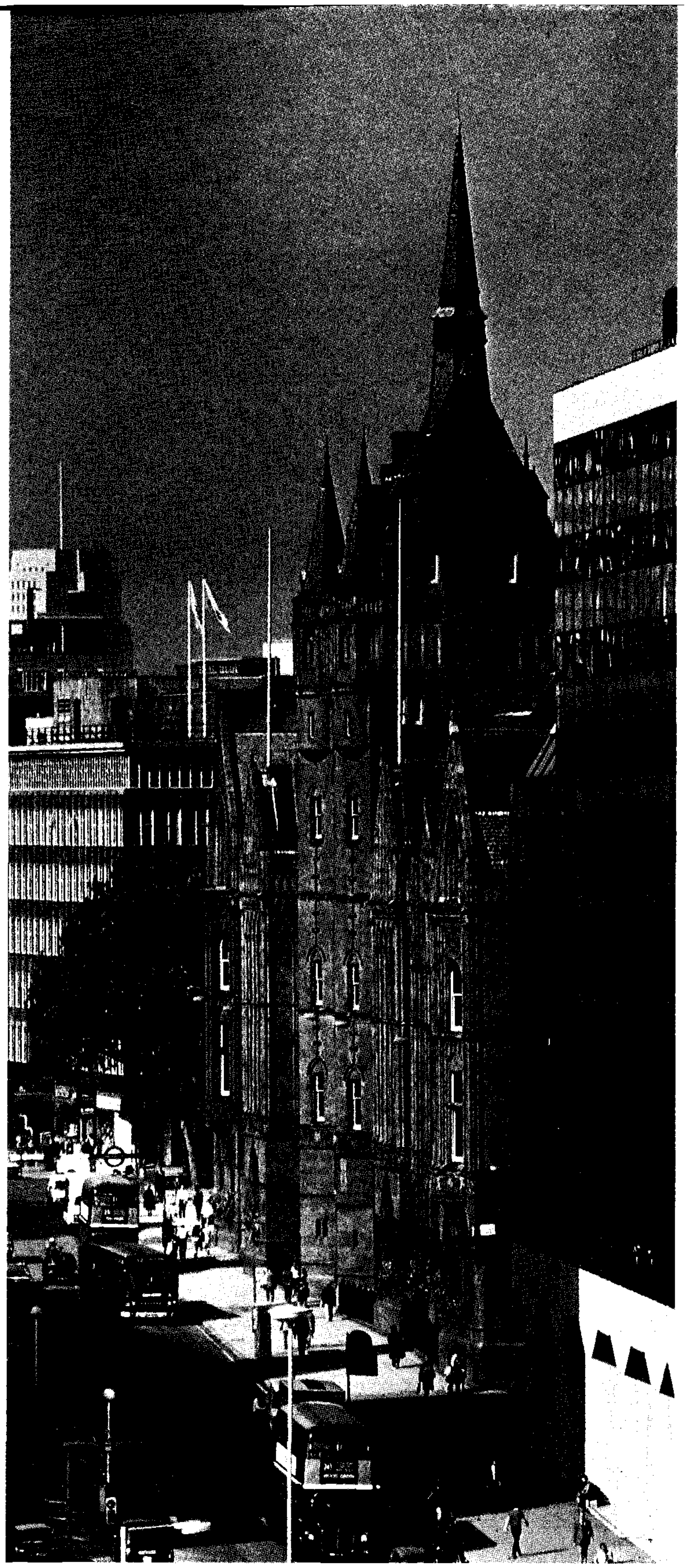
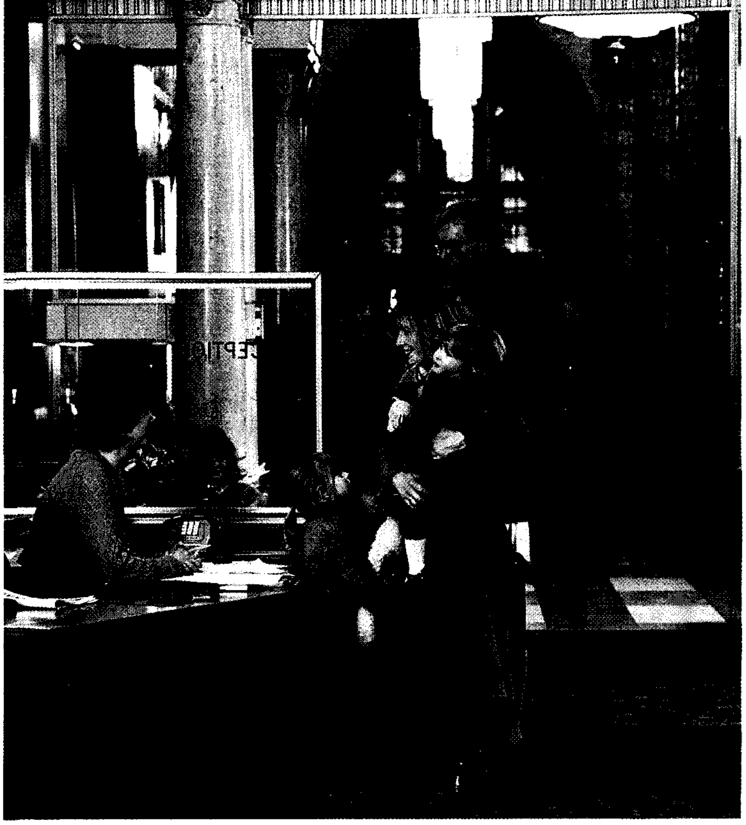


PRUDENTIAL CORPORATION

Annual Report and Accounts

1984



NOTICE OF MEETING

Prudential Corporation Public Limited Company
Incorporated in England Regd. No. 1397169

Notice is hereby given that the Annual General Meeting of the Company will be held at No. 142 Holborn Bars London EC1 on Thursday 30 May 1985 at 12.15 pm for the following purposes:

Ordinary Business

1. To receive and consider the Directors' Report and Accounts for the year ended 31 December 1984
2. To re-elect and elect directors
3. To appoint auditors

To transact any other business proper to be transacted at the said meeting not being special business

Special Business

To consider and if thought fit to pass the following resolutions:

4. Executive share option scheme. The resolution is set out in the separate notice sent herewith
5. That Sir Ronald Hugh Owen FIA be appointed President of the Company in accordance with Article 59 of the Company's Articles of Association.

In connection with the re-election of directors special notice has been given to the Company, pursuant to the Companies Act 1948, that separate resolutions will be moved proposing the re-election of Mr W G Haslam DFC and Mr R S Skerman CBE FIA who retire by rotation and who will both be aged 70 at the date of the meeting.

By order of the board of directors

D F Roper
Secretary
142 Holborn Bars London EC1N 2NH
26 April 1985

Members' attention is drawn to the form of proxy accompanying this notice. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him; a proxy need not be a member of the Company.

The register of directors' interests kept under the Companies Act 1967 will be open for inspection at the meeting. The directors have no service contracts.

PRUDENTIAL CORPORATION

ANNUAL REPORT AND ACCOUNTS 1984

Prudential Corporation plc
Registered office
and transfer office:
142 Holborn Bars London EC1N 2NH.

DIRECTORS

The Rt Hon Lord Carr of Hadley PC

Chairman

A director since 1976 and Chairman since 1980. Former Home Secretary. Director of Cadbury Schweppes, SGB Group and Securicor.

The Rt Hon Lord Hunt of Tanworth GCB

Deputy Chairman

A director since 1980 and Deputy Chairman since 1982. Former Secretary of the Cabinet. Chairman of Banque Nationale de Paris plc, director of IBM (UK) and advisory director of Unilever.

P E Moody CBE FIA

Deputy Chairman

A director since 1981 and Deputy Chairman since May 1984. Former Joint Secretary and Group Chief Investment Manager. Director of Equity Capital for Industry, Laird Group, Investors in Industry and the Post Office. Former President of the Institute of Actuaries.

M D Abrahams

A director since May 1984. Chairman of York Trust Holdings and Weavercraft Carpets. Director of John Waddington and Leyland Paint and Wallpaper.

R E Artus FSIA (Executive Director)

A director since May 1984. Group Chief Investment Manager and Chairman of Prudential Portfolio Managers.

Sir John Butterfield OBE FRCP

A director since 1981. Vice-Chancellor and Regius Professor of Physic, University of Cambridge. Master of Downing College. Member of several medical committees. Director of BCB Instrumentation.

F B Corby FIA (Executive Director)

A director since 1983. Group Chief Executive. Director of the Bank of England.

D S Craigen

A director since 1982 and Chairman of Vanbrugh since 1982. Former Chief General Manager of Prudential Assurance. Director of Pioneer Concrete (Holdings).

D M C Donald WS HRSA

A director since 1979 and Chairman of Mercantile and General since 1977. Former director of Robert Fleming Holdings.

Sir Victor Garland KBE

A director since January 1984. Chartered accountant. Member of the Australian Federal Parliament from 1969 to 1981, holding various ministerial posts. High Commissioner for Australia in the UK from 1981 to 1983. Director of T R Australia Investment Trust and Mitchell Cotts.

W G Haslam DFC

A director since 1980 and Deputy Chairman from 1980 to 1984. Former Chief General Manager of Prudential Assurance and Chief Executive of Prudential Corporation. Former Chairman of the British Insurance Association.

E P Hatchett FIA

A director since 1978. Former Joint Secretary and Chief Investment Manager of Prudential Assurance. Former director of Coats Patons.

Sir John Hogg TD

A director since 1964 and Deputy Chairman from 1972 to 1976. A former director of Royal Bank of Scotland Group, and former director and Deputy Chairman of Williams & Glyn's Bank.

J A S Neave CBE JP DL

A director since 1982. Former Managing Director of Mercantile and General. President of the Geneva Association, Past President of the Chartered Insurance Institute and former Chairman of the Reinsurance Offices Association.

Sir Ronald Owen FIA

A director since 1974 and Chairman from 1975 to 1980. Former Chief General Manager of Prudential Assurance.

The Rt Hon J E Ramsden

A director since 1972 and Deputy Chairman from 1976 to 1982. Member of Parliament from 1954 to 1974, holding various ministerial posts. Former director of STC.

The Rt Hon Lord Richardson of Duntisbourne KG PC

A director since April 1984. Governor of the Bank of England from 1973 to 1983. Director of Bank for International Settlements, General Electric Company and Saudi International Bank.

R S Skerman CBE FIA

A director since 1980. Former Group Chief Actuary. Former President of the Institute of Actuaries, and former Chairman of the Life Offices Association and of the British Insurers European Committee.

Sir Peter Tennant CMG OBE

A director since 1973. Former Deputy Director-General of the Federation (now Confederation) of British Industry and former Director-General of the British National Export Council. Vice-President of the London Chamber of Commerce and Industry.

F G Wood FIA ACII (Executive Director)

A director since May 1984. Managing Director, Central Services. Deputy Chief General Manager, Prudential Assurance.

CHAIRMAN'S STATEMENT

	1984 £m	1983 £m
Profit before tax:		
Long-term business	**136·1**	89·3
General insurance business	**(79·9)**	(7·6)
Shareholders' other income	**21·8**	19·4
Total profit before tax	**78·0**	101·1
Earnings per share	**15·1p**	23·1p
Dividend per share	**22·5p**	19·0p

The story of 1984 was one of strong growth and profitability in our long-term business, offset by very adverse results from our general insurance business. This has been the pattern of the last few years, but in 1984 the contrast was even greater.

The performance of our long-term business has enabled us to announce substantial increases in benefits under our with-profits policies and in dividends to shareholders.

Our general insurance results became much worse. This has been a common experience throughout the industry. Earlier signs of an improvement, to which I have referred in the past, proved to be a false dawn. The somewhat tentative hardening in premium rates was overwhelmed by a mounting scale of claims world-wide which is quite unprecedented. But there is now at last some solid evidence of a wider application of more realistic criteria to underwriting and premium rates. This is the only way to bring about recovery, and we ourselves have certainly taken strong action in both our direct and our reinsurance business.

Full comments on the results and their implications are given in the Chief Executive's Review, and in the reports from the heads of our operating divisions. I would like to take the opportunity, in what is my last Chairman's Statement, to reflect in broad terms on the changes taking place in our market and their implications for the Corporation.

The financial services market of which we are part has been undergoing substantial changes, and the process of change is clearly still far from complete. There are strong forces at work encouraging a much more competitive environment, associated with a tendency for companies to move into areas of activity which have hitherto been the preserve of others. At the same time the market has been affected by Government actions and rumours of action.

In his Budget in 1984 the Chancellor took a step in the direction of purported "fiscal neutrality" when he removed life assurance premium relief. This year, despite persistent rumours to the contrary, he announced that he did not intend to make any changes in the fiscal treatment of pension provision. We warmly welcome this decision. The issues involved are complex and of a long term nature, with potentially far reaching effects on the security and personal independence of many millions of present and future pensioners, as well as on the cost to employers and on the level of long term savings within the economy. Similar considerations apply to the proposals coming forward in relation to the structure of pension provision. Whilst the Prudential is well placed to take part in the further developments in this area, including growth in personal pensions, we are concerned that the right decisions should be made. That is why we issued our booklet "Let's get it right", a copy of which accompanies this Report, and why we shall continue to press for full debate about the best way of proceeding.

Another of the strands in the Government's thinking is that we should as a society encourage wider share ownership. This too is to be strongly welcomed in principle. But it would be naive to believe that the great majority of the population, who are able to save on a regular basis only out of earnings, would have sufficient means or access to information and advice of sufficient quality, to build up the personal portfolios necessary to provide themselves with adequate protection and pensions. For them, participation in collective funds, such as is available through with-profits or unit-linked policies or group pension schemes, provides both greater personal security and a wider spread of ownership in Britain's commercial and industrial assets than can be obtained from an individual portfolio.

A third aspect of Government thinking and action, which we certainly support, is set out in the recently published White Paper on investor protection. Greater competition in financial services can bring substantial benefits to the public, provided it is supported by adequate consumer protection. Two of the valuable underlying concepts of life assurance legislation and regulation have been that the reasonable expectations of policyholders must be protected, and that the assets of one class of customer should be protected from other interests. It is right that both these features should be extended widely within the financial services area.

Against this background of change our approach has been two-fold.

First we have set out to give ourselves the flexibility necessary to take advantage of the opportunities which a changing environment creates. To this end we have re-structured the composition and role of our main and subsidiary boards, and we have implemented the major re-organisation in our management structure which I mentioned in my Statement last year. The greater delegation and accountability afforded to our main business areas is now reflected in the proposal to elect the heads of three of them to our Board. We have also strengthened our staff capacity in certain specialised aspects of our operations.

Secondly, we have been assessing and setting out to strengthen aspects of the Prudential's way of doing business which give us the best opportunity to maximise our competitive advantage. High on this list is the concept of home service which has been the hallmark of the Prudential Assurance's mainstream business since the Company's foundation. While we shall undoubtedly continue to strengthen our other sales outlets and create further new ones, we see the further development of our tradition of direct contact with policyholders becoming increasingly important in the future of our business, both at home and overseas. The style and scope of home service, based as it is on personal contact with the customer, will clearly change with the times, but building on our unparalleled experience and reputation in this field will be a very important ingredient of our strategy for the future.

We believe we are now well equipped to introduce new products and services as opportunities arise, as well as to become more effective in selling existing products for which the market is still expanding strongly.

Directors

Mr D M C Donald, Mr E P Hatchett and Sir John Hogg are retiring at the Annual General Meeting. David Donald became a director in 1979, and has been a director of Mercantile and General since 1963 and Chairman of that company for the last 8 years. Edward Hatchett's services to the Prudential extend over 53 years; before he became a director in 1978 he had been Joint Secretary and Chief Investment Manager. John Hogg joined the Board in 1964 and served as Deputy Chairman between 1972 and 1976. We have greatly benefited from their advice and help.

Sir Ronald Owen is also retiring. He joined the Prudential in 1929 and in the course of a very distinguished career was Chief General Manager of Prudential Assurance, and Chairman from 1975 to 1980, during which period the Corporation was formed. As you will see from the Notice of Meeting the directors propose that Sir Ronald be appointed for a term as President of the Corporation and I commend this to you most warmly.

As has already been announced, the directors propose to elect the Rt Hon Lord Hunt of Tanworth, presently a Deputy Chairman, to be your Chairman following the Annual General Meeting, and to appoint Mr R S Skerman to succeed him as Deputy Chairman.

Your directors recommend the election to the Board of Sir Alex Jarratt. He is currently Chairman of Reed International, Deputy Chairman of Midland Bank, a director of ICI and of Smiths Industries and Chancellor of the University of Birmingham.

In addition they recommend the election of Mr F G Wood, who retires as an executive director at the Annual General Meeting, and of Mr D E Fellows, Mr J A Freeman and Mr B Medhurst, all senior executives in the Corporation.

The Corporation is fortunate in having the services of many distinguished people on the Boards of its subsidiaries, both in the United Kingdom and overseas. We are very grateful for the advice and support which they give.

I have already referred to the fact that this is my last Chairman's Statement. During my five years in office I have been fortunate in being able to meet personally so many members of the staff of the Prudential Group of Companies throughout the world. I thank them all for their continuing enthusiasm, their support and their hard work which are our greatest assets in looking to the future.

Carr of Hadley
18 April 1985

Carr of Hadley

CHIEF EXECUTIVE'S REVIEW

Profits from the long-term business increased most satisfactorily, rising from £89·3m to £136·1m before tax, but there was a further sharp downturn in general insurance results, where the loss before tax rose from £7·6m to £79·9m.

For the Corporation as a whole it is very disappointing to report that profits before tax fell from £101·1m to £78·0m and after tax from £68·9m to £45·2m.

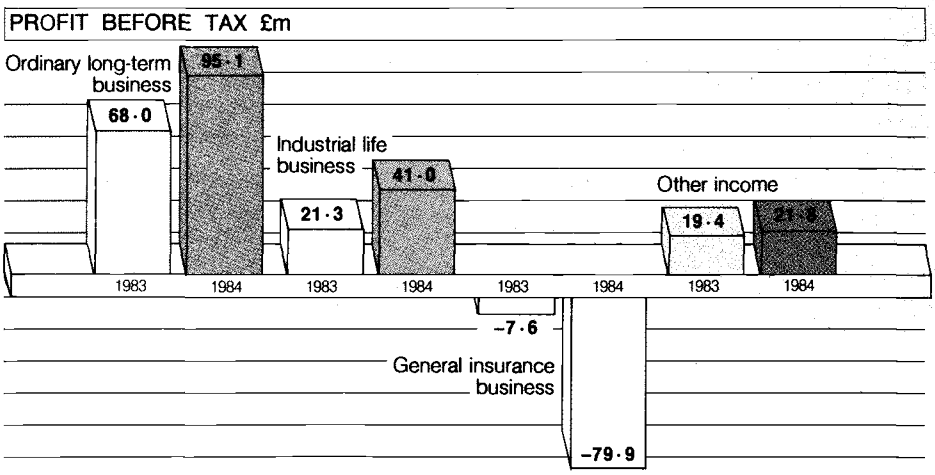
Long-term business

This year we have decided to show the shareholders' profits from long-term business before tax, thereby enabling us to produce an overall figure for pre-tax profits and avoiding any possible confusion which may have been caused by quoting general insurance results before tax and long-term results after tax. The new presentation also gives a better indication of the balance between the long-term and general insurance results. All comparative figures for earlier years have been adjusted to the new basis.

The total value of bonuses allocated to policyholders this year increased from £695m to £1,011m. This change reflects the growth of the business and, stemming from continuing high levels of investment return on our life funds, further improvements in amounts payable under our policies. It also reflects our decision to convert to reversionary form a substantial part of the terminal bonus element on United Kingdom assurance policies of long standing, since we believe that as policies approach maturity we should give policyholders greater certainty as to the eventual proceeds.

Of the increase in profits from our long-term business mentioned above, £24·0m arises from the conversion of terminal bonuses to reversionary form and is largely non-recurrent in nature. In addition, some £5·8m of the profit increase results from a revised apportionment of distributable surplus between policyholders and shareholders in Prudential Assurance. As the Group's long-term business develops, with new contracts to meet new requirements, the apportionment of distributable surplus between policyholders and shareholders is kept under review so as to achieve appropriate levels of contribution to profit from various product lines.

Summary of Group Results



	1983 £m	1984 £m
Total profit before tax	101·1	**78·0**
Tax	(31·6)	**(31·9)**
Minority interests	(0·6)	**(0·9)**
Profit attributable to shareholders	68·9	**45·2**
Dividends	(56·7)	**(67·1)**
Retained profit for the year	12·2	**(21·9)**

There was also an increase in the profits from the Mercantile and General's long-term business from £13·1m to £18·3m, which reflected the continuing strong performance of its funds.

General insurance business

Overall the results from our general insurance business were very poor, due to very heavy underwriting losses in the United Kingdom and in Mercantile and General. Against the background of an industry which worldwide has been experiencing disastrous results, I would like to pay tribute to the good performance of the Overseas division which produced a trading profit before tax of £11·6m. Results from Canada and from Belgium – L'Escaut – were very satisfactory.

At Mercantile and General we have in recent years strengthened the basis of the claims reserves, in particular by providing in full for the most recent (or "open") underwriting year, for which the traditional reinsurance practice had been to assume a break-even position at the end of the first year. During the year, in the light of the general deterioration in experience, we instructed our auditors to carry out an independent review of our reserving policies. Following this review, but more importantly because of the claims information we received in 1984, we decided that it was necessary to make substantial increases in our provisions for future claims.

We strengthened in particular the reserves for non-proportional accident business; at the same time we decided that it was appropriate to introduce the practice of discounting, to have regard to the fact that the average time taken to settle claims in this class of business is typically some seven years.

As a result of the actions taken, our claims reserves are up by some £150m to £450m; the greater part of this increase relates to business written in earlier years. We now feel that Mercantile and General's reserves are soundly based.

Details of the steps which we are taking in Prudential Assurance in the United Kingdom and in Mercantile and General to bring about an improvement in the results are set out in the divisional reports beginning on page 8.

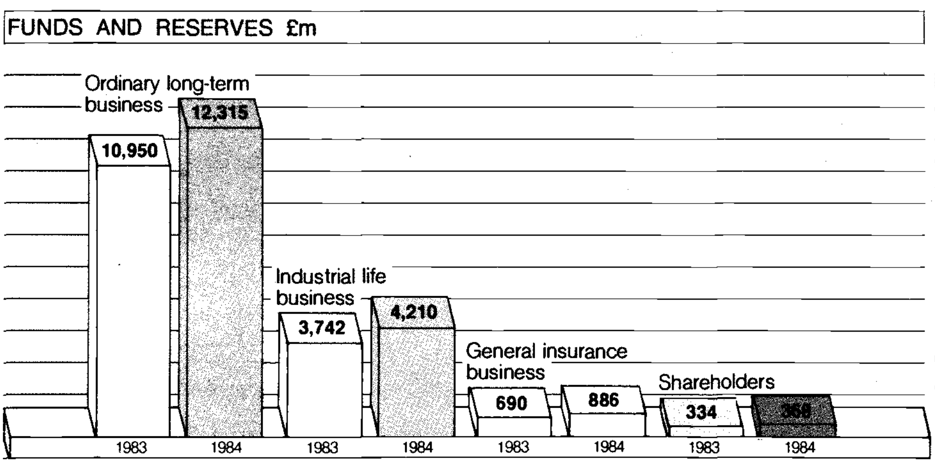
Shareholders' other income

This arises largely from investment income on the capital resources of the Group and before tax rose from £19·4m to £21·8m.

Dividend

Notwithstanding the fall in profits the directors have declared an increased final dividend of 15p per share which, together with the interim dividend of 7·5p, produces an increased total dividend for the year of 22·5p compared with 19p for 1983. There are several factors which have guided us in this course of action. In the first place it is considered that shareholders should benefit by way of dividend from the strong growth of long-term profits. Secondly, the financial position of the Group remains strong and the total capital resources of the Group at the end of 1984 amounted to £535m, which is equivalent to 66% of the general insurance premium income. In

Summary of Group Balance Sheet



	1983 £m	1984 £m
Insurance funds and reserves	15,382·1	**17,410·9**
Shareholders' capital and reserves	334·0	**368·8**
	15,716·1	**17,779·7**
Represented by:		
Investments at market value	15,607·1	**17,544·6**
Other net assets	109·0	**235·1**
	15,716·1	**17,779·7**

presenting the results of our general insurance business we do not reflect in the Profit and loss account the appreciation in the value of the assets of our general insurance and shareholders' funds; this is in line with the generally accepted practice of presenting an insurance company's accounts. However, this appreciation, which was some £65m during 1984, is an important factor in the management of our business, since it contributes to our capital resources which provide the funds necessary to support our general insurance business.

Finally, we believe that the action we have taken to strengthen our reserves and to improve the terms on which new business is written provides a basis for future recovery in our general insurance and reinsurance results to add to the continued growth in our long-term business profits.

Bonus illustrations

The further substantial increases in benefits under our with-profits policies stem from buoyant investment returns on our funds. However, at anything like the present level of inflation, it is to be expected that such returns will at some stage turn down and in due course lead to lower levels of bonus. For this reason we have in recent years taken two steps to set bonus illustrations for new business in better perspective. First, we have amplified the wording in illustrations, and accompanying literature, to explain the connection between investment returns and inflation and the implications for future profits and for policy proceeds. Secondly, we have departed from the practice of illustrating maturity amounts on the basis of the full rates of bonus last declared; in general the illustrated amounts are now lower than the benefits currently payable on existing comparable policies. We strongly support moves currently being made by the life offices associations to try to achieve, as a matter of some urgency, a more satisfactory approach to bonus illustrations.

Management

Mr Walter Lambert, who joined the Prudential in Queensland in 1936, retired in July as General Manager for Australia and New Zealand, a position he had held since 1976. He has been succeeded by Mr Barrie Martin.

Mr Peter Howell retired as Managing Director of Mercantile and General at the end of the year, a position he had held since 1982, after more than 34 years' service with the company. He has been succeeded by Mr John Lock.

Mr Gordon Wood, who as noted earlier will be retiring as an executive director at the Annual General Meeting in May, has served with the Group since 1941. He currently holds the position of Deputy Chief General Manager of Prudential Assurance and also Managing Director, Central Services, having held a number of other senior positions in the Prudential.

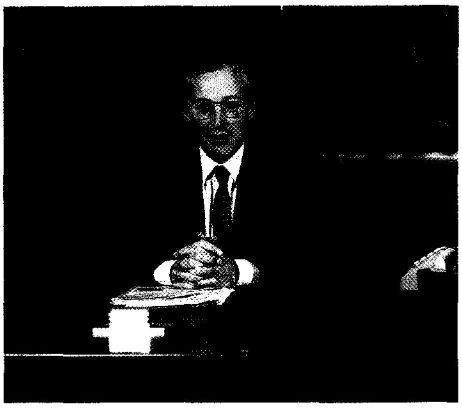
I extend to all three our thanks for their significant contributions to the management of the Group, and we wish them well in retirement.

Brian Corby

Brian Corby

DIVISIONAL REPORTS

UK Individual division



Tony Freeman, Managing Director

Long-term business

Results

Pre-tax profits from ordinary and industrial long-term business combined were £92·5m, compared with £54·9m in 1983. This increase arose from growth in our business, from further significant improvements in bonus additions for with-profits policyholders and from the conversion of bonuses from terminal to reversionary form. This latter factor contributed a largely non-recurring addition to profits of £24·0m before tax. There has also been an increase in the proportion of surplus passed to shareholders as profit. After eliminating the effect of these two special features, the underlying growth in pre-tax profit was 18%.

Revenue premiums were 14% higher at £886m. Some £26m of this increase was due to the fact that 1984 included an additional four-weekly payment date for industrial life premiums (see page 36). Eliminating these additional premiums reveals an underlying growth of 11%, well in excess of the rate of inflation. It is pleasing to be able to report that some progress was made in 1984 in reducing the loss of business through surrenders.

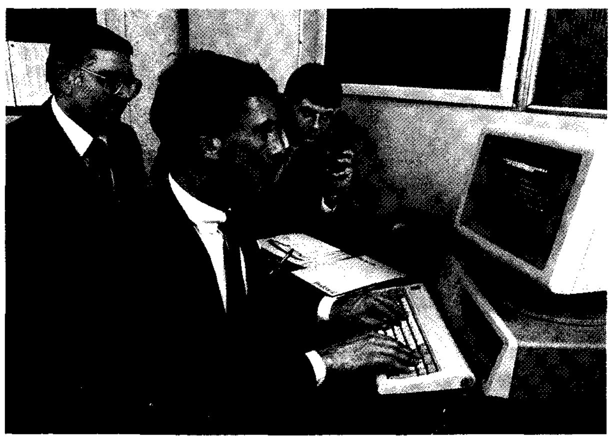
During the year there were a number of severe challenges to our ability to maintain the recent high levels of new business. Life assurance premium relief (LAPR) was withdrawn from new policies in the March Budget, the miners' strike badly affected our northern divisions and there were continuing economic difficulties. Our Field Staff responded to these challenges magnificently and, following a surge of new business in the final quarter of the year, we ended 1984 with ordinary new business down only very slightly and industrial new business virtually unchanged from 1983.

Continued growth in personal pensions business

Our Prudential Personal Retirement Plan has been a market leader for many years. After the removal of LAPR, sales effort was naturally focussed on pensions business and a substantial increase in sales was achieved, with new annual premiums rising by 55% to £38m. This is a market share of some 13%.

We were pleased that in the face of strong competition the Automobile Association selected

In 1984 our Harlow District Office in Essex became the first to test the application of computers to sales support operations. The IBM personal computer produces quotations and canvassing letters as well as providing access to life and general insurance records on our main computer at Holborn. Left to right: District Manager, Peter Hanger, watches colleagues Brian Becker and Clive Rymer provide a personal pension quotation for a client by telephone.



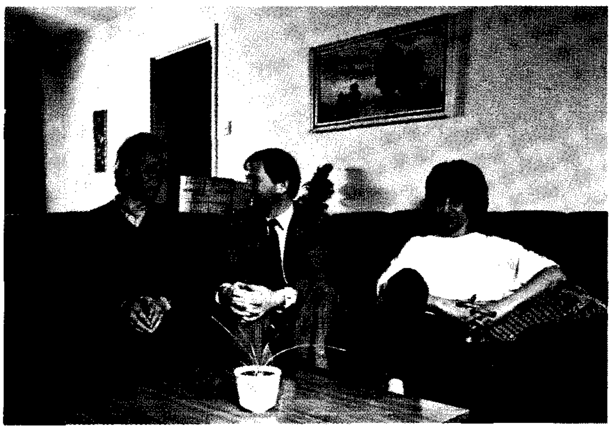
our pensions plan as the best available for a mailing approach to their members.

Presence in endowment mortgage market consolidated

Much of the dramatic boost in our sales of endowment mortgage policies in 1983 was due to the introduction of MIRAS. This resulted in many house owners switching to this method of repaying their mortgages. A reduced level of such business was therefore to be expected in 1984. Nevertheless, we were able to consolidate our presence in this market, achieving new annual premiums of £16m where as recently as 1982 our sales amounted to only £1.4m.

Industrial life business

In August we led the market with the introduction of Prusave, a contract with a term of three years



Scottish policyholders Stuart and Janice Noble of Hawick, seen here with their local superintendent Ian McBryde, tooı out two policies for the newly launched Prusave contract.

to maturity. Sales have been most encouraging, accounting for over 20% of new industrial life business premiums since the launch.

In the autumn we improved the additional death benefits which can be attached to industrial endowment assurances and there has been a welcome increase in the take up of this type of benefit.

Bonuses

The total value of policyholders' bonuses for individual assurance and personal pensions contracts increased by 59% from £525m in 1983 to £835m in 1984.

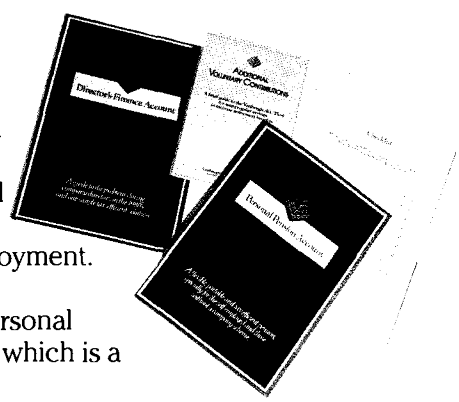
Last year we changed our bonuses from a simple to a compound basis, with the declared aim of increasing the proportion of bonuses which are reversionary. This year our investment performance has enabled us to make further increases in the amount payable under our policies. At the same time we have converted a substantial part of the terminal bonus element on assurance policies of long standing to reversionary bonuses so as to increase the guaranteed element of our current policyholders' benefits.

The increases in bonuses result in maturity values of ordinary life and pensions policies being higher by up to 10% and industrial life policies by up to 13%. By way of illustration, the maturity proceeds of a 10-year ordinary branch endowment policy taken out at age 30 for annual premiums of £100 will be £1,966 for the remainder of 1985 compared with £1,837 in 1984. The new maturity value represents a net of tax return on premiums paid, disregarding LAPR, of 12% per annum, added to the benefit of life assurance cover throughout the term of the policy.

Vanbrugh

Total pre-tax profits in 1984 were £0·6m compared with £1·4m in 1983. The 1983 results included a high level of profits from the Vanbrugh Currency Fund, sales of which suffered a substantial reduction in 1984 following changes in taxation treatment at the end of 1983.

New annual premiums in 1984 were unchanged at £2·4m but single premiums fell by 27% to £23·5m. With the removal of LAPR, brokers' attention turned towards individual pensions for the self-employed and others not in pensionable employment. In the autumn we introduced our Personal Pension Account, which is a



thoroughly revised contract designed to include all the facilities currently demanded in the market. In particular, transfers can readily be made between this plan and our Directors' Finance Account, a pensions arrangement for executives.

During the year we introduced Discretionary Managed Funds. These enable a financial intermediary to run what is in effect an individual managed fund by deciding the allocation between Vanbrugh's various funds. Vanbrugh Life's 1984 innovations also included three new area funds (Pacific Basin, Europe and North America). A new flexible investment savings plan has recently been launched.

General insurance business

Results

Premium income during 1984 rose by 16% to £279·0m. Difficult market conditions continued throughout most of the year, particularly in commercial lines, and there were also significant increases in the numbers of claims in most classes of business. As a result the trading loss before tax rose to £30·2m compared with £2·1m in 1983.

Further increase in number of motor policies

Total motor premium income rose by 19% to £82·1m, partly reflecting increases in the rates for private car insurance and partly an increase in commercial business. In common with the rest of the industry, we experienced an increase in claims frequency with a particularly sharp upturn towards the end of the year. As a result the year produced a small trading loss before tax of £1·1m compared with a profit of £2·5m last year.

During 1984 we improved our private car insurance product range by introducing a new protected no claims discount policy and a policy for the smaller motor trader. These improvements helped us to achieve an increase of 3% in the number of our motor policies.

Domestic property results suffer from thefts and bad weather

Premium income from domestic property business was 13% higher at £128·8m, reflecting increases in minimum premiums, changes to rating areas and a continuing switch from indemnity to "new for old" cover. The number of policies was slightly down.

Rising losses from crime and claims of some £8·5m due to bad weather in the first quarter led to the trading loss before tax increasing to £8·8m from £2·3m in 1983.

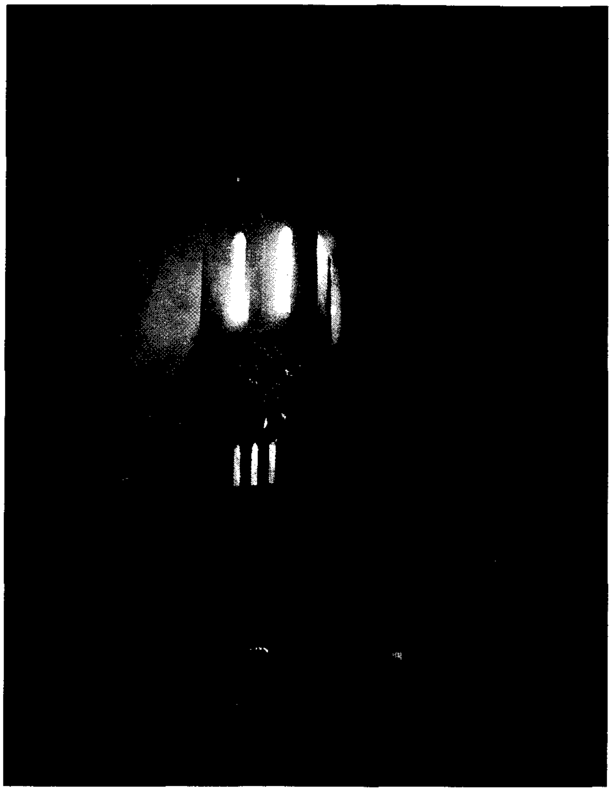
The rising level of losses from theft, particularly in inner city areas, is a matter of great concern. Our domestic business consists mainly of household contents insurance, so we are particularly badly affected. To stem the ever rising losses we have been forced to make substantial rating increases in most inner cities effective from January 1985. In addition, policyholders in the inner areas of London, Liverpool, Manchester and Glasgow are now required to bear the first part of theft claims. Other insurers have since followed our lead and have announced similar rate increases.

Our claims experience in the rest of the country enabled us to keep most policyholders' premium rates unchanged and to reduce rates for those in the West Country and East Anglia.

Sharp increase in commercial business losses

In 1982 we announced our decision to increase the share of business acquired through brokers. We also took steps to expand commercial business written through our own sales force. These decisions were taken in the light of our confidence in the long term profitability of this type of business.

For most of 1984, premium rates in all sectors of commercial business continued to be unrealistic. Towards the end of the year and continuing in 1985 there have been encouraging signs of market



Our fire losses in 1984 included this Glasgow church. (Photograph: R M Drummond)

rates hardening. Further increases will, however, be necessary before the business returns to profitability.

With a background of inadequate rates and a high level of claims, the result for the year was very unsatisfactory. The trading loss before tax was £20·3m, compared with a loss of £2·3m in 1983, from a premium income 18% higher at £68·1m.

The major components of our commercial losses came from:

- commercial fire business, where incurred claims more than doubled and included an exceptional number of large fires. The results reflected the increase in fire damage experienced nationally.

- a deterioration in the normally profitable liability account, which was affected by an exceptionally high number of large claims.

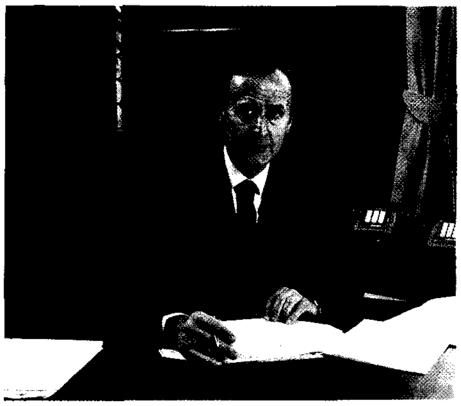
- contractors' and burglary business.

- extended warranty business, reflecting the inadequate premiums charged in the early years of this account.

- travel business, where the number of claims increased and amounts claimed rose significantly.

Every effort is being made to redress the trading position of the account by improving the quality of business written and by raising premium rates selectively.

Prudential UK Group pensions division



Derek Fellows, Managing Director

Results

Pre-tax profits for insured plans and investment linked business together were £10·0m compared with £9·3m in 1983.

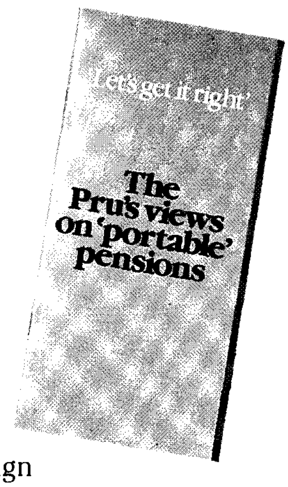
New business premiums and revenue premium income were lower than in 1983. These falls, in part, reflected decisions of certain major clients to switch to a segregated fund basis, in many cases with investment management services provided by Prudential Portfolio Managers. Moreover, recent high levels of investment return relative to inflation have enabled employers' contributions, for both members in service and pensioners, to be contained or reduced.

An encouraging feature has been the growth of our with-profits executive pension plans. New annual premiums for these schemes were 21% higher at £5·1m and revenue premiums increased by 32% to £17·3m.

Personal portable pensions – *"Let's get it right"*

In 1984 the Government proposed fundamental changes to existing pension arrangements in its consultative document on personal pensions. We recognise that there is a need for some change in the existing structure, and have supported the moves being taken to protect further the rights of early leavers, but it is important not to make changes which would be unlikely to stand the test of time.

Because of the Prudential's large scale involvement in both group pensions schemes and individual retirement annuities we felt it right to encourage the widest possible discussion of these proposals and their implications. To this end we embarked on a national press advertising campaign, last autumn, in which we gave our views on various aspects of the proposals. We also produced a booklet entitled "Let's get it right – The Pru's views on 'portable' pensions". The campaign received a good deal of press comment and attracted a high level of response from the public. In all, over 250,000 copies of the booklet were distributed.



Growing importance of Additional Voluntary Contributions

With the trend towards earlier and therefore

A notable new AVC client is NCR (Manufacturing) Ltd. Left to right: George Gregg, Financial Services Manager, and Ed Connal, Financial Director, are showing NCR's latest cash terminal to the Prudential's pensions consultant, Joe Green, at their Scottish factory.

longer retirement the need for employees to be able to top up their scheme pensions through optional Additional Voluntary Contributions (AVCs) has become more important. Even when a pension scheme provides AVC facilities, employees often fail to appreciate the advantages of the arrangement. We have therefore re-designed our AVC contract to make it easier to understand and to administer, thereby adding to the appeal of our extremely competitive with-profits contract.

Retirement counselling and other services

During 1984 we set up a retirement counselling service for existing pensions clients and employers in general. The service provides three types of seminar designed to help employees, at different stages in their working careers, to plan for retirement. Each type can be tailored exclusively to the needs of individual employers or organised on a shared basis with employees drawn from a number of different organisations. At each seminar our own expert pensions staff are joined by a carefully selected team of independent specialist speakers and cover not only financial matters but also other aspects of retirement such as health and leisure.

Retirement seminars are held at a variety of locations throughout the country. Shown above is a seminar in progress in a Surrey hotel.

On a wider front, our computerised pensions administration system is one of the most advanced and efficient of its kind. It is available to employers irrespective of whether assets are managed by the Prudential.

Prudential Overseas division

Brian Medhurst, Managing Director

At a difficult time for international insurers, 1984 was a very satisfactory year for the Overseas division. Pre-tax profits from long-term and general insurance business combined increased by 26% to £28·0m.

At the end of 1984 we announced plans for the restructuring of our Canadian operation, creating a holding company and two new operating subsidiaries, one life and the other general, with the objective of strenghtening our ability to operate flexibly and profitably in this most important market.

In Malaysia we have completed plans for the establishment of a subsidiary in line with local government policy. Three local investors have each undertaken to subscribe for a participation in the company.

Growing profits from life business

Pre-tax profits from our overseas life and pensions business rose by 29% to £14·4m. This increase stemmed from three sources: growth in our business, a continuation of last year's practice of relating the shareholders' profits more directly to the pattern of our business, and the weakness of sterling.

New annual premiums grew by over 20% in sterling terms. Progress was outstanding in many countries, notably Australia, the Netherlands and Singapore. Single premiums more than doubled in sterling terms with Canada, South Africa and the Netherlands being the significant contributors.

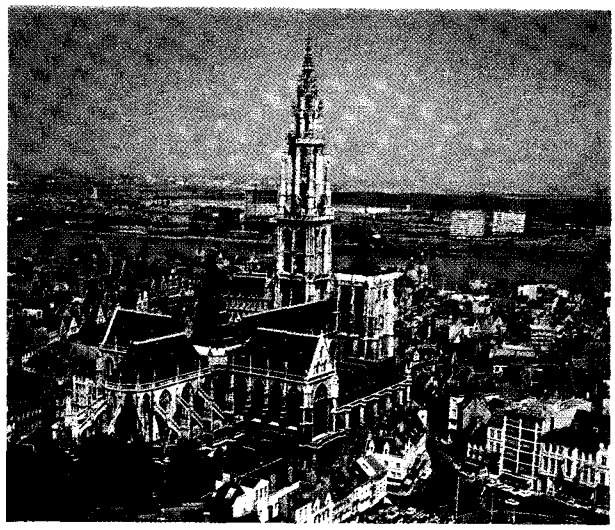
Development of new life products

We continued to give a high priority to the development of new products. In South Africa the launch in May of Pruflex, a major innovation in inflation protection, was very well received by the public. In Australia a fast expanding annuity market has been opened up by taxation changes, and we have designed new products to meet this demand. In both Australia and South Africa we have formed fund management subsidiaries to enhance our investment service to pension clients and capitalise on excellent investment performance. In Canada, where demand for single premium contracts continues to be extremely high, we have set up a new subsidiary to concentrate on such products. The establishment of this company will enable shareholders to benefit fully from this type of business.

The pension fund of leading department store chain Sears Canada Inc. pays annual premiums of some C$6m. Richard Sharpe, Sears' Chairman and Chief Executive Officer, is seen talking to Ian Mair (left), President of our Canadian operations, and Henry Cotton (right), also of Prudential.

Improving accident and disability results

Pre-tax profits from this sector rose by 12% to £0·9m. Some 80% of this business is written by Constellation, our specialist company in Canada, where the accident and disability market has experienced a difficult period over recent years. Following action taken in the previous year, Constellation achieved a welcome return to profitability for 1984.



Antwerp Cathedral, for which L'Escaut is the leading fire and liability insurer.

Satisfactory general insurance trading profits

Trading profits before tax on fire and casualty business were £11·6m, compared with £11·3m in 1983. Premium income showed an increase of 12% in sterling terms but fell by 2% in local currencies, reflecting the intense competition for available business.

Although not attaining the outstanding result of £12·4m in 1983, the results of our Canadian business were still excellent, with a trading profit before tax of £8·0m. There was some loss of business, particularly in the personal lines classes, because we were not willing to write business at unrealistic rates, and in consequence premium income showed a small overall reduction in local currency. Good results were reported in all classes except for liability, which continues to cause concern.

Our Belgian company, L'Escaut, maintained the quality of its business in spite of difficult market conditions and produced an excellent trading profit before tax of £3·6m compared with £1·6m in 1983. Satisfactory trading results from most of the other EEC countries were offset by disappointing results from the Netherlands.

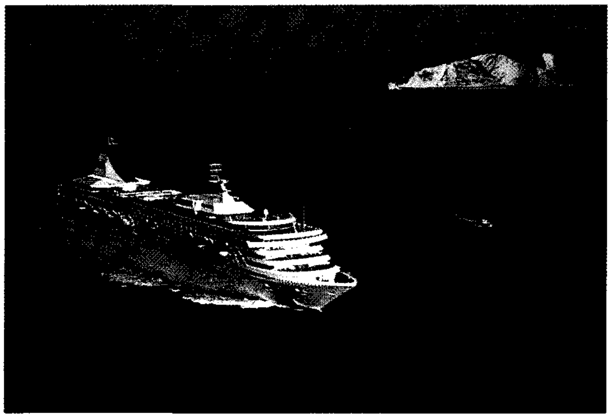
Elsewhere results showed a marked overall improvement, to which a number of operations, notably the Middle East, made a positive contribution. New Zealand, whilst still unprofitable, has arrested the downward trend of recent years.

The results of overseas business written in the London Market continued their gradual improvement despite some setbacks. This business consists largely of reinsurance, and the hardening of terms which is now apparent encourages cautious optimism that this trend will continue.

Marine and Aviation

The improvement to a trading profit before tax of £1·1m in 1984 from a loss of £1·1m in 1983 reflected better experience and greater discipline within both the marine and aviation markets. There was a break-even underwriting result in the aviation account and a small loss in the marine. Premium volume increased by 25%, partly due to growth in business and the effect of currency fluctuations, but also reflecting the higher premium rates which we have been determined to introduce whenever it has been apparent that business is underrated.

1984 saw the launching of P & O's "Royal Princess", the largest ever purpose-built cruise ship. We are lead underwriter for the ship's insurance placed on the open market. Shown below is a British Aerospace 146 of Pacific Southwest Airlines who have placed the largest order so far for this aircraft. We have a significant involvement in their hull and operational liability insurance.



Mercantile and General Reinsurance

John Lock, General Manager

Long-term business

Pre-tax profits from the long-term business of Mercantile and General (M&G) rose to £18·3m compared with £13·1m in 1983. This increase stems from the continuing development of the business and from the underlying strength of the funds.

World-wide revenue premiums advanced by 22% to £234·7m, or by 19% adjusted for exchange rate movements. Growth in annuity business in the UK and North America led to an increase of 16% in single premiums to £39·6m. New annual premiums were up by 2% to £43·2m.

The seminars which we again organised on matters of importance to the life insurance industry not only continued to provide a valuable service but also helped promote M&G's name. During

M & G were involved in the losses of the two satellites whose rescue from space was organised by a syndicate of Lloyd's underwriters. The recovery and resale of the satellites is expected to yield the insurance industry US$55m to offset against an initial estimated gross loss of US$180m. (Photograph: NASA)

1984 we arranged seminars on life underwriting, mass marketing methods, and the implications of the abolition of LAPR, all of which met with a high response from the UK life offices.

General reinsurance business

Severe deterioration in results

M&G's general reinsurance results showed a further severe deterioration in 1984 with a trading loss before tax of £62·4m compared to £15·7m in 1983. There had been hopes that the downward trend of insurance results would be reversed in 1984 with a consequent benefit to reinsurers. In the event this did not happen and in a number of major markets results deteriorated even further.

Losses in the USA market reached unprecedented levels whilst in Europe bad results for industrial fire business were accompanied by unusually heavy storm losses, notably the Munich hailstorm which caused insured damage of almost £500m. In the UK industrial and commercial fire results were also extremely bad with a number of particularly large losses. These included the fire at Laporte's hydrogen peroxide plant in Warrington, in which we were significantly involved and which is estimated to have cost the insurance industry £75m in claims for material damage and business interruption. All of this inevitably has an impact on the results of reinsurers and it has been necessary for us to make substantial provisions to cover the anticipated results of business written in 1984.

During the year we reviewed the run-off development of business written in earlier years, particularly long-tail accident excess of loss business, and felt it prudent to make substantial additional provisions. At the same time we have decided that it is appropriate to introduce the practice of discounting reserves for non-proportional accident business in order to reflect the long average time taken to settle claims which is characteristic of this class of business. The effect of discounting has been to reduce the reported underwriting loss for the year by about £22m. The corresponding figure for 1983 would have been £3m, which is reflected in the restated 1983 results. The very much higher figure for 1984 is a direct consequence of the significantly higher gross reserves made necessary by the deterioration in claims experience during the year.

As a result of the measures taken the total technical reserves have increased by some £150m and now represent 165% of 1984 premium income compared to 127% at the close of the previous year.

Premium income in 1984 rose by 14% to £276·9m but most of this increase was due to the weakness of sterling. The underlying growth was in fact less than 4%, which reflects the pruning of the account in recent years.

Improvements in quality of business

During the renewal season at the end of 1984 we again carried out a thorough review of our book of business. This resulted in the cancellation of a substantial volume of business in a number of countries and classes of business where we have suffered significant losses and where we feel the prospects for future profit are limited. For the business which we renewed we achieved significant improvements in terms and conditions in most cases and we only accepted new business which entirely met our underwriting criteria.

Whatever action we take on the terms on which we accept business, however, we cannot insulate ourselves completely from inadequacies in the premiums charged by the original insurers. Too little has as yet been done by them in many classes of business to increase rates to the levels which recent results have shown to be necessary. In the important USA market, however, there are welcome signs that action is being taken to restore profitability.

Reduction in market capacity

The trend observed last year for ceding companies to seek to place business only with financially sound reinsurers has accelerated. There are also clear signs that some reinsurers, particularly recent entrants into the market, are withdrawing from the sectors which have given rise to the greatest problems. This reduction in capacity is particularly noticeable in the London market but the trend is also apparent overseas, including "offshore" reinsurance centres where captive companies have been especially active in recent years.

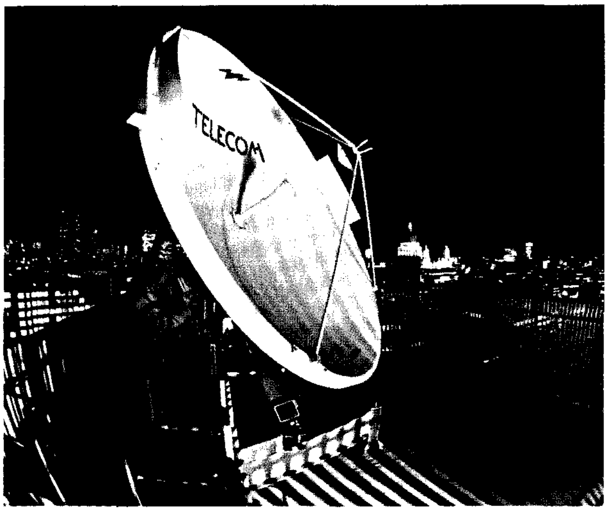
Prudential Portfolio Managers

Ron Artus, Chairman

Total investments under management reach £20 billion

The total market value of funds under management throughout the Group rose by £2·6bn during 1984 to £20bn at the year end. Most of this increase occurred in the investments supporting the Group's long-term business funds which now exceed £16bn in value. There was, in addition, significant growth in the value of "other funds under management", due to the increase in the number of pension funds managed by Prudential Portfolio Managers (PPM) for clients outside the Prudential Group.

This British Telecom dish in the heart of London provides its users with transatlantic communications. During 1984 the funds managed by PPM subscribed for many share issues of which British Telecom's was by far the largest.



Net investment broadly split between equities and fixed interest

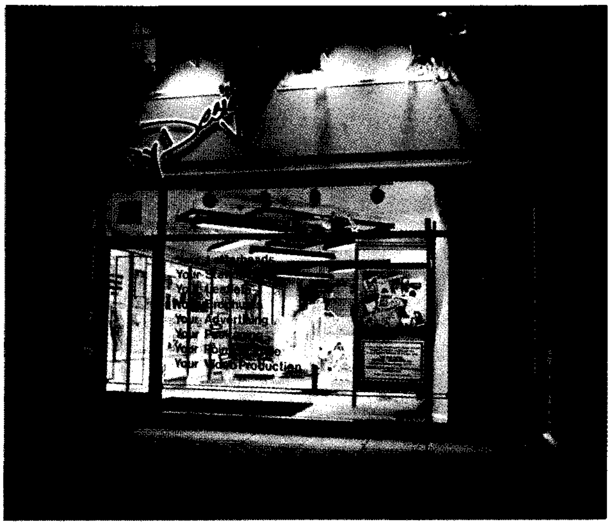
The pattern of net investment in the UK in 1984 was affected by a number of our pension fund clients transferring from the pooled basis of fund management to a segregated fund basis. This reduced the net investment in respect of our long-term business funds but led to a large net investment in the category of other funds under management.

The underlying pattern of net investment for the UK life funds, adjusted for this transfer of funds, involved a greater emphasis on equity investment than in 1983. Net purchases of UK ordinary shares rose, with the funds subscribing for many of the rights and new shares issued (such as British Telecom) that were a feature of 1984. We continued to invest in overseas ordinary shares but at a lower rate than in the previous twelve months. In the fixed interest sector we switched the emphasis from conventional gilts to the purchase of other fixed interest stocks. There was a net disinvestment in index-linked stocks and we continued to be net sellers of property.

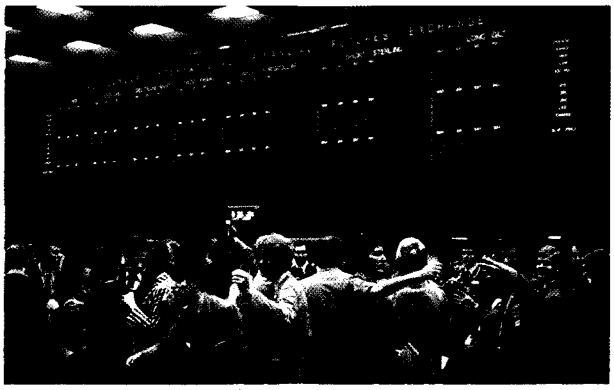
Encouraging start for Pruventure

In 1984 we brought together all PPM's venture and development capital activities in a new division, Pruventure, whose prime function is direct investment in unquoted companies. The launch had the objective of making our presence in this area more widely known, so as to attract a steady flow of investment proposals. The response has been very encouraging and a number of proposals are being actively developed.

One company in which Pruventure has invested is BM Design Group Ltd. whose "By Design" shops provide a printing and design service. The photograph shows the Reading branch.



Entry into financial futures market



The trading floor of LIFFE.

In the field of investment management techniques, 1984 saw a growing interest in the use of financial futures as a means of enhancing the returns achievable on investment funds. Although many fund management organisations adopted a "wait and see" attitude, PPM undertook a pilot study and decided to use the facilities of the London International Financial Futures Exchange (LIFFE) in its management of pension funds. PPM's entry into this field was very much welcomed by LIFFE.

Looking ahead to the "City revolution"

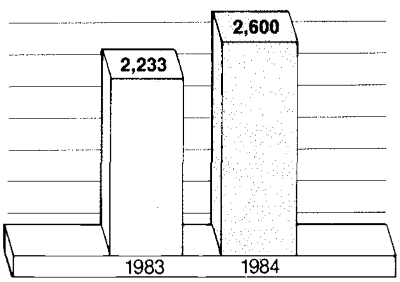
Beyond 1985 PPM is looking forward to the long-awaited "City revolution" with its attendant ending of fixed commissions on stock market transactions. The introduction of negotiated commissions should stimulate a more competitive stock market environment and PPM will be in a position to negotiate very keen commission rates on behalf of its clients. The "revolution" is also leading to the emergence of financial conglomerates whose wide spread of activities could cause internal conflicts of interest. We consider this is likely to increase the appeal of strictly independent fund management groups such as PPM.

BUSINESS ANALYSIS OF THE GROUP

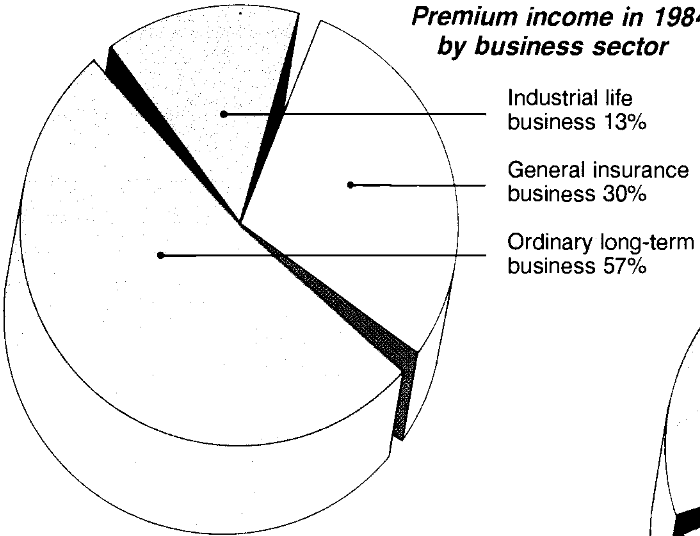
Premium income	Long-term business 1983 £m	Long-term business **1984 £m**	General insurance business 1983 £m	General insurance business **1984 £m**
UK Individual division –				
Prudential Assurance	776·7	**860·0†**	240·7	**279·0**
Vanbrugh	51·1	**44·8**	–	**–**
UK Group pensions division	183·6	**166·9**	–	**–**
Overseas division	339·7	**505·1**	206·0	**232·6**
Mercantile and General Reinsurance	191·7	**234·7**	243·6	**276·9**
	1,542·8	**1,811·5**	690·3	**788·5**

†All figures in the Business Analysis on pages 19 to 27 have been adjusted to remove the effect of the additional industrial life business payment date (see note on page 36)

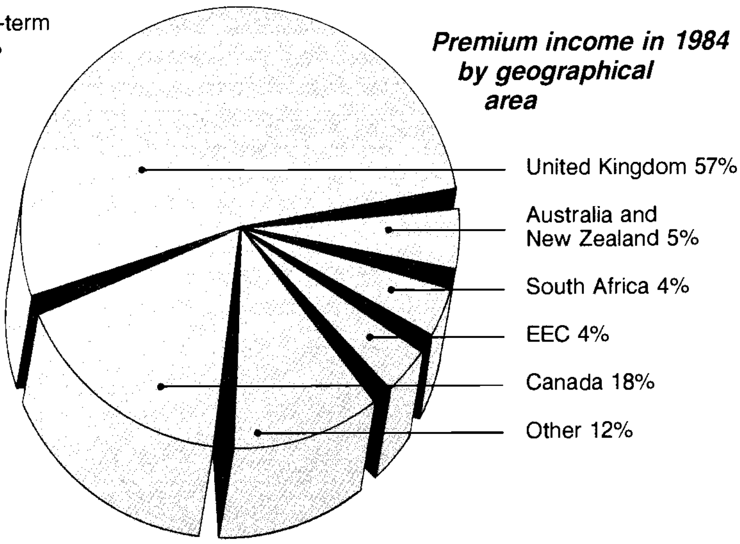
Total premium income £m



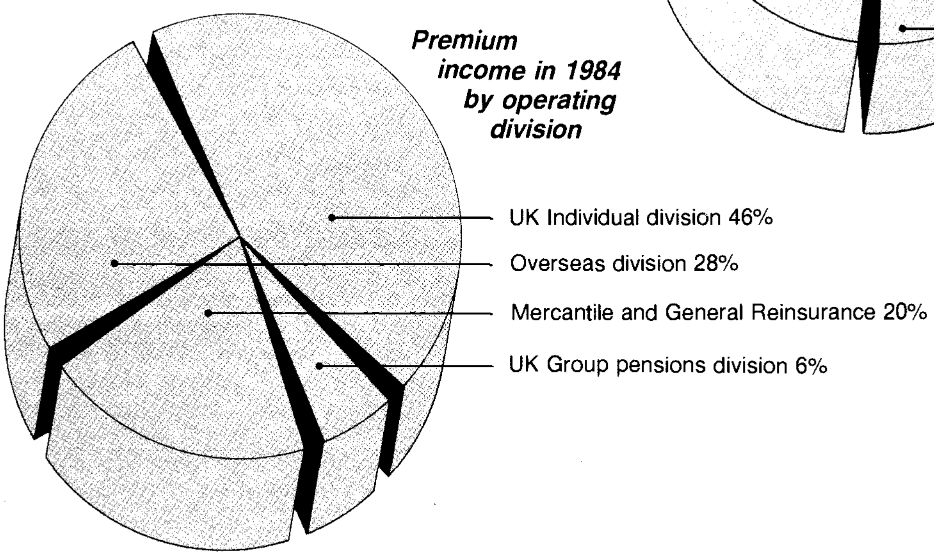
Premium income in 1984 by business sector



Premium income in 1984 by geographical area



Premium income in 1984 by operating division



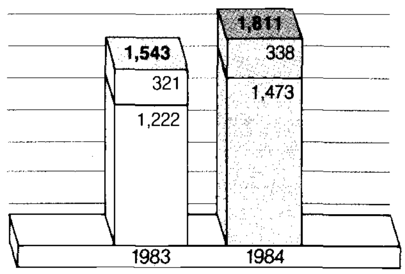
PRUDENTIAL CORPORATION

LONG-TERM BUSINESS

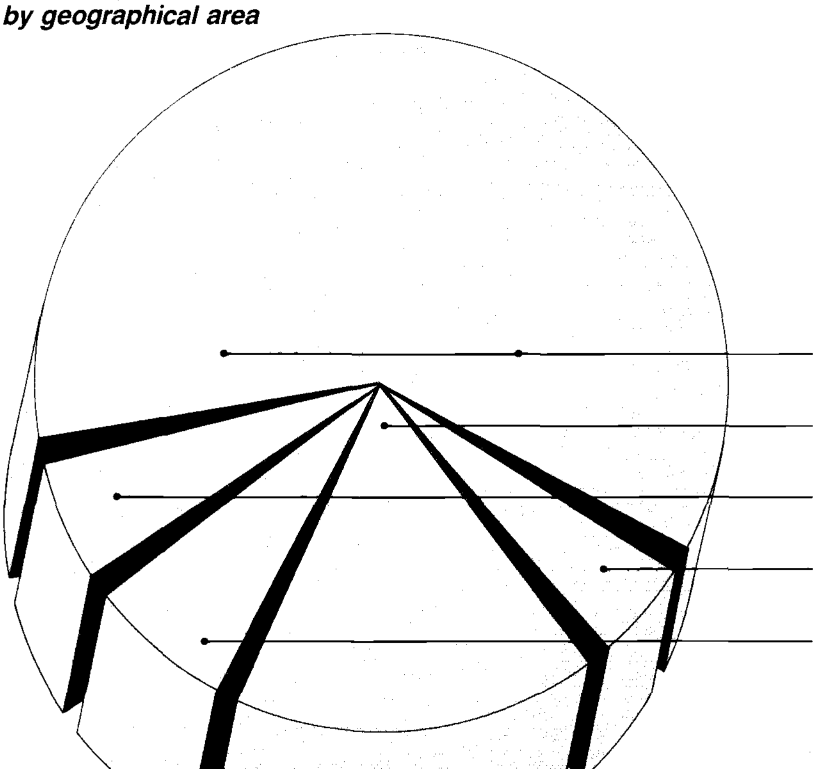
	1983 £m	**1984 £m**	% increase
New business			
Annual premiums	308·2	**316·2**	3
Single premiums	276·9	**371·8**	34
Revenue premium income	1,542·8	**1,811·5†**	17
Business in force at the end of the year			
Annual premium income	1,313·9	**1,406·9**	7
Sums assured, including bonus	72,445·3	**83,454·1**	15
Annuities per annum (immediate and deferred) including bonus	1,435·9	**1,437·0**	–
Surplus for distribution	753·5	**1,099·9**	
Policyholders' bonuses	694·5	**1,011·3**	
Shareholders' profit before tax	89·3	**136·1**	

†*Adjusted to remove the effect of the additional industrial life business payment date (see note on page* 36*)*

Revenue premium income £m



Revenue premium income in 1984 by geographical area



 Ordinary long-term Industrial life

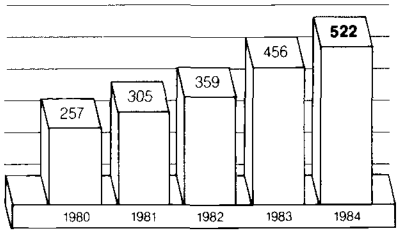
	1983 £m	**1984 £m**	% increase

Revenue premium income £m

UK Individual division

Ordinary business

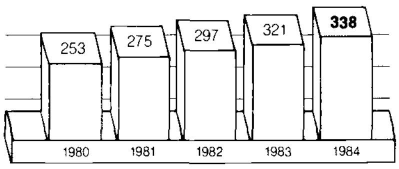
	1983 £m	1984 £m	% increase
New business: Annual premiums	101·2	**98·3**	(3)
Single premiums	74·6	**81·3**	9
Revenue premium income	456·2	**521·6**	14
Shareholders' profit before tax	33·5	**51·5**	



Industrial life business

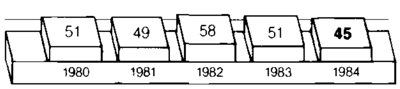
	1983 £m	1984 £m	% increase
New business: Annual premiums	72·3	**72·0**	–
Single premiums	–	**0·1**	–
Revenue premium income	320·5	**338·4†**	6
Shareholders' profit before tax	21·3	**41·0**	

† Adjusted to remove the effect of the additional payment date (see note on page 36)



Vanbrugh

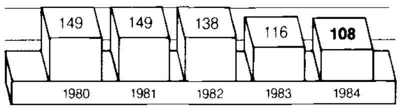
	1983 £m	1984 £m	% increase
New business: Annual premiums	2·4	**2·4**	–
Single premiums	32·1	**23·5**	(27)
Revenue premium income	51·1	**44·8**	(12)
Shareholders' profit before tax	0·1	**–**	



UK Group pensions division

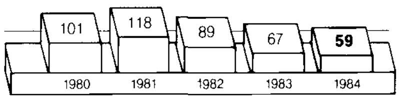
Insured plans

	1983 £m	1984 £m	% increase
New business: Annual premiums	26·7	**23·1**	(13)
Single premiums	29·7	**20·1**	(32)
Revenue premium income	116·4	**107·8**	(7)
Shareholders' profit before tax	8·1	**8·0**	



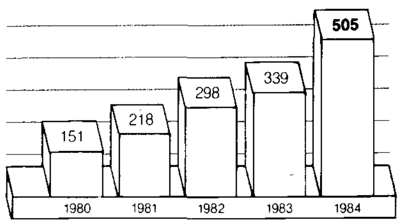
Investment linked – Prudential Pensions Limited

	1983 £m	1984 £m	% increase
New business: Annual premiums	12·1	**14·2**	17
Single premiums	4·0	**1·0**	(75)
Revenue premium income	67·2	**59·1**	(12)
Shareholders' profit before tax	1·2	**2·0**	



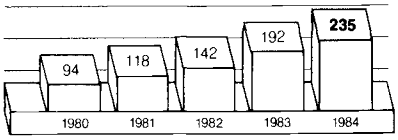
Overseas division

	1983 £m	1984 £m	% increase
New business: Annual premiums	51·3	**63·0**	23
Single premiums	102·5	**206·2**	101
Revenue premium income: Canada	175·0	**301·2**	72
South Africa	64·8	**66·1**	2
Australia and New Zealand	67·3	**92·4**	37
Other countries	32·6	**45·4**	39
	339·7	**505·1**	49
Shareholders' profit before tax	12·0	**15·3**	



Mercantile and General Reinsurance

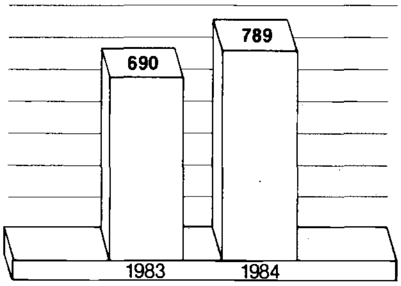
	1983 £m	1984 £m	% increase
New business: Annual premiums	42·2	**43·2**	2
Single premiums	34·0	**39·6**	16
Revenue premium income	191·7	**234·7**	22
Shareholders' profit before tax	13·1	**18·3**	



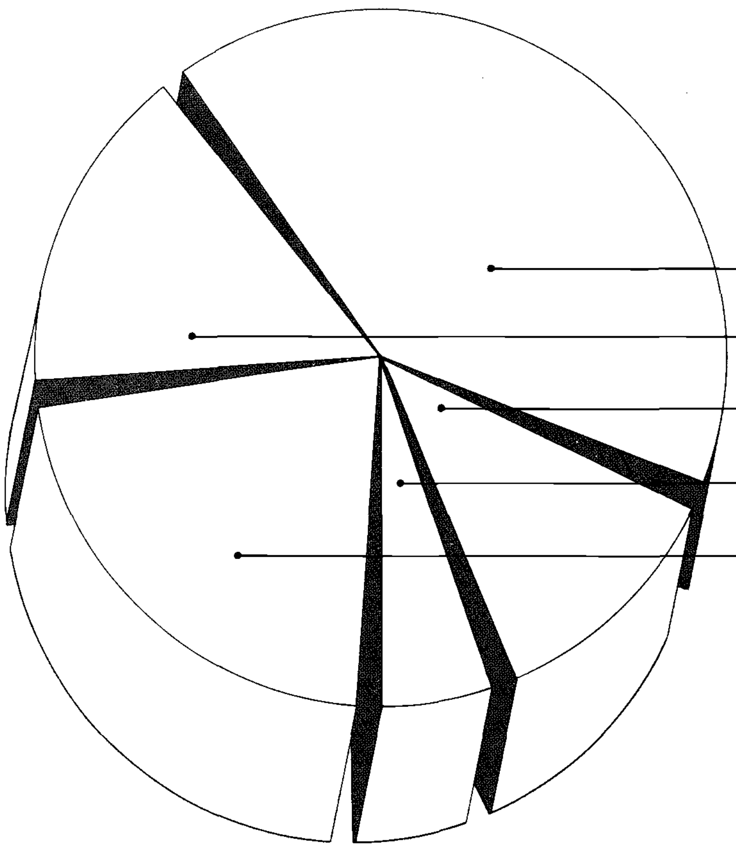
PRUDENTIAL CORPORATION

GENERAL INSURANCE BUSINESS

	1983 £m	**1984 £m**	% increase
Premiums written	690·3	**788·5**	14
Underwriting result	(76·9)	**(161·4)**	
Investment income	69·3	**81·5**	18
Trading profit/(loss) before tax	(7·6)	**(79·9)**	

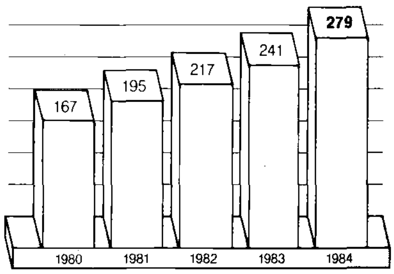


Premiums written in 1984 by geographical area



UK division

	Domestic property 1983 £m	**1984 £m**	Motor 1983 £m	**1984 £m**	Other classes 1983 £m	**1984 £m**	Total 1983 £m	**1984 £m**
Premiums written	114·0	**128·8**	69·2	**82·1**	57·5	**68·1**	240·7	**279·0**
Underwriting result	(10·0)	**(16·9)**	(6·0)	**(9·5)**	(9·6)	**(28·4)**	(25·6)	**(54·8)**
Investment income	7·7	**8·1**	8·5	**8·4**	7·3	**8·1**	23·5	**24·6**
Trading profit/(loss) before tax	(2·3)	**(8·8)**	2·5	**(1·1)**	(2·3)	**(20·3)**	(2·1)	**(30·2)**



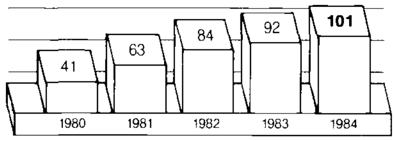
	1983 £m	**1984 £m**	% increase

Premiums written £m

Overseas division

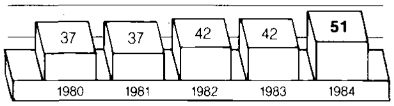
Canada

	1983 £m	**1984 £m**	% increase
Premiums written	92·1	**100·9**	10
Underwriting result	4·4	**(1·3)**	
Investment income	8.0	**9·3**	16
Trading profit before tax	12·4	**8·0**	



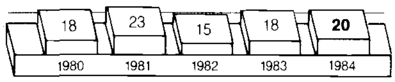
EEC

	1983 £m	**1984 £m**	% increase
Premiums written	42·2	**51·2**	21
Underwriting result	(4·2)	**(3·9)**	
Investment income	6·3	**7·5**	19
Trading profit before tax	2·1	**3·6**	



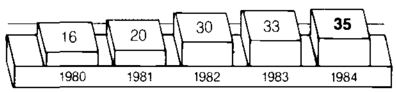
Other countries

	1983 £m	**1984 £m**	% increase
Premiums written	17·6	**19·5**	11
Underwriting result	(2·3)	**(0·5)**	
Investment income	1·5	**1·6**	7
Trading profit/(loss) before tax	(0·8)	**1·1**	



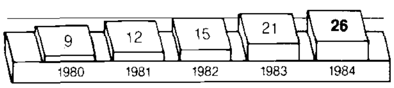
London market – overseas

	1983 £m	**1984 £m**	% increase
Premiums written	33·2	**34·8**	5
Underwriting result	(5·8)	**(5·8)**	
Investment income	3·4	**4·7**	38
Trading profit/(loss) before tax	(2·4)	**(1·1)**	



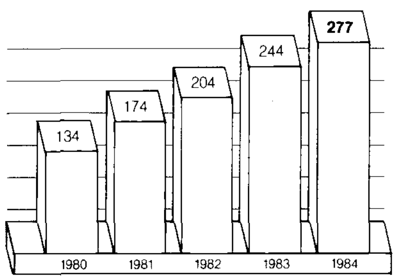
Marine and aviation

	1983 £m	**1984 £m**	% increase
Premiums written	20·9	**26·2**	25
Underwriting result	(3·5)	**(1·5)**	
Investment income	2·4	**2·6**	8
Trading profit/(loss) before tax	(1·1)	**1·1**	



Mercantile and General Reinsurance

	1983 £m	**1984 £m**	% increase
Premiums written: Fire and miscellaneous	212·6	**245·7**	16
Marine and aviation	31·0	**31·2**	1
	243·6	**276·9**	14
Underwriting result	(39·9)	**(93·6)**	
Investment income	24·2	**31·2**	29
Trading profit/(loss) before tax	(15·7)	**(62·4)**	



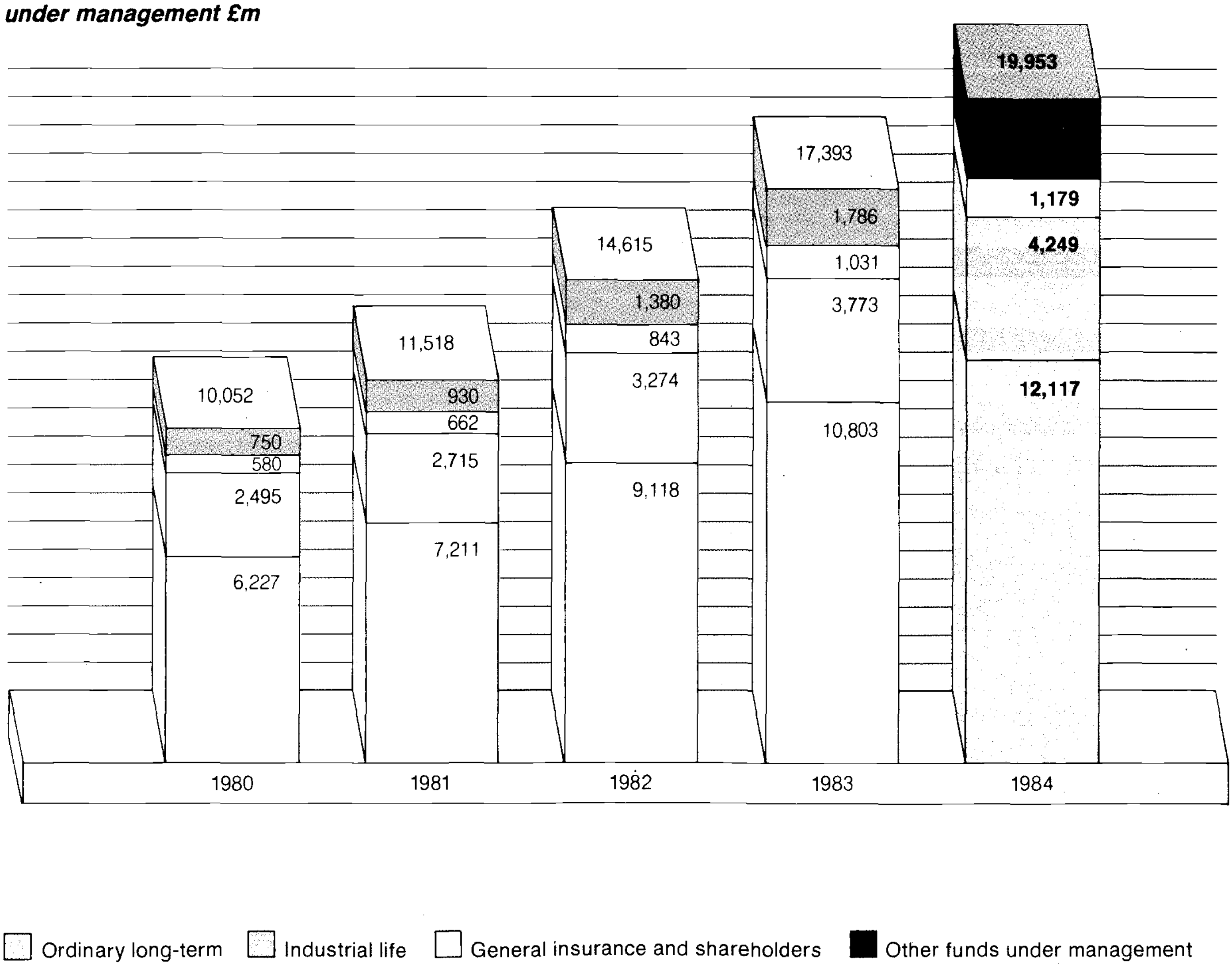
INVESTMENTS

Market value of investments under management

	Long-term business		General insurance and shareholders		Other funds under management	
	1983 £m	**1984 £m**	1983 £m	**1984 £m**	1983 £m	**1984 £m**
Ordinary shares	6,353	**7,388**	367	**437**	1,099	**1,625**
Properties	3,455	**3,444**	71	**57**	157	**156**
British Government securities – fixed income	2,474	**2,520**	125	**121**	352	**453**
British Government securities – index-linked	139	**48**	–	**2**	32	**–**
Other fixed income securities	1,512	**2,185**	437	**522**	138	**170**
Mortgages and loans	643	**781**	31	**40**	8	**4**
	14,576	**16,366**	1,031	**1,179**	1,786	**2,408**

Other funds under management referred to on pages 24 and 25 include Holborn Unit Trusts, Vanbrugh Currency Fund, Holborn Currency Fund, segregated pension funds managed on a fee-paying basis and Prudential staff pension funds.

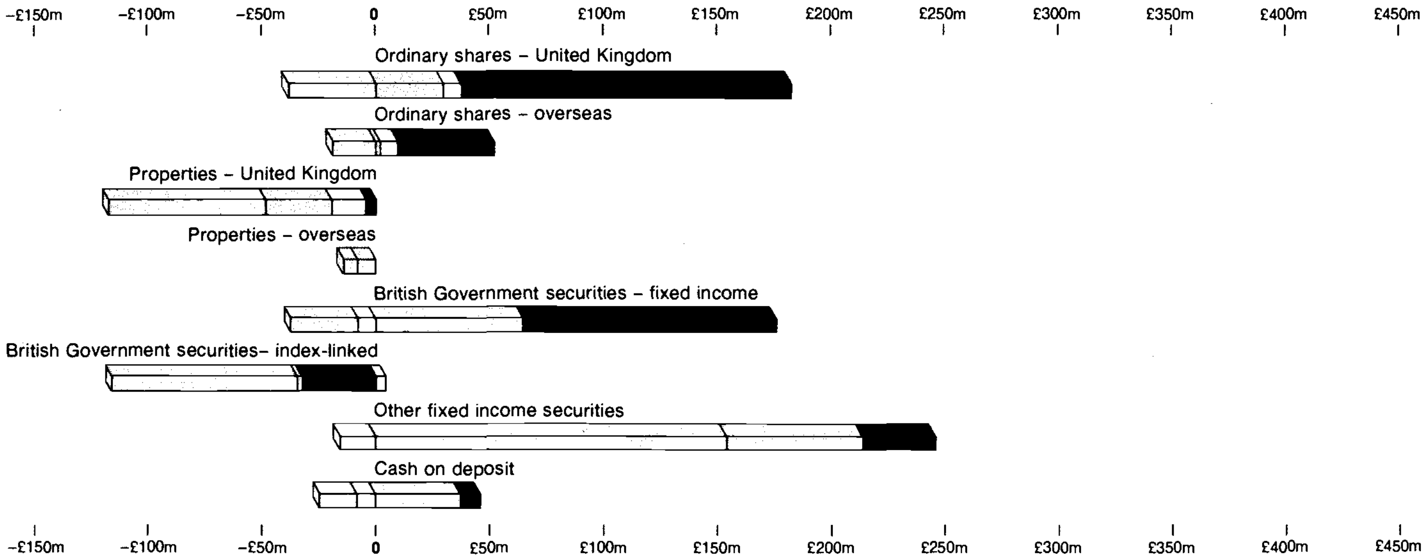
Market value of total investments under management £m



Net investment – funds arising in the United Kingdom

	Long-term business		General insurance and shareholders		Other funds under management	
	1983 £m	**1984 £m**	1983 £m	**1984 £m**	1983 £m	**1984 £m**
Ordinary shares – United Kingdom	22	**(8)**	5	**8**	73	**145**
Ordinary shares – overseas	75	**(18)**	2	**8**	64	**43**
Properties – United Kingdom	(97)	**(98)**	1	**(14)**	2	**(4)**
Properties – overseas	39	**(13)**	–	**–**	–	**–**
British Government securities – fixed income	245	**35**	19	**(7)**	41	**113**
British Government securities – index-linked	24	**(82)**	–	**4**	(9)	**(32)**
Other fixed income securities (including mortgages)	84	**215**	(1)	**(16)**	56	**33**
Cash on deposit	(12)	**21**	11	**(8)**	4	**9**
	380	**52**	37	**(25)**	231	**307**

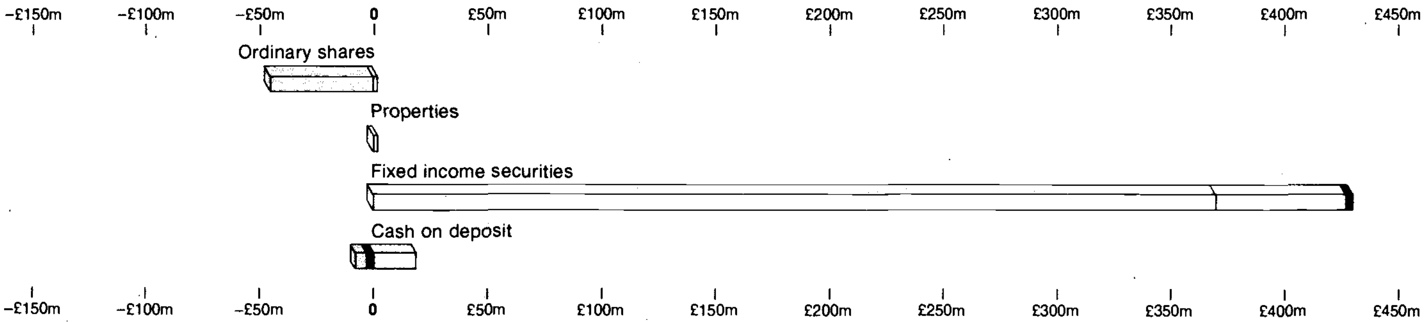
Net investment 1984



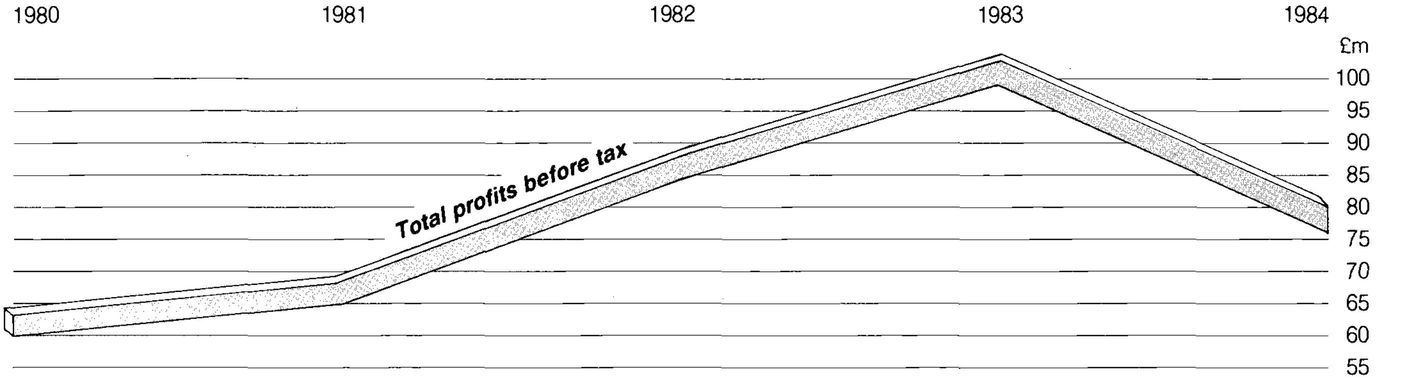
Net investment – funds arising overseas

	Long-term business		General insurance and shareholders		Other funds under management	
	1983 £m	**1984 £m**	1983 £m	**1984 £m**	1983 £m	**1984 £m**
Ordinary shares	140	**(46)**	21	**3**	9	**–**
Properties	10	**–**	2	**3**	(1)	**–**
Fixed income securities (including mortgages)	178	**373**	30	**57**	(2)	**2**
Cash on deposit	42	**(5)**	1	**19**	31	**(3)**
	370	**322**	54	**82**	37	**(1)**

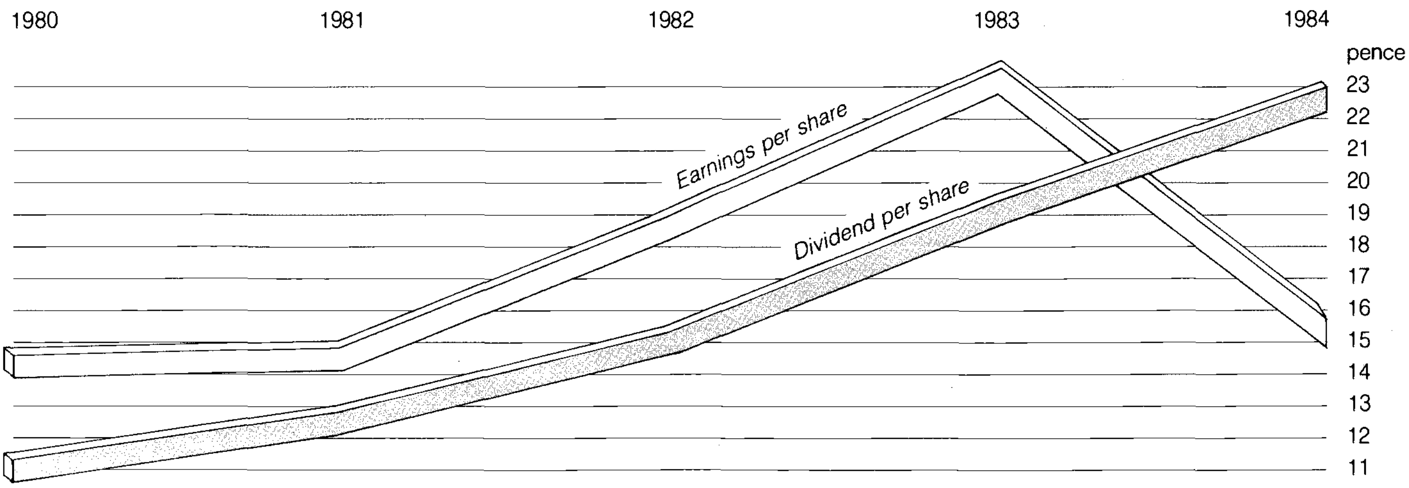
Net investment 1984



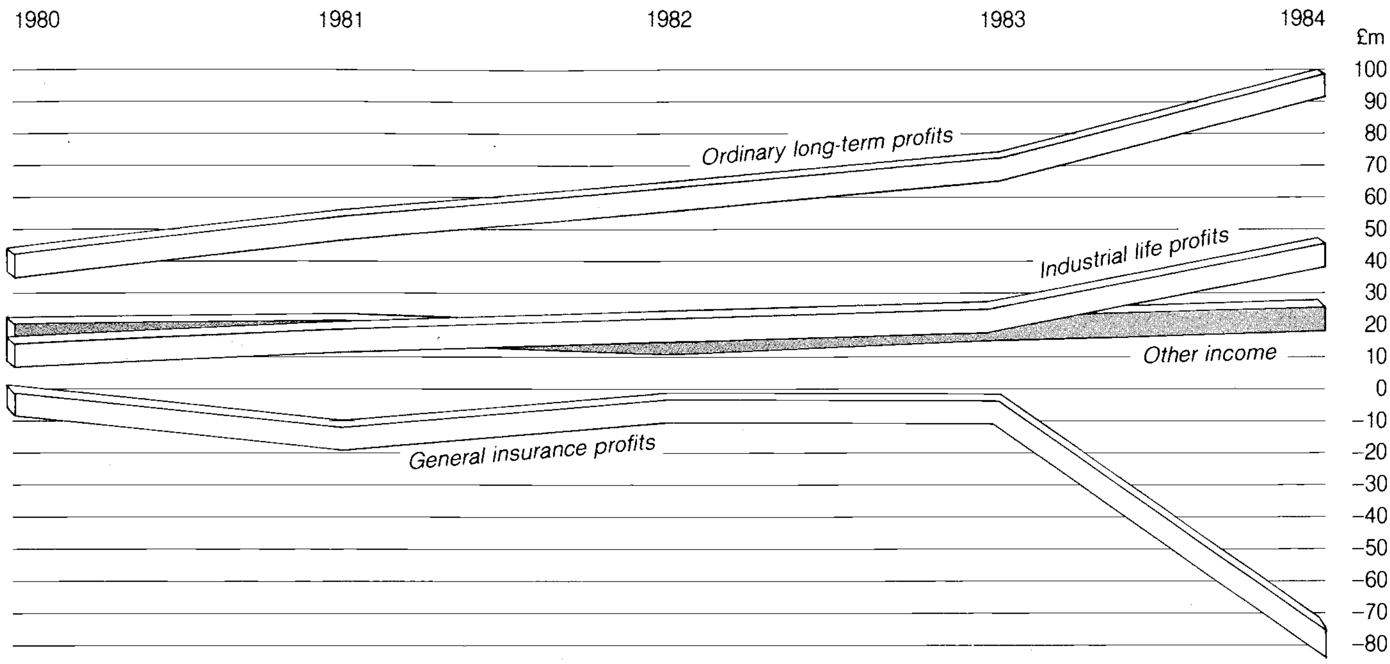
5-YEAR REVIEW OF GROUP RESULTS



	1980 £m	1981 £m	1982 £m	1983 £m	**1984 £m**
Summary of results					
Profit before tax from					
Ordinary long-term business	38·5	50·0	58·5	68·0	**95·1**
Industrial life business	10·7	15·3	18·1	21·3	**41·0**
General insurance business	(4·9)	(16·7)	(7·3)	(7·6)	**(79·9)**
Shareholders' other income	17·4	18·0	16·1	19·4	**21·8**
Total profit before tax	61·7	66·6	85·4	101·1	**78·0**
Tax	(19·6)	(23·7)	(29·7)	(31·6)	**(31·9)**
Minority interests	0·4	0·3	(0·1)	(0·6)	**(0·9)**
Profit attributable to shareholders	42·5	43·2	55·6	68·9	**45·2**
Dividends	32·8	37·3	44·8	56·7	**67·1**
Transfer to/(from) retained profit	9·7	5·9	10·8	12·2	**(21·9)**



	1980	1981	1982	1983	**1984**
Earnings per share	14·2p	14·5p	18·6p	23·1p	**15·1p**
Dividend per share	11·0p	12·5p	15·0p	19·0p	**22·5p**



Ordinary long-term business	1980 £m	1981 £m	1982 £m	1983 £m	**1984 £m**
New business annual premiums	157·6	186·1	203·7	235·9	**244·2**
New business single premiums	104·4	140·7	209·1	276·9	**371·7**
Revenue premium income	801·5	958·1	1,083·3	1,222·3	**1,473·1**
Investment income	457·2	527·5	647·3	697·5	**824·8**
Policyholders' bonuses	259·5	348·8	396·3	471·7	**612·7**
Shareholders' profit before tax	38·5	50·0	58·5	68·0	**95·1**
Market value of investments	6,227·0	7,211·4	9,117·8	10,802·5	**12,166·5**

Industrial life business					
New business annual premiums	61·6	65·8	75·7	72·3	**72·0**
New business single premiums	–	–	–	–	**0·1**
Revenue premium income	253·3	274·5	296·8	320·5	**338·4†**
Investment income	157·8	170·9	201·8	207·4	**232·8**
Policyholders' bonuses	113·2	159·9	191·2	222·8	**398·6**
Shareholders' profit before tax	10·7	15·3	18·1	21·3	**41·0**
Market value of investments	2,495·1	2,714·8	3,274·5	3,773·4	**4,249·4**

†Adjusted to remove the effect of the additional payment date (see note on page 36)

General insurance business					
Premiums written	421·5	523·7	606·5	690·3	**788·5**
Underwriting result	(38·5)	(62·8)	(67·6)	(76·9)	**(161·4)**
Investment income	33·6	46·1	60·3	69·3	**81·5**
Trading profit/(loss) before tax	(4·9)	(16·7)	(7·3)	(7·6)	**(79·9)**
Market value of investments	409·6	484·5	630·7	719·4	**786·4**

Other income					
Investment income	18·7	19·8	17·6	20·7	**24·5**
Miscellaneous net income	0·2	0·4	0·3	0·8	**0·1**
Expenses	(1·5)	(2·2)	(1·8)	(2·1)	**(2·8)**
Other income before tax	17·4	18·0	16·1	19·4	**21·8**

In the tables and charts on pages 26 and 27 the change in accounting policy for accident non-proportional reinsurance business explained in note 2(j) is reflected in the figures for 1983 and 1984 but the figures for previous years have not been restated. It is not considered that the effect of such a restatement would be material.

DIRECTORS' REPORT
for the year ended 31 December 1984

Principal activity and business review
Prudential Corporation plc is the Group holding company and the principal activity of its subsidiaries is transacting insurance and reinsurance business of all classes in the United Kingdom and overseas. Particulars of principal subsidiary companies are given in the notes on the accounts on page 35.

A review of the Group's business appears in the Chairman's statement on pages 3 and 4, the Chief Executive's review on pages 5 to 7 and in the divisional reports on pages 8 to 18.

Accounts
The consolidated balance sheet on page 31 shows the state of affairs of the Group at 31 December 1984. The Company's balance sheet appears on page 32 and the consolidated profit and loss account on page 30. There is a five year review of the Group on pages 26 and 27.

Dividends
The directors have declared a final dividend for 1984 of 15p per share payable on 30 May 1985 to shareholders on the register at close of business on 2 May 1985. The dividend for the year, including the interim dividend of 7·5p per share paid in November 1984, amounts to 22·5p per share compared with 19p per share for 1983.

Directors
The present directors of the Company are shown on page 2.

Mr H G Clarke retired on 31 May 1984.

The Hon Sir Victor Garland KBE and The Rt Hon Lord Richardson of Duntisbourne KG PC were appointed directors as from 4 January and 12 April 1984 respectively.
Mr M D Abrahams, Mr R E Artus FSIA and Mr F G Wood FIA ACII were elected directors as from 31 May 1984.

The directors retiring by rotation at the Annual General Meeting are Sir John Butterfield OBE FRCP, Mr D S Craigen, Mr W G Haslam DFC, Mr J A S Neave CBE JP DL and Mr R S Skerman CBE FIA. They offer themselves for re-election. Sir John Hogg TD also retires by rotation but does not offer himself for re-election.

Mr D M C Donald WS also resigns his directorship on retiring as Chairman of the Mercantile and General Reinsurance Company plc and Mr E P Hatchett FIA and Sir Ronald Owen FIA also retire at the Annual General Meeting. In recognition of Sir Ronald's long and valuable service to the Company, the directors recommend his appointment as President.

Mr Wood will resign from the board on 29 May 1985 on his retirement from executive office with Prudential Assurance. The directors recommend his election as a non-executive director.

The directors also recommend the election of Sir Alexander Jarratt CB, Mr D E Fellows FIA FPMI, Mr J A Freeman FCA FCMA and Mr B Medhurst FIA.

Directors' shareholdings
Directors' interests in shares of the Company (all beneficial interests) were as follows:

	31 December 1984 Shares of 25p each	1 January 1984 (or later appointment or election) Shares of 25p each
Lord Carr of Hadley	2,000	2,000
M D Abrahams (elected 31.5.84)	2,000	2,000
R E Artus (elected 31.5.84)	2,000	2,000
Sir John Butterfield	2,000	2,000
F B Corby	2,000	2,000
D S Craigen	2,000	2,000
D M C Donald	3,600	3,600
Sir Victor Garland (appointed 4.1.84)	2,000	2,000
W G Haslam	2,400	2,500
E P Hatchett	3,000	3,000
Sir John Hogg	4,392	4,392
Lord Hunt of Tanworth	2,000	2,000
P E Moody	2,000	2,000
J A S Neave	313,939	313,939
Sir Ronald Owen	6,000	6,000
J E Ramsden	2,400	2,400
Lord Richardson of Duntisbourne (appointed 12.4.84)	2,000	2,000
R S Skerman	2,500	2,500
Sir Peter Tennant	2,400	2,400
F G Wood (elected 31.5.84)	2,345	2,345

In addition to the interests shown left, at 31 December 1984 and at 1 January 1984 or date of election, Mr R E Artus, Mr F B Corby and Mr F G Wood each held options under the Prudential Savings-Related Share Option Scheme to subscribe for 1,023 shares of 25p each in the Company.

Except as stated above none of the directors held an interest either at the beginning or at the end of the year or at the date of their appointment or election, in any shares in or debentures of the Company or of its subsidiaries.

There has been no change in directors' shareholdings between 31 December 1984 and 31 March 1985.

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

Number of employees
The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1984 was 22,464 and the total remuneration was £244·4m.

Employment of disabled persons
The policy of the Group is:

(a) to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, by recruiting on the basis of ability to carry out the job,

(b) whenever possible to continue the employment of and to arrange appropriate training for employees who have become disabled persons while they were employed by a company in the Group,

(c) provided they have the ability to carry out the job, to arrange for the training, career development and promotion of disabled persons on the same basis as that for able-bodied persons.

Employee involvement
Continued efforts were made to consult with and inform employees on matters which concern them with emphasis on financial and economic factors affecting the Group.

Consultation takes place, as appropriate, with representative bodies of the staff and with various committees, and directly with the staff concerned. The Company tries to ensure that all those employees within the Group who might be affected by any changes have the opportunity to ask questions about and to express an opinion on them.

For the second year running employees were encouraged to participate in the savings-related share option scheme and the first meetings of the new board of the staff pensions scheme for The Prudential Assurance Company Ltd were held at which member directors, elected by employees, played a full part.

The Group considers that communication to employees is vital in providing a successful business environment and in addition to developing existing mediums of communication steps are being taken to identify the role of new technology in providing employees with information. At the end of the year a review of communications was undertaken in most parts of the Group with the objective of developing the content and context of employee communication. Employees will be contributing to this review and it is envisaged that any changes can begin to be implemented during 1985.

Donations
During the year the Company and its subsidiaries gave £303,000 in the United Kingdom and £152,000 overseas for charitable purposes.

Auditors
A resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the Company will be put to the Annual General Meeting.

Number of shareholders
The number of shareholders on the register at the end of the year was:

1984	1983
28,552	28,352

Substantial shareholdings
As far as the directors were aware at 31 March 1985 no person had a shareholding of 5 per cent or more of the share capital of the Company.

The close company provisions of the Income and Corporation Taxes Act, as amended, do not apply to the Company.

Analysis of shareholdings in the Company at 31 December 1984

	1984 %	1983 %
Banks and other nominee companies	43·6	40·3
Insurance companies	13·7	13·6
Pension funds	21·1	23·1
Investment trusts and unit trusts	1·4	1·6
Other corporations	4·1	4·5
Individuals	16·1	16·9
	100·0	100·0

By order of the board of directors

D F Roper
Secretary

18 April 1985

CONSOLIDATED PROFIT AND LOSS ACCOUNT

year ended 31 December 1984

	Note	1984 £m	1983 £m
Profit before tax from	1		
Ordinary long-term business	4	95·1	68·0
Industrial life business	4	41·0	21·3
General insurance business	4 & 6	(79·9)	(7·6)
Shareholders' other income	12	21·8	19·4
Profit for the year before tax		**78·0**	**101·1**
Tax	7	31·9	31·6
Minority interests	3	0·9	0·6
		32·8	32·2
Profit attributable to shareholders	10	**45·2**	**68·9**
Dividends			
Interim		22·4	16·4
Final		44·7	40·3
		67·1	56·7
Transfer (from)/to retained profit		**(21·9)**	**12·2**

Earnings per share	15·1p	23·1p

Based on earnings of £45·2m *(£68·9m)*
and 298,388,841 *(298,388,254)* shares

	Note	1984 £m	1983 £m
Retained profit and reserves			
Balance at beginning of year as previously reported		101·7	98·6
Prior year adjustment	1 & 6	20·5	17·6
Balance at beginning of year as restated		122·2	116·2
Transfer (to)/from profit and loss account		(21·9)	12·2
Movement in investment reserves for the year	14	32·5	19·0
Profit/(loss) on sale of investments of the Company		–	(0·2)
Goodwill written off		(0·9)	(28·7)
Transfer (to)/from general insurance investment reserves		(0·5)	3·7
Balance at end of year		131·4	122·2

CONSOLIDATED BALANCE SHEET

31 December 1984

	Note	1984 £m	1983 £m
Investments			
Ordinary shares		7,824·9	6,719·5
Properties		3,500·6	3,525·7
British Government securities		2,691·0	2,738·8
Other fixed income securities		2,706·7	1,949·1
Mortgages and loans		821·4	674·0
		17,544·6	15,607·1
Other assets			
Tax recoverable		51·8	21·4
Debtors		638·3	511·0
Deposits, bank balances and cash		732·4	574·3
		18,967·1	16,713·8
Less			
Other liabilities and provisions			
Outstanding claims		378·4	323·8
Other creditors		283·4	276·7
Unsecured loans in overseas currencies	11	355·8	250·8
Bank loans and overdrafts	11	61·1	38·9
Taxation		29·8	25·7
Deferred taxation	7	28·4	34·9
Loan stocks of a subsidiary	11	1·7	1·9
Final dividend		44·7	40·3
		1,183·3	993·0
		17,783·8	15,720·8
Less			
Insurance funds and reserves			
Ordinary long-term business	4	12,315·4	10,949·8
Industrial life business	4	4,210·0	3,742·0
General insurance business	4	885·5	690·3
		17,410·9	15,382·1
		372·9	338·7
Less			
Minority interests	3	4·1	4·7
		368·8	334·0

	Note	1984 £m	1983 £m
Capital and reserves			
Called up share capital	9	74·6	74·6
Share premium		46·4	46·4
Revaluation reserves		116·4	90·8
Retained profit and reserves		131·4	122·2
		368·8	334·0

PRUDENTIAL CORPORATION

BALANCE SHEET OF THE COMPANY

31 December 1984

	Note	1984 £m	1983 £m
Fixed assets			
Investments	15		
Shares in group companies		74·6	74·6
British Government securities		14·3	12·1
		88·9	86·7
Current assets			
Debtors			
Tax recoverable		0·3	–
Amounts owed by subsidiaries		45·8	47·2
Other debtors		0·3	0·5
Cash at bank		9·2	3·3
		55·6	51·0
Creditors: amounts falling due within one year			
Amounts due to subsidiaries		1·5	–
Other creditors		0·1	–
Final dividend		44·7	40·3
		46·3	40·3
Net current assets		9·3	10·7
Total assets less current liabilities		98·2	97·4
Provisions for liabilities and charges			
Deferred taxation	7	0·1	0·1
		98·1	97·3
Capital and reserves			
Called up share capital	9	74·6	74·6
Revaluation reserve		0·2	0·3
Profit and loss account		23·3	22·4
		98·1	97·3

The accounts on pages 30 to 41 were approved on 18 April 1985

Carr of Hadley *Chairman*

F B Corby *Director and Chief Executive*

SOURCE AND APPLICATION OF FUNDS
OF THE GROUP (EXCLUDING LONG-TERM BUSINESS)
year ended 31 December 1984

	1984 £m	1983 £m
Source of funds		
Profit for the year before tax	78·0	101·1
Adjustment for items not involving movement of funds:		
Depreciation	4·6	3·2
Taxation – long-term business transfer	(47·5)	(30·3)
	35·1	74·0
Increase in general insurance business fund	194·8	77·6
Profit/(loss) on sale of investments of the Company	–	(0·2)
Movement in investment reserves	24·1	30·5
	254·0	181·9

	1984 £m	1983 £m
Application of funds		
Dividends paid to shareholders	62·7	46·3
Tax paid	6·0	(5·0)
Loan stock of a subsidiary repaid	0·2	–
Increase in investments:		
Ordinary shares	33·6	40·1
Properties	4·0	6·4
British Government securities	(1·7)	20·5
Other fixed income securities	75·3	57·9
Mortgages and loans	9·4	3·5
	120·6	128·4
Movement in other assets, liabilities and provisions		
Debtors	129·0	24·9
Deposits, bank balances and cash	22·0	20·9
Outstanding claims	(50·9)	(25·7)
Other creditors	(34·0)	(8·1)
Unsecured loans in overseas currencies	–	4·9
Bank loans and overdrafts	(1·6)	(4·7)
	64·5	12·2
	254·0	181·9

NOTES ON THE ACCOUNTS

1. Changes in accounting policy and presentation

(a) The accounting policy for accident non-proportional reinsurance business liabilities has been changed as referred to in note 2 (j) below. The comparative figures have been restated accordingly.

(b) Transfers between the business funds and the consolidated profit and loss account are now shown gross of shareholders' taxation.

In the long-term business revenue accounts on page 36 shareholders' taxation has been added back to shareholders' profits and taxation is no longer shown in the general insurance business revenue account on page 37. Comparative figures have been restated.

2. Group accounting policies

(a) Disclosure requirements
The consolidated accounts are prepared in accordance with the provisions of sections 149A and 152A of and schedule 8A to the Companies Act 1948. They are not required to comply with the accounting and disclosure provisions of the Companies Act 1981. The balance sheet of the Company on page 32 is prepared in accordance with section 149 of and schedule 8 to the Companies Act 1948.

The Company has taken advantage of the exemption from presenting its own profit and loss account.

As most of the Company's subsidiaries are insurance companies, the group accounts do not disclose certain information, some relating to provisions and reserves, which they are exempt from disclosing under the provisions of the Companies Acts 1948 to 1981.

(b) Basis of consolidation
The group accounts incorporate the assets and liabilities of the Company and all its subsidiaries at 31 December and the results for the year ended on that date with the exception of London Indemnity & General Insurance Company Limited whose accounts are not included in the group accounts as it would be misleading to do so; with the approval of the Department of Trade and Industry the particulars otherwise required to be given in accordance with paragraphs 15(4) and (6) of schedule 8A to the Companies Act 1948 are omitted.

The results of subsidiaries acquired or disposed of are brought into the accounts from the date of acquisition or up to the date of disposal.

The results of associated companies attributable to the Group's shareholding are not included in the group accounts, except to the extent of dividends received, as the directors are of the opinion that the amounts involved are insignificant.

(c) Goodwill
Goodwill arising on consolidation is written off to retained profit and reserves when incurred.

(d) Investments
Investments are shown in the balance sheets at market value, determined as follows:

British Government and other quoted fixed income securities and quoted ordinary shares – based on market quotations.

Unquoted fixed income securities, long-term mortgages and loans and unquoted ordinary stocks and shares – at valuation by the directors.

Short-term loans – normally at par.

Properties – at the open market sale value. Those held in respect of linked business are valued by external valuers and other properties by employees of the Group. In all cases valuations are carried out by members of the Royal Institution of Chartered Surveyors or holders of an equivalent qualification.

Certain linked contracts provide for the unit price to include an appropriate adjustment to the valuation of linked investments for buying or selling expenses. The market value of such investments has been adjusted accordingly.

Shares in subsidiaries are shown at cost.

(e) Revaluation reserves
Except for linked business, unrealised appreciation and depreciation of investments are carried to revaluation reserves. In the life business funds of certain insurance subsidiaries transfers are made from revaluation reserves to the revenue accounts, representing part of the unrealised margin of market values over cost.

No provision is made for tax which would become payable if investments were realised at the values shown. The maximum amount payable is shown in note 7.

For linked business, movements in the market values of investments for the year together with realised profits or losses are dealt with in the revenue accounts.

(f) Investment reserves
Investment reserves are held in all funds of the Company's insurance subsidiaries. Except for linked business, profits and losses on the realisation of investments, taxes thereon and exchange adjustments are carried to these reserves and excluded from the revenue results. Transfers may be made from time to time from or to the respective revenue or profit and loss accounts or insurance funds.

Investment reserves are dealt with in the balance sheets as follows:

Shareholders' funds	– included in retained profit and reserves.
General insurance business	– shown separately in the balance sheet on page 37. These reserves are included in the general insurance business balance sheet but are attributable to shareholders.
Long-term business	– amalgamated with revaluation reserves.

(g) Exchange rates
Foreign currency revenue transactions and assets, liabilities and reserves are translated at rates of exchange ruling at the end of the year, except for certain revenue transactions which are translated at rates of exchange ruling at the dates of the respective transactions. Exchange adjustments are dealt with mainly in investment reserves.

(h) Long-term business
Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. The amount of surplus allocated to shareholders is determined by the directors of the companies concerned in accordance with their Articles of Association.

The transfer of shareholders' profit from the long-term business revenue accounts to the profit and loss account has been grossed up by the attributable tax. The transfer comprises franked investment income and income subject to corporation tax and tax has been calculated at the appropriate rates.

(i) Investment income
Investment income is included on an accruals basis. Dividends on ordinary shares and interest on linked business fixed income securities are included by reference to ex-dividend dates. Except for linked business, investment income is adjusted for accrued income included in the purchases and sales of securities so as to match the income with the period for which the security has been held.

UK dividends are grossed up by the attaching tax credit.

Investment income is shown after deducting interest payable.

(j) General insurance business
Unearned premium reserves for direct fire and casualty insurance business are calculated mainly on a proportional basis having regard to the premiums in force each month, with a deduction of 20 per cent for acquisition costs. Unexpired risk reserves are maintained when required to cover the estimated excess of liabilities over the unearned premium reserves. Extended warranty business is dealt with on a funded basis.

Outstanding claims include provisions for claims incurred but not reported at the balance sheet date.

The underwriting results on direct marine, aviation and transport business are determined at the end of the second year following the year of account to which that business relates, after allowing for all outstanding premiums and claims. Premiums less claims paid and expenses relating to the two open years of account are carried forward and increased if necessary, so that the funds for each year are sufficient to meet the estimated cost of all outstanding liabilities, including those incurred but not reported, and the claims expected on unexpired risks.

Fire and casualty proportional reinsurance business is dealt with mainly on a two-year basis, unearned premiums and outstanding claims being calculated on bases depending on individual contract terms. Non-proportional and marine and aviation reinsurance business is dealt with on a funded basis. Premiums less claims paid and expenses relating to the open years of account are carried forward and increased if necessary so that the funds for each year are sufficient to meet the estimated cost of all outstanding liabilities, including claims incurred but not reported. Accident non-proportional business liabilities are discounted to take account of the estimated periods over which premiums are received and claims are paid. Discounting represents a change of accounting policy from that adopted in previous years. The effect is set out in note 6. No surpluses are transferred from the funds during the first two development years of any underwriting year.

(k) Depreciation
Motor vehicles, furniture and office equipment are written off in the year of purchase. Major items of capital expenditure on equipment and computer development costs are amortised by equal annual instalments over their estimated useful lives.

All properties within the Group are regarded as investment properties and therefore they are not depreciated.

(l) Taxation
Tax is charged on all profits and income earned to date, less reliefs. Provision under the liability method is made for deferred taxation arising from short-term timing differences and from timing differences which cannot be demonstrated with reasonable probability to continue into the foreseeable future.

(m) Retirement benefit schemes
Liabilities in respect of retirement benefit schemes for directors and employees of the Group are met through contributions to pension funds. Such contributions are assessed on actuarial bases designed so that the funds will be adequate to provide the pensions and other benefits expected to arise under the rules of the schemes.

3. Subsidiary companies

Particulars of principal subsidiary companies, wholly owned unless otherwise stated, are as follows:

Name	Class of share held	Country of incorporation or registration and principal operation
Compagnie d'Assurance de l'Escaut SA	Shares n.p.v.	Belgium
The Mercantile and General Reinsurance Company plc	Shares £1	Scotland (operating principally in UK)
The Prudential Assurance Company Limited	Shares 25p	England
The Prudential Assurance Company of South Africa Limited	Shares 10c (64·45%)	South Africa
Prudential Pensions Limited	Shares £1	England
Prudential Portfolio Managers Limited	Ordinary Shares £1	England
Vanbrugh Life Assurance Limited	Shares £1	England

Except for The Prudential Assurance Company Limited, the companies listed above are owned by subsidiaries of the Company.

The principal activity of these subsidiaries is insurance with the exception of Prudential Portfolio Managers Limited, an investment management company.

In view of the number involved, other subsidiaries which do not materially affect the profit of the Group or the amount of its assets are not shown.

4. Insurance business

Long-term business revenue accounts

	Note	Ordinary business 1984 £m	Ordinary business 1983 £m	Industrial life business 1984 £m	Industrial life business 1983 £m
Premium income†		1,473·1	1,222·3	364·4†	320·5
Investment income	13	824·8	697·5	232·8	207·4
Transfer from investment and revaluation reserves		295·9	226·4	260·0	107·0
Increase in value of investments related to linked business		193·3	248·6	–	–
		2,787·1	2,394·8	857·2	634·9
Less					
Claims and surrenders		1,381·6	991·4	347·2	290·2
Commission and expenses		340·7	285·0	137·8	126·2
Tax	7	53·9	48·5	23·4	23·6
Increase/(decrease) in insurance liability		336·8	553·4	(77·0)	(42·1)
		2,113·0	1,878·3	431·4	397·9
Surplus for distribution		674·1	516·5	425·8	237·0
Policyholders' bonuses	5	612·7	471·7	398·6	222·8
Shareholders' profit after tax	5	61·4	44·8	27·2	14·2
Shareholders' tax	2h	33·7	23·2	13·8	7·1
Transfers of shareholders' profit and attributable tax to the consolidated profit and loss account	1	95·1	68·0	41·0	21·3

†In 1984 there were fourteen due dates for payment of industrial life business four-weekly premiums. Some £26m of the total increase of £44m in premium income is accounted for by the additional payment date. In order not to distort the general trend in five-year tables and charts, the effect of the additional payment date has been removed from figures in the Business Analysis on pages 19 to 27.

Long-term business balance sheets

	Note	Ordinary business 1984 £m	Ordinary business 1983 £m	Industrial life business 1984 £m	Industrial life business 1983 £m
Investments					
Ordinary shares		5,136·1	4,541·5	2,251·7	1,811·3
Properties		2,477·6	2,483·3	966·4	971·7
British Government securities		1,827·2	1,844·6	740·9	769·0
Other fixed income securities		2,019·6	1,404·2	165·3	107·8
Mortgages and loans		656·0	528·9	125·1	113·6
		12,116·5	10,802·5	4,249·4	3,773·4
Other assets					
Tax recoverable		27·1	21·3	4·6	0·1
Debtors		328·9	266·8	63·4	43·2
Deposits, bank balances and cash		513·0	370·5	100·2	107·0
		12,985·5	11,461·1	4,417·6	3,923·7
Less					
Other liabilities and provisions					
Outstanding claims		80·8	78·4	11·4	10·0
Other creditors		244·2	208·0	85·4	65·0
Unsecured loans in overseas currencies	11	255·4	172·0	100·4	78·8
Bank loans and overdrafts	11	51·2	16·8	2·0	16·2
Taxation		25·0	16·5	0·1	6·8
Deferred taxation		13·5	19·6	8·3	4·9
		670·1	511·3	207·6	181·7
		12,315·4	10,949·8	4,210·0	3,742·0
Insurance funds		9,180·4	8,108·9	2,232·1	1,910·5
Investment and revaluation reserves		3,135·0	2,840·9	1,977·9	1,831·5
		12,315·4	10,949·8	4,210·0	3,742·0

General insurance business revenue account

	Note	1984 £m	1983 £m
Premiums written		788·5	690·3
Less: increase in insurance liability		143·0	69·4
		645·5	620·9
Less			
Claims	2j	530·9	448·5
Commission and expenses		276·0	249·3
		806·9	697·8
Underwriting result		(161·4)	(76·9)
Investment income	13	81·5	69·3
Transfer to/(from) consolidated profit and loss account	1	(79·9)	(7·6)

Shareholders' and general insurance business balance sheets

	Note	Shareholders' 1984 £m	Shareholders' 1983 £m	General insurance business 1984 £m	General insurance business 1983 £m
Investments					
Ordinary shares		263·0	189·3	174·1	177·4
Properties		37·3	55·8	19·3	14·9
British Government securities		23·8	19·1	99·2	106·1
Other fixed income securities		65·7	45·8	456·0	391·3
Mortgages and loans		2·6	1·8	37·8	29·7
		392·4	311·8	786·4	719·4
Other assets					
Tax recoverable		20·0	8·3	–	–
Debtors		52·5	64·9	375·9	222·7
Deposits, bank balances and cash		20·0	28·2	100·6	70·9
		484·9	413·2	1,262·9	1,013·0
Less					
Other liabilities and provisions					
Outstanding claims		–	–	286·3	235·4
Other creditors		53·5	21·9	82·6	68·4
Bank loans and overdrafts	11	2·7	–	6·5	8·1
Deferred taxation		6·7	10·4	–	–
Taxation		2·7	–	2·0	10·8
Loan stocks of a subsidiary	11	1·7	1·9	–	–
Final dividend		44·7	40·3	–	–
		112·0	74·5	377·4	322·7
		372·9	338·7	885·5	690·3
Less					
Minority interests	3	4·1	4·7	–	–
		368·8	334·0	885·5	690·3
Shareholders' funds		368·8	334·0	–	–
General insurance fund	6	–	–	719·2	524·4
General insurance investment reserves		–	–	40·7	46·8
General insurance revaluation reserves		–	–	125·6	119·1
		368·8	334·0	885·5	690·3

5. Long-term business

The amounts shown in respect of policyholders' bonuses and shareholders' profits for 1984 reflect a declaration by Prudential Assurance of special reversionary bonuses which, according to previous practice, would have been declared in terminal form. As a result the transfers to consolidated profit and loss account before tax include non-recurrent amounts of some £9m in respect of ordinary long-term business and some £15m in respect of industrial life business.

6. General insurance business

The effect of the change in accounting policy to introduce discounting, which has been applied at a rate of 5%, is to reduce the general business fund at 31 December 1984 and 1983 by £48·8m and £26·6m respectively and to increase the group profit before tax by £22·2m for 1984 and £3·2m for 1983.

7. Taxation

The table below gives details of tax charged on all profits and income earned to date included in the consolidated profit and loss account on page 30 and in the revenue accounts (see note 4 pages 36 and 37). Corporation tax has been charged at 50% less reliefs for the period up to 31 March 1984 and 45% less reliefs for the period 1 April to 31 December 1984 (52% and 50% for the corresponding periods of 1983):

	Ordinary long-term business		Industrial life business		General insurance and shareholders	
	1984 £m	1983 £m	1984 £m	1983 £m	1984 £m	1983 £m
Corporation tax	9·4	4·5	–	5·4	(17·9)	(3·6)
Double taxation relief	(1·2)	(2·1)	–	(0·7)	(0·1)	(8·7)
	8·2	2·4	–	4·7	(18·0)	(12·3)
Tax on franked investment income	26·1	23·4	18·2	20·8	5·6	5·7
Overseas tax	20·5	17·7	1·4	1·0	7·1	10·4
	54·8	43·5	19·6	26·5	(5·3)	3·8
Adjustments re prior years	4·8	(1·1)	1·2	0·1	8·8	(1·1)
	59·6	42·4	20·8	26·6	3·5	2·7
Deferred taxation						
Current year	0·6	4·0	2·4	(1·7)	(2·5)	2·2
Prior years	(6·7)	1·2	0·9	(0·3)	(1·2)	(0·1)
Group relief	0·4	0·9	(0·7)	(1·0)	(15·4)	(3·5)
	53·9	48·5	23·4	23·6	(15·6)	1·3
Shareholders' attributable tax	(33·7)	(23·2)	(13·8)	(7·1)	47·5	30·3
	20·2	25·3	9·6	16·5	31·9	31·6

Tax on capital gains charged in the year against investment reserves including group relief amounts to £38m *(£44m).*

Deferred taxation in the balance sheet of the Company relates to short-term timing differences and is equal to the potential liability.

Deferred taxation in the consolidated balance sheet relates to:

	1984		1983	
	Potential liability £m	Amount provided £m	Potential liability £m	Amount provided £m
Short-term timing differences	24·9	24·9	31·7	31·7
Capital allowances	19·8	5·4	18·5	6·0
General insurance business reserves	6·4	(1·9)	9·4	(2·8)
	51·1	28·4	59·6	34·9
Maximum tax payable if investments were disposed of at the values shown:				
Ordinary long-term business	435·3	–	374·4	–
Industrial life business	631·6	–	540·6	–
General insurance and shareholders	84·8	–	100·4	–
	1,151·7	–	1,015·4	–
	1,202·8	28·4	1,075·0	34·9

8. Major shareholdings

The Group holds shares in 68 companies, other than subsidiaries, in which the holding of at least one class of equity shares amounts in nominal value to one fifth or more of the issued shares of that class and in a further 51 companies in which the holding exceeds one tenth.

In view of the number involved and as they do not materially affect the profit of the Group or the amount of its assets, details relating to individual companies are not shown. Of these companies, 37 come within the definition of an associated company but due to their insignificance and the fact that they are held mainly as investments of the life funds they are not listed (see note 2(b)).

9. Share capital

The Company's authorised share capital is £87,500,000 in 350,000,000 shares of 25p each of which 298,388,841 shares have been allotted, called up and fully paid. Of these, 587 shares of 25p each were allotted during 1984 to persons entitled under the Prudential Savings-Related Share Option Scheme for a consideration of £2,236.

Under the Share Option Scheme employees in the Group have options over 2,022,664 shares at a subscription price of 381p and 172,143 shares at a subscription price of 425p. Subject to the rules of the scheme the options are normally exercisable in October 1988, March 1989, October 1990 and March 1991.

10. Profit of the Company

	1984 £m	1983 £m
Profit of the Company for the year after tax	68·0	64·0
Profit/(loss) on sale of investments of the Company	–	(0·2)
Transfer from/(to) revaluation reserve	–	0·2
	68·0	64·0
Less dividends	67·1	56·7
Movement in retained profit of the Company	0·9	7·3

11. Loans

The unsecured loans in overseas currencies fall due for settlement during 1985.
Bank loans and overdrafts are repayable within one year, or on demand.
Loan stocks of a subsidiary are repayable by the following dates:

	£m	
1985	1·1	at 3¾%
1985	0·1	at 4¼%
1988	0·5	at 5½%
	1·7	

12. Shareholders' other income

	1984 £m	1983 £m
Investment income	24·5	20·7
Miscellaneous net income	0·1	0·8
Expenses	(2·8)	(2·1)
	21·8	19·4

13. Interest on loans

Interest on loans and bank overdrafts deducted from investment income, including that of long-term business and general insurance business, is as follows:

	1984 £m	1983 £m
Loans repayable within 5 years	35·7	24·9
Others	0·3	–

14. Investment reserves

A provision of £13·4m has been charged against investment reserves in the specialist reinsurance subsidiary. This relates to claims of an exceptional nature (principally asbestosis) arising from business written in previous years. In 1983 £6·7m was charged against investment reserves relating to possible claims arising in the same subsidiary in respect of the 1983 underwriting year.

15. Investments of the Company

	Fixed income securities £m
Market value at beginning of year	12·1
Less unrealised appreciation at beginning of year	0·3
Cost at beginning of year	11·8
Additions at cost	11·7
Sales at cost	(9·4)
Cost at end of year	14·1
Unrealised appreciation at end of year	0·2
Market value at end of year	14·3

All fixed income securities were quoted on recognised stock exchanges.

There have been no movements during 1984 in shares in group companies.

16. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to £1,021,000 *(£864,000).*

17. Commitments

The Group is committed to capital expenditure not provided of £7·3m *(£4·0m)* and expenditure authorised but not contracted of £8·8m *(£6·3m)* in respect of fixed assets (other than investments).

18. Emoluments of senior employees

Employees of the Group in the United Kingdom whose emoluments exceeded £30,000:

Emoluments	Managerial and administrative		Commission earning	
£	1984	1983	1984	1983
30,001 to 35,000	74	58	80	44
35,001 to 40,000	26	21	29	6
40,001 to 45,000	18	12	2	–
45,001 to 50,000	12	13	–	1
50,001 to 55,000	11	2	1	–
55,001 to 60,000	1	1	–	–
60,001 to 65,000	1	3	–	–
65,001 to 70,000	1	–	–	–
70,001 to 75,000	3	1	–	–
75,001 to 80,000	–	2	–	–

19. Emoluments of directors

The aggregate amount of the emoluments of the directors of the Company for the year was £479,724 *(£323,692)*, of which £279,309 *(£267,962)* was in respect of services as a director.
In addition, contributions made to pension schemes for directors were £96,609 *(£69,795)*.
The emoluments of the Chairman amounted to £48,390 *(£46,943)* and of the highest paid director £107,664. (In 1983 the highest paid director received emoluments of £55,730 together with additional emoluments of £37,153 as an employee before he became a director).

Emoluments £	Number of directors 1984	1983
1 to 5,000	1	2
5,001 to 10,000	2	1
10,001 to 15,000	7	8
15,001 to 20,000	5	3
20,001 to 25,000	2	2
25,001 to 30,000	–	1
45,001 to 50,000	3	1
55,001 to 60,000	–	1
105,001 to 110,000	1	–

20. Loans to and transactions with directors and officers

No loans were granted to directors in 1984 but the following loans subsisted during the year, the loans being granted before the person concerned became a director of the Company.

	Liability at 1 Jan 1984 £	Max liability during 1984 £	Liability at 31 Dec 1984 £
House Purchase Loans			
R E Artus	25,000	25,000	25,000
F B Corby	25,000	25,000	25,000
F G Wood	13,000	13,000	13,000
Loans on policies			
F B Corby	7,025	7,025	7,025
W G Haslam	1,180	1,180	1,180

The house purchase loans are secured on the personal residences of the directors and repayment will be made from endowment policies. Interest on different portions of the loans ranges from 3·5% to 13·25%, the terms being no more favourable than those which were normally available to members of the staff when the loans were made.
The life policy loans are secured on endowment policies and repayment is made from the maturity monies or earlier at the borrower's option, on terms available to all policyholders. The rate of interest applicable on 31 December 1984 was 13%.
There is no interest due and unpaid at 31 December 1984 on any of the above loans.
One officer of the Company (other than directors) had outstanding on 31 December 1984 a loan from a subsidiary company of £11,600.

ACTUARIAL REPORT AND REPORT OF THE AUDITORS

Actuarial report

Reports by the appointed actuaries of those insurance subsidiaries transacting long-term business which are required to comply with UK legislation show, in each case, that at 31 December 1984:

(i) proper records have been kept adequate for the purpose of the valuation of the liabilities of such long-term business;

(ii) the mathematical reserves constitute proper provision for the liabilities arising under or in connection with contracts for long-term business including any increase in those liabilities arising from a distribution of surplus as a result of an investigation into the financial condition of the long-term business;

(iii) for the purpose of sub-paragraph (ii) above the liabilities have been assessed in accordance with Part VI of The Insurance Companies Regulations 1981, in the context of assets valued in accordance with Part V of those Regulations; and

(iv) the solvency margin is in excess of the minimum statutory solvency margin.

Reports by the actuaries of other insurance subsidiaries transacting long-term business show, in each case, that, at 31 December 1984 the aggregate amount of the liabilities under long-term business contracts did not exceed the value of the assets identified as representing such business.

The surpluses for distribution from long-term business were not materially affected by alterations in actuarial valuation bases.

Prudential Assurance has declared special bonuses in reversionary form which according to previous practice would have been declared in terminal form; the release of surplus to profit and loss account was higher than it would otherwise have been by some £24m before tax.

F B Corby

Group Chief Executive

18 April 1985

Report of the auditors to the members of Prudential Corporation plc

We have audited the accounts on pages 30 to 41 in accordance with approved Auditing Standards.

In our opinion, the balance sheet of the Company gives a true and fair view of the state of the Company's affairs at 31 December 1984 and complies with the Companies Acts 1948 to 1981, and the consolidated accounts comply with the provisions of the Companies Acts 1948 to 1981 applicable to insurance companies.

Deloitte Haskins & Sells

Chartered Accountants

London

18 April 1985

GROUP MANAGEMENT

Executive Committee

F B Corby
Group Chief Executive

R E Artus
Group Chief Investment Manager
Chairman, Prudential Portfolio Managers

D E Fellows
Managing Director, UK Group Pensions Division
Chief Actuary, Prudential Assurance

J A Freeman
Managing Director, UK Individual Division

J Lock
General Manager,
Mercantile and General

B Medhurst
Managing Director, Overseas Division

M G Newmarch
Chief Executive,
Prudential Portfolio Managers

R W Paget
Group Taxation Manager

D F Roper
Secretary and Group Legal Adviser

D Sirkett
Group Finance Controller

F G Wood
Managing Director, Central Services

Service divisions

Chief Actuary, Prudential Assurance
D E Fellows

Deputy Actuaries
C E Barton
G D Clay

Group Finance Controller
D Sirkett

Group Taxation Manager
R W Paget

Chief Accountant
W Mills

Secretary & Group Legal Adviser
D F Roper

Managing Director, Central Services
F G Wood

General Managers –
Personnel & Administrative Services: G F Keeys
Management Services: E P Morris

Assistant General Managers –
Personnel Operations: H J Hancock
Personnel Policy: D E Jackson
Administrative Services: R L Webb
Management Services: D Nelson, D F West,

UK Individual division

Managing Director: J A Freeman

General Managers –

Actuarial & Financial Services: J L Savage
Operations: L D Cary
General Business: J R Powell
Marketing: M P Hughes
Strategic Planning: T J L Richards
Life Administration: J Hasloch (to 30.6.85)
F A Friedlos (from 1.7.85)

General Manager, Vanbrugh
R L Sutton

Assistant General Managers –

Actuarial Services: L E Warrilow
Operations: A J Collins, H Turner

General Business –
development: R S Hill
underwriting & claims: G W Hart
projects: E J Mowbray
finance & systems: M E Trayhorn

UK Group pensions division

Managing Director: D E Fellows

General Manager, Pensions: J V Swales

Assistant General Managers, Pensions –

A F Benke
J B Mochrie
R H Rawlinson

Mercantile and General Reinsurance

General Manager: J Lock

Deputy General Managers –

P E Crane
H J Jarvis
R R Snook

Chief Actuary: M B Brown

Assistant General Managers –

J O Austin
P M Edwards
F E Guaschi
M S Harvey
T W Manley
L J McKinnes
R G Willsmer

Prudential Portfolio Managers

Chairman: R E Artus

Deputy Chairman and Chief Executive:
M G Newmarch

Managing Director: J W Findlay

Directors –

Property: P G Green, M H Mallinson
Finance: D Austen
Marketing: K L Bedell-Pearce
Administration: D W Hanson
Fixed Interest: P J Nowell
UK Equity: T K Pullen
Research: K A West

Prudential Overseas division

Managing Director: B Medhurst

General Manager, Overseas
F M Simpson

Assistant General Managers, Overseas
P N S Clark
J A Hayler

Africa

Kenya
Chairman
M H Da Gama-Rose
Managing Director
E Thomas

The Prudential Assurance
Company of Kenya Ltd
Wabera Street, PO Box 30064
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South Africa
Chairman
A J F Fergusson
Managing Director
P D Wharton-Hood

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Manager
D J Edgerton

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Chairman
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General Manager
B R Martin

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Australia

Chief Manager for New Zealand
B H Klap

332–340 Lambton Quay
PO Box 291, Wellington
New Zealand

Canada

Chairman
R R Latimer
President
I D Mair
Executive Vice Presidents
M A P Beck
J J Rowen

635 Dorchester Boulevard West
Montreal, Quebec

Prudasco Inc. (Holding Company)

Constellation Assurance Company

The Prudential Life Assurance
Company of England (Canada)

Prudasco Assurance Company

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Designed by McNeil Jones Associates Limited
Printed by Westerham Press

Wildlife Photographer of the Year Awards

The Wildlife Photographer of the Year 1984 competition was sponsored for the first time by Prudential Assurance in association with BBC Wildlife Magazine, the Fauna and Flora Preservation Society and the Natural History Museum.

There were some 12,000 entries from amateur and professional photographers in 25 countries for the 11 specialist and 4 junior categories in the competition.

Over a hundred of the best entries were selected for a public exhibition at the Natural History Museum.

'Wildlife Photographer of the Year' winners Julia and Richard Kemp, husband-and-wife camera team for Anglia Television's 'Survival' programme, after the presentation by Sir Peter Scott.

The winning photograph showing a goosander catching a fish underwater.

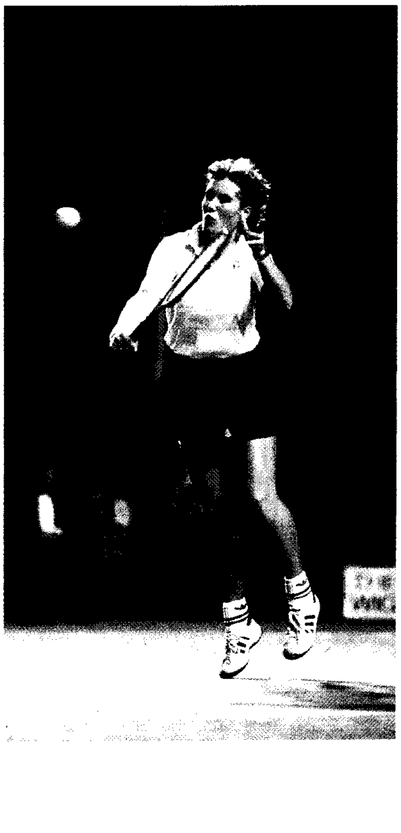
'Young Wildlife Photographer of the Year' was 18-year-old David Breed, whose winning photograph of a cheetah was taken during a visit to Nairobi.

Tennis

The Prudential has been sponsoring the LTA's 'grass roots' scheme – designed to give coaching to youngsters who are interested in tennis – since 1978, and has invested more than £500,000 in the scheme since then.

A typical example of how a 'grass roots' player can progress to the highest competitive level is Amanda Brown. She was introduced to tennis in Norwich, at one of the 1300 or so Prudential 'grass roots' junior coaching courses held each year throughout the country, when she was just 10 years old.

Since then she has won many Prudential Junior Championship of Great Britain titles, has twice won the Australian junior title and, in 1984, was chosen to represent Great Britain in the Wightman Cup and the Olympic demonstration event, as well as the Federation and Maureen Connolly Cup tournaments.



HRH the Duchess of Kent with members of the LTA's North West regional squad at the Matchpoint Centre, Cheshire. Many of these players and other regional squad members have benefited from Prudential 'grass roots' coaching.

Amanda Brown, left, playing at the Royal Albert Hall, where she partnered Virginia Wade in the 1984 Wightman Cup.