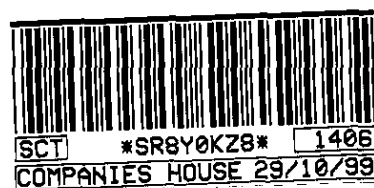


SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

**REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 1998**

5 MARCH 1999



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SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY
REPORT AND ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 1998

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SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

Directors

A D Stewart (Chairman)

J W Jack

R M Nicolson

Secretary

R Walker

Auditors

PricewaterhouseCoopers, Edinburgh

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

Principal activity and business review

The principal activity of the Scottish Amicable Life Assurance Society (the Society) was ordinary long-term insurance business, augmented by a wide range of retail financial products, which ceased on 30 September 1997 when the business of the Society was transferred to The Prudential Assurance Company Limited, a wholly owned subsidiary of Prudential Corporation plc. The Society did not trade during the 1998.

Directors

The present directors of the Society are shown on page 2. There was no change during the year.

Directors' interests

The interests of Mr R M Nicolson and Mr A D Stewart who are also directors of The Prudential Assurance Company Limited (the immediate parent company) and Prudential Corporation plc (the ultimate parent company) respectively are shown in the annual report and accounts of those companies.

The other director in office at the end of the year had interests in shares of 5p each in Prudential Corporation plc as follows:

(a) in shares, including shares awarded under the Prudential Corporation Share Participation Plan:

| | 1.1.98 | 31.12.98 |
|----------|--------|----------|
| J W Jack | 54,161 | 39,419 |

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

| | 1.1.98 | 31.12.98 |
|----------|--------|----------|
| J W Jack | 38,114 | 52,040 |

(c) in options to subscribe for shares:

| | | 1.1.98 | During the period: | | 31.12.98 |
|----------|-----|--------|--------------------|-----------|----------|
| | | | granted | exercised | |
| J W Jack | (1) | 65,000 | Nil | Nil | 65,000 |
| J W Jack | (2) | 9,321 | 1,541 | 2,238 | 8,624 |

Notes: (1) Prudential Executive Share Option Scheme
(2) Prudential Savings-Related Share Option Scheme

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1998

Directors' interests (continued)

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.

Political donations

No political donations were made.

Charitable donations

The charitable contributions made by the Society during the period amounted to £nil (£44,975) of which £nil (£14,742) was in respect of sponsorship of the arts in Scotland.

Statement of directors' responsibilities in respect of the accounts


Company law requires the directors to prepare financial statements for the Society which give a true and fair view of the state of affairs of the Society as at the end of the period, and of the result for the period, and which comply with the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained for the preparation of those statements and that reasonable steps are taken to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Auditors

The Society's auditors, Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998, creating a new firm called PricewaterhouseCoopers. Price Waterhouse resigned as auditors of the Society on 11 November 1998 and PricewaterhouseCoopers were appointed by the directors on 31 December 1998 to fill the casual vacancy that arose.

A resolution proposing the re-appointment of PricewaterhouseCoopers as auditors of the Society will be put to the Annual General Meeting.

On behalf of the directors



R Walker
Secretary
5 March 1999

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

ACCOUNTING POLICIES

The accounts are prepared on the basis of the accounting policies set out below.

(a) Basis of preparation of accounts

The accounts have been prepared in accordance with Section 255 of, and Schedule 9A to, the Companies Act 1985. The accounts are prepared in accordance with applicable accounting standards and with the Statement of Recommended Accounting Practice issued by the Association of British Insurers.

The Society has taken advantage of the exemption under S228 of the Companies Act from the requirement to prepare group accounts. Thus, the accounts present information about the Society as an individual undertaking and not about its group.

(b) Premiums

Premiums earned are accounted for on a cash basis in respect of single premium business and on an accruals basis in respect of all other business.

(c) Investment income and gains

Dividends are included as investment income on the date that shares become quoted ex-dividend and are grossed up for applicable tax credits. Interest is included on an accruals basis and net rental income is recorded when due. Income on fixed interest investments includes accrued interest in investments purchased and sold.

Realised gains and losses on investments represent the difference between net sales proceeds and the original cost.

Unrealised gains and losses on investments are dealt with in the Profit and Loss Account.

(d) Claims incurred

Claims are recognised when they become due for payment or, in the case of death claims, when notification of death is received.

(e) Exchange rates

Assets and liabilities in foreign currencies are expressed in sterling at rates of exchange ruling at the balance sheet date. Revenue transactions and those relating to the acquisition or disposal of investments have been translated at rates of exchange ruling at the time of the respective transactions.

(f) Lease rentals

Rentals paid under operating leases are charged against income as incurred.

(g) Deferred taxation

Deferred taxation is provided using the liability method at appropriate rates of corporation tax in respect of all material timing differences where there is a reasonable probability that such taxation will become payable.

(h) Cash flow statement

The Society has taken advantage of the exemption under paragraph 8(c) of Financial Reporting Standard 1 (Revised) from disclosing a cash flow statement on the basis that a consolidated statement including the cash flows of the Society is prepared by the ultimate parent company.

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

PROFIT AND LOSS ACCOUNT YEAR ENDED 31 DECEMBER 1998

| | Notes | 1998 £m | 1997 £m |
|--|-------|------------|----------------|
| Technical account - long term business | | | |
| Earned premiums - continuing operations | | | |
| Gross premiums written | 2 | - | 835.3 |
| Outward reinsurance premiums | | - | (0.6) |
| Earned premiums, net of reinsurance | | - | 834.7 |
| Investment income and realised gains | 3 | - | 773.6 |
| Unrealised gains on investments | | - | 1,493.9 |
| Other technical income | | - | 4.3 |
| Total technical income | | - | <u>3,106.5</u> |
| Claims incurred | 4 | | |
| Claims paid | | - | 503.1 |
| gross amount | | - | 503.1 |
| reinsurers' share | | - | (0.9) |
| net of reinsurance | | - | <u>502.2</u> |
| Change in provision for claims | | - | 4.6 |
| gross amount | | - | 4.6 |
| reinsurers' share | | - | (0.2) |
| net of reinsurance | | - | <u>4.4</u> |
| Claims incurred, net of reinsurance | | - | <u>506.6</u> |
| Change in other technical provisions | | | |
| Long term business provision | | - | 776.9 |
| gross amount | | - | 776.9 |
| reinsurers' share | | - | 0.1 |
| net of reinsurance | | - | <u>777.0</u> |
| Technical provisions for linked business | | - | 386.5 |
| Other charges | | | |
| Net operating expenses | 5 | - | 110.1 |
| Investment expenses and charges | | - | 7.3 |
| Interest payable | | - | 8.3 |
| Tax attributable to the long term business | 6 | - | <u>184.8</u> |
| | | - | 310.5 |
| Transfer to the fund for future appropriations | 7 | - | <u>1,125.9</u> |
| Total technical charges | | - | <u>3,106.5</u> |
| Balance on the technical account - long term business | | - | - |

There are no recognised gains or losses in the year.

All operations are discontinued.

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

**BALANCE SHEET
YEAR ENDED 31 DECEMBER 1998**

| | Notes | 1998 £m | 1997 £m |
|--------------------|-------|------------|------------|
| Assets | 9 | == | == |
| Liabilities | 9 | == | == |

The accounts on pages 5 to 11 were approved by the board of directors on 5 March 1999.


R M Nicolson
Director

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

NOTES TO THE ACCOUNTS

1. Transfer of business

At an Extraordinary General Meeting held on 26 June 1997 the members approved the transfer of the business of the Society on 30 September 1997 to The Prudential Assurance Company Limited, a wholly owned subsidiary of Prudential Corporation plc. Therefore, the accounts have not been prepared on a going concern basis.

2. Gross premium analysis

| | Premiums written | | New business | |
|-------------------------------------|------------------|--------------|--------------|--------------|
| | 1998 £m | 1997 £m | 1998 £m | 1997 £m |
| By individual and group | | | | |
| Individual premiums | - | 828.2 | - | 309.5 |
| Premiums under group contracts | - | 7.1 | - | 5.9 |
| Total | <u>-</u> | <u>835.3</u> | <u>-</u> | <u>315.4</u> |
| By frequency | | | | |
| Regular premiums | - | 598.7 | - | 79.2 |
| Single premiums | - | 236.6 | - | 236.2 |
| Total | <u>-</u> | <u>835.3</u> | <u>-</u> | <u>315.4</u> |
| By profit and non-profit | | | | |
| Premiums from non-profit contracts | - | 39.1 | - | 28.2 |
| Premiums from with-profit contracts | - | 381.3 | - | 20.6 |
| Premiums from linked contracts | - | 414.9 | - | 266.6 |
| Total | <u>-</u> | <u>835.3</u> | <u>-</u> | <u>315.4</u> |
| By class of business | | | | |
| Premiums from life business | - | 408.5 | - | 70.1 |
| Premiums from annuity business | - | 27.0 | - | 27.0 |
| Premiums from pension business | - | 399.8 | - | 218.3 |
| Total | <u>-</u> | <u>835.3</u> | <u>-</u> | <u>315.4</u> |

Company schemes with individual policies for each member are included in individual contracts; all other company business is included in group contracts.

Unitised life with-profit business has been included in with-profit contracts. Unitised pension with-profit business has been included in linked contracts as the relevant contracts allow policyholders to switch their investment between the investment-linked and unitised with-profit funds. DSS rebates, and annuity business from policy surrenders, are classified as new single premiums.

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

NOTES TO THE ACCOUNTS (CONTINUED)

3. Investment income and realised gains

a) Investment income and realised gains comprise:

| | 1998 £m | 1997 £m |
|--|------------|--------------|
| Income from land and buildings | - | 35.1 |
| Income from listed investments | - | 408.6 |
| Income from other investments | - | 36.5 |
| Income from group companies: | | |
| Interest received | - | 3.1 |
| Management fees | - | 9.0 |
| Dividends | - | 3.5 |
| Other income | - | 10.2 |
| | <u>-</u> | <u>506.0</u> |
| Net gain on the realisation of investments | - | 267.6 |
| | <u>-</u> | <u>773.6</u> |

b) Investment activity account:

| | | |
|--|----------|----------------|
| Investment income | - | 506.0 |
| Net gain on the realisation of investments | - | 267.6 |
| Movement in unrealised investment gains | - | 1,493.9 |
| | <u>-</u> | <u>2,267.5</u> |
| Investment management expenses | - | (7.3) |
| Investment return for the year | <u>-</u> | <u>2,260.2</u> |

4. Claims incurred, net of reinsurance

| | | |
|-------------------------------------|----------|--------------|
| Claims paid | - | 499.1 |
| Claims handling expenses | - | 3.1 |
| | <u>-</u> | <u>502.2</u> |
| Change in outstanding claims | - | 4.4 |
| Claims incurred, net of reinsurance | <u>-</u> | <u>506.6</u> |

Analysed by type of benefit:

| | | |
|--------------|----------|--------------|
| Death claims | - | 58.7 |
| Maturities | - | 281.7 |
| Surrenders | - | 122.7 |
| Annuities | - | 43.5 |
| | <u>-</u> | <u>506.6</u> |

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

NOTES TO THE ACCOUNTS (CONTINUED)

5. Net operating expenses

| | 1998 £m | 1997 £m |
|--------------------------------------|------------|--------------|
| Acquisition costs incurred | - | 78.6 |
| Other expenses | - | 87.3 |
| Change in deferred acquisition costs | - | (81.3) |
| Exceptional costs | - | 25.5 |
| | <u>-</u> | <u>110.1</u> |

The total above includes commission of £nil (£62.8m).

Exceptional costs comprise costs associated with demutualisation.

Net operating expenses also include:

| | 1998 £000 | 1997 £000 |
|--|--------------|--------------|
| Depreciation on fixed assets, other than investment properties | - | 2,152 |
| Operating lease rentals: | | |
| Land and property | - | 2,101 |
| Equipment | - | 3,139 |
| Auditors' remuneration: | | |
| Audit | - | 114 |
| Other | - | 144 |
| | <u>-</u> | <u>5,546</u> |
| | 1998 £m | 1997 £m |
| Staff costs | | |
| Salaries and wages | - | 32.0 |
| Social security costs | - | 2.5 |
| Other pension costs | - | 2.7 |
| | <u>-</u> | <u>37.2</u> |

For the nine months of 1997 when the Society was trading, the average monthly number of employees, was as follows:

| | 1997 No. |
|--------------------------|--------------|
| Policy servicing | 938 |
| Sales and administration | <u>1,086</u> |
| | <u>2,024</u> |

There were no employees during 1998.

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

NOTES TO THE ACCOUNTS (CONTINUED)

Directors' remuneration

The aggregate amount of Directors' remuneration, excluding pension scheme contributions, was as follows:

| | 1998 £ | 1997 £ |
|---|-----------|----------------|
| For Service as Directors (Non Executive Directors) | - | 242,309 |
| For Other Management Services (Executive Directors) | - | <u>637,742</u> |
| | - | <u>880,051</u> |

The emoluments of the highest paid director, excluding pension contributions, were £nil (£271,580).

The number of directors to whom retirement benefits are accruing under defined benefit pension schemes is £nil (1997: two) and under defined contribution is £nil (1997: £nil).

The accrued pension at the year end of the highest paid director was £nil (1997: £130,000), being the pension entitlement based on pensionable service with the Society to 30 September 1997 but payable at normal retirement age.

6. Taxation

| | 1998 £m | 1997 £m |
|---------------------------|------------|--------------|
| UK Corporation tax | - | 35.7 |
| Double taxation relief | - | (0.9) |
| Franked investment income | - | 20.6 |
| Overseas tax | - | 1.5 |
| Prior year adjustment | - | (5.0) |
| Deferred tax | - | <u>132.9</u> |
| | - | <u>184.8</u> |

7. Fund for future appropriations

| | | |
|--|---|------------------|
| Balance at 1 January | - | 1,658.7 |
| Transfer from technical account | - | <u>1,125.9</u> |
| | - | 2,784.6 |
| Transfer to The Prudential Assurance Company Limited | - | <u>(2,784.6)</u> |
| Balance at 31 December | - | - |

8. Related party transactions

The Society has taken advantage of the exemption under paragraph 3(c) of Financial Reporting Standard 8 relating to the disclosure of transactions with other subsidiary undertakings of the Prudential group.

SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY

NOTES TO THE ACCOUNTS (CONTINUED)

9. Balance Sheet

Following the transfer of the business of the Society on 30 September 1997 to The Prudential Assurance Company Limited, the Society has no beneficial interest in any assets and has no liabilities. The Society continues to hold certain property assets and interests in group undertakings in trust for The Prudential Assurance Company Limited but these are not regarded as assets of the Society.

10. Ultimate parent company

The ultimate parent company is Prudential Corporation plc, which is the only parent company to prepare group accounts, copies of which can be obtained from the Company Secretary, 142 Holborn Bars, London, EC1N 2NH.

AUDITORS' REPORT
TO THE MEMBERS OF SCOTTISH AMICABLE LIFE ASSURANCE SOCIETY
FOR THE YEAR ENDED 31 DECEMBER 1998

We have audited the accounts on pages 5 to 11, which have been prepared on the basis of the accounting policies set out on page 5. The accounts are not prepared on the going concern basis.

Respective responsibilities of directors and auditors

As described on page 4 the Society's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

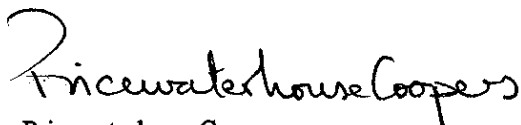
Basis of opinion

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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Society'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Society at 31 December 1998 and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
Registered Auditor
Edinburgh

5 March 1999