Registered No: SC73158

PRUDENTIAL LIFETIME MORTGAGES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

PRUDENTIAL LIFETIME MORTGAGES LIMITED
Incorporated and registered in Scotland. Registered No: SC73158
Registered office: Craigforth, Stirling, FK9 4UE

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PRUDENTIAL LIFETIME MORTGAGES LIMITED

Directors

T Naidu (Chairwoman)
J Deeks
D Pender (resigned on 8 December 2015)

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Principal activity

The principal activity of Prudential Lifetime Mortgages Limited ("The Company") is mortgage lending and administration.

Business review

The Company was active in the lifetime mortgage market until April 2010, when a decision was made to close it to new business. The decision was in line with the Group's strategy to conserve capital. The Company, however, continues to service customers and offer further drawdowns. The Company has, since 2008, periodically sold tranches of its portfolio to its immediate parent The Prudential Assurance Company Limited (PAC) but continues to act as the mortgage administrator in respect of the portfolio transferred.

Key Performance Indicators	**2015**	2014	Change
	£000	£000	%
Profit on ordinary activities before taxation	**6,407**	13,440	(52)
Shareholders' funds at end of year	**61,216**	54,809	12
Regulatory Capital requirement	**8,255**	6,761	22
Loan portfolio	**64,757**	48,583	33
Loan to value ratio (LTV) (%)*	**24**	23	4

The major income lines for the Company are the interest accrued on loans advanced and the administration fees received from PAC. The Company funds its business through a floating rate loan secured from Prudential Capital Limited (Pru Cap), another group company. The interest rate risk in the business arises from the differences between the mortgage interest receivable and the interest on borrowings. This risk is hedged by entering into interest rate swaps.

The Company posted a pre-tax profit of £6,407k during the year as compared to £13,440k during 2014. In 2014 the Company sold part of its mortgage loan portfolio to PAC and booked a net profit of £16,970k on the sale. The transaction was not repeated in 2015. The Company booked unrealised gains of £324k on the mark to market valuation of swaps as compared to unrealised losses of £10,168k in 2014.

The movement in the loan portfolio for the year is due to additional drawdowns of £15,217k (2014: £18,100k) issued during the year and the interest accrued on the mortgage loans net of redemptions of £2,496k (2014: £2,556k).

*LTV for the business is calculated as the value of loans provided as compared to the property value. Since the beneficial interest in the loans is transferred to PAC on sale, the LTV is calculated based on the property value attributable to the loans held by the Company. Since the Company is closed to new business the LTV is expected to increase over time due to the increase in the loans given during the year subject to the movement in redemptions.

Risks & uncertainties

The Company is a wholly owned subsidiary of the Prudential Group and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual and Group Risk Framework. The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. As such, they provide strong but not absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving the business objectives.

The Group Risk Framework requires all business units and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk management framework for the Company is approved by the Board and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

The Company's results and financial condition are exposed to both financial and non-financial risks. The key risk factors mentioned below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Financial risk

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are market, credit, liquidity and insurance risks. These financial risks and the management thereof are discussed in Note 20.

Non-financial risk

The Company has a limited exposure to business environment, strategic, operational and group risk.

a) Business environment risk

Business environment risk is the risk of exposures to forces in the external environment that could significantly change the fundamentals that drive the business's overall objectives and strategy.

Changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services sector, which in some circumstances may be applied retrospectively, may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements. Also, the regulator may change the level of capital required to be held by individual businesses thereby impacting the capital requirements of the Company.

Any further changes or modification to Financial Reporting Standard 101 (FRS101) and the International Financial Reporting Standards (IFRS) adopted as a consequence of FRS101 may require a change in the reporting basis of future results, or a restatement of reported results.

b) Strategic risk

Strategic risk is the risk of ineffective, inefficient or inadequate senior management processes for the development and implementation of business strategy in relation to the business environment and the Group's capabilities.

The Company has little exposure to this risk, however any changes in the regulatory and market environment, could play a role in forcing the senior management to take decisions which could affect the Company's performance.

c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company's systems and processes incorporate controls which are designed to manage and mitigate the operational risks associated with its activities as any weakness in the administration systems, finance systems and processes could have an impact on its results during the effective period.

The Company is, and in the future may be, subject to legal and regulatory actions in the ordinary course of its business. These actions could involve a review of business sold in the past under acceptable market practices at the time, changes to the tax regime affecting products and regulatory reviews on products sold and industry practices, including in the latter case businesses it has closed.

d) Group risk

Group risk is the risk of a direct or indirect loss arising from a connection with a related undertaking.

Group risk is present from the consequences of risks arising from other parts of the Group in addition to those risks arising from the Company's own activities. The independent capitalisation of the Company as well as the risk management processes and internal control mechanisms within the Company ensure Group risk is appropriately managed.

B Rais
On behalf of Prudential Group Secretarial Services Limited
Company Secretary

14 March 2016

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

None of the information required to be included in the Directors' Report under Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) has been set out in the Company's Strategic Report.

Corporate responsibility

The Company is a wholly owned subsidiary within the Prudential Group and Corporate Responsibility (CR) is integral to the way the Group does business.

The Group, of which the Company is a part, has developed a Group Governance Framework which is underpinned by a Group Governance Manual and associated processes. This encompasses all key policies and procedures for example, the Group Code of Business Conduct.

As a business that provides savings, income, investment and protection products and services, social value is created through the day-to-day operations. The Group provides customers with ways to help manage uncertainty and build a more secure future. In seeking to match the long-term liabilities the Group has towards its customers with similarly long-term financial assets, it provides capital that finances businesses, builds infrastructure and fosters growth in both developed and developing markets.

The Group's sustainable approach to business is reinforced by the Group-wide CR strategy. While the Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders, the Group approach is underpinned by four global CR themes:

- Serving its customers: The Group aims to provide fair and transparent products that meets the customers' needs
- Valuing its people: The Group aspires to retain and develop highly engaged employees
- Supporting local communities: The Group seeks to make a positive contribution to its communities through long-term partnerships with charitable organisations that make a real difference
- Protecting the environment: The Group takes responsibility for the environment in which it operates

These themes demonstrate the Group's CR commitments and principles to its stakeholders and provide clarity to its businesses, including the Company, on where they should focus their CR efforts and resources in the context of their individual markets.

The Prudential plc Board discusses the Group's performance in the areas of social and environmental management at least once a year and also reviews and approves the Group's corporate responsibility report and strategy on an annual basis.

Accounts

The state of the affairs of the Company at 31 December 2015 is shown in the balance sheet on page 10. The statement of comprehensive income appears on page 9.

Post balance sheet events

There have been no significant events affecting the Company since the balance sheet date.

Share Capital

There have been no changes to the Company's share capital during the year.

Directors

The present directors are shown on page 1.

Mr D Pender resigned as a director on 8 December 2015. There were no further changes during the year and up to the date of approving this report.

Financial risk management objectives, policies and exposure

The Company is exposed to risk through its financial assets and liabilities. The financial risk factors affecting the Company include market risk, credit risk, liquidity risk and insurance risk. Further information on the financial risk management objectives and policies of the Company are given in Note 20.

Disclosure to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Auditor

In accordance with Section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to be re-appointed auditor of the Company for the current financial year.

Directors' and officers' protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides protections for directors and senior managers of companies within the Group against personal financial exposure they may incur in their capacity as such. These indemnities were in force during 2015 and remain in force.

On behalf of the Board of directors

B Rais
On behalf of Prudential Group Secretarial Services Limited
Company Secretary

14 March 2016

PRUDENTIAL LIFETIME MORTGAGES LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

T Naidu
Director
14 March 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL LIFETIME MORTGAGES LIMITED

We have audited the financial statements of Prudential Lifetime Mortgages Limited for the year ended 31 December 2015 set out on pages 9 to 25. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Caroline Gilbertson

Caroline Gilbertson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
14 March 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
		£000	£000
Operating income	2	**6,144**	23,982
Administrative expenses	3,4	**(2,516)**	(2,056)
Operating profit		**3,628**	21,926
Interest receivable	5	**4,699**	5,214
Interest payable	6	**(2,244)**	(3,532)
Unrealised gains/(losses)	7	**324**	(10,168)
Profit on ordinary activities for the year before taxation		**6,407**	13,440
Taxation on profit on ordinary activities	8	**—**	(584)
Profit and comprehensive income for the financial year		**6,407**	12,856

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

PRUDENTIAL LIFETIME MORTGAGES LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015	2014
		£000	£000
Current assets			
Loans and advances to customers	9	**64,757**	48,583
Trade and other debtors	10	**348,662**	352,929
Cash and bank balances	11	**40,276**	35,648
		453,695	437,160
Current liabilities			
Trade and other creditors: amounts falling due within one year	12	**6,300**	6,818
Net current assets		**447,395**	430,342
Total assets less current liabilities		**447,395**	430,342
Creditors: amounts falling due after one year	13	**386,179**	375,533
Net assets		**61,216**	54,809
Capital and reserves			
Ordinary share capital	14	**53,000**	53,000
Preference share capital	15	**14,620**	14,620
Profit and loss account	16	**(6,404)**	(12,811)
Shareholders' funds - equity interests		**61,216**	54,809

The financial statements on pages 9 to 25 were approved by the board of directors on 14 March 2016.
The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

T Naidu
Director

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Called Up Share Capital	Profit and Loss Account	Total Equity
	£000	£000	£000
Balance at 1 January 2014	67,620	(25,667)	41,953
Total comprehensive income for the period			
Profit or loss	—	12,856	12,856
Other comprehensive income	—	—	—
Total comprehensive income for the period	—	12,856	12,856
Balance at 31 December 2014	67,620	(12,811)	54,809
Balance at 1 January 2015	**67,620**	**(12,811)**	**54,809**
Total comprehensive income for the period			
Profit or loss	—	**6,407**	**6,407**
Other comprehensive income	—	—	—
Total comprehensive income for the period	—	**6,407**	**6,407**
Balance at 31 December 2015	**67,620**	**(6,404)**	**61,216**

The accounting policies and notes on pages 12 to 25 form an integral part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting policies

A. Changes in Accounting Policies

In 2015 there have been no changes to accounting policies arising from changes to, or new Financial Reporting Standards.

B. Basis of preparation

The Company is a company incorporated and domiciled in Scotland.

The financial statements have been prepared in accordance with FRS101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company's ultimate parent undertaking, Prudential plc, includes the Company in its consolidated financial statements. The consolidated financial statements of Prudential plc are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries within the Group;
- Disclosures in respect of the compensation of key management personnel;
- Comparative period reconciliations for share capital; and
- The effect of new but not effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy capital adequacy, well in excess of the capital requirements stipulated by FCA. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review on page 2.

C. Classification of instruments issued by the Company

Having adopted FRS101, IAS 32 is being applied to the financial instruments issued by the Company and are treated as equity only to the extent that they meet the following two conditions:

(i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

D. Non-derivative financial instruments

Under IAS39, upon initial recognition financial instruments are recognised at fair value. The Company is permitted, subject to specific criteria, to designate its instruments as either at fair value through profit and loss, held on an available-for-sale basis, held to maturity, or loans and receivables. The Company holds financial instruments on the following bases:

(i) Financial instruments at fair value through profit and loss – this comprises certain debtors and creditors designated by management as fair value through profit and loss. These instruments are valued at fair value with all changes thereon being recognised in the profit and loss account. The Company uses the discounted cash flow methodology to determine the fair value.

(ii) Loans and receivables – this comprises instruments that have fixed or determinable payments and are not designated as fair value through profit and loss. These instruments include loans and advances to customers and other unsecured loans and receivables and creditors. These instruments are carried at amortised cost using the effective interest method and subject to impairment reviews. The Company measures the amount of the impairment loss, if any, by comparing the amortised cost with the present value of its estimated future cash flows discounted at the original effective interest rate.

E. Derivatives

Transactions are undertaken in interest rate swaps. Interest rate swaps are entered into for the purpose of matching or eliminating risk from potential movements in interest rates inherent in the Company's assets, liabilities and positions. The interest rate swaps are recognised at fair value through profit and loss with all changes to the fair value being recognised in the profit and loss account. Hedge accounting is not applied.

Any profit or loss on cancellation of swaps pursuant to sale of mortgage loans shall be borne by the Company.

F. Revenue recognition

Operating income comprises of fees earned by the Company and is accounted for on an accruals basis.
Interest receivable on mortgages, interest rate swaps and loans given by the Company is accounted for on an accruals basis.

G. Expenses

Administrative expenses comprise of management expenses and are accounted for on an accruals basis.
Interest payable comprises interest payable on loans and interest rate swaps and is accounted for on an accruals basis.

H. Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences relating to investments in subsidiaries, to the extent that they will probably not reverse in the foreseeable future,are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

2. Operating income

	2015	2014
	£000	£000
Borrower fee income	**3,808**	3,667
Administration fees	**2,336**	3,345
Realised gains on sale of mortgage loans	—	19,768
Realised losses on cancellation of interest rate swaps	—	(2,798)
	6,144	23,982

3. Directors' emoluments and staff costs

During the year the directors of the Company received the following emoluments in respect of work performed on behalf of the Company:

	2015	2014
	£000	£000
Aggregate emoluments and benefits	**5**	2
	5	2

The Company has no employees.

Included within administrative expenses are amounts paid in return for management services provided to the Company by other group companies.

4. Auditors' remuneration

Auditor's remuneration of £20k (2014: £20k) in respect of the audit of the Company's financial statements is borne by a group company, Prudential Distribution Limited.

5. Interest receivable

	2015	2014
	£000	£000
Mortgage interest receivable	**3,882**	4,320
Bank interest	**140**	121
Swap interest	**326**	446
Other interest	**351**	327
	4,699	5,214

6. Interest payable

	2015	2014
	£000	£000
Loan interest	**652**	1,018
Swap interest	**1,592**	2,514
	2,244	3,532

7. Unrealised gains/(losses)

	2015	2014
	£000	£000
Unrealised gains on fair valuation of debtors	645	68,527
Unrealised losses on fair valuation of creditors	(645)	(68,527)
Unrealised gains/(losses) on valuation of interest rate swaps	324	(10,168)
	324	(10,168)

8. Tax

a) Tax charge

	2015	2014
	£000	£000
Current tax:		
Adjustments in respect of previous years	—	—
Total current tax charge in the period	—	—
Deferred tax :		
Origination and reversal of temporary difference	—	584
Total deferred tax charge in the period	—	584
Total tax charge in the period	—	584

b) Factors affecting tax charge for period

The reduction in the UK corporation tax rate to 19% from 1 April 2017 and the further reduction to 18% from 1 April 2020 was substantively enacted on 26 October 2015 which has had the effect of reducing the deferred tax balance as at 31 December 2015. These changes are reflected in the financial statements for the year ended 31 December 2015. Other than the effects of permanent differences and adjustments in respect of previous periods, it is not expected that the tax charge will deviate from that calculated by applying the standard rate of corporation tax to the profit before tax of the Company.

	2015	2014
	£000	£000
Profit on ordinary activities before tax	6,407	13,440
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 20.25% (2014: 21.50%)	1,297	2,890
Effects of :		
Other permanent differences	—	—
Utilisation of losses on which no deferred tax is recognised	(1,297)	(2,262)
Adjustments to current tax in respect of previous years	—	—
Impact of rate change	—	(44)
Total tax charge	—	584

c) Balance sheet

	2015	2014
	£000	£000
Deferred tax asset explained by:		
Short term timing differences	—	—
Deferred tax asset at start of period	—	584
Deferred tax for the period	—	(584)
Deferred tax asset at end of period	—	—

As at 31 December 2015, there is an unrecognised deferred tax asset of £3,085k (2014:£4,710k) relating to losses. A deferred tax asset has not been recognised on the basis that there is insufficient certainty that there will be appropriate future taxable profits for utilisation of these losses.

9. Loans and advances to customers

	2015	2014
	£000	£000
Loans and advances:		
Balance at 1 January	**48,583**	97,878
Additional drawdowns	**15,217**	18,100
Loans sold	—	(68,622)
Amounts redeemed	**(2,496)**	(2,556)
Interest	**3,453**	3,783
Balance at 31 December	**64,757**	48,583

In 2014 the Company had sold part of its mortgage loan portfolio to The Prudential Assurance Company Ltd.

10. Trade and other debtors

	2015	2014
	£000	£000
Amounts falling due within one year :		
Interest receivable on swaps	**144**	96
Prepayments and accrued income	**48**	31
Amounts falling due after one year :		
Amount receivable from group undertakings*	**348,278**	352,802
Derivative assets - interest rate swaps	**192**	—
	348,662	352,929

*The outstanding balance includes deferred purchase consideration receivable from The Prudential Assurance Company Ltd for the sale of mortgages purchased from Abbey National Treasury Services Plc ("ANTS").

11. Cash and bank balances

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long term business funds) and all overdrawn balances of those Group companies with similar arrangements.

12. Trade and other creditors: amounts falling due within one year

	2015	2014
	£000	£000
Amounts due to group undertakings	5,579	6,299
Interest payable on swaps	620	502
Sundry creditors	101	17
	6,300	6,818

13. Trade and other creditors: amounts falling due after one year

	2015	2014
	£000	£000
Repayable in more than five years:		
Amounts due to group undertakings*	51,781	36,128
Derivative liabilities - interest rate swaps	12,431	12,563
Other creditors**	321,967	326,842
	386,179	375,533

*These are floating rate instruments with an option to renew at the end of the term and are expected to be repaid in more than five years.

**The outstanding balance represents deferred purchase consideration payable to ANTS.

14. Ordinary share capital

	2015	2014
	£000	£000
Issued, called up and fully paid:		
Balance at 1 January and 31 December	53,000	53,000

There has been no increase in the ordinary share capital in the year.

15. Preference share capital

	2015	2014
	£000	£000
Issued, called up and fully paid:		
Balance at 1 January and 31 December	14,620	14,620

There has been no increase in the preference share capital in the year.

The preference shares are only redeemable at the option of the Company. The preference shares do not confer any further right of participation in the profits or assets of the Company. On the redemption of the preference shares the nominal amount of the preference shares will be redeemed to the members of the Company along with the amount of the preference dividend accrued on such shares. On a winding up, they carry a preferential right of return of capital ahead of the ordinary shares.

16. Profit and loss account

	2015	2014
	£000	£000
Balance at 1 January	(12,811)	(25,667)
Retained profit for the financial year	6,407	12,856
Balance at 31 December	(6,404)	(12,811)

17. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of Financial Reporting Standard 101 (FRS101) from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

18. Contractual commitments

	2015	2014
	£000	£000
Equity release mortgages available for future drawdown	229,697	239,817

19. Assets and liabilities

A. Assets and liabilities – measurement and classification

The classification of the Company's assets and liabilities, and their corresponding accounting carrying values reflect the requirements of IFRS. For financial investments the basis of valuation reflects the Company's application of IAS 39 'Financial Instruments: Recognition and Measurement' as described further below. Where assets and liabilities have been valued at fair value or measured on a different basis but fair value is disclosed, the Company has followed the principles under IFRS 13 'Fair Value Measurement'. The basis applied is summarised below.

2015	Fair value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£000	£000	£000	£000
Loans	—	64,757	64,757	94,813
Trade and other debtors	321,967	26,503	348,470	348,470
Derivative assets	192	—	192	192
Cash at bank and in hand	—	40,276	40,276	40,276
Total assets	322,159	131,536	453,695	483,751

	Fair value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£000	£000	£000	£000
Trade and other creditors	321,967	58,081	380,048	380,048
Derivative liabilities	12,431	—	12,431	12,431
Total liabilities	334,398	58,081	392,479	392,479

NOTES ON THE FINANCIAL STATEMENTS (continued)

2014	Fair value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£000	£000	£000	£000
Loans	—	48,583	48,583	60,178
Trade and other debtors	326,842	26,087	352,929	352,929
Cash at bank and in hand	—	35,648	35,648	35,648
Total assets	326,842	110,318	437,160	448,755

	Fair value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£000	£000	£000	£000
Trade and other creditors	326,842	42,946	369,788	369,788
Derivative liabilities	12,563	—	12,563	12,563
Total liabilities	339,405	42,946	382,351	382,351

Determination of fair value

The fair values of the financial assets and liabilities as included in the table above have been determined on the following bases.

The fair value of debtors and creditors designated as fair value through profit and loss are determined by discounted cash flows expected to be received.

The loans and receivables have been shown net of any provisions for impairment. The fair value of loans has been estimated from discounted cash flows expected to be received. The rate of discount used was the market rate of interest where applicable.

The estimated fair value of the interest rate swap derivative financial instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction.

The fair value of loans has been estimated from discounted cash flows expected to be received.

The fair value of other financial assets and liabilities is determined using discounted cash flows of the amounts expected to be received or paid.

Fair value measurement hierarchy of assets and liabilities

Assets and liabilities carried at fair value on the balance sheet:

The table below includes financial instruments carried at fair value analysed by level of the IFRS13 – Fair Value Measurement defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

The classification criteria and its application to the Company can be summarised as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs other than quoted prices included within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: Significant inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Level 3 principally includes investments which are internally valued or subject to a significant number of unobservable assumptions.

NOTES ON THE FINANCIAL STATEMENTS (continued)

				31 December 2015
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Trade debtors	**—**	**321,967**	**—**	**321,967**
Derivative assets	**—**	**106**	**86**	**192**
Trade creditors	**—**	**(321,967)**	**—**	**(321,967)**
Derivative liabilities	**—**	**(12,431)**	**—**	**(12,431)**
Total financial investments, net of derivative liabilities	**—**	**(12,325)**	**86**	**(12,239)**
Percentage of total (%)	**—**	**101**	**(1)**	**100**

				31 December 2014
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Trade debtors	—	326,842	—	326,842
Trade creditors	—	(326,842)	—	(326,842)
Derivative liabilities	—	(12,563)	—	(12,563)
Total financial investments, net of derivative liabilities	—	(12,563)	—	(12,563)
Percentage of total (%)	—	100	—	100

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 financial instruments at 1 January 2015 to that presented at 31 December 2015.

Transfers out of level 3 include derivative instrument reclassifications from level 3 to level 2.

	At 1 Jan 2015	**Total gains/ (losses)**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec 2015**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative assets	—	—	**86**	—	—	—	**86**
Derivative liabilities	—	—	—	—	—	—	—
Total financial investments net of derivative liabilities	—	—	**86**	—	—	—	**86**

	At 1 Jan 2014	Total gains/ (losses)	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2014
	£000	£000	£000	£000	£000	£000	£000
Derivative assets	60	(255)	—	195	—	—	—
Derivative liabilities	(748)	(282)	—	1,030	—	—	—
Total financial investments net of derivative liabilities	(688)	(537)	—	1,225	—	—	—

Assets and liabilities at amortised cost for which fair value is disclosed:

The table below shows the assets and liabilities carried at cost or amortised cost on the balance sheet but for which fair value is disclosed in the financial statements. The assets and liabilities that are carried at amortised cost but where the carrying value approximates to the fair value, have not been included in the analysis below:

				31 December 2015
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Assets				
Loans and advances to customers	—	**94,813**	—	**94,813**

				31 December 2014
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Assets				
Loans and advances to customers	—	60,178	—	60,178

Market risk

The financial assets and liabilities attaching to the Company's business are, to varying degrees, subject to market risk that may have a material effect on the profit or loss and shareholders' funds.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk arises from:

- Interest rate risk: due to changes in market interest rates,
- Currency risk: due to changes in foreign exchange rates, and
- Other price risk: due to fluctuations in market prices (other than those arising from interest rate risk or currency risk).

Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities and their direct exposure to interest rate risk. Each applicable class of the Company's assets or liabilities are analysed between those exposed to fair value interest rate risk, cash flow interest rate risk and those with no direct interest rate risk exposure.

2015	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Not directly exposed to interest rate risk**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Loans and advances to customers	**64,757**	—	—	**64,757**
Trade and other debtors	**321,967**	**26,455**	**48**	**348,470**
Derivative assets	—	**192**	—	**192**
Cash at bank and in hand	—	**40,276**	—	**40,276**
	386,724	**66,923**	**48**	**453,695**
Financial Liabilities				
Trade and other creditors	**321,967**	**52,401**	**5,680**	**380,048**
Derivative liabilities	—	**12,431**	—	**12,431**
	321,967	**64,832**	**5,680**	**392,479**

2014	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Loans and advances to customers	48,583	—	—	48,583
Trade and other debtors	326,842	26,056	31	352,929
Cash at bank and in hand	—	35,648	—	35,648
	375,425	61,704	31	437,160
Financial Liabilities				
Trade and other creditors	326,842	36,631	6,315	369,788
Derivative liabilities	—	12,563	—	12,563
	326,842	49,194	6,315	382,351

Sensitivity to interest rate movements

A considerable part of the Company's profit is a function of the fixed interest income accruing on the mortgage loans made to the customers and floating rate interest expense paid on loans taken out by the Company to fund the business. The Company hedges this interest rate mismatch risk by using interest rate swaps so that the Company's profits are not materially affected by changes in interest rates.

The Company's profits can also be affected by an increase in volatility or fall in value of the residential property in the UK backing the loans made to customers. To manage this risk, the Company limits the maximum loan to value ratio on the loans made to customers.

The current loan to value ratios are well below the internally set limits. Further, it is expected that before the loan to value ratios increase beyond the set limits the Company will sell the mortgages to another group company, where a provision for the "no negative equity" guarantee risk, which is the risk that the accumulated value on the loan exceeds the property value at the time of policy termination, will be held.

Liquidity analysis

(i) Contractual maturities of financial liabilities

The following tables set out the contractual maturities and repricing dates for applicable classes of financial liabilities, excluding derivative liabilities which are separately presented. The financial liabilities are included in the column relating to the contractual maturities and repricing dates at the undiscounted cash flows (including contractual interest payments) due to be paid assuming conditions are consistent with those of year end.

2015	**1 year or less**	**After 1 year to 10 years**	**Over 20 years**	**Total un-discounted cashflows**	**Total carrying value**
	£000	**£000**	**£000**	**£000**	**£000**
Financial liabilities					
Other creditors	**6,300**	**51,781**	**321,967**	**654,851**	**380,048**
	6,300	**51,781**	**321,967**	**654,765**	**380,048**

2014	1 year or less	After 1 year to 10 years	Over 20 years	Total un-discounted cashflows	Total carrying value
	£000	£000	£000	£000	£000
Financial liabilities					
Other creditors	6,818	36,128	326,842	645,235	369,788
	6,818	36,128	326,842	645,235	369,788

(ii) Maturity analysis of derivatives and investment contracts

The following table provides a maturity analysis of derivative assets and liabilities:

2015	**1 year or less**	**After 1 to 3 years**	**After 3 to 5 years**	**After 5 years**	**Total carrying value**
	£000	**£000**	**£000**	**£000**	**£000**
Net derivative position	**—**	**—**	**—**	**(12,239)**	**(12,239)**

2014	1 year or less	After 1 to 3 years	After 3 to 5 years	After 5 years	Total carrying value
	£000	£000	£000	£000	£000
Net derivative position	—	—	—	(12,563)	(12,563)

The net derivative positions as shown in the table above comprise the following derivative assets and liabilities:

	2015	2014
	£000	£000
Derivative assets	**192**	—
Derivative liabilities	**12,431**	12,563
Net derivative position	**(12,239)**	(12,563)

The derivative assets and liabilities have been included at fair value in the 'After 5 years' column representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures).

Currency risk

The Company is not exposed to any currency risk as it does not have any foreign currency exposures.

Other price risk

The Company is not exposed to any other price risk as it does not have any exposure to equity or investment property.

20. Financial risk management

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk factors affecting the Company are described below together with details of the management of the risks.

(a) Credit risk

Credit risk is the risk of loss to the Company or of adverse change in the financial position, resulting from fluctuations in the credit standing of counterparties and any debtors in the form of default or other significant credit event

The Company, in the normal course of business enters into a variety of transactions with counterparties, including interest rate swaps as mentioned above. Failure of any of these counterparties to discharge their obligations, or where adequate collateral is not in place, could have an adverse impact on the Company's results.

The loans given to customers are secured against residential properties as collateral. The other debtors are predominantly intragroup and therefore the risk of default is considered to be minimal.

(b) Market risk

Market risk is the risk of loss or adverse change in the financial condition of the Company resulting directly or indirectly, from fluctuations in the level and/or volatility of market prices of assets and liabilities and changes in interest rates.

Market risk is a significant risk for the Company. A considerable part of the Company's profit is a function of the fixed interest income accruing on the mortgage loans made to the customers and floating rate interest expense paid on loans taken out by the Company to fund the business. The Company hedges this interest rate mismatch risk by using interest rate swaps so that the Company's profits are not materially affected by changes in interest rates.

The Company's profits can also be affected by an increase in volatility or fall in value of the residential property in the UK backing the loans made to customers. To manage this risk, the Company limits the maximum loan to value ratio on the loans made to customers.

The current loan to value ratios are well below the internally set limits. Further, it is expected that before the loan to value ratios increase beyond the set limits the Company will sell the mortgages to another group company.

(c) Insurance risk

Longevity risk is the risk of customers living longer than expected.

This will result in delayed emergence of cash flows compared to expected. This risk can also adversely impact the Company in certain scenarios if loan balances increase substantially, increasing the risk of "no negative equity" guarantee materialising. This risk is mitigated by limiting the loan to value ratios.

(d) Liquidity risk

Liquidity risk is the risk that the Company, although solvent on a balance sheet basis, does not have sufficient resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

This risk is managed through careful management of bank balances and cash-flow forecasting. The Company is governed by the Risk Procedure Manual within the Group and has a defined liquidity appetite.

(e) Persistency risk

Persistency risk is the risk of actual persistency or customer retention levels being different to the Company's expectations.

This risk can materialise if more customers opt for early repayment or transfer of their loans than expected in the Company's assumptions. This can result in reduction in the current and expected future profits from this line of business and hence profitability for the Company. Early repayments impact the Company's profitability if the early repayment charges are not sufficient to cover costs and loss in profitability on early repayments.

21. Capital requirements and management

The Company is regulated by the Financial Conduct Authority (FCA) as a mortgage lender and administrator and is subject to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU rules). As stipulated in MIPRU rule 4.2.23R, the Company is required to maintain capital resources equivalent to higher of £100k and 1% of the total adjusted assets plus credit risk requirement of 8% of the qualifying risk weighted assets. The total adjusted assets as defined in the rules includes undrawn commitments and unreleased amounts in respect of the loans less assets covered under the credit risk requirement. A risk weight of 75% is applied on the qualifying assets i.e. on outstanding loan balances for loans issued on or after 26 April 2014.

The minimum regulatory capital requirement of the Company as at 31 December 2015 was £8,255k (31 December 2014: £6,761k) against which the Company had capital resources amounting to £54,809k (2014: £41,953k).

22. Immediate and ultimate parent company

The immediate parent company is The Prudential Assurance Company Limited. The ultimate parent company is Prudential plc which is the only parent company which prepares group accounts. Copies of these accounts can be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.