

Registered No. 793051

**PRUDENTIAL HOLBORN LIFE LIMITED**

**Annual Report and Financial Statements for the year ended 31 December 2012**

## **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**

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

Registered office: Laurence Pountney Hill, London EC4R 0HH

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

#### 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 holding company of Prudential Vietnam Finance Company Limited.

#### Business review

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 Prudential Vietnam Finance 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 2012, it continued its strategy of selectively competing in areas of the retirement savings and income markets where it can generate attractive returns.

The Company's Vietnam consumer finance subsidiary has continued to grow in 2012 as compared to 2011, recording a profit before tax of £3.0m in 2012 and £1.7m in 2011. This increase is mainly attributed to the 23% growth in revenue stream from higher average loan portfolio balances and healthy margins, coupled with well controlled credit losses. In 2012 the subsidiary has continued its strategy of providing financial solutions to the general public while maintaining its strong risk management culture.

#### Risks & uncertainties

The Company is a wholly owned subsidiary of the Prudential Group and is subject to the Group's internal control and risk management processes as detailed in the Group Governance Manual and Group Risk Framework. The control procedures and systems established within the Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. They can only provide reasonable and not absolute assurance against material misstatement or loss, and focus on aligning the levels of risk-taking with the achievement of business objectives.

The Group's risk governance framework requires all businesses and functions within the Group, including the Company, to establish processes for identifying, evaluating and managing key risks. The risk management framework is approved by the Board and operates based on the concept of three lines of defence: risk management, risk oversight and independent assurance. A number of risk factors (both financial and non-financial) affect the Company's results and financial condition. The key risk factors of the Company, mentioned below, should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Market risk, Credit risk and Liquidity risk in note 7.

## PRUDENTIAL HOLBORN LIFE LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)

#### Financial Risks

The predominant financial risks faced by the Company relate to its 100% owned subsidiary, Prudential Vietnam Finance Company Limited and holdings in UK gilts. These affect the company as follows:

- The principal activity of the Company's 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 and the management of liquidity and currency risks associated with the subsidiary's operations (denominated in the local currency the Vietnamese Dong).
- The Company's holdings in UK gilts are exposed to adverse movements in interest rates and hence raise market risk.

#### Non Financial Risks

Although operationally dormant, as a UK regulated insurer, the Company has a limited exposure to regulatory risk and will need to respond appropriately to new requirements resulting from the split in UK regulation between the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in 2013.

The Company is also exposed to group risk, through its investment in Prudential Vietnam Finance Company Limited and reliance on other Group members to protect the value of the investment.

#### Performance and measurement

The following table sets out the key performance indicators for the Company. These are considered to be the key metrics for the Company because these show the main sources of income for the Company.

Key Performance Indicators	2012 £000	2011 £000	Change %
Profit/(loss) on ordinary activities before tax	2,486	(751)	431%
Shareholder funds	39,343	36,769	7%

The results for 2012 and 2011 were dominated by the results of the Vietnam subsidiary together with the impact of exchange rate movement on the value of the subsidiary.

#### 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.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**

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; and
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.

#### Accounts

The state of affairs of the Company at 31 December 2012 is shown in the balance sheet on page 9. The profit and loss account appears on page 8.

#### Share capital

There were no changes in the Company's share capital during 2012. Total share capital issued at the end of 2011 and 2012 was £20,884,792.

#### Dividends

There was no interim dividend (2011: Nil) on the ordinary shares in 2012. The Directors have not declared a final dividend on the ordinary shares for 2012 (2011: 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.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012 (continued)**

#### 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.

#### 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.

#### 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



S D Windridge  
On Behalf of Prudential Group Secretarial Services Limited  
Company Secretary  
25 March 2013

## **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 Directors' 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 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.



D J Belsham  
Director

25 March 2013



## **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 2012 set out on pages 8 to 22. 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 Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://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 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other 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.



Marie Williams (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 2013

## PRUDENTIAL HOLBORN LIFE LIMITED

### PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

<b>Non-Technical Account</b>	<b>Notes</b>	<b>2012 £000</b>	<b>2011 £000</b>
Investment income	2	23	104
Unrealised profit/(loss) on investment	2	2,463	(855)
Profit/(loss) on ordinary activities before tax		<u>2,486</u>	<u>(751)</u>
Tax credit/(charge) on profit/(loss) on ordinary activities	3	88	(33)
<b>Profit/(loss) for the financial year</b>		<u><u>2,574</u></u>	<u><u>(784)</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.

### RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2012

	<b>2012 £000</b>	<b>2011 £000</b>
<b>Profit/(loss) for the financial year</b>	<b>2,574</b>	<b>(784)</b>
Shareholders' funds at beginning of year	36,769	37,553
<b>Shareholders' funds at end of year</b>	<u><u>39,343</u></u>	<u><u>36,769</u></u>

The financial statements have been prepared on a going concern basis.

The notes on pages 10 to 22 form an integral part of these financial statements.

**PRUDENTIAL HOLBORN LIFE LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2012**

<b>ASSETS</b>	<b>Notes</b>	<b>2012 £000</b>	<b>2011 £000</b>
<b>Investments</b>			
Investments in group undertakings and participating interests	6	18,416	15,573
Other financial investments	6	18,337	19,401
<b>Debtors</b>			
Other debtors	9	4,559	4,384
<b>Other assets</b>			
Cash at bank and in hand	11	2,007	1,547
<b>Prepayments and accrued income</b>			
Accrued interest		260	65
<b>Total assets</b>		<u><u>43,579</u></u>	<u><u>40,970</u></u>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Called up share capital	12	20,885	20,885
Profit and loss account		18,458	15,884
Total shareholders' funds attributable to equity interests		<u><u>39,343</u></u>	<u><u>36,769</u></u>
<b>Creditors</b>			
Other creditors including taxation and social security	10	4,236	4,201
		<u>4,236</u>	<u>4,201</u>
<b>Total liabilities</b>		<u><u>43,579</u></u>	<u><u>40,970</u></u>

The accounts on pages 8 to 22 were approved by the Board of Directors on 25 March 2013.



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 FRS 1 (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.

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 8 on page 21), 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 7, including its exposure to liquidity risk and credit risk.

##### **(b) Investments**

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.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **1. Accounting policies (continued)**

##### **(b) Investments (continued)**

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:

- (i) Financial investments at fair value through profit and loss – this comprises assets designated by management as fair value through profit and loss on inception and derivatives which are deemed to be held for trading. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account. An analysis of net gains/losses are disclosed separately in Note 2 on page 12.

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.

##### **(c) 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.

##### **(d) Cash flow Statement**

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

##### **(e) 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.

##### **(f) Investment in group undertakings**

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

##### **(g) Dividend Policy**

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

##### **(h) Change in accounting policies**

In 2012, the Company adopted Amendments to FRS 29 (IFRS 7) - Financial Instruments: Disclosures - Disclosures - Transfers of Financial Assets, which had no material impact on the financial statements of the Company.

**PRUDENTIAL HOLBORN LIFE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**2. Investment return**

	<b>Non technical account</b>	
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
Investment Income		
Debt securities	488	659
Losses on the realisation of investments	(465)	(555)
	<u>23</u>	<u>104</u>
Unrealised gains/(losses) on investments		
Other Investments	2,463	(855)
Total investment return	<u><u>2,486</u></u>	<u><u>(751)</u></u>

**3. Taxation**

	<b>Non technical account</b>	
	<b>2012</b>	<b>2011</b>
	<b>£000</b>	<b>£000</b>
<b>(a) Analysis of charge in the period</b>		
<b>Current tax</b>		
UK Corporation tax on profits of the period	(88)	33
Total current tax	<u>(88)</u>	<u>33</u>
Tax (credit)/charge on profit on ordinary activities	<u><u>(88)</u></u>	<u><u>33</u></u>

## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 3. Taxation (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.

	2012 £000	2011 £000
Profit/(Loss) on ordinary activities before tax	<u>2,486</u>	<u>(751)</u>
Profit/(Loss) on ordinary activities multiplied by effective rate of corporation tax in the UK of 24.5% (2011 : 26.5%)	609	(199)
<u>Effects of</u>		
Permanent differences	<u>(697)</u>	<u>232</u>
Current tax (credit)/charge for the period	<u>(88)</u>	<u>33</u>

From April 2012, the standard corporation tax rate for the UK changed from 26% to 24%. A further reduction in the standard corporation tax rate to 23% from April 2013 has also been enacted. The Chancellor has proposed a further reduction to the UK corporation tax rate to 20% by 2015 however this is not reflected in the financial statements for the year ended 31 December 2012 as it has not yet been substantively enacted.

The new rules relating to the taxation of UK life insurance companies were enacted in the Finance Bill 2012 and are effective from 1 January 2013. The new rules have no impact on the Company as all UK life insurance business was transferred to The Prudential Assurance Company Limited in October 2010.

#### 4. 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 £19,000 (2011 total audit fee: £21,000). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £3,000 (2011: £3,000). The remuneration of the auditor in respect of the audit of the subsidiary accounts amounted to £10,674 (2011: £12,864). The audit fee is borne by another company in the Group.

#### 5. Directors' emoluments and staff costs

The Directors of the Company received emoluments of £3,087 during the year in connection with services to the Company (2011: £3,718).

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.

#### 6. Investments

##### Investments in group undertakings and participating interests

	Current Value		Cost	
	2012 £000	2011 £000	2012 £000	2011 £000
Investments in group undertakings and participating interests	<u>18,416</u>	<u>15,573</u>	<u>21,595</u>	<u>21,595</u>

The Company's only subsidiary undertaking at 31 December 2012 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 2012 the Company made no additional capital contribution to this subsidiary (2011: Nil).

**PRUDENTIAL HOLBORN LIFE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**6. Investments (continued)**

**Other financial investments**

	Current Value		Cost	*
	2012	2011		
	£000	£000	£000	£000
Debt securities and other fixed income securities	<u>18,337</u>	<u>19,401</u>	<u>18,781</u>	<u>19,465</u>

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

**7. 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.

2012	Fair value through profit and loss	Loans and receivables	Total carrying value	Fair value
	£000	£000	£000	£000
<b>Financial Assets</b>				
Debt securities	18,337	-	18,337	18,337
Other debtors	-	4,452	4,452	4,452
Cash at bank and in hand	-	2,007	2,007	2,007
	<u>18,337</u>	<u>6,459</u>	<u>24,796</u>	<u>24,796</u>
<b>2011</b>	<b>Fair value through profit and loss</b>	<b>Loans and receivables</b>	<b>Total carrying value</b>	<b>Fair value</b>
	£000	£000	£000	£000
<b>Financial Assets</b>				
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>



**PRUDENTIAL HOLBORN LIFE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. Financial assets and liabilities (continued)**

**a. Financial instruments (continued)**

**(i) Designation and fair values (continued)**

<b>2012</b>	<b>Amortised cost</b>	<b>Total carrying value</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial Liabilities</b>			
Other creditors	4,236	4,236	4,236
	<u>4,236</u>	<u>4,236</u>	<u>4,236</u>
<b>2011</b>	<b>Amortised cost</b>	<b>Total carrying value</b>	<b>Fair value</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial Liabilities</b>			
Other creditors	4,201	4,201	4,201
	<u>4,201</u>	<u>4,201</u>	<u>4,201</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)**

#### **7. Financial assets and liabilities (continued)**

##### **a. Financial instruments (continued)**

##### **(ii) Determination of fair value (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 FRS 29 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 2012 the Company held no level 2 financial instruments (2011: nil).

## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 7. Financial assets and liabilities (continued)

##### a. Financial instruments (continued)

##### (ii) Determination of fair value (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 2012 the Company held no level 3 financial instruments (2011: nil).

	31 December 2012	
	Level 1 £000	Total £000
Debt Securities	18,337	18,337
Total financial investments net of derivative liabilities	<u>18,337</u>	<u>18,337</u>
Percentage of total	100.00%	100.00%

	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%

#### 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 (2011: 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 2012 (2011: nil).

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **7. Financial assets and liabilities (continued)**

##### **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).

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.

##### **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.

**PRUDENTIAL HOLBORN LIFE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

7. **Financial assets and liabilities (continued)**

b. **Market risk (continued)**

**Interest rate risk (continued)**

2012	Fair value interest rate risk £000	Cash flow interest rate risk £000	Not exposed to rate risk £000	directly to interest risk	Total £000
<b>Financial Assets</b>					
Debt securities	18,337	-	-		18,337
Cash at bank and in hand	-	2,007	-		2,007
	<u>18,337</u>	<u>2,007</u>	<u>-</u>		<u>20,344</u>
2011	Fair value interest rate risk £000	Cash flow interest rate risk £000	Not exposed to rate risk £000	directly to interest risk	Total £000
<b>Financial Assets</b>					
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>

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.

2012	Balance of financial instruments not at fair value through profit and loss £000	Range of effective interest rates applicable as at 31 Dec 2012	
		Lower end %	Higher end %
<b>Financial Assets</b>			
Cash at bank and in hand	2,007	0.40	0.40
2011	Balance of financial instruments not at fair value through profit and loss £000	Range of effective interest rates applicable as at 31 Dec 2011	
		Lower end %	Higher end %
<b>Financial Assets</b>			
Cash at bank and in hand	1,547	0.30	0.30

**PRUDENTIAL HOLBORN LIFE LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**7. Financial assets and liabilities (continued)**

**b. Market risk (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 assets and liabilities.

<b>2012</b>	<b>1 year or less</b>	<b>Total carrying value</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Assets</b>		
Debt securities	<u>18,337</u>	<u>18,337</u>
	<u><u>18,337</u></u>	<u><u>18,337</u></u>
 <b>2011</b>	 <b>1 year or less</b>	 <b>Total carrying value</b>
	<b>£000</b>	<b>£000</b>
<b>Financial Assets</b>		
Debt securities	<u>19,401</u>	<u>19,401</u>
	<u><u>19,401</u></u>	<u><u>19,401</u></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 2012 are as follows.

<b>2012</b>	<b>Fall of 1%</b>	<b>Rise of 1%</b>	<b>Fall of 2%</b>	<b>Rise of 2%</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Value of Gilts	34	(34)	68	(68)
Related tax effects	<u>(8)</u>	<u>8</u>	<u>(17)</u>	<u>17</u>
Net sensitivity of profit after tax and shareholders' funds	<u><u>26</u></u>	<u><u>(26)</u></u>	<u><u>51</u></u>	<u><u>(51)</u></u>
 <b>2011</b>	 <b>Fall of 1%</b>	 <b>Rise of 1%</b>	 <b>Fall of 2%</b>	 <b>Rise of 2%</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
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><u>55</u></u>	<u><u>(55)</u></u>	<u><u>110</u></u>	<u><u>(110)</u></u>

**Currency risk**

As at 31 December 2012, all of the financial assets and liabilities of the Company are held in sterling.

**c. Derivatives and hedging**

As at 31 December 2012, the Company held no derivatives or forward contracts (2011: Nil).

## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 7. Financial assets and liabilities (continued)

##### d. Credit risk

The financial assets held as at 31 December 2012 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 2012 and 2011.

	2012 £000	2011 £000
AAA	18,337	19,401
<b>Total assets bearing credit risk</b>	<b><u>18,337</u></b>	<b><u>19,401</u></b>

##### 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.

#### 8. Capital Requirements and Management

The available capital of £22.4m (2011: £22.8m) reflects the excess of regulatory basis assets over liabilities of the Company before deduction of the Minimum Capital Requirement (MCR) of £3.0m (2011: £3.1m). 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.

	2012 £000	2011 £000
<b>Shareholders' equity</b>		
Held outside long-term funds	39,343	36,769
Total shareholders' equity	39,343	36,769
<b>Adjustments to regulatory basis</b>		
Other adjustments to restate these amounts to a regulatory basis	(16,930)	(13,931)
<b>Total available capital resources on FSA regulatory basis</b>	<b><u>22,413</u></b>	<b><u>22,838</u></b>

## PRUDENTIAL HOLBORN LIFE LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 9. Other debtors

All debtors are due within a period of five years

	2012 £000	2011 £000
Tax recoverable	107	-
Intragroup debtors	<u>4,452</u>	<u>4,384</u>
	<u>4,559</u>	<u>4,384</u>

The intragroup debtors as at 31 December 2012 represents an amount of £4.5m (2011: £4.3m), which consists of 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.

#### 10. Other creditors including taxation and social security

All creditors are payable within a period of five years.

	2012 £000	2011 £000
Amounts due to group undertakings	4,236	4,182
Corporation tax payable	-	19
	<u>4,236</u>	<u>4,201</u>

The amount owed to group undertakings as at 31 December 2012 represents a sum of £4.2m (2011: £4.2m), 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.

#### 11. 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.

#### 12. Share capital

The issued and fully paid up share capital of the Company amounts to 20,884,792 ordinary shares of £1 each (2011: 20,884,792). There was no new issue of shares this year.

#### 13. Related party transactions

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

#### 14. 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.