

# **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 2006**

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

# Prudential Holborn Life Limited

31 December 2006

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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 2006**

Solo solvency calculation

	Company registration number	GL/ UK/ CM	day month year			Units	
	<b>R2</b>	<b>793051</b>	<b>GL</b>	<b>31</b>	<b>12</b>	<b>2006</b>	<b>£000</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>	

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	6719	6240
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	29746	19726
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	36465	25966

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	2618	2158
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	33847	23808

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	7853	6474
Resilience capital requirement	<b>32</b>	3298	640
Base capital resources requirement	<b>33</b>	2139	2030
Individual minimum capital requirement	<b>34</b>	11151	7114
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	11151	7114
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	30890	22409
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	28102	20630

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	11151	7114

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	11151	7114
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	25314	18852

**Contingent liabilities**

Quantifiable contingent liabilities in respect of long-term insurance business as shown in a supplementary note to Form 14	<b>51</b>		
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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 2006**

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

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

\_\_\_\_\_ **M Sheppard**      **Director**

**London**

**Date      March 2006**

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

Global business

Financial year ended **31 December 2006**

	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>2006</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>	

**Core tier one capital**

Permanent share capital	<b>11</b>		11000	11000	11000
Profit and loss account and other reserves	<b>12</b>		37661	37661	25267
Share premium account	<b>13</b>				
Positive valuation differences	<b>14</b>				
Fund for future appropriations	<b>15</b>				
Core tier one capital in related undertakings	<b>16</b>				
Core tier one capital (sum of 11 to 16)	<b>19</b>		48661	48661	36267

**Tier one waivers**

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

**Other tier one capital**

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

<b>Total tier one capital before deductions (19+24+25+26+27+28)</b>	<b>31</b>		48661	48661	36267
Investments in own shares	<b>32</b>				
Intangible assets	<b>33</b>				
Amounts deducted from technical provisions for discounting	<b>34</b>				
Other negative valuation differences	<b>35</b>		12196	12196	10301
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		12196	12196	10301
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		36465	36465	25966

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

Global business

Financial year ended **31 December 2006**

	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>2006</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 2006**

	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>2006</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>	

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	<b>71</b>					
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		36465	36465	25966	
Inadmissible assets other than intangibles and own shares	<b>73</b>					
Assets in excess of market risk and counterparty limits	<b>74</b>					
Deductions for related ancillary services undertakings	<b>75</b>					
Deductions for regulated non-insurance related undertakings	<b>76</b>					
Deductions of ineligible surplus capital	<b>77</b>					
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		36465	36465	25966	

**Available capital resources for GENPRU/INSRU tests**

Available capital resources for guarantee fund requirement	<b>81</b>		36465	36465	25966	
Available capital resources for 50% MCR requirement	<b>82</b>		36465	36465	25966	
Available capital resources for 75% MCR requirement	<b>83</b>		36465	36465	25966	

**Financial engineering adjustments**

Implicit items	<b>91</b>					
Financial reinsurance - ceded	<b>92</b>					
Financial reinsurance - accepted	<b>93</b>					
Outstanding contingent loans	<b>94</b>					
Any other charges on future profits	<b>95</b>					
<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 2006**Category of assets **Total other than long term insurance 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>2006</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 participations	<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>	22284
	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 2006**Category of assets **Total other than long term insurance 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>2006</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>		
	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>	2562	823
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
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>	29746	19726
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total other than long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	793051	GL	31	12	2006	£000	1
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					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)	<b>91</b>	29746	19726
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>		
Other asset adjustments (may be negative)	<b>100</b>		
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)	<b>101</b>	29746	19726
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

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

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance 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>2006</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>	
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 participations	<b>42</b>			
Holdings in collective investment schemes	<b>43</b>	89	77	
Rights under derivative contracts	<b>44</b>			
Fixed interest securities	Approved	<b>45</b>	8820	9248
	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>	248	248	
Other loans	<b>53</b>			
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	46394	8507
	More than one month withdrawal	<b>55</b>	17500	43900
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>	1942080	1733396

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

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance 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>2006</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>	1436	1250
	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>	6053	
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>	198	323
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>	2022818	1796949
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2006**Category of assets **Total long term insurance business assets**

Company registration number	GL/UK/CM	day	month	year	Units	Category of assets	
R13	793051	GL	31	12	2006	£000	10
					<b>As at end of this financial year</b>	<b>As at end of the previous year</b>	
					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)	<b>91</b>	2022818	1796949
Assets in excess of market and counterparty limits	<b>92</b>		
Capital resources requirement deduction of regulated related undertakings	<b>93</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>94</b>		
Inadmissible assets of regulated related insurance undertakings	<b>95</b>		
Book value of related ancillary services undertakings	<b>96</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>97</b>		
Deferred acquisition costs excluded from line 89	<b>98</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>99</b>	174221	175245
Other asset adjustments (may be negative)	<b>100</b>		
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)	<b>101</b>	2197039	1972194
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>102</b>		

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

Global business

Financial year ended **31 December 2006**Total business/Sub fund **10 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>	1946727	1740127
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>	6719	6240
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	1953446	1746367
Claims outstanding	Gross	<b>15</b>	1807	2775
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	1807	2775
Provisions	Taxation	<b>21</b>	28951	1838
	Other risks and charges	<b>22</b>	1279	2762
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>		
	Reinsurance ceded	<b>33</b>	4544	7326
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>		
Creditors	Taxation	<b>37</b>	4196	6407
	Other	<b>38</b>	28595	29474
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>	69372	50582
Excess of the value of net admissible assets		<b>51</b>		
Total liabilities and margins		<b>59</b>	2022818	1796949

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance		<b>61</b>	2171	15941
Amounts included in line 59 attributable to liabilities in respect of property linked benefits		<b>62</b>	1942080	1733396

Total liabilities (11+12+49)		<b>71</b>	2016099	1790709
Increase to liabilities - DAC related		<b>72</b>		
Reinsurers' share of technical provisions		<b>73</b>	174221	175245
Other adjustments to liabilities (may be negative)		<b>74</b>	(12196)	(10301)
Capital and reserves and fund for future appropriations		<b>75</b>	18915	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>	2197039	1972194

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

Global business

Financial year ended **31 December 2006**

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>2006</b>	<b>£000</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>	

**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>	
	Declared dividend	<b>48</b>	
	Other	<b>49</b>	
Accruals and deferred income		<b>51</b>	
Total (19 to 51)		<b>59</b>	
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>	

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>	29746	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>	29746	19726

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

Global business

Financial year ended **31 December 2006**

		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>2006</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>			10000	8900	
Investment income	Income		<b>14</b>			29	250	
	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>			10029	9150	
Tax on profit or loss on ordinary activities			<b>31</b>			9	75	
Profit or loss on ordinary activities after tax (29-31)			<b>39</b>			10020	9075	
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>			10020	9075	
Dividends (paid or declared)			<b>51</b>					
Profit or loss retained for the financial year (49-51)			<b>59</b>			10020	9075	



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

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Earned premiums	11	446473	662413
Investment income receivable before deduction of tax	12	58693	61485
Increase (decrease) in the value of non-linked assets brought into account	13	(415)	582
Increase (decrease) in the value of linked assets	14	98553	116488
Other income	15		
<b>Total income</b>	<b>19</b>	<b>603304</b>	<b>840968</b>

**Expenditure**

Claims incurred	21	326659	194179
Expenses payable	22	25066	21624
Interest payable before the deduction of tax	23	121	128
Taxation	24	34379	13964
Other expenditure	25		
Transfer to (from) non technical account	26	10000	8900
<b>Total expenditure</b>	<b>29</b>	<b>396225</b>	<b>238795</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	207079	602173
Fund brought forward	49	1746367	1144194
Fund carried forward (39+49)	59	1953446	1746367

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

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Regular premiums	11	896			896	1990
Single premiums	12	446184			446184	661748

**Reinsurance - external**

Regular premiums	13					
Single premiums	14	607			607	1325

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	896			896	1990
Single premiums	18	445577			445577	660423

**Total**

Gross	19	447080			447080	663738
Reinsurance	20	607			607	1325
Net	21	446473			446473	662413

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

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

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

**Gross**

Death or disability lump sums	11	31521			31521	20359
Disability periodic payments	12					
Surrender or partial surrender	13	309434			309434	189363
Annuity payments	14					
Lump sums on maturity	15	1962			1962	1207
<b>Total</b>	<b>16</b>	<b>342917</b>			<b>342917</b>	<b>210929</b>

**Reinsurance - external**

Death or disability lump sums	21	5234			5234	4347
Disability periodic payments	22					
Surrender or partial surrender	23	10966			10966	12320
Annuity payments	24					
Lump sums on maturity	25	58			58	83
<b>Total</b>	<b>26</b>	<b>16258</b>			<b>16258</b>	<b>16750</b>

**Reinsurance - intra-group**

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

**Net of reinsurance**

Death or disability lump sums	41	26287			26287	16012
Disability periodic payments	42					
Surrender or partial surrender	43	298468			298468	177043
Annuity payments	44					
Lump sums on maturity	45	1904			1904	1124
<b>Total</b>	<b>46</b>	<b>326659</b>			<b>326659</b>	<b>194179</b>

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

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 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	24617		24617	18432
Management - other	15	449		449	3192
<b>Total</b>	<b>16</b>	<b>25066</b>		<b>25066</b>	<b>21624</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	24617		24617	18432
Management - other	45	449		449	3192
<b>Total</b>	<b>46</b>	<b>25066</b>		<b>25066</b>	<b>21624</b>

**Long-term insurance business : Linked funds balance sheet**Name of insurer **Prudential Holborn Life Limited**

Total business

Financial year ended **31 December 2006**Units **£000**

Financial year	Previous year
1	2

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

Directly held assets (excluding collective investment schemes)	11	1074389	979732
Directly held assets in collective investment schemes of connected companies	12	820145	729154
Directly held assets in other collective investment schemes	13	47546	24510
<b>Total assets (excluding cross investment) (11+12+ 13)</b>	<b>14</b>	<b>1942080</b>	<b>1733396</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	9824	13468
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>1932256</b>	<b>1719928</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	1932256	1719928
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>1932256</b>	<b>1719928</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 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Income**

Value of total creation of units	11	444920	654229
Investment income attributable to the funds before deduction of tax	12	52115	57938
Increase (decrease) in the value of investments in the financial year	13	98553	116488
Other income	14		
<b>Total income</b>	<b>19</b>	<b>595588</b>	<b>828655</b>

**Expenditure**

Value of total cancellation of units	21	326659	197146
Charges for management	22	22275	17033
Charges in respect of tax on investment income	23	6233	6357
Taxation on realised capital gains	24	28093	3826
Increase (decrease) in amount set aside for tax on capital gains not yet realised	25		
Other expenditure	26		
<b>Total expenditure</b>	<b>29</b>	<b>383260</b>	<b>224362</b>

Increase (decrease) in funds in financial year (19-29)	39	212328	604293
Internal linked fund brought forward	49	1719928	1115635
Internal linked funds carried forward (39+49)	59	1932256	1719928

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

Name of insurer **Prudential Holborn Life Limited**  
 Total business  
 Financial year ended **31 December 2006**  
 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	446184		446184	661748
<b>Total</b>	<b>28</b>	<b>446184</b>		<b>446184</b>	<b>661748</b>

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

Name of insurer

**Prudential Holborn Life Limited**

Total business

Financial year ended

**31 December 2006**

Units

**£000**

UK Life / Reinsurance accepted intra-group

Product code number	Product description	Regular premium business		Single premium business	
		Number of policyholders / scheme members	Amount of premiums	Number of policyholders / scheme members	Amount of premiums
1	2	3	4	5	6
700	Life property linked single premium				446184



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

Name of insurer **Prudential Holborn Life Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2006**  
 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	8846	8846	395	4.01%	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15		84			
Non-UK listed equity shares	16		5			
Unlisted equity shares	17					
Other assets	18	71892	71803	3557	4.95%	
<b>Total</b>	<b>19</b>	<b>80738</b>	<b>80738</b>	<b>3952</b>	<b>4.84%</b>	

**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					
<b>Total</b>	<b>29</b>					

**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 **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 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	28
Form 52	13				
Form 53 - linked	14	2106465		2106465	1891393
Form 53 - non-linked	15	14442		14442	23920
Form 54 - linked	16				
Form 54 - non-linked	17				
<b>Total</b>	<b>18</b>	<b>2120935</b>		<b>2120935</b>	<b>1915341</b>

**Reinsurance - external**

Form 51 - with-profits	21				
Form 51 - non-profit	22				
Form 52	23				
Form 53 - linked	24	174208		174208	171465
Form 53 - non-linked	25				3749
Form 54 - linked	26				
Form 54 - non-linked	27				
<b>Total</b>	<b>28</b>	<b>174208</b>		<b>174208</b>	<b>175214</b>

**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	28
Form 52	43				
Form 53 - linked	44	1932257		1932257	1719928
Form 53 - non-linked	45	14442		14442	20171
Form 54 - linked	46				
Form 54 - non-linked	47				
<b>Total</b>	<b>48</b>	<b>1946727</b>		<b>1946727</b>	<b>1740127</b>









**Long-term insurance business : Distribution of surplus**

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **10 Ordinary Long Term**  
 Financial year ended **31 December 2006**  
 Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	1953446	1746367
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	10000	8900
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	1963446	1755267
Mathematical reserves	21	1946727	1740127
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	16719	15140

**Composition of surplus**

Balance brought forward	31	6240	
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	10479	15140
Total	39	16719	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	10000	8900
Total distributed surplus (46+47)	48	10000	8900
Surplus carried forward	49	6719	6240
Total (48+49)	59	16719	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 2006**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**

Life protection reinsurance	11	0.0%					
Classes I (other), II and IX	12	0.1%					
Classes I (other), II and IX	13	0.15%			1.00		
Classes I (other), II and IX	14	0.3%	1	1		0	0
Classes III, VII and VIII	15	0.3%	85	85	1.00	0	0
<b>Total</b>	<b>16</b>		86	86		0	0

**Insurance health risk and life protection reinsurance capital component**

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

Life protection and permanent health reinsurance	31	0%					
Classes I (other), II and IX	32	1%	28	28	1.00	0	0
Classes III, VII and VIII (investment risk)	33	1%	19389	19389	1.00	194	203
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	170983	63622	0.85	1453	1548
Classes III, VII and VIII (other)	35	25%				5623	4111
Class IV (other)	36	1%					
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	<b>39</b>					7270	5863

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	28	28	1.00	1	1
Classes III, VII and VIII (investment risk)	43	3%	19389	19389	1.00	582	610
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	170983	63622			
Classes III, VII and VIII (other)	45	0%	1930535	1863688			
Class IV (other)	46	3%					
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	<b>49</b>		2120935	1946727		583	611

<b>Long term insurance capital requirement</b>	<b>51</b>					7853	6474
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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 2006.
- (2) The previous investigation related to 31 December 2005.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2005.

##### **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 smoothed equity approach is taken to unit pricing. Current practice is as follows.
  - (a) 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.

Units are allocated to and deallocated from policies using a forward pricing basis.

In November 2006 a change was made to the price used to create and cancel units in the linked funds. Units are now created using the creation price and cancelled at the cancellation price rather than the bid price being used for creations and cancellations as was the practice prior to November 2006.

- (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.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

- (8) Realised gains were taxed at 20% on crystallisation 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 quarterly from the fund at a similar rate. No credit is taken for tax relief on realised losses in a fund until they are covered by gains in the same fund. .
- (9) Provisions 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 funds. These provisions are calculated as the net present value of future tax liabilities using a suitable discount rate and are currently between 17.94% to 19.76% of the corresponding liabilities.
- (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. The M&G Authorised Property Unit Trust is dual priced with purchases being made at the creation price and sales at the cancellation price. 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 2006 the total gross mathematical reserves amounted to £2,121m. 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 expense free bid prices.
- (ii) The amount (if any) on Fixed Account.
- (iii) A non-unit reserve for mortality and attributable expenses.
- (iv) An additional reserve for non-attributable expenses calculated at a homogenous risk group level.

The non-unit reserve is calculated as the value of future attributable expenses and renewal commission less the value of future management charges, allowing for regular withdrawals at the current level, and the value of that portion of future premiums not allocated to units.

In the case of regular premium contracts, 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.

Where necessary, 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.

The additional reserve for non-attributable expenses is calculated as described in section 6.(6).

- (2) The valuation interest rate used for linked policies is as follows:

	2006	2005
Valuation interest rate	3.20% p.a. net	3.00% p.a. net

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

(3) Not applicable.

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

For 2006 and 2005: AM92/AF92-3.

(5) Not applicable.

(6)

Product group	31 December 2006	31 December 2005
Linked policies (700)	Renewal expenses (net of tax relief at 20%):- - life single premium business £8.91 p.a. per policy	Renewal expenses (net of tax relief at 20%):- - life single premium business £33.17 p.a. per policy
Linked policies (710 and 715)	- life regular premium business (premium paying) £15.22 p.a. per policy - life regular premium business (non premium paying) £8.91 p.a. per policy	- life regular premium business (premium paying) £56.65 p.a. per policy - life regular premium business (non premium paying) £33.17 p.a. per policy
	There is no specific loading for claim expenses.	There is no specific loading for claim expenses.
	Investment expenses: 0.25% p.a. in respect of direct written business.	Investment expenses: 0.25% p.a. in respect of direct written business.

Figures for 2006 are per policy attributable expenses only. Figures for 2005 are per policy total expenses.

(7) The unit growth rates (before management charges) and the inflation rates assumed for future expenses and future increases in policy charges are as follows:

Unit growth rate	4.20%
Expense inflation rate	3.75%
Policy charge inflation rate	Nil

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

(8) Not applicable.

(9)

		Average lapse/surrender/paidup rates for the policy years			
		1-5	6-10	11-15	16-20
UL savings endowment	PUP	9.0%	6.8%	4.8%	4.2%
UL savings endowment	Surrender	2.2%	2.2%	2.2%	2.2%

(10) There were no other material assumptions not stated elsewhere.

(11) Not applicable.

(12) The effect of changes in valuation methodology arising from changes in INSPRU valuation rules effective from 31 December 2006 was to reduce mathematical reserves as at the valuation date by £5.8m. This includes the effect of allowing for lapses and attributable expenses in the valuation of unit linked business.

### 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 being 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)

Homogeneous risk group	Implicit allowances	Explicit allowances (investment)	Explicit allowances (other)	Non-attributable expenses	Total
Unit linked regular premium	-	£523,659	£96,733	£338,022	£958,414
Unit linked single premium	-	£485,834	£210,312	£791,175	£1,487,321
Total	-	£1,009,492	£307,045	£1,129,197	£2,445,735

(2) Not applicable.

(3) The amount of maintenance expenses shown in line 14 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 2006 this amounted to £21,191,000, which is included in line 14 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.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

- (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 31 December 2006 an additional reserve of £3.3m was held.

- (6) The additional reserve for non-attributable expenses at a homogenous risk group level is calculated as the present value of all futures expenses less charges, subject to a maximum of the non-attributable expenses for policies in that risk group. All future charges and expenses are projected allowing for lapses on a prudent basis. Any future valuation strain is removed at the homogenous risk group level. An additional reserve for non-attributable expenses was not required at 31 December 2006.

### 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 INSPRU 3.1.10R, the most onerous scenario is a combination of a fall in unit prices of 25% and an immediate rise of 93 basis points in the annual yield obtainable on fixed interest securities.
- (5) Not applicable.
- (6) A Resilience Capital Requirement of £3,298,000 has been established.

There was a £2,848,000 increase 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 £27,000.

- (7) No reserve is required for cashflow mismatching under INSPRU 1.1.34R(2).

### OTHER SPECIAL RESERVES

8. At 31 December 2006 the total gross mathematical reserves amounted to £2,121m. The lesser of £10m and 0.1% of the total gross mathematical reserves was therefore equal to £2.1m. The nature and amount of other special reserves exceeding £2.1m are listed below:

Reserve for unpaid profit share	£7.8m
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## **PRUDENTIAL HOLBORN LIFE LIMITED**

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

#### **REINSURANCE**

9. (1) No premiums were paid in 2006 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 2006.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

Reinsurance treaties:

<b>(d) Reinsurer</b>	<b>(e) Nature of cover</b>	<b>(f) Premiums £'000</b>	<b>(h) Open / Closed</b>	<b>(j) Reserves Ceded £'000</b>	<b>(k) Retention</b>
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 pari passu charge on assets.	607	Closed	174,208	50% of first £25,000

- (g) There were no deposit back arrangements under the above treaty.
- (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.

### REVERSIONARY BONUS

10. Not applicable.

## PRUDENTIAL HOLBORN LIFE LIMITED

Financial Year ended 31 December 2006

### Notes to the returns

#### 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, for the period 1 November 2005 to 31 October 2010. 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>2006</b>
	<b>£000</b>
Form 13 Line 89 (Long term) Grand total of admissible assets	2,022,818
Form 14 Line 11 Mathematical reserves, after distribution of surplus	(1,946,727)
Form 14 Line 49 Total other insurance and non-insurance liabilities	(69,372)
Form 13 Line 89 (Other than long term) Grand total of admissible assets	29,746
Form 15 Line 69 Total	0
	<hr/>
	36,465
Form 3 Line 79 Capital resources after deductions	36,465
Difference	<hr/> <hr/> 0

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

	<b>2006</b>
	<b>£'000</b>
Additional reserves held in the long term fund	13,551
Deferred tax on additional reserves held in the long term fund	(1,355)
Form 3 Line 35 Other negative valuation differences	<hr/> <hr/> 12,196



## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2006**

**Notes to the returns (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 omitted, 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 2006**

### **Notes to the returns (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 Postbank AG £4m; IIB Bank £2m; Fortis Bank £3m; Intesabci £4m; Nationwide Building Society £2m; Svenska Handelsbanke £4m; Britannia Building Society £2m; Royal Bank of Scotland £3m; Nordea £2m; Dexia Banque Int Lux £4m; Landesbank Hessen £3m; Royal Bank of Canada £4m; Northern Rock Plc £3m; Anglo Irish Bank £4m; Norddeutsche £2m; Bayerische Landesban £4m; Alliance & Leicester £2.5m Allied Irish Bank Limited £4m; Banco Popolare Dive £4m; Bank of America £4m; Bank of Ireland £4m; BNP Paribas £4m; Bradford & Bingley £1m; Bristol & West plc £4m; Dresdner £2m; Irish Life and Perma £3.5m; KBC Bank NV £2m; Lloyds TSB £3m; SBB £1m; Yorkshire Building Society £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 £1,779.3m. The whole of the amount at Form 13 Line 101 is subject to the charge.

## PRUDENTIAL HOLBORN LIFE LIMITED

Financial Year ended 31 December 2006

### Notes to the returns (continued)

- (b) The long-term business fund held a provision of £26,628,855 (2005: £13,909,679) for potential tax on capital gains in respect of linked business in the long term business fund, in line 21 of Form 14 in 2006 and line 11 of Form 14 in 2005. If properties on which capital allowances have been claimed were disposed of, tax of not more than £1,766,308 (2005: £1,857,935) 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.

#### \*1403\* Provision for deficits

No provision for deficit in any regulated undertaking is included in line 22 of Form 14.

#### \*1405\* Other adjustments to liabilities

	£'000
Negative valuation differences (see note 0310)	12,196
Form 14 Line 74	<u>12,196</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 £8.6m
- (e) There were no fundamental uncertainties.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2006**

**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 £445.1m received under this reinsurance agreement. Also included within claims incurred is an amount of £292.8m 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 £21,190,916 (2005: £16,383,000). 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.

### **Form 48**

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

**PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial year ended 31 December 2006**

**Directors' Certificate pursuant to the Interim Prudential Sourcebook (IPRU(INS)) rule 9.34**

Financial year ended 31 December 2006

We certify:

1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU, and INSPRU 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), GENPRU, INSPRU 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

.....

M Sheppard  
Director

March 2007

## **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 2006

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 IPRU(INS) the Interim Prudential Sourcebook for Insurers, GENPRU the General Prudential Sourcebook and INSPRU the Insurance 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, 40 to 45, 48, 58 and 60, (including the supplementary notes) on pages 1 to 30 (‘the Forms’) and pages 38 to 42;
- the statement required by IPRU(INS) rule 9.29 on page 46 (‘the Statement’); and
- the valuation report required by rule IPRU(INS) 9.31(a) (‘the valuation report’).

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

- Forms 46, 47, 50 to 55 (including the supplementary notes) on pages 21 to 28;
- the statement required by IPRU(INS) rule 9.30 on page 47; and
- the certificate required by IPRU(INS) rule 9.34 on page 43 (‘the certificate’).

This report is made solely to the company’s directors, as a body, in accordance with the requirements of IPRU(INS) rule 9.35. 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 IPRU(INS) rule 9.35 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 IPRU(INS) rule 9.35 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 IPRU(INS) 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 IPRU(INS) rule 9.31 are required to reflect appropriately the requirements of INSPRU 1.2.

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 (revised)” 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 and 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 IPRU(INS) rule 9.11.

In accordance with rule IPRU(INS) 9.35(1A), to the extent that any document, Form, Statement, analysis or report to be examined under IPRU(INS) rule 9.35(1) contains amounts or information abstracted from the actuarial investigation performed pursuant to IPRU(INS) 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 IPRU(INS) rule 9.31 appropriately reflect the requirements of INSPRU 1.2.

KPMG Audit Plc  
Registered Auditor

London

Date

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2006**

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

a. **Investment Guidelines**

During 2006, 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 2006**

### **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 at the beginning of the year, holding 100% of its issued share capital and voting power at the beginning of the year; Prudential Assurance Company Limited being its immediate holding company at the end of the year, holding 100% of its issued share capital and voting power at the end of the year; and Prudential plc, being the ultimate holding company, holding 100% of the issued share capital and voting power of both Prudential Financial Services Limited and Prudential Assurance Company Limited throughout the year.