Registered No. 793051

PRUDENTIAL HOLBORN LIFE LIMITED

Annual Report and Accounts for the year ended 31st December 2006

PRUDENTIAL HOLBORN LIFE LIMITED

Incorporated and registered in England and Wales Registered no: 793051

Registered office: Laurence Pountney Hill, London, EC4R OHH.

Annual report and accounts 2006

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PRUDENTIAL HOLBORN LIFE LIMITED

Directors

D J Belsham (Chairman)
R Harris

Secretary

Prudential Group Secretarial Services Limited

Auditors

KPMG Audit PLC
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

PRUDENTIAL HOLBORN LIFE LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006

Principal activity

The principal activity of the Company is the writing of long-term insurance business in the United Kingdom. This activity will continue in 2007.

Business review

The company primarily accepts reassurance from the Prudential Assurance Company Limited in respect of unit linked bonds. Although the Company does not write new direct business it has in-force policies in respect of business written in the past. All of the company's products are unit-linked products. The profits from the company's business accrue solely to shareholders.

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. The operations of UKIO are structured into three business units: Retail Retirement; Wholesale and Mature Life and Pensions. The operations of the Company fall into the Mature, Life and Pensions unit. UKIO has committed to continuing to safeguard the embedded value through the Mature Life and Pensions unit. It has an aggressive target to reduce per policy unit processing costs by internal cost cutting, further off-shoring and possible outsourcing.

Risks & uncertainties

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

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

Further detail about the key risks and uncertainties affecting the Company is provided in the sections Financial risk management, Market risk, Credit Risk and Liquidity risk in note 7 and in the financial statements of the parent company, Prudential Assurance Company Limited.

Performance and measurement

The results of the Company for the year as set out on pages 7 to 8 show a profit on ordinary activities before tax of £17,678,000 (2005: £5,067,000).

The shareholders' funds of the Company total £48,661,000 (2005:£35,749,000).

Corporate responsibility

The Company is a wholly owned subsidiary within the Group, Prudential plc, and as such forms a part of the overall approach to corporate responsibility (CR) for the Group. For the Group, CR is not an optional extra. It is fundamental to how the Group and its businesses and functions operate and is a philosophy that is now embedded therein. It is recognised that stakeholders increasingly support those companies that define and exhibit sound values around trust, ethics and environmental responsibility.

It is also believed that performance in key areas of conduct such as corporate governance, environmental management and employment practices can have a significant impact on its financial performance. 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, the CR policy and Health and Safety Policy. "Treating Customers Fairly" is a key ethic on which the Company conducts its business.

There is also a Corporate Responsibility Committee which is Group-wide and has responsibility for reviewing business conduct and social and environmental policy. A CR unit develops the Group's strategy, provides training across the Group and works closely with the businesses and functions, of which the Company is a part, to provide advice and ensuring that core values are maintained and assisting with the adaptation of Group-wide initiatives to meet local needs.

Post balance sheet events

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

Accounts

The state of affairs of the Company at 31 December 2006 is shown in the balance sheet on page 10. The profit and loss account appears on pages 7 to 8.

Share capital

There were no changes in the Company's share capital during 2006.

Dividends

No dividend is proposed for the year (2005: 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.
Mrs R Harris was appointed directors of the Company on 30 October 2006. Mr R C Everett, Mr B Hurd resigned as directors on 19 May 2006 and 2 November 2006 respectively. There were no other changes during the year.

Directors' interests

Of the directors in office at the end of the year, Mr D J Belsham and Mrs R Harris were directors of the immediate parent company, The Prudential Assurance Company Limited, and their interests are shown in the annual report and accounts of that company.

Disclosure of information 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 / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Financial Instruments

The Company is exposed to financial risk through its financial assets, financial liabilities, and policyholder liabilities. The financial risk factors affecting the Company include market risk, credit risk and liquidity risk. Information on the financial risk management objectives and policies of the Company and the exposure of the Company to the financial risk factors is given in note 7 on pages 19 to 23.

The Company holds and has held no derivatives in the year under review.

Auditor

In accordance with Section 386 of the Companies Act 1985, an elective resolution has been passed by the Company dispensing with the need to appoint an auditor annually. Accordingly, KPMG Audit Plc will be deemed to be reappointed auditor of the Company for the current financial year.

Qualifying third party indemnities

The Articles of Association of the Company provide for the directors and officers of the Company to be indemnified in respect of liabilities incurred as a result of their office. Prudential plc also provides certain protections for directors and senior managers of companies within the Prudential Group against personal financial exposure that they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined under section 309B of the Companies Act 1985) in force for the benefit of the directors of Prudential plc and of certain directors of associated companies (as defined under section 309A of the Companies Act 1985) at the time this directors' report was approved under section 234A of the Companies Act 1985 and during 2006.

On behalf of the board of directors

Prudential Group Secretarial Services Limited
Secretary

29 March 2007

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 the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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.

D J Bell

D J Belsham
Chairman

29 March 2007

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 2006 which comprise the Profit and Loss Account, the Balance Sheet, Reconciliation of Movement in Shareholders' fund and the related notes.

These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

29 March 2007

PRUDENTIAL HOLBORN LIFE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006

Technical Account - Long Term Business	Note	2006 £000	2005 £000
Earned premiums, net of reinsurance			
Gross premiums written	2	896	661,289
Outwards reinsurance premiums	2	526	1,124
		1,422	662,413
Investment income	3	87,501	105,312
Unrealised gains on investments	3	67,410	70,316
Other Technical Income		3,759	-
		160,092	**838,041**
Claims incurred, net of reinsurance			
Claims paid - gross amount		(51,093)	(211,157)
- reinsurers' share		16,258	16,750
		(34,835)	(194,407)
Change in the provision for claims – gross amount	10	968	228
		(33,867)	**(194,179)**
Change in other technical provisions, net of reinsurance			
Long term business provision, net of reinsurance			
- gross amount		11,089	(3,634)
- reinsurers' share		(3,768)	(1,081)
	10	7,321	(4,715)
Change in technical provision for linked liabilities, net of reinsurance	10	(60,885)	(604,293)
		(53,564)	**(609,008)**
Other charges			
Net operating expenses			
- Administrative expenses		(1,740)	(4,448)
- Change in deferred acquisition costs		(3,202)	-
Investment expenses and charges	3	(20,711)	(14,377)
Tax attributable to long term business	4	(34,116)	(12,657)
		(59,769)	**(31,482)**
Balance on the technical account - long term business		**12,892**	**3,372**

All of the amounts above are in respect of continuing operations.
The notes on pages 11 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2006 (continued)

Non-Technical Account	Notes	2006 £000	2005 £000
Balance on the long term business technical account		**12,892**	**3,372**
Tax credit attributable to the long term business technical account		4,757	1,445
Balance on the long term business technical account before tax		17,649	4,817
Investment income	3	29	250
Profit on ordinary activities before tax		17,678	5,067
Tax charge on profit on ordinary activities	4	(4,766)	(1,520)
Profit for the financial year	10	**12,912**	**3,547**

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 are in respect of continuing operations.

The notes on pages 11 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 DECEMBER 2006

	2006 £000	2005 £000
Profit for the financial year	**12,912**	**3,547**
Shareholders' funds at beginning of year as originally reported	36,267	32,720
Effect of FRS 26 on opening balance sheet	(518)	-
Shareholders' finds at beginning of year as restated	35,749	32,720
Shareholders' funds at end of year	**48,661**	**36,267**

The notes on pages 11 to 26 form an integral part of these financial statements.

PRUDENTIAL HOLBORN LIFE LIMITED

BALANCE SHEET AS AT 31 DECEMBER 2006

	Notes	2006 £000	2005 £000
Assets			
Investments			
Other financial investments	7	100,235	80,873
Assets held to cover linked liabilities	8	1,942,080	1,733,396
Reinsurers' share of technical provisions			
Long term business provision	10	13	3,781
Technical provision for linked liabilities	10	174,208	171,464
		174,221	175,245
Debtors			
Other debtors	9	1,436	1,250
Other assets			
Cash at bank and in hand	16	8,615	823
Prepayments and accrued income			
Accrued interest		198	333
Total assets		2,226,785	1,991,920
LIABILITIES			
Capital and reserves			
Called up share capital	17	11,000	11,000
Profit and loss account	10,18	37,661	25,267
Total shareholders' funds attributable to equity interests		48,661	36,267
Technical provisions			
Long term business provision	10,11	933	12,534
Claims outstanding	10	1,807	2,775
		2,740	15,309
Technical provisions for linked liabilities	10,12	2,106,464	1,891,392
Provisions for other risks and charges			
Provision for deferred taxation	13	30,306	2,983
Other provisions	14	1,279	2,762
		31,585	5,745
Creditors			
Creditors arising out of reinsurance operations		4,544	7,326
Other creditors including taxation and social security	15	32,791	35,881
		37,335	43,207
Total liabilities		2,226,785	1,991,920

The accounts on pages 7 to 26 were approved by the Board of directors on 29 March 2007.

D J Belsham
Chairman

D J Belsham

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE ACCOUNTS

1. Accounting policies

(a) Change in accounting policies

The Company has implemented the following accounting standards in preparing its results for the year ended 31 December 2006. These standards closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing implementation of IFRS in the UK.

FRS 23 "The effects of changes in foreign exchange rates", FRS 24 "Financial reporting in Hyperinflationary economies", FRS 25 "Financial Instruments: Disclosures and Presentation" and FRS 26 "Financial instruments: Measurement".

These accounting standards are part of a package of standards comprising FRS 23, FRS 24, the disclosure requirements of FRS 25 and FRS 26. The Company adopted these standards on 1 January 2006. The presentation requirements of FRS25 were adopted by the Company from 1 January 2005.

The main impacts of the adoption of these standards are described below:

FRS 23 "The effects of changes in foreign exchange rates"

The adoption of this standard has no impact on the balance sheet or profit and loss account of the Company. However, certain changes have been made on the disclosure relating to foreign exchange differences as a result of adopting this standard.

FRS 24 "Financial reporting in hyperinflationary economies"

The adoption of this standard has no impact on the results of the Company.

FRS 25 "Financial instruments: disclosures and presentation"

FRS 25 is based on the text of IAS 32 "Financial instruments: disclosures and presentation" as at 31 March 2004, incorporating the revised version of IAS 32 issued by the IASB in December 2003 and includes amendments made by IFRS 4 "Insurance contracts".

The disclosures required under FRS 25 are set out in Note 7. The Company has taken advantage of the provisions within FRS 25 that allows the comparatives not to be restated to comply with this standard in the first year of adoption.

FRS 26 "Financial instruments: measurement"

FRS 26 is based on the text of IAS39, "Financial instruments: recognition and measurement" as at 31 March 2004, incorporating the revised version of IAS39 issued by the IASB in December 2003 together with the amendments to IAS39 on "Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk" and those made by IFRS 4 "Insurance contracts".

As with FRS 25, the comparative information has not been restated to comply with this standard.

Certain provisions of the Statement of Recommended Practice, "Accounting for Insurance Business", issued in December 2005 (as amended in December 2006) by the Association of British Insurers ABI SORP ("the ABI SORP") relating to application of FRS 26 also became effective for the Company upon its adoption of FRS 26 in 2006. The principal effects of adopting FRS 26 arise in the Company's long-term business contracts and financial assets.

1. Accounting policies (continued)

Long-term business

On adoption of FRS 26, the measurement basis of assets and liabilities of long term business contracts is dependent upon the classification of the contracts as either insurance contracts, if the level of insurance risk is significant, or investment contracts if the risk is insignificant. Insurance contracts and investment contracts with discretionary participation features are to be accounted for under previously applied UK GAAP, which is as set out in the ABI SORP. Discretionary participation features represent the contractual right to receive additional benefits as a supplement to guaranteed benefits. The Company's insurance contracts and investment contracts with discretionary participation features are primarily protection policies.

For investment contracts without discretionary participation features, FRS 26 and where the contract includes an investment management element, the provisions of ABI SORP apply measurement principles to the assets and liabilities attaching to the contract that may diverge from those applied under the previous UK GAAP. The changes primarily arise in respect of deferred acquisition costs, deferred income reserves and provisions for future expenses commonly called "sterling reserves".

The investment contract without discretionary participation features classification applies primarily to certain unit-linked and similar contracts written by the Company.

Under previous UK GAAP, acquisition costs were deferred with amortisation on a basis commensurate with the anticipated emergence of margins under the contract. Under FRS 26 and the ABI SORP, the costs potentially capable of deferral are limited to incremental costs which are directly attributable to securing investment management contracts. These are recognised as an asset that represents the entity's contractual right to benefit from providing investment management services which is amortised as the entity recognises the related revenue. Deferred acquisition costs are amortised to the long-term business technical account in line with service provision.

Deferred income provisions for front-end fees and similar arrangements are required to be established for these contracts with amortisation over the expected life of the contract in line with service provision.

Sterling reserves are not permitted to be recognised under FRS 26.

A further feature is that these investment contracts without discretionary participation features are closer in nature to a deposit style arrangement between the investors and the Company. Premiums and withdrawals for these contracts are recorded within the balance sheet as a movement on the investors liability and the long-term business technical account reflects fee income, expenses and taxation on the contract. The provisions for investment contracts without discretionary participation features are included in Technical Provisions for Linked Liabilities in the balance sheet. FRS26 impacts the following captions in the Long Term Business Technical Account: gross premiums written, outwards reinsurance premiums, claims paid gross amount, claims paid reinsurers' share, net operating expenses, investment income (inclusion of policy fees for administration and management services) and change in technical provisions for linked liabilities.

Financial Investments

The other main impact arising from the adoption of FRS 26 is in relation to recognition and measurement of financial instruments (other than long-term business contracts classified as financial instrument as described above). Upon initial recognition, financial investments are measured 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:

1. **Accounting policies (continued)**

(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. These investments are valued at fair value with all changes thereon being recognised in the profit and loss account.

Under the previous UK GAAP, quoted financial investments are carried at market value at the mid-market prices. Upon the adoption of FRS 26, the Company uses bid prices to value its quoted financial investments.

(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 were held at fair value under the previous UK GAAP. Under FRS 26, 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.

The effects of the changes in accounting policies from the adoption of the standards above on opening shareholders' funds and profit and loss account are as follows:

	Profit and loss account	Shareholders' funds
	£000	£000
31 December 2005 as previously published	25,267	36,267
Effect of adoption of FRS 26:		
Valuation of quoted securities at bid valuation	163	163
Deferred acquisition costs	2,241	2,241
Deferred Income Reserve	(3,383)	(3,383)
Sterling reserves	461	461
1 January 2006 (including FRS 26 adjustments)	24,749	35,749

No quantitative details of the effects of the adoption of these standards on the results of the Company for the year ended 31 December 2006 have been given as it is not practical to do so.

(b) Basis of preparation

The financial statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements comply with applicable accounting standards and the ABI SORP, and have been prepared under the historical cost accounting rules, modified to include the revaluation of investments.

The Company has taken advantage of the exemption under FRS1 (Revised) from preparing a cash flow statement. The Company has not presented a capital position statement with supporting disclosures under FRS 27 on the basis that the Company is more than 90 per cent owned within a group and the Company is included in the publicly available Prudential group financial statements which provide information on a group basis complying with this requirement.

1. Accounting policies (continued)

(c) Long term business

Technical account treatment - 2005

Premiums are accounted for when the liabilities arising from the premiums are created.

The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges are amortised against margins in future revenues on the related insurance contracts for non-profit business.

Bonus additions made to policies are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred.

Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified.

Investment income and realised and unrealised investment gains attributable to the long-term business are credited to the long-term business technical account.

Profits comprise actuarial surpluses allocated to shareholders adjusted for movements in the shareholder's interest in reserves held within the long-term funds.

Technical account treatment - 2006

For 2006, upon the adoption of FRS 26 and the related provisions within the ABI SORP, the recognition basis in the technical account remains the same except for investment contracts which do not contain discretionary participation features, where the accounting reflects the deposit nature of the arrangement, with premiums and claims reflected as deposits and withdrawals taken directly to the balance sheet.

Investment contracts without discretionary participation features are required to be accounted for as financial liabilities with FRS 26 and where relevant, the provisions of the ABI SORP, in respect of the attaching investment management features of the contracts. The Company's investment contracts primarily comprise certain unit-linked savings contracts.

Incremental, directly attributable acquisition costs relating to the investment management element of these contracts are capitalised and amortised in line with related revenue. If the contracts involve up-front charges, this income is also deferred and amortised through the technical account in line with contractual service provision.

The assumptions used to calculate the long-term business provisions are described in note 11.

In response to change to FSA reserving regulations as detailed in the Financial Services Authority Policy Statement PS06/14, the following changes have been made to the calculation of the long term business provisions for business in the non-profit sub-fund:

(i) for linked insurance business, the existing non-unit reserve has been replaced by a non-unit reserve at an individual policy level which provides for directly attributable expenses only, and a separate reserve for non-attributable expenses which is calculated at a homogenous risk group level. Each homogenous risk group includes policies with similar expense risk characteristics.

1. Accounting policies (continued)

(ii) prudent lapse rates have been assumed in the calculation at the homogenous risk group level of the non-unit reserves for linked insurance business, and the reserves for most non-linked protection insurance business excluding credit life. The non-unit reserves at a homogenous risk group level have been set to be sufficient to avoid future valuation strains, so that future contributions will not be necessary to maintain the appropriate level of reserves on the basis of the assumptions made

(d) Investments

(i) *Investment valuation*

Linked Assets. These assets are included at fair value or, in the case of properties, on the basis of an annual external professional valuation by Allsop & Co, Chartered Surveyors, conducted in accordance with the RICS Appraisal and Valuation Manual. Securities are valued at a market bid price.

Under the Companies Act 1985 land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The directors consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

Non-Linked Assets. These assets are valued on the basis of fair value quotations where available and in all other cases at values determined by the directors. Listed investments are shown at fair value. Unlisted investments and mortgages and loans are shown at directors' valuation.

(ii) *Realised gains and losses on investments*

Realised gains and losses on investments represent the difference between the value on disposal and the original cost.

(iii) *Unrealised gains and losses on investments*

Unrealised gains and losses on investments represent the difference between the market value or directors' valuation (as appropriate) and the original cost. The movement in unrealised investment gain/losses includes an adjustment for previously recognised gains/losses on investments disposed of in the accounting period.

(e) Long term business provision

The long term business provision is determined by the Company's directors based on advice from the Company's actuarial function holder, who determined the provision using recognised actuarial methods, with due regard to the actuarial principles laid down in Directive 2002/83/EC. It is calculated initially on a statutory solvency basis to comply with the reporting requirements under the Financial Services and Markets Act 2000. The valuation is then modified to remove certain resilience, contingency and other reserves required by the Prudential Sourcebook issued by the Financial Services Authority.

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

NOTES TO THE ACCOUNTS (continued)

1. Accounting policies (continued)

The interest rates used for discounting claim payments are derived from the yield on the assets held and makes allowance for potential defaults on those assets. Historical market rates of defaults have been investigated. The analysis takes into account credit rating, term to redemption and security. Using this information, default rates are derived appropriate to the assets within the portfolio. (See Note 11.)

(f) Technical provision for linked liabilities

The technical provision for linked liabilities is based on the fair value of the related assets. The liability under unit linked investment contracts is measured by reference to the value of the underlying units as the counterparty has the right to demand payment at any time.

(g) Investment return

Interest receivable is accounted for on an accruals basis. Dividend income, grossed up where appropriate by the imputed tax credit, is recognised when the related investment goes "ex dividend".

(h) Tax

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

(i) Foreign currencies

Foreign currency revenue transactions are translated at average exchange rates for the year. Foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences on long-term business and on net investments in foreign enterprises less matching borrowings are taken to reserves. Other exchange differences are included in the profit and loss account.

2. Segmental analysis

(a) Gross Premiums

	2006 £000	2005 £000
Regular premiums - direct	896	1,990
Single premiums		
- intragroup reassurance accepted	-	659,299
- outwards reassurance	526	1,124
Net premiums	1,422	662,413

All premiums are in respect of individual life business where the investment risk is borne by policyholders, and transacted within the UK. All premiums are in respect of investment linked contracts. The annualised gross value of new premiums (other than single) is £Nil (2005: £Nil).

New business premiums include those contracts excluded from premium income in the 2006 technical account under FRS26 and the ABI SORP (as amended in December 2006). These are investment contracts without discretionary participation features and carry no significant insurance risk. New business premiums were all in respect of intragroup reassurance accepted, life and amounted to £446,184,000 (2005: £661,748,000).

(b) Assets attributable to the long term business fund

Of the total amount of assets shown on page 10, £2,197,039,000 (2005: £1,972,194,000) is attributable to the long-term business fund.

3 Investment return

	Long term business technical account		Non technical account	
	2006 £000	2005 £000	2006 £000	2005 £000
Investment Income				
Income from land and buildings	4,844	17,388	-	-
Income from other investments	51,113	41,170	29	250
Gains on the realisation of investments	31,544	46,754	-	-
	87,501	105,312	29	250
Investment expenses and charges				
Investment managers' expenses	(20,590)	(14,249)	-	-
Interest payable on death claims	(121)	(128)	-	-
Unrealised gains on investments	67,410	70,316	-	-
Total investment return	134,200	161,251	29	250

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE ACCOUNTS (continued)

4. Taxation

	Long term business technical account		Non technical account	
	2006	2005	2006	2005
	£000	£000	£000	£000
(a) Analysis of charge in the period				
Current tax				
UK Corporation tax on profits of the period	6,730	14,449	9	75
Shareholder tax attributable to the balance on the long term technical account	-	-	4,757	1,445
Adjustments in respect of prior years	537	(445)	-	-
Total current tax	7,267	14,004	4,766	1,520
Deferred tax				
Origination and reversal of timing differences	27,291	(1,120)	-	-
Adjustments in respect of prior years	(442)	(227)	-	-
	26,849	(1,347)	-	-
Tax charge on profit on ordinary activities	34,116	12,657	4,766	1,520

(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 tax 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.

	2006	2005
	£000	£000
Profit on ordinary activities before tax	17,678	5,067
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 : 30%)	5,303	1,520
Effects of		
Permanent differences	(537)	-
Current tax charge for the period	4,766	1,520

5. Auditors' remuneration

The remuneration of the auditors in respect of the audit of the Company's accounts amounted to £22,202 (2005 total audit fee: £9,228). The remuneration of the auditors in respect of other services pursuant to legislation, including the audit of the regulatory return amounted to £8,000 (2005: £8,000)

6. Directors' emoluments and staff costs

The directors of the Company received emoluments of £25,044 during the year in connection with services to the Company (2005: £9,533). Retirement benefits are accruing to all of the directors under the Group's defined benefit scheme. The Company has no employees. Included within net operating expenses are amounts paid in return for management services provided to the Company by other group companies.

7. Investments

Other financial investments

	Current Value		Cost	
	2006	**2005**	**2006**	**2005**
	£000	**£000**	**£000**	**£000**
Debt securities and other fixed income securities	8,909	9,325	8,287	8,230
Loans secured by insurance policies	248	248	248	248
Deposits with credit institutions	91,078	71,300	91,078	71,300
	100,235	80,873	99,613	79,778

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

a. Financial instruments

(i) Designation and fair values

On application of FRS26 all financial assets of the Company are designated as either fair value through profit and loss or loans 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 FRS26 and the ABI SORP as described in the Accounting Policies section.

2006	**Fair value through profit and loss**	**Loans and receivables**	**Total carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Deposits with credit institutions	-	91,078	91,078	91,078
Debt securities	8,820	-	8,820	8,820
	8,820	91,078	99,898	99,898

2006	**Fair value through profit and loss**	**Amortised cost**	**Total carrying value**	**Fair value**
	£000	**£000**	**£000**	**£000**
Financial Liabilities				
Amounts due to group undertakings		18,621	18,621	18,621
Corporation tax payable		4,196	4,196	4,196
Sundry creditors		9,974	9,974	9,974
	-	32,791	32,791	32,791

7. **Investments (continued)**

(ii) Determination of fair value

The fair values of quoted investments are based on current bid prices, where appropriate. If the market for a financial asset is not active, fair value is established using quotations from independent third parties such as brokers or by using valuation techniques. The valuation techniques include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option adjusted spread models and enterprise valuation and 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.

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 holding of a particular financial instrument, nor do they consider the tax impact of the realisation of unrealised gains or losses. In some cases the fair value estimates cannot be substantiated by comparison to independent markets, nor can the disclosed value be realised in immediate settlement of the financial instrument.

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

The estimated fair value of derivative instruments reflects the estimated amount the Company would receive or pay in an arm's length transaction. The amount is determined using quotations from independent third parties or valued internally using standard market practices. In accordance with the Company's risk management framework, all internally generated valuations are subject to independent assessment against external counterparties' valuations.

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.

Use of valuation techniques

At 31 December 2006, the Company held investments with a fair value of £100m (2005: £80.9m) which were measured in full or in part using valuation techniques. The majority of these assets are debt securities, which are valued internally using standard practices. These practices are based on assessing the credit quality of the underlying borrower to derive a suitable discount rate relative to government securities. In accordance with the Company's risk management framework, all internally generated valuations are subject to independent assessment. Changing any one of the underlying assumptions used in determining the fair value would not have a significant impact on the value of the assets.

The total amount of the change in fair value estimated using valuation techniques, including valuation techniques based on assumptions not wholly supported by observable market prices or rates, recognised in the profit and loss account in 2006 was a loss of £0.4m.

Interest income and expense

The interest income on financial assets not at fair value through profit and loss was £4.1m for the year ended 31 December 2006.

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE ACCOUNTS (continued)

7. **Investments (continued)**

The interest expense on financial liabilities not at fair value through profit and loss was nil for the year ended 31 December 2006.

b. **Market Risk**

(i) Interest rate risk

The following table shows an analysis of the classes of financial assets and liabilities with 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.

2006	**Fair value interest rate risk**	**Total**
	£000	**£000**
Financial Assets		
Deposits with credit institutions	91,078	91,078
Debt securities	8,820	8,820
	99,898	99,898

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.

2006	**Balance of financial instruments not at fair value through profit and loss**	**Range of effective interest rates applicable as at 31 Dec 2006**	
		Lower end	**Higher end**
Financial Assets	**£000**	**%**	**%**
Deposits with credit institutions	91,078	5.11	5.25
Debt securities	8,820	4.01	4.01
	99,898		

In relation to interest rate exposure, the following table sets out the earlier of contractual maturities and repricing dates for applicable classes of financial instruments. Note that none is more than one year.

2006	**1 year or less**	**Total carrying value**
	£000	**£000**
Financial Assets		
Deposits with credit institutions	91,078	91,078
Debt securities	8,820	8,820
	99,898	99,898

(ii) Currency Risk

As at 31 December 2006, all of the financial assets and liabilities of the Company are held in sterling.

7. Investments (continued)

c. Derivatives

As at 31 December 2006, the Company held no derivatives.

d. Concentration of credit risk

The financial assets held as at 31 December 2006 are all UK gilts or sterling denominated deposits with UK banks.

e. Impairment of financial assets

During the year no significant amounts have been recognised for impairment losses.

f. 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.

(i) Market risk

Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary market risks that the Company faces are equity risk and interest rate risk because most of its assets are investments that are either equity type of investments and subject to equity price risk, or bonds, mortgages or cash deposits, the values of which are subject to interest rate risk. The amount of risk borne by the Company's shareholders depends on the extent to which its customers share the investment risk through the structure of the Company's products.

The split of the Company's investments between equity investments and interest-sensitive instruments depends principally on the type of liabilities supported by those investments and the amount of capital the Company has available. This mix of liabilities allows the Company to invest a substantial portion of its investment funds in equity and real estate investments that the Company believes produce greater returns over the long term. On the other hand the Company has some liabilities that contain guaranteed returns which generally will be supported by fixed income investments.

PRUDENTIAL HOLBORN LIFE LIMITED

NOTES TO THE ACCOUNTS (continued)

7. Investments (continued)

(ii) Credit risk

Credit risk is the risk that a counterparty or an issuer of securities, which the Company holds in its asset portfolio, defaults or another party fails to perform according to the terms of the contract. The Company's long-term fund holds large amounts of interest rate sensitive investments that contain credit risk on which a certain level of defaults is expected. These expected losses are considered when the Company determines the crediting rates, deposit rates and premium rates for the products that will be supported by these assets. The Company is also exposed to credit-related losses in the event of non-performance by counterparties.

(iii) Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet payment of obligations in a timely manner at a reasonable cost or the risk of unexpected increases in the cost of funding the portfolio at appropriate maturities or rates. Liquidity management in the Company seeks to ensure that, even under adverse conditions, the Company has access to the funds necessary to cover surrenders, withdrawals and maturing liabilities.

In practice, most of the Company's assets are marketable securities. This, combined with the fact that a large proportion of the liabilities contains discretionary surrender values or surrenders charges, reduces the liquidity risk.

8. Assets held to cover linked liabilities - at current value

	2006 £000	2005 £000
Land and buildings	93,187	64,819
Shares and units in unit trusts	1,487,534	1,229,521
British government securities - fixed income	71,603	64,290
Debentures and loan stocks	174,216	117,857
Deposits with credit institutions	25,142	243,778
Tax recoverable	96	85
Other assets held to cover linked liabilities	90,302	13,046
	1,942,080	1,733,396
Assets held to cover linked liabilities - at cost	1,703,670	1,529,736

Included in the carrying values above are amounts in respect of listed investments as follows:

	2006 £000	2005 £000
Shares and other variable yield securities and units in unit trusts	1,487,534	1,229,521
British government securities - fixed income	71,603	64,290
Debentures and loan stocks	174,216	117,857
	1,733,353	1,411,668

Linked assets are stated gross of accounting liabilities of £9.8m giving rise to the surplus assets over liabilities.

9. Other debtors

	2006 £000	2005 £000
Tax recoverable	180	306
Sundry debtors	1,256	944
	1,436	1,250

10. Reserves and Policyholder Liabilities, net of reinsurance

	Long-term business provision net of reinsurance £000	Claims outstanding £000	Provision for linked liabilities net of reinsurance £000	Profit and Loss Account £000
Balance at 1st January 2006	8,753	2,775	1,719,928	25,267
Deposits received from policyholders under investment contracts	-	-	445,051	-
Payments made to policyholders of investment contracts	-	-	(293,608)	-
Movement in technical provisions for the year	(7,321)	(968)	60,885	-
Movement in profit and loss account	-	-	-	12,912
Effect of FRS 26 on opening balances	(512)	-	-	(518)
Net balance at 31st December 2006	920	1,807	1,932,256	37,661

11. Long term business provision

The long term business provision has been calculated by the Company's Actuarial Function Holder. For unit linked business the long term business provision comprises provisions for:

(a) future expenses and other mortality risks, and
(b) unit price timing adjustments.

The provision for future expenses is calculated using a discounted cash-flow method. The level of expenses allowed for has been increased broadly in line with inflation. In addition, an explicit allowance has been made for the effect of regular income withdrawals. The following changes to the valuation method have been implemented due to the adoption of the new FSA regulations in policy statement PS 06/14:

(i) The introduction of lapse rates into the calculation of non-unit reserves at a homogenous risk group level for linked business.

(ii) The split of renewal expenses into those which are directly attributable to a policy and those which are non-attributable.

Valuation interest rates and other economic assumptions reflect current market yields.

There have been no other significant changes in the bases or assumptions adopted for the calculation of the long term business provision during the year.

11. Long term business provision (continued)

The unit-linked provisions have been calculated on the following bases:

	2006	2005
Discount Rate	3.20% net	3.00% net
Fund Growth	4.20% net	4.0% net
Expense Inflation	3.75% pa	3.5% pa
Mortality	AM/AF92-3	AM/AF92-3
Expenses - Single Premium	£42.41 gross	£33.17 gross
Expenses - Regular Premium - per policy	£72.49 gross	£56.65 gross

12. Technical provision for linked liabilities

The technical provision for linked liabilities comprises provision for the value of units attributed to policyholders.

13. Provision for deferred taxation

	2006 £000	2005 £000
Provision for deferred tax		
Capital allowances	1,743	1,844
Deferred acquisition costs	(2)	(5)
Policy reserves	1,936	1,144
Unrealised gains	26,629	-
Undiscounted provision for deferred tax liability	30,306	2,983
Deferred tax at start of period	2,983	4,330
Cumulative effect of changes in accounting policy on adoption of FRS26 and applicable taxes at 1 January 2006	474	-
Deferred tax charged/(credited) to technical account for the period	26,849	(1,347)
Deferred tax liability at the end of the period	30,306	2,983

14. Other provisions

The company has instigated two reviews of pricing issues underlying unit trust charges in the linked funds and has set up reasonable and prudent provisions to cover the cost of performing the reviews and the cost of any contingent loss, if any, arising out of the reviews' findings. The expected completion of the reviews is 2007.

	2006 £000	2005 £000
Balance at 1 January	2,762	2,557
Provided in year	835	1,577
Paid in year	(2,318)	(1,372)
Balance at 31 December	1,279	2,762

15. Other creditors including taxation and social security

	2006 £000	2005 £000
Amounts due to group undertakings	18,621	15,941
Corporation tax payable	4,196	6,407
Sundry creditors	9,974	13,533
	32,791	35,881

16. 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.

17. Share capital

The authorised, issued and fully paid up share capital of the Company amounts to eleven million ordinary shares of £1 each.

18. Transfer to the Profit and Loss account

	2006 £000	2005 £000
Distributable profit		
Balance at beginning of year	8,726	(351)
Transfer for the year	10,020	9,077
Balance at end of year	18,746	8,726
Non-distributable profit		
Balance at beginning of year	16,541	22,071
Transfer for the year	2,374	(5,530)
Balance at end of year	18,915	16,541
	37,661	25,267

Distributable profit relates to surplus allocated out of the long term fund by the Directors on advice from the Company's Actuarial Function holder as a result of an actuarial investigation whereas non-distributable profit relates to surplus which has not yet been allocated out of the long-term fund.

19. Related party transactions

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

20. Immediate and ultimate parent company

The immediate parent company is 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 OHH.