Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2015

Incorporated and registered in England and Wales. Registered No. 992726.
Registered office: Laurence Pountney Hill, London EC4R 0HH.

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Directors

H A Hussain (Chairman)
T Naidu
D Pender (appointed 13 February 2015, resigned 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 Pensions Limited (the Company) is the writing of long-term insurance business in the United Kingdom. This activity will continue in 2016.

Business review

Market review and strategy

The Company accepts reinsurance from both The Prudential Assurance Company Limited and external parties in respect of corporate pension schemes. In addition the Company sells direct investment only business to group pension schemes. Most of the Company's products are unit-linked products. The Company has a small book of annuities reassured to another group company. The profits from the Company's business accrue solely to shareholders.

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group and M&G.

UKIO's long-term products consist of life insurance, pension products and pension annuities. The Company remains focused on maximising value from the opportunity afforded by the fast growing need for retirement solutions.

The M&G side of the business largely invests money on behalf of defined benefit pension schemes. The key determinant of success and retention is delivery of good investment performance relative to the benchmark. The Company is further exposed to changes in the marketplace, particularly in relation to its traditional defined benefit book, and actively monitors those changes.

Performance and measurement

The following table sets out the key performance indicators for the Company. These are considered to be the key metrics for the Company.

Key Performance Indicators	**2015**	**2014**	**Change**
	£000	**£000**	**%**
Profit on ordinary activities before tax	8,449	13,347	(36.7)%
Shareholder funds	60,690	63,717	(4.8)%
Funds under management	11,285,015	12,964,198	(13.0)%

The Company's profit on ordinary activities before tax and funds under management have been impacted in 2015 by challenging conditions in financial markets and an increased volume of claims as pension schemes looked for different investment risks and returns.

Risks & uncertainties

As a provider of insurance services, the Company's business is the managed acceptance of risk. 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 risks

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk. Further information on the financial risk management objectives and policies of the Company and exposure of the Company to financial risk factors is given in Note 23.

Non-financial risk

The Company is exposed to business environment, strategic, conduct, 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.

The Company conducts its business subject to regulation and is therefore exposed to changes in laws, and regulations that affect the products and markets in which it operates. Changes in government policy, legislation (including tax), regulatory interpretation and accounting standards applying to UK insurance companies may be applied retrospectively, may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements.

The material regulatory and legislative change risks currently faced by the Company are:

- The European Union's Solvency II Directive came into effect on 1 January 2016. This measure of regulatory capital is more volatile than under the previous Solvency I regime and regulatory policy may evolve under the new regime. The European Commission will review elements of the Solvency II legislation from 2016 onwards including a review of the Long Term Guarantee measures by 1 January 2021.

- The International Association of Insurance Advisors (IAIS) is developing ComFrame which is focused on the supervision of large and complex Internationally Active Insurance Groups (IAIGs). ComFrame will establish a set of common principles and standards designed to assist regulators in addressing risks that arise from insurance groups with operations in multiple jurisdictions. As part of this, work is underway to develop a global Insurance Capital Standard (ICS) that would apply to IAIGs. Once the development of the ICS has been concluded, it is intended to replace the basic capital requirement as the minimum group capital requirement for G-SIIs. Further consultations on the ICS are expected over the coming years, and a version of the ICS is expected to be adopted as part of ComFrame in late 2019.

- The Company is subject to regulation by both the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) which gives rise to increased thematic review activity, additional and conflicting regulatory demands and the implications from the FCA's competition objective.

- Any further changes or modification to FRS101 or International Financial Reporting Standards adopted as a consequence of FRS101, may require a change in the reporting basis of future results.

- Changes in tax legislation could affect the Company's financial condition and results of operations.

- The UK Government has committed to holding a "remain/leave" referendum on EU membership which will be held on 23 June 2016. The possible withdrawal of the UK from the EU would have political, legal and economic ramifications for both the UK and the EU, although these are expected to be more pronounced in the UK.

The market for UK financial services is highly competitive with several factors affecting the Company's ability to sell its products and its continued profitability. These include; the range of products offered, price and yields offered, financial strength and ratings, product quality, brand strength and name recognition, and investment management performance. Responding appropriately to changes in the business environment both short and longer term is a key risk for the Company.

(b) Strategic and group 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.

Being a member of the Prudential group can provide significant advantages for the Company in terms of the brand, financial strength, technical expertise and management experience. It can also give rise to risks; if a change in strategy or support given by the parent or another member of the group on which the Company relies, were removed. The independent capitalisation of the Company as well as the strategic planning and risk management processes within the Company ensures any strategic or group risk is appropriately managed.

(c) Conduct risk

Conduct risk is the risk of loss arising from the approach taken by firms in their relationship with customers.

The Company puts customer needs at the heart of its business in providing financial products and services to its customers. In so doing, the Company aims to uphold a reputation built over 160 years, for acting responsibly and with integrity in supporting customers whilst respecting the laws and regulations, traditions and cultures within which it operates, as well as meeting internationally accepted standards of responsible business conduct.

Exposure to conduct risk will arise from the impact on consumers from the way the Company manages itself; the products and services provided; the response and management of the financial risks to which customers are exposed, through to the performance of the products they buy from the Company and through intermediaries.

(d) 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 is exposed to operational risk in the ordinary course of its business and as a result may be subject to unplanned costs, reputational damage, regulatory or legal actions and disputes.

The Company's activities and target market relies on the investment management performance and expertise within both intra-group and external partners to attract and retain corporate clients, resulting in the potential for key person risk for certain funds. Also, the Company needs to maintain good relationships with Employment Benefit Consultants to manage the retention of a small number of schemes which contribute significant funds under management and profit.

The Company's unit-linked business requires timely and accurate processing of a large number of complex transactions to minimise the risk of fund and pricing errors. In addition, the Company outsources several operations intra-group and externally, including investment management, pricing and IT. The Company is therefore reliant upon the operational processing performance of its outsourcing partners, and their performance is monitored carefully. 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 or actuarial reserving process could have an impact on its results during the affected period.

Further, because of the long-term nature of much of the Company's business, accurate records have to be maintained for significant periods. As a result it is exposed to the risks of data integrity and data security potentially resulting in regulatory breaches, complaints and brand damage.

On behalf of the Board of directors

B Rais
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
24 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 7 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.

Post balance sheet events

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

Accounts and dividends

The state of affairs of the Company at 31 December 2015 is shown in the balance sheet on page 11. The statement of comprehensive income appears on pages 9 to 10.

An interim dividend of £10m was paid during the year. No final dividend is proposed for the year (2014: Nil).

Share capital

There were no changes in the Company's share capital during 2015.

Directors

The present directors are shown on page 1.

Mr D Pender was appointed as a director on 13 February 2015 and resigned as a director on 8 December 2015.

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 they ought to have taken as a director to make themselves 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

An ordinary resolution of the Company for the re-appointment of KPMG LLP as auditor of the Company will be proposed to the members of the Company in accordance with Section 485(4)(a) of the Companies Act 2006.

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
24 March 2016

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

The directors are responsible for preparing the Strategic Report and 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 FRS101 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.

H A Hussain
Director
24 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of Prudential Pensions Limited for the year ended 31 December 2015 set out on pages 9 to 32. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS101 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 auditors

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 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
24 March 2016

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

Long-term Business Technical Account		**2015**	2014
	Note	**£000**	£000
Investment income	3	**895,588**	847,742
Unrealised gains / (losses) on investment	3	**(668,212)**	363,082
Other technical income	3	**20,994**	25,257
		248,370	1,236,081
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount		**7,118**	(2,631)
- reinsurers' share		**(7,118)**	2,731
	14	**—**	100
Change in technical provisions for linked liabilities	14	**(241,473)**	(1,200,253)
		(241,473)	(1,200,153)
Net Operating Expenses			
- Acquisition costs		**(438)**	(553)
- Administrative expenses		**(4,493)**	(4,054)
Investment expenses and charges	3	**(6,558)**	(9,393)
Foreign exchange gains / (losses)	3	**14,894**	(7,106)
Interest payable	3	**(58)**	(44)
Tax attributable to long-term business	4	**(3,363)**	(4,218)
		(16)	(25,368)
Balance on the long-term business technical account		**6,881**	10,560

All of the amounts above are in respect of continuing operations.

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

Non-Technical Account	Note	2015 £000	2014 £000
Balance on the long-term business technical account		**6,881**	10,560
Tax attributable to the balance on the long-term business technical account	4	**1,453**	2,718
Balance on the long-term business technical account before tax		**8,334**	13,278
Investment income	3	**124**	78
Investment expenses and charges	3	**(9)**	(9)
Operating profit on ordinary activities before tax		**8,449**	13,347
Tax on profit on ordinary activities	4	**(1,476)**	(2,734)
Profit and comprehensive income for the financial year		**6,973**	10,613

All of the amounts above are in respect of continuing operations.

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2015

	Note	2015 £000	2014 £000
Assets			
Investments			
Other financial investments	8	**67,843**	72,898
Assets held to cover linked liabilities	9	**11,285,015**	12,964,198
Reinsurers' share of technical provisions			
Long-term business provision	14,16	**59,877**	66,994
Debtors			
Other debtors	10	**1,359**	522
Other assets			
Cash at bank and in hand	11	**2,934**	9,011
Prepayments and accrued income		**132**	143
Total assets		**11,417,160**	13,113,766
Liabilities			
Capital and reserves			
Called up share capital	13	**6,000**	6,000
Capital redemption reserve		**4,088**	4,088
Profit and loss account		**50,602**	53,629
Total shareholders' funds attributable to equity interests		**60,690**	63,717
Technical provisions			
Long-term business provision	14,16	**59,877**	66,994
Technical provisions for linked liabilities	14	**11,285,015**	12,964,198
Provisions for other risks and charges			
Deferred taxation	4	**2,709**	3,294
Creditors			
Other creditors including taxation and social security	17	**8,869**	15,563
Total liabilities		**11,417,160**	13,113,766

The financial statements on pages 9 to 32 were approved by the board of directors on 24 March 2016.
The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.

H A Hussain
Director

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

	Share Capital £000	Capital Redemption Reserve £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2014	6,000	4,088	43,016	53,104
Total comprehensive income for the year				
Profit	—	—	10,613	10,613
Other comprehensive income	—	—	—	—
Total comprehensive income for the year	—	—	10,613	10,613
Balance at 31 December 2014	6,000	4,088	53,629	63,717
Balance at 1 January 2015	**6,000**	**4,088**	**53,629**	**63,717**
Total comprehensive income for the year				
Profit	—	—	**6,973**	**6,973**
Other comprehensive income	—	—	—	—
Total comprehensive income for the year	—	—	**6,973**	**6,973**
Dividends (£1.67 per share)	—	—	**(10,000)**	**(10,000)**
Balance at 31 December 2015	**6,000**	**4,088**	**50,602**	**60,690**

The accounting policies and notes on pages 13 to 32 form an integral part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Basis of presentation

Prudential Pensions Limited is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS101), Part 15 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (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 FRS101 disclosure exemptions has been taken.

The immediate parent company is The Prudential Assurance Company Limited. 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 IFRS and are available to the public. Copies of these accounts can 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;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions between wholly owned subsidiaries within the Prudential Group;
- The effects of new but not yet effective IFRSs and;
- Disclosures in respect of the compensation of Key Management Personnel.

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 it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy solvency margin, well in excess of the regulatory capital resource requirement (as shown in Note 15) and generates positive cashflows. 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 Strategic Report, and the management of financial risk as set out in Note 23, including its exposure to liquidity risk and credit risk.

In assessing the going concern of the Company, the directors have assessed the Company's current and projected solvency position under Solvency II, which became effective on 1 January 2016, and considers the Company to have a healthy solvency margin.

B. Long-term business provision

The measurement basis of assets and liabilities of long-term business contracts is dependent upon the classification of the contracts under FRS 101 as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company's contracts are mainly unit-linked contracts which are investment contracts without discretionary participating features.

As permitted by IFRS4, insurance contracts are accounted for under previously applied UK GAAP and therefore the modified statutory basis of reporting has continued to be applied.

Investment contracts without discretionary participation features are accounted for as financial liabilities under IAS39 as they are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the balance sheet as a movement on the investors' liability and the long-term business technical account reflects the fee income accounted for under IAS18, expenses, and taxation on these contracts. The liabilities for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet.

The long-term business provision is determined by the Company's directors based on advice from the Company's actuarial function holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook for Insurers and the General Prudential Sourcebook issued by the Prudential Regulation Authority.

C. Reinsurance

The Company seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers.

The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts. An asset or liability is recognised in the balance sheet representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers.

D. Classification of instruments issued by the Company

Having adopted FRS101, IAS32 is being applied to 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.

E. Financial instruments

Financial assets

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

(i) Financial investments at fair value through profit and loss – this comprises assets designated by management as fair value through profit and loss on inception and derivatives which are deemed to be held for trading. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account.

    The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cash flow technique.

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

Financial liabilities

Financial liabilities are designated as either fair value through profit and loss or amortised cost.

The Company holds financial liabilities on the following bases:

(i) Financial liabilities at fair value through profit and loss – these comprise investment contracts without discretionary participation features and the accounting policy is described in B above.
(ii) Financial liabilities that are not valued at fair value through profit and loss and are not investment contracts without discretionary participation features are mainly creditors shown at settlement value.

F. Revenue recognition

For unit-linked business, premiums are accounted for when the liabilities arising from the premiums are recognised. Premiums exclude any taxes or duties based on premiums.

Claims paid include maturities, annuities, surrenders and deaths. Maturity claims are accounted for on the policy maturity date. Annuity claims are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.

Under IAS39, the accounting treatment for investment contracts without discretionary participation features reflects the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet as a movement on the investors liability with the long-term technical account reflecting fee income accounted for under IAS18, expenses, and taxation on these contracts.

Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised and unrealised gains are included in the non-technical account.

Realised gains are determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

G. Tax

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. 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.

H. Foreign currencies

Foreign currency assets and liabilities are translated at year end exchange rates. Foreign currency revenue transactions are translated at rates ruling at the transaction dates, except for accrued revenue items that are translated at year end exchange rates.

2. Analysis of premiums

Gross Premiums

Premiums comprise corporate pension business where investment risk is borne by policyholders and which are transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2015 and 2014 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in the accounting policies.

	2015	2014
New Business	**£000**	£000
Single premiums – Pensions – Investment linked contracts		
Direct	**201,231**	332,525
External reinsurance accepted	**77,613**	260,715
Intragroup reinsurance accepted	**478,887**	451,190
	757,731	1,044,430

New business premiums include those contracts excluded from premium income in the technical account because they are accounted for as deposits. These are investment contracts without discretionary participation features and carry no significant insurance risk.

3. Revenue and investment return

	Long-term business technical account		**Non-technical account**	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Investment income				
Income from land and buildings	**83**	908	—	—
Income from listed investments	**367,017**	401,849	—	—
Income from other investments	**22,536**	27,028	**124**	78
Gains on the realisation of investments at fair value through profit and loss other than derivatives	**504,509**	428,538	—	—
Gains / (losses) on the realisation of derivatives	**1,443**	(10,581)	—	—
	895,588	847,742	**124**	78
Investment expenses and charges				
Investment managers' expenses	**(6,558)**	(9,393)	**(9)**	(9)
Unrealised gains / (losses) on investments				
Debt securities	**(836)**	1,691	—	—
Equity securities	**(66)**	—	—	—
Linked assets - other than derivatives	**(677,975)**	372,507	—	—
Linked assets - derivatives	**10,665**	(11,116)	—	—
Exchange gains / (losses)	**14,894**	(7,106)	—	—
Fee income from investment contracts	**20,994**	25,257	—	—
Bank interest (payable) / receivable	**(58)**	(44)	—	—
Total revenue and investment return	**256,648**	1,219,538	**115**	69

4. Tax

(a) Tax charged/(credited)

	Long-term business technical account		Non-technical account	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Current tax				
UK Corporation tax on profits of the period	**2,106**	3,296	**23**	16
Adjustments in respect of previous years	**(68)**	(82)	**—**	—
	2,038	3,214	**23**	16
Foreign tax	**1,910**	1,500	**—**	—
Total current tax	**3,948**	4,714	**23**	16
Deferred tax				
Adjustment in respect of previous years	**—**	(84)	**—**	—
Origination and reversal of temporary difference	**(413)**	(412)	**—**	—
Effect of changes in tax rate	**(172)**	—	**—**	—
Tax charge on profit on ordinary activities	**3,363**	4,218	**23**	16

Shareholder tax attributable on the balance on the long-term business technical account:		
Current tax	**2,038**	3,214
Deferred tax	**(585)**	(496)
	1,453	2,718
Total	**1,476**	2,734

(b) Factors affecting tax charge for period

In July 2015 the UK Government announced additional reductions in the main rate of corporation tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. These additional reductions are reflected in the above figures as the changes were substantively enacted at the balance sheet.

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	**8,449**	13,347
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 20.25% (2014: 21.50%)	**1,710**	2,870
Effects of		
Adjustments to current tax in respect of previous periods	**(68)**	(82)
Permanent differences	**—**	—
Adjustments to deferred tax in respect of previous periods	**—**	(84)
Impact of changes in local statutory tax rates	**(166)**	30
Irrecoverable withholding taxes	**—**	—
Total tax charge for the period	**1,476**	2,734

(c) **Balance sheet**

Provision for deferred tax	**2015 £000**	2014 £000
Transitional adjustments	**2,709**	3,294
Undiscounted provision for deferred tax liability	**2,709**	3,294
Deferred tax liability at start of the period	**3,294**	3,790
Deferred tax (credited) / charged in technical/non-technical account for the period	**(585)**	(496)
Deferred tax liability at the end of period	**2,709**	3,294

The UK Government made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. A deferred tax liability has been recognised for the adjustment that arises on transition to the new regime. This adjustment is required to be spread and taxed over a 10 year period.

5. Staff costs

The Company has no employees (2014: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

6. Directors' emoluments

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

	2015 £000	2014 £000
Aggregate emoluments and benefits	**6**	6

One director is entitled to retirement benefits under the Group's defined benefit scheme and one director participates in the Group's defined contribution scheme.

7. Auditor's remuneration

	2015 £000	2014 £000
Audit of these financial statements	**54**	53
Other services pursuant to legislation including the audit of the regulatory return	**9**	10
	63	63

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, Prudential plc.

NOTES ON THE FINANCIAL STATEMENTS (continued)

8. Other financial investments

	Carrying value		Cost	
	2015	2014	**2015**	2014
	£000	£000	**£000**	£000
Debt securities and other fixed income securities	**22,694**	24,398	**20,628**	21,497
Equity securities	**1,649**	—	**1,715**	—
Deposits with credit institutions	**43,500**	48,500	**43,500**	48,500
	67,843	72,898	**65,843**	69,997

All equity securities, debt securities and other fixed income securities are listed on a recognised UK investment exchange.

9. Assets held to cover linked liabilities

	2015	2014
	£000	£000
Shares and other variable yield securities	**5,283,013**	5,427,870
British government securities - fixed income	**637,418**	703,823
British government securities - index linked	**377,852**	442,181
Debentures and loan stocks	**4,218,311**	5,383,731
Provincial & municipal stocks	**400,559**	566,525
Deposits with credit institutions	**132,716**	171,688
Other investments	**(9,560)**	(5,819)
Other assets	**244,706**	274,199
Assets held to cover linked liabilities – carrying value	**11,285,015**	12,964,198
Assets held to cover linked liabilities - cost	**9,955,766**	10,992,795

Included in the carrying values above are amounts in respect of listed investments as follows:

	2015	2014
	£000	£000
Shares and other variable yield securities	**5,283,005**	5,427,842
British government securities - fixed income	**637,418**	703,823
British government securities - index linked	**377,852**	442,181
Debentures and loan stocks	**4,218,311**	5,383,731
Provincial & municipal stocks	**400,559**	566,525
Other investments	**867**	(9,791)
	10,918,012	12,514,311

Included within shares and other variable yield securities is a Fond commun de placement collective investment fund, which is 99.79% owned by Prudential Pensions Limited. The value of the investment in this fund at 31 December 2015 was £750.3 million (2014: £693.2 million).

10. Other debtors

All debtors are due within one year.

	2015	2014
	£000	£000
Debtors arising from direct insurance operations	—	12
Debtors arising from reinsurance operations	577	—
Amounts owed by group undertakings	120	111
Tax recoverable	147	—
Other debtors	515	399
	1,359	522

11. Bank current accounts

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 undertakings with similar arrangements.

12. Assets attributable to the long-term business fund

Of the total amount of assets shown on the balance sheet, £11,386,307,000 (2014: £13,074,629,000) is attributable to the long-term business fund.

13. Share capital

	2015	2014
	£000	£000
Issued and fully paid		
6 million ordinary shares (2014: 6 million) of £1 each	6,000	6,000

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

14. Policyholder liabilities

	Long-term business provision net of reinsurance	Provision for linked liabilities net of reinsurance
	£000	£000
Balance at 1 January 2015	—	12,964,198
Movement in technical provisions for year		
Gross amount	(7,118)	241,473
Reinsurers' share	7,118	—
Deposits received from policyholders under investment contracts	—	757,977
Payments made to policyholders of investment contracts	—	(2,678,633)
Balance at 31 December 2015	—	11,285,015

The entire reinsurer's share of technical provisions for long-term business of £59.9 million at 31 December 2015 (2014: £67.0 million) relates to reinsurance agreements with other Prudential Group companies. There are no gains or losses arising from these reinsurance agreements.

15. Capital requirements and management

Up to 31 December 2015, UK insurers, regulated by the PRA, had to hold capital resources equal at least to the Minimum Capital Requirement (MCR) under the Solvency I basis. In addition the rules required insurers to perform Individual Capital Assessments. Under these rules insurers assessed for themselves the amount of capital needed to back their business. If the PRA viewed the results of this assessment as insufficient, it might draw up its own Individual Capital Guidance for a firm, which could be superimposed as a requirement. These requirements were replaced by the Solvency II regime on 1 January 2016 which is discussed further in the Strategic Report.

The available capital of £46.3 million (2014: £52.6 million) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £16.9 million (2014: £14.9 million). This excess of available capital over capital resources requirement is monitored during the year. In addition, a realistic assessment of available capital and capital requirements sufficient to cover a 1 in 200 year event is undertaken. Additional capital is sought from the parent company as necessary.

	2015	2014
	£000	£000
Shareholders' equity		
Held outside long-term funds	**29,425**	37,683
Held in long-term funds	**31,265**	26,034
Total shareholders' equity	**60,690**	63,717
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	**(14,347)**	(11,113)
Total available capital resources on regulatory basis	**46,343**	52,604

16. Long-term business provision

The long-term business provision comprises a provision for annuity business.

For annuity business, the provisions are the present value of the annuity payments and expenses. The calculation of the provisions requires a number of actuarial assumptions regarding future experience to be made. The assumptions are set by the Directors having regard to actuarial advice and based on analysis of relevant past and current data and information on anticipated future trends.

Valuation interest rates and expense inflation have been amended in line with changes in market yields. Renewal expenses, mortality rates and mortality improvement rates have also been amended.

The reinsurers' share of the long-term business provision relates to cessions to The Prudential Assurance Company Limited (PAC), the immediate parent company. Previously this business was reassured to Prudential Annuities Limited (PAL), however a Part VII Scheme of Transfer of PAL to PAC occurred during 2014.

NOTES ON THE FINANCIAL STATEMENTS (continued)

The provision for annuity business has been calculated on the following bases:

	2015	2014
Discount Rate	**3.088% for annuities**	2.905% for annuities
Fund Growth	**N/A for annuities**	N/A for annuities
Expense Inflation	**3.75% gross**	3.50% gross
Renewal expenses:		
Reassured annuity business	**£25.80 p.a. per policy**	£19.77 p.a per policy
Annuity mortality	**Male: 97% PCMA00 with future improvements in line with Prudential's 'advanced' calibration of the CMI 2014 mortality model with a 0.25% addition to initial mortality improvements and the application of a floor on improvements equal to the long-term rate of 2.25% p.a.**	Male: 99% PCMA00 with future improvements in line with Prudential's 'advanced' calibration of the CMI 2012 mortality model, with the removal of the negative cohort feature for year of births after 1947 and with a long-term improvement rate of 2.25% p.a.
	Female: 91% PCFA00 with future improvements in line with Prudential's 'advanced' calibration of the CMI 2014 mortality model with a 0.25% addition to initial mortality improvements and the application of a floor on improvements equal to the long-term rate of 1.50% p.a.	Female: 89% PCFA00 with future improvements in line with Prudential's 'advanced' calibration of the CMI 2012 mortality model, with the removal of the negative cohort feature for year of births after 1947 and with a long-term improvement rate of 1.50% p.a.

17. Creditors

	2015	2014
All creditors are due within one year.	**£000**	£000
Creditors arising from reinsurance operations	**—**	6,006
Due to group undertakings	**1,625**	2,411
Sundry creditors	**5,817**	5,692
Tax payable	**1,427**	1,454
	8,869	15,563

18. Charges

In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reinsurance) policies, over the long-term insurance assets of the Company. Amounts secured by charges of this nature were £4,286.4 million, £273.6 million, £186.8 million, £22.5 million and £11.1 million, representing liabilities to five different customers (2014: £4,307 million, £264.9 million, £183.2 million, £27.8 million and £7.7 million representing liabilities to five different customers).

19. Guarantees and Commitments

At present, the Company has not provided any guarantees or commitments to third parties that have been entered into in the normal course of business. From time to time the Company may enter into these arrangements, however the Directors do not consider the amounts to be significant.

20. 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.

21. 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.

22. Assets and liabilities

A. Asset and liabilities – classification and measurement

All assets are designated as either fair value through profit and loss or loans and receivables. Liabilities are designated as either fair value through profit and loss or amortised cost (in both years).

2015	Fair value through profit and loss	Cost / Amortised Cost / IFRS4	Total carrying value	Fair value where applicable
	£000	£000	£000	£000
Deposits with credit institutions	—	43,500	43,500	43,500
Debt securities	22,694	—	22,694	22,694
Equity securities	1,649	—	1,649	1,649
Assets held to cover linked liabilities	11,285,015	—	11,285,015	11,285,015
Reinsurers share of technical provisions	—	59,877	59,877	
Other debtors	—	1,359	1,359	1,359
Cash at bank and in hand	—	2,934	2,934	2,934
Accrued investment income	—	132	132	132
Total assets	11,309,358	107,802	11,417,160	
Long-term business provision	—	59,877	59,877	
Investment contracts without discretionary participating features	11,285,015	—	11,285,015	11,285,015
Deferred tax liabilities	—	2,709	2,709	
Creditors arising out of reinsurance operations	—	—	—	—
Other creditors	—	8,869	8,869	8,869
Total liabilities	11,285,015	71,455	11,356,470	

NOTES ON THE FINANCIAL STATEMENTS (continued)

2014	Fair value through profit and loss £000	Cost / Amortised Cost / IFRS4 £000	Total carrying value £000	Fair value where applicable £000
Deposits with credit institutions	—	48,500	48,500	48,500
Debt securities	24,398	—	24,398	24,398
Assets held to cover linked liabilities	12,964,198	—	12,964,198	12,964,198
Reinsurers share of technical provisions	—	66,994	66,994	
Other debtors	—	522	522	522
Cash at bank and in hand	—	9,011	9,011	9,011
Accrued investment income	—	143	143	143
Total assets	12,988,596	125,170	13,113,766	
Long-term business provision	—	66,994	66,994	
Investment contracts without discretionary participating features	12,964,198	—	12,964,198	12,964,198
Deferred tax liabilities	—	3,294	3,294	
Creditors arising out of reinsurance operations	—	6,006	6,006	6,006
Creditors arising out of direct insurance operations	—	—	—	—
Other creditors	—	9,557	9,557	9,557
Total liabilities	12,964,198	85,851	13,050,049	

B. Financial assets and liabilities - 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 values of the financial instruments are determined by the use of current market bid prices for quoted investments, or by using quotations from independent third-parties, such as brokers and pricing services or by using appropriate valuation techniques. Investments valued using valuation techniques include financial investments which by their nature do not have an externally quoted price based on regular trades and financial investments for which markets are no longer active as a result of market conditions e.g. market illiquidity. The valuation techniques used include comparison to recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and, if applicable, enterprise valuation. These techniques may include a number of assumptions relating to variables such as credit risk and interest rates. Changes in assumptions relating to these variables could positively or negatively impact the reported fair value of these instruments. When determining the inputs into the valuation techniques used priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

The fair value estimates are made at a specific point in time, based upon available market information and judgements about the financial instruments, including estimates of the timing and amount of expected future cash flows and the credit standing of counterparties. Such estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses from selling the financial instrument being fair valued. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

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

The estimated fair value of derivative financial instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quoted prices if exchange listed, quotations from independent third-parties or valued internally using standard market practices.

The fair value of investment contracts is based on the fair value of the assets held within the linked funds.

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

Level 1, 2 and 3 fair value measurement hierarchy of financial instruments

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 1 principally includes exchange listed equities, mutual funds with quoted prices, exchange traded derivatives such as futures and options, and national government bonds unless there is evidence that trading in a given instrument is so infrequent that the market could not possibly be considered active. It also includes other financial instruments where there is clear evidence that the year end valuation is based on a traded price in an active market.

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 2 principally includes corporate bonds and other non-national government debt securities which are valued using observable inputs, together with over-the-counter derivatives such as forward exchange contracts and non-quoted investment fund valued with observable inputs. It also includes investment contract liabilities that are valued using observable inputs.

In addition level 2 can include debt securities that are valued internally using standard market practices. None of the level 2 debt securities are valued internally in the current year. The Company's usual policy for valuing such securities is to use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The significance of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

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

Level 3 principally includes investments in private equity funds, investments in property funds which are exposed to bespoke properties or risks, investments which are internally valued or subject to a significant number of unobservable assumptions and certain derivatives which are bespoke or long dated. It also includes debt securities which are rarely traded or traded only in privately negotiated transactions and hence where it is difficult to assert that these have been based on observable market data. The inherent nature of the vast majority of these assets means that, in normal market conditions, there is unlikely to be significant change in the specific underlying assets classified as level 3.

	31 December 2015			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Unit-linked				
Equity securities	5,283,005	—	8	5,283,013
Debt securities	1,228,958	4,405,182	—	5,634,140
Derivative assets	2,425	4,701	—	7,126
Derivative liabilities	(1,558)	(15,128)	—	(16,686)
Total financial investments, net of derivative liabilities:	6,512,830	4,394,755	8	10,907,593
Investment contracts without discretionary participation features held at fair value	—	(11,285,015)	—	(11,285,015)
Total	6,512,830	(6,890,260)	8	(377,422)
Percentage of total	(1,726)%	1,826%	— %	100%
Non-linked				
Debt securities	22,694	—	—	22,694
Equity securities	1,649	—	—	1,649
Total	24,343	—	—	24,343
Percentage of total	100 %	—%	— %	100%
Company total				
Equity securities	5,284,654	—	8	5,284,662
Debt securities	1,251,652	4,405,182	—	5,656,834
Derivative assets	2,425	4,701	—	7,126
Derivative liabilities	(1,558)	(15,128)	—	(16,686)
Total financial investments, net of derivative liabilities	6,537,173	4,394,755	8	10,931,936
Investment contracts without discretionary participation features held at fair value	—	(11,285,015)	—	(11,285,015)
Total	6,537,173	(6,890,260)	8	(353,079)
Percentage total	(1,851)%	1,951%	— %	100%

	2014			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Unit-linked				
Equity securities	5,427,842	—	27	5,427,869
Debt securities	1,427,631	5,668,629	—	7,096,260
Derivative assets	59	8,798	—	8,857
Other investments	—	—	—	—
Derivative liabilities	(9,850)	(4,825)	—	(14,675)
Total financial investments, net of derivative liabilities:	6,845,682	5,672,602	27	12,518,311
Investment contracts without discretionary participation features held at fair value	—	(12,964,198)	—	(12,964,198)
Total	6,845,682	(7,291,596)	27	(445,887)
Percentage of total	(1,535)%	1,635%	— %	100%
Non-linked				
Debt securities	24,398	—	—	24,398
Percentage of total	100 %	—%	— %	100%
Company total				
Equity securities	5,427,842	—	27	5,427,869
Debt securities	1,452,029	5,668,629	—	7,120,658
Derivative assets	59	8,798	—	8,857
Other investments	—	—	—	—
Derivative liabilities	(9,850)	(4,825)	—	(14,675)
Total financial investments, net of derivative liabilities	6,870,080	5,672,602	27	12,542,709
Investment contracts without discretionary participation features held at fair value	—	(12,964,198)	—	(12,964,198)
Total	6,870,080	(7,291,596)	27	(421,489)
Percentage total	(1,630)%	1,730%	— %	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. Total gains and losses recorded in the long-term technical account in the period represents realised gains and losses, including interest and dividend income, unrealised gains and losses on financial instruments classified at fair value through profit and loss and foreign exchange movements on overseas investments. All these amounts are included within "investment income" and "unrealised gains/(losses)" in the long-term technical account.

2015	**At 1 Jan 2015**	**Total gains or (losses) in long-term technical account**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec 2015**
Unit-linked	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Equity securities	**27**	**(23)**	**—**	**—**	**4**	**—**	**8**

2014	At 1 Jan 2014	Total gains or (losses) in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2014
Unit-linked	£000	£000	£000	£000	£000	£000	£000
Equity securities	92	(65)	—	—	—	—	27

Transfers between level 1 and level 3

During 2015, transfers from level 1 to level 3 amounted to £4,000 (2014: level 1 to level 3 Nil).

Exposure to sovereign debt and bank debt

The Company exposure to UK sovereign debt held in non-linked funds is £22.7 million (2014: £24.4 million). The non-linked funds holds no foreign sovereign debt securities or bank debt securities.

The unit-linked funds hold a range of sovereign debt securities and bank debt securities, but due to the matching of policyholders liabilities to attaching asset value movements there is minimal exposure to these securities for the Company on the unit-linked contracts as the risks are borne by the policyholders.

C. Market Risk

The financial assets and liabilities attaching to the Company's life assurance 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 or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices.

Market risk comprises three types of risk, namely:

- 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).

Due to the matching of policyholders liabilities to attaching asset value movements the unit-linked business is not directly affected by market risk. The principal factor affecting the results is investment performance through fund management fees.

(i) Interest rate risk

Due to the matching of policyholders liabilities to attaching asset value movements the unit-linked business is not directly sensitive to interest rate movements and so these assets are excluded from the tables below.

The following table shows an analysis of the classes of financial assets with direct exposure to interest rate risk. Each applicable class of the Company's assets are analysed between those exposed to fair value interest rate risk and those exposed to cash-flow interest rate. Interest rate risk is minimal for the shareholder assets as the deposits are all less than one month.

2015	**Fair value interest rate risk**	**Cash flow interest rate risk**	**Total**
Financial Assets	**£000**	**£000**	**£000**
Deposits with credit institutions	—	**43,500**	**43,500**
Debt securities	**22,694**	—	**22,694**
Cash at bank and in hand	—	**2,934**	**2,934**
	22,694	**46,434**	**69,128**

2014	Fair value interest rate risk	Cash flow interest rate risk	Total
Financial Assets	£000	£000	£000
Deposits with credit institutions	—	48,500	48,500
Debt securities	24,398	—	24,398
Cash at bank and in hand	—	9,011	9,011
	24,398	57,511	81,909

The estimated sensitivity of the Company to a movement in interest rates (including assumed investment returns for all asset classes, market values of debt securities and all risk discount rates) of 1% and 2% is as follows:

	31 December 2015			
	Fall of 1%	**Fall of 2%**	**Rise of 1%**	**Rise of 2%**
	£000	**£000**	**£000**	**£000**
Carrying value of debt securities	**2,930**	**5,860**	**(2,930)**	**(5,860)**
Interest on deposits with credit institutions	**(163)**	**(163)**	**464**	**929**
Related tax effects	**(498)**	**(1,025)**	**444**	**888**
Net sensitivity of profit after tax and shareholders' funds	**2,269**	**4,672**	**(2,022)**	**(4,043)**

	31 December 2014			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£000	£000	£000	£000
Carrying value of debt securities	3,195	6,389	(3,195)	(6,389)
Interest on deposits with credit institutions	(160)	(160)	575	1,150
Related tax effects	(607)	(1,246)	524	1,048
Net sensitivity of profit after tax and shareholders' funds	2,428	4,983	(2,096)	(4,191)

(ii) Currency risk

Due to the matching of policyholders liabilities to attaching asset value, movements in the unit-linked business are not directly sensitive to currency risk. Outside of the unit-linked business, no assets or liabilities are held in currencies other than the functional currency, Sterling.

(iii) Other price risk

Due to the matching of policyholders liabilities to attaching asset value movements the unit-linked business is not directly sensitive to other price risk. The Company does not hold any investment property outside of the unit-linked funds. The Company holds £1.6m (2014: Nil) of equity securities outside of the unit-linked funds, so is not materially exposed to other price risk.

D. Liquidity analysis

(i) Contractual maturities

Maturity profile for investment contracts and durations of long-term business contracts on an undiscounted basis

The majority of the in force business consists of pooled investment vehicles used for pension scheme business which by nature do not have any contractual repricing or maturity dates, as the benefits are the realisation values of the units held in the internal linked funds and may be surrendered at any time.

The long-term business contracts are annuity contracts which have no maturity date. The liabilities for these contracts are wholly reassured so the maturity profile for the liability is matched by profile for the asset and so no liquidity risk arises from these contracts.

E. Credit Risk

Concentration of credit risk

The following table summarises by rating the securities held by the Company as at 31 December 2015 and 2014.

	2015	2014
	£000	£000
AA	**69,128**	81,909
AA-	—	—
A	—	—
	69,128	81,909
Unit-linked	**11,285,015**	12,964,198
Total assets bearing credit risk	**11,354,143**	13,046,107

Due to the matching of policyholders liabilities to attaching asset value movements there is minimal credit risk for the Company on the unit-linked contracts as the risks are borne by the policyholders.

There are no overdue debtors. There is minimal credit risk from reinsurance recoverable as this solely relates to reinsurance agreements with other Prudential Group companies.

Reverse repurchase agreements

At 31 December 2015, the Company had entered into reverse repurchase transactions under which it purchased securities and had taken on the obligation to resell the securities. The fair value of the collateral held in respect of these transactions was £280.2 million (2014: £314.7 million) in the linked funds and £43.5 million (2014: £48.5 million) in the non-linked funds.

2015	**Gross amount presented in balance sheet**	**Securities collateral not offset in balance sheet**	**Net Amount**
Financial assets – Reverse repurchase agreements	**£000**	**£000**	**£000**
Linked funds	**280,233**	**(280,233)**	—
Non-linked funds	**43,500**	**(43,500)**	—
	323,733	**(323,733)**	—

2014	Gross amount presented in balance sheet	Securities collateral not offset in balance sheet	Net Amount
Financial assets – Reverse repurchase agreements	£000	£000	£000
Linked funds	314,650	(314,650)	—
Non-linked funds	48,500	(48,500)	—
	363,150	(363,150)	—

The above transactions are not subject to any master netting arrangements. The actual amount of collateral may be greater than amounts presented in the table.

23. Financial risk management

The Company's exposure to financial risk is limited due to the nature of the unit-linked business where policyholder liabilities are essentially the same as the net asset values backing those liabilities. The financial risk factors affecting the Company include expense risk, market risk, persistency risk, liquidity risk and credit risk.

The local economic outlook for 2016 is relatively unchanged from the previous period with modest growth expected over the year. The global outlook is mixed however, with uncertainty arising from a slowdown in China and increased volatility across emerging markets. This could adversely affect the Company's business and profitability. Interest rates within the UK and Eurozone remain close to historic lows, whilst the US raised interest rates in 2015 for the first time in nine years. It remains to be seen how markets and the economy as a whole will adjust over the short to medium term.

A significant part of the Company's profit is related to the fund management charges on its unit-linked products, which are proportionately dependent on the asset values in the funds under management. Any adverse impact on the current and expected future asset returns is therefore likely to impact the Company's profitability by reducing the value of funds under management and management charges collected.

(a) Expense risk

Expense risk is the risk of loss or of adverse change in the profitability or financial situation of the Company resulting from changes in the level of expenses incurred.

Expense risk is the risk of actual expenses exceeding the assumptions in pricing and reserving bases. The Company makes assumptions about future expected levels of expenses for each line of business and uses these in pricing and calculating reserves. If the actual expenses exceed these assumptions, the Company's operating results could be adversely impacted. Expense risk is a significant risk for the Company.

(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 and exchange rates.

The local economic and investment outlook remains relatively unchanged from the previous period, and the ongoing wider economic uncertainty could adversely affect the Company's business and profitability, principally through a fall in the Company's assets under management due to reduced investment returns, adverse movements in foreign currency exchange rates (for overseas investment funds) and/or reduced new business. This is because a large proportion of the Company's income is earned via fund management charges that are expressed as a percentage of funds under management. A fall in funds under management as a result of market risk would therefore adversely affect the Company's profitability.

(c) Persistency risk

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

The Company's persistency assumptions reflect the recent past experience for each relevant line of business including any expected trends in future persistency rates. If the actual levels of future persistency are significantly lower than assumed (that is, policy termination rates are significantly higher than assumed), the Company's results could be adversely affected.

In common with other industry participants, the profitability of the Company's business ultimately depends on a mix of factors including investment performance, asset impairments, persistency and unit costs of administration and expenses.

(d) Liquidity risk

Liquidity risk is the risk that the Company although solvent on a balance sheet basis is not able to liquidate assets in a timely manner to meet its cash obligations as they fall due or can access liquidity only at excessive cost.

Liquidity risk is not a material risk for the Company. This risk is managed through careful management of bank balances, cash-flow forecasting and requirement to maintain minimum "liquidity coverage ratios". This improves the chances that even under adverse conditions, the Company can access liquidity necessary to cover its outflows. To manage liquidity risk in property funds which are inherently more illiquid, the Company has deferral clauses in place, which can allow the Company to defer cash payments to withdrawing customers in extreme adverse liquidity scenarios. Liquidity risk however cannot be completely eliminated for unit-linked funds, in particular over the short term, where market volatility can result in mass withdrawals over a short period of time.

(e) Credit risk

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract.

Due to the matching of policyholder liabilities to attaching asset value movements the UK unit-linked business is not directly affected by credit risk. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.