Registered Number 2554213

Prudential Annuities Limited

Annual Report and Financial Statements
For the year ended 31 December 2013

Prudential Annuities Limited

Incorporated and registered in England and Wales Registered Number 2554213
Registered Office: Laurence Pountney Hill, London, EC4R 0HH

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Prudential Annuities Limited

Directors

J Hunt (Chairman)
D J Belsham
H A Hussain
J Warburton

Secretary

Prudential Group Secretarial Services Limited

Auditors

KPMG Audit Plc, London

Prudential Annuities Limited

Strategic report the year ended 31 December 2013

Principal activity

The principal activity of Prudential Annuities Limited (the Company) is to pay annuities to existing annuitants as it is not currently writing new business. This will continue for 2014.

The Company ceased to accept annuity business reassured from group companies during 2004. This represented the majority of the Company's new business.

Business review

As at 31 October 2012 the annuities, net of a small outward reinsurance, insured by the Company were 100% reinsured on a quota share basis to the With-Profits Sub Fund (WPSF) of The Prudential Assurance Company Limited (PAC); this arrangement allows for the reinsured assets to be deposited back with the Company.

The retained surplus of the Company has fallen during the year, primarily due to the payment of a dividend of £250m to PAC.

The Company's conventional annuities include level, fixed increase and inflation linked annuities. The fixed increase annuities incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The inflation linked annuities that the Company offers provide for a regular annuity payment which changes periodically based on the change in UK inflation, which, for the majority of policies, is determined by reference to the Retail Price Index (RPI).

The Company remained in a satisfactory financial position at 31 December 2013.

Performance and measurement

The following table sets out the key performance indicators for the Company.

Key Performance Indicators	**2013** **£m**	2012 £m
Loss on ordinary activities before tax	**(3)**	(454)
Shareholder funds	**832**	1,085
Dividends paid	**250**	-

Risks and 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. As such, they provide strong but not absolute assurance against material misstatement or loss, and focus on optimising the levels of risk and reward with the aim of achieving the business objectives.

The Group's risk and governance framework requires all business units and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk management framework for the Company is approved by the Board and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance.

Risks and uncertainties (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. The Company's exposure to financial risk through its financial assets and liabilities is provided in detail in Note 8 of the notes to the financial statements.

Financial risks

The Company is exposed to financial risk through its financial assets and financial liabilities. The risk from the long-term insurance business has now been completely reassured, all but an immaterial amount with PAC. The key financial risk factors affecting the Company are market and credit risks.

The current uncertainty in local and international economic and investment climates has increased financial risks and this could adversely affect the Company's profitability. Since 2008 the Company has had to operate against a challenging background of periods of unprecedented volatility in global capital and equity markets, interest rates, liquidity, and the broader economic environment. With historic low interest rates in the US, UK and the Eurozone and the unprecedented levels of quantitative easing in particular by the US, it remains to be seen how the markets and the economy as a whole adjusts as these actions are subsequently reversed.

The global financial markets have experienced and still continue to experience significant uncertainty brought on, in particular, by concerns over the US and European sovereign debts, as well as concerns about a general slowing of global demand reflecting an increasing lack of confidence among consumers, companies and governments, despite the actions that the central banks in the US, UK and Eurozone have taken. If sustained, this environment is likely to have a negative impact on the insurance sector over time and may consequently have a negative impact on the Company's profitability. New challenges related to market fluctuations and general economic conditions may continue to emerge.

(a) Market risk

Market risk is the risk of loss or adverse change in the financial condition of the Company resulting directly or indirectly from fluctuations in the level or volatility of market prices of assets and liabilities and changes in interest rates and exchange rates.

The current uncertainty in local and international economic and investment climates has increased market risk due to uncertainty in levels of asset returns, interest rates and inflation. The Company is exposed to market risk through its investments in gilts and corporate bonds. The Company is no longer exposed to market risks in the long-term business technical account as all its insurance business has been reassured.

(b) Credit risk

Credit risk is the risk of loss to the Company resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of defaults, downgrades or widening of credit spreads.

The Company is exposed to credit risk on it's corporate bond holdings.

Risks and uncertainties (continued)

Financial risks (continued)

(b) Credit risk (continued)

The global financial crisis has exacerbated credit risk as corporate borrowers are experiencing a challenging business environment and volatile profits and cash flows. This has impacted credit losses through the following ;

- Increased risk of credit losses through defaults and widening of credit spreads on corporate bonds. This is a risk for the Company, although less significant in 2013 than in previous years due to market improvements, and is managed by careful management of the corporate bond portfolio and having appropriate concentration and credit rating limits in place;

- The Company, in the normal course of business enters into a variety of transactions with counterparties, including cash deposit, reinsurance and derivative transactions. Failure of any of these counterparties to discharge their obligations or where adequate collateral is not in place (eg. in the case of reinsurance counterparties), could have an adverse impact on the Company's results. The Company manages cash counterparty risk by using secured cash placements (such as reverse repos) and having counterparty concentration limits in place for unsecured cash deposits. Derivative counterparty risk is largely mitigated by careful counterparty selection and adequate collateralisation arrangements.

The Company is no longer exposed to credit risk in the long-term business technical account as all its insurance business has been reassured.

(c) Insurance risk

The Company is no longer exposed to insurance risk in the long-term business technical account as all its insurance business has been reassured.

(d) Liquidity risk

Liquidity risk is the risk that the Company, although solvent on a balance sheet basis, does not have sufficient cash resources available to meet its obligations as they fall due, or can secure them only at excessive cost.

Liquidity risk is not a material risk for the Company. This risk is managed through careful management of bank balances and cash-flow forecasting.

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 that can arise as a result of changing external factors in the business environment and the impact on the fundamentals that drive the Company's overall strategy

Risks and uncertainties (continued)

Non-financial risk (continued)

(a) Business environment risk (continued)

The Company conducts its business subject to regulation and the associated regulatory risks, and is therefore exposed to changes in laws and regulations that affect the products and markets in which it operates.

Changes in government policy, legislation (including tax) or regulatory interpretation applying to UK insurance companies may be applied retrospectively, may adversely affect the Company's capital requirements and, consequently, reported results and financing requirements.

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

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

- The split of regulation in the UK in 2013 between the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) may give rise to new requirements and regulatory expectations of the Company. This may include an increase in thematic review activity, the impact of additional & conflicting compliance demands and the implications from the FCA's new powers and competition objective.

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

- Given the outsourced nature of the Company's operating model, there is exposure to changes in the environment that affect the economics of these arrangements. Examples of this would include potential changes to VAT on outsourcing arrangements and medium term degradation of cost benefits arising from wage and cost inflation.

Strategic report for the year ended 31 December 2013 (continued)

Risks and uncertainties (continued)

Non-financial risk (continued)

(b) Strategic risk

Strategic risk is the risk that can arise as a result of ineffective or inadequate business strategy decisions in relation to competitors, the market and consumers.

The Company operates a largely outsourced operating model, with heavy dependence on both internal and external organisations. This places strategic reliance on the performance of these organisations.

(c) Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, or from personnel and systems, or from external events.

The Company is exposed to operational risk in the ordinary course of its business and as a result may be subject to unplanned costs, regulatory fines or legal actions and disputes.

The Company operates in a mature and highly regulated environment where the pace of regulatory change has intensified making regulatory compliance a key risk. In addition to the level of change experienced, regulatory relationships have become more intrusive particularly around product development, distribution processes, complaint handling and breach management. There has been an increase in fines and regulatory sanctions imposed on firms.

The Company's activities involve processing annuities in payment and as a result it is exposed to the risks of data integrity and transaction processing errors. Further, because of the long-term nature of much of the Company's business, accurate records have to be maintained for significant periods. The Company is therefore exposed to data security risk potentially resulting in regulatory breaches, complaints and brand damage.

The Company outsources several inter-company and intra-group operations, including investment management, customer-facing functions, support and IT activities. The Company is therefore reliant upon the operational processing performance of its outsourcing partners, and their performance is monitored carefully.

The Company's systems and processes incorporate controls which are designed to manage the operational risks associated with its activities as any weakness in the administration systems, finance systems and processes or actuarial reserving process could have an impact on its results during the effected period.

As with any large organisation, the Company is affected by the risk of operational failures due to inadequate practices for the recruitment, development, management or retention of employees and contractors.

Risks and uncertainties (continued)

Non-financial risk (continued)

(d) 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.

Solvency II and other global regulatory developments

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

Specifically, Pillar 1 covers the quantitative requirements around own funds, valuation rules for assets and liabilities and capital requirements. Pillar 2 provides the qualitative requirements for risk management, governance and controls, including the requirement for insurers to conduct an Own Risk and Solvency Assessment the results of which will be reported to the supervisory authorities. Pillar 3 deals with the enhanced requirements for supervisory reporting and public disclosure.

A key aspect of Solvency II is that the assessment of risks and capital requirements are intended to be aligned more closely with economic capital methodologies and may allow Prudential Plc to make use of its internal economic capital models if approved by the PRA.

In November 2013, representatives from the European Parliament, the European Commission and the Council of the European Union reached an agreement on the Omnibus II Directive, which has been adopted in early 2014. As a result, Solvency II is now expected to be implemented as of 1 January 2016, although the European Commission and the European Insurance and Occupational Pensions Authority (EIOPA) are continuing to develop the detailed rules that will complement the high-level principles of the Solvency II Directive, which is not currently expected to be finalised until mid-2015.

Strategic report for the year ended 31 December 2013 (continued)

Solvency II and other global regulatory developments (continued)

There is significant uncertainty regarding the final outcome from this process. In particular, certain detailed aspects of the Solvency II rules relating to the determination of the liability discount rate for UK annuity business remains to be clarified and the capital position of the Group, of which the Company is a part, is sensitive to these outcomes. Further, the effective application of a number of key measures incorporated in the Omnibus II Directive, including the provisions for third-country equivalence, are expected to be subject to supervisory judgement and approval. There is a risk that the effect of the measures finally adopted could be adverse for the Group and the Company, including potentially a significant increase in the capital required to support its business and that the Group and the Company may be placed at a competitive disadvantage to other European and non-European financial services groups. The Group is actively participating in shaping the outcome through its involvement in industry bodies and trade associations, including the Chief Risk Officer and Chief Financial Officer Forums, together with the Association of British Insurers and Insurance Europe.

Having assessed the requirements of Solvency II, an implementation programme was initiated with dedicated teams to manage the required work across the Group. The activity of the local Solvency II teams is coordinated centrally to achieve consistency in the understanding and application of the requirements. The Group is continuing its preparations to adopt the regime when it comes into force on 1 January 2016 and is undertaking in parallel an evaluation of the possible actions to mitigate its effects. Prudential Plc regularly reviews its range of options to maximise the strategic flexibility of the Group. This includes consideration of optimising the Group's domicile as a possible response to an adverse outcome on Solvency II.

Over the coming months the Group will remain in regular contact with the PRA as it continues to engage in the 'pre-application' stage of the approval process for the internal model. In addition, the Group is engaged in the PRA's 'Individual Capital Adequacy Standards Plus (ICAS+)' regime, which is enabling its UK insurance entities to leverage the developments made in relation to the Solvency II internal model for the purpose of meeting the existing ICAS regime.

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

In July 2013 the Financial Stability Board announced the initial list of nine insurance groups that have been designated as G-SIIs. This list included Prudential Plc as well as a number of its competitors. The designation as a G-SII is likely to lead to additional policy measures being applied to the designated group. Based on a policy framework released by the IAIS concurrently with the initial list, these additional policy measures will include enhanced group-wide supervision. These additional measures will be phased in over a period from 2014 to 2019.

Solvency II and other global regulatory developments (continued)

ComFrame is also being developed by the IAIS to provide common global requirements for the supervision of insurance groups. The framework is designed to develop common principles for supervision and so may increase the focus of regulators in some jurisdictions. It is also currently expected that some prescriptive requirements, including group capital requirements will be included in the framework. A revised draft ComFrame proposal was released for consultation in October 2013. The IAIS will undertake a field testing exercise from 2014-2018 to assess the impacts of the quantitative and qualitative requirements proposed under ComFrame. ComFrame is expected to be implemented in 2019.

On behalf of the Board of directors.

S D Windridge
Prudential Group Secretarial Services Limited
Company Secretary
25 March 2014

Prudential Annuities Limited

Directors' report for the year ended 31 December 2013

Introduction

None of the information required to be included in the Directors' Report under Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013) has been set out in the Company's Strategic Report.

Company Registration number

The Company Registration number is 2554213.

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 provide clarity to the businesses as to how they should focus their CR efforts and resources in the context of their individual markets.

The Prudential plc Board discusses the Group's performance in the areas of social and environmental management at least once a year and also reviews and approves the Group's corporate responsibility report and strategy on an annual basis.

Post balance sheet events

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

Prudential Annuities Limited

Directors' report for the year ended 31 December 2013 (continued)

Results and dividends

The state of affairs of the Company at 31 December 2013 is shown in the balance sheet on pages 18 and 19. The profit and loss account appears on pages 16 and 17. A dividend of £250m was paid during the year (2012: £Nil).

Share capital

There were no changes in share capital during the year (2012: £Nil).

Directors

The present directors are shown on page 2. Messrs Devey, Crossley and O'Dwyer resigned on 5 September, 6 June and 24 May 2013 respectively. Mr Hussain was appointed on 17 June 2013, Mr Warburton on 2 August 2013, and Ms Hunt on 1 October 2013. There have been no further changes.

Disclosure of information to auditors

The directors who held the 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 ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

In accordance with section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to be re-appointed auditors 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 for 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 include qualifying third party indemnity provisions (as defined by the relevant Companies Act) for the benefit of directors of Prudential plc including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during 2013 and remain in force.

On behalf of the Board of directors.

S D Windridge
Prudential Group Secretarial Services Limited
Company Secretary
25 March 2014

Statement of directors' responsibilities in respect of the Strategic Report, Directors' report and the financial statements

The directors are responsible for preparing the Directors' Report, Strategic 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).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

H A Hussain
Director

25 March 2014

Independent Auditor's report to the members of Prudential Annuities Limited

We have audited the financial statements of Prudential Annuities Limited for the year ended 31 December 2013 set out on pages 16 to 48. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 13, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2013 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's report to the member of Prudential Annuities Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Robert Lewis

Robert Lewis (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

25 March 2014

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2013

Long Term Business - Technical Account	Note	**2013 £m**	2012 £m
Gross Premiums written	2(a)	**2**	-
Intragroup reinsurance accepted	2(a)	**-**	(47)
Outward reinsurance premium		**(2)**	(5,944)
Earned premium, net of reinsurance		**-**	(5,991)
Investment income	3	**264**	1,466
Unrealised (losses) on investments		**(190)**	(931)
		74	535
Claims incurred, net of reinsurance			
Claims paid		**-**	(266)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance	10	**-**	3,468
Technical provision for linked liabilities, net of reinsurance	10	**-**	1,847
		-	5,315
Net operating expenses			
Administrative expenses		**-**	(3)
Investment expenses and charges		**(74)**	(112)
		(74)	(115)
Tax attributable to the long term business		**-**	132
Balance on the technical account – long term business		**-**	(390)

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 20 to 48 form an integral part of these financial statements.

Prudential Annuities Limited

Profit and Loss Account for the year ended 31 December 2013 (continued)

Non-Technical Account	Note	2013 £m	2012 £m
Balance on the long term business technical account		**-**	(390)
Tax attributable to the balance on the long term business technical account		**-**	(132)
Investment income	3	**81**	41
Unrealised (loss)/gain on investments		**(83)**	28
Investment expenses and charges		**(1)**	(1)
(Loss) on ordinary activities before tax		**(3)**	(454)
Tax on (loss) on ordinary activities	5(a)	**-**	117
Loss for the financial year	10	**(3)**	(337)

The Company has no recognised gains or losses other than those reported in the profit and loss account.

In accordance with the amendment to Financial Reporting Standard 3 (FRS 3) published in June 1999 no note of historical cost profits has been prepared as the Company's only material gains and losses on assets relate to the holding and disposal of investments.

Reconciliation of movement in Shareholders' Funds

Year ended 31 December 2013

	2013 £m	2012 £m
Shareholders' capital and reserves at beginning of year	**1,085**	1,422
Dividend Paid	**(250)**	-
Retained (loss) for the financial year	**(3)**	(337)
Shareholders' capital and reserves at end of year	**832**	1,085

The amounts shown above are in respect of continuing operations.

The accounting policies and notes on pages 20 to 48 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2013

ASSETS	Note	**2013 £m**	2012 £m
Investments			
Land and buildings		**601**	588
Other financial investments		**4,162**	4,929
	8	**4,763**	5,517
Reinsurers' share of technical provisions			
Long term business provision	10	**3,357**	3,639
Technical provision for linked liabilities	10	**1,869**	1,921
		5,226	5,560
Debtors			
Other debtors	12	**7**	5
Other assets			
Cash at bank and in hand	16	**71**	164
Prepayments and accrued income			
Accrued interest and rent		**64**	72
Total assets	2(b)	**10,131**	11,318

The accounting policies and notes on page 20 to 48 form an integral part of these financial statements.

Prudential Annuities Limited

Balance sheet as at 31 December 2013 (continued)

LIABILITIES	Note	2013 £m	2012 £m
Capital and reserves			
Called up share capital	17	**650**	650
Profit and loss account	10	**182**	435
Total shareholders' funds		**832**	1,085
Technical provisions			
Long term business provision	10	**3,357**	3,639
Claims outstanding	10	**1**	1
Technical provisions for linked liabilities	10	**1,869**	1,921
Creditors			
Derivative liabilities	8	**156**	200
Creditors arising out of reinsurance operations		**1**	44
Deposits from ceding undertakings	14	**3,814**	4,116
Amounts owed to credit institutions		**92**	295
Other creditors including taxation and social security	15	**9**	17
		4,072	4,672
Total liabilities		**10,131**	11,318

The financial statements on pages 16 to 48 were approved by the Board of directors on 25 March 2014.

H A Hussain
Director

The accounting policies and notes on page 20 to 48 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

1. Accounting Policies

(a) Changes in accounting policies

In 2013 there have been no changes to accounting policies arising from changes to, or new Financial Reporting Standards.

(b) Basis of preparation

The financial statements are prepared in accordance with Part 15 of the Companies Act 2006 and Schedule 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements comply with applicable accounting standards and the 2005 ABI SORP, updated on 21 December 2006, and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential Group financial statements which provide information on a group basis complying with this requirement. The process for setting assumptions and determining liabilities, as required to be disclosed by FRS 27, is described in Note 11 of the financial statements (together with key assumptions).

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 profitably and there are no plans for liquidation, the Company has a healthy solvency margin, well in excess of the Minimum Capital Requirement (MCR) and Enhanced Capital Requirement (ECR) (Note 9), and has very low debt financing. In addition consideration has also been given to the Company's performance, the market in which it operates, its strategy and risks and uncertainties, as set out in the Business Review on page 3, and the management of financial risk as set out in Note 8, including its exposure to liquidity risk and credit risk.

(c) Long term business

Under FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. The Company's contracts are all classed as insurance contracts.

Annuity considerations are accounted for when due. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified. Index linked annuity business has been disclosed as linked for the purposes of these financial statements. Investment income and realised and unrealised investment gains attributable to long term business are credited to the long term business technical account.

1. Accounting Policies (continued)

(d) Investments

(i) *Land and buildings*
Land and buildings are valued annually by a number of different professional external valuers on a Market Value basis, as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors, in particular Practice Statement 3.2. No depreciation is provided on land and buildings, held for investment purposes, in accordance with Statement of Standard Accounting Practice 19, Accounting for Investment Properties.

On a historical cost basis buildings are depreciated over 40 years. Leasehold buildings are depreciated over 40 years, or if the lease is less than 40 years, over the length of the lease.

(ii) *Realised gains and losses on investments*
Realised gains and losses on investments represent the difference between net proceeds on disposal and the purchase price.

(iii) *Unrealised gains and losses on investments*
Unrealised gains and losses on investments represent the difference between 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.

Under FRS 26 upon initial recognition financial investments are recognised at fair value. Subsequently, 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:

(iv) *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. Further information on valuation techniques is provided in Note 8 on pages 29 to 31.

(v) *Loans and receivables*
This comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, 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.

1. Accounting Policies (continued)

(e) Long term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's Actuarial Function Holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC.

It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook for Insurers and the General Prudential Sourcebook issued by the Prudential Regulation Authority.

The technical provisions are the discounted value of future claim payments, adjusted for investment expenses and future administration costs. Claim payments allow for the effects of mortality in line with the bases set out in Note 11. These bases have been derived from an analysis of recent population and internal mortality experience and include an allowance for improvements in mortality in the future.

The interest rates used for discounting claim payments are derived from the yield on the assets held and make allowance for potential defaults on those assets (see Note 11). Long term rates of default appropriate to the assets held have been set based on an investigation into historic rates of default by credit rating, term to redemption and security. An additional short term default provision is held to reflect market conditions at the valuation date.

(f) Cash flow statement

The Company has availed itself of the exemption from preparing a cash flow statement allowed under section 5(a) of FRS 1, "Cash Flow Statements", on the grounds that it is a wholly owned subsidiary of Prudential plc which publishes a consolidated cash flow statement incorporating the cash flows of the Company.

(g) Taxation

Tax is charged on all taxable profits arising in the accounting period.

The UK Government has made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. Until the end of 2012, shareholders' taxable profits are calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for UK GAAP. Beginning in 2013, under new life tax rules, taxable profits are calculated using accounting profit or loss as a starting point.

Except where otherwise required by accounting standards, full provision for deferred tax without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date.

(h) Foreign Currencies

Foreign currency revenue transactions are translated at the rate applied at the time of execution. Monetary foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences are included in the profit and loss account.

Notes to the financial statements for the year ended 31 December 2013 (continued)

1. Accounting Policies (continued)

(i) Reinsurance

In the normal course of business the Company seeks to reduce loss exposure by reinsuring certain levels of risk in various areas of exposure with other insurance companies or reinsurers. An asset or liability is recognised in the balance sheet representing premiums due or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers. The measurement of reinsurance assets is consistent with the measurement of the underlying direct insurance contracts.

2. Segmental analysis

(a) Gross premiums written

	2013 £m	2012 £m
Pension annuities :		
- Level and fixed increasing	**1**	-
- Index Linked	**1**	-
	2	-
Comprising :		
External direct premiums :		
- Immediate annuities	**2**	-
Total	**2**	-

Intragroup reinsurance accepted

	2013 £m	2012 £m
Recapture of Annuities to a related party:		
- Immediate annuities	**-**	(47)

All premiums are single premium business written in the United Kingdom. Group pension schemes included in external premiums are £2m (2012: £Nil). The above amounts represent the remainder of the reinsured annuities recaptured from PAC into the Company as at 30 September 2012.

(b) Assets attributable to the long term business fund

Of the total assets shown on page 18, £9,345m (2012: £10,233m) is attributable to the long term business fund.

Notes to the financial statements for the year ended 31 December 2013 (continued)

3. Investment income

	Long term business technical account		Non technical account	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Income from equity securities	**1**	9	**-**	1
Income from land and buildings	**32**	37	**-**	-
Income from debt securities	**221**	220	**34**	36
Income from mortgage loans and other loans	**2**	2	**-**	-
Income from deposits with credit institutions	**1**	-	**-**	-
Income from derivatives	**7**	(5)	**-**	-
(Losses)/gains on the realisation of investments other than derivatives	**(4)**	1,127	**47**	4
Gains on the realisation of derivatives	**5**	74	**-**	-
Exchange (losses)/gains	**(1)**	2	**-**	-
	264	1,466	**81**	41

4. Staff costs

The Company has no employees (2012: Nil). Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

5. Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2013 £m	2012 £m
Current Tax		
UK Corporation tax on (loss) of the period	**(1)**	19
Adjustments in respect of previous periods	**1**	(2)
	-	17
Deferred Tax		
Origination and reversal of timing differences	**-**	(134)
	-	(134)
Tax (credit) on (losses) on ordinary activities	**-**	(117)

Notes to the financial statements for the year ended 31 December 2013 (continued)

5. Tax on profit on ordinary activities (continued)

(b) Factors affecting tax charge for the period

	2013 £m	2012 £m
(Loss) on ordinary activities before tax	**(3)**	(454)
(Loss) on ordinary activities multiplied by effective rate of corporation tax in the UK of 23.25% (2012: 24.5%)	**(1)**	(111)
Effects of		
Adjustments in respect of previous periods	**1**	(2)
Timing differences		
- Effect of life tax transitional adjustment	**-**	130
Current tax charge for the period	**-**	17

6. Auditors' remuneration

Fees payable to KPMG Audit Plc (KPMG) for the audit of the Company's accounts and the Company's reporting pack for the Parent's consolidated accounts were £16,000 (2012: £16,000). Fees payable to KPMG for other services pursuant to legislation, including the audit of the regulatory return were £4,000 (2012: £4,000).

7. Directors' emoluments

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

	2013 £	2012 £
Aggregate emoluments and non-pension benefits	**25,127**	29,416

During the year seven (2012: four) directors were entitled to shares under the Prudential's main long term incentive scheme. One director is entitled to retirement benefits under defined benefit scheme and three directors participate in the defined contribution scheme.

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director included in the above figure was £7,139 (2012: £13,386). During the year the highest paid director did not exercise any share options but did receive shares under a long term incentive scheme.

8. Investments

	Cost		Current Value	
	2013 £m	2012 £m	**2013 £m**	2012 £m
Freehold land and buildings	**307**	311	**319**	312
Leasehold land and buildings	**273**	274	**282**	276
Equity securities	**36**	62	**34**	62
Debt securities and other fixed income securities	**4,094**	4,379	**3,897**	4,427
Derivative assets	**-**	-	**123**	198
Loans secured by mortgages	**21**	49	**21**	49
Other loans	**8**	9	**8**	9
Deposits with credit institutions	**79**	184	**79**	184
	4,818	5,268	**4,763**	5,517

The change in current value of investments included in the profit and loss account was a loss of £279m (2012: loss of £516m) analysed between a loss of £195m (2012: loss of £544m) included in the Long term business technical account and a loss of £84m (2012: gain of £28m) included in the Non-technical account. The change in current value of £195m (2012: loss of £544m) included a gain of £20m (2012: loss of £64m) in respect of land and buildings, a loss of £30m (2012: gain of £54m) in respect of derivatives, a loss of £3m (2012: gain of £32m) in respect of equity securities and a loss of £182m (2012: loss of £566m) in respect of debt securities.

Amounts included in the above ascribed to listed investments:

	Current Value	
	2013 £m	2012 £m
Equity securities	**-**	29
Debt securities and other fixed income securities	**3,626**	3,082
	3,626	3,111

All Leasehold land and buildings are classed as long lease as their term is greater than 50 years.

If the revalued land and buildings were stated on the historical cost basis, the amounts would be:

	Freehold and leasehold land and buildings	
	2013 £m	2012 £m
At cost	**580**	585
Aggregated depreciation	**(106)**	(92)
Net book value based on historical cost	**474**	493

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Investments (continued)

(a) Financial instruments

(i) Designation and fair values

All financial assets of the Company are designated as either fair value through profit and loss or loans and receivables. Financial liabilities are designated as either fair value through profit and loss or amortised cost.

2013	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
		£m		
Financial Assets:				
Deposits with credit institutions	-	79	79	79
Equity securities	34	-	34	34
Debt securities	3,897	-	3,897	3,897
Loans:				
Loans secured by mortgages	-	21	21	21
Other loans	-	8	8	7
Derivative assets	123	-	123	123
Accrued investment income	-	64	64	64
Other debtors	-	7	7	7
Cash at bank and in hand	-	71	71	71
	4,054	250	4,304	4,303

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
		£m		
Financial Liabilities:				
Derivative liabilities	156	-	156	156
Creditors arising out of reinsurance operations	-	1	1	1
Deposits from ceding undertakings	-	3,814	3,814	3,814
Other creditors	-	98	98	98
	156	3,913	4,069	4,069

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Investments (continued)

(a) Financial instruments (continued)

(i) Designation and fair values (continued)

2012	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
		£m		
Financial Assets:				
Deposits with credit institutions	-	184	184	184
Equity securities	62	-	62	62
Debt securities	4,427	-	4,427	4,427
Loans :				
Loans secured by mortgages	-	49	49	50
Other loans	-	9	9	9
Derivatives assets	198	-	198	198
Accrued investment income	-	72	72	72
Other debtors	-	5	5	5
Cash at bank and in hand	-	164	164	164
	4,687	483	5,170	5,171

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
		£m		
Financial Liabilities:				
Derivative liabilities	200	-	200	200
Creditors arising out of reinsurance operations	-	44	44	44
Deposits from ceding undertakings	-	4,116	4,116	4,116
Other creditors	-	300	300	300
	200	4,460	4,660	4,660

As at 31 December 2013 there were no convertible bonds included in debt securities (2012: £Nil). There were no convertible bonds included in borrowings (2012: £Nil).

For financial liabilities designated as fair value through profit and loss there was no material impact on profit from movements in credit risk during 2013 and 2012.

8. Investments (continued)

(a) Financial instruments (continued)

(ii) Determination of fair values

The fair values of the financial values of the financial assets and liabilities as shown in the tables on the previous pages have been determined on the following bases.

The fair values of the financial instruments for which fair valuation is required under UK GAAP 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 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 or arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

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

The loans and receivables have been shown net of provisions for impairment, where applicable. The fair value of loans 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 instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The 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 borrowings is based on quoted market prices, where available.

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

8. Investments (continued)

(a) Financial instruments (continued)

(iii) 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 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.

The nature of the Company's operations in the UK mean that a significant proportion of the assets backing non-linked shareholder backed business are held in corporate bonds, structured securities and other non-national government debt securities. These assets, in line with market practice, are generally valued using third party broker quotes in the UK either directly or via third parties such as IDC or Bloomberg. Such assets have generally been classified as level 2 as the nature of broker quotations means that it does not strictly meet the definition of a level 1 asset. However these valuations are determined using independent external quotations from multiple sources and are subject to a number of monitoring controls such as monthly price variances, stale price reviews and variance analysis on prices achieved on subsequent trades.

In addition level 2 includes debt securities that are valued internally using standard market practices. Of the total level 2 debt securities of £3,188m (2012: £3,510m), £386m (2012: £331m) are valued internally. The majority of such securities use matrix pricing, which is based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. Under matrix pricing, the debt securities are priced taking the credit spreads on comparable quoted public debt securities and applying these to the equivalent debt instruments factoring a specified liquidity premium. The significance of the parameters used in this valuation technique are readily observable in the market and, therefore, are not subject to interpretation.

8. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)

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

Level 3 principally includes investments 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

Of the £9m (2012: £4m) level 3 items which support non-linked annuities backed business Nil% (2012: Nil%) of the total assets net of derivative liabilities backing this business, are externally valued and £9m (2012: £4m) are internally valued. Internal valuations, which represent only 9.9% (2012: 2.4%) of the total assets net of derivative liabilities supporting non-linked annuities backed business, are inherently more subjective than external valuations.

If the value of all level 3 investments backing non-linked annuities backed business was varied by 10%, the change in valuation would be £0.9m (2012: £0.4m), which would reduce or increase shareholders' equity by this amount before tax.

2013	**Level 1**	**Level 2**	**Level 3**	**Total**
		£m		
Equity securities	-	34	-	34
Debt securities	700	3,188	9	3,897
Other investments (including derivative assets)	-	123	-	123
Derivative liabilities	-	(156)	-	(156)
Total financial investments, net of derivative liabilities	700	3,189	9	3,898
Percentage of total	**18%**	**82%**	**0%**	**100%**

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)

2012	Level 1	Level 2	Level 3	Total
		£m		
Equity securities	-	62	-	62
Debt securities	913	3,510	4	4,427
Other investments (including derivative assets)	-	198	-	198
Derivative liabilities	-	(200)	-	(200)
Total financial investments, net of derivative liabilities	913	3,570	4	4,487
Percentage of total	20%	80%	0%	100%

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table reconciles the value of level 3 financial instruments at 1 January 2013 to that presented at 31 December 2013. 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.

2013	**At 1 Jan 2013**	**Total gains in long-term technical account**	**Purchases**	**Sales**	**Transfers into level 3**	**Transfers out of level 3**	**At 31 Dec 2013**
				£m			
Debt securities	4	1	-	(1)	5	-	9
Total financial investments net of derivative liabilities	4	1	-	(1)	5	-	9

8. Investments (continued)

(a) Financial instruments (continued)

(iii) Level 1, 2 and 3 fair value measurement hierarchy of financial instruments (continued)

Reconciliation of movements in level 3 financial instruments measured at fair value (continued)

2012	At 1 Jan 2012	Total gains in long-term technical account	Purchases	Sales	Transfers into level 3	Transfers out of level 3	At 31 Dec 2012
				£m			
Debt securities	80	1	75	(77)	-	(75)	4
Total financial investments net of derivative liabilities	80	1	75	(77)	-	(75)	4

Of the total net gains of £1m (2012: £1m gain) in the period, a £1m gain (2012: £1m gain) relates to level 3 financial instruments still held at the end of the year, all of which relate to debt securities.

Transfers between level 1 and level 2

There have been no significant transfers between level 1 and level 2 during the year.

(iv) Interest income and expense

There was no interest income on financial assets not at fair value through profit and loss for the year ended 31 December 2013 (2012: £8m).

There was no interest expense on financial liabilities not at fair value through profit and loss for the year ended 31 December 2013 (2012: £Nil).

(b) Market risk

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 four types of risk, namely:

- Interest rate risk: due to changes in market interest rates,
- Liquidity risk: inability to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or 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).

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Investments (continued)

(b) Market risk (continued)

The financial assets covering the Company's liabilities are subject to market risk. The liabilities for annuity contracts are subject to market risk arising from changes in the returns of the attaching assets. Except mainly to the extent of any minor asset/liability duration mismatch, and exposure to credit risk, the sensitivity of the Company's annuity business' results to market risk for movements in the carrying value of liabilities and covering assets is broadly neutral on a net basis.

The principal items affecting the results of the Company are mortality experience and assumptions and credit risk.

(i) 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.

2013	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
		£m		
Financial Assets:				
Deposits with credit institutions	-	79	-	79
Equity securities	-	-	34	34
Debt securities	3,580	317	-	3,897
Loans:				
Loans secured by mortgages	21	-	-	21
Other loans	8	-	-	8
Derivatives assets	123	-	-	123
Cash at bank and in hand	-	71	-	71
	3,732	467	34	4,233

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
		£m		
Financial Liabilities:				
Derivative liabilities	156	-	-	156
	156	-	-	156

8. Investments (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

2012	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
		£m		
Financial Assets:				
Deposits with credit institutions	-	184	-	184
Equity securities	-	-	62	62
Debt securities	4,061	366	-	4,427
Loans:				
Loans secured by mortgages	49	-	-	49
Other loans	9	-	-	9
Derivatives assets	198	-	-	198
Cash at bank and in hand	-	164	-	164
	4,317	714	62	5,093

	Fair value through profit and loss	Amortised cost	Total carrying value	Fair value
		£m		
Financial Liabilities:				
Derivative liabilities	200	-	-	200
	200	-	-	200

(ii) Maturity analysis of derivatives

The net derivative position as at 31 December 2013 was a liability of £33m (2012: liability of £2m)

The net derivative positions as stated above comprise the following derivative assets and liabilities:

	2013 £m	2012 £m
Derivative assets	**123**	198
Derivative liabilities	**(156)**	(200)
Net Derivative position	**(33)**	(2)

The derivative assets and liabilities have been included at fair value and their maturity within 1 year or less which represents the basis on which they are managed (i.e. to manage principally asset or liability value exposures). Contractual maturities are not considered essential for an understanding of the timing of the cash flow for these instruments and in particular the Company has no cash flow hedges.

8. Investments (continued)

(b) Market risk (continued)

(iii) Sensitivity to interest rate movement

The close matching by the Company of assets of appropriate duration to its annuity liabilities is based on maintaining economic and regulatory capital. The measurement of liabilities under capital reporting requirements and UK GAAP is not the same, with contingency reserves and some other margins for prudence within the assumptions required under the PRA regulatory solvency basis not included for UK GAAP reporting purposes. As a result UK GAAP's shareholders' funds are higher than regulatory capital and therefore more sensitive to interest rate risk.

The estimated sensitivity of the non-linked annuities backed business to a movement in the interest rates of 1% and 2% as at 31 December 2013 and 2012 are as follows:

2013

	Fall of 2%	**Fall of 1%**	**Rise of 1%**	**Rise of 2%**
		£m		
Carrying value of debt securities and derivatives	**1,904**	**840**	**(688)**	**(1,266)**
Long term business provision	**(1,625)**	**(719)**	**580**	**1,055**
Related tax effects	**(56)**	**(24)**	**22**	**42**
Net sensitivity of profit after tax and shareholders' funds	**223**	**97**	**(86)**	**(169)**

2012

	Fall of 2%	Fall of 1%	Rise of 1%	Rise of 2%
		£m		
Carrying value of debt securities and derivatives	2,178	954	(777)	(1,429)
Long term business provision	(1,817)	(801)	642	1,163
Related tax effects	(83)	(35)	31	61
Net sensitivity of profit after tax and shareholders' funds	278	118	(104)	(205)

(iv) Currency risk

As at 31 December 2013, the Company held 8% (2012: 2%) and 38% (2012: 3%) of its financial assets and financial liabilities respectively, in currencies, mainly US dollar and Euro, other than the functional currency, Sterling.

The exchange risks inherent in these exposures are mitigated through the use of derivatives, mainly forward currency contracts.

8. Investments (continued)

(b) Market risk (continued)

(v) Other Price Risk – Equities and Property

In addition the annuities backed portfolio of the Company includes equity securities and investment property. Excluding any second order effects on the measurement of the liabilities for future cash flow to the policy holder a fall in their value would have given rise to the following effects on pre-tax profit, profit after tax, and shareholder equity.

2013

	A decrease of 20% £m	**A decrease of 10%**
Pre-tax profit	**(127)**	**(64)**
Related current tax effects	**25**	**13**
Net sensitivity of profit after tax and shareholders' funds	**(102)**	**(51)**

2012

	A decrease of 20% £m	A decrease of 10%
Pre-tax profit	(130)	(65)
Related deferred tax effects	30	15
Net sensitivity of profit after tax and shareholders' funds	(100)	(50)

A 10% or 20% increase in their value would have an approximately equal and opposite effect on profit and shareholders' equity to the sensitivities shown above

In the equity and property risk sensitivity analysis shown the Company has, for 2013, considered the impact of an instantaneous 20 per cent fall in equity and property markets. If equity and property markets were to fall by more than 20 per cent, the Company believes that this would not be an instantaneous fall but rather this would be expected to occur over a period of time during which the Company would be able to put in place mitigating management actions.

(c) Derivatives and Hedging

The Company uses various derivative arrangements in order to assist in the matching of contractual liabilities.

Currency swap agreements involve the exchange of payments in different currencies over the life of the agreement. The Company enters into currency swap transactions to hedge foreign currency risk on overseas investments. Interest rate and inflation swap agreements involve the exchange of fixed and floating payments over the life of the agreements without an exchange of the underlying principal amount. The Company has entered into credit default swap arrangements only in respect of sovereign government debt obligations.

8. Investments (continued)

(c) Derivatives and Hedging (continued)

The swap agreements are accounted for on a market value basis, consistent with the assets and liabilities hedged. All over-the-counter derivative transactions are conducted under standardised ISDA (International Swaps and Derivatives Association Inc) master agreements and the Group has collateral agreements between the individual group entities, of which the Company is one, and relevant counterparties in place under each of these master market agreements.

(d) Credit risk

(i) Debt securities and other fixed income securities

The following table summarises by the rating, the securities held by the Company as at 31 December 2013 and 2012:

	Total 2013 £m	Total 2012 £m
S&P – AAA	**409**	471
S&P – AA+ to AA-	**535**	555
S&P – A+ to A-	**891**	1,091
S&P – BBB+ to BBB-	**379**	370
S&P –Other	**33**	2
	2,247	2,489
Moody's – Aaa	**172**	949
Moody's –Aa1 to Aa3	**592**	135
Moody's –A1 to A3	**190**	43
Moody's – Baa1 to Baa3	**96**	90
	1,050	1,217
Fitch	**38**	35
Internal	**562**	686
Total debt securities	**3,897**	4,427

In the table above, S&P ratings have been used where available. For securities where S&P ratings are not available, those produced by Moody's and then Fitch have been used as an alternative.

Where no external ratings are available, internal ratings produced by the Prudential's asset management operations, which are prepared on a comparable basis to external ratings, are used where possible. Of the total debt securities held at 31 December 2013 which are not externally rated, £368m (2012: £492m) were internally rated AAA to A-, £179m (2012: £170m) were internally rated BBB to B-, £15m (2012: £24m) were internally rated Other, and £Nil (2012: £Nil) were unrated.

In 2011 S&P withdrew its ratings of debt securities issued by a number of sovereigns. Where these are no longer available, Moody's ratings have been used.

The Company has no exposure to the eurozone sovereigns of Portugal, Italy, Ireland, Greece and Spain (PIIGS) and no exposure to banking operations in these eurozone countries.

8. Investments (continued)

(d) Credit risk (continued)

(ii) Loans and receivables

Of the total loans and receivables held £2m (2012: £Nil) are past their due date but have not been impaired. Of the total past due but not impaired, £2m (2012: £Nil) are less than 1 year past their due date. The Company expects full recovery of these loans and receivables. In accordance with accounting policy, impairment reviews were performed for loans and receivables. During the year ended 31 December 2013, no impairment losses (2012: £Nil) were recognised for loans and receivables.

(iii) Securities lending and reverse repurchase agreements

The Company has entered into securities lending (including repurchase agreements) whereby blocks of securities are loaned to third parties, primarily major brokerage firms. The amounts above the fair value of the loaned securities required to be held as collateral by the agreements, depend on the quality of the collateral, calculated on a daily basis. The loaned securities are not removed from the Company's balance sheet, rather they are retained within the appropriate investment classification. Collateral typically consists of cash, debt securities, equity securities and letters of credit. At 31 December 2013, the Company had lent £96m (2012: £196m) of securities and held collateral under such agreements of £101m (2012: £203m).

At 31 December 2013, the Company had entered into reverse repurchase transactions, under which it purchased securities and had taken on the obligation to resell the securities for the purchase price, amounting to £51m (2012: £58m), together with accrued interest. Of this amount, £Nil (2012: £Nil) related to another group company.

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

(iv) Collateral under derivative transactions

At 31 December 2013, the Company had pledged £152m (2012: £179m) for liabilities and held collateral of £80m (2012: £148m) in respect of over-the-counter derivatives transactions.

(v) Reinsurer's share of technical provisions

Of the reinsurer's share of technical provisions at 31 December 2013 of £5,226m (2012: £5,560m), 0.1% (2012: 0.1%) of the balance relates to companies outside of the Prudential Group and of these 100% (2012: 100%) of the balance were from reinsurers with S&P's rating of AA- and above, based on the ratings at the date of signing these financial statements. The reinsurance deposit from PAC mitigates the credit exposure on the reinsurance.

(e) Risk management

The Company's business involves the acceptance and management of risk. The Company has in place a risk management process, which is undertaken in accordance with the Group Risk Framework.

A number of risk factors affect the Company's operating results and financial condition. The financial risk factors affecting the Company include the effects of market risk, credit risk and liquidity risk on the financial instruments of the Company.

Notes to the financial statements for the year ended 31 December 2013 (continued)

8. Investments (continued)

(e) Risk management (continued)

The Company uses derivatives to facilitate efficient portfolio management or to reduce investment risk. The most widely used derivatives by the Company are interest rate, currency and inflation-linked swaps.

The Company also uses over-the-counter swaps (including total return swaps), options, swaptions and warrants.

Derivative financial instruments used to facilitate efficient portfolio management and for investment purposes are carried at fair value with changes in fair value included in the profit and loss account. The Company has not applied hedge accounting to its derivatives.

Market risk

Market risk is the risk of loss for the Company, or of adverse change in the financial situation, resulting, directly or indirectly, from fluctuations in the level of volatility of market prices of assets and liabilities.

The primary market risks that the Company faces is interest rate risk because most of its assets are investments that are bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

Credit risk

Credit risk is the risk of loss for the Company or of adverse change in the financial position, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors in the form of default or other significant credit event (e.g. downgrade or spread widening). The Company's long term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. Certain over-the-counter derivatives contain a credit risk element that is controlled through evaluation of collateral agreements and master netting agreements on interest rate and currency swaps. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. The Company writes solely annuity business, which cannot be surrendered. Therefore liquidity risk is mitigated by cashflow matching the maturity profile of investments with the expected regular annuity payments.

Notes to the financial statements for the year ended 31 December 2013 (continued)

9. Capital requirements and management

Regulatory capital requirements apply at both an individual Company level and at the Prudential Group level, of which the Company is a part, for life assurance and investment management business. The Prudential Group, of which the Company is a part, is currently subject to the solvency requirements of the Insurance Groups Directive (IGD) as implemented by the PRA. Under the IGD a continuous parent company solvency test is applied: under this test the surplus capital held in each of the regulated subsidiaries, including the Company, is aggregated with the free assets of non-regulated subsidiaries.

From this total, Prudential Group borrowings are deducted, other than subordinated debt issues which qualify as capital.

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

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

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

The available capital of £832m (2012: £1,078m) reflects the excess of regulatory basis assets over liabilities of the fund, before deduction of the capital resources requirement of £195m (2012: £208m).

The capital resources requirement for this Company broadly reflects a formula which, for active funds, equates to a percentage of regulatory reserves plus a percentage of death strains.

	2013	2012
	£m	£m
Shareholders' equity		
Held outside long term funds:		
Net assets	**763**	1,016
Total	**763**	1,016
Held in long term funds	**69**	69
Total shareholders' equity	**832**	1,085
Adjustments to regulatory basis	-	(7)
Total available capital resources on regulatory bases	**832**	1,078

10. Reserves and policyholder liabilities (net of reinsurance)

	Claims outstanding	Technical provision for linked liabilities	Long term business provision	Profit and loss account
			£m	
Balance at 1 January 2013	1	-	-	435
Movement in technical provisions for the year	-	-	-	-
Profit and loss account	-	-	-	(3)
Dividends	-	-	-	(250)
Balance at 31 December 2013	1	-	-	182

11. Long term business provisions

The Company's liabilities are for contracts that provide individual immediate and bulk immediate and deferred annuities.

The immediate annuities are either fixed or retail price-index linked (referred to as RPI), where annuity payments are guaranteed from the outset. These products provide guaranteed income for a specified time, usually the life of the policyholder, in exchange for a lump sum capital payment. No surrender value is available under any of these products.

The deferred annuities are also either fixed or RPI linked, both during deferment and in payment.

The primary risks to the Company are therefore mortality, investment and credit risk.

The Company's fixed-increase annuities may incorporate automatic increases in annuity payments by fixed amounts over the policyholder's life. The Company's RPI annuity contracts provide for a regular annuity payment to which an additional amount is added periodically based on the change in the UK Retail Prices Index, which for some contracts are subject to pre-defined minima and maxima.

For bulk annuity business, the Company manages the assets and accepts the liabilities of a company pension scheme, to the extent to which they are funded, usually when it is wound up by the employer.

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.

The majority of the annuities previously reinsured from the WPSF of PAC to Prudential Annuities Limited (PAL) were recaptured by PAC on 31 August 2011, with the remaining part being recaptured by PAC on 30 September 2012. These recaptured annuities were previously valued as part of the PAL business.

Notes to the financial statements for the year ended 31 December 2013 (continued)

11. Long term business provisions (continued)

All remaining annuities in the Company, except for those that have been reinsured with a company that is not part of the Prudential Group, were reinsured to the WPSF of PAC on 31 October 2012.

The key assumptions made at 31 December 2012 and 31 December 2013 are shown below.

Mortality

Mortality assumptions are set in light of recent population and internal experience. The mortality assumptions used are percentages of standard actuarial mortality tables. The percentages of the standard table used are selected according to the source of business. Where annuities have been sold on an enhanced basis to impaired lives an additional age adjustment is made.

The mortality assumptions also include an allowance for expected future improvements in longevity. For males, these future mortality improvements are in line with Prudential's own calibration of the CMI 2012 mortality model, with a long term improvement rate of 2.25% p.a. For females, the future mortality improvements are in line with Prudential's own calibration of the CMI 2012 mortality model, with a long term improvement rate of 1.50% p.a.

Compared with the core CMI mortality model, Prudential's calibration:

(a) blends period improvements between ages 60 to 80 to the long term improvement rate over a 15 year period (compared with a 20 year period in the core CMI model), and

(b) assumes that cohort improvements dissipate over a 30 year period, or by age 90 if earlier (compared with a 40 year period, or by age 100 if earlier, in the core CMI model).

The assumptions used (shown as a range of percentages of base tables with future improvements), before any allowance for impairment, are set out on the following page:

11. Long term business provisions (continued)

Mortality (continued)

	2013		2012	
	Males	Females	Males	Females
In payment: Business administered on GPDA system:	126% PNMA00 with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120.	117% PNFA00 with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120.	126% PNMA00 with medium cohort improvement table with a minimum annual improvement of 2.25% up to age 90, tapering to zero at age 120.	117% PNFA00 with 75% of medium cohort improvement table with a minimum annual improvement of 1.25% up to age 90, tapering to zero at age 120.
All other business:	93% – 99% PCMA00 with future improvements in line with Prudential's own calibration of the 2012 CMI model, with a long term improvement rate of 2.25%.	89% – 101% PCFA00 with future improvements in line with Prudential's own calibration of the 2012 CMI model, with a long term improvement rate of 1.50%.	93% – 99% PCMA00 with future improvements in line with Prudential's own calibration of the 2011 CMI model, with a long term improvement rate of 2.25%.	89% – 101% PCFA00 with future improvements in line with Prudential's own calibration of the 2011 CMI model, with a long term improvement rate of 1.50%.
In deferment:	AM92 - 4 years	AF92 - 4 years	AM92 - 4 years	AF92 - 4 years

Interest rate

The valuation interest rates comply with the requirements of Rule 1.2.33R of the Prudential Sourcebook for Insurers except that:

- additional margins for prudence required in setting the valuation interest rate for the valuation of liabilities for statutory solvency purposes have been removed;

- the Company is required, by an order issued under Section 148 of the Financial Services and Markets Act 2000, to calculate the valuation rate of interest by reference to the aggregate yield on the assets rather than the market weighted gross redemption yield which is normally required by the Valuation Rules.

The valuation interest rates are adjusted to reflect investment management expenses and the risk of default on the assets.

The investment management expenses are reviewed annually and reflect the Company's costs.

11. Long term business provisions (continued)

Interest rate (continued)

The credit risk assumption is also reviewed annually and reflects the assets actually held. The assumption about the future level of defaults has been decreased to 49 basis points per annum (51 basis points per annum at 31 December 2012), which is able to cover a significantly adverse credit situation.

Credit risk provisions

For IFRS reporting, the results are particularly sensitive to the allowances made for credit risk. The allowance is reflected in the deduction from the valuation rate of interest for discounting projected future annuity payments to policyholders that would have otherwise applied. Since mid-2007 there has been a significant increase in the actual and perceived credit risk associated with corporate bonds as reflected in the significant widening that has occurred in corporate bond spreads. Although bond spreads over swap rates have narrowed from their peak in March 2009, they are still high compared with the levels seen in the years immediately preceding the start of the dislocated markets in 2007. The allowance that should therefore be made for credit risk remains a particular area of judgement.

The additional yield received on corporate bonds relative to swaps can be broken down into the following constituent parts:

(a) the expected level of future defaults;
(b) the credit risk premium that is required to compensate for the potential volatility in default levels;
(c) the liquidity premium that is required to compensate for the lower liquidity of corporate bonds relative to swaps; and
(d) the mark-to-market risk premium that is required to compensate for the potential volatility in corporate bond spreads (and hence market values) at the time of sale.

The sum of (c) and (d) is often referred to as 'liquidity premium'.

The allowance for credit risk comprises

(i) an amount for long-term best estimate defaults and
(ii) additional provisions for credit risk premium, downgrade resilience, and short-term defaults.

The weighted components of the bond spread over swap rates for fixed and linked annuity business at 31 December 2013 and 31 December 2012, based on the asset mix at the relevant balance sheet date are shown below.

31 December 2013	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates note (i)	**126**	-	**126**
Credit risk allowance			
Long-term expected defaults note (ii)	**17**	-	**17**
Additional provisions note (iii)	**64**	**(32)**	**32**
Total credit risk allowance	**81**	**(32)**	**49**
Liquidity premium	**45**	**32**	**77**

11. Long term business provisions (continued)

Credit risk provisions (continued)

31 December 2012	Pillar 1 regulatory basis (bps)	Adjustment from regulatory to IFRS basis (bps)	IFRS (bps)
Bond spread over swap rates note (i)	150	-	150
Credit risk allowance			
Long-term expected defaults note (ii)	18	-	18
Additional provisions note (iii)	66	(33)	33
Total credit risk allowance	84	(33)	51
Liquidity premium	66	33	99

Notes

(i) Bond spread over swap rates reflect market observed data.

(ii) Long-term expected defaults are derived by applying Moody's data from 1970 to 2009 and the definition of the credit rating used is the second highest credit rating published by Moody's, Standard and Poor's and Fitch.

(iii) Additional provisions comprise credit risk premium, which is derived from Moody's data from 1970 to 2009, an allowance for a 1 notch downgrade of the portfolio subject to credit risk, and an additional allowance for short-term defaults.

The very prudent Pillar 1 regulatory basis reflects the overriding objective of maintaining sufficient provisions and capital to ensure payments to policyholders can be made. The approach for IFRS aims to establish liabilities that are closer to 'best estimate'.

Movement in the credit risk allowance for the year ended 31 December 2013

The movement during 2013 of the average basis points allowance on Pillar 1 regulatory and IFRS bases are as follows:

	Pillar 1 Regulatory basis (bps) Total	**IFRS (bps) Total**
Total allowance for credit risk at 31 December 2012	**84**	**51**
Credit rating changes	**1**	**1**
De-risking	**0**	**0**
Other asset trading	**(3)**	**(2)**
Other	**(1)**	**(1)**
Total allowance for credit risk at 31 December 2013	**81**	**49**

Overall the movement has led to the credit allowance for Pillar 1 purposes to be 64% (2012: 56%) of the bond spread over swap rates. For IFRS purposes it represents 39% (2012: 34%) of the bond spread over swap rates.

11. Long term business provisions (continued)

Credit risk provisions (continued)

The reserve for credit risk allowance at 31 December 2013 on a Pillar 1 regulatory basis was £0.5bn (2012: £0.6bn) and on an IFRS basis was £0.3bn (2012: £0.3bn).

Expenses

An allowance is made for expenses. This allowance is reviewed annually following an investigation into the Company's costs.

Other assumptions

A number of other, less financially significant, actuarial assumptions are made in calculating the provisions, including the likely marital status of joint-life policyholders on death and the future rates of escalation of certain benefits.

12. Debtors

Other Debtors	**2013 £m**	2012 £m
Amounts due from group undertakings	4	3
Other debtors	3	2
	7	5

13. Provision for deferred tax

	2013 £m	2012 £m
Deferred tax liability at start of year	-	133
Deferred tax (credit) in profit and loss account	-	(133)
Deferred tax liability at end of year	-	-

From April 2013, the standard corporation tax rate for the UK changed from 24% to 23%. Further reductions in the standard corporation tax rate to 21% from April 2014 and to 20% from April 2015 have also been enacted. Deferred tax at the end of 2013 has been provided wholly at the rate of 20% (2012: 23%) on the basis that all of the temporary differences will reverse at the new rate. The effect of this change on the deferred tax liabilities at 31 December 2013 is £Nil.

The UK Government has made substantial changes to the rules relating to the taxation of life insurance companies, effective from 1 January 2013. Until the end of 2012, shareholders' taxable profits are calculated using regulatory surplus as a starting point, with appropriate deferred tax adjustments for UK GAAP. Beginning in 2013, under new life tax rules, taxable profits will be calculated using accounting profit or loss as a starting point.

Notes to the financial statements for the year ended 31 December 2013 (continued)

14. Deposits from ceding undertakings

Deposits from ceding undertakings	2013 £m	2012 £m
Deposits from ceding undertakings	**3,814**	4,116

The remaining annuities net of a small outward reinsurance insured by the Company is 100% reinsured on a quota share basis to the WPSF of PAC; this arrangement allows for the reinsured assets to be deposited back with the Company.

15. Other creditors

All creditors are payable within a period of five years.

Other creditors including taxation and social security	2013 £m	2012 £m
Taxation	**3**	12
Other creditors	**6**	5
	9	17

16. Bank current accounts

Under the terms of the Company's arrangements with the Prudential Group's main UK banker (HSBC), 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.

17. Called up share capital

The total number of issued and fully paid shares at the year end was 650,000,000 (2012: 650,000,000) £1 ordinary shares.

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-reassurance) policies, over the long term insurance assets of the Company. Amounts secured by charges of this nature was £48.8m (2012: £53.2m), representing liabilities to one customer.

19. Related party transactions

The Company has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard Number 8 from disclosing transactions with other subsidiary undertakings of the Prudential Group. There were no other transactions with related parties.

20. 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 financial statements. Copies of these financial statements can be obtained from the Company Secretary, Laurence Pountney Hill, London, EC4R 0HH.