that have been transferred to the Board's responsibility. Further detail on the assumptions used is given in Annex M2.

5. Assumptions

In order to estimate future compensation cash flows, I have needed, in respect of the former members of schemes for which the Board assumed responsibility on or before 31 March 2013, to make assumptions about:

- annual increases in payment to that element of their compensation which accrued after 5 April 1997
- revaluation of compensation in deferment for those whose compensation does not begin to be paid until after the valuation date, 31 March 2013
- their future 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 have needed to discount the compensation cash flows, estimated as described above, back to the valuation date, 31 March 2013.

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

In proposing the assumptions for the 2013 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 with 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 direction on the choice of assumptions made for the valuation. However, in taking account of these documents and the accounts direction, the Board is required to place a value on the provisions which is best estimate, ie is equally likely to overstate as to understate the actual value.

This follows from IAS 37, which the Board is required to take into account in accordance with the FReM. As the same choices of assumptions are made as far as possible for this report as for valuing the provisions, the value placed on liabilities of the PPF is also 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 the supplementary report which I have prepared concerning provisions in respect of the PPF as at 31 March 2013.

6. 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 2013. 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 2013 as £15,078,929,000. This includes £2,477,000 in respect of AVC assets that match AVC liabilities yet to be discharged.

This compares with £11,139,360,000 as at 31 March 2012.

An analysis of the change in the value of the assets of the Fund between 31 March 2012 and 31 March 2013 is as follows:

	£000s
Value of assets at the start of the year (31 March 2012)	11,139,360
Assets for schemes entering the PPF during the year to 31 March 2013 (measured at their transfer dates)	2,154,000
Income from Pension Protection Levies	644,110
Compensation paid	(331,805)
Change in current assets (AVCs to be discharged)	978
Change in value of interest rate swaps and inflation swaps	729,316
Change in value of repurchase agreements	72,677
Change in value of invested assets on account of changes in bond yields	147,557
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.	626,550
Investment expenses	(86,100)
Staff and other costs	(17,600)
Miscellaneous	(114)
Value of assets at the end of the year (31 March 2013)	**15,078,929**

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

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

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2013, on the assumptions described in section 5 and Annex M2, are summarised in the table below:

Type of member	**£000s**
Deferred pensioners	5,996,334
Pensioners	5,447,244
Provision for the cost of equalising compensation for GMPs	102,992
Administration expenses to be met from the Fund	278,273
Current liabilities (AVCs to be discharged)	2,477
Total	**11,827,320**

Accordingly I have taken the value of the liabilities of the Pension Protection Fund as at 31 March 2013 as £11,827,320,000.

This compares with £8,374,760,000 as at 31 March 2012.

An analysis of the change in the actuarial liabilities between 31 March 2012 and 31 March 2013 is as follows:

	£000s
Actuarial liabilities at the start of the year (31 March 2012)	8,374,760
Effect of passage of time on discounting	123,583
Actuarial (gain) / loss due to change in financial assumptions	570,951
Actuarial (gain) / loss due to changes in mortality assumptions	78,695
Actuarial (gain) / loss due to experience being different from what was assumed	(52,048)
Liabilities for schemes entering the PPF during the year to 31 March 2013 (measured at 31 March 2013)	3,146,567
Change in GMP equalisation allowance*	(82,052)
Change in expense allowance**	(2,309)
Compensation paid	(331,805)
Change in current liabilities (AVCs to be discharged)	978
Actuarial liabilities at the end of the year (31 March 2013)	**11,827,320**

* See section vii) of Annex M2 for a description of the change to the GMP allowance
** See section vi) of Annex M2 for a description of the changes incorporated for expenses

8. Conclusion

The balance sheet in respect of the PPF's assets and liabilities determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006 (SI 2006 / 597) is as follows:

	£000s
Assets	
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	15,078,929
Total assets	**15,078,929**
Liabilities	
The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2013	11,443,578
Provision for the cost of equalising compensation for GMPs	102,992
Allowance for certain expenses that are met from the Pension Protection Fund	278,272
The remaining liabilities under Regulation 3 of the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	2,477
Total liabilities	**11,827,320**
Excess of assets over liabilities – before provisions	**3,251,609**
Funding ratio (Assets / Liabilities) – before provisions	**127%**

As at 31 March 2013, the value of the PPF's assets was £15,078,929,000 and the value of the liabilities (including those in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2013) was £11,827,320,000.

The excess of assets over liabilities of £3,251,609,000 as at 31 March 2013 needs to be understood in the context of additional pension schemes that had entered into an assessment period, as defined in section 132 of the Pensions Act 2004, with effect from a date on or before 31 March 2013.

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 11 October 2013 and will be shown in the statement of accounts being prepared by the Board for the financial period ending on 31 March 2013.

I have also estimated contingent liabilities as at 31 March 2013, including those in respect of other pension schemes which, in the Board's judgement, may possibly be transferred into the PPF in the near future. These contingent liabilities are shown in my supplementary report to the Board dated 11 October 2013 and will be disclosed in footnotes to the statement of accounts prepared by the Board for the financial period ending on 31 March 2013.

Signed: Stephen Rice

Date: 11 October 2013

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

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 RPI between the assessment date and March 2011, and the increase in the CPI between March 2011 and the commencement of compensation payments. This is subject to a floor of 0 per cent over the whole period, and to a maximum increase of 5 per cent a year for the whole period (2.5 per cent a year for pension accrued on or after 6 April 2009). Compensation is subject to an overall cap, which from April 2013 equates to £34,867.04 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:

- for years 2011 and earlier, the increase in the RPI capped at 2.5 per cent and with a floor of 0 per cent, and
- for years 2012 and later, the increase in the CPI capped at 2.5 per cent and with a floor of 0 per cent.

Also, after a member's death, compensation is paid to any children who are under 18 years old, or under 23 if they are in full-time education or have a disability. Generally compensation will 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.

Under the Pensions Act 2004, the Board has a duty to pay compensation on a basis that is no more or less favourable to a woman (or man) than it would be to a comparable man (or woman) in respect of pensionable service on or after 17 May 1990. In meeting this requirement, the Board must take into account any differences in scheme benefits that have arisen owing to differences in the calculation of Guaranteed Minimum Pensions (GMPs) for males and females. The Board is undertaking work to adjust compensation for members who have already transferred to the PPF in relation to equalisation for GMP. The Board has established a provision within its financial statements for the cost of equalisation for both the schemes that have transferred to the PPF and those schemes forming the provisions. Additionally the contingent liabilities contain an element in respect of the cost of equalising unequal GMPs.

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

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

Annex M2 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 2012, unless stated otherwise.

a) Compensation levels

As for previous valuations of the Pension Protection Fund, I have continued to assume that the Secretary of State will not exercise 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) Financial assumptions

For the liabilities in respect of transferred schemes, I have applied the same rationale in setting the financial assumptions as I did in my report as at 31 March 2012. I consider that it is still appropriate for the financial assumptions to vary according to the term of the particular cash flow being estimated and discounted.

i) Discount rates

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

Under the terms of a zero-coupon interest rate swap contract with notional principal P and tenor (=duration) N, the PPF would at time N pay interest to the counterparty on P of the 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 (one with the individual cash flows stripped out of a gilt) yields at the same duration. It is therefore considered reasonable to construct a notional portfolio so that it contains gilts strips (or more often notional gilts strips) at longer durations and cash and swaps contracts at shorter durations.

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

The discount rate for each term is therefore taken as the higher of the zero-coupon interest rate swaps yield less 15 basis points and the gilts strip yield. In practice, this broadly leads to the use of swaps rate less 15 basis points for terms to 7 years and gilts strip yields thereafter.

A zero-coupon interest rate swaps yield curve as at 31 March 2013 was obtained from Insight Investment who constructed the curve by seeking indicative prices from investment banks.

A gilts strip yield curve as at 31 March 2013 was obtained from Insight Investment, which was derived from information available from the UK Debt Management Office. This curve shows gilt strips yields at terms from one year to 50 years inclusive. Yields at each of these terms are in respect of bonds with the closest nominal maturity to the indicated term. As the zero-coupon swaps curve and gilt strips curve both extend only as far as term 50, I have assumed that the discount rate applying in each year after year 50 is the same as that applying at year 50.

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

ii) Revaluation rates

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

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 0.4 per cent a year less than RPI increases. I have therefore assumed the same. I have further assumed that the rate of future RPI increases, for the period from the valuation date to normal pension age, is determined from the RPI inflation swap curve (supplied as at 31 March 2013 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 0.9 per cent. This may be seen in the supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2013.

The revaluation rate is assumed to be equal to the assumed CPI spot rate except where the spot rate exceeds the maximum revaluation rate. The maximum revaluation rate of five per cent a year never applies, for any term, to compensation deriving from service before 6 April 2009. The maximum revaluation rate of 2.5 per cent a year would apply, for every term, to compensation deriving from service after 5 April 2009.

iii) Pension increase rates

I have assumed that the PPF 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 (call this 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. This market does not exist, but a market does exist for the equivalent swaps based on RPI. I have therefore decided to adjust the inflation swaps curve for RPI[0, 2.5 per cent] in order to derive assumptions for CPI[0, 2.5 per cent]. The adjustment was based on the ratio of a theoretical CPI[0, 2.5 per cent] curve (assuming CPI inflation is 0.4 per cent a year below RPI inflation) and a theoretical RPI [0, 2.5 per cent] curve. All of these curves, both actual and theoretical, were supplied by Insight Investment.

It has not been possible to obtain data for terms one to four years as at 31 March 2013 because Insight Investment did not receive quotes for trading the RPI[0, 2.5 per cent] inflation swap for these years on that day. Insight Investment was, however, able to generate notionally a curve for terms one to four years by assuming that the implied volatilities that can be derived from the more heavily traded RPI[0,3.0 per cent] inflation swap curve also applied to the RPI[0,2.5 per cent] curve. 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 that I have assumed over the given term. Figures shown in brackets are as at 31 March 2012.

Term	Discount rate pa	CPI increase rate pa	Post 1997 pension increase rate pa
1	0.453% (1.112%)	3.025% (3.070%)	2.262% (2.149%)
2	0.461% (1.079%)	3.069% (2.846%)	2.227% (2.044%)
3	0.525% (1.162%)	3.038% (2.816%)	2.179% (2.017%)
4	0.647% (1.303%)	3.011% (2.832%)	2.146% (2.017%)
5	0.821% (1.466%)	3.006% (2.858%)	2.142% (2.008%)
10	1.918% (2.375%)	3.118% (2.994%)	2.143% (2.050%)
15	2.671% (3.047%)	3.222% (3.155%)	2.149% (2.097%)
20	3.134% (3.508%)	3.280% (3.277%)	2.152% (2.133%)
30	3.545% (3.741%)	3.328% (3.401%)	2.154% (2.182%)
40	3.616% (3.693%)	3.333% (3.408%)	2.151% (2.205%)
50	3.504% (3.526%)	3.361% (3.425%)	2.152% (2.213%)

Source: Insight Investment

c) Demographic assumptions

i) Mortality

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

- **Baseline mortality**

For the valuation as at 31 March 2012, a mortality analyst, Club Vita, provided us with 152 different mortality curves to apply to individual members based on:

- member status, i.e. deferred pensioner, pensioner, or dependant
- sex
- lifestyle (based on postcode), and
- amount of compensation.

Club Vita has updated their experience dataset since the previous valuation and so has provided us with more up-to-date mortality curves to use this year. A total of 240 different mortality curves have been used for the valuation as at 31 March 2013. The increased number of tables this year reflects a change in approach to setting the pre-retirement mortality assumption which has now been set with regards to different tables to the post-retirement assumption.

These curves have been derived by analysing a large amount of data from its members (including the PPF). These curves are based on mortality experienced over the period 2007-2009.

- **Allowance for changes in mortality over time**

For the valuation as at 31 March 2012, I adopted the CMI-2011 mortality projection model. This model was adopted 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. However, since the previous valuation, the CMI has updated the CMI-2011 model to take account of more up-to-date data.

For this valuation, I have therefore adopted the CMI-2012 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. In standard notation, my assumption for men is denoted CMI_2012_M [1.5%] and for women is denoted CMI_2012_F [1.5%].

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 the assumed long term rate of improvement. This may be seen in the supplementary report which I have prepared concerning the provisions of the PPF as at 31 March 2013.

- **Life expectancies implied by the mortality assumptions**

The following table illustrates the range of cohort life expectancies of pensioners aged 65 on 31 March 2013 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 2012. One source of the difference between the 2012 and 2013 expectations of life is due to an additional year's worth of mortality improvements in the 2013 figures.

Men

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies	Average life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	17.7 (17.3)	25.3 (25.7)	20.3-24.1 (20.0-24.5)	22.3 (21.8)
- Dependants	18.2 (16.3)	21.1 (20.4)	18.2-21.1 (18.8-20.4)	20.0 (19.5)
Non-pensioners:				
- Members	20.8 (20.3)	28.0 (28.5)	23.3-25.6 (22.5-26.4)	25.1 (24.2)
- Dependants	21.2 (19.3)	24.1 (23.3)	21.2-24.1 (21.8-23.3)	23.0 (22.5)

Women

Membership group	Minimum life expectancy in years	Maximum life expectancy in years	Range of life expectancies, in years, within which 75% of all accrued compensation lies	Average life expectancy in years (weighted by annual compensation)
Pensioners:				
- Members	21.2 (20.4)	27.4 (27.5)	23.1-25.1 (22.6-25.6)	24.2 (23.8)
- Dependants	19.9 (18.9)	27.8 (27.7)	22.8-26.5 (21.8-25.6)	24.5 (23.2)
Non-pensioners:				
- Members	24.3 (23.6)	30.4 (30.5)	26.6-27.8 (25.7-28.5)	27.3 (27.0)
- Dependants	23.4 (22.5)	30.5 (30.2)	26.9-27.6 (25.1-27.4)	27.5 (25.8)

Note that the minimum life expectancy is the life expectancy of the member in the particular category given with the shortest life expectancy which is determined by Club Vita using sex, postcode and pension amount. The maximum life expectancy is determined in a corresponding way.

ii) Commutation, early retirement and late retirement

No allowance is made for commutation of compensation, early retirement or late retirement (which became an option to members on 30 April 2013). Even though estimated cash flows would be affected by making allowances, nonetheless these member options are roughly cost-neutral in that the value of the liabilities is roughly the same whether or not a member exercises the option. The factors used to determine the amount of compensation given up for cash, early retirement compensation or late retirement compensation are assumed to change over time (being reviewed at least annually) in order to maintain this broadly cost-neutral position.

iii) Proportion married

For pensioners:

Where there is provision for survivor pensions for relevant partners an assumption consistent with 90 per cent (males) or 80 per cent (females) at normal pension age.

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption consistent with 80 per cent (males) or 70 per cent (females) at normal pension age.

For deferred pensioners:

Where there is provision for survivor pensions for relevant partners an assumption, at the assumed date of retirement or earlier death, of 90 per cent (males) or 80 per cent (females).

Where there is no provision for survivor pensions for relevant partners other than legal spouses an assumption, at the assumed date of retirement or earlier death, of 80 per cent (males) or 70 per cent (females).

These are standard assumptions normally considered reasonable by actuaries measuring liabilities of UK pension funds.

Actuarial valuation

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 consistent with the recent experience of the fund.

v) Children's pensions

No specific additional allowance is included for prospective children's pensions. Children's pensions already in payment are assumed to cease in accordance with the compensation entitlement with no allowance for mortality prior to cessation.

vi) Expenses

Since 1 April 2008 certain administration expenses are being met from the Pension Protection Fund rather than from the Administration Fund as happened before that date. Since then, certain other expenses have moved from being met from the Pension Protection Fund rather than the Administration Fund on a number of occasions.

An allowance equal to 2.4 per cent of the value of the liabilities in respect of former members of schemes that have transferred into the PPF before 1 April 2013 has been made in respect of the future cost of expenses to be met by the PPF. This has been derived from a calculation of the present value of the expected future expenses that will be incurred in respect of these members. This calculation was based on the budgeted expenses to be incurred by the PPF in respect of running a notional portfolio in the three years following the valuation date. This compares to an allowance of 2.4 per cent in the previous year's valuation.

vii) GMP equalisation

An allowance for the cost of equalising former members' compensation that is unequal (as between men and women) on account of inequalities in GMPs has been made. The cost included is 0.9 per cent of the actuarial liabilities. This is a weakening of the provision compared to that allowed for in valuation as at 31 March 2012 (1.6 per cent). The reduction reflects changes to our membership profile as a result of schemes transferring to the PPF over the year. This has resulted in an increase in the proportion of benefits payable from age 60 which acts to reduce the impact of equalisation.

A number of assumptions have gone into the calculation of this provision and some sensitivities to the result have been carried out. By looking at a number of extreme scenarios, I conclude that the impact of equalising compensation for GMPs should be between 0.6 per cent and 2.6 per cent of liabilities and provisions.

Actuary's supplementary report as at 31 March 2013

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 2013

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 11 October 2013.

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 2013. 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 11 October 2013. 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 2013 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 2013 is set out in Annex S2.

The definitions of contingent liabilities are specified by the Board and I have calculated the values accordingly. However, it should be noted that claims arising after 31 March 2013 could arise from sources other than those described in the definitions for the contingent liabilities. For the avoidance of doubt, the contingent liabilities are not meant to represent the expected claims in the coming year.

4. Data

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

5. Compensation provided by the Pension Protection Fund

The compensation provided by the Pension Protection Fund is summarised in Annex M1 of my report to the Board dated 11 October 2013.

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 11 October 2013.

The set of assumptions used in order to calculate the provisions and contingent liabilities as at 31 March 2013 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.

To determine whether a provision is required for a scheme it is necessary to determine whether as at the insolvency date the value of the assets was less than the amount of Protected Liabilities (see Annex S1). The assumptions to determine this are derived from market conditions at the date of calculation following the published guidance on undertaking a valuation in accordance with section 179 of the Pensions Act 2004. This guidance is available on the Pension Protection Fund web-site; **www.pensionprotectionfund.org.uk/TechnicalGuidance/Pages/ValuationGuidance.aspx**

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 11 October 2013

b) Provisions

The method of calculating the provisions varied according to the data that the Board was holding about the relevant schemes as at 31 March 2013.

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 (starting with the largest scheme by liability, the Board had a target that at least 75 per cent of the total liabilities and provisions of the PPF should be made up of material schemes and schemes which have already transferred to the PPF), and

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

For the majority of the material schemes membership data and updated asset information was provided as at 31 December 2012 or later.

For all material schemes, the asset value at 31 March 2013 was determined by rolling forward the updated asset value and making an adjustment for benefits paid between the "as at date" of the assets and 31 March 2013. The liability was determined by generating future cash flows of PPF compensation for the members and discounting to 31 March 2013 using the assumptions set out in annex S4 of this report. No allowance was made for membership movements between the "as at" date of the membership and 31 March 2013 as the majority of data was provided as at or close to 31 March 2013.

Material schemes and schemes which have already transferred to the PPF account for 89 per cent of the total liabilities and provisions, as compared with the target of at least 75 per cent.

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

- A section 143 or 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 143 or 179 valuation was then rolled forward to 31 March 2013 on the valuation basis.

The methodology used to roll the s143 / s179 valuation results forward to 31 March 2013, at the same time changing the valuation assumptions to those described in annex S4, is consistent with that applied for the calculation of levy in the financial year 1 April 2012 to 31 March 2013. The 12/13 methodology is available in the Pension Protection Levy section of the Pension Protection Fund web-site at:
www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1213_determination_appendix_transformation.pdf

3. A Minimum Funding Requirement (MFR) valuation, but not updated assets and membership data, nor a section 143 valuation nor a section 179 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 Pension Protection Fund website at: **http://www.pensionprotectionfund.org.uk/DocumentLibrary/Documents/1213_determination_appendix_mfrconversion.pdf**

In practice very few schemes (less than 0.5% of the liabilities) are assessed based on an MFR valuation and in all cases the section 179 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 2013 on the valuation basis using the same methodology.

4. No updated assets and membership information, nor a section 143 valuation, nor a section 179 valuation, nor a 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 5 schemes have been valued in this way.

For all non-material schemes, where information relating to income and outgo was forthcoming, this information was used to provide a more precise estimate of the scheme assets and liabilities as at 31 March 2013 than was available solely using the roll-forward methodology.

As for schemes that have transferred to the PPF, a provision has been included 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 which contribute to the provisions.

A single loading was applied to the liabilities forming the provisions equal to the loading applied to transferred schemes i.e. 0.9 per cent of liabilities. Overall, the provision was 0.9 per cent of the actuarial liabilities of schemes forming the provisions. This assumption is discussed further in Annex M2.

c) Contingent liabilities

The method adopted for contingent liabilities was identical to that for provisions where the Board was in possession of a section 179 valuation. This was the same method as adopted last year. This includes a single loading which was applied to the liabilities forming the contingent liabilities. This loading was equal to the loading applied to transferred schemes i.e. 0.9 per cent of liabilities.

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 2012 using the assumptions set out in the Report and Accounts as at 31 March 2012.

It is my opinion that the data collection processes and calculation methods described in section 7 have resulted in calculations that represent a reasonable estimate of provisions and contingent liabilities in aggregate for the Pension Protection Fund. I recognise that the use of summary data and roll-forward methodologies inevitably introduce approximations into the calculations, but I consider they remain appropriate for calculating aggregate provisions and contingent liabilities for the purposes of this supplementary report.

9. Actuarial Balance Sheets

Annex S7 sets out the actuarial balance sheets for the Pension Protection Fund as at 31 March 2013, including the liabilities of the schemes forming the provisions. For this purpose the liabilities are taken to be:

(a) the present value of the liabilities of the Pension Protection Fund to pay sums or transfer property, as required under section 173(3) of the Pensions Act 2004. This includes the liabilities in respect of compensation to members of schemes for which the Board has assumed responsibility and the cost of equalising compensation for GMPs on these liabilities. The total value is taken as £11,827,320,000, the same figure as was used in my actuarial valuation report of 11 October 2013 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 £6,518,531,000.

Accordingly I have taken the total liabilities including provisions of the Pension Protection Fund as at 31 March 2013 as £18,345,851,000.

In the actuarial balance sheets for the Pension Protection Fund as at 31 March 2013, 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 £15,078,929,000, the same figure as was used in my actuarial valuation report of 11 October 2013, 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 (£379,314,000) - this figure amounts to £5,019,427,000.

Accordingly I have taken the value of the assets of the Pension Protection Fund as at 31 March 2013 as £20,098,356,000.

10. Reconciliation of the change in the funding position

Annex S8 shows a reconciliation of the opening and closing net funding position in the actuarial balance sheet for the Pension Protection Fund, including the schemes that generate the provisions.

Signed: Stephen Rice

Date: 11 October 2013

Name: Stephen Rice, Appointed Actuary

Job Title: Chief Actuary

Qualification: Fellow of the Institute and Faculty of Actuaries

Employer: The Board of the Pension Protection Fund

Actuarial valuation

Annex S1 Provisions in the Statement of Accounts for the financial period ending on 31 March 2013

The Statement of Accounts as at 31 March 2013 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 2013
- the Board had not stated on or before 31 March 2013 that the insolvency event was not a qualifying insolvency event
- the insolvency date was on or before 31 March 2013
- a withdrawal notice under section 122(2)(b) of the Pensions Act 2004 had not been received on or before 31 March 2013 (and, in the Board's judgement, is unlikely to be received) from the insolvency practitioner, and
- as at the insolvency date, the value of the assets was, in the Board's judgement (if the scheme had not yet transferred to the PPF), likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004 (determined on the section 179 basis as at the insolvency date).

Schemes which had, in the Board's judgement, a surplus of assets over the value of the protected liabilities at the insolvency date, but which may ultimately enter the PPF have been considered. A provision might be appropriate if there are a significant number of schemes in this position. Based on an analysis of our recent experience, I do not consider that this is so.

In addition, the position of 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, has also been considered. It might be appropriate to offset some of this negative provision if there are a significant number of schemes in this position because some of these schemes may not ultimately enter the PPF. Again, I do not consider that this is so.

In addition to the above provisions I considered those schemes where an section 143 valuation had been completed by the trustees and this showed an excess of assets over Protected Liabilities. These schemes did not, therefore, transfer into the PPF. There is a possibility that some of them will return to the PPF within six months of the section 143 valuation being signed off (for instance if the trustees obtained a buy-out quote that showed a deficit of assets compared with the protected liabilities). These schemes are expected to have a small surplus which is not material and have therefore been ignored.

Schemes which have completed the assessment period and have been operating as a closed fund have also been considered. There is a possibility that some of these schemes will return to the PPF (for instance if the trustees can demonstrate that there are now insufficient assets to provide PPF levels of compensation). Of these schemes, it was considered that it was probable eight of these schemes will ultimately transfer to the PPF and a provision has therefore been included for these cases. Information relating to them is limited and out of date. These schemes have been valued by rolling forward the results of the Section 143 valuation to a recent date.

Additionally, an allowance for insolvency events that occurred on or before 31 March 2013 that have yet to be reported has also been made. This takes the form of an 'IBNR reserve' (Incurred But Not Reported reserve) which is determined by estimating the number of schemes where a claim has been incurred but not reported. This is calculated as a percentage addition to the number of schemes which have been reported and included as provisions. This percentage has been determined from an analysis of the average time lag between insolvency event occurrence and notification of such an event to the Board (via a section 120 notice) with consideration of the proportion of events resulting in a claim, as shown in the following table:

Number of months between insolvency event and Board receipt of S120 notice	Cumulative proportion of notifications received by each point in time
0	61%
1	89%
2	92%
3	94%
4	95%
5	96%
10	98%
12	99%
16	100%

For this estimated number of schemes where a claim is yet to be reported, the provision is based on the median provision of schemes where a claim has been reported.

Additionally, we monitored the movement of the funding position in respect of schemes forming the provisions from 31 March 2013 to 11 October 2013 and our figures include the observed changes of sufficient materiality.

Annex S2 Contingent liabilities in the Statement of Accounts for the financial period ending on 31 March 2013

Three types of contingent liabilities are disclosed in footnotes to the Statement of Accounts. Last year there was a Type 4 contingent liability which represented a reserve in respect of the cost of equalising compensation that is unequal on account of inequalities in Guaranteed Minimum Pensions (GMPs) accrued between 17 May 1990 and 5 April 1997 for type 1-3 contingent liabilities. This year, the estimated cost of equalisation for schemes in type 1-3 contingent liabilities has been split between the relevant types of contingent liabilities.

The definitions of the three categories are given below.

1. Type 1 contingent liabilities are in respect of eligible schemes in relation to which:

- an insolvency event notice under section 120 of the Pensions Act 2004 was received by the Board from an insolvency practitioner on or before 31 March 2013
- the Board had stated on or before 31 March 2013 that the insolvency event was NOT a qualifying insolvency event
- in the Board's judgement, a subsequent insolvency event which will be a qualifying insolvency event is likely, and
- as at 31 March 2013, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities, as defined in section 131 of the Pensions Act 2004.

2. Type 2 contingent liabilities are in respect of eligible schemes in relation to which:

- in the Board's judgement, as at 31 March 2013, no insolvency event has taken place, but the Board is nonetheless expecting to receive an insolvency event notice under section 120 of the Pensions Act 2004 from an insolvency practitioner in the future, and
- the Board has sufficient data about the scheme to be able to make an estimate of a contingent liability.

3. Type 3 contingent liabilities are in respect of schemes where:

- the Dun & Bradstreet failure scores are available to the Board and, based on the data available as at 31 March 2013, the score corresponding to the weighted insolvency probability of the scheme's participating employers was less than 10 (which means the probability of insolvency over the next year was greater than 4.68 per cent)
- the Board in its view had sufficient information as at 31 March 2013 about the scheme to enable the funding level as at 31 March 2013 to be estimated, and
- as at 31 March 2013, the value of the assets was, in the Board's judgement, likely to have been less than the amount of the Protected Liabilities as defined in section 131 of the Pensions Act 2004.

Out of a population of around 6,500 schemes considered, 187 had a failure score of less than 10 associated with them. Of these 187 schemes, 152 were in deficit.

There is the potential to have a slight overlap with the IBNR reserve referred to in Annex S1. In the context of the total contingent liabilities I would expect the overlap to be trivial.

Type 3 contingent liabilities exclude any scheme already within the provisions or other categories of contingent liabilities.

It should be noted that in practice the schemes contributing to the type 3 contingent liabilities often change considerably from one year to the next.

Annex S3 Data

a) Data in respect of former members of schemes that were transferred to the Board on or before 31 March 2013

This data was shown in my report to the Board dated 11 October 2013.

b) Data in respect of provisions and contingent liabilities

There are 187 schemes which contribute to the provisions figure in the statement of accounts for the financial period ending on 31 March 2013 (and a further four schemes included via the IBNR estimate). Liabilities in respect of another 36 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 1, Type 2 and Type 3 contingent liabilities the recognition test assessment was undertaken at the valuation date since a qualifying insolvency event had not occurred.

A database is maintained for schemes forming the provisions. Data used to identify these schemes is obtained from information sent to the PPF on an employer's insolvency. This data is updated when new information arises. For instance, when a claim is rejected by the PPF, the database is updated to reflect this information and the scheme is no longer included in the provisions calculations.

In addition, the data used to place a value on the schemes forming the provisions is updated to allow for new information received by the PPF. We start off with data in relation to an s179 or MFR valuation which we already hold for the purposes of invoicing for levies, but as schemes near the end of their assessment period we will obtain an s143 valuation and the data from this will substitute any previous data held if:

- there is a material difference between the results of the s179 valuation (rolled forward to the insolvency date) and the s143 valuation
- there is confidence in the results of the s143 valuation, and
- no material approximations have made in the s143 valuation.

In other cases, for instance material schemes, the PPF will actively seek additional information from trustees so as to supplement or replace the data previously held on its database where it feels this will provide a more accurate valuation.

For contingent liabilities we make use of information that the PPF has gathered from sources such as Dun & Bradstreet, negotiations with companies and information submitted by The Pensions Regulator. The data used to place a value on these liabilities is taken from the information we hold for levy invoicing purposes. A database is not maintained over time for these schemes. A separate identification of contingent liabilities is made each year for the annual report and accounts and the latest data available is used in the valuation.

The numbers of schemes contributing to the various types of provisions and contingent liabilities are given in the table below. Figures in brackets relate to the total number of schemes considered for inclusion in the provision, 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. In all of the figures we have sought to recognise all segregated parts of schemes as separate schemes. This is the same treatment as was adopted at 31 March 2012.

Liability		Number of schemes recognised	Number of pensioners *	Number of deferred pensioners *
Provision	2013	187 (223 in total)	41,070	62,120
	2012	251 (300 in total)	44,600	69,617
Provision - IBNR	2013	4 (4 in total)	n/a	n/a
	2012	5 (5 in total)	n/a	n/a
Type 1 contingent liability	2013	0 (0 in total)	0	0
	2012	2 (2 in total)	52	137
Type 2 contingent liability	2013	17 (17 in total)	5,234	8,648
	2012	16 (16 in total)	9,625	19,402
Type 3 contingent liability	2013	152 (187 in total)	39,532	70,361
	2012	112 (127 in total)	11,590	24,991

* Data in respect of recognised schemes only.

The valuation of the liabilities of material schemes forming the provisions has been undertaken using membership data, in some cases grouped by age and gender. The valuation of the liabilities of all other schemes forming the provisions and contingent liabilities has not been undertaken using member-by-member data as we do not hold this data. Instead the historic valuation results available for the schemes have been used and rolled forward on a global basis. As such the valuation will not be as accurate as one undertaken using individual membership data for each scheme. This approach, while perhaps inappropriate for valuation purposes for some schemes on an individual basis, in aggregate is, in my opinion, acceptable for estimating provisions and contingent liabilities. Generally there is no reason to doubt the quality of the information provided within a particular scheme's valuation report. It is important, however, to note that any errors contained within the original scheme valuation will carry through to this valuation.

Because of the lack of uniformity of data summaries in individual schemes' valuation reports, it has not been possible to provide any other summary data about schemes in the various liability categories.

As we do not hold member-by-member data for all the schemes forming the provisions, we have not been able to indicate the incidence of cash flows relating to the schemes forming the provisions. However, when collecting data for material schemes we obtained information relating to the pensions in payment and deferred pensions by age band and this indicated that the shape of the cash flows for schemes forming the provisions is not dissimilar to that for transferred schemes.

Annex S4 Assumptions

All assumptions will be either the same as, or derived in the same way as, those derived for the valuation as at 31 March 2012, unless stated otherwise.

a) Actuarial liabilities

The assumptions adopted were described in my report to the Board dated 11 October 2013

b) Basis adopted for Provisions and Contingent liabilities

1. Discount, inflation and pension increase rates

For the provisions represented by material schemes we 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 we do not have individual member data to be able to project cash flows. We have therefore made assumptions about the following:

- Discount rate in deferment (net of revaluation increases in deferment – see Annex M1 for a description of these increases)
- Discount rate in payment for non-increasing compensation for current pensioners
- Discount rate in payment for non-increasing compensation for future pensioners
- Discount rate in payment for increasing compensation for current pensioners (net of increases in payment – see Annex M1 for a description of these increases), 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 Pension Protection Fund liabilities.

Single rates of discount, inflation and pension increases were determined so that the present values placed on each of the cash flows for pensioners and deferred pensioners was equal to the present value determined using term-dependent rates. These single rates of discount, inflation and pension increase were then used to determine the net discount rate as set out in the following table. The figures in brackets are those as at 31 March 2012.

Net discount rate	% pa
In deferment for compensation accrued before April 2009	0.1 (0.4)
In deferment for compensation accrued after April 2009	0.9 (0.4*)
In payment for non-increasing compensation for current pensioners	2.6 (3.0)
In payment for non-increasing compensation for deferred pensioners	3.3 (3.5)
In payment for increasing compensation for current pensioners	0.5 (0.8)
In payment for increasing compensation for deferred pensioners	1.1 (1.3)

*Last year due to the small proportion of benefits in respect of post 09 accrual, this tranche of benefit was valued using the same assumption as pre April 2009 benefits.

Actuarial valuation

2. Mortality

There is no evidence to suggest that my assumption for the base mortality or long term mortality improvement used in my previous report should change, other than to adopt the latest update to CMI 2011 model for mortality improvements. The mortality baseline in respect of a member is, therefore, S1PMA (men) and S1PFA (women) with future changes in line with CMI_2012_M [1.50%] and CMI_2012_F[1.50%] for men and women respectively. For the member's dependant, the baseline is S1DFA (female dependants) and S1PMA (male dependants) with future changes in line with CMI_2012_F [1.50%] and CMI_2012_M [1.50%] for female and male dependants respectively. These baseline tables and future projections have been issued by the CMI.

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.

The possibility of scheme-specific mortality was considered for large schemes whose liabilities at the section 179 (or section 143) valuation date were at least £200 million on the section 179 (or section 143) basis. Scheme-specific mortality was adopted where the Board had evidence that future mortality for large schemes as defined above was likely to be significantly different from the assumptions set out in the first paragraph. In my opinion, there were no large schemes with evidence of significantly different mortality and so no adjustments for scheme-specific mortality have been made to the provisions or contingent liabilities.

3. Proportion Married

80 per cent of members are assumed to be married or to have a relevant partner. Again, because the liabilities are calculated by rolling forward the results of an earlier valuation it is not possible to use sex-specific proportions married.

4. Age difference between member and dependant

Females assumed to be three years younger than males.

5. Children's pensions

No specific allowance.

6. Expenses

Allowance has been made for expenses incurred by the trustees prior to transfer into the Pension Protection Fund. Allowance has also been made for certain expenses incurred after transfer to the Pension Protection Fund, in respect of schemes which are likely to transfer to the Pension Protection Fund (see Annex M2 of my report to the Board dated 11 October 2013 for an explanation of the expenses that are to be met from the Fund after a scheme transfers to the PPF). These allowances amount to 1.4 per cent of the total provisions over and above the standard expenses allowances under the section 179 valuation methodology. This compares to an allowance of 1.2 per cent in the previous year's valuation.

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.

I have considered nine scenarios covering the main uncertainties

Scenario 1: Assumptions based purely on the swaps curve at 31 March 2013 but with a deduction of 15 basis points at each term.

Scenario 2: Assumptions based purely on the gilts curve at 31 March 2013.

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.

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 fully hedged position with regards to interest and inflation. As a result, our 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 are assumed to be 0.9 per cent lower than increases in the Retail Prices Index, i.e. assuming that a market had developed in CPI and that it was priced at 0.9 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 value of non-bond type assets is assumed to decrease by 10 per cent at 31 March 2013. 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 9: Assumptions based on s143 entry valuation basis (effective from 1 April 2011)

In some previous valuation reports I have included two additional scenarios:

- An assumption that the age difference between men and women decreases by one year so that men will be two years older than their spouse or partner, and
- An assumption that the proportion of married members increases by five per cent.

It has been estimated that the impact of each of these scenarios would be small and would not impact funding by more than one per cent, and they have therefore been excluded.

A summary of the assumptions is shown overleaf:

	Main Basis	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7	Scenario 8	Scenario 9
Discount rate in deferment for compensation accrued before April 2009	0.112%	-0.242%	0.111%	0.579%	-0.366%	0.593%	0.112%	0.112%	0.112%	-0.560%
Discount rate in deferment for compensation accrued after April 2009	0.931%	0.549%	0.931%	1.408%	0.924%	0.938%	0.931%	0.931%	0.931%	0.180%
Discount rate in payment for non-increasing compensation for current pensioners	2.635%	2.398%	2.620%	3.098%	2.638%	2.631%	2.635%	2.635%	2.635%	2.740%
Discount rate in payment for non-increasing compensation for future pensioners	3.318%	2.955%	3.317%	3.798%	3.326%	3.310%	3.318%	3.318%	3.318%	2.740%
Discount rate in payment for increasing compensation for current pensioners	0.474%	0.241%	0.459%	0.927%	0.383%	0.581%	0.474%	0.474%	0.474%	0.240%
Discount rate in payment for increasing compensation for future pensioners	1.140%	0.784%	1.139%	1.610%	1.074%	1.218%	1.140%	1.140%	1.140%	0.240%
Non bond assets	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 s143 guidance (B5)
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 improvement	As in Annexes S4 and M2	As in s143 guidance (B5)

Annex S6 Calculation results

a) Calculation of actuarial liabilities for members who have transferred into the Pension Protection Fund

The actuarial liabilities in respect of former members of schemes for which the Board assumed responsibility on or before 31 March 2013 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 £11,827,320,000.

b) Calculation of provisions

191 schemes were included in the provisions in the statement of accounts for the financial period ending on 31 March 2013.The table below shows the estimated assets held at 31 March 2013 in the 191 schemes forming the provisions. It also shows the outstanding anticipated recoveries, the resulting total assets and estimated funding position in respect of those 191 schemes. A comparison is shown with the equivalent figures from the 2012/13 Annual Report and Accounts using the assumptions described in that report):

	31 March 2013 (£000s)	31 March 2012 (£000s)
Assets excluding anticipated recoveries	4,640,113	4,996,947
Anticipated recoveries	379,314	376,636
Total assets	**5,019,427**	**5,373,583**
Provisions	**6,518,531**	**7,069,286**
Excess of liabilities over assets	**1,499,104**	**1,695,703**

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 decreased by £354,156,000 and this can be reconciled as follows:

	£m	£m
Assets as at 31 March 2012		**5,374**
Adjustment for schemes in assessment which were not considered probable in 2012 but which subsequently transferred to the PPF	9	
New schemes coming into assessment	2,107	
Schemes accepted into the PPF (assets as at the Transfer Date)	(2,154)	
Change in schemes' assets on account of known benefits paid out	(213)	
Claims no longer considered probable (exits or schemes estimated to be in surplus at their assessment date)	(427)	
Claims now considered probable (schemes estimated to be in deficit at their assessment date)	17	
Change in schemes' assets on account of other changes (including updated valuation information, changes in recoveries and investment returns)	306	
Assets as at 31 March 2013		**5,019**

The provision liabilities have decreased by £550,755,000 and this can be reconciled as follows:

	£m	£m
Provision liabilities at 31 March 2012		**7,069**
Adjustment for schemes in assessment which were not considered probable in 2012 but which subsequently transferred to the PPF	8	
New schemes coming into assessment	3,154	
Schemes accepted into the PPF (liabilities as at 31 March 2013)	(3,147)	
Claims no longer considered probable (exits or schemes estimated to be in surplus as at their assessment date)	(535)	
Claims now considered probable (schemes estimated to be in deficit as at their assessment date)	19	
Effect of passage of time on discounting	173	
Change in schemes' liabilities on account of change in financial assumptions	423	
Change in schemes' liabilities on account of change in mortality assumptions	(3)	
Change in schemes' liabilities on account of known benefits paid out	(213)	
Change in allowance for equalisation of GMPs*	(45)	
Change in schemes' liabilities on account of updated valuation information	(399)	
Change in allowance for future expenses**	15	
Provision liabilities at 31 March 2013		**6,519**

* see Annex M2 for an explanation of the change in allowance for equalisation of GMPs
** refer to section 6 of Annex S4 for an explanation of change in expenses

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 2012 Report & Accounts under the Main Assumptions basis as described in that report):

Type of contingent liability	Estimated scheme funding positions as at 31 March 2013 (£000s)	Estimated scheme funding positions as at 31 March 2012 (£000s)
1	0	2,266
2	547,384	1,125,206
3	2,129,032	744,335
Additional category in 2012	N/A	97,139
Total	**2,676,416**	**1,968,946**

The liabilities recognised as contingent liabilities are the present value of the deficit calculated at each valuation date on the relevant basis.

Shown below are the total assets and total liabilities that correspond to the above deficits (contingent liabilities). A comparison is shown with the equivalent figures from the 2011/12 Annual Report and Accounts under the Main Assumptions basis.

Type of contingent liability	31 March 2013 Assets (£000s)	31 March 2013 Liabilities (£000s)	31 March 2012 Assets (£000s)	31 March 2012 Liabilities (£000s)
1	0	0	10,209	12,475
2	947,347	1,494,731	1,596,164	2,721,370
3	7,763,454	9,892,486	2,666,468	3,410,803
Additional category in 2012	N/A	N/A	N/A	97,139
Total	**8,710,801**	**11,387,217**	**4,272,841**	**6,241,787**

At this stage it is too early to assess whether any recovery is available for any type of contingent liability so none has been assumed.

The above contingent liability type 2 figures include an allowance in respect of the two UK Coal schemes which have entered assessment since 31 March 2013. Had these schemes been recognised as a provision at 31 March 2013 then the funding ratio would have reduced from 109.6% to 107.1%

Annex S7 Actuarial balance sheet

On the main 31 March 2013 basis the Pension Protection Fund actuarial balance sheet is as follows:

Assets	£000s	Liabilities	£000s
The value of the Pension Protection Fund assets determined in accordance with the Pension Protection Fund (Valuation of the Assets and Liabilities of the Pension Protection Fund) Regulations 2006	15,078,929*	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	11,827,320*
The sum of the estimated values of the assets in the schemes that generated the provisions, plus any anticipated recoveries**	5,019,427***	The present value of the liabilities of the schemes forming the provisions **	6,518,531
Total assets	**20,098,356**	**Total liabilities**	**18,345,851**
Excess of assets over liabilities			**1,752,505**
Funding Ratio (Assets / liabilities)			**109.6%**

* Inclusive of £2,477,000 in respect of AVC assets that match AVC liabilities yet to be discharged
** Inclusive of an allowance for IBNR (scheme assets of £17,829,000 and liabilities of £22,542,000)
*** Inclusive of anticipated recoveries of £379,314,000

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

The balance sheet on the various scenarios (as described in the section on sensitivity analysis in Annex S5) is as follows. None of these scenarios should be interpreted as upper or lower bounds of the range of reasonable estimates which might be made

	Main Basis	Scenario 1 2013 Swaps less 15 basis points	Scenario 2 2013 gilts	Scenario 3 Nominal plus 0.5%	Scenario 4 Inflation plus 0.5%	Scenario 5 CPI is 0.9% lower than RPI	Scenario 6 10% reduction in death rates	Scenario 7 Long term mortality improvement plus 0.5%	Scenario 8 Non bond type assets fall by 10%	Scenario 9 S143 Basis
Assets	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
The value of the Pension Protection Fund assets	15,079	15,079	15,079	13,595	15,634	15,079	15,079	15,079	14,175	15,079
The values of the assets in the schemes that generated the provisions	5,019	5,019	5,019	4,813	5,140	5,019	5,019	5,019	4,817	5,019
Total assets	**20,098**	**20,098**	**20,098**	**18,408**	**20,774**	**20,098**	**20,098**	**20,098**	**18,992**	**20,098**
Liabilities										
The present value of the liabilities of the Pension Protection Fund	11,827	12,614	11,829	10,817	12,259	11,408	12,155	12,108	11,827	13,712
The present value of the liabilities of the schemes forming the provisions	6,519	6,927	6,529	6,006	6,773	6,291	6,702	6,883	6,519	7,325
Total liabilities	**18,346**	**19,541**	**18,358**	**16,823**	**19,032**	**17,699**	**18,857**	**18,991**	**18,346**	**21,037**
Excess of assets over liabilities	**1,752**	**557**	**1,740**	**1,585**	**1,742**	**2,399**	**1,241**	**1,107**	**646**	**(939)**
Funding Ratio (Assets / liabilities)	**110%**	**103%**	**109%**	**109%**	**109%**	**114%**	**107%**	**106%**	**104%**	**96%**

Annex S8 Comparison with the funding position as at 31 March 2012

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 2012	1,069
Change in actuarial liabilities (this is further broken down in section 7 of my report on the actuarial valuation of the Pension Protection Fund)	(3,453)
Change in liabilities for schemes forming the Provisions (this is further broken down in Annex S6)	550
Change in Pension Protection Fund assets (this is further broken down in section 6 of my report on the actuarial valuation of the Pension Protection Fund)	3,940
Change in assets for schemes forming the provisions (this is further broken down in Annex S6)	(354)
Excess of assets over liabilities on the actuarial balance sheet at 31 March 2013	**1,752**

Pension
Protection
Fund

Pension Protection Fund
Knollys House
17 Addiscombe Road
Croydon
Surrey CR0 6SR

T: 0845 600 2541
F: 020 8633 4903

www.pensionprotectionfund.org.uk

TSO
information & publishing solutions

Published by TSO (The Stationery Office) and available from:

Online
www.tsoshop.co.uk

Mail, telephone, fax and email
TSO
PO Box 29, Norwich NR3 1GN
Telephone orders/general enquiries: 0870 600 5522
Order through the Parliamentary Hotline Lo-Call 0845 7 023474
Fax orders: 0870 600 5533
Email: customer.services@tso.co.uk
Textphone: 0870 240 3701

The Houses of Parliament Shop
12 Bridge Street, Parliament Square,
London SW1A 2JX
Telephone orders/general enquiries: 020 7219 3890
Fax orders: 020 7219 3866
Email: shop@parliament.uk
Internet: http://www.shop.parliament.uk

TSO@Blackwell and other accredited agents

ISBN 978-0-10-298674-7

130047 - Designed by Croydon Design