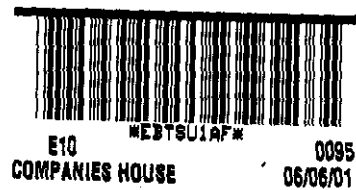


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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Annual Report and Accounts 2000

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Incorporated and registered in England and Wales. Registered no. 15454

Registered office: 142 Holborn Bars, London EC1N 2NH

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Directors

J W Bloomer (Chairman)

R P Baker-Bates

K L Bedell-Pearce

D J Belsham

P A J Broadley

A R Cook

J K Elbourne

K S Lerche-Thomsen

M E Tucker

Secretary

S D Windridge

Auditors

KPMG Audit Plc, London

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000

Principal Activity and Business Review

The principal activity of the Company is transacting long-term insurance business and personal lines general insurance business in the United Kingdom. The company also owns subsidiary undertakings and branches that transact insurance business in the United Kingdom and overseas. These activities will continue in 2001.

Subsidiary Undertakings and Branches

Particulars of the Company's principal subsidiary undertakings at 31 December 2000 are shown on page 21 in note 15. At 31 December 2000 the Company had branches outside the United Kingdom in Hong Kong and France. The French branch commenced trading in 2001.

Accounts

The state of affairs of the Company at 31 December 2000 is shown in the balance sheet on pages 10 and 11. The profit and loss account appears on pages 6 to 8.

Dividends

No interim dividend was declared for 2000 (1999: £nil). The directors have declared a final dividend for 2000 of £330m (1999: £350m).

Payment Policy

It is the policy of the Company to agree terms of payment when orders for goods or services are placed and to pay in accordance with those terms. Trade creditor days, based on the ratio of trade creditors at the year end to the amounts invoiced by trade creditors during the year, were 24 days.

Directors

The present directors are shown on page 1.

Mr P A J Broadley was appointed a director of the Company on 22 May 2000. Sir Peter Davis resigned as a director on 29 February 2000. Mr D A Higgs and Mr R M Nicolson retired on 30 November 2000 and 31 December 2000 respectively. There were no other changes during the year. Messrs A R Cook and K S Lerche-Thomsen were appointed as directors on 19 February 2001.

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000 (continued)

Directors' Interests

Of the directors in office at the end of the year, Mr K L Bedell-Pearce, Mr J W Bloomer, Mr P A J Broadley and Mr M E Tucker were also directors of Prudential plc and their interests are shown in the annual report and accounts of that company. Mr R P Baker-Bates, Mr D J Belsham, Mr J K Elbourne and Mr R M Nicolson had interests in shares of 5p each in Prudential plc as follows:

- (a) in shares, including shares awarded under the Prudential Share Participation Plan and shares allocated under the Prudential Restricted Share Plan:

	1.1.2000	31.12.2000
R P Baker-Bates	2,014	2,043
D J Belsham	25,736	24,957
J K Elbourne	26,762	47,068
R M Nicolson	7,371	9,361

- (b) under the Prudential Restricted Share Plan, in which shares are held in trust and represent the maximum award that can be allocated if the performance requirements of the Plan are met:

	1.1.2000	31.12.2000
R P Baker-Bates	22,569	36,239
D J Belsham	33,382	30,625
J K Elbourne	82,360	70,649
R M Nicolson	54,317	65,496

- (c) in options to subscribe for shares:

	1.1.00	Granted in 2000	Exercised in 2000	31.12.00	Exercise price (pence)	Earliest exercise date	Latest exercise date
R P Baker-Bates*	1,565	-	-	1,565	619	2002	2002
D J Belsham*	2,005	-	-	2,005	344	2001	2001
D J Belsham*	1,922	-	-	1,922	359	2001	2002
D J Belsham*	454	-	-	454	759	2003	2003
D J Belsham+	25,000	-	-	25,000	256	1997	2002
J K Elbourne*	3,929	-	-	3,929	439	2002	2002
R M Nicolson*	1,930	-	1,930	-	505	2000	2001

*Prudential Savings-Related Share Option Scheme

+Prudential Executive Option Plan

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000 (continued)

No options lapsed during the year. The market price of shares in Prudential plc at 31 December 2000 was 1077 pence. The highest and lowest share price during the year was 1186 pence and 880 pence respectively.

The above directors also had interests in shares of 50 pence each in Egg plc, a subsidiary of Prudential plc, as follows:

	1.1.2000	31.12.2000
R P Baker-Bates	-	470
D J Belsham	-	1,410
J K Elbourne	-	1,410
R M Nicolson	-	470

Except as stated above, none of the directors in office at the end of the year:

(a) had any interest in shares in, or debentures of, any group company either at the beginning of the year or at the end of the year; or (b) was granted or exercised any right to subscribe for shares in, or debentures of, any group company during the year.

Employees

The following information is given in respect of the employees of the Company in the United Kingdom. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

Equal Opportunity

Our equal opportunities policy is to be fair, responsible and caring in all aspects of our business. We recognise, respect and value difference and diversity. We will treat everyone fairly and with dignity. We are working towards equality as a part of our normal way of doing things because we believe it is the right thing to do for our people, our customers and our success. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees.

Employee Involvement

The Group has effective communication channels through which employees' views can be sought on issues which concern them. Late in 1999, these were extended when employees were invited to elect representatives to the Prudential European Employee Forum, who subsequently agreed its constitution. This Forum is a high-level employee consultative body, which ensures that Prudential plc meets its European legal obligations. The first meeting was held in March 2000. In 2000 employees were again invited to participate in the Prudential Savings-Related Share Option Scheme which has now been operating for over 17 years.

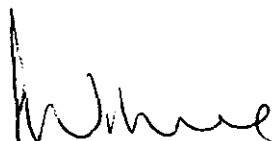
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2000 (continued)

The Board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by the members of the Scheme in accordance with the Pensions Act 1999.

Auditors

A resolution for the re-appointment of KPMG Audit Plc will be placed before the annual general meeting.

On behalf of the board of directors

A handwritten signature in black ink, appearing to read 'S D Windridge', is written over a horizontal line.

S D Windridge

Secretary

15 March 2001

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Profit and Loss Account for the year ended 31 December 2000

Note	<u>General Business Technical Account</u>	<u>2000 £m</u>	<u>1999 £m</u>
1b	Gross premiums written	345	327
	Outward reinsurance premiums	(16)	(15)
	Premiums written, net of reinsurance	329	312
	Change in the gross provision for unearned premiums	(11)	(5)
	<u>Earned premiums, net of reinsurance</u>	<u>318</u>	<u>307</u>
	Claims paid		
	Gross amount	(221)	(237)
	Reinsurers' share	8	10
	<u>Claims paid, net of reinsurance</u>	<u>(213)</u>	<u>(227)</u>
	Change in provision for claims		
	Gross amount	(30)	41
	Reinsurers' share	-	(10)
	Net of reinsurance	(30)	31
	<u>Claims incurred, net of reinsurance</u>	<u>(243)</u>	<u>(196)</u>
	Change in other technical provisions, net of reinsurance	1	1
4	Net operating expenses	(82)	(96)
7	Change in the equalisation provision	(8)	(7)
1b	<u>Balance on the general business technical account</u>	<u>(14)</u>	<u>9</u>
	<u>Analysis:</u>		
	Continuing operations	(3)	20
8	Discontinued operations	(11)	(11)
	<u>(14)</u>	<u>9</u>	

All premiums relate to continuing operations.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Profit and Loss Account for the year ended 31 December 2000 (continued)

Note	<u>Long-term Business Technical Account</u>	<u>2000 £m</u>	<u>1999 £m</u>
1a	Gross premiums written	6,001	6,970
	Outward reinsurance premiums	(904)	(1,026)
	Earned premiums, net of reinsurance	<u>5,097</u>	<u>5,944</u>
2	Investment income	9,800	7,575
	Unrealised gains on investments	-	5,657
	Claims paid		
	Gross amount	(6,266)	(5,644)
	Reinsurers' share	828	749
	Claims paid, net of reinsurance	<u>(5,438)</u>	<u>(4,895)</u>
	Change in provision for claims		
	Gross amount	(123)	(140)
	Claims incurred, net of reinsurance	<u>(5,561)</u>	<u>(5,035)</u>
	Long-term business provision		
	Gross amount	(4,446)	(5,819)
	Reinsurers' share	472	40
		<u>(3,974)</u>	<u>(5,779)</u>
	Technical provision for linked liabilities	46	(2)
	Change in other technical provisions, net of reinsurance	<u>(3,928)</u>	<u>(5,781)</u>
4	Net operating expenses	(977)	(1,069)
5	Investment expenses and charges	(270)	(214)
	Unrealised losses on investments	(7,242)	-
6	Tax attributable to the long-term business	(514)	(609)
	Transfer from (to) the fund for future appropriations	3,905	(6,162)
	Balance on the long-term business technical account	<u>310</u>	<u>306</u>

All premiums and the balance on the long-term business technical account relate to continuing operations.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Profit and Loss Account for the year ended 31 December 2000 (continued)

Note	<u>Non-Technical Account</u>	<u>2000 £m</u>	<u>1999 £m</u>
	Balance on the general business technical account	<u>(14)</u>	<u>9</u>
	Balance on the long-term business technical account	310	306
6	Tax credit attributable to the balance on the long-term business technical account	133	131
1a	Balance on the long-term business technical account before tax	<u>443</u>	<u>437</u>
2	Investment income	144	33
	Unrealised gains on portfolio investments	9	40
5	Investment expenses and charges	(3)	(2)
	Other income	14	13
13	Amortisation of goodwill	(33)	(33)
	Other charges	(2)	(14)
1c	Total other income	<u>129</u>	<u>37</u>
9	Profit on disposal of associate undertaking	147	-
	Profit on ordinary activities before tax	<u>705</u>	<u>483</u>
6	Tax on profit on ordinary activities	(176)	(139)
	Profit for the financial year	<u>529</u>	<u>344</u>
	Dividends		
	Final proposed	<u>(330)</u>	<u>(350)</u>
		(330)	(350)
22	Retained profit (loss) for the financial year	<u>199</u>	<u>(6)</u>

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Statement of Total Recognised Gains and Losses for the year ended 31 December 2000

	<u>2000 £m</u>	<u>1999 £m</u>
Profit for the financial year	529	344
Other recognised gains and losses:		
(Decrease) increase in surplus on revaluation of investments in shareholder subsidiaries and associate undertaking	(66)	207
Total recognised gains relating to the financial year	<u>463</u>	<u>551</u>

Reconciliation of Movement in Shareholders' Funds for the year ended 31 December 2000

	<u>2000 £m</u>	<u>1999 £m</u>
Total recognised gains relating to the financial year	463	551
Dividends	(330)	(350)
Net movement in shareholders' funds	<u>133</u>	<u>201</u>
Shareholders' funds at beginning of year	1,693	1,492
Shareholders' funds at end of year	<u>1,826</u>	<u>1,693</u>

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Balance sheet as at 31 December 2000

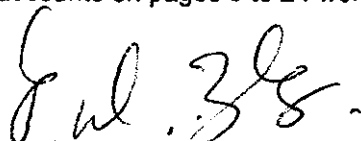
Note	Assets	2000 £m	1999 £m
13	Intangible assets		
	Licence	187	194
	Goodwill	229	262
		<u>416</u>	<u>456</u>
	Investments		
14	Land and buildings	9,806	8,455
15	Investments in group undertakings and participating interests	2,753	2,635
16	Other financial investments	71,052	72,552
		<u>83,611</u>	<u>83,642</u>
17	Assets held to cover linked liabilities	367	411
18	Reinsurers' share of technical provisions		
	Long-term business provision	5,952	5,480
	Claims outstanding	52	48
	Technical provisions for linked liabilities	3,991	4,039
		<u>9,995</u>	<u>9,567</u>
	Debtors		
	Debtors arising out of direct insurance operations		
	Policyholders	210	216
	Intermediaries	2	3
	Debtors arising out of reinsurance operations	23	22
19	Other debtors	420	386
		<u>655</u>	<u>627</u>
	Other assets		
	Tangible assets	29	26
	Cash at bank and in hand	712	309
		<u>741</u>	<u>335</u>
	Prepayments and accrued income		
	Accrued interest and rent	571	454
	Deferred acquisition costs		
	General business	17	15
	Long-term business	1,431	1,529
		<u>2,019</u>	<u>1,998</u>
20	Total assets	<u>97,804</u>	<u>97,036</u>

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Balance sheet as at 31 December 2000 (continued)

Note	Liabilities	2000 £m	1999 £m
	Capital and reserves		
21	Share capital	75	75
22	Revaluation reserve	628	694
22	Other reserves	535	535
	Profit and loss account		
	Distributable	275	75
	Non-distributable	313	314
22		<u>588</u>	<u>389</u>
	Shareholders' funds - equity interests	<u>1,826</u>	<u>1,693</u>
24	Fund for future appropriations	23,217	27,126
	Technical provisions		
	Provision for unearned premiums	175	164
23	Long-term business provision	65,300	60,805
25	Claims outstanding	819	662
7	Equalisation provision	38	30
	Other technical provisions	3	4
	Total technical provisions	<u>66,335</u>	<u>61,665</u>
	Technical provisions for linked liabilities	4,358	4,450
	Provisions for other risks and charges		
6	Deferred taxation	269	529
	Creditors		
	Creditors arising out of direct insurance operations	41	41
	Creditors arising out of reinsurance operations	9	12
26	Other creditors including taxation and social security	1,749	1,520
		<u>1,799</u>	<u>1,573</u>
	Total liabilities	<u>97,804</u>	<u>97,036</u>

The accounts on pages 6 to 24 were approved by the board of directors on 15 March 2001.


J W Bloomer
Chairman

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Accounting Policies

A. Basis of Preparation

The financial statements are prepared in accordance with the provisions of Section 255 of, and Schedule 9A to, the Companies Act 1985. The financial statements comply with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 1998.

As the Company is a wholly owned subsidiary undertaking of another company registered in England and Wales, group financial statements are not prepared. Accordingly, the financial statements present information about the Company as an individual undertaking and are not consolidated.

The Company has taken advantage of the exemption under FRS1 (Revised) from preparing a cash flow statement.

B. Long-term Business

- (i) Premiums and annuity considerations are accounted for when due. For unit linked business, premiums are accounted for when the liabilities arising from the premiums are created. Premiums exclude any taxes or duties based on premiums. Pensions annuity contracts that vest during the year are included in claims incurred and premium income at the annuity purchase price.
- (ii) Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.
- (iii) Bonus additions made to policies are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred.
- (iv) The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges are amortised against margins in future revenues on the related insurance contracts.
- (v) Investment income and realised and unrealised investment gains attributable to long-term business are credited to the long-term business technical account.
- (vi) Profits comprise actuarial surpluses allocated to shareholders adjusted, other than for with-profits business, for the deferral of acquisition costs and movements in the shareholders' interest in reserves held within long-term funds. For with-profits business, unappropriated surplus is carried forward in the fund for future appropriations and no allocation is made to the shareholders.
- (vii) The fund for future appropriations comprises amounts arising in relation to participating policies and other non-linked policies, the allocation of which to policyholders or to shareholders has not been determined at the balance sheet date.

C. General Business

- (i) General insurance business is accounted for on an annual accounting basis.
- (ii) Premiums are accounted for when risks are assumed. Premiums are shown gross of commission and exclude any taxes or duties based on premiums. In determining the result, the proportion of premiums written relating to periods of risk beyond the year end is carried forward to subsequent accounting periods as unearned premiums, calculated on a

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Accounting Policies (continued)

daily basis, so that earned premiums relate to risks carried during the accounting period. A similar treatment is applied to acquisition expenses.

- (iii) Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. Outstanding claims comprise claims incurred up to but not paid at the end of the accounting period whether reported or not.
- (iv) An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and investment return. The assessment of expected claims has regard to claims experience up to the end of the accounting period. No specific provision is made for major events occurring after this date.
- (v) An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in order to reduce the impact of claims volatility.
- (vi) Investment income and investment gains earned on assets matching general business provisions and related solvency capital are credited to the non-technical account.
- (vii) Transactions in respect of discontinued general business operations are accounted for within the general business technical account.
- (viii) Certain long-tail liabilities in respect of discontinued operations with mean terms of settlement of at least four years are discounted to take account of the extended settlement period.

D. Investments

- (i) Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised gains and, except in respect of shareholder investments in subsidiaries and associates, unrealised gains are included in the non-technical account.

Realised gains are determined as the difference between net proceeds on disposal and the purchase price or, in the case of securities carried at amortised cost, their previous carrying value. Movements in unrealised gains comprise the change in the value of investments held at the balance sheet date and the reversal of unrealised investment gains and losses recognised in earlier accounting periods in respect of investment disposals.

- (ii) Shareholder investments in subsidiaries and associates that undertake long-term business are shown at values representing their achieved profits basis shareholders' funds determined in accordance with the draft 'Guidance on accounting in Group Accounts for proprietary companies' long-term insurance business' issued by the Association of British Insurers. Investments in other subsidiaries are valued at net asset value. The movement in values is taken to the revaluation reserve.

PRUDENTIAL ASSURANCE COMPANY LIMITED

Accounting Policies (continued)

- (iii) Other investments are shown at market value. Properties are valued annually by the Prudential group's qualified surveyors or by professional external valuers at market value. In accordance with SSAP 19, no depreciation is provided on investment properties as the directors consider that to depreciate them would not give a true and fair view. Depreciation is only one of the factors reflected in the valuations and the amount that might otherwise have been shown cannot reasonably be separately identified or quantified. For unlisted securities, market value is estimated by the directors.

E. Tax

Tax is charged on all taxable profits arising in the accounting period. Provision under the liability method is made for deferred tax arising from timing differences other than those considered likely to continue into the foreseeable future. Under this policy, deferred tax is not provided on earnings retained overseas. The transfer from the long-term technical account to the non-technical account is grossed up at the effective rate of tax.

In determining the tax charge the Company has adopted FRS 16.

F. Foreign Currencies

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

G. Tangible Assets

Tangible assets, principally computer equipment, software development expenditure, and fixtures and furniture, are capitalised and depreciated by equal annual instalments over their estimated useful lives.

H. Pension Costs

Charges in respect of employers' contributions to defined benefit schemes are calculated on a basis that spreads the costs over the service lives of scheme members. Contributions in respect of defined contribution schemes are recognised when incurred.

I. Intangible Assets

Intangible assets, including goodwill representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is capitalised in the balance sheet at cost and amortised through the profit and loss account on a straight line basis over its useful economic life. The gain or loss on subsequent disposal of a subsidiary or associated undertaking will include any attributable unamortised goodwill.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts

1. Segmental analysis

(a) Long-term business

<u>Premiums and profit</u>	<u>Gross premiums written</u>		<u>Balance on the technical account before tax</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
United Kingdom	5,823	6,819	438	431
Hong Kong	178	151	5	6
	<u>6,001</u>	<u>6,970</u>	<u>443</u>	<u>437</u>

New business

	<u>Regular premiums</u>		<u>Single premiums</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
United Kingdom	159	224	3,315	4,189
Hong Kong	47	32	15	12
	<u>206</u>	<u>256</u>	<u>3,330</u>	<u>4,201</u>

Single premiums include UK Department of Social Security rebates and increments under existing group pension schemes. Regular premiums are determined on an annualised basis.

Analysis of premium income

	<u>2000 £m</u>	<u>1999 £m</u>
Gross written premiums:-		
Direct	5,785	6,763
Reinsurance accepted	216	207
	<u>6,001</u>	<u>6,970</u>
Analysis of gross direct premiums:-		
Individual business	5,001	5,979
Group contracts	784	784
	<u>5,785</u>	<u>6,763</u>
Regular premiums	2,671	2,769
Single premiums	3,114	3,994
	<u>5,785</u>	<u>6,763</u>
Participating contracts	5,456	6,446
Non-participating contracts	245	200
Linked long-term contracts	84	117
	<u>5,785</u>	<u>6,763</u>
United Kingdom	5,607	6,612
Hong Kong	178	151
	<u>5,785</u>	<u>6,763</u>

Net reinsurance income/expenditure

Net reinsurance income in respect of long-term business for the year ended 31 December 2000 was £439m (1999 expenditure of £239m).

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

1. Segmental analysis (continued)

(b) General business

Premiums and underwriting result		Gross premiums written		Underwriting result	
		2000 £m	1999 £m	2000 £m	1999 £m
Continuing operations	United Kingdom	333	319	(3)	20
	Hong Kong	12	8	-	-
		<u>345</u>	<u>327</u>	<u>(3)</u>	<u>20</u>
Discontinued operations	United Kingdom	-	-	(11)	(11)
		<u>345</u>	<u>327</u>	<u>(14)</u>	<u>9</u>

Analysis of technical account	Gross premiums written		Gross premiums earned		Gross claims incurred		Gross operating expenses		Reinsurance balance	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Motor										
-third party liability	2	3	3	4	1	6	-	1	-	-
-other classes	56	41	47	37	41	28	11	8	(4)	(3)
Marine, aviation and transport	-	-	-	-	8	1	2	2	(1)	(1)
Fire and other damage	272	271	270	271	199	158	62	83	(7)	(8)
Other	15	12	14	10	2	3	9	4	(3)	(1)
	<u>345</u>	<u>327</u>	<u>334</u>	<u>322</u>	<u>251</u>	<u>196</u>	<u>84</u>	<u>98</u>	<u>(15)</u>	<u>(13)</u>

The geographical analyses of long-term and general business premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

1. Segmental analysis (continued)

(c) Net assets and shareholders' other income and funds

A segmental analysis of the technical provisions net of reinsurance is set out below which provides a more useful indication than net assets of the assets supporting the business.

<u>Technical provisions (net of reinsurance)</u>	<u>Long-term business</u>		<u>General business</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
United Kingdom	59,562	55,550	526	480
Other countries	597	506	13	12
Total	<u>60,159</u>	<u>56,056</u>	<u>539</u>	<u>492</u>

Shareholders' other income and shareholders' funds, taking into account the location of business operations of subsidiaries, relate to the following countries:-

<u>Shareholders' other income and funds</u>	<u>Shareholders' other income</u>		<u>Shareholders' funds</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
United Kingdom	129	37	1,073	1,163
Singapore	-	-	369	305
Malaysia	-	-	172	126
Taiwan	-	-	175	68
Other countries	-	-	37	31
	<u>129</u>	<u>37</u>	<u>1,826</u>	<u>1,693</u>

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

2. Investment income

	Long-term business		Non-technical account	
	2000 £m	1999 £m	2000 £m	1999 £m
Income from:				
Group undertakings	(3)	9	71	(1)
Other investments				
Land and buildings	699	614	-	-
Listed investments	2,109	2,116	18	20
Unlisted investments	219	121	-	1
Other investments	301	198	14	3
	<u>3,325</u>	<u>3,058</u>	<u>103</u>	<u>23</u>
Gains on the realisation of investments	6,475	4,517	41	10
	<u>9,800</u>	<u>7,575</u>	<u>144</u>	<u>33</u>

3. Bonuses

Bonuses added during the year are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £3,437m (1999 £3,354m).

4. Net operating expenses

	Long-term business		General business	
	2000 £m	1999 £m	2000 £m	1999 £m
Acquisition costs	400	458	35	29
Change in deferred acquisition costs	100	35	(2)	-
Administrative expenses	470	576	49	67
Amortisation of license	7	-	-	-
	<u>977</u>	<u>1,069</u>	<u>82</u>	<u>96</u>

Acquisition costs include commissions in respect of long term direct insurance business of £114m (1999 £139m) and general direct insurance business of £10m (1999 £6m).

5. Investment expenses and charges

	Long-term business		Non-technical account	
	2000 £m	1999 £m	2000 £m	1999 £m
Investment management expenses	243	185	1	2
Interest on bank borrowings	27	29	2	-
	<u>270</u>	<u>214</u>	<u>3</u>	<u>2</u>

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

6. Tax

<u>Tax charged to long-term business technical account and non-technical account</u>	<u>Attributable to long-term funds</u>		<u>Attributable to shareholders' profits</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
UK corporation tax	766	468	36	7
Double tax relief	(11)	(12)	-	-
Overseas tax	26	28	-	-
Prior year adjustments	-	41	-	1
	<u>781</u>	<u>525</u>	<u>36</u>	<u>8</u>
Deferred tax	(267)	84	7	-
	<u>514</u>	<u>609</u>	<u>43</u>	<u>8</u>
Shareholders' attributable tax	-	-	133	131
	<u>514</u>	<u>609</u>	<u>176</u>	<u>139</u>

<u>Deferred tax</u>	<u>Liability provided (asset recognised)</u>		<u>Liability not provided (asset not recognised)</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
Unrealised gains on investments	241	451	2,664	3,170
Deferred acquisition costs	53	105	-	-
Other items	(25)	(27)	(2)	(2)
	<u>269</u>	<u>529</u>	<u>2,662</u>	<u>3,168</u>

7. Equalisation provision

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. The provision, which is in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, is required by Schedule 9A of the Companies Act 1985 to be included within technical provisions in the balance sheet, notwithstanding that it does not represent a liability at the balance sheet date. This has had the effect of reducing shareholders' funds by £38m (1999 £30m). The movement in the equalisation provision during the year resulted in a decrease in the general business technical account result and the profit before taxation of £8m (1999 £7m).

8. Discontinued operations

Discontinued operations comprise commercial lines general insurance business closed in 1992 and now in run off. The general business technical account includes the following amounts in respect of these operations:

	<u>2000 £m</u>	<u>1999 £m</u>
Claims incurred, net of reinsurance		
Claims paid	(11)	(20)
Change in provision for claims	8	13
Total	<u>(3)</u>	<u>(7)</u>
Net operating expenses	(8)	(4)
Technical result	<u>(11)</u>	<u>(11)</u>

The technical result excludes the return earned on the investments supporting the technical provisions of discontinued operations. This return is included in the non-technical account.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

9. Profit on disposal of associate undertaking

The profit relates to the disposal of the Company's holding in St. James's Place Capital plc. Proceeds for this disposal amounted to £294m. After taking into account cost of investment of £147m, the profit on disposal was also £147m. The tax charge associated with the disposal was £22m.

10. Information on staff

The average number of persons employed by the Company during the year was:

	2000	1999
United Kingdom	8,820	11,568
Hong Kong	286	265
	<u>9,106</u>	<u>11,833</u>

The costs of employment were:

	2000 £m	1999 £m
Wages and salaries	227	289
Social security costs	20	23
Other pension costs (see below)	20	28
	<u>267</u>	<u>340</u>

The Company's main pension scheme is the Prudential Staff Pension Scheme which covers 97% of members in all Company schemes. This scheme is of the defined benefit type with scheme assets held in separate trustee administered funds and was last valued as at 5 April 1999 by Watson Wyatt Partners. Particulars of this scheme are shown in the accounts of the parent company, Prudential plc. £0.5m (1999 £0.4m) of the pension costs related to overseas schemes.

11. Directors' emoluments

Directors' emoluments amounted to £1,362,000 (1999 £1,497,000). No amounts were additionally paid under long-term incentive schemes or as compensation for loss of office (1999 £135,000 and £231,000 respectively). One (1999 one) director exercised share options during the year. Eight (1999 all) directors are entitled to shares under Prudential's main long-term incentive scheme and to retirement benefits under defined benefit schemes. Six (1999 five) directors, being subject to the earnings cap, are also entitled to retirement benefits under money purchase schemes. However, the Company only bears the cost in the case of two (1999 two) directors which totalled £152,000 (1999 £82,000) of which £113,000 (1999 £nil) relates to the highest paid director. The highest paid director's emoluments were £452,699 and his accrued pension at the end of the year was £6,375. The director did not exercise any share options but did receive shares under long-term incentive schemes. In 1999 the highest paid director's emoluments were £606,000, and his accrued pension at the end of the year was £89,000. The director did not exercise any share options but did receive shares under long-term incentive schemes.

12. Auditors' remuneration

Fees payable to KPMG Audit Plc (KPMG) in respect of the statutory audit were £0.5m (1999 £0.5m payable to KPMG and £0.1m payable to PricewaterhouseCoopers (PwC)). Fees payable to KPMG and its associates in respect of other work were £14.5m (1999 £3.7m payable to KPMG and its associates and £0.6m to PwC).

13. Intangible assets

	Goodwill £m	Licence £m	Total £m
Balance at beginning of year	262	194	456
Amortised in year			
Charged to non-technical account	(33)	-	(33)
Charged to the long-term business technical account	-	(7)	(7)
Balance at end of year	<u>229</u>	<u>187</u>	<u>416</u>

The goodwill arose on the purchase by the Company of the Scottish Amicable Life Assurance Society on 30 September 1997 and is being amortised from 1 January 1998 over a period of 10 years.

The licence primarily represents the value of an agreement with a fellow subsidiary company for the use of the Scottish Amicable trademarks, which is being amortised over a period of 20 years to 30 September 2017, on a basis consistent with the revenue stream from the agreement. Under this basis, the amortisation has commenced in the year 2000, when the benefits from the agreement have first started to arise. The licence also includes £25m in respect of the estimated net present value of income from current service agreements which are being amortised from 1 January 1998 over a period of 10 years.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

14. Land and buildings

	<u>2000 £m</u>	<u>1999 £m</u>
Current value		
Freeholds	5,778	5,102
Leaseholds with a term of over 50 years	3,870	3,250
Leaseholds with a term of less than 50 years	158	103
	<u>9,806</u>	<u>8,455</u>
Cost	<u>6,455</u>	<u>5,491</u>

The value of land and buildings occupied by the Company amounted to £132m (1999 £106m).

15. Investments in group undertakings and participating interests

	<u>Cost</u>		<u>Current value</u>	
	<u>2000 £m</u>	<u>1999 £m</u>	<u>2000 £m</u>	<u>1999 £m</u>
Shares in group undertakings				
Long-term fund investments	785	770	1,161	1,069
Shareholder investments	765	596	1,354	1,163
	<u>1,550</u>	<u>1,366</u>	<u>2,515</u>	<u>2,232</u>
Participating interests				
Investment in associated company	-	147	-	234
Other participating interests	24	24	36	24
	<u>24</u>	<u>171</u>	<u>36</u>	<u>258</u>
Loans to group undertakings				
Long-term fund loans	202	145	202	145
	<u>202</u>	<u>145</u>	<u>202</u>	<u>145</u>
Total	<u>1,776</u>	<u>1,682</u>	<u>2,753</u>	<u>2,635</u>

The principal subsidiary undertakings of the Company at 31 December 2000, wholly owned unless otherwise stated were:

	<u>Class of shares held</u>	<u>Principal activity</u>	<u>Country of incorporation</u>
The Prudential Assurance Company Singapore (Pte) Limited	Ordinary shares S\$1	Insurance	Singapore
Prudential Pensions Limited	Ordinary shares £1	Pension annuities	England and Wales
Scottish Amicable Life plc	Ordinary shares £1	Insurance	Scotland
The Standard Trust Limited	Ordinary shares 25p 3.5% cumulative Preference shares £1 (99.95% holding)	Investment trust	England and Wales
* Prudential Annuities Limited	Ordinary shares £1	Pension annuities	England and Wales
* owned by the long-term fund			

Other participating interests comprise:

	<u>Class of shares held</u>	<u>Proportion held</u>	<u>Country of incorporation</u>
Life Assurance Holding Corporation Limited	Ordinary shares 1p	15.4%	England and Wales

Life Assurance Holding Corporation Limited is not listed on a recognised investment exchange and is a holding company for companies that transact long-term insurance business.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

16. Other financial investments

	Cost		Current value	
	2000 £m	1999 £m	2000 £m	1999 £m
Shares and other variable yield securities and units in unit trusts	26,383	24,810	49,865	56,488
Debt securities and other fixed income securities	18,102	12,968	18,817	13,147
Loans secured by mortgages	17	23	17	23
Loans to policyholders secured by insurance policies	109	115	109	115
Other loans	84	98	104	135
Deposits with credit institutions	2,112	2,644	2,140	2,644
	<u>46,807</u>	<u>40,658</u>	<u>71,052</u>	<u>72,552</u>

Amounts included in the above ascribable to listed investments:

	2000 £m	1999 £m
Shares and other variable yield securities and units in unit trusts	49,497	55,308
Debt securities and other fixed income securities	17,089	12,291
	<u>66,586</u>	<u>67,599</u>

17. Assets held to cover linked liabilities

	Cost		Current value	
	2000 £m	1999 £m	2000 £m	1999 £m
Assets held to cover linked liabilities	239	240	367	411

18. Reinsurers' share of technical provisions

The reinsurers' share of the long-term business provision relates mainly to cessions to Prudential Annuities Limited, a subsidiary of the Company. The reinsurers' share of the technical provisions for linked liabilities relates mainly to cessions to Scottish Amicable Life plc, a subsidiary of the Company.

19. Other debtors

	2000 £m	1999 £m
Amounts owed by fellow subsidiaries	45	42
Amounts owed by subsidiary companies	30	46
Tax recoverable	103	168
Other	242	130
	<u>420</u>	<u>386</u>

20. Assets attributable to the long-term business fund

Of the total amount of assets shown in the balance sheet on page 10, £95,085m (1999 £94,351m) is attributable to the long-term business fund.

21. Share capital

The Company's authorised share capital is £87,500,000 comprising 350,000,000 ordinary shares of 25p each, of which 298,388,254 shares have been issued and fully paid.

22. Shareholders' reserves

	Revaluation reserve	Other reserves	Profit and loss account	Total
	£m	£m	£m	£m
Balance at 1 January 2000	694	535	389	1,618
Revaluation of subsidiaries and associates	(66)	-	-	(66)
Retained profit for the year	-	-	199	199
Balance at 31 December 2000	<u>628</u>	<u>535</u>	<u>588</u>	<u>1,751</u>

The profit and loss account includes £41m (1999 £44m) held within the long-term business fund and £272m (1999 £270m) of unrealised appreciation on shareholder portfolio investments. These amounts are non-distributable.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes to the accounts (continued)

23. Long-term business provision

The principal valuation methods and bases adopted for the main relevant classes of business which are not reinsured are as follows:

Accumulating with-profits business

The provision has been taken as the lower of:

- the accumulated fund or the value at the bid price of the notional number of units allocated to policyholders, in both cases excluding terminal bonus, and
 - the surrender or transfer value which, having regard to policyholders' reasonable expectations, would be payable at the valuation date,
- or, if greater, the value of the guaranteed liabilities excluding terminal bonus calculated on a gross premium bonus reserve method. For the purpose of calculating the liability using the bonus reserve method, the assumed interest rates range from 1.6% to 5.0%, while future reversionary bonuses are assumed to fall from current levels to zero at 1.5% per year.

Traditional with-profits and other non-linked business

Provisions are calculated by the net premium valuation method on the following bases:

	Interest Rate %	Actuarial Mortality Table Reference
<u>UK (excluding Scottish Amicable Insurance Fund)</u>		
Ordinary branch with-profits assurances	3.00	AM/AF92+1
Industrial branch with-profits assurances	3.00	A1967/70+1
With-profits retirement annuities:		
(i) in deferment	5.35	AM92-3(m),-7(f)
(ii) in possession	4.00	72% PMA/PFA92(c=2001)
Term assurances - life business	3.25	AM/AF92+1
Term assurances - pensions business	4.00	AM/AF92+1
<u>Scottish Amicable Insurance Fund</u>		
With-profits assurances	3.00	AM/AF92+1
With-profits retirement annuities	5.00	AM/AF92-3
Term assurances - life business	3.25	AM/AF92+1
Term assurances - pensions business	4.00	AM/AF92+1
Annuities in payment	5.00	72% PMA/PFA92(c=2001)
<u>Hong Kong</u>		
With-profits assurances	4.00	AM80
Non-profit assurances	4.75	AM80

For retirement annuities, the interest rate used is adjusted where appropriate to allow for mortality improvements during deferment and for expenses.

For with-profits business, the net premium valuation has made explicit provision only for vested bonuses, including those vesting following the valuation at 31 December 2000.

Other long-term business provisions

Additional provisions have been established, the most significant being for the potential costs and expenses of compensating the Company's pension policyholders under the FSA review of pension opt-outs and transfer cases, for the potential cost of meeting annuity rate guarantees at vesting or on maturity of policies and for additional expenses, not otherwise catered for in the basic net premium valuation, of running off the industrial branch business.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

Notes on the accounts (continued)

24. Fund for future appropriations

	<u>2000 £m</u>	<u>1999 £m</u>
Prudential Assurance Company with-profits fund	20,135	23,427
Scottish Amicable Insurance Fund (SAIF)	3,082	3,699
	<u>23,217</u>	<u>27,126</u>

The SAIF fund for future appropriations comprises amounts which are attributable, but not allocated, to SAIF policyholders.

25. Claims outstanding

To take account of the extended settlement period, discounting has been applied to asbestos and pollution claims of the discontinued general business operations. The discount rate is 4% per annum and the average period of settlement is 10.8 years for marine business, 6.8 years for aviation business and 6.4 years for London Market operations. The overall effect of discounting is to reduce the liabilities at 31 December 2000 by £10m (1999 £11m).

26. Other creditors including taxation and social security

	<u>2000 £m</u>	<u>1999 £m</u>
Amounts owed to parent company and fellow subsidiaries	435	477
Amounts owed to subsidiary companies	277	332
Tax	626	434
Other creditors	411	277
	<u>1,749</u>	<u>1,520</u>

27. Ultimate parent company

The ultimate and immediate parent company is Prudential plc, which is the parent company which prepares group accounts. Copies of these accounts can be obtained from the Company Secretary, Laurence Pountney Hill, London EC4R 0HH.

28. Contingent liabilities

The Company has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.

The costs associated with the review of personal pension mis-selling in the UK have been met from the free assets of the Company's long-term fund. Given the strength of the fund, the directors are of the opinion that charging the costs to the free assets of the fund will not have an adverse effect on the levels of bonuses paid to policyholders or their reasonable expectations. In the unlikely event of this proving not to be the case, the directors' intention would be that an appropriate contribution to the long-term fund would be made from shareholders' funds. In view of the uncertainty, it is not practicable to estimate the level of this potential contribution. The provision for the pension mis-selling at the end of the year was £1,475m (1999 £1,700m).

29. Related party transactions

The Company has taken advantage of the exemption under Paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the Prudential group.

30. Post balance sheet event

In February 2001 the Company announced the restructuring of its direct sales force and its customer service channels. The Company expects to incur a restructuring charge of £110m from these changes of which £13m will impact directly on the shareholders.

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

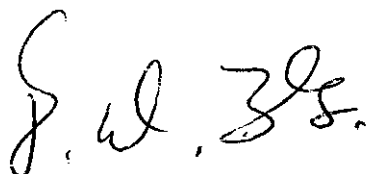
Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



J W Bloomer
Chairman
15 March 2001

AUDITORS' REPORT TO THE SHAREHOLDERS OF THE PRUDENTIAL ASSURANCE COMPANY LIMITED

We have audited the financial statements on pages 6 to 24.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 25, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
15 March 2001