

# **Prudential Holborn Life Limited**

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

**Laurence Pountney Hill, London, EC4R 0HH**

**Annual FSA Insurance Returns for the year ended**

**31 December 2005**

**(Appendices 9.1, 9.3, 9.4, 9.6)**

# Prudential Holborn Life Limited

31 December 2005

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**Statement of solvency - long-term insurance business**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units
	R2	793051	GL	31	12	2005
				As at end of this financial year		As at end of the previous year
				1		2

**Capital resources**

Capital resources arising within the long-term insurance fund	11	6240	
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	12	19726	10651
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	13	25966	10651

**Guarantee fund**

Guarantee fund requirement	21	2158	2087
Excess (deficiency) of available capital resources to cover guarantee fund requirement	22	23808	8564

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	31	6474	4355
Resilience capital requirement	32	640	372
Base capital resources requirement	33	2030	2087
Individual minimum capital requirement	34	7114	4727
Capital requirements of regulated related undertakings	35		
Minimum capital requirement (34+35)	36	7114	4727
Excess (deficiency) of available capital resources to cover 50% of MCR	37	22409	8288
Excess (deficiency) of available capital resources to cover 75% of MCR	38	20630	7106

**Enhanced capital requirement**

With-profits insurance capital component	39		
Enhanced capital requirement	40	7114	4727

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	41	7114	4727
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	42	18852	5924

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	51		
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**Covering Sheet to Form 2**

**Form 2**

Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

\_\_\_\_\_  
N E T Prettejohn **Chief Executive**

\_\_\_\_\_  
D J Belsham **Director**

\_\_\_\_\_  
R C Everett **Director**

**London**

**Date 30 March 2006**

**Components of capital resources**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	793051	GL	31	12	2005	£000
		General insurance business	Long-term insurance business	Total as at the end of this financial year	Total as at the end of the previous year	
		1	2	3	4	

**Core tier one capital**

Permanent share capital	11		11000	11000	11000
Profit and loss account and other reserves	12		25267	25267	21720
Share premium account	13				
Positive valuation differences	14				
Fund for future appropriations	15				
Core tier one capital in related undertakings	16				
Core tier one capital (sum of 11 to 16)	19		36267	36267	32720

**Tier one waivers**

Unpaid share capital / unpaid initial funds and calls for supplementary contributions	21				
Implicit Items	22				
Tier one waivers in related undertakings	23				
Total tier one waivers as restricted (21+22+23)	24				

**Other tier one capital**

Perpetual non-cumulative preference shares as restricted	25				
Perpetual non-cumulative preference shares in related undertakings	26				
Innovative tier one capital as restricted	27				
Innovative tier one capital in related undertakings	28				

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		36267	36267	32720
Investments in own shares	32				
Intangible assets	33				
Amounts deducted from technical provisions for discounting	34				
Other negative valuation differences	35		10301	10301	22069
Deductions in related undertakings	36				
Deductions from tier one (32 to 36)	37		10301	10301	22069
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		25966	25966	10651

**Components of capital resources**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R3</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
		General insurance business	Long-term insurance business	Total as at the end of this financial year		Total as at the end of the previous year	
		<b>1</b>	<b>2</b>	<b>3</b>		<b>4</b>	

**Tier two capital**

Implicit items, (tier two waivers and amounts excluded from line 22)	<b>41</b>					
Perpetual non-cumulative preference shares excluded from line 25	<b>42</b>					
Innovative tier one capital excluded from line 27	<b>43</b>					
Tier two waivers, innovative tier one capital and perpetual non-cumulative preference shares treated as tier two capital (41 to 43)	<b>44</b>					
Perpetual cumulative preference shares	<b>45</b>					
Perpetual subordinated debt and securities	<b>46</b>					
Upper tier two capital in related undertakings	<b>47</b>					
<b>Upper tier two capital (44 to 47)</b>	<b>49</b>					

Fixed term preference shares	<b>51</b>					
Other tier two instruments	<b>52</b>					
Lower tier two capital in related undertakings	<b>53</b>					
<b>Lower tier two capital (51+52+53)</b>	<b>59</b>					

<b>Total tier two capital before restrictions (49+59)</b>	<b>61</b>					
Excess tier two capital	<b>62</b>					
Further excess lower tier two capital	<b>63</b>					
<b>Total tier two capital after restrictions, before deductions (61-62-63)</b>	<b>69</b>					

**Components of capital resources**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day month year			Units
R3	793051	GL	31	12	2005	£000
		General insurance business  1	Long-term insurance business  2	Total as at the end of this financial year 3	Total as at the end of the previous year 4	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		25966	25966	10651	
Inadmissible assets other than intangibles and own shares	73					
Assets in excess of market risk and counterparty limits	74					
Deductions for related ancillary services undertakings	75					
Deductions for regulated non-insurance related undertakings	76					
Deductions of ineligible surplus capital	77					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		25966	25966	10651	

**Available capital resources for PRU tests**

Available capital resources for guarantee fund requirement	81		25966	25966	10651	
Available capital resources for 50% MCR requirement	82		25966	25966	10651	
Available capital resources for 75% MCR requirement	83		25966	25966	10651	

**Financial engineering adjustments**

Implicit items	91					
Financial reinsurance - ceded	92					
Financial reinsurance - accepted	93					
Outstanding contingent loans	94					
Any other charges on future profits	95					
<b>Sum of financial engineering adjustments (91+92-93+94+95)</b>	<b>96</b>					

**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	
Land and buildings			<b>11</b>				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<b>21</b>		
	Debts and loans	<b>22</b>		
Other insurance dependants	Shares	<b>23</b>		
	Debts and loans	<b>24</b>		
Non-insurance dependants	Shares	<b>25</b>		
	Debts and loans	<b>26</b>		
Other group undertakings	Shares	<b>27</b>		
	Debts and loans	<b>28</b>		
Participating interests	Shares	<b>29</b>		
	Debts and loans	<b>30</b>		

**Other financial investments**

Equity shares	<b>41</b>		
Other shares and other variable yield securities	<b>42</b>		
Holdings in collective investment schemes	<b>43</b>		
Rights under derivative contracts	<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	
	Other	<b>46</b>	
Variable interest securities	Approved	<b>47</b>	
	Other	<b>48</b>	
Participation in investment pools	<b>49</b>		
Loans secured by mortgages	<b>50</b>		
Loans to public or local authorities and nationalised industries or undertakings	<b>51</b>		
Loans secured by policies of insurance issued by the company	<b>52</b>		
Other loans	<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	13993
	More than one month withdrawal	<b>55</b>	4900
Other financial investments	<b>56</b>		
Deposits with ceding undertakings	<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	
	Property linked	<b>59</b>	



**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>		124
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	823	1831
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	10	3
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	19726	10698
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	793051	GL	31	12	2005	£000	1
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	19726	10698
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99		
Other asset adjustments (may be negative)	100		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	19726	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		

**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	793051	GL	31	12	2005	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	
Land and buildings			11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	21		
	Debts and loans	22		
Other insurance dependants	Shares	23		
	Debts and loans	24		
Non-insurance dependants	Shares	25		
	Debts and loans	26		
Other group undertakings	Shares	27		
	Debts and loans	28		
Participating interests	Shares	29		
	Debts and loans	30		

**Other financial investments**

Equity shares	41			
Other shares and other variable yield securities	42			
Holdings in collective investment schemes	43	77	63	
Rights under derivative contracts	44			
Fixed interest securities	Approved	45	9248	8679
	Other	46		
Variable interest securities	Approved	47		
	Other	48		
Participation in investment pools	49			
Loans secured by mortgages	50			
Loans to public or local authorities and nationalised industries or undertakings	51			
Loans secured by policies of insurance issued by the company	52	248	248	
Other loans	53			
Bank and approved credit & financial institution deposits	One month or less withdrawal	54	8507	14410
	More than one month withdrawal	55	43900	30000
Other financial investments	56			
Deposits with ceding undertakings	57			
Assets held to match linked liabilities	Index linked	58		
	Property linked	59	1733396	1121187

**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
<b>R13</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					<b>1</b>	<b>2</b>	

**Reinsurers' share of technical provisions**

Provision for unearned premiums	<b>60</b>		
Claims outstanding	<b>61</b>		
Provision for unexpired risks	<b>62</b>		
Other	<b>63</b>		

**Debtors and salvage**

Direct insurance business	Policyholders	<b>71</b>		
	Intermediaries	<b>72</b>		
Salvage and subrogation recoveries		<b>73</b>		
Reinsurance	Accepted	<b>74</b>		
	Ceded	<b>75</b>		
Dependants	due in 12 months or less	<b>76</b>		
	due in more than 12 months	<b>77</b>		
Other	due in 12 months or less	<b>78</b>	1250	212
	due in more than 12 months	<b>79</b>		

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>		96
Cash in hand	<b>82</b>		
Other assets (particulars to be specified by way of supplementary note)	<b>83</b>		
Accrued interest and rent	<b>84</b>	323	204
Deferred acquisition costs (general business only)	<b>85</b>		
Other prepayments and accrued income	<b>86</b>		

Deductions from the aggregate value of assets	<b>87</b>		
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Grand total of admissible assets after deduction of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	1796949	1175099
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total long term business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	793051	GL	31	12	2005	£000	10
					As at end of this financial year	As at end of the previous year	
					1	2	

**Reconciliation to asset values determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting**

Total admissible assets after deduction of market risk and counterparty limits (as per line 89 above)	91	1796949	1175099
Assets in excess of market and counterparty limits	92		
Capital resources requirement deduction of regulated related undertakings	93		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	94		
Inadmissible assets of regulated related insurance undertakings	95		
Book value of related ancillary services undertakings	96		
Other differences in the valuation of assets (other than for assets not valued above)	97		
Deferred acquisition costs excluded from line 89	98		
Reinsurers' share of technical provisions excluded from line 89	99	175245	
Other asset adjustments (may be negative)	100		
Total assets determined in accordance with the insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (91 to 100)	101	1972194	
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	102		

**Long term insurance business liabilities and margins**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Total business/Sub fund **Ordinary Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus	<b>11</b>	1740127	1144194	
Cash bonuses which had not been paid to policyholders prior to end of the financial year	<b>12</b>			
Balance of surplus/(valuation deficit)	<b>13</b>	6240		
Long term insurance business fund carried forward (11 to 13)	<b>14</b>	1746367	1144194	
Claims outstanding	Gross	<b>15</b>	2775	3003
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	2775	3003
Provisions	Taxation	<b>21</b>	1838	1878
	Other risks and charges	<b>22</b>	2762	2557
Deposits received from reinsurers	<b>23</b>			
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	7326	562
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions	<b>36</b>			
Creditors	Taxation	<b>37</b>	6407	205
	Other	<b>38</b>	29474	22700
Accruals and deferred income	<b>39</b>			
Provision for "reasonably foreseeable adverse variations"	<b>41</b>			
Total other insurance and non-insurance liabilities (17 to 41)	<b>49</b>	50582	30905	
Excess of the value of net admissible assets	<b>51</b>			
Total liabilities and margins	<b>59</b>	1796949	1175099	

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	15941	4665
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	1733396	1121187

Total liabilities (11+12+49)	<b>71</b>	1790709	1175099
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	175245	
Other adjustments to liabilities (may be negative)	<b>74</b>	(10301)	
Capital and reserves and fund for future appropriations	<b>75</b>	16541	
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose its external financial reporting (71 to 75)	<b>76</b>	1972194	

**Liabilities (other than long term insurance business)**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	<b>R15</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
				As at end of this financial year 1		As at end of the previous year 2	

**Technical provisions (gross amount)**

Provisions for unearned premiums	<b>11</b>		
Claims outstanding	<b>12</b>		
Provision for unexpired risks	<b>13</b>		
Equalisation provisions	Credit business	<b>14</b>	
	Other than credit business	<b>15</b>	
Other technical provisions	<b>16</b>		
Total gross technical provisions (11 to 16)	<b>19</b>		

**Provisions and creditors**

Provisions	Taxation	<b>21</b>	
	Other risks and charges	<b>22</b>	
Deposits received from reinsurers		<b>31</b>	
Creditors	Direct insurance business	<b>41</b>	
	Reinsurance accepted	<b>42</b>	
	Reinsurance ceded	<b>43</b>	
Debenture loans	Secured	<b>44</b>	
	Unsecured	<b>45</b>	
Amounts owed to credit institutions		<b>46</b>	
Creditors	Taxation	<b>47</b>	47
	Recommended dividend	<b>48</b>	
	Other	<b>49</b>	
Accruals and deferred income		<b>51</b>	
Total (19 to 51)		<b>59</b>	47
Provision for "reasonably foreseeable adverse variations"		<b>61</b>	
Cumulative preference share capital		<b>62</b>	
Subordinated loan capital		<b>63</b>	
Total (59 to 63)		<b>69</b>	47

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>		
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Reinsurers' share of DAC	<b>81</b>		
Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		
Capital and reserves	<b>84</b>	19726	
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69+81-82+83+84)	<b>85</b>	19726	

**Profit and loss account (non-technical account)**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**

		Company registration number	GL/UK/CM	day	month	year	Units	
		<b>R16</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>
				This financial year		Previous year		
				1		2		
Transfer (to)/from the general insurance business technical account	From Form 20		<b>11</b>					
	Equalisation provisions		<b>12</b>					
Transfer from the long term insurance business revenue account			<b>13</b>			8900	<b>(8488)</b>	
Investment income	Income		<b>14</b>			250	159	
	Value re-adjustments on investments		<b>15</b>					
	Gains on the realisation of investments		<b>16</b>					
Investment charges	Investment management charges, including interest		<b>17</b>					
	Value re-adjustments on investments		<b>18</b>					
	Loss on the realisation of investments		<b>19</b>					
Allocated investment return transferred to the general insurance business technical account			<b>20</b>					
Other income and charges (particulars to be specified by way of supplementary note)			<b>21</b>					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			<b>29</b>			9150	<b>(8329)</b>	
Tax on profit or loss on ordinary activities			<b>31</b>			75	47	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			9075	<b>(8376)</b>	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			<b>41</b>					
Tax on extraordinary profit or loss			<b>42</b>					
Other taxes not shown under the preceding items			<b>43</b>					
Profit or loss for the financial year (39+41-(42+43))			<b>49</b>			9075	<b>(8376)</b>	
Dividends (paid and proposed)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			9075	<b>(8376)</b>	



**Analysis of derivative contracts**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total other than long term business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>1</b>
			As at the end of this financial year			As at the end of the previous year			
<b>Derivative contracts</b>			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>							

**Analysis of derivative contracts**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Category of assets **Total long term business assets**

		Company registration number	GL/ UK/ CM	day month year			Units	Category of assets	
		<b>R17</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2005</b>	<b>£000</b>	<b>10</b>
			As at the end of this financial year			As at the end of the previous year			
<b>Derivative contracts</b>			Assets <b>1</b>	Liabilities <b>2</b>	Assets <b>3</b>	Liabilities <b>4</b>			
Futures contracts	Fixed-interest securities	<b>11</b>							
	Equity shares	<b>12</b>							
	Land	<b>13</b>							
	Currencies	<b>14</b>							
	Other	<b>15</b>							
Options	Fixed-interest securities	<b>21</b>							
	Equity shares	<b>22</b>							
	Land	<b>23</b>							
	Currencies	<b>24</b>							
	Other	<b>25</b>							
Contracts for differences	Fixed-interest securities	<b>31</b>							
	Equity shares	<b>32</b>							
	Land	<b>33</b>							
	Currencies	<b>34</b>							
	Other	<b>35</b>							
Adjustment for variation margin		<b>41</b>							
Total (11 to 41)		<b>49</b>							

**Long-term insurance business : Revenue account**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year 1	Previous year 2
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**Income**

Earned premiums	11	662413	488358
Investment income receivable before deduction of tax	12	61485	40071
Increase (decrease) in the value of non-linked assets brought into the account	13	582	326
Increase (decrease) in the value of linked assets	14	116488	55899
Other income	15		
<b>Total income</b>	<b>19</b>	<b>840968</b>	<b>584654</b>

**Expenditure**

Claims incurred	21	194179	133372
Expenses payable	22	21624	9873
Interest payable before the deduction of tax	23	128	128
Taxation	24	13964	8208
Other expenditure	25		
Transfer to (from) non technical account	26	8900	(8488)
<b>Total expenditure</b>	<b>29</b>	<b>238795</b>	<b>143093</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	602173	441561
Fund brought forward	49	1144194	702633
Fund carried forward (39+49)	59	1746367	1144194

**Long-term insurance business : Analysis of premiums**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Regular premiums	11	1990			1990	464
Single premiums	12	661748			661748	489344

**Reinsurance - external**

Regular premiums	13					
Single premiums	14	1325			1325	1450

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	1990			1990	464
Single premiums	18	660423			660423	487894

**Total**

Gross	19	663738			663738	489808
Reinsurance	20	1325			1325	1450
Net	21	662413			662413	488358

**Long-term insurance business : Analysis of claims**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Death or disability lump sum	11	20359		20359	15692
Disability periodic payments	12				
Surrender or partial surrende	13	189363		189363	132682
Annuity payments	14				
Lump sums on maturity	15	1207		1207	854
<b>Total</b>	<b>16</b>	<b>210929</b>		<b>210929</b>	<b>149228</b>

**Reinsurance - external**

Death or disability lump sum	21	4347		4347	4765
Disability periodic payments	22				
Surrender or partial surrende	23	12320		12320	10831
Annuity payments	24				
Lump sums on maturity	25	83		83	260
<b>Total</b>	<b>26</b>	<b>16750</b>		<b>16750</b>	<b>15856</b>

**Reinsurance - intra-group**

Death or disability lump sum	31				
Disability periodic payments	32				
Surrender or partial surrende	33				
Annuity payments	34				
Lump sums on maturity	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Death or disability lump sum	41	16012		16012	10927
Disability periodic payments	42				
Surrender or partial surrende	43	177043		177043	121851
Annuity payments	44				
Lump sums on maturity	45	1124		1124	594
<b>Total</b>	<b>46</b>	<b>194179</b>		<b>194179</b>	<b>133372</b>

**Long-term insurance business : Analysis of expenses**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Commission - acquisition	11				
Commission - other	12				
Management - acquisition	13				
Management - maintenance	14	18432		18432	9516
Management - other	15	3192		3192	357
<b>Total</b>	<b>16</b>	<b>21624</b>		<b>21624</b>	<b>9873</b>

**Reinsurance - external**

Commission - acquisition	21				
Commission - other	22				
Management - acquisition	23				
Management - maintenance	24				
Management - other	25				
<b>Total</b>	<b>26</b>				

**Reinsurance - intra-group**

Commission - acquisition	31				
Commission - other	32				
Management - acquisition	33				
Management - maintenance	34				
Management - other	35				
<b>Total</b>	<b>36</b>				

**Net of reinsurance**

Commission - acquisition	41				
Commission - other	42				
Management - acquisition	43				
Management - maintenance	44	18432		18432	9516
Management - other	45	3192		3192	357
<b>Total</b>	<b>46</b>	<b>21624</b>		<b>21624</b>	<b>9873</b>

**Long-term insurance business : Linked funds balance sheet**

Name of insurer **Prudential Holborn Life Limited**  
 Total business  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year	Previous year
1	2

**Internal linked funds (excluding cross investment)**

Directly held assets (excluding collective investment schemes)	11	979732	920918
Directly held assets in collective investment schemes of connected companies	12	729154	197827
Directly held assets in other collective investment schemes	13	24510	2442
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>1733396</b>	<b>1121187</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	13468	5552
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>1719928</b>	<b>1115635</b>

**Directly held linked assets**

Value of directly held linked assets	21		
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**Total**

Value of directly held linked assets and units held (18+21)	31	1719928	1115635
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>1719928</b>	<b>1115635</b>

**Long-term insurance business : Revenue account for internal linked funds**

Name of insurer **Prudential Holborn Life Limited**  
 Total business  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year 1	Previous year 2
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**Income**

Value of total creation of units	<b>11</b>	654229	488047
Investment income attributable to the funds before deduction of tax	<b>12</b>	57938	38319
Increase (decrease) in the value of investments in the financial year	<b>13</b>	116488	55899
Other income	<b>14</b>		
<b>Total income</b>	<b>19</b>	828655	582265

**Expenditure**

Value of total cancellation of units	<b>21</b>	197146	134921
Charges for management	<b>22</b>	17033	9132
Charges in respect of tax on investment income	<b>23</b>	6357	6190
Taxation on realised capital gains	<b>24</b>	3826	501
Increase (decrease) in amount set aside for tax on capital gains not yet realised	<b>25</b>		
Other expenditure	<b>26</b>		
<b>Total expenditure</b>	<b>29</b>	224362	150744

Increase (decrease) in funds in financial year (19-29)	<b>39</b>	604293	431521
Internal linked fund brought forward	<b>49</b>	1115635	684114
Internal linked funds carried forward (39+49)	<b>59</b>	1719928	1115635



**Long-term insurance business : Summary of new business**

Name of insurer **Prudential Holborn Life Limited**  
 Total business  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Number of new policyholders/  
scheme members for direct  
insurance business**

Regular premium business	11				
Single premium business	12				
<b>Total</b>	<b>13</b>				

**Amount of new regular  
premiums**

Direct insurance business	21				
External reinsurance	22				
Intra-group reinsurance	23				
<b>Total</b>	<b>24</b>				

**Amount of new single  
premiums**

Direct insurance business	25				
External reinsurance	26				
Intra-group reinsurance	27	661748		661748	489344
<b>Total</b>	<b>28</b>	661748		661748	489344



**Long-term insurance business : Non- linked assets**

Name of insurer **Prudential Holborn Life Limited**  
 Category of assets **Total long term business assets**  
 Financial year ended **31 December 2005**  
 Units **£000**

Unadjusted assets	Economic exposure	Expected income from assets in column 2	Yield before adjustment	Return on assets in financial year
1	2	3	4	5

**Assets backing non-profit liabilities and non-profit capital requirements**

Land and buildings	11					
Approved fixed interest securities	12	9274	9274	395	4.01%	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15		72			
Non-UK listed equity shares	16		5			
Unlisted equity shares	17					
Other assets	18	54279	54202	2389	4.41%	
Total	19	63553	63553	2784	4.34%	

**Assets backing with-profits liabilities and with-profits capital requirements**

Land and buildings	21					
Approved fixed interest securities	22					
Other fixed interest securities	23					
Variable interest securities	24					
UK listed equity shares	25					
Non-UK listed equity shares	26					
Unlisted equity shares	27					
Other assets	28					
Total	29					

**Overall return on with-profits assets**

Post investment costs but pre-tax	31					
Return allocated to non taxable 'asset shares'	32					
Return allocated to taxable 'asset shares'	33					

**Long-term insurance business : Summary of mathematical reserves**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

UK Life	UK Pension	Overseas	Total Financial year	Total Previous year
1	2	3	4	5

**Gross**

Form 51 - with-profits	11				
Form 51 - non-profit	12	28		28	40
Form 52	13				
Form 53 - linked	14	1891393		1891393	1271133
Form 53 - non-linked	15	23920		23920	33380
Form 54 - linked	16				
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>	1915341		1915341	1304553

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				13
Form 52	23				
Form 53 - linked	24	171465		171465	155499
Form 53 - non-linked	25	3749		3749	4849
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>	175214		175214	160361

**Reinsurance - intra-group**

Form 51 - with-profits	31				
Form 51 - non-profit	32				
Form 52	33				
Form 53 - linked	34				
Form 53 - non-linked	35				
Form 54 - linked	36				
Form 54 - non-linked	37				
<b>Total</b>	<b>38</b>				

**Net of reinsurance**

Form 51 - with-profits	41				
Form 51 - non-profit	42	28		28	27
Form 52	43				
Form 53 - linked	44	1719928		1719928	1115634
Form 53 - non-linked	45	20171		20171	28531
Form 54 - linked	46				
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>	1740127		1740127	1144193



**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**  
 UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	53083	1740286		1725125	1703770	4361	1708131
710	Life property linked whole life regular premium	3482	132513	852	132513	132513	816	133329
715	Life property linked endowment regular premium - savings	3463	37731	221	37731	37731	785	38516
800	Additional reserves property linked				17379	17379		17379
800	Additional reserves property linked						17958	17958

**Long-term insurance business : Valuation summary of property linked contracts**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**  
 UK Life / Reinsurance ceded external

Product code number 1	Product description 2	Number of policyholders / scheme members 3	Amount of benefit 4	Amount of annual office premiums 5	Nominal value of units 6	Discounted value of units 7	Other liabilities 8	Amount of mathematical reserves 9
700	Life property linked single premium		88602		88322	88323		88323
710	Life property linked whole life regular premium		62454	424	62454	62454		62454
715	Life property linked endowment regular premium - savings		17219	102	17219	17219		17219
800	Additional reserves property linked				3469	3469		3469
800	Additional reserves property linked						3749	3749

**Long-term insurance business : Unit prices for internal linked funds**

Name of insurer **Prudential Holborn Life Limited**  
 Total business  
 Financial year ended **31 December 2005**  
 Units **£000**

<b>Fund name</b>	<b>Type of fund</b>	<b>Net assets</b>	<b>Main series</b>	<b>Unit management charge</b>	<b>Price at previous valuation</b>	<b>Price at current valuation</b>	<b>Change in price during year</b>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
Cash	04 - life - other managed fund	224250	4	1.25	1.0030	1.0278	0.0247
Distribution	04 - life - other managed fund	497938	2	1.00	1.1851	1.2689	0.0707
European Tracker	06 - life - overseas equity	58	5	1.55	1.1294	1.3191	0.1680
Fixed Interest	04 - life - other managed fund	11911	1	0.50	10.3860	11.0022	0.0593
Managed	02 - life - balanced managed fund	143861	2	1.00	12.2576	14.2202	0.1601
Property	07 - life - property	458210	5	1.55	1.2471	1.3551	0.0865
UK Tracker	01 - life - stock market managed fund	645	5	1.55	1.1226	1.3144	0.1709



**Valuation of result and Distribution of surplus**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2005**  
 Units **£000**

Financial year 1	Previous year 2
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**Valuation result**

Fund carried forward	11	1746367	1144194
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	8900	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	1755267	1144194
Mathematical reserves	21	1740127	1144194
Surplus including contingency and other reserves held towards the solvency margin (deficiency) (15-21)	29	15140	

**Composition of surplus**

Balance brought forward	31		
Transfer from non-technical account	32		8488
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	15140	(8488)
Total	39	15140	

**Distribution of surplus**

Bonus paid in anticipation of a surplus	41		
Cash bonuses	42		
Reversionary bonuses	43		
Other bonuses	44		
Premium reductions	45		
Total allocated to policyholders (41 to 45)	46		
Net transfer out of fund / part of fund	47	8900	
Total distributed surplus (46+47)	48	8900	
Surplus carried forward	49	6240	
Total (48+49)	59	15140	

**Percentage of distributed surplus allocated to policyholders**

Current year	61		
Current year - 1	62		
Current year - 2	63		
Current year - 3	64		

**Long-term insurance capital requirement**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2005**Units **£000**

LTICR factor	Gross reserves / capital at risk	Net reserves / capital at risk	Reinsurance factor	LTICR Financial year	LTICR Previous year
1	2	3	4	5	6

**Insurance death risk capital component**

Classes I, II and IX	11	0.1%			1.00		
Classes I, II and IX	12	0.15%					
Classes I, II and IX	13	0.3%	1	1		0	
Classes III, VII and VIII	14	0.3%	85	85	1.00	0	
<b>Total</b>	<b>15</b>		86	86		0	

**Insurance health risk capital component**

Class IV and supplementary classes 1 and 2	21						
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**Insurance expense risk capital component**

Classes I, II and IX	31	1%	27	27	1.00	0	
Classes III, VII and VIII (investment risk)	32	1%	23925	20176	0.85	203	284
Classes III, VII and VIII (expenses fixed 5 yrs +)	33	1%	182152	116536	0.85	1548	1519
Classes III, VII and VIII (other)	34	25%				4111	1700
Class IV	35	1%					
Class V	36	1%					
Class VI	37	1%					
<b>Total</b>	<b>38</b>					5863	3503

**Insurance market risk capital component**

Classes I, II and IX	41	3%	27	27	1.00	1	1
Classes III, VII and VIII (investment risk)	42	3%	23925	20176	0.85	610	851
Classes III, VII and VIII (expenses fixed 5 yrs +)	43	0%	182152	116536			
Classes III, VII and VIII (other)	44	0%	1709236	1603388			
Class IV	45	3%					
Class V	46	0%					
Class VI	47	3%					
<b>Total</b>	<b>48</b>		1915340	1740127		611	852

<b>Long term insurance capital requirement</b>	<b>51</b>					6474	4355
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# PRUDENTIAL HOLBORN LIFE LIMITED

## Appendix 9.4

### VALUATION REPORT ON PRUDENTIAL HOLBORN LIFE LIMITED

#### INTRODUCTION

1. (1) The investigation relates to 31 December 2005.
- (2) The previous investigation related to 31 December 2004.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2004.

#### PRODUCT RANGE

2. There have been no significant changes in products during the financial year.

#### DISCRETIONARY CHARGES AND BENEFITS

3. (1) Not applicable.
- (2) Not applicable.
- (3) Not applicable.
- (4) There have been no changes to service charges on linked policies.
- (5) There have been no changes to benefit charges on linked policies.
- (6) Not applicable.
- (7) (a) A smoothed equity approach is taken to unit pricing. Current practice is as follows.

While the trend in the number of units in a unit fund is believed to be upward, the bid price is the creation price. While the trend in the number of units is believed to be downward, the bid price is the cancellation price. Where the trend is unclear or changing the bid price may be between the creation price and the cancellation price. The offer price is then set equal to the bid price plus the initial charge plus a rounding adjustment not exceeding 0.1p.

The creation price is the cash cost of purchasing an identical portfolio of assets to that in the unit fund including all the costs that would be incurred in purchasing such assets, divided by the number of units in existence. The cancellation price is the cash amount for which the assets of the unit fund can be sold net of all costs that would be incurred in disposing of the assets, divided by the number of units in existence.

Unit prices are calculated and allocations to policies made daily. The associated cash is invested or withdrawn from the unit fund two days following the allocation.

In March 2005 the pricing basis moved from historic pricing to forward pricing. This means that units are now allocated to and deallocated from policies at the next available price, as opposed to the previous day's price.

(b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.

(c) The price used for collective investment schemes and similar assets is the latest valuation at mid-day; deals are placed before mid-day and receive that following price.

- (8) Realised gains were taxed at 20% on crystallisation net of any amounts met by non linked reserves (refer below) and the tax is due immediately from the linked funds to the trading account. The instalment of tax arising on the deemed disposal of unit trust holdings is deducted annually from the fund at a similar rate.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

No credit is taken for tax relief on realised losses in a fund until they are covered by gains in the same fund. A non-linked reserve is held (within the 'unit price timing adjustment' described in paragraph 4(1) below) in respect of tax relief on realised losses not covered by gains in the same fund.

- (9) Reserves for tax on unrealised gains and outstanding instalments of deemed disposals, reduced as necessary to allow for realised losses in accordance with the above approach have been made within the fund by purchasing units of the same fund. These reserves are currently between 16.39% and 18.67% of the corresponding liabilities. Transfers to and from the reserves take place on a daily basis.
- (10) Where investments are in Prudential Unit Trusts the purchase price is the underlying creation price. In the case of disinvestments the sale price is the underlying cancellation price. The unit trusts are single priced so that the creation and cancellation prices are the same. In some cases Prudential Unit Trusts include a fund management charge in the price of the fund. In such cases Prudential Unit Trusts rebate the fund management charge deducted from the unit trusts. The full rebate is credited to the respective linked funds with the deduction for investment management expenses being met by non linked funds.

#### VALUATION BASIS (OTHER THAN FOR SPECIAL RESERVES)

4. At 31 December 2005 the total gross mathematical reserves amounted to £1,915m. The lesser of £10m and 1% of the total gross mathematical reserves was therefore equal to £10m.

#### (1) Linked policy reinsurance accepted from Prudential Assurance Company Limited (PACL)

For linked policy reinsurance accepted from PACL, units have been attributed to policies to cover benefits payable on surrender or switch. No reserve for future expenses is necessary.

#### Other linked policies

The liability for other linked policies has been taken as the sum of:

- (i) The value of attributed units at bid prices.
- (ii) The amount (if any) on Fixed Account.
- (iii) The value of future death benefits.
- (iv) The value of future expenses and renewal commission.
- (v) Less the value of future management charges allowing for any existing regular withdrawal instructions.
- (vi) Less the value of that portion of future premiums not attributed to units.

In the case of regular premium contracts, in calculating (v) and (vi) premiums are assumed to continue in payment for the remaining term of the contract unless a higher reserve is obtained by assuming immediate cessation of premiums in which case per policy expenses are assumed to be the same as the expenses for paid up policies used in calculating (iv).

Where necessary, (v) and then (vi) were adjusted to ensure that the reserve for an individual policy both currently and at any future date was at least equal to the value of attributed units less surrender penalties.

A reserve, the "unit price timing adjustment", is held in respect of tax relief on unrealised losses that have been used through carry back in the company's tax computation. These monies will be credited to the funds as the losses are used by the funds.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

A minimum liability is set to be the bid value of units allocated less surrender penalties. The value of future income is also restricted to ensure that the liability on the current basis projected to any future date is not less than the minimum liability at that date.

(2) The valuation interest rate and the fund growth rates used are as below:

	2005	2004
Valuation interest rate	3.00% p.a. net	3.20% p.a. net
Fund growth rate	4.00% p.a. net	4.00% p.a. net

(3) The yield on assets was adjusted as follows:

- (i) gilts – no adjustment
- (ii) cash deposits – a 0.05% reduction to take account of risk of default

(4) For linked policies, the mortality basis is as below:

For 2005 and 2004: AM92/AF92-3.

(5) Not applicable.

(6)

Product group	31 December 2005	31 December 2004
Linked policies	<p>Renewal expenses (net of tax relief at 20%):-</p> <ul style="list-style-type: none"> <li>- life single premium business £33.17 p.a. per policy</li> <li>- life regular premium business (premium paying) £56.65 p.a. per policy</li> <li>- life regular premium business (non premium paying) £33.17 p.a. per policy</li> </ul> <p>There is no specific loading for claim expenses.</p> <p>Inflation: 3.5% p.a. throughout</p> <p>Investment expenses: 0.25% p.a. in respect of direct written business.</p>	<p>Renewal expenses (net of tax relief at 20%):-</p> <ul style="list-style-type: none"> <li>- life single premium business £38.00 p.a. per policy</li> <li>- life regular premium business (premium paying) £64.90 p.a. per policy</li> <li>- life regular premium business (non premium paying) £38.00 p.a. per policy</li> </ul> <p>There is no specific loading for claim expenses.</p> <p>Inflation: 3.5% p.a. throughout</p> <p>Investment expenses: 0.25% p.a. in respect of direct written business.</p>

(7) Not applicable.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **Appendix 9.4 (continued)**

(8) Not applicable.

(9) Not applicable.

#### **OPTIONS AND GUARANTEES**

5.

(1) Not applicable.

(2) Not applicable.

(3) Not applicable.

(4) For Maximum Investment Plan (Mark 4), at maturity, the policyholder has the option to convert the policy to a whole of life contract or to extend the term by a minimum of 10 years subject to the maximum age next birthday at entry is 80 less the term, except for a 10 year term where it is 76. No additional reserves are held for this option.

#### **EXPENSE RESERVES**

6.

(1) The grossed up aggregate amount of expense allowance arising in the next twelve months from 31 December 2005 is £2,356,000.

(2) Implicit allowances are not shown in (1) above.

(3) The amount of maintenance expenses shown in line 44 of Form 43 is different to that shown in paragraph 6(1) above. This is because the loadings mentioned in 6(1) exclude the annual management charge rebated to PACL, where the amount due to PACL is that arising from the associated linked funds. In 2005 this amounted to £16,383,000, which is included in line 44 of Form 43.

(4) The only new business expected in the twelve months following the valuation date is reinsurance accepted from PACL. As this is expected to be written on terms which do not result in new business strain in the Company no new business expense overrun reserve is required.

(5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the expense loadings over the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Forms 50.

In order to allow for the possibility that the firm will cease to transact new business twelve months after the valuation date, the expense loading is recalculated on the assumption that, over a two year period, unit costs would be reduced by 25% and thereafter loss of economies of scale would result in overall expenses being cut more slowly than the rate at which policies run off. If this revised calculation results in a higher reserve than described in the paragraph above, then the difference is held as an additional reserve. In addition the costs associated with closing to new business, such as redundancy costs or the costs of terminating management agreements, are estimated. To the extent that these costs exceed the projected surplus on prudent assumptions from existing business a further additional reserve is held. At the valuation date, no additional reserve is held for the impact of closing to new business.

#### **MISMATCHING RESERVES**

7. (1) and (2) All assets and liabilities are denominated in sterling. There is no currency mismatching.

(3) There is no reserve for currency mismatching.

(4) For the purpose of calculating the resilience capital requirement under PRU 4.2.10R, the most onerous scenario is a combination of a fall in unit prices of 20% and an immediate rise of 83 basis points in the annual yield obtainable on fixed interest securities.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

(5) Not applicable.

(6) A Resilience Capital Requirement of £640,000 has been established.

There was a £183,000 decrease in the aggregate amount of the long term liabilities.

The assets allocated to match such liabilities including the resilience capital requirement decreased in value by £823,000.

(7) No reserve is required for cashflow mismatching under PRU7.2.34R(2).

### OTHER SPECIAL RESERVES

8. At 31 December 2005 the total gross mathematical reserves amounted to £1,915m. The lesser of £10m and 0.1% of the total gross mathematical reserves was therefore equal to £1.9m. The nature and amount of reserves are listed below:

Reserve for unpaid profit share	£6.6m
Reserve for reinsurance	£2.4m
Reserve for 'unit price timing adjustment'	£7.1m

The reserve which exceed the lesser of £10m and 0.5% of total mathematical reserves are listed below:

Reserve to cover  
unrealised capital gains Tax £17.4m

The above reserve is calculated as mentioned in paragraph 3 (9).

### REINSURANCE

- 9.
- (1) No premiums were paid in 2005 in respect of reinsurance business ceded on a facultative basis to reinsurers not authorised to carry on business in the United Kingdom.
- (2) The reinsurance treaties shown in the table below meet the FSA criteria for being reported in this section and were in force as at 31 December 2005

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Life & Health Limited	Reinsurance of all direct linked business written by Prudential Holborn Life, excluding benefits linked to real property assets, on a 50% quota share basis. The liability reassured is covered by a charge on assets.	1,325	Closed	175,213	50% of first £25,000

- (g) There were no deposit back arrangements under the above treaties.
- (i) There are no “undischarged obligations of the insurer”. Premiums are only payable if the gross business remains in force.
- (l) The above reinsurer is authorised to carry on insurance business in the United Kingdom.
- (m) The reinsurer is not a connected company.
- (n) In general the treaty is exposed to the credit risk of the reinsurer, against which a reserve is held.
- (o) The net liability includes no allowance for the refund of any reinsurance commission.

10. Not applicable



## PRUDENTIAL HOLBORN LIFE LIMITED

Financial Year ended 31 December 2005

### Notes to Appendices 9.1 and 9.3

#### Form 2

\*0201\* Waivers issued disapplying or modifying any of the provisions of the Accounts and Statements Rules in respect of long-term insurance business

The FSA, on the application of the firms, issued to the firms in November 2005 a direction under section 148 of FSMA 2000. The effect of the direction is to enable the Prudential Assurance Company and Prudential Holborn Life Limited to contract to pay benefits under linked long term contracts related to the PHL Prudential Property (Unit Linked) Life Fund which are themselves determined, either wholly or partly, by reference to units in the M&G Property Portfolio (FSA Ref: 529323).

#### Form 3

\*0301\* Reconciliation of net admissible assets to total capital resources after deductions

	<b>2005</b>
	<b>£000</b>
Form 13 Line 89 (Long term) Grand total of admissible assets	1,796,949
Form 14 Line 11 Mathematical reserves, after distribution of surplus	(1,740,127)
Form 14 Line 49 Total other insurance and non-insurance liabilities	(50,582)
Form 13 Line 89 (Other than long term) Grand total of admissible assets	19,726
Form 15 Line 69 Total	0
	<hr/>
	25,966
Form 3 Line 79 Capital resources after deductions	25,966
Difference	<hr/> <hr/> 0

\*0310\* Details of positive and negative valuation differences

	<b>2005</b>
	<b>£'000</b>
Additional reserves held in the long term fund	11,446
Deferred tax on additional reserves held in the long term fund	(1,145)
Form 3 Line 35 Other negative valuation differences	<hr/> <hr/> 10,301

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

**Notes to Appendices 9.1 and 9.3 (continued)**

### **Form 13**

Notes 1301 to 1319 apply to the other than long term business fund.

\*1301\* Assets specified in instructions 5

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in instruction 5.

\*1304\* Statement on set-off

Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

\*1305\* Maximum Counterparty Limits

The Company's investment guidelines set maximum counterparty limits in order to maintain the admissibility of assets in accordance with Rule 4.14. The limits were not breached throughout the financial year. In respect of the Company's main working capital bank accounts within both the other than long-term and long-term funds, the balances are reviewed daily and compared to expected cashflows to ensure the Company is technically solvent. The balances did not exceed the Rule 4.14 limit during the year.

\*1306\* Counterparty exposures at year end

Counterparty exposures were held at year end that were greater than five percent of the sum of the base capital resources requirement and long term insurance liabilities, excluding property linked liabilities and net of reinsurance ceded. These were held as cash on deposit and were: Close Brothers Limited £2.9m and Dresdner Bank £2m.

\*1319\* Total Other Than Long Term Business Assets Analysis of derivative contracts

Form 17 has been submitted blank, as no such contracts were used.

Notes 1308 to 1320 apply to the long term business fund.

\*1308\* Assets specified in instruction 5

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in instruction 5.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

### **Notes to Appendices 9.1 and 9.3 (continued)**

#### **\*1310\* Statement on set-off**

Amounts due to or from the Company have been set off to the extent permitted by generally accepted accounting principles.

#### **\*1311\* Maximum Counterparty Limits**

The Company's investment guidelines set maximum counterparty limits in order to maintain the admissibility of assets in accordance with Rule 4.14. The limits were not breached throughout the financial year.

#### **\*1312\* Counterparty Exposures at Year End**

Counterparty exposures were held at year end that were greater than five percent of the sum of the base capital resources requirement and long term insurance liabilities, excluding property linked liabilities and net of insurance ceded. These were Hamburgische Landesbank £2m; Deutsche £2m; IIB Bank £2m; UBS AG £2m; Fortis Bank £2m; Depfa Bank £2m; ING £2m; Raffeisen Zentraleost Bank of Austria £2m; Banci Popolare Dive £2m; Intesabci £2.5m; Nationwide Building Society £2m; Svenska Handelsbanke £2m; ABN Amro £3m; Britannia Building Society £2m; Royal Bank of Scotland £2m; Nordea £2m; Dexia Banque Int Lux £2m; Landesbank Hessen £2m; Royal Bank of Canada £2m; Northern Rock Plc £2m; Anglo Irish Bank £2m; JP Morgan Chase Bank £2.9m; Norddeutsche £2m; Barclays Bank £2m; Deutsche Postbank AG £2m; Rabobank £2m; Halifax Bank of Scotland £2m; Bayerische Landesban £2m; Alliance & Leicester £2m.

#### **\*1320\* Total Long Term Business Assets Analysis of derivative contracts**

Form 17 has been submitted blank, as no such contracts were used.

### **Form 14**

#### **\*1401\* Provision for Adverse Changes**

The long-term business fund does not hold derivatives and does not require a provision for adverse changes.

#### **\*1402\* Details of charges over assets, etc.**

- (a) In the normal course of business certain reinsurance liabilities were secured by a floating charge, ranking these liabilities equally with amounts due under unsecured direct (non-reassurance) policies, over the long term insurance assets of the company. The amount secured by a charge of this nature and included in Form 14 Line 11 was £1,542.0m. The whole of the amount at Form 13 Line 101 is subject to the charge.

## PRUDENTIAL HOLBORN LIFE LIMITED

Financial Year ended 31 December 2005

### Notes to Appendices 9.1 and 9.3 (continued)

- (b) The long-term business fund held a provision of £13,909,679 (2004: £7,350,266) for potential tax on capital gains in respect of linked business in the long term business fund, in line 11 of Form 14. If properties on which capital allowances have been claimed were disposed of, tax of not more than £1,857,935 (2004: £1,395,000) would be payable in respect of balancing charges. This amount has been provided in line 21 of Form 14.
- (c) There were no contingent liabilities at the year end.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business in respect of related companies.
- (e) There were no fundamental uncertainties.

\*1405\* Other adjustments to liabilities

Included in line 74 are:

	£'000
Negative valuation differences (see note 0310)	10,301
Form 14 Line 74	<u>10,301</u>

### Form 15

\*1501\* Provision for Adverse Changes

No derivatives were held by the other than long term fund at any time during the year and therefore no provision for adverse changes is required.

\*1502\* Details of charges over assets, etc.

- (a) There were no charges attributable to the other than long term business assets.
- (b) There was no potential tax liability arising in the other than long-term fund.
- (c) There were no contingent liabilities at the year end.
- (d) 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 and all overdrawn balances of those group undertakings with similar arrangements. Total credit balances relating to this arrangement amount to £0.8m
- (e) There were no fundamental uncertainties.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

**Notes to Appendices 9.1 and 9.3 (continued)**

### **Form 16**

**\*1601\* Foreign Currencies**

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

### **Form 40**

**\*4008\* Provision of Management Services**

The Company was provided throughout the year with management services by M&G Investment Management Limited, Prudential Property Investment Managers Limited, Prudential Unit Trusts Limited, Prudential UK Services Limited and The Prudential Assurance Company Limited. The Company was further assisted during the year with day to day management services by Mellon European Fund Services, a third party.

**\*4009\* Details of material connected party transactions**

The Company has a reinsurance agreement with a related Company, The Prudential Assurance Company Limited. Included in earned premiums for the year is an amount of £661.7m received under this reinsurance agreement. Also included within claims incurred is an amount of £160.6m arising from claims under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms which reflect the level of business transacted with the Company. There were no amounts written off in the period in respect of debts due to or from connected parties.

The rebate of fund management charge to The Prudential Assurance Company Limited for the year amounted to £16,383,000 (2004: £8,623,000). In addition, The Prudential Assurance Company Limited met the expenses associated with this business.

### **Form 44**

**\*4401\* Valuation of Linked Assets**

These assets are included at market value or, in the case of properties, on the basis of an annual external professional valuation by Allsop & Co, Chartered Surveyors. Securities are valued at a market bid price except where a linked fund is priced on a full offer basis in which case the securities are valued on an offer basis. In accordance with the policy document, an appropriate adjustment is made to the linked asset prices to account for buying or selling expenses.

**PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

**Notes to Appendix 9.4**

**Form 48**

\*4804\* Line 18, column 1 includes assets not producing income of £1.9m

**Returns under the Interim Prudential Sourcebook for Insurers and the Integrated Prudential Sourcebook**

**PRUDENTIAL HOLBORN LIFE LIMITED**

**Directors' Certificate required by rule 9.34 of the Accounts and Statements Rules**

Financial year ended 31 December 2005

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS) and PRU as modified by a waiver dated 1 November 2005 issued under section 148 of the Financial Services and Markets Act 2000; and:
  - (b) we are satisfied that:
    - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS) and PRU; and
    - (ii) it is reasonable to believe that the insurer has continued so to comply subsequently, and will continue so to comply in future.
2. (a) that in our opinion, premiums for contracts entered into during the financial year and the resulting income earned are sufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources of the insurer that are available for the purpose, to enable the insurer to meet its obligations in respect of those contracts and, in particular, to establish adequate mathematical reserves;
  - (b) that the sum of the mathematical reserves and the deposits received from reinsurers as shown in Form 14 constitute proper provision at the end of the financial year in question for the long-term insurance liabilities (including all liabilities arising from deposit back arrangements, but excluding other liabilities which had fallen due before the end of the financial year) including any increase in those liabilities arising from a distribution of surplus as a result of an actuarial investigation as at that date into the financial condition of the long-term insurance business;
  - (c) that we have, in preparing the return, taken and paid due regard to advice in preparing the return from every actuary appointed by the insurer to perform the actuarial function in accordance with SUP 4.3.13R.

.....

N E T Prettejohn  
Chief Executive

.....

D J Belsham  
Director

.....

R C Everett  
Director

March 2006

## **Report of the auditor to the Directors pursuant to rule 9.35 of the Accounts and Statements Rules.**

### **PRUDENTIAL HOLBORN LIFE LIMITED**

Financial year ended 31 December 2005

We have examined the following documents prepared by the company pursuant to the Accounts and Statements Rules set out in part I and part IV of chapter 9 to the Interim Prudential Sourcebook for Insurers and PRU, the Integrated Prudential Sourcebook, (“the Rules”) made by the Financial Services Authority under section 138 of the Financial Services and Markets Act 2000:

- Forms 2, 3, 13 to 16, 17, 40 to 45, 48, 58 and 60, (including the supplementary notes) on pages 1 to 32 (‘the Forms’) and pages 39 to 44;
- the statement required by rule 9.29 on page 48 (‘the Statement’); and
- the valuation report required by rule 9.31(a) (‘the valuation report’).

We are not required to examine and do not express an opinion on:

- Forms 46 to 47, 50 to 55 (including the supplementary notes) on pages 23 to 30;
- the statement required by rule 9.30 on page 49; and
- the certificate required by rule 9.34 on page 45 (‘the certificate’).

This report is made solely to the company’s directors, as a body, in accordance with the requirements of rule 9.35 of the Rules. We acknowledge that the directors are required to submit this report to the FSA, to enable the FSA to verify that an auditor’s report has been commissioned by the company’s directors and issued in accordance with the requirements of rule 9.35 of the Rules and to facilitate the discharge by the FSA of its regulatory functions in respect of the company, conferred on the FSA by or under the Financial Services and Markets Act 2000. Our audit work has been undertaken so that we might state to the company’s directors those matters we are required to state to them in an auditor’s report issued pursuant to rule 9.35 of the Rules 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 directors as a body, for our audit work, for this report, or for the opinions we have formed.



## **Respective responsibilities of the company and its auditors**

The company is responsible for the preparation of an annual return (including the Forms, the Statement and the valuation report, the forms and statement not examined by us and the certificate under the provisions of the Rules). The requirements of the Rules have been modified by a waiver issued under section 148 of the Financial Services and Markets Act 2000 on 1 November 2005. Under rule 9.11 the Forms, the Statement, valuation report, the forms and statement not examined by us and the certificate are required to be prepared in the manner specified by the Rules and to state fairly the information provided on the basis required by the Rules.

The methods and assumptions determined by the company and used to perform the actuarial investigation as set out in the valuation report, prepared in accordance with rule 9.31 are required to reflect appropriately the requirements of PRU 7.3.

It is our responsibility to form an independent opinion as to whether the Forms, the Statement, the valuation report meet these requirements, and to report our opinions to you. We also report to you if, in our opinion, the company has not kept proper accounting records or if we have not received all the information we require for our examination.

### **Basis of opinion**

We conducted our work in accordance with Practice Note 20 “The audit of insurers in the United Kingdom” and Bulletin 2004/5 issued by the Auditing Practices Board. Our work included examination, on a test basis, of evidence relevant to the amounts and disclosures in the Forms, the Statement, the valuation report. The evidence included that previously obtained by us relating to the audit of the financial statements of the company for the financial year. It also included an assessment of the significant estimates and judgements made by the company in the preparation of the Forms, the Statement and the valuation report.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Forms, the Statement and the valuation report are free from material misstatement, whether caused by fraud or other irregularity or error, and comply with rule 9.11.

In accordance with rule 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to rule 9.4, we have obtained and paid due regard to advice from a suitably qualified actuary who is independent of the company.

### **Opinion**

In our opinion:

- i) the Forms, the Statement and the valuation report fairly state the information provided on the basis required by the Rules as modified and have been properly prepared in accordance with the provisions of those Rules; and
- ii) the methods and assumptions determined by the company and used to perform the actuarial investigation as set out in the valuation report prepared in accordance with rule 9.31 appropriately reflect the requirements of PRU 7.3.

KPMG Audit Plc  
Registered Auditor

London

Date

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

### **Rule 9.29 Statement on Derivative Contracts**

a. **Investment Guidelines**

During 2005, investment guidelines allowed the use of derivative contracts in the Distribution, Fixed Interest, Managed and Constant Proportion Portfolio Insurance internal linked funds. The derivatives and use thereof was restricted to that permitted by Appendix 3.2. The use of derivatives was not permitted in the non-linked funds.

Derivatives are limited to: exchange traded warrants; exchange traded index or stock futures; over the counter put options; forward currency contracts; hedging of overseas holdings into £ sterling; partly paid shares; and convertible bonds. Derivatives must be listed or with an approved counterparty and must be capable of being readily closed out at a price the basis of which is pre-determined. Exchange traded index and stock futures must be based on underlying assets which are themselves permitted links.

b. **Derivatives where exercise is unlikely**

The Company was not subject to any counterparty derivative exposure during the financial year.

c. **Quantification of derivatives in (b) above**

The Company was not subject to any counterparty derivative exposure during the financial year.

d. **Effect on Form 13 of exercising derivatives where it would be prudent to assume options would be exercised**

The Company was not subject to any counterparty derivative exposure during the financial year.

e. **Effect on Form 13 of exercising all derivatives**

The Company was not subject to any counterparty derivative exposure during the financial year.

f. **Effect on Form 13 during the financial year**

The Company was not subject to any counterparty derivative exposure during the financial year.

g. **Maximum loss which would be incurred by the Company**

The Company was not subject to any counterparty derivative exposure during the financial year.

h. **Provisions for reasonably foreseeable variations arising from derivative contracts, rule PRU 4.3.17R**

The Company was not subject to any counterparty derivative exposure during the financial year.

i. **Consideration received for granting rights under derivative contracts**

The investment guidelines did not allow the writing of options.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2005**

### **Rule 9.30 Statement on Shareholder Controllers**

The following companies were shareholder controllers of Prudential Holborn Life Limited for the year: Prudential Financial Services Limited, being its immediate holding company, holding 100% of its issued share capital and voting power ; and Prudential plc, being its ultimate holding company, holding 100% of the issued share capital and voting power of Prudential Financial Services Limited.