Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2014

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

CONTENTS

Directors

H A Hussain (Chairman) (appointed 14 January 2014)
D J Belsham (resigned 23 July 2014)
T Naidu (appointed 17 October 2014)
D Pender (appointed 13 February 2015)

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

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 2015.

Business review

Market review and strategy

The Company accepts reinsurance from The Prudential Assurance Company Limited 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. Performance generally in 2014 was favourable. 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	2014	2013	Change
	£000	£000	%
Profit on ordinary activities before tax	13,347	10,212	30.7 %
Shareholder funds	63,717	53,104	20.0 %
Funds under management	12,964,198	13,300,759	(2.5)%

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 legal change risks currently faced by the Company are:

- Solvency II - The EU is harmonising the solvency framework for insurance companies across Europe based on the concept of three pillars - minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements. This will cover valuations, the treatment of insurance groups and companies, the definition of capital and the level of capital required. A key aspect of Solvency II is that the assessment of risks and capital requirements will be aligned more closely with economic capital methodologies, and may allow the Company to make use of its internal economic capital models, if approved by the relevant supervisory authority. Although the Solvency II Directive was formally approved by the Economic and Financial Affairs Council in November 2009 its implementation was delayed pending agreement on a directive known as Omnibus II which has now been agreed. This will amend certain aspects of the Solvency II Directive. In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which has been adopted in early 2014. As a result, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II Directive, which is not currently expected to be finalised until mid-2015. There is significant uncertainty regarding the final outcome of this process. As a result there is a risk that the effect of the measures finally adopted could be adverse for the Company, including potentially a significant increase in capital required to support its business and that the Company may be placed at a competitive disadvantage to other European and non-European financial services groups.

- The split of regulation in the UK in 2013 between the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) has given rise to new requirements and regulatory expectations for the Company. This includes an increase in thematic review activity, the impact of additional and conflicting compliance demands and the implications from the FCA's new powers and 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, or a restatement of reported results.

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

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.

The Company is exposed to increased regulatory scrutiny in several areas including value for money, treatment of existing versus new customers, product profitability, behavioural economics and mis-selling.

(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.

Solvency II and other global regulatory developments

The European Union (EU) has developed a new prudential regulatory framework for insurance companies, referred to as 'Solvency II'. The Solvency II Directive, which sets out the new framework, was formally approved by the Economic and Financial Affairs Council in November 2009 although its implementation was delayed pending agreement on a directive known as Omnibus II which, having been adopted by the Council of the European Union in April 2014, amended certain aspects of the Solvency II Directive. The new approach is based on the concept of three pillars – minimum capital requirements, supervisory review of firms' assessments of risk, and enhanced disclosure requirements.

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the requirement for insurers to submit an Own Risk and Solvency Assessment which will be used by the regulator as part of the supervisory review process. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

Following adoption of the Omnibus II Directive, Solvency II will be implemented on 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II and Omnibus II Directives, which are not currently expected to be finalised until mid-late 2015.

There is significant uncertainty regarding the final outcome from this process. In particular, certain detailed aspects of the Solvency II rules relating to the determination of the liability discount rate for UK annuity business remain to be clarified and the capital position of the Company, is sensitive to these outcomes. There is a risk that the effect of the measures finally adopted could be adverse for the Company, including potentially a significant increase in the capital required to support its business and the Company may be placed at a competitive disadvantage to other European and non-European financial services groups. The Company, as part of the wider Group, is actively participating in shaping the outcome through its involvement in industry bodies and trade associations, including the Pan-European Insurance Forum, Chief Risk Officer and Chief Financial Officer Forum, together with the Association of British Insurers and Insurance Europe.

Having assessed the requirements of Solvency II, the Company has a well-established implementation programme to manage the required work across the Company. The Company is continuing its preparations to adopt the regime when it comes into force on 1 January 2016 and is undertaking in parallel an evaluation of the possible actions to mitigate its effects. The Company is in constant and ongoing dialogue with the PRA regarding potential outcomes, the approval process for the internal model, and also the range of available actions to ameliorate the impacts of transitioning to the new solvency regime.

Currently there are also a number of other global regulatory developments which could impact the way in which the Group and the Company are supervised. These include the work of the Financial Stability Board on Global Systemically Important Insurers (G-SIIs) and the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) being developed by the International Association of Insurance Supervisors (IAIS).

In July 2013 the Financial Stability Board announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS and subsequent guidance papers these additional policy measures will include enhanced group-wide supervision, effective resolution measures of the group in the event of failure, loss absorption, and higher loss absorption capacity. These additional measures will be phased in over a period from 2015 to 2019.

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

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to outline a set of common global principles and standards for group supervision and may increase the focus of regulators in some jurisdictions. One of the framework's key components is an Insurance Capital Standard (ICS) which would be expected to form the group solvency capital standard under ComFrame. In December 2014, the IAIS issued a comprehensive consultation paper on ICS and a quantitative field test is planned during 2015, which will be followed by another consultation in December 2015. Further field testing exercises are planned until 2018 to assess the impact of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

On behalf of the Board of directors

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

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

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 2014 is shown in the balance sheet on page 13. The statement of comprehensive income appears on pages 11 to 12. No dividend is proposed for the year (2013: Nil).

Share capital

There were no changes in the Company's share capital during 2014.

Directors

The present directors are shown on page 1.

Mr Hussain was appointed as a director on 14 January 2014. Mr Belsham resigned as a director on 23 July 2014. Mrs Naidu was appointed as a director on 17 October 2014. Mr D Pender was appointed as a director on 13 February 2015. There have been no further changes since the year-end.

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

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 9 December 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 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

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
27 March 2015

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PRUDENTIAL PENSIONS LIMITED

We have audited the financial statements of Prudential Pensions Limited for the year ended 31 December 2014 set out on pages 11 to 36. 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 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, 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 2014 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.

Robert Lewis

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

Long-term Business Technical Account	**Note**	**2014** **£000**	2013 Restated for FRS101 £000
Investment income	3	**847,742**	772,629
Unrealised gains on investment	3	**363,082**	290,832
Other technical income	3	**25,257**	28,769
		1,236,081	1,092,230
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount		**(2,631)**	7,717
- reinsurers' share		**2,731**	(7,617)
	14	**100**	100
Change in technical provisions for linked liabilities	14	**(1,200,253)**	(1,030,684)
		(1,200,153)	(1,030,584)
Net Operating Expenses			
- Acquisition costs		**(553)**	(489)
- Administrative expenses		**(4,054)**	(4,563)
Investment expenses and charges	3	**(9,393)**	(11,557)
Foreign exchange (losses)	3	**(7,106)**	(33,121)
Interest payable	3	**(44)**	(57)
Tax attributable to long-term business	4	**(4,218)**	(5,545)
		(25,368)	(55,332)
Balance on the long-term business technical account		**10,560**	6,314

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

The accounting policies and notes on pages 15 to 36 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014 (continued)

Non-Technical Account	Note	2014 £000	2013 £000
Balance on the long-term business technical account		**10,560**	6,314
Tax attributable to the balance on the long-term business technical account	4	**2,718**	3,854
Balance on the long-term business technical account before tax		**13,278**	10,168
Investment income	3	**78**	55
Bank interest receivable	3	**—**	1
Investment expenses and charges	3	**(9)**	(12)
Operating profit on ordinary activities before tax		**13,347**	10,212
Tax on profit on ordinary activities	4	**(2,734)**	(3,864)
Profit and comprehensive income for the financial year		**10,613**	6,348

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

The accounting policies and notes on pages 15 to 36 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2014

	Note	2014 £000	2013 Restated for FRS101 £000
Assets			
Investments			
Other financial investments	8	**72,898**	56,343
Assets held to cover linked liabilities	9	**12,964,198**	13,300,759
Reinsurers' share of technical provisions			
Long-term business provision	14,16	**66,994**	64,264
Debtors			
Other debtors	10	**522**	510
Other assets			
Cash at bank and in hand	11	**9,011**	10,296
Prepayments and accrued income		**143**	39
Total assets		**13,113,766**	13,432,211
Liabilities			
Capital and reserves			
Called up share capital	13	**6,000**	6,000
Capital redemption reserve		**4,088**	4,088
Profit and loss account		**53,629**	43,016
Total shareholders' funds attributable to equity interests		**63,717**	53,104
Technical provisions			
Long-term business provision	14,16	**66,994**	64,364
Technical provisions for linked liabilities	14	**12,964,198**	13,300,759
Provisions for other risks and charges			
Deferred taxation	4	**3,294**	3,790
Creditors			
Other creditors including taxation and social security	17	**15,563**	10,194
Total liabilities		**13,113,766**	13,432,211

The financial statements on pages 11 to 36 were approved by the board of directors on 27 March 2015. The accounting policies and notes on pages 15 to 36 form an integral part of these financial statements.

H A Hussain
Director

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

	Share Capital £000	Capital Redemption Reserve £000	Profit & Loss Account £000	Total £000
Balance at 1 January 2013	6,000	4,088	36,668	46,756
Total comprehensive income for the year				
Profit	—	—	6,348	6,348
Other comprehensive income	—	—	—	—
Total comprehensive income for the year	—	—	6,348	6,348
Balance at 31 December 2013	6,000	4,088	43,016	53,104
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**

The accounting policies and notes on pages 15 to 36 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;
- An additional balance sheet for the beginning of the earliest comparative period following the retrospective change in accounting policy to adopt FRS101; 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 and in preparing an opening FRS101 balance sheet at 1 January 2013 for the purposes of the transition to FRS101.

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, 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 also considered the implementation of Solvency II on 1 January 2016. The Company continues to work with the regulators to assess the implications, however, the new regime is under development with material areas requiring further clarification before the impacts can be fully assessed. There is a risk that under some scenarios the capital required to support the business could increase and in these circumstances management have a range of measures available to them to continue operating as a going concern.

B. Change in accounting policies

In these financial statements, the Company has early adopted FRS101 for the first time.

In the transition to FRS101, the Company has applied IFRS1 whilst ensuring that its assets and liabilities are measured in compliance with FRS101. The Company has made measurement and recognition adjustments. An explanation of how the transition to FRS101 has affected the reported financial position and financial performance of the Company is provided in Note 24.

C. Long-term business provision

Under IFRS4, the measurement basis of assets and liabilities of long-term business contracts is dependent upon the classification of the contracts 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.

D. 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.

E. 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.

F. 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 C 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.

G. Revenue recognition

For unit-linked business, premiums are accounted for when the liabilities arising from the premiums are created. 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.

H. 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.

I. Foreign currencies

The accounts are presented in pounds sterling which is also the Company's functional currency. 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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 2014 and 2013 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in the accounting policies.

	2014	2013
New Business	**£000**	£000
Single premiums – Pensions – Investment linked contracts		
Direct	**332,525**	965,114
External reinsurance accepted	**260,715**	108,782
Intragroup reinsurance accepted	**451,190**	710,642
	1,044,430	1,784,538

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	
	2014	2013 Restated for FRS101	**2014**	2013
	£000	£000	**£000**	£000
Investment income				
Income from land and buildings	**908**	5,219	—	—
Income from listed investments	**401,849**	388,423	—	—
Income from other investments	**27,028**	27,970	**78**	55
Gains on the realisation of investments at fair value through profit and loss other than derivatives	**428,538**	347,035	—	—
(Losses) / gains on the realisation of derivatives	**(10,581)**	3,982	—	—
	847,742	772,629	**78**	55
Investment expenses and charges				
Investment managers' expenses	**(9,393)**	(11,557)	**(9)**	(12)
Unrealised gains / (losses) on investments				
Debt securities	**1,691**	(1,507)	—	—
Linked assets - other than derivatives	**372,507**	290,681	—	—
Linked assets - derivatives	**(11,116)**	1,658	—	—
Exchange (losses)	**(7,106)**	(33,121)	—	—
Fee income from investment contracts	**25,257**	28,769	—	—
Bank interest (payable) / receivable	**(44)**	(57)	—	1
Total revenue and investment return	**1,219,538**	1,047,495	**69**	44

4. Tax

(a) Tax charged/(credited)

	Long-term business technical account		Non-technical account	
	2014	2013	**2014**	2013
	£000	£000	**£000**	£000
Current tax				
UK Corporation tax on profits of the period	**3,296**	2,952	**16**	10
Adjustments in respect of previous years	**(82)**	1,942	**—**	—
	3,214	4,894	**16**	10
Foreign tax	**1,500**	1,691	**—**	—
Total current tax	**4,714**	6,585	**16**	10
Deferred tax				
Adjustment in respect of previous years	**(84)**	(8)	**—**	—
Origination and reversal of temporary difference	**(412)**	(464)	**—**	—
Effect of changes in tax rate	**—**	(568)	**—**	—
Tax charge on profit on ordinary activities	**4,218**	5,545	**16**	10

Shareholder tax attributable on the balance on the long-term business technical account:		
Current tax	**3,214**	4,894
Deferred tax	**(496)**	(1,040)
	2,718	3,854
Total	**2,734**	3,864

(b) Factors affecting tax charge for 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.

	2014	2013
	£000	£000
Profit on ordinary activities before tax	**13,347**	10,212
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 21.50% (2013: 23.25%)	**2,870**	2,374
Effects of		
Adjustments to current tax in respect of previous periods	**(82)**	1,942
Permanent differences	**—**	88
Adjustments to deferred tax in respect of previous periods	**(84)**	(8)
Impact of changes in local statutory tax rates	**30**	(563)
Irrecoverable withholding taxes	**—**	30
Other	**—**	1
Total tax charge for the period	**2,734**	3,864

(c) **Balance sheet**

	2014 £000	2013 £000
Provision for deferred tax		
Transitional adjustments	**3,294**	3,790
Undiscounted provision for deferred tax liability	**3,294**	3,790
Deferred tax liability at start of the period	**3,790**	4,830
Deferred tax (credited) / charged in technical/non-technical account for the period	**(496)**	(1,040)
Deferred tax liability at the end of period	**3,294**	3,790

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 (2013: 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:

	2014 £000	2013 £000
Aggregate emoluments and benefits	**6**	72

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**

	2014 £000	2013 £000
Audit of these financial statements	**53**	54
Other services pursuant to legislation including the audit of the regulatory return	**10**	8
	63	62

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.

8. Other financial investments

	Carrying value		Cost	
	2014	2013	**2014**	2013
	£000	£000	**£000**	£000
Debt securities and other fixed income securities	**24,398**	12,843	**21,497**	11,633
Deposits with credit institutions	**48,500**	43,500	**48,500**	43,500
	72,898	56,343	**69,997**	55,133

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

9. Assets held to cover linked liabilities

	2014	2013 Restated for FRS101
	£000	£000
Shares and other variable yield securities	**5,427,870**	5,888,205
British government securities - fixed income	**703,823**	645,008
British government securities - index linked	**442,181**	410,013
Debentures and loan stocks	**5,383,731**	5,791,817
Provincial & municipal stocks	**566,525**	73,917
Deposits with credit institutions	**171,688**	190,643
Other investments	**(5,819)**	12,238
Other assets	**274,199**	288,918
Assets held to cover linked liabilities – carrying value	**12,964,198**	13,300,759
Assets held to cover linked liabilities - cost	**10,992,795**	11,671,548

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

	2014	2013 Restated for FRS101
	£000	£000
Shares and other variable yield securities	**5,427,842**	5,888,113
British government securities - fixed income	**703,823**	645,008
British government securities - index linked	**442,181**	410,013
Debentures and loan stocks	**5,383,731**	5,791,817
Provincial & municipal stocks	**566,525**	73,917
Other investments	**(9,791)**	4,515
	12,514,311	12,813,383

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 2014 was £693.2 million (2013: £601.46 million).

These financial statements present information about the undertaking as an individual undertaking and not about its group. The Company has taken advantage of the exemption not to prepare group financial statements under Section 400 of the Companies Act 2006, since it is included in the consolidated financial statements of Prudential plc, a Company registered in England and Wales.

10. Other debtors

All debtors are due within one year.

	2014	2013
	£000	£000
Debtors arising from direct insurance operations	12	—
Amounts owed by group undertakings	111	334
Other debtors	399	176
	522	510

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, £13,074,629,000 (2013: £13,409,696,000) is attributable to the long-term business fund.

13. Share capital

	2014	2013
	£000	£000
Issued and fully paid		
6 million ordinary shares (2013: 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 2014 - restated for FRS101	100	13,300,759
Movement in technical provisions for year		
Gross amount	2,631	1,200,253
Reinsurers' share	(2,731)	—
Deposits received from policyholders under investment contracts	—	1,044,691
Payments made to policyholders of investment contracts	—	(2,581,505)
Balance at 31 December 2014	—	12,964,198

The entire reinsurer's share of technical provisions for long-term business of £67.0 million at 31 December 2014 (2013: £64.3 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

Regulatory capital requirements apply at both an individual company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the Prudential Regulation Authority (PRA) (formerly the FSA). Under the IGD a parent company continuous solvency test is applied. Under this test the surplus unrestricted capital held in each of the regulated subsidiaries, including the Company, is aggregated with the free assets of non-regulated subsidiaries. From this total, Prudential Group borrowings are deducted, other than subordinated debt issues which qualify as capital.

In addition to obligations under subsidiary and Prudential Group regulatory requirements, the Prudential Group applies an economic framework to its management of capital. Economic capital provides a realistic and consistent view of the Group's capital requirements, allowing for diversification benefits.

At the Company level, the PRA rules which govern the prudential regulation of insurance form part of the Prudential Sourcebook for Insurers, the General Prudential Sourcebook and Interim Prudential Sourcebook for Insurers. Overall, the net requirements of the General Prudential Sourcebook are intended to align the capital adequacy requirements for insurance business more closely with those of banking and investment firms and building societies, for example, by addressing tiers of capital, rather than looking at net admissible assets. An insurer must hold capital resources equal at least to the Minimum Capital Requirement (MCR).

The Prudential Sourcebook for Insurers also contains rules on Individual Capital Assessments. Under these rules and the rules of the General Prudential Sourcebook all insurers must assess for themselves the amount of capital needed to back their business. If the PRA views the results of this assessment as insufficient, it may draw up its own Individual Capital Guidance for a firm, which can be superimposed as a requirement.

The available capital of £52.6 million (2013: £37.1 million) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £14.9 million (2013: £14.7 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.

	2014	2013
	£000	£000
Shareholders' equity		
Held outside long-term funds	**37,683**	22,347
Held in long-term funds	**26,034**	30,587
Total shareholders' equity	**63,717**	52,934
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	**(11,113)**	(15,841)
Total available capital resources on regulatory basis	**52,604**	37,093

16. Long-term business provision

The long-term business provision comprises a provision for annuity business and an additional provision for data integrity.

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 have been amended, where necessary, in line with changes in market yields.

There have been no other significant changes in the bases or assumptions adopted for the calculation of the long-term business provision during the year.

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.

The provisions have been calculated on the following bases:

	2014	2013
Discount Rate	**2.905% for annuities**	4.094% for annuities
Fund Growth	**N/A for annuities**	N/A for annuities
Expense Inflation	**3.50% gross**	4.00% gross
Renewal expenses:		
Reassured annuity business	**£19.77 p.a. per policy**	£22.31 p.a per policy
Annuity mortality	**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.**	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: 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.	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

	2014	2013
All creditors are due within one year.	**£000**	£000
Creditors arising from direct insurance operations	**—**	12
Creditors arising from reinsurance operations	**6,006**	1,265
Due to group undertakings	**2,411**	239
Sundry creditors	**5,692**	8,510
Tax payable	**1,454**	168
	15,563	10,194

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 £4,307.0 million, £264.9 million, £183.2 million, £27.8 million and £7.7 million, representing liabilities to five different customers (2013: £4,558.7 million, £233.8 million, £59.7 million, £46.6 million, £19.0 million and £5.8 million representing liabilities to six 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).

2014

	Fair value through profit and loss	Cost / Amortised Cost / IFRS4 value	Total carrying value	Fair value where applicable
	£000	£000	£000	£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
Other creditors	—	9,557	9,557	9,557
Total liabilities	12,964,198	85,851	13,050,049	

NOTES ON THE FINANCIAL STATEMENTS (continued)

2013 Restated for FRS101	Fair value through profit and loss £000	Cost / Amortised Cost / IFRS4 value £000	Total carrying value £000	Fair value where applicable £000
Deposits with credit institutions	—	43,500	43,500	43,500
Debt securities	12,843	—	12,843	12,843
Assets held to cover linked liabilities	13,300,759	—	13,300,759	13,300,759
Reinsurers share of technical provisions	—	64,264	64,264	
Other debtors	—	510	510	510
Cash at bank and in hand	—	10,296	10,296	10,296
Accrued investment income	—	39	39	39
Total assets	13,313,602	118,609	13,432,211	
Long-term business provision	—	64,364	64,364	
Investment contracts without discretionary participating features	13,300,759	—	13,300,759	13,300,759
Deferred tax liabilities	—	3,790	3,790	
Creditors arising out of reinsurance operations	—	1,265	1,265	1,265
Creditors arising out of direct insurance operations	—	12	12	12
Other creditors	—	8,917	8,917	8,917
Total liabilities	13,300,759	78,348	13,379,107	

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

	31 December 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
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
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%

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

	2013 Restated for FRS101			
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Unit-linked				
Equity securities	5,888,113	—	92	5,888,205
Debt securities	1,452,214	5,468,542	—	6,920,756
Derivative assets	2,081	9,497	—	11,578
Other investments	2,434	—	—	2,434
Derivative liabilities	(766)	(1,008)	—	(1,774)
Total financial investments, net of derivative liabilities:	7,344,076	5,477,031	92	12,821,199
Investment contracts without discretionary participation features held at fair value	—	(13,300,760)	—	(13,300,760)
Total	7,344,076	(7,823,729)	92	(479,561)
Percentage of total	(1,531)%	1,631%	0 %	100%
Non-linked				
Debt securities	12,843	—	—	12,843
Percentage of total	100 %	—%	— %	100%
Company total				
Equity securities	5,888,113	—	92	5,888,205
Debt securities	1,465,057	5,468,542	—	6,933,599
Derivative assets	2,081	9,497	—	11,578
Other investments	2,434	—	—	2,434
Derivative liabilities	(766)	(1,008)	—	(1,774)
Total financial investments, net of derivative liabilities	7,356,919	5,477,031	92	12,834,042
Investment contracts without discretionary participation features held at fair value	—	(13,300,760)	—	(13,300,760)
Total	7,356,919	(7,823,729)	92	(466,718)
Percentage total	(1,576)%	1,676%	0 %	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.

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 2014 to that presented at 31 December 2014. 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.

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

2013	At 1 Jan 2013	Total gains or (losses) in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2013
Unit-linked	£000	£000	£000	£000	£000	£000	£000
Equity securities	—	—	—	—	92	—	92

Transfers between level 1 and level 3

During 2014, there were no transfers from level 1 to level 3 (2013: level 1 to level 3 £0.1 million).

Exposure to sovereign debt and bank debt

The Company exposure to UK sovereign debt held in non-linked funds is £24.4 million (2013: £12.8 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.

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**

2013	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	12,843	—	12,843
Cash at bank and in hand	—	10,296	10,296
	12,843	53,796	66,639

(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 doesn't hold any investment property or equity securities outside of the unit-linked funds, so is not 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.

(ii) Sensitivity to interest rate movement

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 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 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)**

	31 December 2013			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£000	£000	£000	£000
Carrying value of debt securities	1,358	2,716	(1,358)	(2,716)
Interest on deposits with credit institutions	(143)	(143)	538	1,076
Related tax effects	(243)	(514)	164	328
Net sensitivity of profit after tax and shareholders' funds	972	2,059	(656)	(1,312)

E. Credit Risk

Concentration of credit risk

The following table summarises by rating the securities held by the Company as at 31 December 2014 and 2013.

	2014	2013
	£000	£000
AA	**81,909**	35,639
AA-	—	20,000
A	—	11,000
	81,909	66,639
Unit-linked	**12,964,198**	13,300,759
Total assets bearing credit risk	**13,046,107**	13,367,398

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 2014, 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 £314.7 million (2013: £403.4 million) in the linked funds and £48.5 million (2013: £12.5 million) in the non-linked funds.

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)**	—

2013	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	403,400	(403,400)	—
Non-linked funds	12,500	(12,500)	—
	415,900	(415,900)	—

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 and investment outlook has improved, but the ongoing wider economic uncertainty could adversely affect the Company's business and profitability. Since 2008 the Company has had to operate against a challenging background of periods of significant volatility in global capital and equity markets, interest rates, liquidity, and the broader economic environment. Interest rates in the US, UK and the Eurozone remain close to historic lows and it remains to be seen how the markets and the economy as a whole adjusts in the 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 has improved, but 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 can not 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.

24. 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 FRS101 balance sheet at 1 January 2013.

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.

The transition to FRS101 has not affected the Company's reported financial position or financial performance. The only impacts are presentational as follows:

(i) Presentation of reinsurance for investment contracts without discretionary participating features has been amended in accordance with IFRS4. In the balance sheet, the value previously reported as reinsurers' share of technical provisions – technical provisions for linked liabilities is now included within assets held to cover linked liabilities. In the technical account, this has impacted investment return and change in technical provisions for linked liabilities. The balance sheet value reallocated was £1,691.1m at transition date and £1,825.5m at 31 December 2013. Investment return for 2013 as analysed in Note 3 increased by £285.2m and change in technical provisions by the same amount, leaving the profit unchanged. The policyholder liabilities at the start of the year has also been restated in Note 14.

(ii) Presentation of investment properties at transition date impacted the analysis of assets held to cover linked liabilities at transition date increasing leasehold land and buildings by £1.4m and decreasing other assets by £1.4m. This also impacted investment return in the technical account for 2013, increasing unrealised gains on linked assets by £1.4m and decreasing income from land & buildings by £1.4m as shown in Note 3. There is no impact on the analysis of assets held to cover linked liabilities shown in Note 9 at the end of 2013 as the properties concerned were sold in 2013.