

# **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 2009**

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



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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 2009**

Solo solvency calculation

Solo solvency calculation		Company registration number	GL/ UK/ CM	day month year			Units
	R2	793051	GL	31	12	2009	£000
				As at end of this financial year			As at end of the previous year
				1			2

**Capital resources**

Capital resources arising within the long-term insurance fund	<b>11</b>	15207	16710
Capital resources allocated towards long-term insurance business arising outside the long-term insurance fund	<b>12</b>	50207	33489
Capital resources available to cover long-term insurance business capital resources requirement (11+12)	<b>13</b>	65414	50199

**Guarantee fund**

Guarantee fund requirement	<b>21</b>	3883	5121
Excess (deficiency) of available capital resources to cover guarantee fund requirement	<b>22</b>	61531	45078

**Minimum capital requirement (MCR)**

Long-term insurance capital requirement	<b>31</b>	11649	15363
Resilience capital requirement	<b>32</b>	2800	1700
Base capital resources requirement	<b>33</b>	3128	2518
Individual minimum capital requirement	<b>34</b>	14449	17063
Capital requirements of regulated related undertakings	<b>35</b>		
Minimum capital requirement (34+35)	<b>36</b>	14449	17063
Excess (deficiency) of available capital resources to cover 50% of MCR	<b>37</b>	58189	41667
Excess (deficiency) of available capital resources to cover 75% of MCR	<b>38</b>	54577	37401

**Enhanced capital requirement**

With-profits insurance capital component	<b>39</b>		
Enhanced capital requirement	<b>40</b>	14449	17063

**Capital resources requirement (CRR)**

Capital resources requirement (greater of 36 and 40)	<b>41</b>	14449	17063
Excess (deficiency) of available capital resources to cover long-term insurance business CRR (13-41)	<b>42</b>	50965	33136

**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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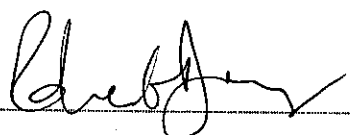
**Covering Sheet to Form 2**

**Form 2**

Name of insurer      **Prudential Holborn Life Limited**

Global business

Financial year ended      **31 December 2009**

  
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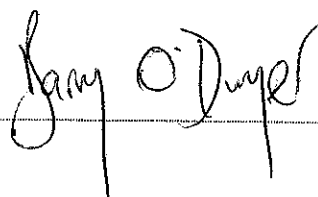
R A Devey

**Chief Executive**

  
\_\_\_\_\_

D J Belsham

**Director**

  
\_\_\_\_\_

F A O'Dwyer

**Director**

**Date 26 March 2010**

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

Global business

Financial year ended **31 December 2009**

	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>2009</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>		20885	20885	11000
Profit and loss account and other reserves	<b>12</b>		63264	63264	62638
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>		84149	84149	73638

**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>		84149	84149	73638
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>		9454	9454	16619
Deductions in related undertakings	<b>36</b>				
Deductions from tier one (32 to 36)	<b>37</b>		9454	9454	16619
<b>Total tier one capital after deductions (31-37)</b>	<b>39</b>		74695	74695	57019

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

Global business

Financial year ended **31 December 2009**

	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>2009</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 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units
R3	793051	GL	31	12	2009	£000
		General insurance business	Long-term insurance business		Total as at the end of this financial year	Total as at the end of the previous year
		1	2		3	4

**Total capital resources**

Positive adjustments for regulated non-insurance related undertakings	71				
<b>Total capital resources before deductions (39+69+71)</b>	<b>72</b>		74695	74695	57019
Inadmissible assets other than intangibles and own shares	73				
Assets in excess of market risk and counterparty limits	74				3308
Deductions for related ancillary services undertakings	75				
Deductions for regulated non-insurance related undertakings	76		9281	9281	3512
Deductions of ineligible surplus capital	77				
<b>Total capital resources after deductions (72-73-74-75-76-77)</b>	<b>79</b>		65414	65414	50199

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

Available capital resources for guarantee fund requirement	81		65414	65414	50199
Available capital resources for 50% MCR requirement	82		65414	65414	50199
Available capital resources for 75% MCR requirement	83		65414	65414	50199

**Financial engineering adjustments**

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

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

Global business

Financial year ended **31 December 2009**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	2009	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	
Land and buildings				11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<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>	8237	7030
	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>	4261	
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	41547	28441
	More than one month withdrawal	<b>55</b>		
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 2009**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	2009	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	

**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>		781

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	204	981
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>	5	12
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 admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	54254	37245
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2009**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	2009	£000	1
					As at end of this financial year		As at end of the previous year	
					1		2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	54254	37245
Admissible assets in excess of market and counterparty limits	<b>92</b>		3308
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>	4004	2126
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>	5277	1386
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>		
Other asset adjustments (may be negative)	<b>101</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 101)	<b>102</b>	63535	44065
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>	4261	

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

Global business

Financial year ended **31 December 2009**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	2009	£000	10
					As at end of this financial year		As at end of the previous year	
					1		2	
Land and buildings				11				

**Investments in group undertakings and participating interests**

UK insurance dependants	Shares	<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>	482	507
Rights under derivative contracts		<b>44</b>		
Fixed interest securities	Approved	<b>45</b>	8660	9322
	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>	164	164
Other loans		<b>53</b>		
Bank and approved credit & financial institution deposits	One month or less withdrawal	<b>54</b>	41128	61143
	More than one month withdrawal	<b>55</b>		
Other financial investments		<b>56</b>		
Deposits with ceding undertakings		<b>57</b>		
Assets held to match linked liabilities	Index linked	<b>58</b>	1261	1409
	Property linked	<b>59</b>	1733411	1618707

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

Global business

Financial year ended **31 December 2009**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	2009	£000	10
					As at end of this financial year		As at end of the previous year	
					1		2	

**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>	6957	10304
	due in more than 12 months	<b>79</b>		605

**Other assets**

Tangible assets	<b>80</b>		
Deposits not subject to time restriction on withdrawal with approved institutions	<b>81</b>	6460	7664
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>	40	50
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 admissible assets in excess of market risk and counterparty limits (11 to 86 less 87)	<b>89</b>	1798563	1709875
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**Analysis of admissible assets**Name of insurer **Prudential Holborn Life Limited**

Global business

Financial year ended **31 December 2009**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	2009	£000	10
				As at end of this financial year		As at end of the previous year	
				1		2	

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

Total admissible assets after deduction of admissible assets in excess of market risk and counterparty limits (as per line 89 above)	<b>91</b>	1798563	1709875
Admissible assets in excess of market and counterparty limits	<b>92</b>		
Inadmissible assets directly held	<b>93</b>		
Capital resources requirement deduction of regulated related undertakings	<b>94</b>		
Ineligible surplus capital and restricted assets in regulated related insurance undertakings	<b>95</b>		
Inadmissible assets of regulated related undertakings	<b>96</b>		
Book value of related ancillary services undertakings	<b>97</b>		
Other differences in the valuation of assets (other than for assets not valued above)	<b>98</b>		
Deferred acquisition costs excluded from line 89	<b>99</b>		
Reinsurers' share of technical provisions excluded from line 89	<b>100</b>	127265	117892
Other asset adjustments (may be negative)	<b>101</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 101)	<b>102</b>	1925828	1827767
Amounts included in line 89 attributable to debts due from related insurers, other than those under contracts of insurance or reinsurance	<b>103</b>		

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

Global business

Financial year ended **31 December 2009**Total business/Sub fund **Ordinary Long Term**Units **£000**

As at end of this financial year 1	As at end of the previous year 2
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Mathematical reserves, after distribution of surplus		<b>11</b>	1769136	1663379
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>	15207	16710
Long term insurance business fund carried forward (11 to 13)		<b>14</b>	1784343	1680089
Claims outstanding	Gross	<b>15</b>	1969	2850
	Reinsurers' share	<b>16</b>		
	Net (15-16)	<b>17</b>	1969	2850
Provisions	Taxation	<b>21</b>		
	Other risks and charges	<b>22</b>		
Deposits received from reinsurers		<b>23</b>		
Creditors	Direct insurance business	<b>31</b>		
	Reinsurance accepted	<b>32</b>	3369	
	Reinsurance ceded	<b>33</b>	1419	7789
Debenture loans	Secured	<b>34</b>		
	Unsecured	<b>35</b>		
Amounts owed to credit institutions		<b>36</b>		
Creditors	Taxation	<b>37</b>		
	Other	<b>38</b>	7463	19147
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>	14220	29786
Excess of the value of net admissible assets		<b>51</b>		
Total liabilities and margins		<b>59</b>	1798563	1709875

Amounts included in line 59 attributable to liabilities to related companies, other than those under contracts of insurance or reinsurance	<b>61</b>	2710	2105
Amounts included in line 59 attributable to liabilities in respect of property linked benefits	<b>62</b>	1733411	1618707

Total liabilities (11+12+49)	<b>71</b>	1783356	1693165
Increase to liabilities - DAC related	<b>72</b>		
Reinsurers' share of technical provisions	<b>73</b>	127265	117892
Other adjustments to liabilities (may be negative)	<b>74</b>	(9454)	(16619)
Capital and reserves and fund for future appropriations	<b>75</b>	24661	33329
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (71 to 75)	<b>76</b>	1925828	1827767



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

Global business

Financial year ended **31 December 2009**

	Company registration number	GL/ UK/ CM	day	month	year	Units	
	R15	793051	GL	31	12	2009	£000
				As at end of this financial year 1		As at end of the previous year 2	

**Technical provisions (gross amount)**

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

**Provisions and creditors**

Provisions	Taxation	21		
	Other risks and charges	22		
Deposits received from reinsurers		31		
Creditors	Direct insurance business	41		
	Reinsurance accepted	42		
	Reinsurance ceded	43		
Debenture loans	Secured	44		
	Unsecured	45		
Amounts owed to credit institutions		46		
Creditors	Taxation	47		
	Foreseeable dividend	48		
	Other	49	4047	3756
Accruals and deferred income		51		
Total (19 to 51)		59	4047	3756
Provision for "reasonably foreseeable adverse variations"		61		
Cumulative preference share capital		62		
Subordinated loan capital		63		
Total (59 to 63)		69	4047	3756

Amounts included in line 69 attributable to liabilities to related insurers, other than those under contracts of insurance or reinsurance	<b>71</b>	4047	
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Amounts deducted from technical provisions for discounting	<b>82</b>		
Other adjustments (may be negative)	<b>83</b>		
Capital and reserves	<b>84</b>	59488	40309
Total liabilities under insurance accounts rules or international accounting standards as applicable to the firm for the purpose of its external financial reporting (69-82+83+84)	<b>85</b>	63535	44065

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

Global business

Financial year ended **31 December 2009**

		Company registration number	GL/ UK/ CM	day	month	year	Units	
		R16	793051	GL	31	12	2009	£000
				This financial year 1			Previous year 2	
Transfer (to)/from the general insurance business technical account		From Form 20	11					
		Equalisation provisions	12					
Transfer from the long term insurance business revenue account			13	12000				
Investment income	Income		14	262			1324	
	Value re-adjustments on investments		15				712	
	Gains on the realisation of investments		16					
Investment charges	Investment management charges, including interest		17					
	Value re-adjustments on investments		18	2909				
	Loss on the realisation of investments		19					
Allocated investment return transferred to the general insurance business technical account			20					
Other income and charges (particulars to be specified by way of supplementary note)			21					
Profit or loss on ordinary activities before tax (11+12+13+14+15+16-17-18-19-20+21)			29	9353			2036	
Tax on profit or loss on ordinary activities			31	59			355	
Profit or loss on ordinary activities after tax (29-31)			39	9294			1681	
Extraordinary profit or loss (particulars to be specified by way of supplementary note)			41					
Tax on extraordinary profit or loss			42					
Other taxes not shown under the preceding items			43					
Profit or loss for the financial year (39+41-(42+43))			49	9294			1681	
Dividends (paid or foreseeable)			51					
Profit or loss retained for the financial year (49-51)			59	9294			1681	

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

Name of insurer **Prudential Holborn Life Limited**  
 Total business / subfund **Ordinary Long Term**  
 Financial year ended **31 December 2009**  
 Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

**Income**

Earned premiums	11	125679	159185
Investment income receivable before deduction of tax	12	76823	138136
Increase (decrease) in the value of non-linked assets brought into account	13	(652)	793
Increase (decrease) in the value of linked assets	14	160345	(411760)
Other income	15		
<b>Total income</b>	<b>19</b>	<b>362195</b>	<b>(113646)</b>

**Expenditure**

Claims incurred	21	209524	240627
Expenses payable	22	21690	25411
Interest payable before the deduction of tax	23	90	1
Taxation	24	14637	(2424)
Other expenditure	25		
Transfer to (from) non technical account	26	12000	
<b>Total expenditure</b>	<b>29</b>	<b>257941</b>	<b>263615</b>

Business transfers - in	31		
Business transfers - out	32		
Increase (decrease) in fund in financial year (19-29+31-32)	39	104254	(377261)
Fund brought forward	49	1680089	2057350
Fund carried forward (39+49)	59	1784343	1680089

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

Name of insurer **Prudential Holborn Life Limited**  
Total business / subfund **Ordinary Long Term**  
Financial year ended **31 December 2009**  
Units **£000**

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

**Gross**

Regular premiums	11	666			666	742
Single premiums	12	125314			125314	158960

**Reinsurance - external**

Regular premiums	13					
Single premiums	14	301			301	517

**Reinsurance - intra-group**

Regular premiums	15					
Single premiums	16					

**Net of reinsurance**

Regular premiums	17	666			666	742
Single premiums	18	125013			125013	158443

**Total**

Gross	19	125980			125980	159702
Reinsurance	20	301			301	517
Net	21	125679			125679	159185

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

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

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	36488			36488	32421
Disability periodic payments	12					
Surrender or partial surrender	13	183787			183787	217862
Annuity payments	14					
Lump sums on maturity	15	1268			1268	1441
<b>Total</b>	<b>16</b>	<b>221543</b>			<b>221543</b>	<b>251724</b>

**Reinsurance - external**

Death or disability lump sums	21	4972			4972	5953
Disability periodic payments	22					
Surrender or partial surrender	23	6995			6995	5112
Annuity payments	24					
Lump sums on maturity	25	52			52	32
<b>Total</b>	<b>26</b>	<b>12019</b>			<b>12019</b>	<b>11097</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	31516			31516	26468
Disability periodic payments	42					
Surrender or partial surrender	43	176792			176792	212750
Annuity payments	44					
Lump sums on maturity	45	1216			1216	1409
<b>Total</b>	<b>46</b>	<b>209524</b>			<b>209524</b>	<b>240627</b>

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

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

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	21293		21293	24725	
Management - other	15	397		397	686	
<b>Total</b>	<b>16</b>	21690		21690	25411	

**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	21293		21293	24725	
Management - other	45	397		397	686	
<b>Total</b>	<b>46</b>	21690		21690	25411	

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

Name of insurer **Prudential Holborn Life Limited**

Total business

Financial year ended **31 December 2009**

Units **£000**

Financial year	Previous year
1	2

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

Directly held assets (excluding collective investment schemes)	11	166308	813014
Directly held assets in collective investment schemes of connected companies	12	1439537	785193
Directly held assets in other collective investment schemes	13	132273	20500
<b>Total assets (excluding cross investment) (11+12+13)</b>	<b>14</b>	<b>1738118</b>	<b>1618707</b>
Provision for tax on unrealised capital gains	15		
Secured and unsecured loans	16		
Other liabilities	17	4707	9255
<b>Total net assets (14-15-16-17)</b>	<b>18</b>	<b>1733411</b>	<b>1609452</b>

**Directly held linked assets**

Value of directly held linked assets	21		
--------------------------------------	----	--	--

**Total**

Value of directly held linked assets and units held (18+21)	31	1733411	1609452
Surplus units	32		
Deficit units	33		
<b>Net unit liability (31-32+33)</b>	<b>34</b>	<b>1733411</b>	<b>1609452</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 2009**Units **£000**

Financial year 1	Previous year 2
---------------------	--------------------

**Income**

Value of total creation of units	<b>11</b>	124180	157907
Investment income attributable to the funds before deduction of tax	<b>12</b>	75547	117521
Increase (decrease) in the value of investments in the financial year	<b>13</b>	160642	(411760)
Other income	<b>14</b>		
<b>Total income</b>	<b>19</b>	360369	(136332)

**Expenditure**

Value of total cancellation of units	<b>21</b>	196050	240627
Charges for management	<b>22</b>	21616	23071
Charges in respect of tax on investment income	<b>23</b>	13900	5242
Taxation on realised capital gains	<b>24</b>	2739	94561
Increase (decrease) in amount set aside for tax on capital gains not yet realised	<b>25</b>	2105	(74700)
Other expenditure	<b>26</b>		
<b>Total expenditure</b>	<b>29</b>	236410	288801

Increase (decrease) in funds in financial year (19-29)	<b>39</b>	123959	(425133)
Internal linked fund brought forward	<b>49</b>	1609452	2034585
Internal linked funds carried forward (39+49)	<b>59</b>	1733411	1609452



**Long-term insurance business : Summary of new business**Name of insurer **Prudential Holborn Life Limited**

Total business

Financial year ended **31 December 2009**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	125314			125314	158960
<b>Total</b>	<b>28</b>	125314			125314	158960

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

Name of insurer

**Prudential Holborn Life Limited**

Total business

Financial year ended

**31 December 2009**

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				125314

**Long-term insurance business : Assets not held to match linked liabilities**

Name of insurer **Prudential Holborn Life Limited**  
 Category of assets **10 Total long term insurance business assets**  
 Financial year ended **31 December 2009**  
 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	8686	8686	395	4.32%	
Other fixed interest securities	13					
Variable interest securities	14					
UK listed equity shares	15		76			
Non-UK listed equity shares	16		406			
Unlisted equity shares	17					
Other assets	18	55205	54723	209	0.38%	
<b>Total</b>	<b>19</b>	<b>63891</b>	<b>63891</b>	<b>604</b>	<b>0.92%</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 **Ordinary Long Term**Financial year ended **31 December 2009**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	21005			21005	34286
Form 52	13					
Form 53 - linked	14	1860676			1860676	1727332
Form 53 - non-linked	15	13459			13459	18245
Form 54 - linked	16	1261			1261	1409
Form 54 - non-linked	17					
<b>Total</b>	<b>18</b>	<b>1896401</b>			<b>1896401</b>	<b>1781272</b>

**Reinsurance - external**

Form 51 - with-profits	21					
Form 51 - non-profit	22					13
Form 52	23					
Form 53 - linked	24	127265			127265	117880
Form 53 - non-linked	25					
Form 54 - linked	26					
Form 54 - non-linked	27					
<b>Total</b>	<b>28</b>	<b>127265</b>			<b>127265</b>	<b>117893</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	21005			21005	34273
Form 52	43					
Form 53 - linked	44	1733411			1733411	1609452
Form 53 - non-linked	45	13459			13459	18245
Form 54 - linked	46	1261			1261	1409
Form 54 - non-linked	47					
<b>Total</b>	<b>48</b>	<b>1769136</b>			<b>1769136</b>	<b>1663379</b>

**Long-term insurance business : Valuation summary of non-linked contracts (other than accumulating with-profits contracts)**

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

Units **£000**

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
300	Regular premium non-profit WL/EA OB	1	1					1
360	Income protection non-profit (guaranteed premiums)		17					174
385	Income protection claims in payment		288					1742
390	Deferred annuity non-profit	8						2
395	Annuity non profit (PLA)	4	2					58
415	Collective life		8106					16301
425	Group income protection claims in payment		267					2727

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

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

Units **£000**

UK Life / Gross

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium	14143	1747358		1720853	1720853	2628	1723481
710	Life property linked whole life regular premium	2698	110528	554	110500	110500	26	110526
715	Life property linked endowment regular premium - savings	2613	29345	95	29323	29323	64	29387
785	Income protection rider		76				760	760
795	Miscellaneous property linked - PHI claims in payment		10				102	102
800	Additional reserves property linked						9879	9879

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

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

Units **£000**

UK Life / Reinsurance ceded external

Product code number	Product description	Number of policyholders / scheme members	Amount of benefit	Amount of annual office premiums	Nominal value of units	Discounted value of units	Other liabilities	Amount of mathematical reserves
1	2	3	4	5	6	7	8	9
700	Life property linked single premium		60839		59916	59916		59916
710	Life property linked whole life regular premium		53146	266	53133	53133		53133
715	Life property linked endowment regular premium - savings		14227	46	14216	14216		14216

Name of insurer	<b>Prudential Holborn Life Limited</b>
Total business / subfund	<b>Ordinary Long Term</b>
Financial year ended	<b>31 December 2009</b>
Units	<b>£000</b>
UK Life / Gross	

[illegible]



Total business

Financial year ended 31 December 2009

Units	£000
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[illegible]

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

Name of insurer **Prudential Holborn Life Limited**

Total business / subfund **Ordinary Long Term**

Financial year ended **31 December 2009**

Units **£000**

Financial year	Previous year
1	2

**Valuation result**

Fund carried forward	11	1784343	1680089
Bonus payments in anticipation of a surplus	12		
Transfer to non-technical account	13	12000	
Transfer to other funds / parts of funds	14		
Subtotal (11 to 14)	15	1796343	1680089
Mathematical reserves	21	1769136	1663379
Surplus including contingency and other reserves held towards the capital requirements (deficiency) (15-21)	29	27207	16710

**Composition of surplus**

Balance brought forward	31	16710	7042
Transfer from non-technical account	32		
Transfer from other funds / parts of fund	33		
Surplus arising since the last valuation	34	10497	9668
Total	39	27207	16710

**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	12000	
Total distributed surplus (46+47)	48	12000	
Surplus carried forward	49	15207	16710
Total (48+49)	59	27207	16710

**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 2009**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%					
Classes I (other), II and IX	14	0.3%					
Classes III, VII and VIII	15	0.3%					
<b>Total</b>	16						

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

Class IV supplementary classes 1 and 2 and life protection reinsurance	21					3969	6300
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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%	61	61	1.00	1	0
Classes III, VII and VIII (investment risk)	33	1%	18008	18008	1.00	180	217
Classes III, VII and VIII (expenses fixed 5 yrs +)	34	1%	141383	47401	0.85	1202	1051
Classes III, VII and VIII (other)	35	25%				4833	5678
Class IV (other)	36	1%	23067	23067	1.00	231	366
Class V	37	1%					
Class VI	38	1%					
<b>Total</b>	39					6446	7313

**Insurance market risk capital component**

Life protection and permanent health reinsurance	41	0%					
Classes I (other), II and IX	42	3%	61	61	1.00	2	1
Classes III, VII and VIII (investment risk)	43	3%	18008	18008	1.00	540	652
Classes III, VII and VIII (expenses fixed 5 yrs +)	44	0%	141383	47401			
Classes III, VII and VIII (other)	45	0%	1713882	1680599			
Class IV (other)	46	3%	23067	23067	1.00	692	1098
Class V	47	0%					
Class VI	48	3%					
<b>Total</b>	49		1896401	1769136		1234	1751

<b>Long term insurance capital requirement</b>	51					11649	15363
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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 2009.
- (2) The previous investigation related to 31 December 2008.
- (3) No interim valuations have been carried out for the purposes of rule 9.4 since 31 December 2008.

#### **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.

Units are created using the creation price and cancelled at the cancellation price.

- (b) Unit pricing bases are determined at fund level, so all policies invested in the same fund have the same basis applied.
- (c) The price used for collective investment schemes and similar assets is the latest valuation at mid-day (except for the Jupiter Merlin funds which use the prior day mid day valuation); deals that are placed before mid-day receive the 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 tax rate reflecting the expected tax payable by the Company as these gains and losses are realised and a suitable discount rate.
- (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 2009 the total gross mathematical reserves amounted to £1,896m. The lesser of £10m and 1% of the total gross mathematical reserves was therefore equal to £10m.

#### (1) Linked policy reinsurance accepted from PACL

For linked policy reinsurance accepted from Prudential Assurance Company Limited (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 mathematical reserve for property-linked contracts is the unit liability together with a non-unit reserve (a "sterling reserve") to cover expenses and mortality.

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 is adjusted to ensure that for an individual policy both currently and at any future date it is 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).

#### PHI claims in payment accepted from PACL

For PHI claims in payment accepted from PACL, reserves are calculated as a prudent multiple, based on claims experience, of the annual claims amount.

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

	2009	2008
Valuation interest rate	2.60% p.a. net	2.60% p.a. net

- (3) Not applicable.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

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

For 2009 and 2008: AM92/AF92-3.

- (5) Not applicable.

- (6)

Product group	31 December 2009	31 December 2008
Linked policies (700)	Renewal expenses (net of tax relief at 20%):- - life single premium business £11.39 p.a. per policy.	Renewal expenses (net of tax relief at 20%):- - life single premium business £6.46 p.a. per policy
Linked policies (710 and 715)	- life regular premium business (premium paying) £16.69 p.a. per policy. - life regular premium business (non premium paying) £11.39 p.a. per policy. - There is no specific loading for claim expenses.  Investment expenses: 0.25% p.a. (gross) in respect of direct written business.	- life regular premium business (premium paying) £11.04 p.a. per policy - life regular premium business (non premium paying) £6.46 p.a. per policy  There is no specific loading for claim expenses.  Investment expenses: 0.25% p.a. (gross) in respect of direct written business.

Expense figures are per policy attributable expenses only.

Maintenance expenses have now been split between charges paid under a third party outsourcing agreement and expenses incurred directly by Prudential. Outsourced charges paid to the third party are 100% attributable and are as set out in the outsourcing agreement plus a 10% MAD.

- (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	4.60%
Expense inflation rate	4.25%
Policy charge inflation rate	Nil

- (8) Not applicable.

- (9) The lapse rates are as follows:

		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 are no other material assumptions.

- (11) Not applicable.

- (12) There have been no changes made to the mathematical reserves at the current valuation date as a result of the changes to the INSPRU rules at 31 December 2006.

# PRUDENTIAL HOLBORN LIFE LIMITED

## Appendix 9.4 (continued)

### 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	-	£424,591	£106,164	£365,171	£895,925
Unit linked single premium	-	£360,963	£252,786	£824,874	£1,438,623
Total	-	£785,554	£358,950	£1,190,045	£2,334,548

- (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 2009 this amounted to £19,435,000.
- (4) The only new business expected in the twelve months following the valuation date is reinsurance accepted from PACL. As this is expected to be written on terms which do not result in new business strain in the Company, no new business expense overrun reserve is required.
- (5) In the first instance, expense reserves are calculated on the assumption that Prudential's UK insurance operations will continue to write new business indefinitely and hence that there will be no loss of economies of scale. In this scenario, the expense loadings over the remaining lifetime of the contracts in force at the valuation date are included in the reserves reported in Form 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 for the retained organisation would be reduced by 20% 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 2009 an additional reserve of £4.5m was held.

- (6) The additional reserve for non-attributable expenses at a homogenous risk group level is calculated as the present value of all future 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 of £2.4m was required at 31 December 2009.

## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

#### 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 65 basis points in the annual yield obtainable on fixed interest securities.
- (5) Not applicable.
- (6) A Resilience Capital Requirement of £2,800,000 has been established.

There was a £2,058,175 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 £687,446.

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

#### OTHER SPECIAL RESERVES

8. At 31 December 2009 the total gross mathematical reserves amounted to £1,896m. The lesser of £10m and 0.1% of the total gross mathematical reserves was therefore equal to £1.9m. The nature and amount of other special reserves exceeding £1.9m are listed below:

Reinsurance Credit Risk	£4.3m
-------------------------	-------

#### REINSURANCE

9. (1) No premiums were paid in 2009 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 2009.



## PRUDENTIAL HOLBORN LIFE LIMITED

### Appendix 9.4 (continued)

Reinsurance treaties:

(d) Reinsurer	(e) Nature of cover	(f) Premiums £'000	(h) Open / Closed	(j) Reserves Ceded £'000	(k) Retention
Swiss Re Life & Health Limited	Reinsurance of all direct linked business written by Prudential Holborn Life, excluding benefits linked to real property assets, on a 50% quota share basis. The liability reassured is covered by a pari passu charge on assets.	301	Closed	127,265	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 2009**

### **Notes to the returns**

#### **Form 2**

\*0201\* There are no waivers issued disapplying or modifying any of the provisions of the Accounts and Statements Rules in respect of long-term insurance business.

#### **Form 3**

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

	<b>2009</b>
	<b>£000</b>
Form 13 Line 89 (Long term) Grand total of admissible assets	1,798,563
Form 14 Line 11 Mathematical reserves, after distribution of surplus	(1,769,136)
Form 14 Line 49 Total other insurance and non-insurance liabilities	(14,220)
Form 13 Line 89 (Other than long term) Grand total of admissible assets	54,254
Form 15 Line 69 Total	(4,047)
	<hr/> 65,414
Form 3 Line 79 Capital resources after deductions	65,414
Difference	<hr/> <hr/> 0

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

	<b>2009</b>
	<b>£'000</b>
Additional reserves held in the long term fund	9,454
Form 3 Line 35 Other negative valuation differences	<hr/> 9,454

## PRUDENTIAL HOLBORN LIFE LIMITED

### Financial Year ended 31 December 2009

#### Notes to the returns (continued)

##### \*0313\* Reconciliation of profit and loss account change

	<b>2009</b>
	<b>£000</b>
Profit and loss account and reserves b/fwd	62,638
Profit and loss account and reserves c/fwd	63,264
Movement	<hr/> 626
 Movement in additional reserves held for FSA	 7,165
Movement in deferred tax	0
Movement in unallocated surplus	1,503
 Form 16 Line 59 Profit retained for the financial year	 <hr/> 9,294 <hr/>

#### **Form 13**

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

##### \*1301\* Assets specified in IPRU(INS) Form 13 instruction 5

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in IPRU(INS) Form 13 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 INSPRU 2.1.22. During the financial year the balance exceeded the INSPRU 2.1.22 limit. This was due to unsecured loans issued by the company's Vietnamese subsidiary amounting to £8,221k of which £2,239k was over the counterparty limit. 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 INSPRU 2.1.22 limit during the year.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

### **Financial Year ended 31 December 2009**

#### **Notes to the returns (continued)**

##### **\*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: Norddeutsche Landesbank £5.0m, CITI Bank £7.0m, Allied Irish Banks £5.0m, Banco Popolare Socie £3.0m and Fortis Bank £7.0m.

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

##### **\*1308\* Assets specified in IPRU(INS) Form 13 instruction 5**

The Company held no unlisted investments, listed investments that are not readily realisable, or any other investments specified in IPRU(INS) Form 13 instruction 5.

##### **\*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.

##### **\*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 Landesbank Hessen £8.1m, ING £7.0m, Bank of Ireland £5.0m, Deutsche Postbank AG £9.0m, RZB Raiffeisen Zentralbank £6.0m, Banco Popolare Socie £6.0m, Allied Irish Bank £2.0m, Lloyds TSB £10.0m and HSBC Bank £6.5m.

##### **\*1319\* Maximum Counterparty Limits**

The Company's investment guidelines set maximum counterparty limits in order to maintain the admissibility of assets in accordance with INSPRU 2.1.22. The limits were not breached throughout the financial year.

## PRUDENTIAL HOLBORN LIFE LIMITED

Financial Year ended 31 December 2009

### Notes to the returns (continued)

#### Form 14

\*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 £1,602.1m. The whole of the amount at Form 13 Line 101 is subject to the charge.
- (b) The long-term business fund held no provision for potential tax on capital gains in respect of linked business in the long term business fund, in line 21 of Form 14 as at 31 December 2009 (2008: Nil ).
- (c) There were no contingent liabilities at the year end.
- (d) There were no guarantees, indemnities or other contractual commitments other than in the ordinary course of insurance business in respect of related companies.
- (e) There were no fundamental uncertainties.

\*1405\* Other adjustments to liabilities

	£'000
Negative valuation differences (see note 0310)	9,454
Form 14 Line 74	<u>9,454</u>

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2009**

### **Notes to the returns (continued)**

#### **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 £6.7m
- (e) There were no fundamental uncertainties.

#### **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 17**

\*1700\* Form 17 has been omitted, as no such contracts were used.

#### **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, Prudential Distribution Limited, Prudential Services Limited and The Prudential Assurance Company Limited. The Company was further assisted for part of the year with day to day management services by The Bank of New York Mellon (International) Limited and State Street Bank & Trust Company, third parties.

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2009**

### **Notes to the returns (continued)**

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

The Company has two reinsurance agreements with a related Company, The Prudential Assurance Company Limited.

The first reinsurance agreement provides for the reinsurance of linked benefits. Included in earned premiums for the year is an amount of £124.0m received under this reinsurance agreement. Also included within claims incurred is an amount of £183.4m 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 £19.4m (2008: £23.0m). In addition, The Prudential Assurance Company Limited met the expenses associated with this business.

The second reinsurance agreement provides for the reinsurance of outstanding PHI claims in payment. Included in claims incurred during the year is an amount of £13.5m arising from claims under this reinsurance agreement. The reinsurance agreement was drawn up under normal commercial terms. There were no amounts written off in the period in respect of debts due to or from connected parties.

### **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 £7.6m

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2009**

**Notes to the returns (continued)**

### **Form 60**

**\*6001\* Class IV business**

The insurance health risk capital component has been calculated as the highest of the premiums amount, the brought forward amount, and the claims amount. As at 31st December 2009 this is the brought forward amount, which is determined as the insurance health risk capital component as at 31st December 2008 reduced in line with the fall in provision for claims outstanding. There were no premiums received in 2009.



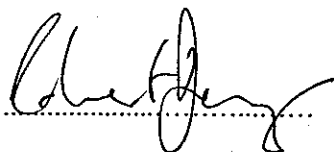
**PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial year ended 31 December 2009**

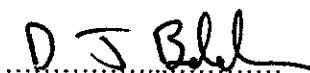
**Directors' Certificate required by rule 9.34 of the Accounts and Statements Rules**

We certify:

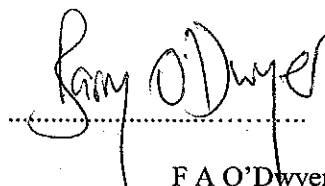
1. (a) that the return has been properly prepared in accordance with the requirements in IPRU(INS), GENPRU, and INSPRU; and:
  - (b) we are satisfied that:
    - (i) throughout the financial year in question, the insurer has complied in all material respects with the requirements of SYSC and PRIN as well as the provisions of IPRU(INS), GENPRU, INSPRU and
    - (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.



R A Devey  
Chief Executive



D J Belsham  
Director



F A O'Dwyer  
Director

26 March 2010

## **Report of the auditor to the Directors pursuant to rule 9.35 of IPRU (INS) the Interim Prudential Sourcebook for Insurers**

### **PRUDENTIAL HOLBORN LIFE LIMITED**

Financial year ended 31 December 2009

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 33 (‘the Forms’) and pages 40 to 46;
- the statement required by IPRU(INS) rule 9.29 on page 50 (‘the Statement’); and
- the valuation report required by rule IPRU(INS) 9.31(a) (i) (‘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 23 to 31;
- the statement required by IPRU(INS) rule 9.30 on page 51; and
- the certificate required by IPRU(INS) rule 9.34 on page 47 (‘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, as a body, 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. 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 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.



Chris Moulder  
for and on behalf of KPMG Audit Plc,  
1 Canada Square,  
Canary Wharf,  
London  
E14 5AG

Date 26 March 2010

## **PRUDENTIAL HOLBORN LIFE LIMITED**

**Financial Year ended 31 December 2009**

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

**a. Investment Guidelines**

During 2009, 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.

**h Provisions for reasonably foreseeable variations arising from derivative contracts, rule INSPRU 3.2.17R**

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 2009**

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

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