

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended December 31, 1998

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

Commission file number 33-37587

PRUCO LIFE INSURANCE COMPANY

(Exact name of Registrant as specified in its charter)

Arizona

22-1944557

(State or other jurisdiction,
incorporation or organization)

(IRS Employer Identification No.)

213 Washington Street, Newark, New Jersey 07102

(Address of principal executive offices) (Zip Code)

(973) 802-2859

(Registrant's Telephone Number, including area code)

Securities registered pursuant to Section 12 (b) of the Act: NONE

Securities registered pursuant to Section 12 (g) of the Act: NONE

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

YES ☒ NO ☐

State the aggregate market value of the voting stock held by non-affiliates
of the registrant: NONE

Indicate the number of shares outstanding of each of the registrant's
classes of common stock, as of March 15, 1999. Common stock, par value of \$10
per share: 250,000 shares outstanding

PRUCO LIFE INSURANCE COMPANY
(Registrant)

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PART I

Item 1. Business

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Pruco Life Insurance Company (the Company) is a stock life insurance company, organized in 1971 under the laws of the state of Arizona. The Company markets individual life insurance, variable life insurance, variable annuities, fixed annuities, and a group annuity program (the Contracts) in all states and territories except the District of Columbia and Guam. In addition, the Company markets individual life insurance through its branch office in Taiwan. The Company has two wholly owned subsidiaries, Pruco Life Insurance Company of New Jersey (PLNJ) and The Prudential Life Insurance Company of Arizona (PLICA). PLNJ is a stock life insurance company organized in 1982 under the laws of the state of New Jersey. It is licensed to sell individual life insurance, variable life insurance, fixed annuities, and variable annuities only in the states of New Jersey and New York. PLICA is a stock life insurance company organized in 1988 under the laws of the state of Arizona. PLICA had no new business sales in 1996, 1997 or 1998 and at this time will not be issuing new business.

The Company is a wholly owned subsidiary of The Prudential Insurance Company of America (Prudential), a mutual insurance company founded in 1875 under the laws of the state of New Jersey. Prudential intends to make additional capital contributions to the Company, as needed, to enable it to comply with its reserve requirements and fund expenses in connection with its business. Generally, Prudential is under no obligation to make such contributions and its assets do not back the benefits payable under the Contracts.

The Company is engaged in a business that is highly competitive because of the large number of stock and mutual life insurance companies and other entities engaged in marketing insurance products, and individual and group annuities. There are approximately 1,620 stock, mutual and other types of insurers in the life insurance business in the United States.

Item 2. Properties

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Not applicable.

Item 3. Legal Proceedings

Based on complaints about sales practices engaged in by Prudential, the Company, and agents appointed by Prudential and the Company, several actions have been brought against the Company on behalf of those persons who purchased life insurance policies. Prudential has agreed to indemnify the Company for any and all losses resulting from such litigation.

In the normal course of business, the Company is subject to various claims and assessments. Management believes the settlement of these matters would not have a material effect on the financial position or results of operations of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of the stockholders held on June 9, 1998, the sole stockholder of the Company appointed the Board of Directors of the Company. The following are the appointed Board of Directors:

James J. Avery, Jr.
William Bethke
Ira J. Kleinman
Esther H. Milnes
Mendel A. Melzer
I. Edward Price
Kiyofumi Sakaguchi

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PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholders' Matters

The Company is a wholly-owned subsidiary of Prudential. There is no public market for the Company's common stock.

Item 6. Selected Financial Data

<TABLE>
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Pruco Life Insurance Company and Subsidiaries For the Years Ended December 31,				
	1998	1997	(In Thousands) 1996	1995
1994				
<S>	<C>	<C>	<C>	<C>
<C>				
Revenues				
Premiums and other revenue	\$ 463,453	\$ 413,589	\$ 397,319	\$ 388,087
\$ 344,701				
Realized investment gains, net	44,841	10,974	10,835	13,200
(41,074)				
Net investment income	261,430	259,634	247,328	246,618
241,132				
Total revenues	769,724	684,197	655,482	647,905
544,759				
Benefits and expenses				
Current and future benefits and				
claims	305,462	290,234	305,119	280,913
235,660				
Other expenses	228,067	225,721	122,006	134,790
179,173				

Total benefits and expenses 414,833	533,529	515,955	427,125	415,703

Income before income tax provision 129,926	236,195	168,242	228,357	232,202
Income tax provision 48,031	84,233	61,868	79,135	79,558

Net income \$ 81,895	\$ 151,962	\$ 106,374	\$ 149,222	\$ 152,644
=====				
Total assets at period end \$ 7,713,183	\$16,812,781	\$12,851,467	\$ 9,710,366	\$ 8,471,638
=====				
Separate Account liabilities \$ 3,493,932	\$11,490,751	\$ 7,948,788	\$ 5,277,454	\$ 4,263,896
=====				
</TABLE>				

Item 7. Management's Discussion and Analysis of Financial Position and Results of Operations.

The following analysis should be read in conjunction with the notes to Consolidated Financial Statements.

The Company markets individual life insurance, variable life insurance, variable annuities, fixed annuities, and a group annuity program primarily through Prudential's sales force in the United States and markets individual life insurance through its branch office in Taiwan.

The Company markets its products in the life insurance and annuity sectors of the insurance industry. These markets are subject to regulatory oversight with particular emphasis placed on company solvency and sales practices. These markets are also subject to increasing competitive pressure as the legal barriers which have historically segregated the markets of the financial services industry are being challenged through both legislative and judicial processes. Regulatory changes have opened the insurance industry to competition from other financial institutions, particularly banks and mutual funds that are positioned to deliver competing investment products through large, stable distribution channels.

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The Company had \$16.8 billion in assets at December 31, 1998 compared to \$12.9 billion at December 31, 1997, of which \$11.5 billion and \$7.9 billion were held in Separate Accounts in 1998 and 1997, respectively, under variable life insurance policies and variable annuity contracts. The remaining assets consisted primarily of general account investments in bonds, policy loans and short-term investments.

1. Results of Operations

Net income for the year ended December 31, 1998 was \$152.0 million, an increase of \$45.6 million or 42.9% from \$106.4 million earned in the year ended December 31, 1997. Net income for the year ended December 31, 1996 was \$149.2 million.

(a) 1998 versus 1997

Total insurance revenues, consisting of premiums and policy charges and fee income, increased \$42.4 million for the year ended December 31, 1998 to \$422.2 million from \$379.8 million for the year ended December 31, 1997. In response to customer needs and market trends, the Company markets a product portfolio utilizing advice-based strategy including highly selective product offerings from other investment advisors. The Discovery Select Variable Annuity was a successful new product which generated significant sales. The Company also introduced a new variable universal life (VUL) insurance product, which provides an option to the customer to select proprietary or non-proprietary mutual fund investments. Strong securities market conditions contributed to appreciation in

Separate Account asset values. Favorable market conditions also provided a stimulus to investors to purchase mutual fund shares and annuities, including VUL and Discovery Select products, which further contributed to growth in assets under management and consequently on fees earned. In addition, the Company's Taiwan branch generated continued growth in premiums for traditional insurance products.

The Company's consolidated net investment income increased \$1.8 million for the year ended December 31, 1998 to \$261.4 from \$259.6 million for the year ended December 31, 1997. Consolidated net realized investment gains increased \$33.8 million for the year ended December 31, 1998 to \$44.8 from \$11.0 million for the year ended December 31, 1997. Please refer to the section below titled "Investment Portfolio and Investment Strategies" for a discussion of investment income and net realized investment gains by asset type.

Other income increased \$7.5 million for the year ended December 31, 1998 to \$41.3 million from \$33.8 million for the year ended December 31, 1997. The portfolio of mutual fund investments related to the Company's Separate Account products are known as The Prudential Series Fund. The Company receives an allocated portion of investment management fees that Prudential earns from The Prudential Series Fund and records these fees in "Other income."

Policyholders' benefits increased \$7.1 million for the year ended December 31, 1998 to \$186.5 million from \$179.4 million for the year ended December 31, 1997. This change is attributable to an increase in death claims in absolute amount and as a percentage of mean amount of insurance in force reflecting the overall aging of the business in force.

Interest credited to policyholders' account balances increased by \$8.1 million for the year ended December 31, 1998 to \$118.9 million from \$110.8 million for the year ended December 31, 1997. Accounting for more than half of this year's increase is the introduction of a new non-participating guaranteed investment contract (GIC) product, Prudential Credit Enhanced (PACE), early in 1998. The remaining increase is attributable to the rise in policyholder account balances as well as increased interest credited pertaining to policy loans, partially offset by declining interest crediting rates for interest-sensitive life contracts.

Other operating costs and expenses increased \$2.4 million for the year ended December 31, 1998 to \$228.1 million compared to \$225.7 million for the year ended December 31, 1997. Increased sales activity of Discovery Select and the new VUL product noted above resulted in a corresponding increase in expenses. In addition to the increased sales volume, the Parent company's allocation methodology for expenses billed to Pruco Life in 1998 changed, resulting in increased expenses allocated to the Company. Offsetting this increase was a 1997 refinement of estimated gross profit margins which led to an overall decrease in deferred policy acquisition costs (DAC) amortization relative to 1997.

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Investment Portfolio and Investment Strategies

The Company's investment portfolio supports its insurance and annuity liabilities and other obligations to customers for which it assumes investment related risks. The portfolio was comprised of total investments amounting to \$4.2 billion at December 31, 1998, versus \$3.9 billion at December 31, 1997. A diversified portfolio of publicly traded bonds, private placements, commercial mortgages and equity investments is managed under strategies intended to maintain optimal asset mix consistent with current and anticipated cash flow requirements of the related obligations.

The asset management strategy for the portfolio is in accordance with an investment policy statement developed and coordinated within the Company by the Portfolio Management Group, agreed to by senior management, and approved by the Board of Directors. In managing the investment portfolio, the long term objective is to generate favorable investment results through asset-liability management, strategic and tactical asset allocation and asset manager selection. Asset mix strategies are constrained by the need to match asset structure to product liabilities, considering the underlying income and return characteristics of investment alternatives and seeking to closely approximate the interest rate sensitivity of the asset portfolio with the estimated interest rate sensitivity of the product liabilities. Asset mix strategies also include maintenance of broad diversification across asset classes, issuers and sectors; effective utilization of capital while maintaining liquidity believed to be adequate to satisfy cash flow requirements; and achievement of competitive performance. The major categories of invested assets, quality across the portfolio, and recent activities to manage the portfolio are discussed below.

Fixed Maturities

The fixed maturity portfolio is diversified across maturities, sectors and issuers. As of December 31, 1998 and 1997, the Company has classified all publicly traded securities and 63% and 52%, respectively, of privately traded

securities as "available for sale" with the remainder of the privately placed fixed maturities as "held to maturity. The estimated fair value of fixed maturities totaled \$3.2 billion, an increase of \$271.9 million compared to December 31, 1997. This increase is primarily attributable to the new product, PACE.

<TABLE>
<CAPTION>

	1998			1997		
	Amortized Cost	Estimated Fair Value	Net Unrealized Gains	Amortized Cost	Estimated Fair Value	Net Unrealized Gains
			(In Thousands)			
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed maturities - available for sale						
Publicly traded	\$2,040,592	\$2,054,807	\$ 14,215	\$2,157,525	\$2,187,405	\$ 29,880
Privately traded	698,062	709,119	11,057	369,029	376,447	7,418
Total Fixed maturities - available for sale	2,738,654	2,763,926	25,272	2,526,554	2,563,852	37,298
Fixed maturities - held to maturity						
Privately traded	410,558	421,845	11,287	338,848	350,056	11,208
Total	\$3,149,212	\$3,185,771	\$ 36,559	\$2,865,046	\$2,913,908	\$ 48,506

</TABLE>

At December 31, 1998, the net unrealized capital gains on the "available for sale" fixed maturity portfolio totaled \$25.3 million compared to \$37.3 million at December 31, 1997. The decrease in the net unrealized gain position is primarily due to the effect of a higher level of sales activity, offset in part by the effect of lower interest rates.

Based on estimated fair value, the Company's holdings of private placement fixed maturities constituted 35% and 25% of total fixed maturities at December 31, 1998 and 1997, respectively. These investments generally offer higher yields than comparable quality public market securities, increase the diversification of the portfolio, and contain tighter covenant protection than public securities.

Gross investment income from fixed maturities increased by \$17.2 million from 1997 to 1998 as a result growth in invested assets, including the addition of the PACE product. Realized gains increased by \$20.0 million from 1997 primarily due to the sale of fixed maturities during a period of declining interest rates. The table below summarizes fixed maturity investment results:

	Year Ended December 31,	
	1998	1997
	(In Thousands)	
Gross investment income	\$205,312	\$188,076
Yield(1)	7.08%	7.35%
Realized capital gains	\$ 29,817	\$ 9,860

(1) Yields are determined by dividing gross investment income by the average of quarter-end asset carrying values, excluding unrealized gains and losses, less one-half of gross investment income.

Credit Quality

The following table describes the credit quality of the fixed maturity portfolio, based on ratings assigned by the National Association of Insurance Commissioners ("NAIC") or Standard & Poor's Corporation, an independent rating agency:

<TABLE>
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		December 31, 1998				December 31, 1997			
NAIC	Standard & Poor's	Amortized		Estimated		Amortized		Estimated	
		Cost	%	Fair Value	%	Cost	%	Fair Value	%
(In Thousands)									
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1	AAA to AA-	\$1,375,371	43.7	\$1,398,678	43.9	\$1,507,219	52.6	\$1,529,620	52.5
2	BBB+ to BBB-	1,436,820	45.6	1,449,073	45.5	1,175,684	41.0	1,194,461	41.0
3	BB+ to BB-	240,379	7.6	244,932	7.7	100,676	3.5	104,557	3.6
4	B+ to B-	68,620	2.2	66,763	2.1	75,849	2.7	78,953	2.7
5	CCC or lower	27,552	.9	26,061	.8	5,943	.2	6,288	.2
6	In or near default	470	--	264	--	31	--	29	--
Total		\$3,149,212		\$3,185,771		\$2,865,402		\$2,913,908	

</TABLE>

The fixed maturity portfolio consists largely of investment grade assets (rated "1" or "2" by the NAIC), with such investments accounting for 89% and 94% of the portfolio at December 31, 1998 and 1997, respectively, based on estimated fair value. As of both of those dates, less than 1% of the fixed maturities portfolio was rated "6" by the NAIC, defined as public and private placement securities which are currently non-performing or believed subject to default in the near-term.

The Company continually reviews fixed maturities and identifies potential problem assets which require additional monitoring. The Company defines "problem" fixed maturities as those for which principal and/or interest payments are in default. The Company defines "potential problem" fixed maturities as assets which are believed to present default risk associated with future debt service obligations and therefore require more active management. At December 31, 1998 management identified \$264 thousand of fixed maturity investments as problem or potential problem. An immaterial amount of problem or potential problem fixed maturities were identified in 1997.

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Portfolio Diversity

The fixed maturity portfolio is broadly diversified by type and industry of issuer. The greatest industry concentrations within the public portfolio were finance, utilities, and manufacturing. The greatest concentrations within the private portfolio were asset backed securities and within the service and manufacturing industries. The total portfolio is summarized below by issuer category:

<TABLE>

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	December 31, 1998		December 31, 1997	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(In Thousands)				
<S>	<C>	<C>	<C>	<C>
United States government securities and obligations	\$ 110,294	\$ 110,839	\$ 177,334	\$ 178,536
Mortgage backed securities	2,257	2,411	3,116	3,260
Asset backed securities (1)	442,272	445,518	320,554	323,744
Manufacturing	585,680	589,775	401,291	409,856
Utilities	469,343	478,262	397,374	406,790
Retail and wholesale	166,979	168,837	97,333	99,993
Energy	6,429	6,648	1,473	1,599
Finance	545,760	550,291	818,532	826,767
Services	584,495	594,240	430,827	441,775
Transportation	148,999	151,091	122,056	124,807
Other	86,704	87,859	95,156	96,345
Total	\$3,149,212	\$3,185,771	\$2,865,046	\$2,913,472

</TABLE>

(1) Asset backed securities are primarily backed by credit card receivables, home equity loans, trade receivables and auto loans.

Short-Term Investments

Short-term investments include highly liquid debt instruments such as commercial paper which are purchased with an original maturity of twelve months or less. These securities are carried at amortized cost, which approximates fair value. As of December 31, 1998, the Company's short-term investments totaled \$240.7 million, a decrease of \$75.7 million compared to \$316.4 million at December 31, 1997. The decrease in short-term investments was primarily due to decreased securities lending activity, resulting in lower cash collateral held and invested in short-term instruments, coupled with a strategic decision to hold less short-term investments. While income remained relatively unchanged, the short-term yield decreased 175 basis points primarily due to lower average interest rates. Investment expenses increased by \$10.0 million primarily as a result of 1998 including a full year's worth of securities lending activity versus one quarters worth in 1997.

The table below presents summary data with respect to the Company's short-term investment positions:

	Year Ended December 31,	
	1998	1997
	-----	-----
	(In Thousands)	
Carrying amount at end of period	\$240,727	\$316,355
Net investment income	13,347	19,511
Yield (1)	3.67%	5.42%

(1) Yields are determined by dividing net investment income by the average of quarter-end asset carrying values, less one-half of net investment income.

Derivatives

At the end of 1997 The Company began using derivatives, primarily futures contracts, to hedge interest-rate risk related to the insurance and annuity liabilities. During 1998 \$12.4 million of gains were realized from derivatives. The gains are reported in "Realized investment gains, net."

(b) 1997 versus 1996

Total insurance revenues, consisting of premiums and policy charges and fee income, increased \$3.3 million for the year ended December 31, 1997 to \$379.8 million from \$376.5 million for the year ended December 31, 1996. This increase in insurance revenues consists of an increase of \$5.3 million in policy charges and fee income partially offset by a decrease in premiums of \$2.0 million. These fluctuations are due to an increased emphasis in the domestic market place on retirement type investment products rather than life insurance protection products. Lower domestic premiums were partially offset by an increase in premiums for traditional insurance products generated from the Company's Taiwan branch.

The Company's consolidated net investment income increased \$12.3 million for the year ended December 31, 1997 to \$259.6 from \$247.3 million for the year ended December 31, 1996. Increase in cash flows from insurance operations and average assets as well as the asset allocation strategies, produced favorable investment results in 1997. Fixed maturity income increased in 1997 due to higher investment returns as a result of a shift to higher yielding securities. Income from short term investments increased because of higher fixed maturity assets available to lend to third parties as part of the Company's securities lending program. Offsetting these increases was a decline in income on the mortgage loan portfolio, a result of declining asset base.

Other income increased \$13.0 million for the year ended December 31, 1997 to \$33.8 million from \$20.8 million for the year ended December 31, 1996. This increase is due to a higher level of advisory fees attributable to the Discovery Preferred and Discovery Select Separate Account products.

Policyholders' benefits decreased \$7.5 million for the year ended December 31, 1997 to \$179.4 million from \$186.9 million for the year ended December 31, 1996. This decrease is attributable to better mortality experience associated with the Company's products.

Interest credited to policyholders' account balances decreased by \$7.4 million for the year ended December 31, 1997 to \$110.8 million from \$118.2 million for the year ended December 31, 1996. This decrease is primarily attributable to a decrease in interest crediting rates, partially offset by increased fund values due to new sales of Separate Account products.

Other operating costs and expenses increased \$103.7 million for the year ended December 31, 1997 to \$225.7 million compared to \$122.0 million for the year ended December 31, 1996. The increase reflects factors including the refinement of estimated gross profit margins used to amortize DAC. Favorable mortality experience and reduction in cost of insurance charges contributed to a change in net amortization. Favorable sales in 1997 were a partial offset. Also, increased operating costs resulted from higher sales activity of Discovery Select and Discovery Preferred annuity products, and technological advancements made in annuity processing, customer service, and product development.

2. Liquidity and Capital Resources

The Company's liquidity requirements include the payment of sales commissions and other underwriting expenses and the funding of its contractual obligations for the life insurance and annuity contracts it has in-force. The Company has developed and utilizes a cash flow projection system and regularly performs asset/liability duration matching in the management of its asset and liability portfolios. The Company anticipates funding all its cash requirements utilizing cash from operations, normal investment maturities and anticipated calls and repayments or through short term borrowing from its affiliate Prudential Funding Corporation (see Related Party Transactions). As of December 31, 1998, the Company's assets included \$1.9 billion of cash, short-term investments and investment grade publicly traded fixed maturity securities that could be liquidated if funds were required.

In order to continue to market life insurance and annuity products, the Company must meet or exceed the statutory capital and surplus requirements of the insurance departments of the states in which it conducts business. Statutory accounting practices differ from generally accepted accounting principles ("GAAP") in two major respects. First, under statutory accounting practices, the acquisition costs of new business are charged to expense, while under GAAP they are initially deferred and amortized over a period of time. Second, under statutory accounting practices, the required additions to

statutory reserves for new business in some cases may initially exceed the statutory revenues attributable to such business. These practices result in a reduction of statutory income and surplus at the time of recording new business.

Insurance companies are subject to Risk-Based Capital (RBC) guidelines, monitored by insurance regulatory authorities, that measure the ratio of the Company's statutory equity with certain adjustments ("Adjusted Capital") to its required capital, based on the risk characteristics of its insurance liabilities and investments. Required capital is determined by statutory formulae that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest rate risks, and general business risks. The RBC calculations are intended to assist regulators in measuring the adequacy of the Company's statutory capitalization.

The Company considers RBC implications in its asset/liability management strategies. Each year, the Company conducts a thorough review of the adequacy of statutory insurance reserves and other actuarial liabilities. The review is performed to ensure that the Company's statutory reserves are computed in accordance with accepted actuarial standards, reflect all contractual obligations, meet the requirements of state laws and regulations and include adequate provisions for any other actuarial liabilities that need to be established. All significant reserve changes are reviewed by the Board of Directors and are subject to approval by the Arizona Department of Banking and Insurance. The Company believes that its statutory capital is adequate for its currently anticipated levels of risk as measured by regulatory guidelines.

The National Association of Insurance Commissioners recently approved a series of codified statutory accounting standards for consideration by the various state regulators. Certain of the proposed standards, if adopted by insurance regulatory authorities, could have an impact on the measurement of statutory capital which, in turn, could affect RBC ratios of insurance companies. At the present time, the Company cannot estimate the potential impact of these proposed standards on its RBC position.

3. Regulatory Environment

The Company is subject to the laws of the State of Arizona and to the regulations of the Department of Insurance of the State of Arizona and the New Jersey Department of Banking and Insurance (the "Insurance Departments"). A detailed financial statement in the prescribed form (the "Annual Statement") is filed with the Insurance Departments each year covering the Company's operations for the preceding year and its financial position as of the end of that year. Regulation by the Insurance Departments includes periodic examinations to verify the accuracy of contract liabilities and reserves. The Company's books and accounts are subject to review by the Insurance Departments at all times. A full

examination of the Company's operations is conducted periodically by the Insurance Departments and under the auspices of the NAIC.

The Company is subject to regulation under the insurance laws of all jurisdictions in which it operates. The laws of the various jurisdictions establish supervisory agencies with broad administrative powers with respect to various matters, including licensing to transact business, overseeing trade practices, licensing agents, approving contract forms, establishing reserve requirements, fixing maximum interest rates on life insurance contract loans and minimum rates for accumulation of surrender values, prescribing the form and content of required financial statements and regulating the type and amounts of investments permitted. The Company is required to file the Annual Statement with supervisory agencies in each of the jurisdictions in which it does business, and its operations and accounts are subject to examination by these agencies at regular intervals.

The NAIC has adopted several regulatory initiatives designed to improve the surveillance and financial analysis regarding the solvency of insurance companies in general. These initiatives include the development and implementation of a risk-based capital formula for determining adequate levels of capital and surplus. Insurance companies are required to calculate their risk-based capital in accordance with this formula and to include the results in their Annual Statement. It is anticipated that these standards will have no significant effect upon the Company.

Although the federal government generally does not directly regulate the business of insurance, federal initiatives often have an impact on the business in a variety of ways. Certain insurance products of the Company are subject to various federal securities laws and regulations. In addition, current and proposed federal measures which may significantly affect the insurance business include regulation of insurance company solvency, employee benefit regulation, removal of barriers preventing banks from engaging in the insurance business, tax law changes affecting the taxation of insurance companies and the tax treatment of insurance products and its impact on the relative desirability of various personal investment vehicles.

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4. The Year 2000 Issue

Pruco Life utilizes many of the same business applications, infrastructure and business partners as Prudential. Prudential has addressed the Year 2000 issue on an enterprise-wide basis. Therefore, it is not possible to differentiate Pruco Life's Year 2000 issue from that of Prudential. The accompanying discussion of the Year 2000 issue reflects steps taken by Prudential to mitigate the Year 2000 risks.

Many computer systems are programmed to recognize only the last two digits in a date. As a result, any computer system that has date-sensitive programming may recognize a date using "00" as the year 1900 rather than the year 2000. This problem can affect non-information technology systems that include embedded technology, such as microprocessors included in "infrastructure" equipment used for telecommunications and other services as well as computer systems. If this anomaly is not corrected, the year "00" could cause systems to perform date comparisons and calculations incorrectly, which could in turn affect the accuracy and compromise the integrity of business records. Business operations could be interrupted when companies are unable to process transactions, send invoices, or engage in similar normal business activities.

Prudential established a Company-wide Program Office (CP0) to develop and coordinate an operating framework for the Year 2000 compliance activities. Prudential's CP0 structured the Year 2000 program into three major components: Business Applications, Infrastructure and Business Partners. The CP0 also established quality assurance procedures including a certification process to monitor and evaluate enterprise-wide progress of each component of Prudential's program for conversion and upgrading of systems for Year 2000 compliance.

Business Applications

The scope of the Business Applications component includes a wide range of computer systems that directly support Prudential's business operations and accounting systems. The entire application portfolio was analyzed in 1996 to determine appropriate Year 2000 readiness strategies (i.e., renovate, replace or retire). Rigorous testing standards have been employed for all applications that will not be retired, including those that are newly developed or purchased. Application replacement and renovation projects follow a similar path toward Year 2000 compliance. The key project phases include Year 2000 analysis and design, programming activities, testing, and implementation. Replacement projects are also tracked until the existing applications are removed from production.

Of Prudential's total application portfolio, approximately 70% of the applications are being renovated, 13% are being replaced by Year 2000 compliant

systems, and the remaining 17% are being retired from production. At December 31, 1998, the percentage of business applications (based on application count) in the implementation phase for Year 2000 compliance for renovation, replacement and retirement are 99%, 96% and 99%, respectively. The overall completion date for Business Applications is June 1999.

Infrastructure

The scope of Prudential's Year 2000 Infrastructure initiatives include mainframe computer system hardware and operating system software, mid-range systems and servers, telecommunications equipment, buildings and facilities systems, personal computers, and vendor hardware and software.

Although there are minor differences among these various components, the approach to Year 2000 readiness for Infrastructure generally involves phases identified as inventory, assessment, remediation activities (e.g., upgrading hardware or software), testing and implementation. The overall completion date for Infrastructure is June 1999.

Business Partners

Prudential's approach to business partner readiness includes classification of each partner's status as "highly critical" or "less critical" and the development of contingency plans to address the potential that a business partner could experience a Year 2000 failure. Approximately 30% of Prudential's business partners have been identified as highly critical and the remaining 70% as less critical. Project phases include inventory, risk assessment, and contingency planning activities. All project phases for highly critical business partner readiness were achieved in December 1998; Prudential has an overall completion date for less critical business partner readiness of June 1999.

The Cost of Year 2000 Readiness

Prudential is funding the Year 2000 program from operating cash flows. Some of the expenses of Prudential's Year 2000 readiness are allocated across its various businesses and subsidiaries, including Pruco Life. Expenses related to the Year 2000 initiatives allocated to Pruco Life are part of systems overhead costs to date and are included in Pruco Life's general and administrative expenses. The Year 2000 costs allocated to Pruco Life to date are not material to its operations and financial position. Moreover, the forecasted allocated Year 2000 costs are not expected to have a material impact on Pruco Life's ability to meet its contractual commitments.

Year 2000 Risks and Contingency Planning

The major portion of the Prudential's transactions are of such volume that they can only be effectively processed through the use of automated systems. Therefore, substantially all of Prudential's contingency plans include the ultimate resolution of any causative technology failures that may be encountered.

Prudential believes that the Business Application, Infrastructure and Business Partners components of the Year 2000 project are substantially on schedule. While management expects a small number of the projects may not meet their targeted completion date, it is anticipated that these projects will be completed by September 1999 so that any delays, if experienced, would not have a significant impact on the timing of the project as a whole. During the course of the Year 2000 program, some discretionary technology projects have been delayed in favor of the completion of Year 2000 projects. However, this impact has been minimized by Prudential's strategic decision to outsource most of the Year 2000 renovation work.

While Prudential and its subsidiaries believe that they are well positioned to mitigate its Year 2000 issue, this issue, by its nature, contains inherent uncertainties, including the uncertainty of Year 2000 readiness of third parties. Consequently, the Company is unable to determine at this time whether the consequences of Year 2000 failures will have a material adverse effect on the Company's results of operations, liquidity or financial position. In the worst case, it is possible that any technology failure, including an internal or external Year 2000 failure, could have a material impact on the Company's results of operations, liquidity, or financial position.

Prudential is enhancing existing business contingency plans to mitigate Year 2000 risk. Current contingency plans include planned responses to the failure of specific business applications or infrastructure components. These responses are being reviewed and expected to be finalized by June 1999 to ensure that they are workable under the special conditions of a Year 2000 failure. The plans are also being updated to reduce the level of uncertainty about the Year 2000 problem including readiness of Prudential's Business Partners.

The discussion of the Year 2000 Issue herein, and in particular Prudential's

plans to remediate this issue and the estimated costs thereof, are forward-looking in nature. See cautionary statement below relating to forward-looking statements.

5. Effective New Accounting Pronouncements

Refer to Note 2, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements.

6. Information Concerning Forward-Looking Statements

Certain of the statements contained in Management's Discussion and Analysis may be considered forward-looking statements. Words such as "expects," "believes," "anticipates," "intends," "plans," or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects upon the Company. There can be no assurance that future developments affecting the Company will be those anticipated by management. There are certain important factors that could cause actual results to differ materially from estimates or expectations reflected in such forward-looking statements including without limitation, changes in general economic conditions, including the performance of financial markets and interest rates; market acceptance of new products and distribution channels; competitive, regulatory or tax changes that affect the cost or demand for the Company's products; and adverse litigation results. While the Company reassesses material trends and uncertainties affecting its financial position and results of operations, it does not intend to review or revise any particular forward-looking statement referenced in this Management's Discussion and Analysis in light of future events. The information referred to above should be considered by readers when reviewing any forward-looking statements contained in this Management's Discussion and Analysis.

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Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Risk Management, Market Risk, and Derivative Financial Instruments

As a direct subsidiary of Prudential, the Company benefits from the risk management strategies implemented by its parent.

Risk management includes the identification and measurement of various forms of risk, establishment of acceptable risk thresholds, and creation of processes intended to maintain risks within these thresholds while maximizing returns. Prudential considers risk management an integral part of its core businesses.

The risks inherent in the Company's operations include market risk, product risk, credit risk, concentration risk, liquidity risk, and operating risk. These risk categories, and the Company's strategies relative to each, are discussed below.

The Company's risk monitoring processes include preparation and review of risk reports on a regular basis, with frequency based on the purpose of the report. For example, reports associated with specific strategies or assets are produced daily, while portfolio level reports are typically semi-monthly or monthly and high level reports are produced quarterly.

Market risk is the risk of change in the value of financial instruments as a result of changes in interest rates, currency exchange rates, equity and commodity prices. To varying degrees, the investment activities supporting all of the Company's products and services generate market risks. These products and services include life insurance and annuities. Market risks incurred and the strategies for managing these risks vary by product.

Insurance products and fixed rate annuities, incur market risk primarily in the form of interest rate risk. This is controlled through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities, with the objective of insulating the portfolio's underlying capital from market value changes due to interest rate movements. If perfectly matched, interest rate movements will generate asset market value changes that offset changes in the value of the liabilities relating to the underlying insurance products.

Variable annuities also incur market risk to the Company in part through interest rate risk but largely through equity price risk. Equity price risk is controlled primarily by managing the risk profile of equity investments against the risk profile incorporated in the related variable annuity products.

For fee-based products, including variable contracts and Separate Accounts, investment risk is borne primarily by the contractholders rather than the

Company (subject to any minimum guarantees). The greatest market-related risk to the Company for these products is the indirect one that, in the event of sub-par performance, asset based fee revenues could decline and that competitive factors could impede the Company's ability to maintain or grow assets under management. However, since this is primarily an operating risk it is not quantified as part of the Company's analysis of market risk.

The Company's exposure to market risk results from "other than trading" activities in its insurance business. Market risks in the Company's insurance business are managed through an investment process that incorporates asset/liability management techniques and other risk management policies and limits. Derivatives, as discussed further below, are used for hedging purposes in the asset/liability management process.

Insurance Asset/Liability Management

Interest rate and equity exposures are maintained within established ranges, which are subject to adjustment based on market conditions and the design of related insurance products sold to customers. Risk managers, independent of portfolio and asset managers, establish investment risk limits on asset/liability management and oversee ongoing efforts to manage risk within policy constraints.

The Company uses duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in yield, recognizing that the price of a bond is usually expected to fall at a slower rate as yield increases.

While duration and convexity are useful indicators of asset price sensitivity to interest rate changes, pricing models used in the portfolio management process also consider the effects of optionality. This entails a variety of option pricing model applications.

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The Company also performs portfolio stress testing as part of its regulatory cash flow testing in which interest-sensitive assumptions (such as asset calls and prepayments and insurance product contract persistency) are evaluated under various severe interest rate environments. Any shortfalls revealed by cash flow testing are evaluated to determine whether there is a need to increase reserves or adjust portfolio management strategies.

Interest Rate Related Market Risk on Assets

Assets with interest rate risk include fixed maturities, mortgage loans and policy loans which, in the aggregate, comprise 94% of the Company's consolidated invested assets (excluding assets held in Separate Accounts) as of December 31, 1998.

Interest Rate Related Market Risk on Liabilities

In addition to insurance reserves, which are not measured by the sensitivity analysis below, the Company has policyholders' account balances relating to interest-sensitive life and annuity contracts through which it is exposed to interest rate risk.

Derivatives

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, various financial indices, or the value of securities or commodities. Derivative financial instruments can be exchange-traded or contracted in the over-the-counter market and include swaps, futures, forwards and options contracts. Fixed rate loan commitments may also be considered similar to derivatives because of their off balance sheet and option-like characteristics. See Note 10 of Notes to Consolidated Financial Statements as to the Company's derivative positions at December 31, 1998 and 1997. Insurance statutes applicable to the Company restrict the use of derivative securities to hedging activities intended to offset changes in the market value of assets held, obligations, and anticipated transactions and prohibit the use of derivatives for speculation. The Company uses derivative financial instruments to reduce market risk from changes in interest rates or foreign currency exchange rates, and to alter interest rate or currency exposures arising from mismatches between assets and liabilities.

Interest Rate Sensitivity

Interest rate sensitivity for the indicated classes of financial assets, financial liabilities, and derivatives is assessed using hypothetical test scenarios which assume both upward and downward 100 basis point parallel shifts in the yield curve from prevailing interest rates at December 31, 1998. The following table summarizes the potential loss in fair value associated with a

hypothetical 100 basis point upward parallel shift in the yield curve from prevailing interest rates at December 31, 1998. This scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested. The test scenario is for illustrative purposes only and is not intended to reflect management's expectations regarding future interest rates or performance of fixed income markets.

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In addition, this presentation includes only assets, liabilities and derivatives required by the Rules and does not include \$535 million of insurance liabilities. Management includes the interest rate sensitivities implicit in these insurance liabilities in its internal measurements and believes these insurance liabilities substantially offset the interest rate risk summarized in the following table.

<TABLE>

<CAPTION>

December 31, 1998				
	Notional Value (derivatives)	Fair Value	Fair Value After + 100 Basis Point Yield Curve Shift	Hypothetical Change in Fair Value
			(In Millions)	
<S>	<C>	<C>	<C>	<C>
Financial Assets and Liabilities with Interest Rate Risk:				
Financial Assets:				
Fixed maturities:				
Available for sale	--	2,764	2,666	(98)
Held to maturity	--	422	408	(14)
Mortgage loans on real estate	--	19	19	--
Policy loans	--	806	762	(44)
Derivatives:				
Futures	41	--	(2)	(2)
Financial Liabilities:				
Policyholders' account balances	--	(2,704)	(2,727)	(23)
Total estimated potential loss				----- \$(181) =====

</TABLE>

The estimated changes in fair values of financial assets shown above relate to assets invested in support of the Company's insurance liabilities, and do not include assets associated with products for which investment risk is borne primarily by the contractholders rather than the Company.

Equity Price Market Risk

Equity price risk is actively managed relative to benchmarks in respective markets. Excluding equities relating to products for which investment risk is borne primarily by the contractholder rather than by the Company, the table below provides an estimate of the Company's equity risk following a 10% decline in benchmark equity market prices. Equity holdings are benchmarked against a blend of leading market indices, including prominently the Standard & Poor's ("S&P") 500 and Russell 2000, and target price sensitivities approximating those of the benchmark indices. This scenario is not intended to reflect management's expectations regarding future performance of equity markets.

<TABLE>

<CAPTION>

December 31, 1998		
	Fair Value	Fair Value After 10% Drop in Equity Market Benchmark (1)
		Hypothetical Change in Fair Value
<S>	<C>	<C>
Financial Assets with Equity Price Risk		
Equity securities	\$2.8	\$2.5
		\$(0.3)

</TABLE>

- (1) The market benchmark used for purposes of this analysis is a blend of leading equities market indices, including the S&P 500 Index and the Russell 2000 Index. This benchmark is believed to have broadly similar characteristics, in terms of price sensitivity, to the Company's equity securities portfolio.

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Foreign Currency Exchange Market Risk

The Company is exposed to foreign currency exchange risk in its investment portfolio and through its operations in Taiwan. The Company's investment policy dictates that foreign currency exchange rate risk created by fixed income investments denominated in foreign currencies, in most instances, is to be fully hedged into U.S. dollars. Investment-related foreign currency exchange rate risk retained in the portfolio emanates principally from foreign denominated equity investments for which currency exchange rate volatility is factored into expected returns when allocating funds to this asset class. Hedging of market risk associated with changes in foreign currency exchange rates is generally accomplished through the use of foreign exchange forward contracts and foreign currency swaps.

Foreign currency exchange risk is actively managed within specified limits at the enterprise level using Value-at-Risk analysis. As previously mentioned, this statistical technique estimates, at a specified confidence level, the potential pretax loss in portfolio market value that could occur over an assumed holding period due to adverse movements in underlying risk factors, which in this case are foreign currency exchange rates.

Value-at-Risk (VaR) estimates of exposure to loss from volatility in foreign currency exchange rates are calculated for one day and one month time periods. Exponentially weighted historical price volatilities and covariance data are used at a confidence level such that losses are not expected to exceed this VaR estimate in no more than one in twenty business days.

<TABLE>
<CAPTION>

	December 31, 1998		
	Fair Value	Fair Value Less One Month's Value at Risk (1)	Hypothetical Change in Fair Value
		(In Millions)	
<S>	<C>	<C>	<C>
Financial Assets with Foreign Currency Exchange Rate Risk:			
Foreign currency denominated assets not hedged to United States dollars	\$32.0	\$31.5	\$(0.5)

(1) Value at risk measured at 95% confidence level.

</TABLE>

Limitations of VaR Models

VaR models have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns, and therefore should not be viewed as a predictor of future results. There can be no assurance that the Company will not incur losses in excess of the amounts indicated by the model on a particular trading day or over a period of time. A VaR model does not estimate the greatest possible loss outside of its confidence interval. These models are used by the Company in addition to other risk management tools, including stress testing, and in conjunction with the experience and judgment of management.

Product Risk is the risk of adverse results due to deviation of experience from expected levels reflected in pricing. The Company, in its insurance and annuity operations, sells traditional and interest sensitive individual insurance products and annuity products. Products are priced to reflect the expected levels of risk and to allow a margin for adverse deviation. The level of margin varies with product design and pricing strategy with respect to the targeted market. The Company seeks to maintain underwriting standards so that premium charged is consistent with risk assumed on an overall basis. Additionally, most of the Company's policies and contracts allow the Company to adjust credits (via interest crediting rates) and/or charges (in contracts where elements such as mortality and expense charges are not guaranteed), allowing the Company to respond to changes in actuarial experience. The competitive environment is also an important element in determining pricing elements including premiums, crediting rates, and non-guaranteed charges.

Mortality risks, generally inherent in most of the Company's life insurance and

annuity products, are incorporated in pricing based on the Company's experience (if available and relevant) and/or industry experience. Mortality studies are performed periodically to compare the actual incidence of death claims in relation to business in force, to levels assumed in pricing and to industry experience. Persistency risk represents the risk that the pattern of policy surrenders will deviate from assumed levels so that policies do not remain in force long enough to allow the Company to recover its acquisition

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costs. Certain products are designed, by use of surrender charges and other features, to discourage early surrenders and thus mitigate this risk to the Company. Periodic studies are performed to compare actual surrender experience to pricing assumptions and industry experience.

For fee-based products in which investment risk is borne by the client, the Company retains the risk that fees charged may not adequately cover administrative expenses. The ability to earn a spread between these fees and the associated costs is dependent upon the competitive environment, product performance, the ability to attract clients and assets, and the Company's control of expense levels.

Credit Risk is the risk that counterparties or issuers may default or fail to fully honor contractual obligations and is inherent in investment portfolio asset positions including corporate bonds and mortgages, private placements and other lending-type products, certain derivative transactions, and various investment operations functions. In derivative transactions, the Company follows an established credit approval process which includes risk control limits and monitoring procedures.

Limits of exposure by counterparty, country and industry are in place at the portfolio level, and counterparty concentration risk is also reviewed at the enterprise level. Credit concentration risks are limited based on credit quality, and enterprise-level concentrations are reviewed on a quarterly basis. Business group credit analysis units evaluate creditworthiness of counterparties and assign internal credit ratings based on data from independent rating agencies and their own fundamental analysis. Additionally, stress tests and sensitivity analysis are utilized to estimate the exposure to credit losses from unusual events.

Liquidity Risk is the risk that the Company will be unable to liquidate positions at a reasonable price in order to meet cash flow requirements under various scenarios. As indicated above, the Company's asset/liability management strategies seek to maintain asset positions that are consistent with the expected cash flow demands associated with its liabilities under various possible situations. Liquidity policies are formally managed at the enterprise level, using various comparisons of asset liquidity to potential liability outflows. The Company believes that the comparison of its general account net liquidity to individual policy net cash surrender value is key to the periodic evaluation of its ability to meet policyholder claim requirements, and stress tests are utilized to measure the expected liquidity situation under hypothetical unusual events. The Company believes that its liquidity position is more than adequate to meet the expected cash flow demands associated with its liabilities under reasonably possible stress situations.

Operating Risk is the risk of potential loss from internal or external events such as mismanagement, fraud, systems breakdowns, business interruption, or failure to satisfy legal or fiduciary responsibilities. All financial institutions, including the Company, are exposed to the risk of unauthorized activities by employees that are contrary to the internal controls designed to manage such risks. Legal risk may arise from inadequate control over contract documentation, marketing processes, or other operations. Internal controls responsive to regulatory, legal, credit, asset stewardship and other concerns are established at the business unit level for specific lines of business and at the enterprise level for company-wide processes. Controls are monitored by business unit management, internal and external auditors, and by an enterprise level Management Internal Control unit, and in certain instances, are subject to regulatory review.

Following recent revelations and negative publicity surrounding the issue of sales practices, the Company has implemented a strategy to emphasize ethical conduct in the recruitment and training of agents and in the sales process. The Company has also strengthened controls including the establishment of a client acquisition program, in conjunction with the underwriting process, intended to ascertain the appropriateness of insurance coverages sold and mitigate the risk of inappropriate policy replacement activity.

Another aspect of operating risk relates to the Company's ability to conduct transactions electronically and to gather, process, and disseminate information and maintain data integrity and uninterrupted operations given the possibility of unexpected or unusual events. The Company is implementing a business continuation initiative to address these concerns. Considerations relative to the potential impact of the Year 2000 on computer operations, infrastructural

support, and other matters are discussed above.

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Item 8. Financial Statements and Supplementary Data

Information required with respect to this Item 8 regarding Financial Statements and Supplementary Data is set forth commencing on page F-3 hereof. See Index to Financial Statements and Schedules elsewhere in this Annual Report.

Item 9. Changes in and Disagreements with Independent Accountants on Accounting and Financial Disclosure

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

Name	Position	Age
James J. Avery, Jr.	Chairman of the Board and Director	47
I. Edward Price	Vice Chairman of the Board and Director	56
Esther H. Milnes	President and Director	48
James Drozanowski	Senior Vice President	56
Frank Marino	Senior Vice President	54
Edward A. Minogue	Senior Vice President	56
Hwei-Chung Shao	Senior Vice President and Chief Actuary	44
Dennis G. Sullivan	Principal Financial Officer and Chief Accounting Officer	43
David A. Nachman	Vice President and Comptroller	51
Imants Saksons	Vice President	48
William M. Bethke	Director	51
Ira J. Kleinman	Director	51
Mendel A. Melzer	Director	38
Kiyofumi Sakaguchi	Director	55

James J. Avery, Jr., age 47 was elected Chairman of the Board of Directors of the Company on June 27, 1997. Mr. Avery joined the Prudential Insurance Company of America in 1988 and has served as the Senior Vice President, CFO and Chief Actuary for the Prudential Individual Insurance Group since 1997.

I. Edward Price, age 56, has been Senior Vice President and Actuary of Prudential Individual Insurance since 1995. From 1994 to 1995, he was Chief Executive Officer of Prudential International Insurance. From 1993 to 1994 he was President of Prudential International Insurance. Prior to 1993, he was Senior Vice President and Company Actuary of Prudential.

Esther H. Milnes, age 48, has been Vice President and Actuary of Prudential Individual Insurance Group since 1996. From 1993 to 1995, she was Senior Vice President and Chief Actuary of Prudential Insurance and Financial Services. Prior to 1993, she was Vice President and Associate Actuary of Prudential.

James C. Drozanowski, age 56, has been Vice President and Operations Executive, Prudential Individual Insurance Group since 1996. From 1995 to 1996, he was President and Chief Executive Officer of Chase Manhattan Bank, and from 1993 to 1995, he was Vice President, North America Customer Services, Chase Manhattan Bank. Prior to 1993, he was Operations Executive, Global Securities Services,

Chase Manhattan Bank.

Frank P. Marino, age 54, has been Vice President, Policyowner Relations Department, Prudential Individual Insurance Group since 1996. Prior to 1996 he was Senior Vice President, Prudential Mutual Fund Services.

Edward A. Minogue, age 56, was elected a Senior Vice President of the Company on September 1, 1997. Mr. Minogue has been a Vice President of the Prudential Insurance Company of America since July, 1997. Prior to 1997, Mr. Minogue was a director of Merrill Lynch, Pierce & Smith, Inc.

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Hwei-Chung Shao, age 44, has been Vice President and Associate Actuary, Prudential.

Dennis G. Sullivan, age 43, was elected Principal Financial Officer and Chief Accounting Officer of the Company in March, 1999. Mr. Sullivan has been Vice President and Deputy Controller of Prudential since November 1998. Prior thereto, from January 1998, Mr. Sullivan was Vice President and Controller of ContiFinancial Corporation. From 1997 to 1998, Mr. Sullivan was Deputy Corporate Controller of Salomon Brothers Inc. Prior to 1997, he was a director at Salomon Brothers Inc.

David A. Nachman, age 51, was elected Vice President and Comptroller of the Company in March, 1999. Mr. Nachman joined the Prudential Insurance Company of America in 1973 and has served as Vice President, Accounting, Prudential since 1992.

Imants Saksons, age 48, was elected Vice President, Compliance, Prudential Individual Financial Services in September, 1998. Prior to 1998, he was Vice President, Market Conduct, U.S. Operations, Manulife Fiancial.

William M. Bethke, age 51, has been President, Prudential Capital Markets Group since 1992.

Ira J. Kleinman, age 51, has been Chief Marketing and Product Development Officer of Prudential Individual Insurance Group since 1995. From 1993 to 1995, he was President of Prudential Select. From 1992 to 1993, he was Senior Vice President of Prudential. Prior to 1992, he was Vice President of Prudential.

Mendel A. Melzer, age 38, has been Chief Investment Officer, Mutual Funds and Annuities, Prudential Investments since 1996; 1995 to 1996: Chief Financial Officer of the Money Management Group of Prudential; 1993 to 1995: Senior Vice President and Chief Financial Officer of Prudential Preferred Financial Services; Prior to 1993: Managing Director, Prudential Investment Corporation.

Kiyofumi Sakaguchi, age 55, has been President, Prudential International Insurance Group since 1995; 1994 to 1995: Chairman and Chief Executive Officer, the Prudential Life Insurance Co., Ltd.; Prior to 1994: President and Chief Executive Officer, Asia Pacific Region-Prudential International Insurance, and President, the Prudential Life Insurance Co., Ltd.

Item 11. Executive Compensation

The following table shows the 1998 annual compensation, paid by Prudential, and allocated based on time devoted to the duties as an executive of the Company for services provided to the Company:

<TABLE> <CAPTION>				
Name and Principal Position	Year	Salary	Bonus	Other Annual Compensation

<S>				
Esther H. Milnes President	<C>	<C>	<C>	<C>
	1998	\$20,769	\$26,313	\$ 0
	1997	18,660	21,398	0
	1996	18,058	12,136	0
</TABLE>				

Item 12. Security Ownership of Certain Beneficial Owners and Management

Not applicable.

Item 13. Certain Relationships and Related Transactions

Refer to Note 13 in the Notes to the Consolidated Financial Statements on page

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) and (2) Financial Statements and Schedules of Registrant and its subsidiaries are listed in the accompanying "Index to Consolidated Financial Statements and Financial Statement Schedules" on page F-1 hereof and are filed as part of this Report.

(a) (3) Exhibits

Regulation S-K

2. Not applicable.

3. Documents Incorporated by Reference

(i) The Articles of Incorporation of Pruco Life, as amended October 19, 1993, are incorporated herein by reference to Form S-6, Registration No. 333-07451, filed July 2, 1996 on behalf of the Pruco Life Variable Appreciable Account; (ii) Bylaws of Pruco Life, as amended May 6, 1997 are incorporated herein by reference to Form 10-Q, Registration No. 33-37587, filed August 15, 1997 on behalf of Pruco Life Insurance Company.

4. Exhibits

Modified Guaranteed Annuity Contract, incorporated by reference to Registrant's Form S-1 Registration Statement, Registration No. 33-37587, filed November 2, 1990, on behalf of Pruco Life Insurance Company.

Market-Value Adjustment Annuity Contract, incorporated by reference to Registrant's Form S-1 Registration Statement, Registration No. 33-61143, filed November 17, 1995, on behalf of Pruco Life Insurance Company.

9. None.

10. None.

11. Not applicable.

12. Not applicable.

13. Not applicable.

16. Not applicable.

18. None.

21. Pruco Life Insurance Company of New Jersey, a stock life insurance company organized under the laws of the state of New Jersey, is a wholly owned subsidiary of Pruco Life. It is licensed to sell life insurance and annuities only in the States of New Jersey and New York.

The Prudential Life Insurance Company of Arizona, a stock life insurance company organized under the laws of the State of Arizona, is a wholly owned subsidiary of Pruco Life. It is licensed to sell life insurance and annuities only in the State of Arizona.

22. None.

23. Not applicable.

24. Powers of Attorney for I. Edward Price, Esther H. Milnes, William M. Bethke, Ira Kleinman and Mendel Melzer are incorporated by reference to Form 10-K, Registration No. 33-867880, filed March

28, 1997, on behalf of Pruco Life Variable Contract Real Property Account. A Power of Attorney for Kiyofumi Sakaguchi is incorporated by reference to Post Effective Amendment No. 8 to Form S-6, Registration No. 33-49994, filed April 28, 1997 on behalf of the Pruco Life PRUvider Variable Appreciable Account. A Power of Attorney for James J. Avery, Jr. is incorporated by reference to Post-Effective Amendment No. 9 to Form S-1, Registration No. 33-20018, filed June 25, 1997 on behalf of the Pruco Life of New Jersey Variable Contract Real Property Account.

27. Exhibit 27, Financial Data Schedule appended to this form in accordance with EDGAR instructions.

99. The following table presents sales and related expenses of the Flexible Premium Variable Annuity Account since July 19, 1995, the effective date of the registration statement (SEC file number 3331-61143).

<TABLE>
<CAPTION>

	For the account of the Company	For the account(s) of the contractholder(s)
	Aggregate offering price of amount registered	Amount sold
	(000's)	Amount sold
<S> Flexible Premium Variable Annuity Account*	<C> \$ 500,000	<C> \$ 196,882
		\$ 13,309
Underwriting discounts and commissions **		(6,891)
Other expenses ***		(9,943)
Total		(16,834)
Net offering proceeds		\$ 180,048

</TABLE>

* Securities are not issued or sold in predetermined units.

** Amount represents estimated commissions paid to affiliated parties.

*** Amount represents estimated general administrative expenses paid to the parent under service and lease agreement.

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SIGNATURES

Pursuant to the requirements of Section 13, or 15 (d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRUCO LIFE INSURANCE COMPANY
(Registrant)

Date: March 15, 1999

By: /s/ESTHER H. MILNES

Esther H. Milnes
President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>
Signature

Title

Date

<S>

<C>

<C>

*

Chairman of the Board

March 15, 1999

----- James J. Avery, Jr.		
	*	
----- I. Edward Price	Vice Chairman of the Board and Director	March 15, 1999
	*	
----- Esther H. Milnes	President and Director	March 15, 1999
/s/DENNIS G. SULLIVAN ----- Dennis G. Sullivan	Principal Financial Officer and Chief Accounting Officer	March 15, 1999
	*	
----- William M. Bethke	Director	March 15, 1999
	*	
----- Ira J. Kleinman	Director	March 15, 1999
	*	
----- Mendel A. Melzer	Director	March 15, 1999
	*	
----- Kiyofumi Sakaguchi </TABLE>	Director	March 15, 1999

* By: /s/THOMAS C. CASTANO

Thomas C. Castano
(Attorney-in-Fact)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1998, 1997, and 1996

PRUCO LIFE INSURANCE COMPANY AND SUBSIDIARIES

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PRUCO LIFE INSURANCE COMPANY
INDEX TO FINANCIAL STATEMENTS

PRUCO LIFE INSURANCE COMPANY AND SUBSIDIARIES

Report of Independent Accountants F-2

Consolidated Financial Statements:

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December 31, 1998, 1997 and 1996 F-4Statements of Changes in Stockholder's Equity -
Years ended December 31, 1998, 1997 and 1996 F-5Statements of Cash Flows - Years ended
December 31, 1998, 1997, and 1996 F-6Notes to the Consolidated Financial Statements -
December 31, 1998, 1997, and 1996 F-7

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Report of Independent Accountants

To the Board of Directors of
Pruco Life Insurance Company

In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of operations, of changes in stockholder's equity and of cash flows present fairly, in all material respects, the financial position of Pruco Life Insurance Company and its subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
New York, New York
February 26, 1999

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Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Financial Position
December 31, 1998 and 1997 (In Thousands)

<TABLE> <CAPTION>			
	1998	1997	
<S>	<C>	<C>	
ASSETS			
Fixed maturities			
Available for sale, at fair value (amortized cost, 1998: \$2,738,654; 1997: \$2,526,554)	\$ 2,763,926	\$ 2,563,852	
Held to maturity, at amortized cost (fair value, 1998: \$421,845; 1997: \$350,056)	410,558	338,848	
Equity securities - available for sale, at fair value (cost, 1998: \$2,951; 1997: \$1,289)	2,847	1,982	
Mortgage loans on real estate	17,354	22,787	
Policy loans	766,917	703,955	
Short-term investments	240,727	316,355	
Other long-term investments	1,047	1,317	
Total investments	4,203,376	3,949,096	
Cash	89,679	71,358	
Deferred policy acquisition costs	861,713	655,242	
Accrued investment income	61,114	67,000	
Other assets	65,145	86,692	
Separate Account assets	11,531,754	8,022,079	
TOTAL ASSETS	\$ 16,812,781	\$ 12,851,467	
LIABILITIES AND STOCKHOLDER'S EQUITY			
Liabilities			
Policyholders' account balances	\$ 2,696,191	\$ 2,380,460	
Future policy benefits and other policyholder liabilities	534,599	472,460	
Cash collateral for loaned securities	73,336	143,421	
Securities sold under agreement to repurchase	49,708	--	
Income taxes payable	44,524	71,703	
Net deferred income tax liability	148,834	138,483	
Payable to affiliate	66,568	70,375	
Other liabilities	55,038	120,260	
Separate Account liabilities	11,490,751	7,948,788	
Total liabilities	15,159,549	11,345,950	
Contingencies (See Note 11)			
Stockholder's Equity			
Common stock, \$10 par value;			
1,000,000 shares, authorized;			
250,000 shares, issued and outstanding at			
December 31, 1998 and 1997	2,500	2,500	
Paid-in-capital	439,582	439,582	
Retained earnings	1,202,833	1,050,871	
Accumulated other comprehensive income			
Net unrealized investment gains	9,902	17,129	
Foreign currency translation adjustments	(1,585)	(4,565)	
Accumulated other comprehensive income	8,317	12,564	
Total stockholder's equity	1,653,232	1,505,517	
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 16,812,781	\$ 12,851,467	

</TABLE>

See Notes to Consolidated Financial Statements

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Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 1998, 1997 and 1996 (In Thousands)

<TABLE> <CAPTION>			
	1998	1997	1996
<S>	<C>	<C>	<C>
REVENUES			
Premiums	\$ 57,467	\$ 49,496	\$ 51,525
Policy charges and fee income	364,719	330,292	324,976

Net investment income	261,430	259,634	247,328
Realized investment gains, net	44,841	10,974	10,835
Other income	41,267	33,801	20,818
	-----	-----	-----
Total revenues	769,724	684,197	655,482
	-----	-----	-----
BENEFITS AND EXPENSES			
Policyholders' benefits	186,527	179,419	186,873
Interest credited to policyholders' account balances	118,935	110,815	118,246
General, administrative and other expenses	228,067	225,721	122,006
	-----	-----	-----
Total benefits and expenses	533,529	515,955	427,125
	-----	-----	-----
Income from operations before income taxes	236,195	168,242	228,357
	-----	-----	-----
Income taxes			
Current	69,768	73,326	60,196
Deferred	14,465	(11,458)	18,939
	-----	-----	-----
Total income taxes	84,233	61,868	79,135
	-----	-----	-----
NET INCOME	151,962	106,374	149,222
	-----	-----	-----
Other comprehensive income, net of tax:			
Unrealized gains on securities, net of reclassification adjustment	(7,227)	3,025	(17,952)
Foreign currency translation adjustments	2,980	(2,863)	(482)
	-----	-----	-----
Other comprehensive income	(4,247)	162	(18,434)
	-----	-----	-----
TOTAL COMPREHENSIVE INCOME	\$ 147,715	\$ 106,536	\$ 130,788
	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements

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Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Changes in Stockholder's Equity
Years Ended December 31, 1998, 1997, and 1996 (In Thousands)

<TABLE>				
<CAPTION>				
Total				Accumulated
stockholder's	Common	Paid-in-	Retained	other
equity	stock	capital	earnings	comprehensive
	-----	-----	-----	income
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
<C>				
Balance, January 1, 1996	\$ 2,500	\$ 439,582	\$ 795,275	\$ 30,836
\$ 1,268,193				
Net income	--	--	149,222	--
149,222				
Change in foreign currency translation adjustments	--	--	--	(482)
(482)				
Change in net unrealized investment gains, net of				

reclassification adjustment (17,952)	--	--	--	(17,952)
-----	-----	-----	-----	-----
Balance, December 31, 1996 1,398,981	2,500	439,582	944,497	12,402
Net income 106,374	--	--	106,374	--
Change in foreign currency translation adjustments (2,863)	--	--	--	(2,863)
Change in net unrealized investment gains, net of reclassification adjustment 3,025	--	--	--	3,025
-----	-----	-----	-----	-----
Balance, December 31, 1997 1,505,517	2,500	439,582	1,050,871	12,564
Net income 151,962	--	--	151,962	--
Change in foreign currency translation adjustments 2,980	--	--	--	2,980
Change in net unrealized investment gains, net of reclassification adjustment (7,227)	--	--	--	(7,227)
-----	-----	-----	-----	-----
Balance, December 31, 1998 \$ 1,653,232	\$ 2,500	\$ 439,582	\$ 1,202,833	\$ 8,317
=====	=====	=====	=====	=====

</TABLE>

See Notes to Consolidated Financial Statements

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Pruco Life Insurance Company and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 1998, 1997, and 1996 (In Thousands)

	1998	1997
1996	-----	-----
<S>	<C>	<C>
<C>		
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 151,962	\$ 106,374
\$ 149,222		
Adjustments to reconcile net income to net cash (used in)		
provided by operating activities:		
Policy charges and fee income	(47,230)	(40,783)
(50,286)		
Interest credited to policyholders' account balances	118,935	110,815
118,246		
Realized investment gains, net	(44,841)	(10,974)
(10,835)		
Amortization and other non-cash items	18,611	(31,181)
29,334		
Change in:		
Future policy benefits and other policyholders' liabilities	62,139	39,683
54,176		
Accrued investment income	5,886	(4,890)
(2,248)		

(38,025)	Separate Accounts	32,288	(13,894)
16,519	Payable to affiliate	(3,807)	20,547
(70,509)	Policy loans	(62,962)	(64,173)
(66,183)	Deferred policy acquisition costs	(206,471)	(22,083)
(816)	Income taxes payable	(27,179)	78,894
7,912	Deferred income tax liability	10,351	(10,477)
7,814	Other, net	(43,675)	34,577
-----		-----	-----
144,321	Cash Flows (Used In) From Operating Activities	(35,993)	192,435
-----		-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale/maturity of:			
Fixed maturities:			
3,886,254	Available for sale	5,429,396	2,828,665
138,127	Held to maturity	74,767	138,626
7,527	Equity securities	4,101	6,939
19,226	Mortgage loans on real estate	5,433	24,925
288	Other long-term investments	1,140	3,276
4,488	Investment real estate	--	--
Payments for the purchase of:			
Fixed maturities:			
(4,008,810)	Available for sale	(5,617,208)	(3,141,785)
(114,494)	Held to maturity	(145,919)	(70,532)
(4,697)	Equity securities	(2,274)	(4,594)
(657)	Other long-term investments	(409)	(51)
-	Cash collateral for loaned securities, net	(70,085)	143,421
-	Securities sold under agreement to repurchase, net	49,708	-
58,186	Short-term investments, net	75,771	(147,030)
-----		-----	-----
(14,562)	Cash Flows Used In Investing Activities	(195,579)	(218,140)
-----		-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Policyholders' account balances:			
536,370	Deposits	3,098,721	2,099,600
(633,798)	Withdrawals	(2,848,828)	(2,076,303)
-----		-----	-----
(97,428)	Cash Flows From (Used in) Financing Activities	249,893	23,297
-----		-----	-----
32,331	Net increase (decrease) in Cash	18,321	(2,408)
41,435	Cash, beginning of year	71,358	73,766
-----		-----	-----
\$ 73,766	CASH, END OF PERIOD	\$ 89,679	\$ 71,358
=====		=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION			
\$ 61,760	Income taxes paid (received)	\$ 99,810	\$ (7,904)
=====		=====	=====

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

1. BUSINESS

Pruco Life Insurance Company (the Company) is a stock life insurance company, organized in 1971 under the laws of the state of Arizona. The Company markets individual life insurance, variable life insurance, variable annuities, fixed annuities, and a group annuity program (the Contracts) in all states and territories except the District of Columbia and Guam. In addition, the Company markets individual life insurance through its branch office in Taiwan. The Company has two wholly owned subsidiaries, Pruco Life Insurance Company of New Jersey (PLNJ) and The Prudential Life Insurance Company of Arizona (PLICA). PLNJ is a stock life insurance company organized in 1982 under the laws of the state of New Jersey. It is licensed to sell individual life insurance, variable life insurance, fixed annuities, and variable annuities only in the states of New Jersey and New York. PLICA is a stock life insurance company organized in 1988 under the laws of the state of Arizona. PLICA had no new business sales in 1997 or 1998 and at this time will not be issuing new business.

The Company is a wholly owned subsidiary of The Prudential Insurance Company of America (Prudential), a mutual insurance company founded in 1875 under the laws of the state of New Jersey. Prudential intends to make additional capital contributions to the Company, as needed, to enable it to comply with its reserve requirements and fund expenses in connection with its business. Generally, Prudential is under no obligation to make such contributions and its assets do not back the benefits payable under the Contracts.

The Company is engaged in a business that is highly competitive because of the large number of stock and mutual life insurance companies and other entities engaged in marketing insurance products, and individual and group annuities. There are approximately 1,620 stock, mutual and other types of insurers in the life insurance business in the United States.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Investments

Fixed maturities classified as "available for sale" are carried at estimated fair value. Fixed maturities that the Company has both the intent and ability to hold to maturity are stated at amortized cost and classified as "held to maturity". The amortized cost of fixed maturities is written down to estimated fair value if a decline in value is considered to be other than temporary. Unrealized gains and losses on fixed maturities "available for sale", including the effect on deferred policy acquisition costs and participating annuity contracts that would result from the realization of unrealized gains and losses, net of income taxes, are included in a separate component of equity, "Accumulated other comprehensive income."

Equity securities, available for sale, comprised of common and non-redeemable preferred stock, are carried at estimated fair value. The associated unrealized gains and losses, net of income tax, the effects on deferred policy acquisition costs and on participating annuity contracts that would result from the realization of unrealized gains and losses, are included in a separate component of equity, "Accumulated other comprehensive income."

Mortgage loans on real estate are stated primarily at unpaid principal balances, net of unamortized discounts and allowance for losses. The allowance for losses

is based upon a loan specific review and management's consideration of past results, current trends, the estimated value of the underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. Impaired loans are identified by management as loans in which a probability exists that all amounts due according to the contractual terms of the loan agreement will not be collected.

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent.

Interest received on impaired loans, including loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as revenue, according to management's judgment as to the collectibility of principal. Management discontinues the accrual of interest on impaired loans after the loans are 90 days delinquent as to principal or interest, or earlier when management has serious doubts about collectibility. When a loan is recognized as impaired, any accrued but unpaid interest previously recorded on such loan is reversed against interest income of the current period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where interest has been interrupted for a substantial period, a regular payment performance has been established.

Policy loans are carried at unpaid principal balances.

Short-term investments, consists primarily of highly liquid debt instruments purchased with an original maturity of twelve months or less and are carried at amortized cost, which approximates fair value.

Other long-term investments primarily represent the Company's investments in joint ventures and partnerships in which the Company does not have control. These investments are recorded using the equity method of accounting, reduced for other than temporary declines in value.

Realized investment gains, net are computed using the specific identification method. Costs of fixed maturity and equity securities are adjusted for impairments considered to be other than temporary.

Cash

Cash includes cash on hand, amounts due from banks, and money market instruments.

Deferred Policy Acquisition Costs

The costs which vary with and that are related primarily to the production of new insurance business are deferred to the extent that they are deemed recoverable from future profits. Such costs include certain commissions, costs of policy issuance and underwriting, and certain variable field office expenses. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing at the end of each accounting period. Deferred policy acquisition costs are adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in "Accumulated other comprehensive income."

Acquisition costs related to interest-sensitive life products and investment-type contracts are deferred and amortized in proportion to total estimated gross profits arising principally from investment results, mortality and expense margins and surrender charges based on historical and anticipated future experience. Amortization periods range from 15 to 30 years. For participating life insurance, deferred policy acquisition costs are amortized over the expected life of the contracts in proportion to estimated gross margins based on historical and anticipated future experience, which is updated periodically. Deferred policy acquisition costs are analyzed to determine if they are recoverable from future income, including investment income. If such costs are determined to be unrecoverable, they are expensed at the time of determination. The effect of revisions to estimated gross profits on unamortized deferred acquisition costs is reflected in earnings in the period such estimated gross profits are revised.

Securities loaned

Securities loaned are treated as financing arrangements and are recorded at the amount of cash received as collateral. The Company obtains collateral in an amount equal to 102% of the fair value of the securities. The Company monitors the market value of securities loaned on a daily basis with additional collateral obtained as necessary. Non-cash collateral received is not reflected in the consolidated statements of financial position. Substantially all of the Company's securities loaned are with large brokerage firms.

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are treated as financing arrangements and are carried at the amounts at which the securities will be subsequently reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession of securities purchased under agreements to resell. The market value of securities to be repurchased is monitored and additional collateral is requested, where appropriate, to protect against credit exposure.

Securities lending and securities repurchase agreements are used to generate net investment income and facilitate trading activity. These instruments are short-term in nature (usually 30 days or less). Securities loaned are collateralized principally by U.S. Government and mortgage-backed securities. Securities sold under repurchase agreements are collateralized principally by cash. The carrying amounts of these instruments approximate fair value because of the relatively short period of time between the origination of the instruments and their expected realization.

Separate Account Assets and Liabilities

Separate Account assets and liabilities are reported at estimated fair value and represent segregated funds which are invested for certain policyholders and other customers. Separate Account assets include common stocks, fixed maturities, real estate related securities, and short-term investments. The assets of each account are legally segregated and are not subject to claims that arise out of any other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and gains or losses for Separate Accounts generally accrue to the policyholders and are not included in the Consolidated Statement of Operations. Mortality, policy administration and surrender charges on the accounts are included in "Policy charges and fee income."

Separate Accounts represent funds for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the policyholders, with the exception of the Pruco Life Modified Guaranteed Annuity Account. The Pruco Life Modified Guaranteed Annuity Account is a non-unitized separate account, which funds the Modified Guaranteed Annuity Contract and the Market Value Adjustment Annuity Contract. Owners of the Pruco Life Modified Guaranteed Annuity and the Market Value Adjustment Annuity Contracts do not participate in the investment gain or loss from assets relating to such accounts. Such gain or loss is borne, in total, by the Company.

Insurance Revenue and Expense Recognition

Premiums from insurance policies are generally recognized when due. Benefits are recorded as an expense when they are incurred. For traditional life insurance contracts, a liability for future policy benefits is recorded using the net level premium method. For individual annuities in payout status, a liability for future policy benefits is recorded for the present value of expected future payments based on historical experience.

Premiums from non-participating group annuities with life contingencies are generally recognized when due. For single premium immediate annuities, premiums are recognized when due with any excess profit deferred and recognized in a constant relationship to insurance in-force or, for annuities, the amount of expected future benefit payments.

Amounts received as payment for interest-sensitive life, individual annuities, and guaranteed investment contracts are reported as deposits to "Policyholders' account balances." Revenues from these contracts reflected as "Policy charges

and fee income" consist primarily of fees assessed during the period against the policyholders' account balances for mortality charges, policy administration charges and surrender charges. In addition, interest earned from the investment of these account balances is reflected in "Net investment income." Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited and amortization of deferred policy acquisition costs.

Foreign Currency Translation Adjustments

Assets and liabilities of the Taiwan branch are translated to U.S. dollars at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. Cumulative translation adjustments arising from the use of differing exchange rates from period to period are charged or credited directly to "Other comprehensive income." The cumulative effect of changes in foreign exchange rates are included in "Accumulated other comprehensive income."

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Income

Other income consists primarily of asset management fees which are received by the Company from Prudential for services Prudential provides to the Prudential Series Fund, an underlying investment option of the Separate Accounts.

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, various financial indices, or the value of securities or commodities. Derivative financial instruments used by the Company include futures, currency swaps, and options contracts and can be exchange-traded or contracted in the over-the-counter market. The Company uses derivative financial instruments to hedge market risk from changes in interest rates or foreign currency exchange rates, and to alter interest rate or currency exposures arising from mismatches between assets and liabilities. All derivatives used by the Company are for other than trading purposes.

To qualify as a hedge, derivatives must be designated as hedges for existing assets, liabilities, firm commitments, or anticipated transactions which are identified and probable to occur, and effective in reducing the market risk to which the Company is exposed. The effectiveness of the derivatives must be evaluated at the inception of the hedge and throughout the hedge period.

When derivatives qualify as hedges, the changes in the fair value or cash flows of the derivatives and the hedged items are recognized in earnings in the same period. If the Company's use of other than trading derivatives does not meet the criteria to apply hedge accounting, the derivatives are recorded at fair value in "Other liabilities" in the Consolidated Statements of Financial Position, and changes in their fair value are recognized in earnings in "Realized investment gains, net" without considering changes in the hedged assets or liabilities. Cash flows from other than trading derivative assets and liabilities are reported in the operating activities section in the Consolidated Statements of Cash Flows.

Income Taxes

The Company and its subsidiaries are members of the consolidated federal income tax return of Prudential and files separate company state and local tax returns. Pursuant to the tax allocation arrangement with Prudential, total federal income tax expense is determined on a separate company basis. Members with losses record tax benefits to the extent such losses are recognized in the consolidated federal tax provision. Deferred income taxes are generally recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to that portion that is expected to be realized.

New Accounting Pronouncements

In June 1996, the Financial Accounting Standards Board ("FASB") issued the Statement of Financial Accounting Standards ("SFAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 125"). The statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities and provides consistent standards for distinguishing transfers of financial

assets that are sales from transfers that are secured borrowings. SFAS 125 became effective January 1, 1997 and is to be applied prospectively. Subsequent to June 1996, FASB issued SFAS No. 127 "Deferral of the Effective Date of Certain Provisions of SFAS 125" ("SFAS 127"). SFAS 127 delays the implementation of SFAS 125 for one year for certain transactions, including repurchase agreements, dollar rolls, securities lending and similar transactions. Adoption of SFAS 125 did not have a material impact on the Company's results of operations, financial position and liquidity.

During 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income," which was issued by the FASB in June 1997. This statement defines comprehensive income and establishes standards for reporting and displaying comprehensive income and its components in financial statements. The statement requires that the Company classify items of other comprehensive income by their nature and display the accumulated balance of other comprehensive income separately from retained earnings in the equity section of the Statement of Financial Position. Application of this statement did not change recognition or measurement of net income and, therefore, did not affect the Company's financial position or results of operations.

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

On January 1, 1999, the Company adopted the American Institute of Certified Public Accountants ("AICPA") Statement of Position 97-3, "Accounting by Insurance and Other Enterprises for Insurance-Related Assessments" ("SOP 97-3"). This statement provides guidance for determining when an insurance company or other enterprise should recognize a liability for guaranty-fund assessments as well as guidance for measuring the liability. The adoption of SOP 97-3 is not expected to have a material effect on the Company's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which requires that companies recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. SFAS No. 133 provides, if certain conditions are met, that a derivative may be specifically designated as (1) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (fair value hedge), (2) a hedge of the exposure to variable cash flows of a forecasted transaction (cash flow hedge), or (3) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security or a foreign-currency-denominated forecasted transaction (foreign currency hedge).

SFAS No. 133 does not apply to most traditional insurance contracts. However, certain hybrid contracts that contain features which can affect settlement amounts similarly to derivatives may require separate accounting for the "host contract" and the underlying "embedded derivative" provisions. The latter provisions would be accounted for as derivatives as specified by the statement.

Under SFAS No. 133, the accounting for changes in fair value of a derivative depends on its intended use and designation. For a fair value hedge, the gain or loss is recognized in earnings in the period of change together with the offsetting loss or gain on the hedged item. For a cash flow hedge, the effective portion of the derivative's gain or loss is initially reported as a component of other comprehensive income and subsequently reclassified into earnings when the forecasted transaction affects earnings. For a foreign currency hedge, the gain or loss is reported in other comprehensive income as part of the foreign currency translation adjustment. For all other derivatives not designated as hedging instruments, the gain or loss is recognized in earnings in the period of change. The Company is required to adopt this Statement no later than January 1, 2000 and is currently assessing the effect of the new standard.

In October, 1998, the AICPA issued Statement of Position 98-7, "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk," ("SOP 98-7"). This statement provides guidance on how to account for insurance and reinsurance contracts that do not transfer insurance risk. SOP 98-7 is effective for fiscal years beginning after June 15, 1999. The adoption of this statement is not expected to have a material effect on the Company's financial position or results of operations.

Reclassifications

Certain amounts in the prior years have been reclassified to conform to current year presentation.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS

Fixed Maturities and Equity Securities:

The following tables provide additional information relating to fixed maturities and equity securities as of December 31,:

1998			
Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
		(In Thousands)	
Fixed maturities available for sale			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	110,294	864	318
110,840			
Foreign government bonds	87,112	2,003	696
88,419			
Corporate securities	2,540,498	30,160	6,897
2,563,761			
Mortgage-backed securities	750	156	--
906			
Total fixed maturities available for sale	\$2,738,654	\$ 33,183	\$ 7,911
\$2,763,926			
Equity securities available for sale	\$ 2,951	\$ 168	\$ 272
\$ 2,847			
Fixed maturities held to maturity			
Corporate securities	\$ 410,558	\$ 11,287	\$ --
\$ 421,845			
Total fixed maturities held to maturity	\$ 410,558	\$ 11,287	\$ --
\$ 421,845			
1997			
Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
		(In Thousands)	
Fixed maturities available for sale			
U.S. Treasury securities and obligations of U.S. government corporations and agencies	\$ 177,691	\$ 1,231	\$ 20
\$ 178,902			

Foreign government bonds 84,988	83,889	1,118	19
Corporate securities 2,298,738	2,263,898	36,857	2,017
Mortgage-backed securities 1,224	1,076	180	32
-----	-----	-----	-----
Total fixed maturities available for sale \$2,563,852	\$2,526,554	\$ 39,386	\$ 2,088
=====	=====	=====	=====
Equity securities available for sale \$ 1,982	\$ 1,289	\$ 802	\$ 109
=====	=====	=====	=====
Fixed maturities held to maturity Corporate securities \$ 350,056	\$ 338,848	\$ 11,427	\$ 219
-----	-----	-----	-----
Total fixed maturities held to maturity \$ 350,056	\$ 338,848	\$ 11,427	\$ 219
=====	=====	=====	=====

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

The amortized cost and estimated fair value of fixed maturities, categorized by contractual maturities at December 31, 1998 are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)		(In Thousands)	
<S>	<C>	<C>	<C>	<C>
Due in one year or less	\$ 72,931	\$ 73,254	\$ 3,036	\$ 3,064
Due after one year through five years	1,050,981	1,059,389	193,749	201,136
Due after five years through ten years	1,142,507	1,156,664	155,568	158,801
Due after ten years	471,485	473,713	58,205	58,844
Mortgage-backed securities	750	906	--	--
Total	\$2,738,654	\$2,763,926	\$ 410,558	\$ 421,845

Actual maturities will differ from contractual maturities because, in certain circumstances, issuers have the right to call or prepay obligations.

Proceeds from the sale of fixed maturities available for sale during 1998, 1997, and 1996 were \$5,327.3 million, \$2,796.3 million, and \$3,667.1 million, respectively. Gross gains of \$46.3 million, \$18.6 million, and \$22.1 million and gross losses of \$14.1 million, \$7.9 million, and \$17.6 million were realized on those sales during 1998, 1997, and 1996, respectively.

Proceeds from the maturity of fixed maturities available for sale during 1998, 1997, and 1996 were \$102.1 million, \$32.4 million, and \$219.2 million, respectively. During the years ended December 31, 1998, 1997, and 1996, there were no securities classified as held to maturity that were sold.

Writedowns for impairments of fixed maturities which were deemed to be other than temporary were \$2.8 million, \$.1 million and \$.1 million for the years 1998, 1997 and 1996, respectively.

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

The following table describes the credit quality of the fixed maturity portfolio, based on ratings assigned by the National Association of Insurance Commissioners ("NAIC") or Standard & Poor's Corporation, an independent rating agency as of December 31, 1998:

		Available for Sale		Held to	
Maturity					
Estimated Fair Value		Amortized Cost	Estimated Fair Value	Amortized Cost	
		(In Thousands)		(In Thousands)	
NAIC	Standard & Poor's	<C>	<C>	<C>	<C>
1	AAA to AA-	\$1,195,301	\$1,211,995	\$ 180,070	\$
2	BBB+ to BBB-	1,254,522	1,263,656	182,298	
3	BB+ to BB-	201,033	204,278	39,346	
4	B+ to B-	59,799	57,695	8,821	
5	CCC or lower	27,552	26,061	--	
6	In or near default	447	241	23	
Total		\$2,738,654	\$2,763,926	\$ 410,558	\$

The fixed maturity portfolio consists largely of investment grade assets (rated "1" or "2" by the NAIC), with such investments accounting for 89% and 94% of the portfolio at December 31, 1998 and 1997, respectively, based on fair value. As of both of those dates, less than 1% of the fixed maturities portfolio was rated "6" by the NAIC, defined as public and private placement securities which are currently non-performing or believed subject to default in the near-term.

The Company continually reviews fixed maturities and identifies potential problem assets which require additional monitoring. The Company defines "problem" fixed maturities as those for which principal and/or interest payments are in default. The Company defines "potential problem" fixed maturities as assets which are believed to present default risk associated with future debt service obligations and therefore require more active management. At December 31, 1998 management identified \$264.0 thousand of fixed maturity investments as problem or potential problem. An immaterial amount of problem or potential problem fixed maturities were identified in 1997.

Mortgage Loans on Real Estate

The Company's mortgage loans were collateralized by the following property types at December 31, 1998 and 1997.

1998	1997
-----	-----

(In Thousands)

Office buildings	\$ --	--	\$ 4,607	20%
Retail stores	7,356	42%	8,090	35%
Apartment complexes	5,988	35%	6,080	27%
Industrial buildings	4,010	23%	4,010	18%
Net carrying value	<u>\$17,354</u>	<u>100%</u>	<u>\$22,787</u>	<u>100%</u>

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

The largest concentration of mortgage loans are in the states of Pennsylvania (35%), Washington (34%), and New Jersey (23%).

Special Deposits

Fixed maturities of \$8.6 million and \$8.3 million at December 31, 1998 and 1997, respectively, were on deposit with governmental authorities or trustees as required by certain insurance laws.

Other Long-Term Investments

The Company's "Other long-term investments" of \$1.0 million and \$1.3 million as of December 31, 1998 and 1997, respectively, are comprised of joint ventures and limited partnerships. The Company's share of net income from these entities was \$1.1 million, \$2.2 million and \$1.4 million for the years ended December 31, 1998, 1997 and 1996, respectively, and is reported in "Net investment income."

Investment Income and Investment Gains and Losses

Net investment income arose from the following sources for the years ended December 31:

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Fixed maturities - available for sale	\$ 179,184	\$ 161,140	\$ 152,445
Fixed maturities - held to maturity	26,128	26,936	33,419
Equity securities	14	76	44
Mortgage loans on real estate	1,818	2,585	5,669
Policy loans	40,928	37,398	33,449
Short-term investments	23,110	22,011	16,780
Other	6,886	14,920	10,051
Gross investment income	<u>278,068</u>	<u>265,066</u>	<u>251,857</u>
Less: investment expenses	(16,638)	(5,432)	(4,529)
Net investment income	<u>\$ 261,430</u>	<u>\$ 259,634</u>	<u>\$ 247,328</u>

Realized investment gains, net including charges for other than temporary reductions in value, for the years ended December 31, were from the following sources:

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Fixed maturities - available for sale	\$ 29,330	\$ 9,039	\$ 9,036
Fixed maturities - held to maturity	487	821	--
Equity securities	3,489	8	781
Mortgage loans on real estate	--	797	1,677
Derivative instruments	12,414	--	--
Other	(879)	309	(659)
Realized investment gains, net	<u>\$ 44,841</u>	<u>\$ 10,974</u>	<u>\$ 10,835</u>

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

3. INVESTMENTS (continued)

Net Unrealized Investment Gains

Net unrealized investment gains on securities available for sale are included in the Consolidated Statement of Financial Position as a component of "Accumulated other comprehensive income." Changes in these amounts include reclassification adjustments to avoid double-counting in "Comprehensive income," items that are included as part of "Net income" for a period that also have been part of "Other comprehensive income" in earlier periods. The amounts for the years ended December 31, net of tax, are as follows:

	1998	1997	1996
	-----	-----	-----
		(In Thousands)	
<S>	<C>	<C>	<C>
Net unrealized investment gains, beginning of year	\$ 17,129	\$ 14,104	\$ 32,056
Changes in net unrealized investment gains attributable to:			
Investments:			
Net unrealized gains on investments arising during the period	14,593	13,880	(20,405)
Reclassification adjustment for gains included in net income	22,799	6,680	6,165
	-----	-----	-----
Change in net unrealized gains on investments, net of adjustments	(8,206)	7,200	(26,570)
Impact of net unrealized investment gains on:			
Policyholder's account balances	(1,063)	1,293	(2,467)
Deferred policy acquisition costs	2,042	(5,468)	11,085
	-----	-----	-----
Change in net unrealized investment gains	(7,227)	3,025	(17,952)
	-----	-----	-----
Net unrealized investment gains, end of year	\$ 9,902	\$ 17,129	\$ 14,104
	=====	=====	=====

Unrealized gains (losses) on investments arising during the periods reported in the above table are net of income tax (benefit) expense of \$(8.2) million, \$(7.6) million and \$12.1 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Reclassification adjustments reported in the above table for the years ended December 31, 1998, 1997 and 1996 are net of income tax expense of \$12.8 million, \$3.6 million and \$3.8 million, respectively.

Policyholder's account balances reported in the above table are net of income tax (benefit) expense of \$(.2) million, \$.0 million and \$1.4 million for the years ended December 31, 1998, 1997 and 1996, respectively.

Deferred policy acquisition costs in the above tables for the years ended December 31, 1998, 1997 and 1996 are net of income tax (benefit) expense of \$(1.1) million, \$2.9 million and \$(6.2) million, respectively.

4. POLICYHOLDERS' LIABILITIES

Future policy benefits and other policyholder liabilities at December 31 are as follows:

	1998	1997
	-----	-----
	(In Thousands)	
Life insurance	\$506,249	\$444,737
Annuities	28,350	27,723
	-----	-----
	\$534,599	\$472,460
	=====	=====

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

4. POLICYHOLDERS' LIABILITIES (continued)

Life insurance liabilities include reserves for death benefits. Annuity liabilities include reserves for immediate annuities.

The following table highlights the key assumptions generally utilized in calculating these reserves:

<TABLE> <CAPTION>			
Product	Mortality	Interest Rate	Estimation Method
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Life insurance - Domestic	<C> Generally rates guaranteed in calculating cash surrender values	<C> 2.5% to 7.5%	<C> Net level premium based on non-forfeiture interest rate
Life insurance - International	Generally rates guaranteed in calculating cash surrender values	6.25% to 6.5%	Net level premium based on the expected investment return
Individual immediate annuities	1983 Individual Annuity Mortality Table with certain modifications	6.25% to 11.0%	Present value of expected future payment based on historical experience
</TABLE>			

Policyholders' account balances at December 31, are as follows:

	1998	1997
	-----	-----
	(In Thousands)	
Interest-sensitive life contracts	\$1,386,829	\$1,345,089
Individual annuities	1,077,996	1,035,371
Guaranteed investment contracts	231,366	--
	-----	-----
	\$2,696,191	\$2,380,460
	=====	=====

Policyholders' account balances for interest-sensitive life, individual annuities, and guaranteed investment contracts are equal to policy account values plus unearned premiums. The policy account values represent an accumulation of gross premium payments plus credited interest less withdrawals, expenses, mortality charges.

Certain contract provisions that determine the policyholder account balances are as follows:

<TABLE> <CAPTION>		
Product	Interest Rate	Withdrawal / Surrender Charges
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Interest sensitive life contracts	<C> 4.0% to 6.5%	<C> Various up to 10 years
Individual annuities	3.0% to 5.6%	0% to 8% for up to 8 years
Guaranteed investment contracts	5.02% to 6.23%	Subject to market value withdrawal provisions for any funds withdrawn other than for benefit responsive and contractual payments
</TABLE>		

5. REINSURANCE

The Company participates in reinsurance, with Prudential and other companies, in order to provide greater diversification of business, provide additional capacity for future growth and limit the maximum net loss potential arising from large risks. Reinsurance ceded arrangements do not discharge the Company or the insurance subsidiaries as the primary insurer, except for cases involving a novation. Ceded balances would represent a liability to the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. The likelihood of a material reinsurance liability reassumed by the Company is considered to be remote.

Reinsurance amounts included in the Consolidated Statement of Operations for the year ended December 31 are below.

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Direct Premiums	\$ 65,423	\$ 51,851	\$ 53,776
Reinsurance assumed	1,395	1,369	1,128
Reinsurance ceded - affiliated	(6,532)	(686)	(254)
Reinsurance ceded - unaffiliated	(2,819)	(3,038)	(3,125)
	-----	-----	-----
Premiums	\$ 57,467	\$ 49,496	\$ 51,525
	=====	=====	=====
Policyholders' benefits ceded	\$ 27,991	\$ 25,704	\$ 26,796
	=====	=====	=====

Reinsurance recoverables, included in "Other assets" in the Company's Consolidated Statements of Financial Position, at December 31 include amounts recoverable on unpaid and paid losses and were as follows:

	1998	1997
	-----	-----
	(In Thousands)	
Life insurance - affiliated	\$ 6,481	\$ 2,618
Other reinsurance - affiliated	21,650	23,243
	-----	-----
	\$28,131	\$25,861
	=====	=====

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

6. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has a non-contributory defined benefit pension plan which covers substantially all of its Taiwanese employees. This plan was established as of September 30, 1997 and the projected benefit obligation and related expenses at September 30, 1998 was not material to the Consolidated Statements of Financial Position or results of operations for the years presented. All other employee benefit costs are allocated to the Company from Prudential in accordance with the service agreement described in Note 13.

7. INCOME TAXES

The components of income taxes for the years ended December 31, are as follows:

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Current tax expense (benefit):			
U.S.	\$ 67,272	\$ 71,989	\$ 59,489
State and local	2,496	1,337	703

Foreign	--	--	4
Total	69,768	73,326	60,196
Deferred tax expense (benefit):			
U.S.	14,059	(11,458)	18,413
State and local	406	--	526
Total	14,465	(11,458)	18,939
Total income tax expense	\$ 84,233	\$ 61,868	\$ 79,135

The income tax expense for the years ended December 31, differs from the amount computed by applying the expected federal income tax rate of 35% to income from operations before income taxes for the following reasons:

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Expected federal income tax expense	\$ 82,668	\$ 58,885	\$ 79,925
State and local income taxes	1,886	869	799
Other	(321)	2,114	(1,589)
Total income tax expense	\$ 84,233	\$ 61,868	\$ 79,135

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Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

7. INCOME TAXES (continued)

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	1998	1997
	-----	-----
	(In Thousands)	
Deferred tax assets		
Insurance reserves	\$ 93,564	\$ 52,144
Deferred tax assets	93,564	52,144
Deferred tax liabilities		
Deferred acquisition costs	224,179	167,128
Net investment gains	12,241	16,068
Other	5,978	7,431
Deferred tax liabilities	242,398	190,627
Net deferred tax liability	\$148,834	\$138,483

Management believes that based on its historical pattern of taxable income, the Company and its subsidiaries will produce sufficient income in the future to realize its deferred tax assets after valuation allowance. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of the deferred tax asset that is realizable. At December 31, 1998 and 1997, respectively, the Company and its subsidiaries had no federal or state operating loss carryforwards for tax purposes.

The Internal Revenue Service (the "Service") has completed examinations of all consolidated federal income tax returns through 1989. The Service has examined the years 1990 through 1992. Discussions are being held with the Service with respect to proposed adjustments. However, management believes there are adequate defenses against, or sufficient reserves to provide for, such adjustments. The Service has begun their examination of the years 1993 through 1995.

Pruco Life Insurance Company and Subsidiaries

Notes to Consolidated Financial Statements

8. EQUITY

Reconciliation of Statutory Surplus and Net Income

Accounting practices used to prepare statutory financial statements for regulatory purposes differ in certain instances from GAAP. The following table reconciles the Company's statutory net income and surplus as of and for the years ended December 31, determined in accordance with accounting practices prescribed or permitted by the Arizona and New Jersey Departments of Banking and Insurance with net income and equity determined using GAAP.

	1998	1997	1996
	-----	-----	-----
	(In Thousands)		
Statutory net income	\$ (33,097)	\$ 12,778	\$ 48,846
Adjustments to reconcile to net income on a GAAP basis:			
Statutory income of subsidiaries	18,953	18,553	25,001
Deferred acquisition costs	202,375	38,003	48,862
Deferred premium	2,625	1,144	1,295
Insurance liabilities	(24,942)	26,517	28,662
Deferred taxes	(14,465)	11,458	(18,939)
Valuation of investments	20,077	506	365
Other, net	(19,564)	(2,585)	15,130
GAAP net income	<u>\$ 151,962</u>	<u>\$ 106,374</u>	<u>\$ 149,222</u>

	1998	1997
	-----	-----
	(In Thousands)	
Statutory surplus	\$ 931,164	\$ 853,130
Adjustments to reconcile to equity on a GAAP basis:		
Valuation of investments	117,254	97,787
Deferred acquisition costs	861,713	655,242
Deferred premium	(15,625)	(14,817)
Insurance liabilities	(133,811)	(107,525)
Deferred taxes	(148,834)	(138,483)
Other, net	41,371	160,183
GAAP stockholder's equity	<u>\$ 1,653,232</u>	<u>\$ 1,505,517</u>

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values presented below have been determined using available information and valuation methodologies. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Accordingly, such estimates presented may not be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The following methods and assumptions were used in calculating the estimated fair values (for all other financial instruments presented in the table, the carrying value approximates estimated fair value).

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fixed maturities and Equity securities

Estimated fair values for fixed maturities and equity securities, other than private placement securities, are based on quoted market prices or estimates from independent pricing services. Fair values for private placement securities are estimated using a discounted cash flow model which considers the current market spreads between the U.S. Treasury yield curve and corporate bond yield curve, adjusted for the type of issue, its current credit quality and its remaining average life. The estimated fair value of certain non-performing private placement securities is based on amounts estimated by management.

Mortgage loans on real estate

The estimated fair value of the mortgage loan portfolio is primarily based upon the present value of the scheduled future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for a similar quality mortgage.

Policy loans

The estimated fair value of policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayments.

Policyholders' account balances

Estimated fair values of policyholders' account balances are derived by using discounted projected cash flows, based on interest rates being offered for similar contracts, with maturities consistent with those remaining for the contracts being valued.

Derivative financial instruments

The fair value of futures is estimated based on market quotes for a transactions with similar terms.

The following table discloses the carrying amounts and estimated fair values of the Company's financial instruments at December 31,:

	1998		1997	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In Thousands)			
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Fixed maturities:				
Available for sale	\$ 2,763,926	\$ 2,763,926	\$ 2,563,852	\$ 2,563,852
Held to maturity	410,558	421,845	338,848	350,056
Equity securities	2,847	2,847	1,982	1,982
Mortgage loans	17,354	19,465	22,787	24,994
Policy loans	766,917	806,099	703,955	703,605
Short-term investments	240,727	240,727	316,355	316,355
Cash	89,679	89,679	71,358	71,358
Separate Account assets	11,531,754	11,531,754	8,022,079	8,022,079
Financial Liabilities:				
Policyholders'				
account balances	\$ 2,696,191	\$ 2,703,725	\$ 2,380,460	\$ 2,374,040
Cash collateral for loaned				
securities	123,044	123,044	143,421	143,421
Separate Account liabilities	11,490,751	11,490,751	7,948,788	7,948,788
Derivatives	1,723	2,374	653	653

10. DERIVATIVE AND OFF-BALANCE SHEET CREDIT-RELATED INSTRUMENTS

Futures & Options

The Company uses exchange-traded Treasury futures and options to reduce market risks from changes in interest rates, to alter mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, and to hedge against changes in the value of securities it owns or anticipates acquiring. The Company enters into exchange-traded futures and options with regulated futures commissions merchants who are members of a trading exchange. The fair value of futures and options is estimated based on market quotes for a transaction with similar terms.

Under exchange-traded futures, the Company agrees to purchase a specified number of contracts with other parties and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. Futures are typically used to hedge duration mismatches between assets and liabilities by replicating Treasury performance. Treasury futures move substantially in value as interest rates change and can be used to either generate new or hedge existing interest rate risk. This strategy protects against the risk that cash flow requirements may necessitate liquidation of investments at unfavorable prices resulting from increases in interest rates. This strategy can be a more cost effective way of temporarily reducing the Company's exposure to a market decline than selling fixed income securities and purchasing a similar portfolio when such a decline is believed to be over.

For futures that meet hedge accounting criteria, changes in their fair value are deferred and recognized as an adjustment to the carrying value of the hedged item. Deferred gains or losses from the hedges for interest-bearing financial instruments are amortized as a yield adjustment over the remaining lives of the hedged item. Futures that do not qualify as hedges are carried at fair value with changes in value reported in current period earnings. The notional value of futures contracts was \$40.8 million and \$115.7 million at December 31, 1998 and 1997, respectively. The fair value of futures contracts was immaterial at December 31, 1998 and 1997.

When the Company anticipates a significant decline in the stock market which will correspondingly affect its diversified portfolio, it may purchase put index options where the basket of securities in the index is appropriate to provide a hedge against a decrease in the value of the equity portfolio or a portion thereof. This strategy effects an orderly sale of hedged securities. When the Company has large cash flows which it has allocated for investment in equity securities, it may purchase call index options as a temporary hedge against an increase in the price of the securities it intends to purchase. This hedge permits such investment transactions to be executed with the least possible adverse market impact.

Option premium paid or received is reported as an asset or liability and amortized into income over the life of the option. If options meet the criteria for hedge accounting, changes in their fair value are deferred and recognized as an adjustment to the hedged item. Deferred gains or losses from the hedges for interest-bearing financial instruments are recognized as an adjustment to interest income or expense of the hedged item. If the options do not meet the criteria for hedge accounting, they are fair valued, with changes in fair value reported in current period earnings. The fair value of options was immaterial at December 31, 1998, and there were no options in 1997.

Currency Derivatives

The Company uses currency swaps to reduce market risks from changes in currency values of investments denominated in foreign currencies that the Company either holds or intends to acquire and to alter the currency exposures arising from mismatches between such foreign currencies and the US Dollar.

Under currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date.

If currency derivatives are effective as hedges of foreign currency translation and transaction exposures, gains or losses are recorded in "Foreign currency translation adjustments". If currency derivatives do not meet hedge accounting criteria, gains or losses from those derivatives are recognized in current period earnings.

As of December 31, 1998, the notional value of the swaps was \$40.5 million with a fair value of (\$2.3) million. There were no currency swaps at year end 1997.

10. DERIVATIVE AND OFF-BALANCE SHEET CREDIT-RELATED INSTRUMENTS (continued)

Credit Risk

The current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. Credit risk is managed by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate and customary. The Company also attempts to minimize its exposure to credit risk through the use of various credit monitoring techniques. As of December 31, 1998, 47% of notional consisted of interest rate derivatives, 47% of notional consisted of foreign currency derivatives, and 6% of notional consisted of equity derivatives.

11. CONTINGENCIES

Several actions have been brought against the Company on behalf of those persons who purchased life insurance policies based on complaints about sales practices engaged in by Prudential, the Company and agents appointed by Prudential and the Company. Prudential has agreed to indemnify the Company for any and all losses resulting from such litigation.

In the normal course of business, the Company is subject to various claims and assessments. Management believes the settlement of these matters would not have a material effect on the financial position or results of operations of the Company.

12. DIVIDENDS

The Company is subject to Arizona law which limits the amount of dividends that insurance companies can pay to stockholders. The maximum dividend which may be paid in any twelve month period without notification or approval is limited to the lesser of 10% of statutory surplus as of December 31 of the preceding year or the net gain from operations of the preceding calendar year. Cash dividends may only be paid out of surplus derived from realized net profits. Based on these limitations and the Company's surplus position at December 31, 1998, the Company would not be permitted a dividend distribution in 1998.

13. RELATED PARTY TRANSACTIONS

Service Agreements

Prudential and Pruco Life operate under service and lease agreements whereby services of officers and employees (except for those agents employed by the Company in Taiwan), supplies, use of equipment and office space are provided by Prudential. The net cost of these services allocated to the Company were \$269.9 million, \$139.5 million and \$101.7 million for the years ended December 31, 1998, 1997, and 1996, respectively. These costs are treated in a manner consistent with the Company's policy on deferred acquisition costs.

Prudential and Pruco Life have an agreement with respect to administrative services for the Prudential Series Fund. The Company invests in the various portfolios of the Series Fund through the Separate Accounts. Under this agreement, Prudential pays compensation to Pruco Life in the amount equal to a portion of the gross investment advisory fees paid by the Prudential Series Fund. The Company received from Prudential its allocable share of such compensation in the amount of \$40.1 million, \$29.4 million and \$19.1 million during 1998, 1997 and 1996, respectively, recorded in other income.

Reinsurance

The Company currently has three reinsurance agreements in place with Prudential (the reinsurer). Specifically a reinsurance Group Annuity Contract, whereby the reinsurer, in consideration for a single premium payment by the Company, provides reinsurance equal to 100% of all payments due under the contract, and two yearly renewable term agreements in which the Company may offer and the reinsurer may accept reinsurance on any life in excess of the Company's maximum limit of retention. The Company is not relieved of its primary obligation to the policyholder as a result of these reinsurance transactions. These agreements had no material effect on net income for the years ended December 31, 1998, 1997, and 1996.

13. RELATED PARTY TRANSACTIONS (continued)

Debt Agreements

In July 1998, the Company established a revolving line of credit facility of up to \$300 million with Prudential Funding Corporation, a wholly owned subsidiary of Prudential. There is no outstanding debt relating to this credit facility as of December 31, 1998.

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