

Registered No: 992726

PRUDENTIAL PENSIONS LIMITED

Annual Report and Financial Statements for the year ended 31 December 2017

PRUDENTIAL PENSIONS LIMITED

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

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PRUDENTIAL PENSIONS LIMITED

Directors

Mr P Spencer - Chairman
Mr J S Deeks (resigned 31 October 2017)
Mr M Hawes
Mr D Macmillan (appointed 3 July 2017)
Ms C Bousfield (appointed 15 February 2018)

Secretary

Prudential Group Secretarial Services Limited

Auditor

KPMG LLP, London

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

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 2018.

Business review

Market review and strategy

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

The operations of the Company are managed as part of Prudential UK, part of the Prudential plc Group.

Reinsurance accepted consists 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.

Direct investment only clients largely invest money into the Company on behalf of defined benefit pension schemes. The key determinant of success and retention is delivery of good investment performance relative to the benchmark. The Company is further exposed to changes in the marketplace, particularly in relation to its traditional defined benefit book, and actively monitors those changes.

In August 2017, Prudential plc, the parent of the Company, brought together M&G, the investment management business, with Prudential's UK and European life insurance business, of which the Company forms a part, to create M&G Prudential.

In March 2018 Prudential plc announced its intention to demerge M&G Prudential from Prudential plc, resulting in two separately-listed companies, with different investment characteristics and opportunities. M&G Prudential is one of the leading retirement and savings businesses in the UK and Europe. M&G Prudential as a standalone group will continue to drive its transformation into a more capital-efficient and customer-focused business, targeting growing customer demand for comprehensive financial solutions in these markets.

In support of this, M&G Prudential announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development, and widen customer choice. A substantial investment will be made over the next five years in transforming the business's operations, including building the digital distribution capability, the Company is well placed to meet the growing and evolving saving and investment needs of customers across retail, institutional and direct channels.

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	2017	2016	Change
	£'000	£'000	%
Profit on ordinary activities before tax	6,852	10,571	(35.2)%
Shareholder funds	74,750	69,232	8.0 %
Funds under management	12,187,929	11,411,468	6.8 %
Estimated Solvency II capital surplus	28,901	12,477	131.6 %

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

The Company's funds under management have increased in 2017 due to improved performances in global stock markets. Profit on ordinary activities before tax has primarily reduced due to a fall in the market value of gilts held by the Company and an increase in expenses in 2017. The increase in the Solvency II capital surplus is due to a change in the estimation of the operational risk appetite combined with the effect of changes to market conditions and operating assumption changes.

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 (GGM) and Group Risk Framework (GRF). 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 can only provide reasonable rather than 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 GRF 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 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.

Key dimensions to business environment risk pertaining to the Company are regulatory, political, macroeconomic, technology and market competition.

- **Regulatory:** Changes in UK government policy, legislation (including tax), regulation or regulatory interpretation applying to insurance companies may adversely affect the Company's product range, distribution channels, capital requirements and, consequently, reported results and financing requirements.
- **Political:** Global political risks have been on the rise and look set to remain heightened. Domestically, the withdrawal of the UK from the EU introduces significant uncertainties for both the UK and the EU, affecting consumer and market confidence, and potentially increasing market volatility and the risk of a downturn in economic activity.
- **Macroeconomic:** Macroeconomics refers to the behaviour of the aggregate economy, focusing on factors such as economic growth, inflation, productivity and unemployment. The UK macroeconomic environment is expected to be challenging, and may adversely impact consumer behaviour.
- **Technology:** The Company has a high dependency on technology to operate effectively and deliver the business plan, with the maintenance, integrity and resilience of the IT infrastructure and applications paramount to meeting business and customer needs. Our current reliance on a large number of legacy systems spread over a complex supply chain and increasing utilisation of outsourcing/Cloud deployments creates an enhanced risk of breaches and IT issues. With the new General Data Protection Regulation

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

requirements on data privacy coming in to force in May 2018, controls around data confidentiality will become even more critical.

- Competition: The UK Financial Services market is highly competitive with several factors affecting the Company's ability to sell its products and maintain its profitability. Key considerations include; price and yields offered; financial strength and ratings; investment performance and historic bonus levels; brand strength and name recognition; developing demographic trends and customers' appetite or need for certain savings products.

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.

While not directly impacted, the Company is exposed to risk associated with strategic decisions taken at the Group or Prudential UK level. The Prudential UK transformation strategy, along with the integration of the M&G and Prudential UK & Europe businesses, aims to deliver capital-light, digitally enabled, customer-focused solutions. This presents a significant opportunity to leverage scale, financial strength and complementary product and distribution capabilities but does carry an element of strategic risk for the Company in terms of overall availability of funding, resources and the wider impacts of an extensive change agenda.

c) Conduct risk

Conduct risks are risks that arise from the approach taken to customer relationships throughout the business model and is defined as the risk that Prudential's behaviours and decision making are inappropriate, leading to unfair or poor outcomes for customers.

Customer needs are central to all decisions the Company makes regarding the provision of financial products and services. In so doing, the Company aims to uphold its reputation for acting responsibly and with integrity in supporting customers whilst respecting the laws and regulations, as well as meeting internationally accepted standards of responsible business conduct.

d) Operational risk

Operational risk is the risk of loss (or unintended gain or 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's primary exposure to Operational Risk arises from business processes (e.g. customer administration, sales), people capabilities, operation of systems and financial reporting activity. Additional exposure is anticipated as the Company enacts its strategic transformation ambitions.

The Company's exposure to operational risk is managed and mitigated using the following:

- operational risk, outsourcing and third-party supply policies;
- a cyclical framework, based on the policy standards, that delivers processes and tools to identify, assess, control and monitor the operational risk exposures;
- corporate insurance programmes to limit the impact of operational risks;
- scenario analysis for operational risk capital requirements, which focus on extreme, yet plausible, events;
- internal and external review of cyber security capability;
- regular testing of elements of the disaster recovery plan.

PRUDENTIAL PENSIONS LIMITED

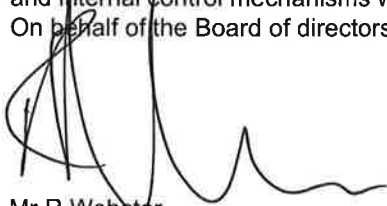
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

e) Group risk

Group risk is the risk associated with being part of a group, particularly as a result of contagion.

Being a member of a group can provide significant advantages for the Company in terms of diversification of risk, financial strength, technical expertise and management experience. It can also give rise to risks; if a guarantee of financial support given by the parent were removed, or from particular transactions arising from an impaired parent or affiliate within the group. 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.

On behalf of the Board of directors

A handwritten signature in black ink, appearing to be 'R Webster', written over the printed name.

Mr R Webster

On behalf of Prudential Group Secretarial Services Limited

Company Secretary

21 March 2018

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The directors present their report and the audited financial statements of the Company for the year ended 31 December 2017.

Likely developments, business strategies and prospects

Likely future developments in the business of the Company are discussed in the strategic report report in accordance with Section 414C(11) of the Companies Act 2006 (the Act).

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

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ('M&G Prudential') from Prudential plc, resulting in two separately-listed companies. The Company forms a part of M&G Prudential.

Financial performance and dividends

The state of affairs of the Company at 31 December 2017 is shown in the statement of financial position on page 15. The statement of comprehensive income appears on pages 13 to 14. No interim dividend was paid in the year (2016: £Nil). No final dividend is proposed for the year (2016: £Nil).

Share capital

There were no changes in the Company's share capital during 2017.

PRUDENTIAL PENSIONS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)

Directors

The present directors are shown on page 1.

Mr J S Deeks resigned as a director on 31 October 2017.

Mr D Macmillan was appointed as a director on 3 July 2017.

Ms C Bousfield was appointed as a director on 15 February 2018.

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 Act.

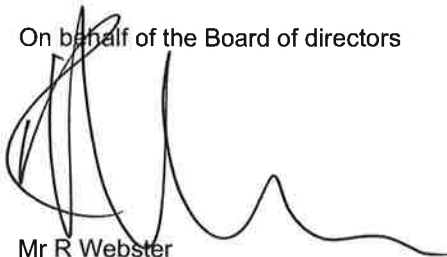
Auditor

KPMG LLP is deemed to be reappointed as auditor of the Company in accordance with the provisions of S487(2) 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 2017 and remain in force.

On behalf of the Board of directors



Mr R Webster

On behalf of Prudential Group Secretarial Services Limited
Company Secretary
21 March 2018

PRUDENTIAL PENSIONS 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 its profit or loss for that period. In preparing the 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;
- 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 its 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.



Independent auditor's report

to the members of Prudential Pensions Limited

1. Our opinion is unmodified

We have audited the financial statements of Prudential Pensions Limited ("the Company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Board.

We were appointed as auditor by the shareholders on October 1999. The period of total uninterrupted engagement is for the 19 financial years ended 31 December 2017.

We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £57.9m (2016:£6.1m)
financial statements as a whole 0.5% of total assets (2016: 9% of net assets)

Risks of material misstatement vs 2016

Recurring risks Valuation of investments ◀▶

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

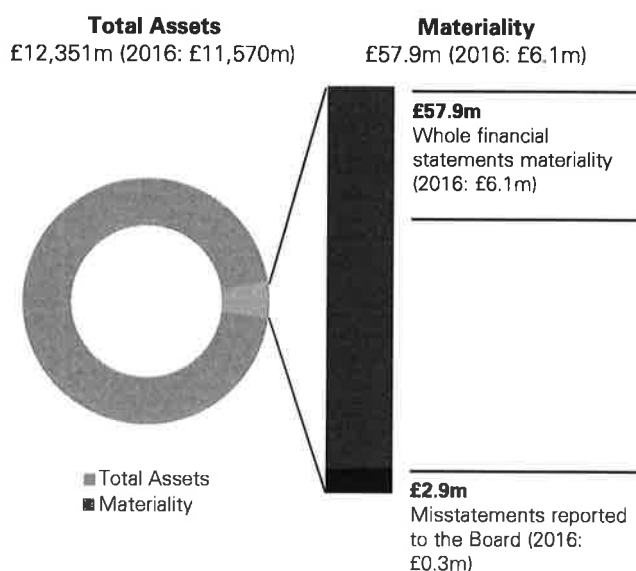
	The risk	Our response
Valuation of investments (2017: £12,275 million; 2016: £11,493 million) The risk is unchanged compared to the prior year. Refer to page 18 (accounting policy) and page 27 (financial disclosures).	Subjective valuation: The areas that involved significant audit effort and judgement in were the valuation of unlisted Net Asset Value ('NAV') funds representing 6.3 per cent (2016: 6.4%) of the Company's total investment assets. For these positions a reliable third party price was not readily available and therefore involved the application of expert judgement in the valuations adopted.	Our procedures included: — Tests of detail: — Independently obtaining the most recent Net Asset Value (NAV) statements and investment manager reports to assess the appropriateness of the fair value of the unlisted funds. — Performing a retrospective test over the NAV valuation to assess if the fund valuations reported in the audited financial statements in the prior year were materially consistent with the most recent NAV valuation statements available at the time. — Assessing transparency: Assessing whether the Company's disclosures in relation to the valuation of investments are compliant with the relevant accounting requirements and appropriately present the sensitivities in the valuations based on alternative outcomes.
		Our results We found valuation of investments to be acceptable (2016: acceptable).

3. Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £57.9 million (2016: £6.1 million), determined with reference to a benchmark of total assets, of which it represents 0.5%. Materiality for 2016 was determined with reference to a benchmark of net assets, of which it represented 9%. The benchmark has been changed as we consider total assets to be a more appropriate metric given the nature of the business.

We agreed to report to the Board any corrected or uncorrected identified misstatements exceeding £2.9 million (2016: £0.3 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was all performed at the Company's offices in London, Reading and Craigforth.



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5. We have nothing to report on the other strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, 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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 8, the Directors are responsible for the preparation of the financial statements including being satisfied that they give a true and fair view. They are also responsible for: such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors (as required by auditing standards) and from inspection of the Company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital recognising the financial and regulated nature of the Company's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls

8. The purpose of our audit work and to whom we owe our responsibilities

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.



Daniel Cazeaux (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

21 March 2018

PRUDENTIAL PENSIONS LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

Long-term Business Technical Account	2017	2016	
		As restated (see below)	
	£'000	£'000	Note
Investment income	1,129,198	1,040,177	3
Unrealised (losses)/gains on investments	(92,773)	682,681	3
Other technical income	18,520	17,823	3
	<u>1,054,945</u>	<u>1,740,681</u>	
Change in other technical provisions, net of reinsurance			
Long-term business provision, net of reinsurance			
- gross amount	5,144	(8,123)	
- reinsurers' share	(5,267)	8,066	
	<u>(123)</u>	<u>(57)</u>	14
Change in technical provisions for linked liabilities	<u>(1,044,559)</u>	<u>(1,718,707)</u>	14
	<u>(1,044,682)</u>	<u>(1,718,764)</u>	
Net Operating Expenses			
- Acquisition costs	(65)	12	
- Administrative expenses	(4,551)	(4,604)	
Investment expenses and charges	(6,747)	(5,246)	3
Foreign exchange gains	10,250	266	3
Interest payable	—	(2)	3
Tax attributable to long-term business	<u>(3,665)</u>	<u>(3,982)</u>	4
	<u>(4,778)</u>	<u>(13,556)</u>	
Balance on the long-term business technical account	<u>5,485</u>	<u>8,361</u>	

Foreign exchange gains on realised investments for 2016 have been reclassified from foreign exchange gains to investment income. Details are disclosed in note 3 - 'Revenue and investment return'.

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

The accounting policies on pages 17 to 20 along with the accompanying notes on pages 20 to 36 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED**STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017 (continued)**

Non-Technical Account	2017 £'000	2016 £'000	Note
Balance on the long-term business technical account	5,485	8,361	
Tax attributable to the balance on the long-term business technical account	1,325	1,983	4
Balance on the long-term business technical account before tax	6,810	10,344	
Investment income	52	236	3
Investment expenses and charges	(10)	(9)	3
Operating profit on ordinary activities before tax	6,852	10,571	
Tax on profit on ordinary activities	(1,334)	(2,029)	4
Profit and comprehensive income for the financial year	5,518	8,542	

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

The accounting policies on pages 17 to 20 along with the accompanying notes on pages 20 to 36 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**

	2017	2016	
	£'000	£'000	Note
Assets			
Investments			
Other financial investments	87,389	81,706	8
Assets held to cover linked liabilities	12,187,929	11,411,468	9
Reinsurers' share of technical provisions			
Long-term business provision	62,675	67,942	16
Debtors			
Other debtors	3,307	6,437	10
Other assets			
Cash at bank and in hand	9,600	2,338	11
Prepayments and accrued income	128	168	
Total assets	12,351,028	11,570,059	
Equity and liabilities			
Capital and reserves			
Share capital	6,000	6,000	13
Capital redemption reserve	4,088	4,088	
Profit and loss account	64,662	59,144	
Total shareholders' funds attributable to equity	74,750	69,232	
Technical provisions			
Long-term business provision	62,855	67,999	16
Technical provisions for linked liabilities	12,187,929	11,411,468	14
Provisions for other risks and charges			
Deferred taxation	1,832	2,232	4
Creditors			
Other creditors including taxation and social security	23,662	19,128	17
Total equity and liabilities	12,351,028	11,570,059	

The financial statements on pages 13 to 36 were approved by the board of directors on 21 March 2018.

The accounting policies on pages 17 to 20 along with the accompanying notes on pages 20 to 36 form an integral part of these financial statements.



Ms C Bousfield
Director
21 March 2018

PRUDENTIAL PENSIONS LIMITED**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017**

	Share Capital £'000	Capital Redemption Reserve £'000	Profit & Loss Account £'000	Total £'000
Balance at 1 January 2016	6,000	4,088	50,602	60,690
Total comprehensive income for the year				
Profit	—	—	8,542	8,542
Total comprehensive income for the year	—	—	8,542	8,542
Balance at 31 December 2016	6,000	4,088	59,144	69,232
Balance at 1 January 2017	6,000	4,088	59,144	69,232
Total comprehensive income for the year				
Profit	—	—	5,518	5,518
Total comprehensive income for the year	—	—	5,518	5,518
Balance at 31 December 2017	6,000	4,088	64,662	74,750

The accounting policies on pages 17 to 20 along with the accompanying notes on pages 20 to 36 form an integral part of these financial statements.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS

1. Accounting Policies

A. Company Information

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

B. Basis of preparation

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 are not consolidated.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101), 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 IFRS's"), 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 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. 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 FRS 101 in respect of the following disclosures:

- 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 accounting standards and;
- Disclosures in respect of the compensation of Key Management Personnel.

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

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a satisfactory capital surplus, well in excess of the regulatory capital requirement (as shown in Note 15) and generates positive cashflows. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Strategic Report, and the management of financial risk as set out in Note 23, including its exposure to liquidity risk and credit risk.

The Prudential Assurance Company Limited and the Company have put in place intra-group arrangements to formalise circumstances in which capital support would be made available by The Prudential Assurance Company Limited. While it is considered unlikely that such support will be required, the arrangements are intended to provide additional comfort to the Company and its policyholders.

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

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

C. Long-term business

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

As permitted by IFRS 4 *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 IAS 39 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 IAS 18, 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 2013/58/EU. Provisions are predominantly calculated by the net premium valuation method. Discount rates are derived based on gilt yields of a duration consistent with that of the underlying business.

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 FRS 101, IAS 32 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. Investments

Under IAS 39, 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

- (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.

G. Financial liabilities

Financial liabilities are designated as either fair value through profit and loss or amortised cost. The Company holds financial liabilities on the following bases:

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

H. Revenue recognition

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

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

Under IAS 39, 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 IAS 18, 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.

I. 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

J. Foreign currencies

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

2. Analysis of premiums

Gross Premiums

Premiums comprise corporate pension business where investment risk is borne by policyholders and which are transacted within the UK. All direct single and regular premiums are group pension business. Premiums for 2017 and 2016 are nil as all business is investment contracts without discretionary participation features and are deposit accounted, as described in the accounting policies.

	2017 £'000	2016 £'000
New Business		
Single premiums – Pensions – Investment linked contracts		
Direct	1,134,248	331,159
External reinsurance accepted	40,185	41,635
Intragroup reinsurance accepted	354,055	394,913
	1,528,488	767,707

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	
	As restated			
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Investment income				
Income from land and buildings	—	10	—	—
Income from listed investments	310,558	324,699	—	—
Income from other investments	10,811	17,530	52	236
Gains on the realisation of investments at fair value through profit and loss other than derivatives	823,919	799,827	—	—
(Losses) on the realisation of derivatives	(16,090)	(101,889)	—	—
	1,129,198	1,040,177	52	236
Investment expenses and charges				
Investment managers' expenses	(6,747)	(5,246)	(10)	(9)
Unrealised gains / (losses) on investments				
Debt securities	(55)	1,873	—	—
Equity securities	—	(10)	—	—
Linked assets - other than derivatives	(96,910)	684,599	—	—
Linked assets - derivatives	4,192	(3,781)	—	—
	(92,773)	682,681	—	—
Foreign exchange gains	10,250	266	—	—
Fee income from investment contracts	18,520	17,823	—	—
Bank interest paid	—	(2)	—	—
Total revenue and investment return	1,058,448	1,735,699	42	227

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

£117,256k of realised foreign exchange gains made on investments, presented as foreign exchange gains in 2016, have been re-categorised to 'Gains on the realisation of investments at fair value through profit and loss other than derivatives'.

4. Tax

(a) Tax charged/(credited)

	Long-term business technical account		Non-technical account	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Current tax				
UK Corporation tax on profits of the period	1,708	2,481	9	46
Adjustments in respect of previous years	17	(21)	—	—
	<u>1,725</u>	<u>2,460</u>	<u>9</u>	<u>46</u>
Foreign tax	<u>2,340</u>	<u>1,999</u>	<u>—</u>	<u>—</u>
Total current tax	<u>4,065</u>	<u>4,459</u>	<u>9</u>	<u>46</u>
Deferred tax				
Origination and reversal of temporary difference	(400)	(398)	—	—
Effect of changes in tax rate	—	(79)	—	—
Tax charge on profit on ordinary activities	<u>3,665</u>	<u>3,982</u>	<u>9</u>	<u>46</u>
Shareholder tax attributable on the balance on the long-term business technical account:				
Current tax			1,725	2,460
Deferred tax			(400)	(477)
			<u>1,325</u>	<u>1,983</u>
Total			<u><u>1,334</u></u>	<u><u>2,029</u></u>

(b) Factors affecting tax charge for period

In July 2016 the UK Government announced additional reductions in the main rate of corporation tax rate 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.

	2017	2016
	£'000	£'000
Profit on ordinary activities before tax	<u>6,852</u>	<u>10,571</u>
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 19.25% (2016: 20.00%)	1,319	2,114
Effects of		
Adjustments to current tax in respect of previous periods	15	(30)
Impact of changes in local statutory tax rates	—	(55)
Total tax charge for the period	<u><u>1,334</u></u>	<u><u>2,029</u></u>

PRUDENTIAL PENSIONS LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****(c) Balance sheet**

	2017 £'000	2016 £'000
Provision for deferred tax		
Transitional adjustments	1,832	2,232
Undiscounted provision for deferred tax liability	<u>1,832</u>	<u>2,232</u>
Deferred tax liability at start of the period	2,232	2,709
Deferred tax credited in technical/non-technical account for the period	(400)	(477)
Deferred tax liability at the end of period	<u>1,832</u>	<u>2,232</u>

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 (2016: 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:

	2017 £'000	2016 £'000
Aggregate emoluments and benefits	<u>5</u>	<u>5</u>

Three directors participate in the Group's defined contribution scheme.

7. Auditor's remuneration

	2017 £'000	2016 £'000
Audit of these financial statements	61	54
Other services including regulatory return	103	103
	<u>164</u>	<u>157</u>

8. Other financial investments

	Carrying value		Cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Debt securities and other fixed income securities	23,989	24,567	19,843	20,628
Equity securities	—	1,639	—	1,715
Deposits with credit institutions	63,400	55,500	63,400	55,500
	<u>87,389</u>	<u>81,706</u>	<u>83,243</u>	<u>77,843</u>

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

PRUDENTIAL PENSIONS LIMITED**NOTES ON THE FINANCIAL STATEMENTS (continued)****9. Assets held to cover linked liabilities**

	2017	2016
	£'000	£'000
Shares and other variable yield securities	5,573,823	5,403,456
British government securities - fixed income	1,012,633	991,719
British government securities - index linked	274,675	359,003
Debentures and loan stocks	3,965,267	3,631,197
Provincial & municipal stocks	602,892	374,750
Deposits with credit institutions	606,450	216,434
Derivatives	991	(12,793)
Other assets	151,198	447,702
Assets held to cover linked liabilities – carrying value	<u>12,187,929</u>	<u>11,411,468</u>
Assets held to cover linked liabilities - cost	<u>10,270,233</u>	<u>9,400,867</u>

Included within shares and other variable yield securities is a Fond commun de placement called M&G UK Property Fund FCP - FIS, which is 99.79% owned by Prudential Pensions Limited. The value of the investment in this fund at 31 December 2017 was £759.5m (2016: £725.8m). The registered office of this investment is 34-38 Avenue de la Liberté, L-1930 Luxembourg.

Included within other investments are derivatives owned by the fund to offset currency movements. These can have a negative valuation.

10. Other debtors

All debtors are due within one year.

	2017	2016
	£'000	£'000
Debtors arising from reinsurance operations	847	5,774
Amounts owed by group undertakings	337	337
Tax recoverable	8	133
Other debtors	2,115	193
	<u>3,307</u>	<u>6,437</u>

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, £12,319,928 thousand (2016: £11,539,025 thousand) is attributable to the long-term business fund.

13. Share capital

	2017	2016
	£'000	£'000
Issued and fully paid		
6 million ordinary shares (2016: 6 million) of £1 each	<u>6,000</u>	<u>6,000</u>

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

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

14. Policyholder liabilities

	Long-term business provision net of reinsurance £'000	Provision for linked liabilities net of reinsurance £'000
Balance at 1 January 2016	—	11,285,015
Movement in technical provisions for year		
Gross amount	8,123	1,718,707
Reinsurers' share	(8,066)	—
Deposits received from policyholders under investment contracts	—	767,940
Payments made to policyholders of investment contracts	—	(2,360,194)
As at 31 December 2016/1 January 2017	57	11,411,468
Movement in technical provisions for year		
Gross amount	(5,144)	1,044,559
Reinsurers' share	5,267	—
Deposits received from policyholders under investment contracts	—	1,528,690
Payments made to policyholders of investment contracts	—	(1,796,788)
Balance at 31 December 2017	180	12,187,929

All of the reinsurer's share of technical provisions for long-term business 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

The introduction of Solvency II at the start of 2016 changed the capital dynamics of the Company's life operations which are directly impacted by this change. In overview, it permitted the inclusion of future profits in the available capital of the business but increased the statutory capital requirements.

The Company's estimated and unaudited shareholder Solvency II Own Funds at 31 December 2017 is £82.9m.

The Solvency II Pillar I capital requirements at 31 December 2017 have been calculated using the Company's Internal Capital Model. The method used to calculate the capital has been to:

- (i) identify the major risks to which the business is exposed,
- (ii) specify a probability distribution which defines the full range of outcomes for each risk, including the 99.5% (or 1-in-200) worst outcome that the directors believe could occur over the coming year,
- (iii) specify an appropriate dependency structure between each of the risks,
- (iv) use stochastic modelling to generate up to 100,000 equally likely risk scenarios where each risk is simulated at the same time, having regard to the probability distribution for each risk and the dependency between different risks,
- (v) calculate the change in the available capital over a one year period in each scenario, and
- (vi) set the capital as the change in the available capital in the 99.5th worst scenario.

The Company manages its own funds to ensure that sufficient own funds are available on an ongoing basis to meet regulatory capital requirements. This is achieved by targeting a capital buffer in excess of regulatory capital requirements. This buffer is intended to absorb the impact of stressed market conditions and thus make the regulatory

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

balance sheet resilient to stresses that affect the Company shareholder-backed business, and is calibrated such that following a stress event (at the calibrated likelihood) the business remains able to cover its Solvency II Solvency Capital Requirement (SCR).

Reconciliation of the Shareholder Funds to the estimated Solvency II Own Funds (unaudited)

	2017	2016
	£'000	£'000
31 December Shareholder funds	74,750	69,232
Liability valuation differences	27,754	24,084
Impact of risk margin	(17,920)	(22,877)
Increase in value of net deferred tax liabilities (resulting from valuation differences above)	(1,689)	(219)
31 December estimated Solvency II own funds	82,895	70,220

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

16. Long-term business provision

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

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

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

The reinsurers' share of the long-term business provision relates to cessions to The Prudential Assurance Company Limited, the immediate parent company.

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

	2017	2016
Discount Rate assumption pre-2019	2.266% for annuities	2.400% for annuities
Discount Rate assumption post-2019	2.285% for annuities	2.419% for annuities
Fund Growth	N/A for annuities	N/A for annuities
Expense Inflation	3.89% gross	4.50% gross
Renewal expenses:		
Reassured annuity business	£37.82 p.a. per policy	£32.33 p.a. per policy
Annuity mortality	<p>Mortality assumptions for UK non-profit annuity business are set in light of recent population and internal experience. The assumptions used are based on standard population mortality tables (PMA08/PFA08 for males/females), with an allowance for expected future mortality improvements. Where annuities have been sold on an enhanced basis to impaired lives, an adjustment is made for the additional expected mortality.</p> <p>Future mortality improvements: In line with CMI 2015 model calibrated to reflect the Company's view of future mortality improvements. Long-term improvement rates of 2.25% for males and 2.00% for females has been used.</p>	<p>Male: 97% PCMA00 with future improvements in line with Prudential's advanced calibration of CMI 2014 model with a 0.25% addition to initial mortality improvements and the application of a floor on improvements equal to the long-term rate of 2.25% p.a.</p> <p>Female: 92.4% PCFA00 with future improvements in line with Prudential's advanced calibration of CMI 2014 model with a 0.25% addition to initial mortality improvements and the application of a floor on improvements equal to the long-term rate of 1.50% p.a.</p>

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

17. Creditors

	2017	2016
All creditors are due within one year.	£'000	£'000
Creditors arising from reinsurance operations	1,924	—
Due to group undertakings	2,073	2,565
Sundry creditors	15,595	14,040
Tax payable	4,070	2,523
	<u>23,662</u>	<u>19,128</u>

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 £5,194.4m, £303.6m, £94.9m, £44.1m, £6.2m and £2.0m, representing liabilities to five different customers (2016: £4,816.0m, £300.5m, £104.2m, £30.1m and £12.4m representing liabilities to five different customers).

19. Guarantees and Commitments

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

20. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 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. Financial 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

2017	Fair value through profit and loss £'000	Cost / Amortised Cost £'000	Total carrying value £'000	Fair value where applicable £'000
Deposits with credit institutions	—	63,400	63,400	63,400
Debt securities	23,989	—	23,989	23,989
Equity securities	—	—	—	—
Assets held to cover linked liabilities	12,187,929	—	12,187,929	12,187,929
Other debtors	—	3,307	3,307	3,307
Cash at bank and in hand	—	9,600	9,600	9,600
Accrued investment income	—	128	128	128
Total assets	12,211,918	76,435	12,288,353	12,288,353
Investment contracts without discretionary participating features	12,187,929	—	12,187,929	12,187,929
Deferred tax liabilities	—	1,832	1,832	1,832
Other creditors	—	23,662	23,662	23,662
Total liabilities	12,187,929	25,494	12,213,423	12,213,423
2016	Fair value through profit and loss £'000	Cost / Amortised Cost £'000	Total carrying value £'000	Fair value where applicable £'000
Deposits with credit institutions	—	55,500	55,500	55,500
Debt securities	24,567	—	24,567	24,567
Equity securities	1,639	—	1,639	1,639
Assets held to cover linked liabilities	11,411,468	—	11,411,468	11,411,468
Other debtors	—	6,437	6,437	6,437
Cash at bank and in hand	—	2,338	2,338	2,338
Accrued investment income	—	168	168	168
Total assets	11,437,674	64,443	11,502,117	11,502,117
Investment contracts without discretionary participating features	11,411,468	—	11,411,468	11,411,468
Deferred tax liabilities	—	2,232	2,232	2,232
Other creditors	—	19,128	19,128	19,128
Total liabilities	11,411,468	21,360	11,432,828	11,432,828

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.

NOTES ON THE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

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

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

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

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

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

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

PRUDENTIAL PENSIONS LIMITED
NOTES ON THE FINANCIAL STATEMENTS (continued)

	2017			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Unit-linked				
Equity securities	4,804,688	769,135	—	5,573,823
Debt securities	1,464,912	4,390,555	—	5,855,467
Derivative assets	1,036	581	—	1,617
Derivative liabilities	(111)	(516)	—	(627)
Total financial investments, net of derivative liabilities:	6,270,525	5,159,755	—	11,430,280
Investment contracts without discretionary participation features held at fair value	—	(12,187,929)	—	(12,187,929)
Total	6,270,525	(7,028,174)	—	(757,649)
Percentage of total	(828)%	928%	—%	100%

Non-linked				
Equity securities	—	—	—	—
Debt securities	23,989	—	—	23,989
Total	23,989	—	—	23,989
Percentage of total	100 %	—%	—%	100%

Company total				
Equity securities	4,804,688	769,135	—	5,573,823
Debt securities	1,488,901	4,390,555	—	5,879,456
Derivative assets	1,036	581	—	1,617
Derivative liabilities	(111)	(516)	—	(627)
Total financial investments, net of derivative liabilities	6,294,514	5,159,755	—	11,454,269
Investment contracts without discretionary participation features held at fair value	—	(12,187,929)	—	(12,187,929)
Total	6,294,514	(7,028,174)	—	(733,660)
Percentage total	(858)%	958%	—%	100%

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

	2016			
	Level 1 restated £'000	Level 2 restated £'000	Level 3 £'000	Total £'000
Unit-linked				
Equity securities	4,677,610	725,772	74	5,403,456
Debt securities	1,579,363	3,777,306	—	5,356,669
Derivative assets	551	8,281	—	8,832
Derivative liabilities	(3,791)	(17,834)	—	(21,625)
Total financial investments, net of derivative liabilities:	6,253,733	4,493,525	74	10,747,332
Investment contracts without discretionary participation features held at fair value	—	(11,411,468)	—	(11,411,468)
Total	6,253,733	(6,917,943)	74	(664,136)
Percentage of total	(942)%	1,042%	— %	100%
Non-linked				
Equity securities	1,639	—	—	1,639
Debt securities	24,567	—	—	24,567
Total	26,206	—	—	26,206
Percentage of total	100 %	—%	— %	100%
Company total				
Equity securities	4,679,249	725,772	74	5,405,095
Debt securities	1,603,930	3,777,306	—	5,381,236
Derivative assets	551	8,281	—	8,832
Derivative liabilities	(3,791)	(17,834)	—	(21,625)
Total financial investments, net of derivative liabilities	6,279,939	4,493,525	74	10,773,538
Investment contracts without discretionary participation features held at fair value	—	(11,411,468)	—	(11,411,468)
Total	6,279,939	(6,917,943)	74	(637,930)
Percentage total	(984)%	1,084%	— %	100%

The £725,772k being the Company's investment in M&G UK Property Fund FCP - FIS (as disclosed in Note 9 'Assets held to cover linked liabilities') has been re-categorised as Level 2 in 2016 (previously this was categorised as Level 1). The valuation technique applied is consistent with Level 2.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

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 2017 to that presented at 31 December 2017. 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.

2017	At 1 Jan 2017	Total gains or (losses) in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit-linked Equity securities	74	—	—	(73)	—	(1)	—

2016	At 1 Jan 2016	Total gains or (losses) in long- term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Unit-linked Equity securities	8	(7)	72	(1)	2	—	74

Transfers between level 1 and level 3

During 2017, transfers from level 1 to 3 amounted to £nil (2016: £2,000).

Exposure to sovereign debt and bank debt

The Company exposure to UK sovereign debt held in non-linked funds is £24.0m (2016: £24.6m). The non-linked funds hold 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 policyholder 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 policyholder 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

(i) Interest rate risk

Due to the matching of policyholder liabilities to attaching asset value movements the unit-linked business within the Company 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 where the Company still retains a 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.

2017	Fair value interest rate risk £'000	Cash flow interest rate risk £'000	Total £'000
Financial Assets			
Deposits with credit institutions	—	63,400	63,400
Debt securities	23,989	—	23,989
Cash at bank and in hand	—	9,600	9,600
	<u>23,989</u>	<u>73,000</u>	<u>96,989</u>

2016	Fair value interest rate risk £'000	Cash flow interest rate risk £'000	Total £'000
Financial Assets			
Deposits with credit institutions	—	55,500	55,500
Debt securities	24,567	—	24,567
Cash at bank and in hand	—	2,338	2,338
	<u>24,567</u>	<u>57,838</u>	<u>82,405</u>

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 2017			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£'000	£'000	£'000	£'000
Carrying value of debt securities	3,043	6,085	(3,043)	(6,085)
Interest on deposits with credit institutions	399	399	730	1,460
Related tax effects	(585)	(1,102)	393	786
Net sensitivity of profit after tax and shareholders' funds	<u>2,857</u>	<u>5,382</u>	<u>(1,920)</u>	<u>(3,839)</u>

	31 December 2016			
	Fall of 1%	Fall of 2%	Rise of 1%	Rise of 2%
	£'000	£'000	£'000	£'000
Carrying value of debt securities	3,176	6,352	(3,176)	(6,352)
Interest on deposits with credit institutions	(118)	(118)	578	1,157
Related tax effects	(520)	(1,060)	442	883
Net sensitivity of profit after tax and shareholders' funds	<u>2,538</u>	<u>5,174</u>	<u>(2,156)</u>	<u>(4,312)</u>

NOTES ON THE FINANCIAL STATEMENTS (continued)**(ii) Currency risk**

Due to the matching of policyholder 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 policyholder liabilities to attaching asset value movements the unit-linked business is not directly sensitive to other price risk. The Company does not hold any investment property outside of the unit-linked funds. The Company holds £nil (2016: £1.6m) of equity securities outside of the unit-linked funds, so is not materially exposed to other price risk.

D. Liquidity analysis**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 the profile for the asset and so no liquidity risk arises from these contracts.

E. Credit Risk**Concentration of credit risk**

The following table summarises by credit rating the securities held by the Company as at 31 December 2017 and 2016.

	2017	2016
	£'000	£'000
AA	96,989	82,405
	96,989	82,405
Unit-linked	12,187,929	11,411,468
Total assets bearing credit risk	12,284,918	11,493,873

Due to the matching of policyholder 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

Reverse repurchase agreements

At 31 December 2017, 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 £683.2m (2016: £582.1m).

During 2017 and 2016 the Company did not take possession of any other collateral held as security.

Collateral and pledges under derivative transactions

At 31 December 2017, the Company had pledged £nil (2016: £8.9m) for liabilities and held collateral of £0.3m (2016: £6.5m) in respect of over-the-counter derivative transactions.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and repurchase agreements.

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.

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.

b) Market risk

Market Risk is the risk of loss, or of adverse changes in the financial situation resulting, directly or indirectly, from fluctuations in the prices of financial instruments. Market risk includes but is not limited to interest rate risk, inflation risk, equity risk, currency risk, property risk, basis risk and other assets / alternative investments risk.

The continued uncertainty in global economic, political and markets outlooks, have increased market risk (e.g. increased volatility) and this could adversely affect the Company's business and profitability, principally through a fall in the Company's funds under management (FUM) due to reduced investment returns and adverse movements in foreign currency exchange rates (for overseas investment funds).

As a large proportion of the Company's income is earned via fund management charges expressed as a percentage of FUM, a fall in value as a result of market risk could adversely affect the Company's profitability.

c) Persistency risk

Persistency risk is the risk of 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.

PRUDENTIAL PENSIONS LIMITED

NOTES ON THE FINANCIAL STATEMENTS (continued)

d) 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.

The Company is covered by the GRF and the supporting policies for managing risk within the Group and, in accordance, has a defined liquidity risk appetite with associated triggers and limits. This risk is managed through careful management of bank balances and cash-flow forecasting.

To manage liquidity risk in property funds which are inherently more illiquid, deferral clauses are in place, which can allow the Company to defer cash payments to withdrawing customers in extreme adverse liquidity scenarios. Liquidity risk however cannot be completely eliminated for unit-linked funds, in particular over the short term, where market volatility can result in mass withdrawals over a short period of time.

e) Credit risk

Credit risk is the risk of loss for our business, or of adverse change in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and debtors in the form of defaults, or other significant credit event (e.g. downgrades or spread widening).

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, however, exposed to credit-related losses in the event of non-performance by counterparties.

24. Post balance sheet events

In March 2018, Prudential plc announced its intention to demerge its UK & Europe business ('M&G Prudential') from Prudential plc, resulting in two separately-listed companies. The Company forms a part of M&G Prudential.