

Registered No: SC212640

PRUDENTIAL DISTRIBUTION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

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

The Directors in office during the year and up to the date of signing of the accounts were as follows:

J Warburton (Chairman)
C Lewis (resigned on 31 May 2016)
S Moffat (appointed on 30 August 2016)
S Vasudeva (resigned on 26 January 2017)
C Bousfield (appointed on 07 February 2017)

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Principal activity

The principal activity of the Company is to act as the single service company for the UK and Europe (UK&E) business unit of the Prudential Group. It is one of the principal employers for UK&E. 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	2016	2015	Change
	£'000	£'000	%
Turnover	615,434	585,596	5.1
Operating expenses	(613,710)	(579,604)	5.9
Profit before tax	3,332	7,409	(55.0)
Shareholders' funds	75,069	70,619	6.3
Regulatory capital surplus (based on IPRU INV and MIPRU requirements- see below)	70,645	67,169	5.2

The Company incurs expenses on behalf of the statutory entities within the UK&E 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) on which no margin is charged. St. James Place (SJP) terminated the administration services contract with the Company in 2014 and novated the contract with International Financial Data Services Limited (IFDS). The Company at that time entered into a contract with IFDS for providing various operational support services on transitional basis. The Company also earns fees on the collective funds managed by Capita Financial Managers Limited.

The Company generated a pre-tax profit of £3,332k during the year (2015: £7,409k). The Company reported a profit of £58k on the collectives arrangement in 2016 as compared to a loss of £2,580k in 2015 primarily on account of a reduction in management expenses allocated to collectives. The Company made a profit of £1,765k (2015: £4,359k) on the operational support services contract with IFDS. Included within the price paid by IFDS in 2014 was a compensation of £5,000k for loss of profit for 2 years. The profit for 2015 was higher as the income included the compensation of £2,500k received from IFDS.

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 is a B3 firm for the purpose of the calculation of capital requirements under IPRU (INV). The Company has remained solvent throughout the period under review and has adequate capital resources to meet its regulatory capital requirements. The Company relies on a Group Policy to meet the requirement for Professional Indemnity Insurance as per IPRU (INV). Due to the excess held on the Group cover, the Company is required to set aside additional capital of £3,440k to meet the professional indemnity requirement.

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 2016 (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 24.

Non-financial risk

The Company is exposed 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 (FRS 101) and the International Financial Reporting Standards (IFRS) adopted as a consequence of FRS 101 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 (or unintended gain/profit) arising from inadequate or failed internal processes, personnel and systems, or from external events. This includes employee error, system failures, fraud or some other event which disrupts business processes.

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.

PRUDENTIAL DISTRIBUTION LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

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 changes to the tax regime and regulatory reviews on products sold and industry practices.

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 a large, stylized 'G' followed by a horizontal line and a small flourish.

G Vaughan
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
24 March 2017

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016

Incorporated and registered in Scotland. Registered No: SC212640

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 2016 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 2016 (continued)

Directors

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

Ms C Lewis resigned as a Director on 31 May 2016, Mr S Moffat was appointed as a Director on 30 August 2016, Ms S Vasudeva resigned as a Director on 26 January 2017 and Ms C Bousfield was appointed as a Director on 07 February 2017.

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 1995 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 24.

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

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

Directors' and Officers' Protection

Prudential plc has arranged appropriate insurance cover in respect of legal action against directors and senior managers of companies within the Prudential Group. In addition, the Articles of Association of the Company permit the directors, officers and employees of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides protections for directors and senior managers of companies within the Group against

PRUDENTIAL DISTRIBUTION LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2016 (continued)

personal financial exposure they may incur in their capacity as such. These indemnities were in force during 2016 and remain in force.

On behalf of the Board of Directors

A handwritten signature in black ink, appearing to be 'G Vaughan', with a long horizontal line extending to the right.

G Vaughan
On behalf of Prudential Group Secretarial Services Limited
Company Secretary
24 March 2017

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.

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 2016 set out on pages 10 to 28. 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 web-site 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 2016 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 is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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.



Daniel Cazeaux
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
24 March 2017

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2016**

		2016	2015
	Note	£'000	£'000
Operating income	2	615,434	585,596
Staff costs	3	(198,618)	(175,658)
Other operating charges	4	(415,092)	(403,946)
Operating expenses		(613,710)	(579,604)
Operating profit		1,724	5,992
Interest income	5	1,612	1,720
Interest expense	6	(641)	(611)
Unrealised gains on derivatives	7	637	308
Profit before tax		3,332	7,409
Tax charge on profit	10	(6,081)	(5,069)
(Loss)/profit for the financial year		(2,749)	2,340

The accounting policies and notes on pages 13 to 28 form an integral part of these financial statements.

PRUDENTIAL DISTRIBUTION LIMITED**BALANCE SHEET AS AT 31 DECEMBER 2016**

		2016	2015
	Note	£'000	£'000
Fixed assets			
Tangible fixed assets	11	15,951	15,325
Current assets			
Derivative assets		1,142	506
Trade and other debtors	12	198,275	179,954
Deferred tax asset		7,055	2,415
Cash at bank and in hand	13	75,626	62,905
		<u>282,098</u>	<u>245,780</u>
Current liabilities			
Trade and other creditors: amounts falling due within one year	14	(209,288)	(186,892)
Corporation tax payable		(10,637)	(493)
		<u>62,173</u>	<u>58,395</u>
Net current assets		<u>78,124</u>	<u>73,720</u>
Total assets less current liabilities		<u>78,124</u>	<u>73,720</u>
Provision for liabilities and charges	15	(3,055)	(3,101)
Net assets		<u>75,069</u>	<u>70,619</u>
Capital and reserves			
Ordinary share capital	17	35,820	35,820
Preference share capital	17	7,210	7,210
Retained earnings	18	9,858	12,607
Capital reserve	19	22,181	14,982
Shareholders' funds		<u>75,069</u>	<u>70,619</u>

The financial statements on pages 10 to 28 were approved by the board of directors on 24 March 2017.
The accounting policies and notes on pages 13 to 28 form an integral part of these financial statements.



J Warburton
Director

PRUDENTIAL DISTRIBUTION LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016**

	Called Up Share Capital £'000	Profit and Loss Account £'000	Capital Reserves £'000	Total Equity £'000
Balance at 1 January 2015	43,030	10,267	14,113	67,410
Capital contribution for the year	—	—	869	869
Total comprehensive income for the period				
Profit for the financial year	—	2,340	—	2,340
Total comprehensive income for the period	—	2,340	—	2,340
Balance at 31 December 2015	43,030	12,607	14,982	70,619
Balance at 1 January 2016	43,030	12,607	14,982	70,619
Capital contribution for the year	—	—	7,199	7,199
Total comprehensive loss for the period				
Loss for the financial year	—	(2,749)	—	(2,749)
Total comprehensive loss for the period	—	(2,749)	—	(2,749)
Balance at 31 December 2016	43,030	9,858	22,181	75,069

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 28 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 2016 there have been no changes to accounting policies arising from changes to Financial Reporting Standards or new Financial Reporting Standards.

B. Basis of preparation

The Company is a company incorporated and domiciled in Scotland.

The financial statements have been prepared in accordance with FRS 101, Part 15 of the Companies Act 2006 and Schedule 1 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008.

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

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

In these financial statements, the Company has applied the exemptions available under FRS 101 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.

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

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

C. Classification of instruments issued by the Company

Having adopted FRS 101, International Accounting Standard (IAS 32) is being applied to the financial instruments issued by the Company and are treated as equity only to the extent that they meet the following two conditions:

- (i) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
- (ii) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 IAS 39, 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, including interest income, is recognised to the extent that it is probable that the economic benefits will flow to the Company and the income can be measured reliably.

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 (up to maximum of 10 years for building plants)

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 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.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 Save As You Earn (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

	2016	2015
	£'000	£'000
Income earned from recharges to group undertakings	581,623	547,554
Income earned from third party contracts	33,811	38,042
	<u>615,434</u>	<u>585,596</u>

3. Staff costs

	2016	2015
	£'000	£'000
Wages and salaries	149,110	135,543
Other pension costs	23,099	19,821
Social security costs	17,472	15,620
Share based payment expenses	8,937	4,674
Total	<u>198,618</u>	<u>175,658</u>
	No.	No.
Average number of employees during the period	<u>1,854</u>	<u>1,700</u>

The majority of staff employed by the Prudential Group in the UK are members of the Prudential Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (PSPS). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the Scheme. At 31 December 2016, the underlying PSPS liabilities account for 82% (2015: 84%) of the

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

aggregate liabilities of the Prudential Group's defined benefit schemes. There is also a smaller defined benefit scheme, Scottish Amicable Staff Pension Scheme (SASPS).

The contributions into the schemes are payable at the minimum level of contributions required under the scheme rules. Employer contributions for ongoing service of current employees are apportioned in the ratio relevant to current activity.

Further 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

	2016	2015
	£'000	£'000
Management expenses	383,344	368,057
Expenses attributable to third party contracts	31,748	35,889
	415,092	403,946

5. Interest income

	2016	2015
	£'000	£'000
Bank interest received	63	17
Policyholder interest recharged	161	147
Company car interest recharged	119	141
Other interest income	1,269	1,415
Total	1,612	1,720

6. Interest expense

	2016	2015
	£'000	£'000
Bank interest recharged	53	6
Policyholder interest paid	161	147
Company car interest paid	125	146
Other interest recharges	302	312
Total	641	611

7. Unrealised gains/(losses) on derivatives

	2016	2015
	£'000	£'000
Unrealised gains on valuation of forward contracts	637	308
	637	308

8. Auditor's remuneration

Auditor's remuneration amounts to £37k (2015: £37k) in respect of the audit of the Company's financial statements.

PRUDENTIAL DISTRIBUTION LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****9. Directors' emoluments and staff costs**

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

	2016 £'000	2015 £'000
Aggregate emoluments and benefits	2	2

10. Tax**a) Tax (charged)/credited**

	2016 £'000	2015 £'000
Current tax:		
Current period corporation tax at effective rate of 20.00% (2015: 20.25%)	(3,383)	(3,760)
Adjustments in respect of prior years	(7,555)	(205)
Total current tax charge on ordinary activities	<u>(10,938)</u>	<u>(3,965)</u>
Deferred tax :		
Origination and reversal of temporary differences	(1,960)	(498)
Adjustment in respect of prior periods	6,817	(606)
Total deferred tax credit/(charge)	<u>4,857</u>	<u>(1,104)</u>
Total tax charge on ordinary activities	<u>(6,081)</u>	<u>(5,069)</u>

b) Factors affecting tax charge for the period

In July 2016, the UK Government announced additional reductions in the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. These additional reductions are reflected in the above figures as the changes were substantively enacted at the balance sheet date.

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.

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	<u>3,332</u>	<u>7,409</u>
Tax on profit on ordinary activities at effective rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(666)	(1,500)
Effects of		
Permanent differences	(3,069)	(2,712)
Adjustments to current tax in respect of previous years	(7,555)	(205)
Adjustments to deferred tax in respect of previous years	6,817	(606)
Tax charge in relation to share based payments	(1,424)	215
Effect of tax rate change	(184)	(261)
Total tax charge for the year	<u>(6,081)</u>	<u>(5,069)</u>

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

c) Balance Sheet

	2016	2015
	£'000	£'000
Deferred tax asset explained by:		
Accelerated capital allowances	6,114	1,798
Short term temporary differences	941	617
Total	7,055	2,415
Deferred tax asset at start of period	2,415	3,893
Deferred tax charged to capital reserve	(217)	(374)
Deferred tax credited/(charged) in profit and loss account for the period	4,857	(1,104)
Deferred tax asset at end of period	7,055	2,415

11. Fixed assets

	Fixtures and Fittings £'000	Plant and Machinery £'000	Motor Vehicles £'000	Computer Equipment £'000	Buildings and Improvements £'000	Total £'000
Cost						
At 1 January 2016	3,044	10,084	577	101,451	26,809	141,965
Additions	401	509	—	—	2,400	3,310
At 31 Dec 2016	3,445	10,593	577	101,451	29,209	145,275
Depreciation						
At 1 January 2016	(3,044)	(4,998)	(577)	(101,451)	(16,570)	(126,640)
Charge for year	(46)	(974)	—	—	(1,664)	(2,684)
At 31 December 2016	(3,090)	(5,972)	(577)	(101,451)	(18,234)	(129,324)
Net book value						
At 31 December 2016	355	4,621	—	—	10,975	15,951
At 31 December 2015	—	5,086	—	—	10,239	15,325

12. Trade and other debtors

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Amounts owed by group undertakings	113,407	100,747
Prepayments and accrued income	80,483	79,059
Other debtors	4,385	148
	198,275	179,954

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

13. 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.

14. Trade and other creditors

	2016	2015
	£'000	£'000
Amounts falling due within one year:		
Amounts owed to group undertakings	68,712	75,223
Taxation and social security	17,037	16,298
Other creditors	3,009	3,153
Accruals and deferred income	120,530	92,218
	209,288	186,892

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.

15. Provisions for liabilities and charges

	Balance as at 1 January 2016 £'000	Utilised in the year £'000	Released in the year £'000	Provided in the year £'000	Balance as at 31 December 2016 £'000
Restructure Costs	3,101	7	(54)	1	3,055

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

16. 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 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.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

(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). 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.

Participants can elect to enter into savings contracts of up to £500 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). All UK-based employees are able to purchase shares of Prudential plc up to a value of £150 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 forfeited.

(iv) Annual Incentive Plan

Certain senior executives have Annual Incentive Plans (AIP) with awards paid in cash up to the target level of their plan. The portion of any award for above-target performance is made in the form of awards of shares deferred for three years, with the release of shares subject to close periods. The shares are held in the employee share trust and shares equivalent to dividends otherwise payable will accumulate for the benefit of award holders during the deferral period up to the release date.

(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.

The weighted average share price of Prudential plc for the year ended 31 December 2016 was £13.56 compared to £15.49 for the year ended 31 December 2015.

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2016:

Range of exercise prices	Outstanding			Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £4 and £5	14,309	0.41	4.66	14,309	4.66
Between £6 and £7	51,092	1.41	6.29	—	—
Between £9 and £10	45,250	1.73	9.01	15,536	9.01
Between £11 and £12	1,346,746	2.89	11.22	—	—
Total	1,457,397	2.78	10.92	29,845	6.92

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The following table provides a summary of the range of exercise prices for Prudential plc options (including conditional options) outstanding at 31 December 2015:

Range of exercise prices	Number outstanding	Outstanding		Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise prices £	Number exercisable	Weighted average exercise prices £
Between £2 and £3	44,911	0.92	2.88	—	—
Between £4 and £5	62,099	1.12	4.64	18,614	4.59
Between £6 and £7	126,560	1.17	6.29	78,710	6.29
Between £9 and £10	120,909	1.81	9.01	—	—
Between £11 and £12	743,200	3.46	11.31	—	—
Total	1,097,679	2.78	9.75	97,324	5.97

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

17. Share capital

	2016	2015
	£'000	£'000
Ordinary shares		
Issued, called up and fully paid:		
35,820,001 ordinary shares of £1 each	35,820	35,820
There has been no increase in the ordinary share capital during the year.		
Preference shares		
Issued, called up and fully paid:		
7,210,000 ordinary shares of £1 each	7,210	7,210
There has been no increase in the preference share capital during the year.		
Total	43,030	43,030

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.

18. Profit and loss account

	2016	2015
	£'000	£'000
Balance as at 1 January	12,607	10,267
(Loss)/Profit for the year	(2,749)	2,340
Balance as at 31 December	9,858	12,607

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

19. Capital contribution

	2016	2015
	£'000	£'000
Balance as at 1 January	14,982	14,113
Contribution for the year	7,199	869
Balance as at 31 December	22,181	14,982

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

20. Operating lease commitments

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

	2016	2015
	£'000	£'000
Buildings	2,361	2,361

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

	2016	2015
	£'000	£'000
Over five years	2,361	2,361

The Company is committed to the following expenditure as at 31 December 2016:

	2016	2015
	£'000	£'000
General building refurbishment	—	2,038

21. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 relating to the disclosure of transactions with other wholly owned subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

22. 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.

23. Assets and Liabilities

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*'.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

The basis applied is summarised below.

2016	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£'000	£'000	£'000	£'000
Fixed Assets	—	15,951	15,951	—
Derivative assets	1,142	—	1,142	1,142
Trade and other debtors	—	198,275	198,275	198,275
Deferred tax asset	—	7,055	7,055	7,055
Cash at bank and in hand	—	75,626	75,626	75,626
Total assets	1,142	296,907	298,049	282,098

	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£'000	£'000	£'000	£'000
Trade and other creditors	—	209,288	209,288	209,288
Corporation tax payable	—	10,637	10,637	10,637
Provisions for liabilities and charges	—	3,055	3,055	3,055
Total liabilities	—	222,980	222,980	222,980

2015	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£'000	£'000	£'000	£'000
Fixed Assets	—	15,325	15,325	—
Derivative assets	506	—	506	506
Trade and other debtors	—	179,954	179,954	179,954
Deferred tax asset	—	2,415	2,415	2,415
Cash at bank and in hand	—	62,905	62,905	62,905
Total assets	506	260,599	261,105	245,780

	Fair-value through profit and loss	Cost/ Amortised Cost	Total carrying value	Fair value where applicable
	£'000	£'000	£'000	£'000
Trade and other creditors	—	186,892	186,892	186,892
Corporation tax payable	—	493	493	493
Provisions for liabilities and charges	—	3,101	3,101	3,101
Total liabilities	—	190,486	190,486	190,486

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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)

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.

2016

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Derivative assets	—	1,142	—	1,142
Total financial investments, net of derivative liabilities	—	1,142	—	1,142
Percentage of total (%)		100		100

2015

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Derivative assets	—	506	—	506
Total financial investments, net of derivative liabilities	—	506	—	506
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.

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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.

2016	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Derivative assets	—	—	1,142	1,142
Trade and other debtors	—	81,885	116,390	198,275
Deferred tax asset	—	—	7,055	7,055
Cash at bank and in hand	—	75,626	—	75,626
	—	157,511	124,587	282,098
Financial Liabilities				
Trade and other creditors	—	—	209,288	209,288
Corporation tax payable	—	—	10,637	10,637
	—	—	219,925	219,925
2015	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Derivative assets	—	—	506	506
Trade and other debtors	—	73,689	106,265	179,954
Deferred tax asset	—	—	2,415	2,415
Cash at bank and in hand	—	62,905	—	62,905
	—	136,594	109,186	245,780
	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£'000	£'000	£'000	£'000
Financial Liabilities				
Trade and other creditors	—	—	186,892	186,892
Corporation tax payable	—	—	493	493
	—	—	187,385	187,385

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

2016	1 year or less	After 1 year to 5 years	After 5 years to 10 years	Total undiscounted cashflows	Total carrying value
	£'000	£'000	£'000	£'000	£'000
Financial Liabilities					
Trade and other creditors	209,288	—	—	209,288	209,288
Corporation tax payable	10,637	—	—	10,637	10,637
Provision for liabilities and charges	1,989	1,066	—	3,055	3,055
	221,914	1,066	—	222,980	222,980

2015	1 year or less	After 1 year to 5 years	After 5 years to 10 years	Total undiscounted cashflows	Total carrying value
	£'000	£'000	£'000	£'000	£'000
Financial Liabilities					
Trade and other creditors	186,892	—	—	186,892	186,892
Corporation tax payable	493	—	—	493	493
Provision for liabilities and charges	266	492	2,343	3,101	3,101
	187,651	492	2,343	190,486	190,486

(ii) Maturity analysis of derivatives and investment contracts

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

2016	Total carrying value	1 year or less	Total
	£'000	£'000	£'000
Net derivative position	1,142	1,142	1,142
2015	Total carrying value	1 year or less	Total
	£'000	£'000	£'000
Net derivative position	506	506	506

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

	2016	2015
	£'000	£'000
Derivative assets	1,142	506
Derivative liabilities	—	—
Net derivative position	1,142	506

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).

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.

24. 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 for our business, or of adverse change in the financial situation resulting from fluctuations in the credit standing of counterparties and any debtors in the form of default or other significant credit event (e.g. downgrades or spread widening).

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 of the Company being unable to generate sufficient cash resources to meet financial obligations as they fall due in business as usual and stress scenarios.

This risk is managed through careful management of bank balances and cash-flow forecasting. The Company being the single service company for UK&E 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 of adverse change in the financial situation, resulting directly or indirectly, from fluctuations in the level/or volatility of market prices of assets and liabilities.

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.

25. 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)).

PRUDENTIAL DISTRIBUTION LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

The Company is a B3 firm as defined under IPRU(INV). As stipulated under the rule 13.13.3, the Company is required to maintain capital resources as higher of own funds of £20k and the sum of an amount equivalent to a specified percentage of the annual income from the firm's designated investment business and capital resources as per MIPRU 4.2. The annual income for the purpose of this rule does not include any income included in the calculation of the capital resources under MIPRU.

In addition to the above requirements the Company is also required to maintain additional capital of £3,440k 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 additional capital requirement is based on the excess on the PII policy and the level of annual income.

As at 31 December 2016, the minimum regulatory capital requirement of the Company was £4,424k comprising of the sum of an amount equivalent to 2.5% of the annual income from regulated activities for 2016 and the additional capital of £3,440k to meet the PII requirements. The minimum capital requirement for 2015, based on the rules in force at that time, was £3,450k. The Company had capital resources amounting to £75,069k (2015: £70,619k) to meet the capital requirement.