

Registered No: SC212640

**PRUDENTIAL DISTRIBUTION LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2014**

**PRUDENTIAL DISTRIBUTION LIMITED**

Incorporated and registered in Scotland. Registered No: SC212640

Registered office: Craigforth, Stirling, Scotland, FK9 4UE

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**PRUDENTIAL DISTRIBUTION LIMITED**

**Directors**

J Warburton (Chairman)  
T R Naidu (Resigned)  
C Lewis  
S Vasudeva

**Secretary**

Prudential Group Secretarial Services Limited

**Auditor**

KPMG LLP, London

## PRUDENTIAL DISTRIBUTION LIMITED

### STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

#### Principal activity

The principal activity of Prudential Distribution Limited ("the Company") is to act as the single service company for the UK Insurance Operations (UKIO) of the Prudential Group. It is one of the principal employers for UKIO. It also provides product distribution services to group companies whose products are distributed through non-intermediated channels. The Company is regulated by the Financial Conduct Authority (FCA) for its distribution activities.

#### Business review

Key Performance Indicators	2014	2013	Change
	£000	Restated for FRS101 £000	%
Turnover	512,371	514,981	(0.5)
Operating expenses	(513,019)	(513,618)	0.1
Profit before tax	1,079	1,021	5.7
Shareholders funds	67,410	65,867	(2.3)
Regulatory capital requirement (higher of IPRU INV and MIPRU requirements-see below)	3,450	3,450	—

The Company incurs distribution expenses on behalf of the statutory entities within the UKIO business unit, for which it provides services and then recharges the expenses after charging a margin of 5%, with the exception of the business in the With-Profits and Scottish Amicable Insurance sub funds of The Prudential Assurance Company Limited (PAC), and Prudential Annuities Limited (PAL), on which no margin is charged.

The Company generated a pre-tax profit of £1,079k during the year (2013: £1,021k). During the year the Company made unrealised gains on the valuation of derivatives of £811k against unrealised losses of £613k for 2013. In addition, the administration contract with St. James Place was terminated in 2014 resulting in lower profit for the year but this was offset by an increase in other interest income.

The regulatory requirements of the Company are driven by the Interim Prudential Sourcebook for Investment Business (IPRU (INV)) and the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU). The Company has remained solvent throughout the period under review and has adequate capital resources to meet its regulatory capital requirements. The Company continues to hold Professional Indemnity Insurance (PII) for the collectives business to meet the requirement for PII as per IPRU (INV). For the other products, the Company relies on a Group Policy. Due to the excess held on the Group cover, the Company is required to set aside additional capital of £3.4m. The Company is a B3 low resource firm for the purpose of the calculation of capital requirements under IPRU (INV).

#### 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. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

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

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

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 credit, liquidity and market risks. These financial risks and the management thereof are discussed in Note 23.

#### **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 exposure 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 or strategic decisions of associated companies 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 outsources several operations, including a significant part of its back office and customer-facing functions as well as a number of IT functions. In turn, the Company is reliant upon the operational processing performance of its outsourcing partners, but 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 could have an impact on its results during the effective period.

The risk of non-performance is limited by contract and, along with mis-selling, is covered by a professional indemnity policy.

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 and regulatory reviews.

**PRUDENTIAL DISTRIBUTION LIMITED**

**STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

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.

A handwritten signature in black ink, consisting of several overlapping, fluid strokes that form a cursive-like name.

B Rais  
On behalf of Prudential Group Secretarial Services Limited  
Company Secretary  
27 March 2015

## **PRUDENTIAL DISTRIBUTION LIMITED**

Incorporated and registered in Scotland. Registered No: SC212640

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014**

#### 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 organisation 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 affairs of the Company at 31 December 2014 is shown in the balance sheet on page 11. The statement of comprehensive income appears on page 10.

#### 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.

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

#### **Directors**

The directors holding office during the year are shown on page 1.

Ms Vasudeva was appointed as a Director on 1 October 2014 and Ms Naidu resigned as a Director on 1 October 2014. There were no further changes during the year and up to the date of the report being authorised for issue.

#### **Employees**

The following information is given in respect of the employees of the Company in the United Kingdom:

#### **Equal opportunity**

The Company's policy is to recruit, develop and employ staff on the basis of suitability of their qualifications and experience of the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. The requirements of the Disability Discrimination Act 1996 have been put into effect.

#### **Employee involvement**

It is the Company's policy to communicate with employees on issues that concern them and to provide information to them through employee reports and regular manager briefings. Views of employees are sought through a number of channels including consultation through the medium of a staff consultative group. Since March 2009 employees have been invited to participate in the Prudential Savings-Related Share Option Scheme and can also participate in the Prudential Share Incentive Plan.

#### **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 credit risk, liquidity risk and market risk. Further information on the financial risk management objectives and policies of the Company are given in Note 23.

#### **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 or she ought to have taken as a director to make himself or herself 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**

Due to an internal reorganisation within KPMG, KPMG Audit Plc resigned as auditor with effect from 6 October 2014. To fill this casual vacancy, the directors approved the appointment of KPMG LLP, an intermediate parent of KPMG Audit Plc, as auditor of the Company, on 14 November 2014.

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



**PRUDENTIAL DISTRIBUTION LIMITED**

**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)**

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 2014 and remain in force.

On behalf of the Board of Directors



**B Rais**  
On behalf of Prudential Group Secretarial Services Limited  
Company Secretary  
27 March 2015

## **PRUDENTIAL DISTRIBUTION 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 judgments 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.



C Lewis  
Director  
27 March 2015

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL DISTRIBUTION LIMITED**

We have audited the financial statements of Prudential Distribution Limited for the year ended 31 December 2014 set out on pages 10 to 30. 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 8, 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](http://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 2014 and of its loss 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.

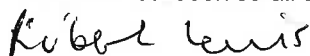
#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Director's 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.



**Robert Lewis (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**

Chartered Accountants  
15 Canada Square  
Canary Wharf  
London E14 5GL  
27 March 2015

**PRUDENTIAL DISTRIBUTION LIMITED**

**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £000	2013 Restated for FRS101 £000
Operating income	2	512,371	514,981
Staff costs	3	(154,374)	(184,652)
Other operating charges	4	(358,645)	(328,966)
Operating expenses		<u>(513,019)</u>	<u>(513,618)</u>
<b>Operating profit</b>		<b>(648)</b>	<b>1,363</b>
Interest income	5	1,465	971
Interest expense	6	(549)	(700)
Unrealised gains/(losses)	7	811	(613)
<b>Profit on ordinary activities before tax</b>		<u><b>1,079</b></u>	<u>1,021</u>
Tax (charge)/credit on profit on ordinary activities	9	(2,469)	3,858
<b>(Loss)/profit and comprehensive income for the financial year</b>		<u><b>(1,390)</b></u>	<u>4,879</u>

*Operating income and (loss)/profit on ordinary activities before taxation for the year relate exclusively to continuing operations as defined under the terms of International Accounting Standard 1.*

The accounting policies and notes on pages 13 to 30 form an integral part of these financial statements.

**PRUDENTIAL DISTRIBUTION LIMITED**

**BALANCE SHEET AS AT 31 DECEMBER 2014**

	Note	2014 £000	2013 Restated for FRS101 £000
<b>Fixed assets</b>			
Tangible fixed assets	10	10,081	9,494
<b>Current assets</b>			
Trade and other debtors	11	198,267	176,872
Cash at bank and in hand	12	26,374	54,044
		<u>224,641</u>	<u>230,916</u>
<b>Current liabilities</b>			
Trade and other creditors: amounts falling due within one year	13	(158,260)	(162,827)
		<u>66,381</u>	<u>68,089</u>
<b>Net current assets</b>			
		<u>76,462</u>	<u>77,583</u>
<b>Total assets less current liabilities</b>			
Provision for liabilities and charges	14	(9,052)	(11,716)
		<u>67,410</u>	<u>65,867</u>
<b>Net assets</b>			
<b>Capital and reserves</b>			
Ordinary share capital	16	35,820	35,820
Preference share capital	16	7,210	7,210
Retained earnings	17	10,267	11,657
Capital reserve	18	14,113	11,180
<b>Shareholders' funds</b>		<u>67,410</u>	<u>65,867</u>

The financial statements on pages 10 to 30 were approved by the board of directors on 27 March 2015.  
The accounting policies and notes on pages 13 to 30 form an integral part of these financial statements.



C Lewis  
Director

**PRUDENTIAL DISTRIBUTION LIMITED**

**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014**

	<b>Called Up Share Capital £000</b>	<b>Profit and Loss Account £000</b>	<b>Capital Reserves £000</b>	<b>Total Equity £000</b>
Balance at 1 January 2013 restated for FRS101	43,030	6,778	10,277	60,085
Capital contribution for the year recorded directly in equity	—	—	903	903
<b>Total comprehensive income for the period</b>				
Profit or loss	—	4,879	—	4,879
Other comprehensive income	—	—	—	—
Total comprehensive income for the period restated for FRS101	—	4,879	—	4,879
Balance at 31 December 2013 restated for FRS101	<u>43,030</u>	<u>11,657</u>	<u>11,180</u>	<u>65,868</u>
<b>Balance at 1 January 2014</b>	<b>43,030</b>	<b>11,657</b>	<b>11,180</b>	<b>65,868</b>
Capital contribution for the year	—	—	2,933	2,932
<b>Total comprehensive income for the period</b>				
Profit or loss	—	(1,390)	—	(1,390)
Other comprehensive income	—	—	—	—
Total comprehensive income for the period	—	(1,390)	—	(1,390)
<b>Balance at 31 December 2014</b>	<u><b>43,030</b></u>	<u><b>10,267</b></u>	<u><b>14,113</b></u>	<u><b>67,410</b></u>

Capital contribution represents the capital reserve in respect of share-based payment created during the year in accordance with IFRS 2 (Share-based Payment).

The accounting policies and notes on pages 13 to 30 form an integral part of these financial statements.

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS**

#### **1. Accounting Policies**

##### **A. Changes in Accounting Policies**

In these financial statements, the Company has early adopted Financial Reporting Standard 101 - Reduced Disclosure Framework (FRS101) for the first time. (See basis of preparation below).

##### **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.

In the transition to FRS101, the Company has applied International Financial Reporting Standard 1 - First Time Adoption of International Financial Reporting Standards (IFRS 1), whilst ensuring that its assets and liabilities are measured in accordance with FRS101. An explanation of how the transition to FRS101 has affected the reported financial position and financial performance of the Company is provided in Note 25.

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 tangible fixed assets;
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- The effect of new but not effective IFRSs; and
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy to adopt FRS101.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 January 2013 for the purposes of the transition to FRS 101.

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:

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

- (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:

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 deposits and other unsecured loans and receivables and trade and other 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 forward contracts. Forward contracts are entered into for the purpose of matching or eliminating risk from potential movements in exchange rates inherent in the Company's assets, liabilities and positions. The forward contracts 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.

#### **F. Revenue recognition**

Operating income comprises of recharge of expenses, commission and other income received from group companies and third parties. Income is accounted for on an accruals basis.

Interest receivable on loans given by the Company is accounted for on an accruals basis.

#### **G. Expenses**

Operating expenses comprises of management expenses and license fee expenses incurred by the Company in relation to the service company and distribution activities. Expenses are accounted for on an accruals basis.

Interest payable by the Company is accounted for on an accruals basis.

#### **H. Fixed assets**

Depreciation is provided at a rate calculated to write off the cost or value of the assets less their estimated residual value over their estimated useful lives as follows:

Leasehold improvements	Up to a maximum of 20 years
Fixtures and fittings	Up to a maximum of 10 years
Computer equipment	Up to a maximum of 5 years
Motor vehicles	Up to a maximum of 4 years
Plant and machinery	Up to a maximum of 4 years

#### **I. Leased assets**

Rents payable under operating leases are charged to the profit and loss account as incurred over the lease term. Tangible fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet



## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

at the fair value of the leased asset at the inception of the lease. Finance charges are charged to the profit and loss account as they arise.

#### **J. 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.

#### **K. Share-based Payments**

The Company offers share award and option plans for certain key employees and a SAYE plan for all UK and certain overseas employees. The Company has both equity-settled plans and cash-settled plans.

Share options and awards of the parent company's equity instruments, for which the parent company (Prudential plc) has the obligation to settle, are valued using the share price at the date of grant and are accounted for as equity-settled i.e. recognised in equity as a capital contribution from Prudential plc. Share options and awards for which the Company has the obligation to settle are valued using the share price at the balance sheet date and are accounted for as cash-settled i.e. as an obligation to transfer the equity instruments of Prudential plc. The compensation costs for all awards and options are recognised in net income over the plans' respective vesting periods.

### **2. Operating income**

	<b>2014</b>	2013
	<b>£000</b>	£000
Income earned from recharges to group undertakings	<b>484,317</b>	475,964
Income earned from third party contracts	<b>28,054</b>	33,883
Income earned from advice services	—	5,134
	<b><u>512,371</u></b>	<u>514,981</u>

### **3. Staff costs**

	<b>2014</b>	2013
	<b>£000</b>	£000
Wages and salaries	<b>119,428</b>	142,781
Other pension costs	<b>14,472</b>	15,787
Social security costs	<b>14,515</b>	18,126
Share based payment expenses	<b>5,959</b>	7,958
Total	<b><u>154,374</u></b>	<u>184,652</u>
	<b>No.</b>	No.
Average number of employees during the period	<b><u>1,664</u></b>	<u>2,068</u>

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

The directors, who are employed by Prudential Distribution Limited, did not receive any remuneration in respect of their services on behalf of the Company.

Details of the pension schemes operated by the Company are disclosed in the accounts of The Prudential Assurance Company Limited and Prudential Financial Services Limited.

#### **4. Other operating charges**

	<b>2014</b>	2013
	<b>£000</b>	£000
Management expenses	<b>326,425</b>	286,862
Expenses attributable to third party contracts	<b>32,220</b>	37,329
Advisor charges recharged	—	4,775
	<b><u>358,645</u></b>	<u>328,966</u>

#### **5. Interest income**

	<b>2014</b>	2013
	<b>£000</b>	£000
Bank interest received	<b>151</b>	325
Policyholder interest recharged	<b>114</b>	116
Company car interest recharged	<b>148</b>	265
Other interest income	<b>1,052</b>	265
Total	<b><u>1,465</u></b>	<u>971</u>

#### **6. Interest expense**

	<b>2014</b>	2013
	<b>£000</b>	£000
Bank interest recharged	<b>110</b>	192
Policyholder interest paid	<b>114</b>	116
Company car interest paid	<b>156</b>	286
Other interest recharges	<b>169</b>	106
Total	<b><u>549</u></b>	<u>700</u>

#### **7. Unrealised gains/(losses)**

	<b>2014</b>	2013
		Restated for FRS101 £000
Unrealised gains/(losses) on valuation of forward contracts	<b>811</b>	(613)
	<b><u>811</u></b>	<u>(613)</u>

#### **8. Auditors' remuneration**

Auditor's remuneration amounts to £37k (2013: £36k) in respect of the audit of the Company's financial statements.

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

#### **9. Tax**

##### **a) Tax charged/(credited)**

	<b>2014</b>	2013 Restated for FRS101
	<b>£000</b>	£000
Current tax:		
Current period corporation tax at effective rate of 21.50% (2013: 23.25%)	<b>(948)</b>	(198)
Adjustments in respect of prior years	<b>(473)</b>	2,129
Total current tax (charge)/credit on ordinary activities	<b><u>(1,421)</u></b>	<u>1,931</u>
	<b>2014</b>	2013 Restated for FRS101
	<b>£000</b>	£000
Deferred tax :		
Origination and reversal of temporary differences	<b>(844)</b>	1,864
Adjustment in respect of prior periods	<b>(204)</b>	63
Total deferred tax (charge)/credit	<b><u>(1,047)</u></b>	<u>1,927</u>
Total tax (charge)/credit on ordinary activities	<b><u>(2,469)</u></b>	<u>3,858</u>

##### **b) Factors affecting tax charge for the period**

The reduction in the UK corporation tax rate to 21% from 1 April 2014 and the further reduction to 20% from 1 April 2015 have been reflected in the financial statements for the year ended 31 December 2014.

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.

	<b>2014</b>	2013 Restated for FRS101
	<b>£000</b>	£000
Profit on ordinary activities before tax	<b>1,079</b>	1,021
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 21.50% (2013: 23.25%)	<b>(232)</b>	(237)
Effects of		
Permanent differences	<b>(550)</b>	437
Depreciation in excess of capital allowances	<b>(240)</b>	116
Adjustments to current tax in respect of previous years	<b>(473)</b>	2,130
Adjustments to deferred tax in respect of previous years	<b>(204)</b>	63
Tax charge in relation to share based payments	<b>(791)</b>	(371)
Change of tax rate on deferred tax	<b>21</b>	—
Origination and reversal of temporary differences	<b>—</b>	1,720
Total tax (charge)/credit for the year	<b><u>(2,469)</u></b>	<u>3,858</u>

**PRUDENTIAL DISTRIBUTION LIMITED**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

**c) Balance Sheet**

	<b>2014</b>	2013
	<b>£000</b>	Restated for FRS101 £000
Deferred tax asset explained by:		
Accelerated capital allowances	<b>1,483</b>	1,996
Short term temporary differences	<b>2,410</b>	2,374
<b>Total</b>	<b>3,893</b>	4,370
Deferred tax asset at start of period	<b>4,370</b>	2,443
Deferred tax credited to statement of total recognised gains and losses for the period	<b>570</b>	—
Deferred tax (charged)/credited in profit and loss account for the period	<b>(1,047)</b>	1,927
<b>Deferred tax asset at end of period</b>	<b>3,893</b>	4,370

**10. Fixed assets**

	<b>Fixtures and Fittings</b>	<b>Plant and Machinery</b>	<b>Motor Vehicles</b>	<b>Computer Equipment</b>	<b>Buildings and Improvements</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>						
At 1 January 2014	3,044	5,217	577	101,451	20,089	130,378
Additions	—	3,181	—	—	233	3,414
<b>At 31 Dec 2014</b>	<b>3,044</b>	<b>8,398</b>	<b>577</b>	<b>101,451</b>	<b>20,322</b>	<b>133,792</b>
<b>Depreciation</b>						
At 1 January 2014	(3,041)	(1,764)	(577)	(101,451)	(14,051)	(120,884)
Charge for year	(3)	(1,709)	—	—	(1,115)	(2,827)
<b>At 31 December 2014</b>	<b>(3,044)</b>	<b>(3,473)</b>	<b>(577)</b>	<b>(101,451)</b>	<b>(15,166)</b>	<b>(123,711)</b>
<b>Net book value</b>						
At 31 December 2014	—	4,925	—	—	5,156	10,081
At 31 December 2013	3	3,453	—	—	6,038	9,494

## PRUDENTIAL DISTRIBUTION LIMITED

### NOTES ON THE FINANCIAL STATEMENTS (continued)

#### 11. Trade and other debtors

	2014	2013
	£000	Restated for FRS101 £000
<b>Amounts falling due within one year:</b>		
Amounts owed by group undertakings	127,353	103,813
Prepayments and accrued income	63,675	68,255
Deferred tax	3,893	4,370
Corporation tax recoverable	1,524	379
Derivative asset	198	—
Other debtors	1,624	55
<b>Total Debtors</b>	<b>198,267</b>	<b>176,872</b>

#### 12. Cash at bank and in hand

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.

#### 13. Trade and other creditors

	2014	2013
	£000	Restated for FRS101 £000
<b>Amounts falling due within one year:</b>		
Amounts owed to group undertakings	53,684	67,041
Taxation and social security	13,692	12,811
Other creditors	2,564	2,538
Accruals and deferred income	88,320	79,824
Derivative liabilities	—	613
<b>Total</b>	<b>158,260</b>	<b>162,827</b>

The Company does not follow any code or standard on payment practice with its suppliers but it is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms.

#### 14. Provisions for liabilities and charges

	Balance as at 1 January 2014 £000	Utilised in the year £000	Released in the year £000	Provided in the year £000	Balance as at 31 December 2014 £000
Restructure Costs	11,716	(2,863)	(2,512)	2,711	9,052

Restructure costs have been provided for in response to changes in the structure and strategic direction of Prudential's UK insurance operations. These costs include property liabilities resulting from the closure of regional

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

sales centres and branches and other property rationalisation. Property liabilities will be utilised over the period of leases outstanding, which in some cases is in excess of 2 years.

#### **15. Share-based payments**

The Company maintains a number of main share award and share option plans relating to Prudential plc shares, which are described below :-

##### **(i) Prudential Long term Incentive Plan (PLTIP)**

The PLTIP is a new plan approved by Prudential shareholders in 2013. The PLTIP is a conditional share plan: the shares which are awarded will ordinarily be released to participants after three years to the extent that performance conditions have been met. If performance conditions are not achieved in full, the unvested portion of any award lapses and performance cannot be retested. The performance conditions attached to PLTIP awards are: Relative Total Shareholder Return (TSR) (50 per cent of award); and Group IFRS profit (50 per cent of award), or Business unit IFRS profit (50 per cent of award). The performance conditions attached to each award are dependent on the role of the participants. The Relative TSR is measured over three years. The TSR is measured against a peer group of international insurers (currently 18) which are similar to Prudential in size, geographic footprint and products. IFRS profit is the three year cumulative IFRS operating profit assessed at Group or business unit level. Threshold and maximum achievement levels will be set at the beginning of the performance periods in line with the three year business plan.

##### **(ii) Savings related options**

The Company participates in share option schemes satisfied by the issue of new shares: UK-based executive directors and eligible employees are eligible to participate in the Prudential HM Revenue & Customs (HMRC)-approved UK savings related share option scheme (SAYE scheme) and eligible employees can participate in the equivalent International SAYE scheme. These schemes allow all eligible employees to save towards the exercise of options over Prudential plc shares with the option price set at the beginning of the savings period at a discount of up to 20 per cent of the market price.

In 2013 participants could elect to enter into savings contracts of up to £250 per month for a period of three or five years. At the end of this term, participants may exercise their options within six months and purchase shares. If an option is not exercised within six months, participants are entitled to a refund of their cash savings plus interest if applicable under the rules. Shares are issued to satisfy those options which are exercised. No options may be granted under the schemes if the grant would cause the number of shares which have been issued, or which remain issuable pursuant to options granted in the preceding 10 years under the scheme and other share option schemes operated by the Company, or which have been issued under any other share incentive scheme of the Company, to exceed 10 per cent of the Company's ordinary share capital at the proposed date of grant.

##### **(iii) Share Incentive Plan**

UK-based executive directors and employees are also eligible to participate in the Company's HMRC-approved Share Incentive Plan (SIP). In 2013 all UK-based employees were able to purchase shares of Prudential plc up to a value of £125 per month from their gross salary (partnership shares) through the SIP. For every four partnership shares bought, an additional matching share is awarded, purchased by Prudential on the open market. Dividend shares accumulate while the employee participates in the plan.

Partnership shares may be withdrawn from the scheme at any time. If the employee withdraws from the plan, or leaves the Group, matching shares are forfeit.

##### **(iv) Other Share awards**

In addition, there are other share awards, including the Prudential Corporation Deferred Bonus Plan and other arrangements. There are no performance conditions attached to deferred share awards made under these arrangements.

##### **(v) Group Performance Share Plan (GPSP) and Business Unit Performance Plan (BUPP)**

Prior to the approval of the PLTIP, the GPSP and the BUPP were the principal long-term incentive plans operated for executive directors and senior executives. The GPSP and BUPP are conditional share plans: the shares which were awarded will be released to participants to the extent that performance conditions have been met, over the three-year performance period. The performance measure for the awards is that Prudential's Total Shareholder Return (TSR) outperforms an index comprising of peer companies.

**PRUDENTIAL DISTRIBUTION LIMITED**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

The weighted average share price of Prudential plc for the year ended 31 December 2014 was £0 compared to £11.14 for the year ended 31 December 2013.

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2014:

	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £0 and £1	—	—	—	—	—
Between £1 and £2	—	—	—	—	—
Between £2 and £3	44,911	2.84	2.88	—	—
Between £3 and £4	—	—	—	—	—
Between £4 and £5	115,185	1.37	4.62	29,832	1
Between £5 and £6	1,215	0.84	5.51	—	—
Between £6 and £7	349,543	1.53	6.29	—	—
Between £7 and £8	—	—	—	—	—
Between £8 and £9	—	—	—	—	—
Between £9 and £10	127,643	2.64	9.01	—	—
Between £10 and £11	—	—	—	—	—
Between £11 and £12	355,792	3.92	11.55	—	—
<b>Total</b>	<b>994,289</b>	<b>—</b>	<b>—</b>	<b>29,832</b>	<b>1</b>

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2013:

	Outstanding			Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £0 and £1	—	—	—	—	—
Between £1 and £2	—	—	—	—	—
Between £2 and £3	560,109	1.01	2.88	—	—
Between £3 and £4	—	—	—	—	—
Between £4 and £5	308,823	1.66	4.61	20,510	4.52
Between £5 and £6	2,412	1.50	5.55	—	—
Between £6 and £7	431,353	2.49	6.29	—	—
Between £7 and £8	—	—	—	—	—
Between £8 and £9	172,544	3.59	9.01	—	—
<b>Total</b>	<b>1,475,241</b>	<b>1.88</b>	<b>4.96</b>	<b>20,510</b>	<b>4.52</b>

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

The years shown above for weighted average remaining contractual life include the time period from end of vesting period to expiration of contract.

#### **16. Share capital**

	2013
	£000
<b>Ordinary shares</b>	
Issued and fully paid:	
35,820,001 ordinary shares of £1 each	35,820
<b>Preference Shares</b>	
Issued and fully paid:	
7,210,000 ordinary shares of £1 each	7,210
<b>Total Issued and Paid Share Capital</b>	<u>43,030</u>

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

The Preference Shares issued carry the right to receive a non-cumulative preferential dividend which shall accrue from the date of issue of such Preference Share to the first Dividend Date and from one Dividend Date to the next Dividend Date, but shall be reset to zero immediately following each Dividend Date whether or not any Preference Dividend is paid on such Dividend. The Preference Shares may not be redeemed otherwise than at the option of the Company at any time after the second anniversary of the date of issue of such Preference Share. The Preference Shares carry no voting rights except if a resolution is proposed in relation to (i) the winding up of the Company, a voluntary arrangement with trade and other creditors of the Company or proposed receivership, administrative receivership or administration of the Company; or (ii) an alteration of the rights of the Preference Shares or in relation to any other matter which will have detrimental effect upon the rights of the Preference Shares.

#### **17. Profit and loss account**

	2014	2013
	£000	Restated for FRS101 £000
Balance as at 1 January	11,657	6,778
(Loss)/profit for the year	(1,390)	4,879
Balance as at 31 December	<u>10,657</u>	<u>11,657</u>

#### **18. Capital Contribution**

	2014	2013
	£000	£000
Balance as at 1 January	11,180	10,277
Contribution for the year	2,933	903
Balance as at 31 December	<u>14,113</u>	<u>11,180</u>



## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

#### **19. Operating lease commitments**

Included within the other operating charges for the year are amounts paid as rental on operating leases for property.

	<b>2014</b>	2013
	<b>£000</b>	£000
Buildings	<b>2,361</b>	2,361

Operating lease commitments payable within one year (solely represent leases on land and building) are as follows on leases expiring:

	<b>2014</b>	2013
	<b>£000</b>	£000
Over five years	<b>2,361</b>	2,361

The Company is committed to the following expenditure as at 31 December 2014:

	<b>2014</b>	2013
	<b>£000</b>	£000
General building refurbishment	<b>969</b>	2,302

#### **20. Related party transactions**

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group. There are no other transactions with related parties.

#### **21. Ultimate and immediate parent company**

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

#### **22. Assets and Liabilities**

##### **A. Assets and Liabilities - Measurement and Classification**

The classification of the Company's assets and liabilities, and its 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.

<b>2014</b>	<b>Fair-value through profit and loss</b>	<b>Cost/ Amortised Cost</b>	<b>Total carrying value</b>	<b>Fair value where applicable</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fixed Assets	—	10,081	10,081	10,081
Trade and other debtors	—	198,069	198,069	198,069
Derivative assets	198	—	198	198
Cash at bank and in hand	—	26,374	26,374	26,374
<b>Total assets</b>	<b>198</b>	<b>234,524</b>	<b>234,722</b>	<b>234,722</b>

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

	Fair-value through profit and loss £000	Cost/ Amortised Cost £000	Total carrying value £000	Fair value where applicable £000
Trade and other creditors	—	158,260	158,260	158,260
Derivative liabilities	—	—	—	—
Provisions for liabilities and charges	—	9,052	9,052	9,052
<b>Total liabilities</b>	—	<b>167,312</b>	<b>167,312</b>	<b>167,312</b>

2013 Restated for FRS101	Fair-value through profit and loss £000	Cost/ Amortised Cost £000	Total carrying value £000	Fair value where applicable £000
Fixed Assets	—	9,494	9,494	9,494
Trade and other debtors	—	176,872	176,872	176,872
Cash at bank and in hand	—	54,044	54,044	54,044
<b>Total assets</b>	—	<b>240,910</b>	<b>240,910</b>	<b>240,910</b>

	Fair-value through profit and loss £000	Cost/ Amortised Cost £000	Total carrying value £000	Fair value where applicable £000
Trade and other creditors	—	162,214	162,214	162,214
Derivative liabilities	613	—	613	613
Provisions for liabilities and charges	—	11,716	11,716	11,716
<b>Total liabilities</b>	<b>613</b>	<b>173,930</b>	<b>174,543</b>	<b>174,543</b>

#### **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 estimated fair value of the derivative financial instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The fair value is determined based on the estimated value if a contract of a similar nature was purchased on the reporting date.

#### **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)

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

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.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>Total</b>
				<b>£000</b>
Derivative assets	—	198	—	198
Total financial investments, net of derivative liabilities	—	198	—	198
Percentage of total (%)		100		100

	31 December 2013 Restated for FRS 101			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Derivative liabilities	—	(613)	—	(613)
Total financial investments, net of derivative liabilities	—	(613)	—	(613)
Percentage of total (%)		100		100

A fair value hierarchy has not been produced for items held at amortised cost where a fair value is disclosed because the carrying value approximates to the fair value

### **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.

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

2014	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Trade and other debtors	—	75,443	122,626	198,069
Derivative assets	—	—	198	198
Cash at bank and in hand	—	26,374	—	26,374
	—	101,817	122,824	224,641
<b>Financial Liabilities</b>				
Trade and other creditors	—	—	160,849	160,849
	—	—	160,849	160,849

2013 Restated for FRS101	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
<b>Financial Assets</b>				
Trade and other debtors	—	68,069	108,803	176,872
Cash at bank and in hand	—	54,044	—	54,044
	—	122,113	108,803	230,916
<b>Financial Liabilities</b>				
Trade and other creditors	—	—	162,214	162,214
Derivative liabilities	—	—	613	613
	—	—	162,827	162,827

### **Sensitivity to interest rate movements**

The results of the Company are not materially sensitive to interest rate movements.

### **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.

**PRUDENTIAL DISTRIBUTION LIMITED**

**NOTES ON THE FINANCIAL STATEMENTS (continued)**

2014	1 year or less	After 1 year to 5 years	Total undiscounted cashflows	Total carrying value
	£000	£000	£000	£000
Financial Liabilities				
Trade and other creditors	158,260	—	158,260	158,260
Provision for liabilities and charges	4,878	4,174	9,052	9,052
	<b>163,138</b>	<b>4,174</b>	<b>167,312</b>	<b>167,312</b>

2013	1 year or less	After 1 year to 5 years	Total undiscounted cashflows	Total carrying value
	£000	£000	£000	£000
Financial Liabilities				
Trade and other creditors	162,214	—	162,214	162,214
Provision for liabilities and charges	2,784	8,932	11,716	11,716
	<b>162,214</b>	<b>8,932</b>	<b>173,930</b>	<b>173,930</b>

(ii) Maturity analysis of derivatives and investment contracts

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

2014	Total carrying value	1 year or less	Total
	£000	£000	£000
Net derivative position	<b>198</b>	<b>198</b>	<b>198</b>

2013 Restated for FRS101	Total carrying value	1 year or less	Total
	£000	£000	£000
Net derivative position	(613)	(613)	(613)

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

	2014	2013 Restated for FRS101
	£000	£000
Derivative assets	<b>198</b>	—
Derivative liabilities	—	(613)
<b>Net derivative position</b>	<b>198</b>	<b>(613)</b>

The derivative assets and liabilities have been included at fair value within the "1 year" column representing the basis on which they are managed (i.e. to manage principally asset or liability value exposures).

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

#### **Currency risk**

The Company is not exposed to currency risk.

#### **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.

### **23. 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 debtors are predominantly intra group and therefore the risk of default is considered to be minimal.

#### **(b) 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 being the single service company for UKIO is covered by the Risk Procedure Manual within the Group and has a defined liquidity appetite.

#### **(c) 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.*

The Company has limited exposure to market risk. The exposure arises from fluctuations in interest rates pertaining to the intra-group loans granted by the Company.

### **24. Capital requirements and management**

The Company is regulated by the Financial Conduct Authority (FCA) as a personal investment firm. The Company is subject to the Prudential Sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and the Interim Prudential Sourcebook for Investment Businesses (IPRU(INV)).

As stipulated in MIPRU rule 4.2.11R, the Company is required to maintain capital resources equivalent to the higher of £5k and 2.5% of the annual income from its insurance mediation activity or home finance mediation activity (or both).

The Company is a B3 low resource firm as defined under IPRU(INV) and is required to maintain own funds of £10k at all times as stipulated in IPRU(INV) rule 13.10.

The Company is also required to maintain additional capital of £3.44m to meet the Professional Indemnity Insurance (PII) requirements based on the IPRU (INV) rules. The Company relies on the Group Policy to meet the PII requirements. The capital requirement is based on the excess on the PII policy and the level of annual income.

## **PRUDENTIAL DISTRIBUTION LIMITED**

### **NOTES ON THE FINANCIAL STATEMENTS (continued)**

As at 31 December 2014, the minimum regulatory capital requirement of the Company was £3,450k (2013: £3,450k) against which the Company had capital resources amounting to £60,110k (Restated for FRS101) (2013: £65,867k).

#### **25. Explanation of transition to FRS101**

As stated in Note 1, these are the Company's first financial statements prepared in accordance with FRS101. The accounting policies set out in Note 1 have been applied in preparing the financial statements for the year ended 31 December 2014, the comparative information presented in these financial statements for the year ended 31 December 2013 and in the preparation of an opening balance sheet at 1 January 2013, the Company's date of transition.

In preparing its FRS101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UKGAAP). An explanation of how the transition from UKGAAP to FRS101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

<b>Balance Sheet as at 31 December 2013</b>	<b>UKGAAP</b>	<b>Effect of Transition to FRS101</b>	<b>FRS101</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed Assets</b>			
Tangible Fixed Assets	9,494	—	9,494
<b>Current Assets</b>			
Trade and other debtors			
Amounts owed by Group undertakings	103,813	—	103,813
Other debtors	55	—	55
Prepayments and accrued income	68,255	—	68,255
Deferred tax	4,370	—	4,370
Corporation tax	379	—	379
Cash at bank and in hand	54,044	—	54,044
<b>Total current assets</b>	<b>230,916</b>	<b>—</b>	<b>230,916</b>
<b>Current Liabilities</b>			
<b>Trade and other creditors: amounts falling due within one year</b>			
Amount owed to group undertakings	67,041	—	67,041
Taxation and social security	12,811	—	12,811
Other creditors	2,538	—	2,538
Derivative liability	—	613	613
Accruals and deferred income	79,824	—	79,824
	<b>162,214</b>	<b>613</b>	<b>162,827</b>
<b>Net current assets</b>	<b>68,702</b>	<b>(613)</b>	<b>68,089</b>
<b>Total Assets Less Current Liabilities</b>	<b>78,196</b>	<b>(613)</b>	<b>77,583</b>
Provision for liabilities and charges	11,716	—	11,716
<b>Net Assets</b>	<b>66,480</b>	<b>(613)</b>	<b>65,867</b>

**PRUDENTIAL DISTRIBUTION LIMITED****NOTES ON THE FINANCIAL STATEMENTS (continued)**

	<b>UKGAAP</b>	<b>Effect of Transition to FRS101</b>	<b>FRS101</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Capital and reserves</b>			
Called-up share capital	43,030	—	43,030
Opening retained earnings	6,778	—	6,778
Retained profit for the year	5,492	(613)	4,879
Capital Reserve	11,180	—	11,180
<b>Shareholders' funds</b>	<b>66,480</b>	<b>(613)</b>	<b>65,867</b>
	<b>UKGAAP</b>	<b>Effect of Transition to FRS101</b>	<b>FRS101</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Profit and Loss for the period ended 31 December 2013</b>			
Operating income	514,981	—	514,981
Staff costs	(184,652)	—	(184,652)
Other operating charges	(328,966)	—	(328,966)
Operating expenses	(513,618)	—	(513,618)
<b>Operating Profit</b>	<b>1,363</b>	<b>—</b>	<b>1,363</b>
Interest receivable	971	—	971
Interest payable	(700)	—	(700)
Unrealised gain/(loss)	—	(613)	(613)
Profit on ordinary activities for the year before taxation	<b>1,634</b>	<b>(613)</b>	<b>1,021</b>
Taxation on profit on ordinary activities	3,858	—	3,858
<b>Retained profit for the year</b>	<b>5,492</b>	<b>(613)</b>	<b>4,879</b>

Under FRS 101 the derivatives are now reported in the financial statements at fair value. The movement in the fair value of the derivative is reported through the profit and loss account. These are the only changes arising on the adoption of FRS101.