

Registered No. 793051

PRUDENTIAL HOLBORN LIFE LIMITED

Annual Report and Financial Statements for the year ended 31 December 2011

PRUDENTIAL HOLBORN LIFE LIMITED

Incorporated and registered in England and Wales. Registered No: 793051

Registered office: Laurence Pountney Hill, London, EC4R 0HH.

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PRUDENTIAL HOLBORN LIFE LIMITED

Directors

D J Belsham (Chairman)
K Nunn
F A O'Dwyer

Secretary

Prudential Group Secretarial Services Limited

Auditors

KPMG Audit Plc, London

PRUDENTIAL HOLBORN LIFE LIMITED

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DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011

Principal activity

The principal activity of the Company until 31 October 2010 was the writing of long-term insurance business in the United Kingdom.

On 31 October 2010, the Company transferred its long term business to The Prudential Assurance Company Limited pursuant to Part VII of the Financial Services and Markets Act 2000 and no longer writes insurance business. The Company remains authorised to write insurance business, but will in due course cancel that authorisation.

The principal activity of the Company going forward is to act as the parent company of Prudential Vietnam Finance Company Limited.

Business review

Until 31 October 2010 the Company primarily accepted reinsurance from The Prudential Assurance Company Limited in respect of unit linked bonds. Although the Company did not write new direct business, it had in-force policies in respect of business written in the past. All of the Company's products were unit-linked and protection products. The profits from the Company's business accrue solely to shareholders.

The Company has 100% ownership of a subsidiary, Prudential Vietnam Finance Company Limited. The subsidiary's principal activity is consumer finance and its country of incorporation is Vietnam. The company aims to provide financing solutions to the general public which allows them to improve their lifestyle, and acquire key assets such as homes and household goods.

There have been no significant changes to the Company's business during the year.

Market review and strategy

The operations of the Company are managed as part of the UK Insurance Operations (UKIO) of the Prudential plc Group. UKIO's long-term products consist of life insurance, pension products and pension annuities. In 2011, it continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns.

Risks & uncertainties

The Company is a wholly owned subsidiary of Prudential plc and as such forms a part of the overall risk management process of the Group. A significant part of the Group's business involves the managed acceptance of risk. The Group has a Risk Governance Framework requiring all businesses and functions within the Group i.e. including the Company, to establish processes for identifying, evaluating and managing key risks. The system of internal control is an essential and integral part of the risk management process.

As part of the annual preparation of its business plan, all of the Group's businesses and functions are required to carry out a review of risks including an assessment of the impact and likelihood of key risks and effectiveness of the controls in place to manage them. The assessment is reviewed regularly throughout the year and all businesses and functions within the Group are required to confirm annually that they have undertaken risk management. Actual performance is regularly monitored against the business plans. Detailed procedures are laid down in financial and actuarial procedure manuals. The insurance operations of the Group also prepare a financial condition report.

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial risk management, Market risk, Credit risk and Liquidity risk in note 8 and in the financial statements of the parent company, The Prudential Assurance Company Limited, and the ultimate parent company, Prudential plc.

PRUDENTIAL HOLBORN LIFE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

The predominant risk faced by the Company relates to its 100% owned subsidiary, Prudential Vietnam Finance Company Limited. The principal activity of this subsidiary is the provision of credit products and personal finance services in Vietnam. The main risks associated with this operation are the credit risk on the loans that they have advanced to individuals, the management of liquidity and currency risk associated with the subsidiary's operations, denominated in the local currency the Vietnamese Dong. As with all financial services companies, Prudential Vietnam Finance Company Limited is sensitive to changes in government policy, legislation (including tax) or regulatory interpretation applying to companies in the financial services sector.

Performance and measurement

The results of the Company for the year as set out on pages 8 to 9 show a loss on ordinary activities before tax of £751,000 (2010: loss £25,767,000).

The shareholders' funds of the Company total £36,769,000 (2010:£37,553,000).

The Company does not report against Key Performance Indicators in its Business Review. This is because the Company is part of the wider Prudential Group and the Group's business is managed on a divisional basis such as UK Insurance Operations. Key Performance Indicators exist for the management of the divisions, of which this Company's business forms a part. The divisional Key Performance Indicators can be found in the Annual Report of Prudential plc.

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 the Group creates social value through its day-to-day operations. First, the Group provides customers with ways to help manage uncertainty and build a more secure future. Second, by playing a key role in financial markets, the Group provides long-term capital that finances businesses, builds infrastructure and fosters growth in both developed and developing countries.

The Group aims to be sustainable in the broadest sense – financially, socially and environmentally. Sustainability is integral to the way it does business. Prudential has long-term liabilities and investments, and its commitments to its customers and its employees, as well as its support for communities and its responsibility towards the environment, are rooted in its aim of continuing to deliver strong financial performance sustainably.

The Group believes that CR is best managed on the ground by those closest to the customer and local stakeholders. Underpinning this approach are the Group's four global CR themes:

1. Customers: Using the Group's financial strength, knowledge and skills to provide fair and transparent products, which meet customers' needs;
2. People: Recruiting, developing and retaining the best people for the best-performing business;
3. The environment: Increasing the efficiency of the Group's business by reducing the direct impact of the properties it occupies and the properties it manages as part of its investment portfolio;
4. Communities: Supporting its communities through donations, employee volunteering and long-term partnerships with charitable organisations that make a real difference.

These themes demonstrate the Group's CR commitments and principles to its stakeholders and provide clarity to its businesses, including the Company, on where they should focus their CR efforts and resources in the context of their individual markets.

The Prudential plc Board discusses the Group's CR performance at least once a year and also reviews and approves the Group CR Report and strategy on an annual basis. Below Board level, the Responsibility Committee comprises senior representatives from the relevant Group functions and each of its core businesses. This committee is responsible for monitoring the Group's CR activities and reviewing CR policies.

PRUDENTIAL HOLBORN LIFE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Accounts

The state of affairs of the Company at 31 December 2011 is shown in the balance sheet on page 11. The profit and loss account appears on pages 8 to 9.

Share capital

There were no changes in the Company's share capital during 2011. Total share capital issued at the end of 2010 and 2011 was £20,884,792.

Post balance sheet events

Finance Act 2011 enacted the reduction in corporation tax rate to 26% with effect from April 2011 and 25% from April 2012. The UK Government announced at the Budget 2012 on 21 March 2012 that the corporation tax rate would instead reduce to 24% from April 2012 with two further annual 1% cuts to 22% by April 2014. Other than the enacted changes to 26% and 25%, the effects of the announced changes are not reflected in the financial statements for the year ended 31 December 2011 as they were not enacted at the balance sheet date.

Dividends

There was no interim dividend (2010: £21m) on the ordinary shares in 2011. The directors have not declared a final dividend on the ordinary shares for 2011 (2010: Nil).

Payment policy

The Company does not have any trade creditors and therefore codes or standards on payment practice and disclosure of trade creditor days are not applicable.

Directors

The present directors of the Company are shown on page 1. There were no changes during the year.

Disclosure to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself 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.

Financial Instruments

The Company is exposed to financial risk through its financial assets and financial liabilities, and was exposed to risk from its policyholder liabilities. The financial risk factors affecting the Company include market risk, credit risk and liquidity risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in note 8.

The Company held no derivatives in the year under review.

Auditor

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

PRUDENTIAL HOLBORN LIFE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Directors' and Officers' Protection

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

On behalf of the Board of Directors


N Duddy
On Behalf of Prudential Group Secretarial Services Limited
Company Secretary
23 March 2012

PRUDENTIAL HOLBORN LIFE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Director's Report and 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.

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.



D J Belsham
Director

23 March 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRUDENTIAL HOLBORN LIFE LIMITED

We have audited the financial statements of Prudential Holborn Life Limited for the year ended 31 December 2011 set out on pages 8 to 26. 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 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, 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 APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

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 2011 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 matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Robert Lewis (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
23 March 2012

PRUDENTIAL HOLBORN LIFE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011

Technical Account - Long Term Business	Note	2011 £000	2010 £000
Earned premiums, net of reinsurance			
Gross premiums written	2	-	(23,463)
Outwards reinsurance premiums	2	-	(599)
		<hr/>	<hr/>
		-	(24,062)
Investment income	3	-	76,639
Unrealised gains on investments	3	-	71,580
		<hr/>	<hr/>
		-	124,157
Claims incurred, net of reinsurance			
Claims paid - gross amount		-	(12,802)
- reinsurers' share		-	9,960
		<hr/>	<hr/>
		-	(2,842)
Change in the provision for claims – gross amount		-	(3,496)
		<hr/>	<hr/>
		-	(6,338)
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		-	23,626
		<hr/>	<hr/>
		-	23,626
Change in technical provision for linked liabilities, net of reinsurance		-	(106,613)
		<hr/>	<hr/>
		-	(82,987)
Other charges			
Net operating expenses			
- Administrative expenses		-	(1,298)
Investment expenses and charges	3	-	(15,955)
Tax attributable to long term business	4	-	(9,327)
Other technical charges	16	-	(32,913)
		<hr/>	<hr/>
		-	(59,493)
Balance on the technical account - long term business		<hr/> <hr/>	<hr/> <hr/>
		-	(24,661)

All of the amounts above are in respect of the Company's insurance business which was transferred to The Prudential Assurance Company on 31 October 2010.

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2011 (continued)

Non-Technical Account	Notes	2011 £000	2010 £000
Balance on the long term business technical account		-	(24,661)
Tax credit attributable to the long term business technical account	4	-	(225)
Balance on the long term business technical account before tax		<u>-</u>	<u>(24,886)</u>
Investment income	3	104	276
Unrealised loss on investment	3	(855)	(1,157)
Loss on ordinary activities before tax		<u>(751)</u>	<u>(25,767)</u>
Tax (charge)/credit on profit on ordinary activities	4	(33)	171
Loss for the financial year		<u><u>(784)</u></u>	<u><u>(25,596)</u></u>

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

In accordance with the amendment to 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.

All of the amounts above in the non-technical account are in respect of continuing operations. On 31 October 2010 the long term business of the Company was transferred by way of a Part VII transfer under the Financial Services and Markets Act 2000 to The Prudential Assurance Company Limited. The financial statements have been prepared on a going concern basis.

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

**RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2011**

	2011 £000	2010 £000
Loss for the financial year	(784)	(25,596)
Shareholders' funds at beginning of year	37,553	84,149
Dividends	-	(21,000)
Shareholders' funds at end of year	<u><u>36,769</u></u>	<u><u>37,553</u></u>

The notes on pages 12 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2011

ASSETS	Notes	2011 £000	2010 £000
Investments			
Investments in group undertakings and participating interests	7	15,573	16,446
Other financial investments	7	19,401	19,723
Debtors			
Other debtors	10	4,384	4,318
Other assets			
Cash at bank and in hand	12	1,547	1,175
Prepayments and accrued income			
Accrued interest		65	41
Total assets		<u><u>40,970</u></u>	<u><u>41,703</u></u>
LIABILITIES			
Capital and reserves			
Called up share capital	13	20,885	20,885
Profit and loss account		15,884	16,668
Total shareholders' funds attributable to equity interests		<u><u>36,769</u></u>	<u><u>37,553</u></u>
Creditors			
Other creditors including taxation and social security	11	4,201	4,150
		<u>4,201</u>	<u>4,150</u>
Total liabilities		<u><u>40,970</u></u>	<u><u>41,703</u></u>

The accounts on pages 8 to 26 were approved by the Board of directors on 23 March 2012.



D J Belsham
Director

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

(a) 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 ABI Statement of Recommended Practice on accounting for Insurance Business (SORP) December 2005 (as amended in December 2006) and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

As the Company is a wholly owned subsidiary undertaking of another company registered in England and Wales, group financial statements are not prepared. Accordingly, the financial statements present information about the Company as an individual undertaking and are not consolidated.

The Company has taken advantage of the exemption under FRS1 (Revised) Cash Flow Statements from preparing a cash flow statement. The Company has not presented a capital position statement with supporting disclosures under FRS 27 Life Assurance 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 Plc group financial statements which provide information on a group basis complying with this requirement.

On 31 October 2010, the long term business of the Company was transferred by way of a Part VII transfer under the Financial Services and Markets Act 2000 to The Prudential Assurance Company Limited. The financial statements have been prepared on a going concern basis.

Going Concern

The directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements. This conclusion has been based upon the following: the Company is a subsidiary within the Prudential Group and it, its parent company and the ultimate parent company are continuing to trade and there are no plans for liquidation, the Company has a healthy solvency margin, well in excess of the Minimum Capital Requirement (MCR) (Note 9 on page 25), generates positive cashflows 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 2, the management of financial risk as set out in Note 8, including its exposure to liquidity risk and credit risk.

(b) 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. A further distinction is made between investment contracts with and without discretionary participation features. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company has no investment contracts with discretionary participation features. The Company's insurance contracts were protection type policies. The investment contract without discretionary participation features classification applies primarily to certain unit-linked and similar contracts which were written by the Company. Insurance contracts and investment contracts with discretionary participation features were accounted for under previously applied UK GAAP, as set out in the ABI SORP.

Investment contracts without discretionary participation features were accounted for as financial liabilities under FRS 26 and, where relevant the provisions of the ABI SORP in respect of the attaching investment management features of the contracts. FRS 26 applies a different accounting treatment to these contracts than the previously applied UK GAAP primarily in respect of deferred acquisition costs, deferred income reserves and provisions for future expenses commonly called "sterling reserves" (see below).

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

(b) Long-term Business (continued)

A further feature is that investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts were recorded within the balance sheet as a movement on the investors' liability and the long-term business technical account reflected the fee income, expenses and taxation on the contract. The provisions for investment contracts without discretionary participation features were included in Technical Provisions for Linked Liabilities in the balance sheet.

Technical account treatment

For unit linked business premiums were accounted for when the liabilities arising from the premiums were created. Premiums excluded any taxes or duties based on premiums. Pensions annuity contracts that vested during the year were included in claims incurred and premium income at the annuity purchase price.

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

Under FRS26, the accounting treatment for investment contracts without discretionary participation features reflected the deposit nature of the arrangement with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet as a movement on the investors liability with the long-term technical account reflecting fee income, expense and taxation on these contracts.

Sterling reserves are not permitted to be recognised under FRS26 for investment contracts.

(c) Reinsurance

In the normal course of business the Company sought 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 was recognised in the balance sheet representing premiums due to or payments due from reinsurers and the share of benefits and claims recoverable from reinsurers. The measurement of reinsurance assets was consistent with the measurement of the underlying direct insurance contracts.

(d) Investments

Investment income and realised and unrealised gains in respect of long-term business were included in the long-term business technical account. Other investment income, realised gains and unrealised gains are included in the non-technical account.

Realised gains were determined as the difference between net proceeds on disposal and the purchase price. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

Under FRS26, 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:

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

(d) Investments (continued)

- (i) Financial investments at fair value through profit and loss – this comprises of assets designated by management as fair value through profit and loss on inception and derivatives which 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. An analysis of net gains/losses are disclosed separately in Note 3 on page 16.

The Company uses bid prices to value its quoted financial investments. Actively traded investments without quoted prices are valued using external broker bid prices. If there is no active established market for an investment, the Company applies an appropriate valuation technique such as discounted cash flow technique.

- (ii) Loans and receivables – this comprises investments that have fixed or determinable payments and are not designated as fair value through profit and loss or available-for-sale. These investments include loans secured by mortgages, deposits and loans to policyholders 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.

Properties were valued annually by professional external valuers at market value as defined in the Appraisal and Valuation Manual issued by the Royal Institute of Chartered Surveyors in particular Practice statement 3.2. In accordance with SSAP 19, no depreciation is provided on investment properties as the directors consider that to depreciate them would not give a true and fair view.

(e) Long term business provision

The long term business provision was 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 was calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation was then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook issued by the Financial Services Authority.

(f) Technical provision for linked liabilities

The technical provision for linked liabilities was based on the market value of the related assets.

(g) Allocation of surpluses

Surpluses arising from linked long term business, as a result of the annual investigation of the long term business, were carried forward to the profit and loss account.

(h) Tax

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

(i) Cash flow Statement

The Company has taken advantage of the exemption under FRS 1 (Revised) from preparing a cash flow statement.

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

1. Accounting policies (continued)

(j) Foreign currencies

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

(k) Investment in group undertakings

Investment in group undertakings are valued at the lower of cost and net realisable value.

(l) Dividend Policy

Dividends are recognised in the period in which they are declared. Dividends declared after the balance sheet in respect prior reporting period are treated as a non-adjusting event.

(m) Change in accounting policies

In 2011, the Company adopted the Improvements to Financial Reporting Standards 2010. Their adoption had no material impact on the financial statements of the Company.

2. Segmental analysis

Gross Premiums

	2011 £000	2010 £000
Regular premiums - direct	-	528
Single premiums		
- intragroup reinsurance accepted	-	(23,991)
- outwards reinsurance	-	(599)
Net premiums	<u>-</u>	<u>(24,062)</u>

Regular premiums and outwards reinsurance were in respect of individual life business where the investment risk was borne by policyholders and transacted within the UK. Regular premiums and outwards reinsurance were in respect of investment linked contracts. The annualised gross value of new premiums (other than single) is £Nil (2010: £Nil).

The negative premium on Intragroup reinsurance accepted represents the recapture of permanent health insurance treaty premiums which were reassured from the Company's parent company, The Prudential Assurance Company Limited.

New business premiums included those contracts excluded from premium income in the technical account under FRS26 and the ABI SORP (as amended in December 2006). These were investment contracts without discretionary participation features and carry no significant insurance risk. New business premiums were all in respect of intragroup reinsurance accepted, life and protection amounted to £0 (2010:£136,849,000).

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

3. Investment return

	Long term business technical account		Non technical account	
	2011 £000	2010 £000	2011 £000	2010 £000
Investment Income				
Land and buildings	-	3,228	-	-
Loans and receivables	-	1,091	9	167
Shares and collective investment schemes	-	52,606	-	-
Other investments	-	337	650	109
Gains/(losses) on the realisation of investments	-	19,377	(555)	-
	<u>-</u>	<u>76,639</u>	<u>104</u>	<u>276</u>
Investment expenses and charges				
Investment managers' expenses	-	(15,930)	-	-
Interest payable on death claims	-	(25)	-	-
Unrealised gains/(losses) on investments				
Land and buildings	-	(262)	-	-
Other Investments	-	71,842	(855)	(1,157)
Total investment return	<u>-</u>	<u>132,264</u>	<u>(751)</u>	<u>(881)</u>

4. Taxation

	Long term business technical account		Non technical account	
	2011 £000	2010 £000	2011 £000	2010 £000
(a) Analysis of charge in the period				
Current tax				
UK Corporation tax on profits of the period	-	9,421	33	54
Adjustments in respect of prior years	-	(94)	-	-
Total current tax	<u>-</u>	<u>9,327</u>	<u>33</u>	<u>54</u>
Shareholder tax attributable to the balance on the long term technical account				
Current tax			-	1,085
Deferred tax			-	(1,310)
			<u>-</u>	<u>(225)</u>
Tax charge/(credit) on profit on ordinary activities	<u>-</u>	<u>9,327</u>	<u>33</u>	<u>(171)</u>

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Factors affecting tax charge for period

The tax assessed in the period is equal to the standard rate of Corporate Tax in the year. The standard rate of tax has been determined by using the UK rate of corporation tax enacted for the period for which the profits of the Company will be taxed.

	2011 £000	2010 £000
Loss on ordinary activities before tax	<u>(751)</u>	<u>(25,767)</u>
Loss on ordinary activities multiplied by effective rate of corporation tax in the UK of 26.5% (2010 : 28.0%)	(199)	(7,215)
<u>Effects of</u>		
Permanent differences	232	9,052
Adjustments in respect of prior years	-	(698)
Current tax charge for the period	<u>33</u>	<u>1,139</u>

The UK Government has announced that there will be substantial changes to the rules relating to the taxation of life insurance companies, which will be effective 1 January 2013. The effects of these changes are not reflected in the financial statements for the year ended 31 December 2011 as they have not yet been enacted. The new rules will be included in Finance Bill 2012. Based on the draft legislation published in December 2011, the new regime is not expected to have a material impact on the company's net assets.

5. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts and the Company's reporting pack for the parent's consolidated accounts amounted to £21,000 (2010 total audit fee: £28,000). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £3,000 (2010: £3,000). The remuneration of the auditor in respect of the audit of the subsidiary accounts amounted to £12,864 (2010: £11,743). The audit fee is borne by another company in the Group.

6. Directors' emoluments and staff costs

The directors of the Company received emoluments of £3,718 during the year in connection with services to the Company (2010: £13,970).

Retirement benefits are accruing to two of the directors under the Group's defined benefit scheme and one director under the Group's defined contribution scheme.

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

7. Investments

Investments in group undertakings and participating interests

	Current Value		Cost	
	2011 £000	2010 £000	2011 £000	2010 £000
Investments in group undertakings and participating interests	<u>15,573</u>	<u>16,446</u>	<u>21,595</u>	<u>21,595</u>

The Company's only subsidiary undertaking at 31 December 2011 was Prudential Vietnam Finance Company Limited and this subsidiary was 100% owned by the Company. The subsidiary's principal activity is consumer finance and its country of incorporation is Vietnam. In 2011 the Company made no additional capital contribution to this subsidiary. (2010: Nil)

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

7. Investments (continued)

Other financial investments

	Current Value		Cost	
	2011 £000	2010 £000	2011 £000	2010 £000
Debt securities and other fixed income securities	<u>19,401</u>	<u>19,723</u>	<u>19,465</u>	<u>19,806</u>

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

8. Financial assets and liabilities

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, amortised cost or investment contracts with discretionary participation features accounted for under FRS 26 and the ABI SORP as described in the Accounting Policies section.

2011	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Debt securities	19,401	-	19,401	19,401
Other debtors	-	4,384	4,384	4,384
Cash at bank and in hand	-	1,547	1,547	1,547
	<u>19,401</u>	<u>5,931</u>	<u>25,332</u>	<u>25,332</u>

2010	Fair value through profit and loss £000	Loans and receivables £000	Total carrying value £000	Fair value £000
Financial Assets				
Debt securities	19,723	-	19,723	19,723
Other debtors	-	4,318	4,318	4,318
Cash at bank and in hand	-	1,175	1,175	1,175
	<u>19,723</u>	<u>5,493</u>	<u>25,216</u>	<u>25,216</u>

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

a. Financial instruments (continued)

(i) Designation and fair values (continued)

2011	Amortised cost	Total carrying value	Fair value
	£000	£000	£000
Financial Liabilities			
Other creditors	<u>4,201</u>	<u>4,201</u>	<u>4,201</u>
	<u>4,201</u>	<u>4,201</u>	<u>4,201</u>
2010	Amortised cost	Total carrying value	Fair value
	£000	£000	£000
Financial Liabilities			
Other creditors	<u>4,150</u>	<u>4,150</u>	<u>4,150</u>
	<u>4,150</u>	<u>4,150</u>	<u>4,150</u>

All of these liabilities are payable within one year.

(ii) Determination of fair value

The fair values of the financial assets and liabilities as shown in the table above 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 the valuation techniques used priority is given to publicly available prices from independent sources, when available but overall, the source of pricing is chosen with the objective of arriving at a fair value measurement which reflects the price at which an orderly transaction would take place between market participants on the measurement date.

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

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

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

The fair value of borrowings is based on quoted market prices, where available.

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

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

In May 2009 FRS 29 'Financial Instruments: Disclosures' was amended by the ASB to require certain additional disclosures to be included in the financial statements. This includes, as is presented below, a table of financial instruments carried at fair value analysed by level of the FRS29 defined fair value hierarchy. This hierarchy is based on the inputs to the fair value measurement and reflects the lowest level input that is significant to that measurement.

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

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

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

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

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

In addition level 2 includes debt securities that are valued internally using standard market practices. 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.

At 31 December 2011 the Company held no level 2 financial instruments (2010: nil).

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (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.

At 31 December 2011 the Company held no level 3 financial instruments (2010: nil).

	31 December 2011	
	Level 1 £000	Total £000
Debt Securities	19,401	19,401
Total financial investments net of derivative liabilities	<u>19,401</u>	<u>19,401</u>
Percentage of total	100.00%	100.00%

	31 December 2010	
	Level 1 £000	Total £000
Debt Securities	19,723	19,723
Total financial investments net of derivative liabilities	<u>19,723</u>	<u>19,723</u>
Percentage of total	100.00%	100.00%

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

No level 3 financial instruments were held by the Company during the year. (2010: Nil)

Transfers between level 1 and level 2

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

The interest expense on financial liabilities not at fair value through profit and loss was nil for the year ended 31 December 2011 (2010: nil).

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

b. Market Risk

The financial assets and liabilities that attached to the Company's life assurance business were, to varying degrees, subject to market risk that may have had a material effect on the profit or loss and shareholders' funds.

Market risk is the risk that the fair value or future cash flows of a financial instrument or, in the case of liabilities of insurance contracts, their carrying value will fluctuate because of changes in market prices.

Market risk comprises 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).

The Company's business is principally acting as a holding company. The financial assets are subject to market risk.

The liabilities of the Company are broadly insensitive to market risk.

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

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. Interest rate risk is minimal for the shareholder assets as the deposits are all less than one month.

2011	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Debt securities	19,401	-	-	19,401
Cash at bank and in hand	-	1,547	-	1,547
	<u>19,401</u>	<u>1,547</u>	<u>-</u>	<u>20,948</u>
2010	Fair value interest rate risk	Cash flow interest rate risk	Not directly exposed to interest rate risk	Total
	£000	£000	£000	£000
Financial Assets				
Debt securities	19,723	-	-	19,723
Cash at bank and in hand	-	1,175	-	1,175
	<u>19,723</u>	<u>1,175</u>	<u>-</u>	<u>20,898</u>

The following table details the effective interest rates for applicable classes of financial assets and liabilities not held at fair value through profit and loss, notably financial assets designated as loans and receivables and liabilities held at amortised cost.

2011	Balance of financial instruments not at fair value through profit and loss	Range of effective interest rates applicable as at 31 Dec 2011	
	£000	Lower end %	Higher end %
Financial Assets			
Cash at bank and in hand	1,547	0.30	0.30
2010	Balance of financial instruments not at fair value through profit and loss	Range of effective interest rates applicable as at 31 Dec 2010	
	£000	Lower end %	Higher end %
Financial Assets			
Cash at bank and in hand	1,175	0.50	0.50

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

Liquidity Analysis

Contractual maturities of financial assets and liabilities

In relation to interest rate exposure, the following table sets out the earlier of contractual maturities and repricing dates for applicable classes of financial instruments. The following table sets out the contractual maturities and re-pricing dates for applicable classes of financial assets and liabilities.

2011	1 year or less	Total carrying value
	£000	£000
Financial Assets		
Debt securities	19,401	19,401
	<u>19,401</u>	<u>19,401</u>
2010	1 year or less	Total carrying value
	£000	£000
Financial Assets		
Debt securities	19,723	19,723
	<u>19,723</u>	<u>19,723</u>

Sensitivity to interest rate movement

The estimated sensitivity of the Company to a movement in interest rates of 1% and 2% as at 31 December 2011 are as follows.

2011	Fall of 1% £000	Rise of 1% £000	Fall of 2% £000	Rise of 2% £000
Value of Gilts	75	(75)	150	(150)
Related tax effects	<u>(20)</u>	<u>20</u>	<u>(40)</u>	<u>40</u>
Net sensitivity of profit after tax and shareholders' funds	<u>55</u>	<u>(55)</u>	<u>110</u>	<u>(110)</u>

Currency Risk

As at 31 December 2011, all of the financial assets and liabilities of the Company are held in sterling.

c. Derivatives and Hedging

As at 31 December 2011, the Company held no derivatives or forward contracts (2010: Nil).

d. Credit risk

The financial assets held as at 31 December 2011 are all UK gilts or sterling denominated deposits with UK banks. The following table summarises by rating the securities held by the Company as at 31 December 2011 and 2010.

	2011 £000	2010 £000
AAA	19,401	19,723
Total assets bearing credit risk	<u>19,401</u>	<u>19,723</u>

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Financial assets and liabilities (continued)

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 adopted by the Prudential Group in 1999.

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.

The Company's investment guidelines allow the use of derivatives to facilitate efficient portfolio management or to reduce investment risk. The Company has not used derivative contracts during the year.

It is the Company's policy that cash or corresponding assets cover amounts at risk through derivative transactions. 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 does not apply hedge accounting to its derivatives.

9. Capital Requirements and Management

The available capital of £22.8m (2010: £23.5m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the regulatory capital resources requirement of £3.1m (2010: £3.0m). This excess of available capital over capital resources requirement is monitored during the year. In addition, a realistic assessment of available capital and capital requirements sufficient to cover a 1 in 200 year event is undertaken. Additional capital is sought from the parent company as necessary.

	2011 £000	2010 £000
Shareholders' equity		
Held outside long-term funds	36,769	37,553
Total shareholders' equity	36,769	37,553
Adjustments to regulatory basis		
Other adjustments to restate these amounts to a regulatory basis	(13,931)	(14,048)
Total available capital resources on FSA regulatory basis	<u>22,838</u>	<u>23,505</u>

10. Other debtors

All debtors are due within a period of five years

	2011 £000	2010 £000
Intragroup debtors	4,384	4,318
	<u>4,384</u>	<u>4,318</u>

Included within Intragroup debtors at 31 December 2011 was an amount of £4.3m (2010: £4.3m), which represents one commercial loan (including interest) repayable by The Prudential Assurance Company Limited. The loan and interest on the loan are repayable at any time at the request of either party.

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. Other creditors including taxation and social security

All creditors are payable within a period of five years.

	2011 £000	2010 £000
Amounts due to group undertakings	4,182	4,098
Corporation tax payable	19	8
Sundry creditors	-	44
	<u>4,201</u>	<u>4,150</u>

Included within amounts owed to group undertakings at 31 December 2011 was an amount of £4.2m (2010: £4.1m), which represents one commercial loan (including interest at 12 months LIBOR cumulative) repayable to Prudential plc. The loan and interest on the loan are repayable at any time at the request of either party.

12. Bank accounts

Under the terms of the Company's arrangements with the Prudential Group's main UK banker, the bank has a right of set-off between credit balances (other than those of long-term business funds) and all overdrawn balances of those Group undertakings with similar arrangements.

13. Share capital

The issued and fully paid up share capital of the Company amounts to 20,884,792 ordinary shares of £1 each (2010 20,884,792). There was no new issue of shares this year.

14. Related party transactions

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

15. Immediate and ultimate parent company

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

16. Other Technical Charges

On 31 October 2010 the long term insurance business of Prudential Holborn Life Limited was transferred to The Prudential Assurance Company Limited in accordance with Part VII of the Financial Services and Markets Act 2000. The balance of £32,913k in other technical charges represents the value of the net assets transferring to The Prudential Assurance Company Limited.