

ANNUAL
REPORT
&
ACCOUNTS

1985

**PRUDENTIAL
CORPORATION**

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 Wednesday 28 May 1986 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 1985
 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 set out in the separate notice sent herewith:

1. Ordinary resolution
Increase the authorised share capital of the Company
2. Ordinary resolution
Authorise the directors to allot securities
3. Special resolution
Authorise the directors to modify the application of Section 89 of the Companies Act 1985
4. Special resolution
Alter Article 61 of the Company's Articles of Association relating to directors' share qualification
5. Ordinary resolution
Approve the level of directors' share qualification
6. Ordinary resolution
Authorise the directors to adopt overseas executive share option schemes

In connection with the re-election of directors special notice has been given to the Company, pursuant to the Companies Act 1985, that a separate resolution will be moved proposing the re-election of Lord Richardson of Duntisbourne KG PC who retires by rotation and who will 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
1 May 1986

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 1985 will be open for inspection at the meeting. The directors have no service contracts.

ANNUAL REPORT & ACCOUNTS

1985

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

**PRUDENTIAL
CORPORATION**

DIRECTORS

The Rt Hon Lord Hunt of Tanworth GCB
Chairman

A director since 1980, Chairman since May 1985 and Deputy Chairman from 1982 to 1985. Secretary of the Cabinet from 1973 to 1979. 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 1984. Chairman of Prudential Staff Pensions Limited. Former Joint Secretary and Group Chief Investment Manager. Director of Laird Group and Investors in Industry. Former President of the Institute of Actuaries.

R S Skerman CBE FIA
Deputy Chairman

A director since 1980 and Deputy Chairman since May 1985. 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.

M D Abrahams

A director since 1984. Chairman of York Trust Holdings. Deputy Chairman of John Crowther Group and a director of John Waddington.

R E Artus FSIA (Executive Director)

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

Sir John Butterfield OBE FRCP

A director since 1981. Regius Professor of Physic, University of Cambridge. Master of Downing College. Member of several medical committees. Director of BCB Instrumentation. Vice-Chancellor of Cambridge University 1983 to 1985.

The Rt Hon Lord Carr of Hadley PC

A director since 1976, Deputy Chairman from 1979 to 1980 and Chairman from 1980 to 1985. Member of Parliament from 1950 to 1976 and Home Secretary from 1972 to 1974. Director of Cadbury Schweppes and SGB Group.

F B Corby FIA (Executive Director)

A director since 1983. Group Chief Executive. Director of the Bank of England. Chairman of the Association of British Insurers.

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 E Fellows FIA FPMI (Executive Director)

A director since May 1985. Managing Director, UK Group Pensions Division and Chief Actuary of Prudential Assurance.

J A Freeman FCA FCMA (Executive Director)

A director since May 1985. Managing Director, UK Individual Division.

Sir Victor Garland KBE

A director since 1984. Australian chartered accountant. Member of the Australian Federal Parliament from 1969 to 1981 and Minister for Business from 1979 to 1980. High Commissioner for Australia in the UK from 1981 to 1983. Director of Mitchell Cotts and of a number of investment trusts.

W G Haslam OBE 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.

Sir Alex Jarratt CB

A director since May 1985. Chairman of Smiths Industries. Deputy Chairman of Midland Bank and a director of ICI.

B Medhurst FIA (Executive Director)

A director since May 1985. Managing Director, Overseas Division.

J A S Neave CBE JP DL

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

M G Newmarch (Executive Director)

A director since September 1985. Deputy Chairman and Chief Executive of Prudential Portfolio Managers.

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.

The Rt Hon Lord Richardson of Duntisbourne KG PC

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

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

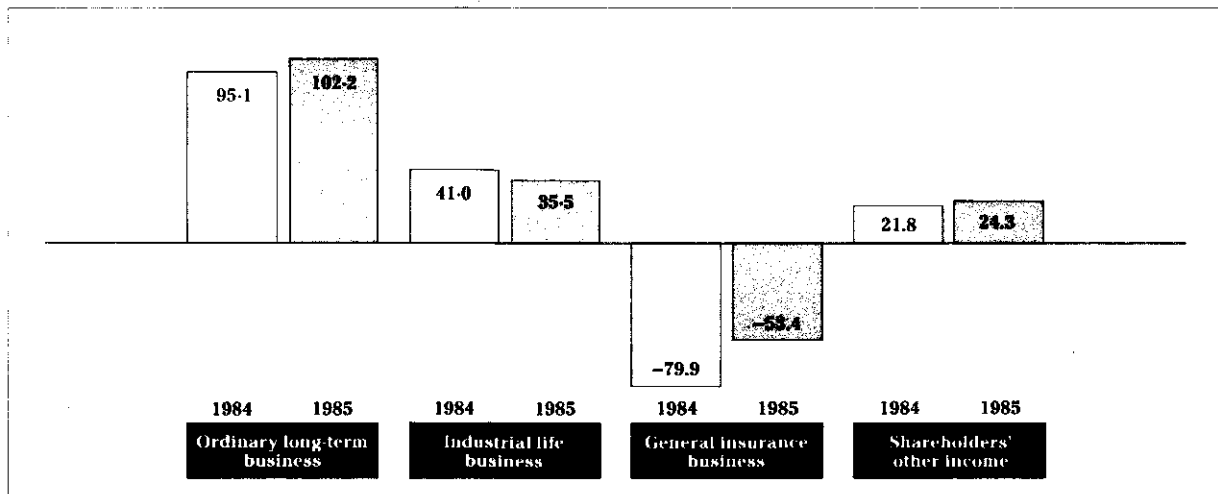
A director since 1984. Former Managing Director, Central Services and Deputy Chief General Manager of Prudential Assurance.

Sir Ronald Owen FIA, who was Chairman of the Company from 1975 to 1980, holds the honorary position of President of the Company.

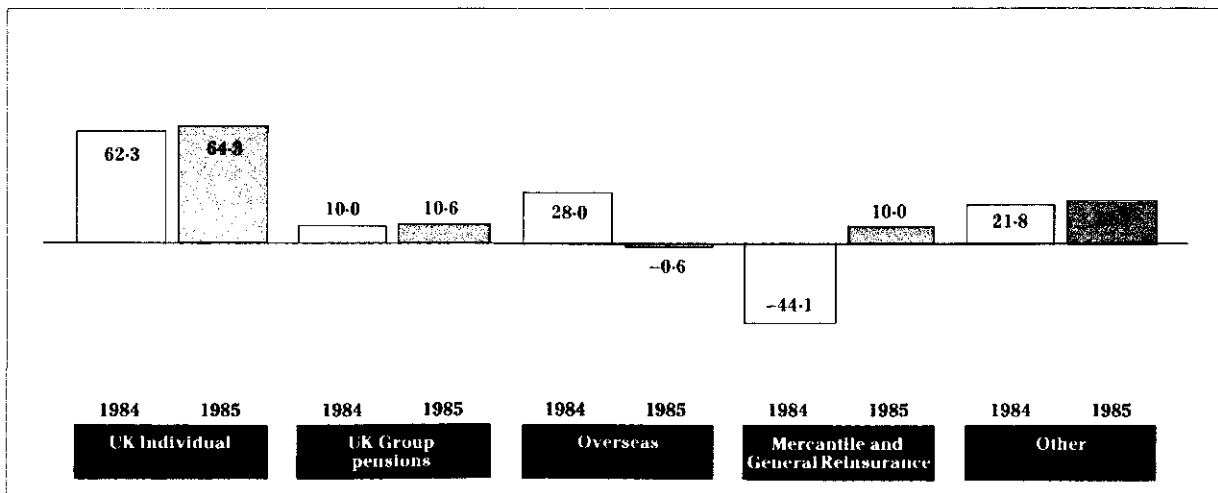
SUMMARY OF RESULTS

Total profit summary	1984 £m	1985 £m
Profit before tax	78.0	108.6
Tax	(31.9)	(31.5)
Minority interests	(0.9)	(1.0)
Profit attributable to shareholders	45.2	76.1
Earnings per share	15.1p	25.3p
Dividend per share	22.5p	26.0p

Profit before tax by business sector £m



Profit before tax by operating division £m





CHAIRMAN'S STATEMENT

1985 was a year of both progress and change for the Prudential. Our determination to improve the results of our existing businesses after the setback of 1984 produced a substantial recovery in our profits, which has enabled us to increase the dividend for the year by 3.5p to 26.0p per share. Our long-term business remained buoyant and profitable, and it was particularly pleasing to see the return to an overall profit at Mercantile and General. We are, however, far from complacent. Taken as a whole the general insurance results remain very disappointing and the action we have been taking to bring about a significant improvement has yet to take full effect. The year saw a number of new developments in our business, as we prepared to meet the challenges of the future. They include most notably our highly successful entry into the unit trust market, the first steps towards building a national chain of estate agents, and the acquisition of a unit-linked life assurance company in Ireland.

Details of the results for 1985 are shown in the tables on page 3 and elsewhere in this report, and comments upon them and their implications are given in the Chief Executive's Review and in the reports from the heads of our operating divisions. I should however like personally to take this opportunity to thank all our staff, both at home and abroad, for their hard work. They are our most important resource and their dedication and skill should ensure the continuing growth and prosperity of the Prudential.

I have referred to developments which have taken us into new fields of operation. In part they are a reaction to changes in the external environment. The world in which we compete for a living is changing and we must and shall adapt to the changes in order to prosper and protect the interests of shareholders, customers and staff.

It is impossible to be sure how far this process will take us, but it is clear that the financial services markets throughout the industrialised world are being reshaped, not only by increased competition but also by direct government action, both administrative and fiscal. As a consequence, we are finding ourselves in competition with a widening range of institutions as we and they move outside traditional areas of operation. At the same time ways are being discussed for the more effective protection of the consumer. Whilst we are supportive of this approach, measures of investor protection must be fair as between the various institutions concerned if diversification and competition are to provide investors with the greatest possible freedom of choice.

Our response to this situation takes two forms. First we set out to ensure that we conduct our long-established businesses in a way which is both efficient and flexible; my predecessor in his Statement last year gave some details of our action under this heading. Second we seek to develop into new areas of profitable operation which either support our existing business or are logical developments based thereon. We do not want diversification for diversification's sake, but we look for opportunities where our skills, allied to our reputation for soundness and integrity, will allow us to compete successfully. By these means we propose to maintain our position of strength in the financial services market of the future, recognising that it will be the customer who decides the form that the latter will ultimately take.

Actions we have already taken include the introduction of the Holborn range of unit trusts in May of 1985. This venture allies the skill of our investment managers to our powerful sales force in the United Kingdom, and in combination these have produced results which exceeded our most optimistic projections. In a very short time we have established the Prudential as a major force in the field of unit trust management. We intend that the development of a nationwide chain of estate agents will make us a leader in this field too. Besides being a source of additional profits it will create for us a high street presence and provide another important point of contact with the public, creating goodwill and the opportunity to sell other products from our range. We have also launched a national service for the provision of house purchase mortgages through the medium of our field staff. These steps significantly expand the range of financial services we offer and support the field staff in their efforts to meet the financial, and not only the insurance, needs of the public in the United Kingdom.

As shown by our entry into the Irish life assurance market and the injection of additional capital into our American reinsurance subsidiary we are not restricting our expansion to the United Kingdom. When opportunities arise for profitable developments overseas we shall take them.

The Prudential's financial strength in relation to its existing insurance business is considerable and the solvency margins for the major operating companies, Prudential Assurance and Mercantile and General, at 64% and 67% respectively, are fully adequate. However, we do not within the Corporation have funds which are available to finance substantial further developments such as those I have mentioned above. It was for this reason that a Floating Rate Loan Note for £100 million was issued during 1985 and your directors consider that it would be in the best interest of the Corporation and its shareholders that additional capital should be raised at this time. This will ensure that the Corporation is able to continue its strategic development, and is in a position quickly to take advantage of any suitable opportunities which may arise whether in the United Kingdom or elsewhere. We therefore propose for the approval of shareholders resolutions which will enable the directors to make a rights issue of shares to raise further capital; details of the issue are given in a document enclosed with this Report, together with the Notice of Special Business. This sets out the resolutions which are necessary to enable the Company to make the rights issue, and deals with two other matters.

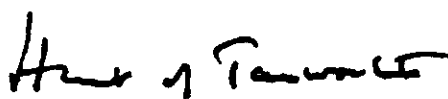
The first of these is a proposal to amend the Articles of Association in respect of the directors' share qualification. The Articles require directors to hold a minimum of 2,000 shares, but at current and prospective levels the cost of acquiring such a holding could now be a deterrent. Your Board considers that directors should continue to have a shareholding in the Company but that the minimum holding should be determined from time to time by the shareholders in general meeting. As you will see the Board is recommending that the minimum holding should be set initially at 500 shares.

The other matter is to give authority for your directors to establish share option schemes for senior group executives in our overseas branches and subsidiaries as forecast by my predecessor when he wrote to shareholders on 26 April 1985 recommending the proposals to establish our main Executive Share Option Scheme. Whilst the Rules of that Scheme enable the granting of options to overseas executives, the extent of their participation is restricted and adverse local tax consequences may also be involved. Accordingly, the directors wish to have authority to establish, where appropriate, further executive share option schemes which would be based on the main Scheme but would be adapted to attract local tax reliefs. The overall limit on the number of shares which may be allocated would not be increased: any shares made available under any overseas scheme would be accommodated within the existing limit already approved by shareholders.

Sir Peter Tennant is retiring at the Annual General Meeting. He has been a director since 1973 and throughout his time on the Board we have benefited greatly from his advice.

In September 1985 Mr M G Newmarch, Chief Executive of Prudential Portfolio Managers, was appointed to the Board. He now offers himself for election.

Looking back on my first year as Chairman I am conscious of what is owed to my predecessor, Lord Carr. During his 5 years as Chairman he guided the Prudential through a period of far-reaching change which included the restructuring of our main and subsidiary boards and the inclusion of executive directors on the main board, and also a major reorganisation and delegation of management responsibilities. These changes have done much to put us in a position to take full advantage of the opportunities which are now open to us.



The Lord Hunt of Tanworth
16 April 1986



Profits before tax rose to £108.6m from £78.0m in 1984 and after tax to £76.1m from £45.2m. There was therefore a marked recovery from the fall in profits experienced in the previous year. The directors have declared an increased final dividend of 17p per share which produces a total dividend for the year of 26p compared with 22.5p for 1984.

Although the total reported profit from the long-term business at £137.7m was only slightly higher than in 1984, the underlying trend of profit was satisfactory. Considerably better performance at Mercantile and General was responsible for the improved results from general insurance, but the Corporation still has a long way to go to achieve a satisfactory result from its general insurance business as a whole.

It is pleasing to see a contribution to profits from the new unit trust business of the Corporation; although it is in its early stages there is obviously scope for considerable increase as the business expands.

Long-term business

The continuing high level of investment return on our life funds in 1985 enabled us to make further improvements in bonuses. As in 1984 part of this improvement was in reversionary form to give policyholders greater certainty as to the eventual proceeds.

The total profit from the long-term business was £137.7m (£136.1m). Of this £13.3m (£23.7m) arose from the declaration of reversionary bonuses which according to previous practice would have been declared in terminal form. We also, as in 1984, reviewed the basis of apportionment of distributable surplus between policyholders and shareholders having regard to the development of the long-term business, giving rise to an increase of £6.1m (£5.8m) on that account.

General insurance business

The loss from general business was £53.4m (£79.9m). The industry worldwide continued to experience bad results, although we are now beginning to see signs of recovery in at least some major markets.

Our own results were very mixed. In Prudential Assurance in the United Kingdom there was some improvement but not as much as we had hoped. Results from the domestic property and motor account continued very adverse; the details are set out in the divisional report on page 12. We are in business as an insurer to provide security at a reasonable cost. If premium increases for domestic property cover are to be contained it is necessary that policyholders should have an incentive to take reasonable care; it is for this reason that we now make policyholders responsible for the first part of any claim. As to the motor account, until we see an end to the increase in the frequency of claims and in the cost of each claim, further substantial premium increases to bring the account back into profit are inevitable.

Overseas, Prudential Assurance results showed a trading loss of £13.0m compared with a profit of £12.7m. The main reason was a marked downturn in the highly volatile Canadian market, coupled with a strengthening of reserves in some of our smaller European operations. Details are set out on page 16.

At Mercantile and General we have had two main objectives. The first has been to ensure that our reserves are soundly based and with this in mind we made considerable increases in reserves at the end of 1984. Whilst further substantial strengthening has proved to be necessary in the accident proportional and marine accounts, the signs for the remaining business were encouraging. The second objective has been to improve the quality of the business we are currently writing, by a combination of cutting out business where there is no reasonable likelihood of profit and of securing an improvement in the terms on which we accept business. Here too the signs are encouraging. As a result of the actions we have taken the trading loss from general reinsurance business has been significantly reduced to £15.2m (£62.4m).

In the United States general reinsurance market the prospects for profitable operation have improved substantially. In order to enable Mercantile and General's subsidiary there to take advantage of the better terms now available, and in accordance with our long-term plans, we have increased its shareholders' funds by \$25m. To facilitate this the capital of Mercantile and General was increased by \$25m.

Shareholders' other income

This arises largely from investment income on the capital resources of the Group and in total, before tax, was £24.3m (£21.8m). This year there was a significant contribution from the new Holborn Unit Trust business despite the heavy expenses associated with the launch.

The acquisition of our first estate agency had little effect on the year's profit, but we expect to see an increasing contribution in future as further firms are acquired and business is expanded.

Reform of Social Security

There has been much uncertainty in the United Kingdom as to the relationship between State and private pension provision. The Government's proposals in June to phase out the State Earnings Related Pension Scheme (SERPS) and operate a compulsory system for private pensions led us, with others, to question the wisdom of proceeding in this way.

It was therefore pleasing to see modified proposals in the December White Paper. In particular the revised intention to modify SERPS and encourage private sector provision on a voluntary basis seems likely to provide a more durable, and manageable, foundation than the earlier proposals. The proposals to simplify contracting-out conditions for defined benefit schemes and to give all scheme members the right to pay additional voluntary contributions are also welcome.

However, several issues remain to be resolved. In particular there is uncertainty as to the level of National Insurance contribution rebates for contracted-out schemes. In this connection the proposed additional rebate of 2% to be allowed to those contracting-out for the first time, including individuals opting out of existing employers' schemes, is a departure from the concept, hitherto established, that contracting-out terms should be on a basis which is fair in relation to the benefits given up. To the extent that there is an overall advantage in encouraging provision on a private funded basis and reducing reliance on State pay-as-you-go, there is a case for some encouragement of contracting-out. But it would be better to achieve this by a relatively modest incentive on a permanent basis, rather than for a limited period only to a selected category.

Financial Services Bill

The prime objective of the Financial Services Bill currently before Parliament is the protection of the investor. We wholly support this objective but it is important to avoid the danger that the consumer is presented with information of doubtful value, costs are increased without commensurate benefit and freedom of choice is unreasonably restricted.

The customer should be in a position to make a fair comparison of the choices open to him. What is important, therefore, is that he should be aware of the nature of the contract, when the benefits are payable, how they will be determined and the assumptions on which any illustrated amounts are calculated.

I mentioned last year our own practice in relation to bonus illustrations and our hope that the life insurance industry could achieve a more satisfactory approach. Unfortunately this has not yet proved to be the case but the urgency to do so must be apparent to all. We have already taken steps to ensure our policyholders are informed as to their rights on termination of premium payments.

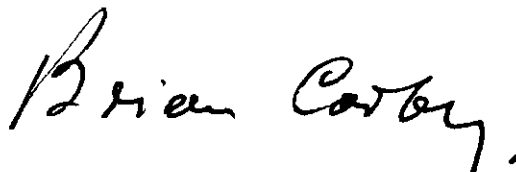
We expect to play an active part in the debate over the next few months as the Bill progresses through Parliament and as regulations to apply under the various self-regulatory organisations to which we are likely to

belong are discussed. In so doing our aim will be to continue to give and to enhance the service we have provided to our customers over many years.

Management

I extend to Mr Ian Mair, who retired as President for Canada at the end of 1985, my thanks for his major contribution to the long-term development of our business in Canada as well as to the insurance industry as a whole. Mr Mair joined the Group in Edinburgh in 1949 and moved to Canada in 1951; we wish him well in retirement.

In succession to Mr Mair, Mr John Rowen has been appointed President of Property & Casualty Operations and Mr Michael Beck has been appointed President of Life & Pensions Operations.



Brian Corby

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TONY FREEMAN MANAGING DIRECTOR

UK INDIVIDUAL DIVISION

During 1985 we reorganized the UK Individual division so that customers in their homes and in small businesses who are served by our 12,000-strong field staff would be the responsibility of a single operating area regardless of the product concerned. As a result there are now three main operating areas within the division - Home Service, Commercial and Broker General Insurance, and Vanbrugh. The main products sold by the Home Service business are medium/long term savings and protection, pensions, general insurance (mainly private motor and household contents), unit trusts and mortgages, while the Commercial and Broker General Insurance area is responsible for all commercial business, including that sold by our field staff, and for personal lines business sold by brokers and other intermediaries. In 1985, prior to the decision to expand operations onto a national basis, Prudential Property Services also formed part of the UK Individual division.

Home Service

Results

Pre-tax profits from Home Service business were £76.9m, compared with £84.1m in 1984. There was again some conversion of terminal bonuses to reversionary form which produced a largely non-recurrent element in the profit of £13.3m, compared with £23.7m in 1984. After eliminating the effect of these special additions the underlying rise in pre-tax profit was 5%. The underlying profit from long-term assurance products (savings, protection and pensions) was £76.1m, compared with £68.8m in 1984. This was partially offset by a pre-tax trading loss of £12.5m from general insurance products, compared with £8.4m in 1984. Sales of unit trusts and mortgages do not yet make a contribution to the division's profit.

Long-term revenue premiums rose by 2% to £903.1m, but 1984 included an additional four-weekly payment date for industrial life business which increased premiums in that year by some £26m. Eliminating the effect of this additional payment, the underlying growth

in revenue premiums was 5%. General insurance premiums were 9% higher at £185.5m.

Continued growth in personal pensions

As a whole, 1985 saw an increase of 29% in new annual pension premiums, to £48.0m. Growth was particularly strong in the first quarter, due to the surge in the sales of personal pensions before the Budget. Sales declined in the second and third quarters, but there was an encouraging upturn towards the end of the year.

Ordinary life assurance business

New annual premiums for ordinary life assurance business fell by 11% to £53.0m. The level of new business inevitably suffered by comparison with 1984 when Life Assurance Premium Relief was available for part of the year, and this trend was accentuated by our decision to concentrate sales effort on other forms of business. However, sales of endowment products related to mortgages were boosted by the introduction of two new low-cost endowment contracts and, on an experimental basis in six of our twelve operating divisions, of the Prudential Home Loan Service.

62% increase in lump sum investments

Assurance single premiums were £56.8m compared with £81.0m in 1984, due principally to a decline in unit-linked business following the launch in May of Prudential Portfolio Managers' range of Holborn Unit Trusts. Selected members of our field staff receive special training in unit trusts and only those who have completed this training and who have passed an examination are allowed to sell the trusts. These qualified members of the field staff, who now number around 4,000, achieved notable success with the unit trusts, achieving sales of £74.5m by the end of the year. Combining single premium assurances with unit trusts, lump sum investments showed an overall increase of 62% over 1984.

Industrial life business

New annual premiums grew by 9% to £78.5m. Sales of Prusave, the three year endowment contract launched in 1984, continued at a high level. In October we launched a second three year contract, Young Prusaver, which is a donor policy for the parents and grandparents of young children. These two contracts accounted for about 30% of industrial life new annual premium income for the year as a whole and during the final months of the year for some 40%.

Bonuses

The continued high rates of return being achieved on our investments has enabled us to make further increases in the amounts payable on policies currently becoming claims. Maturity values have been increased by up to 15% for industrial life policies and by up to 10% for ordinary life policies. In line with our wish to give policyholders greater certainty as to the eventual proceeds under their policies we have declared in reversionary form bonuses which according to previous practice would have been declared in terminal form.



Successful launch of mortgage scheme

1985 saw the experimental launch of the Prudential Home Loan Service. This service embraces the many local sources of mortgage finance arranged directly by members of our field staff supplemented by mortgages financed by Citibank Savings. It has proved attractive both to our customers and to our field staff and we extended its availability to the rest of the country early in 1986.

Home service personal lines

Premium income for home service general insurance personal lines business rose by 9% to £185.5m, reflecting increased premium rates offset by a declining number of policies. The trading loss before tax deteriorated to £12.5m, compared with £8.4m in 1984.

Encouraging signs in domestic property results

Due to a continuing high level of losses from theft and an increase in weather related claims the trading result before tax on home service domestic property business worsened to a loss of £8.9m compared with £8.0m in 1984. At the beginning of 1985 we increased inner city premium rates and introduced compulsory excesses on theft claims in some of these areas (so that policyholders bear the first part of each claim). These measures resulted in some loss of business, but not as much as we had expected since other insurers followed our lead and made similar rate increases. The effects of our action became evident in the second half of the year and helped to produce a trading profit in the last quarter. Nevertheless, the overall level of claims continued to rise and at the beginning of 1986 we introduced compulsory excesses on all domestic property business. This should lead to a reduction in the incidence of small claims and was in place of a further substantial rating increase.

Motor claims frequency continues to increase

We increased our motor premium rates by 12% during the year, but still failed to keep up with rising costs and the escalating frequency of claims which is being experienced throughout the UK insurance industry. Our claims frequency in 1985 was 10% higher than in 1984 and 22% higher than in 1983. As a result the trading loss before tax on home service private motor business rose to £3.6m compared with £0.4m in 1984. Private motor rates have been increased by a further 9% in April 1986.

Commercial and Broker General Insurance Business

Results

There was a trading loss before tax of £12.7m in 1985 compared with one of £21.8m in 1984, the improvement being attributable to commercial business. Premium income rose by 31% to £142.4m, reflecting both hardening market rates in the commercial area and planned expansion.



Action taken on personal lines business

Personal lines business sold through brokers experienced the same adverse features that affected Home Service business and the pre-tax trading loss increased substantially to £6.9m from £3.6m in 1984. We have taken action to reduce these losses by increasing private motor rates and by introducing excesses on all domestic policies. In addition, we are undertaking a major review of all specially rated schemes.

Reduced losses on commercial business

Commercial lines produced a pre-tax trading loss of £5.8m compared with one of £18.2m in 1984, although the latter figure included a special reserve of £6m for extended warranty business written in prior years. Premium income rose by 31%, reflecting increased rates in the commercial area and some real growth in business.

The liability account returned to profit in 1985 after an exceptionally high number of claims in 1984. The commercial vehicle account followed the pattern of the other motor accounts, with increasing claim frequency producing a trading loss of £2.1m, compared with £0.4m in 1984. The other commercial accounts are recovering slowly as the effects of increased rates during 1985 work through to results, but further hardening of market rates is necessary for a return to profitability. The results from extended warranty business, which is mainly written in association with Comet, improved relative to 1984, with no significant strengthening of reserves being required.

The general insurance direct sales force, aimed at developing our share of the small business market, is producing encouraging results, with premium growth of 22% in 1985. During 1986, following successful pilot schemes, we shall be introducing a range of products carefully tailored to meet the needs of small businesses.

Vanbrugh

Total pre-tax profits in 1985 were £0.7m compared with £0.6m in 1984. New single premiums at £48.9m were almost exactly double those written during 1984 and new annual premiums increased by 58% to £3.8m. This growth was partly due to an increase in the number of our consultants in the field but more so to a greatly increased sales effort.

The Discretionary Managed Funds which we introduced during 1984 continue to enjoy broker support and contributed towards the growth of our life assurance business. On the pensions side, we introduced our "Small Self-Administered Scheme" in the early autumn of 1985 and this has successfully taken its place in our range of unit-linked pensions products.

Another innovation for Vanbrugh during 1985 was the introduction of Holborn Unit Trusts to our broker connections during the final quarter of the year.

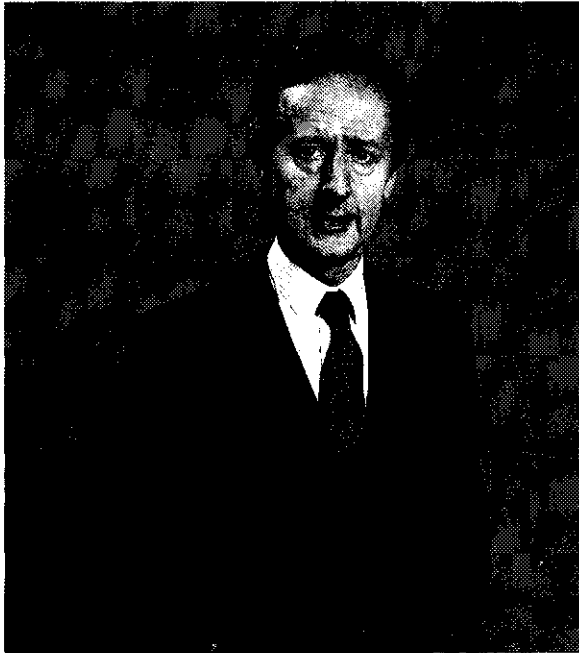
Prudential Property Services

In the summer of 1985 we acquired Ekins Dillely & Handley, a long established Huntingdon based firm of estate agents. From the beginning of 1986 this firm has been trading as Prudential Property Services and we have made known our intention of creating a national chain of estate agencies operating under this banner. An agreement was reached in March 1986 to acquire the old established Hampshire based firm of Pearsons & Co and negotiations are underway with a number of other firms.

Estate agency should be a profitable business in its own right. It will bring us opportunities to develop beneficial co-operation between a high street distribution system and our traditional field force operation. The sale and purchase of residential property is increasingly seen as an important opportunity to sell associated financial services, and such a chain could play an important role in promoting our profitable growth as a major supplier of a wide range of retail financial services.

As well as transactions in houses and associated financial services many estate agencies conduct commercial and professional businesses, and it is our intention that these should be retained and developed where this can be done profitably.





DEREK FELLOWS MANAGING DIRECTOR

UK GROUP PENSIONS DIVISION

Pre-tax profits for insured plans increased by £1.5m to £9.5m but for investment linked business were £0.9m lower at £1.1m. The latter change reflects further switches by major clients to a segregated fund basis of investment management. The funds so managed by Prudential Portfolio Managers, which are not included in the long-term business results, now form a significant part of the "other funds under management" shown on page 28.

Social Security Bill

The Government's proposals to reduce benefit levels in the State Earnings Related Pension Scheme and to permit contracting-out on the basis of a minimum level of contributions offer new opportunities for several million employees who currently have no private sector provision. A large number are employed in small groups and many others are in transient employment. Relatively straightforward money purchase plans with full portability, yet with some flexibility as to the choice of investment medium, will therefore be needed.

With our competitive with-profit cash accumulation and other contracts, we are well placed to help employers in setting up schemes as well as individual employees who wish to effect personal pensions. We have recently launched new unit-linked investment accounts for small self-administered schemes and we will be extending them in due course to embrace money purchase arrangements for individual employees.

Effect on existing schemes

One of the features of the Bill is that members of existing schemes will be able to opt out in favour of personal arrangements. Depending on the terms finally agreed for National Insurance contribution rebates for contracted-out schemes, the opportunity to opt out is likely to appeal to younger employees in particular, with possible de-stabilising effects on some existing defined benefit schemes run by employers.

It will therefore be important to see that the alternatives open to an individual are presented as fairly as possible and properly weighed in the balance. The task is a daunting

one, for there are many unknown factors involved, such as future rates of investment return and of earnings levels, not to mention the terms that will be available on retirement for purchase of a pension from the accumulated fund. We therefore strongly support the endeavours being made by life offices in the Association of British Insurers, and within the framework of the Financial Services Bill, to achieve a satisfactory basis for illustrations of potential benefits.

Administration

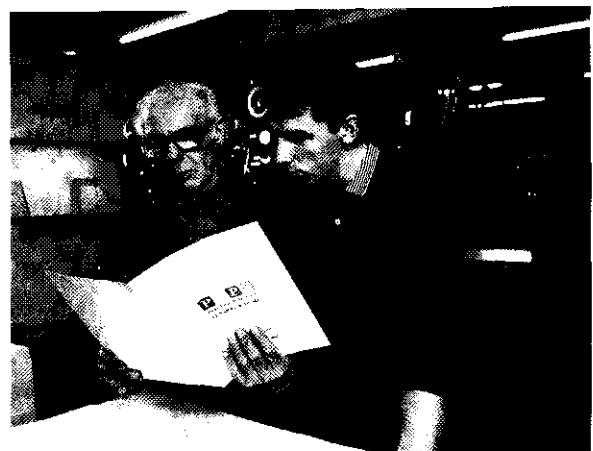
The Prudential's computerised administration system is one of the most advanced and efficient of its kind and is being extended to embrace the new "personal pensions" concepts. Administration and other pension scheme services are also available to corporate clients irrespective of whether assets are managed in our long-term business funds.

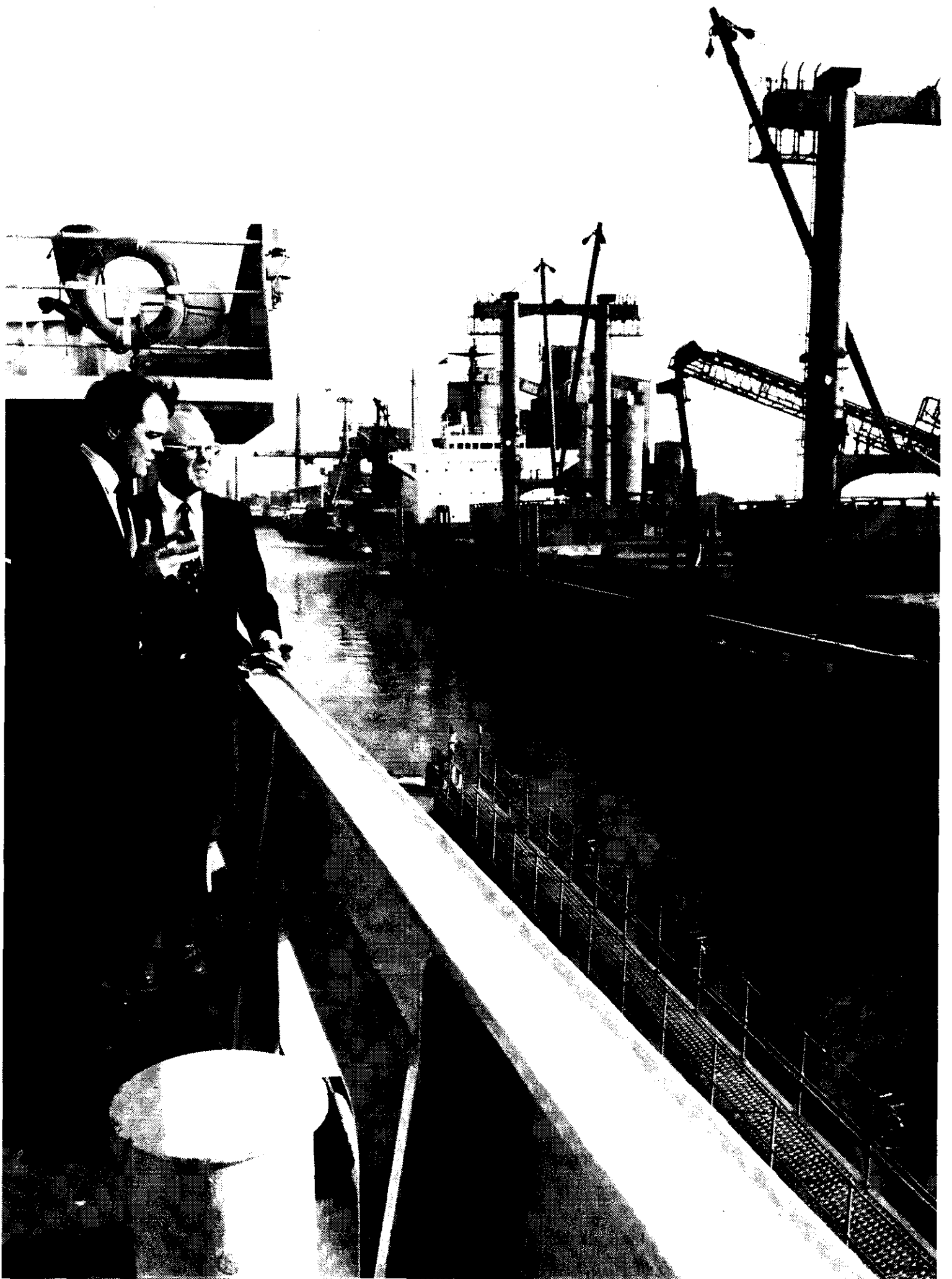
We are well placed to meet whatever demands may arise from the changing pensions scene.

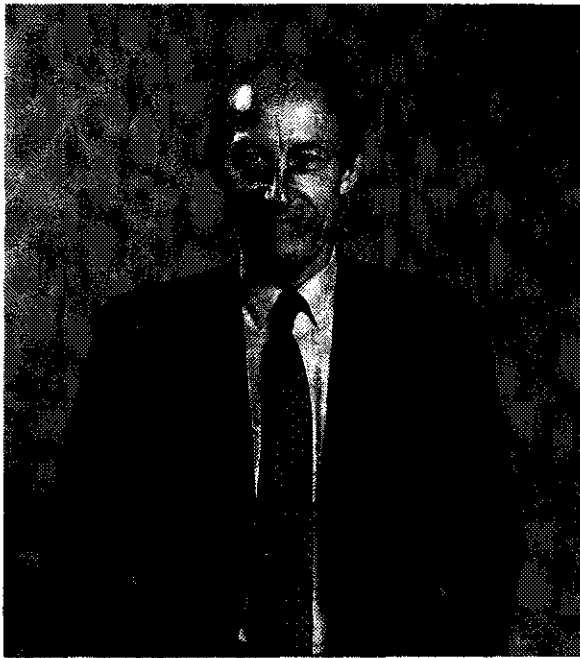
Printing Industry Pension Scheme

One of the objects of the Government's proposals is to facilitate the introduction of more industry-wide schemes. One such scheme, of major importance, is to start on 1 June 1986 and will be available to companies in all sectors of the printing industry who do not have private pension arrangements.

After two years of research, the British Printing Industries Federation and the two trade unions, NGA and SOGAT '82, have produced a scheme with attractive benefits and simplified administration procedures. We are pleased to have been involved in some of the more recent detailed planning and to have been appointed to administer the scheme and invest the contributions through our competitive money purchase with-profit contract.







BRIAN MEDHURST MANAGING DIRECTOR

OVERSEAS DIVISION

After the very satisfactory results in 1984, the Overseas division's results for 1985 are most disappointing. The pre-tax result from long-term and general insurance business combined deteriorated to a loss of £0.6m. General insurance business was the major cause of the set-back, with a large downturn in Canada being accompanied by some poor results elsewhere, notably our smaller European operations. Life profits increased substantially in local currency but the strength of sterling produced lower reported profits.

During the year we were delighted with our successful acquisition of Insurance Corporation of Ireland (Life) which we relaunched in September as Prudential Life of Ireland. This progressive company is a leader in the Irish unit-linked market and substantial, profitable growth is expected to make an increasingly valuable contribution to the division's results in coming years.

We have now completed the restructuring of our Canadian operations and the two new subsidiaries have started writing business. In addition, early in the year we acquired The Atlantic Insurance Company, a small Newfoundland general insurance company. We have also increased our shareholding in our associated Italian general insurance company.

The outlook for 1986 is brighter. We expect a substantial improvement in the results from our Canadian general insurance operations and we are taking action to restrict losses in Europe. The continuing growth of our life business is expected to be fairly reflected in our reported results and not seriously affected by exchange rate movements as in 1985.

Underlying growth in life profits

Pre-tax profits from life and pensions business rose by 14% at constant exchange rates, but fell in sterling terms by 17% to £11.9m. In local currency terms the largest profit growth came from Australia, following the substantial increases in sales in 1984 and 1985. As a result of continuing strong investment performance we have been able to maintain or increase our bonus rates in all our major areas.

Most countries recorded a substantial growth in new business. Australia was the most successful operation, but excellent results were also produced in South Africa by the group pensions team and in Hong Kong, where our growing agency force wrote 50% more new annual premiums than in 1984. New business in our new Irish subsidiary was another welcome addition.

Accident and disability expansion

The accident and disability pre-tax profit fell from £0.9m to £0.5m following exceptionally high claims during the second quarter at our Canadian subsidiary, Constellation. In October, Constellation took the opportunity to purchase the portfolio of one of its competitors to give a broader base for the future. Substantial growth of this business is occurring in Australia, associated with the increasing sales of life products.

Disappointing year for general insurance business

Difficult conditions in most areas produced a pre-tax trading loss on fire and casualty business of £13.0m compared with a profit of £12.7m in 1984. Of the main regional groupings only L'Escaut, our Belgian subsidiary, and our operations in the London market produced a trading profit for the year. Premium income increased by 9% in local currencies, reflecting limited success in revising rates from very unsatisfactory levels, but fell by 6% in sterling terms.

Following the excellent results of our Canadian operations in recent years, it is disappointing to report that the pre-tax trading result worsened from a profit of £8.0m in 1984 to a loss of £6.8m. A pronounced deterioration in market conditions became apparent in the latter part of 1984 and underwriting losses persisted throughout 1985. Our results were initially affected by severe winter weather, and continued to suffer from sharp increases in the number and average cost of motor claims. Premium income grew by 15%, mainly from rate increases but partly from modest, controlled growth in new business.

There was a continuation of the difficult conditions which have become a feature of the Belgian market but



L'Escaut again produced a satisfactory pre-tax trading profit of £2.7m compared with £3.7m in 1984. Buoyant investment income offset heavy underwriting losses on the fire and property accounts, but there was a small underwriting profit on the motor account.

Market conditions elsewhere in the EEC were difficult, and the results from most of the countries in which we operate were poor. Significant losses were reported in both France and the Netherlands in respect of claims occurring in prior years on business which has since been cancelled. Premium volume in these areas will contract as measures are introduced to improve control over the quality of the business and to restore profitability.

Elsewhere results have been adversely affected by difficult conditions in the Far East and large individual claims in Oman and the Cayman Islands. New Zealand has also suffered several major fire claims in addition to generally poor experience.

The results of the overseas business written in the London Market continued to improve, moving from a trading loss in 1984 to a profit in 1985. Much of the business is reinsurance which has benefited from earlier cutbacks and the improving market conditions. However, the results have been adversely affected by claims on old US treaties long since cancelled.

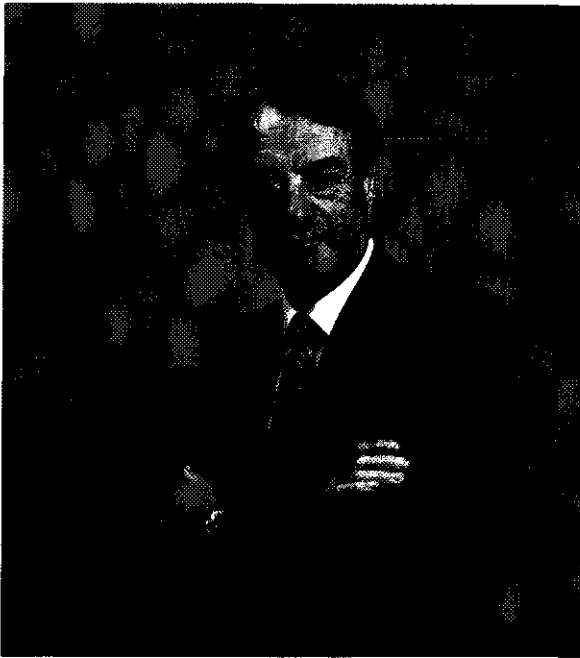
Improving our service to policyholders

Several of our operations made major new commitments to computer equipment during 1985. Our businesses are increasingly complex and we are striving to provide better service to our policyholders whilst holding down our operating costs in the long term. The new computer equipment is an important step in this strategy. Across the world, 1985 has been a year in which we have expanded our sales organisations, and we are looking forward to further growth in 1986.

Marine and Aviation

The deterioration from a trading profit before tax of £1.1m in 1984 to a loss of £0.6m in 1985 is disappointing in view of the continued discipline and hardening of premium rates within both the marine and aviation markets. The underlying results of current business are satisfactory, but marine has been affected by changes to the expense structure and aviation by strengthening of prior year reserves. Despite the negative effect of exchange rate movements, premiums written increased by 16% as the result of continued selective growth and our determination to improve rates whenever possible.





JOHN LOCK GENERAL MANAGER

MERCANTILE AND GENERAL REINSURANCE

1985 was a more encouraging year for the Mercantile and General Group with reduced losses from our general business and increased profits from our long-term business. We believe that the improved market conditions now prevailing will enable us to sustain the recovery in our general business results. Our financial position remains strong and the capital injection of £25m received from the parent company towards the end of the year has further improved that position. We believe that there will be good opportunities to achieve profitable growth in the immediate future, particularly in the USA both for long-term and general business. In anticipation of this we have used most of the additional capital to make a contribution of US\$25m to the shareholders' funds of our general business subsidiary in the USA.

Long-term business

Further increase in profits

Pre-tax profits from the long-term business of Mercantile and General showed a further increase to £25.2m, compared with £18.3m in 1984. This result reflects the underlying strength and good investment performance of the funds as well as our confidence in the continuing profitability of this business.

Worldwide revenue premiums in 1985 were significantly affected by the appreciation of sterling against the major currencies in which we write business. Premiums decreased in sterling terms by 13% to £203.4m but at constant exchange rates there were increases in revenue annual premiums of 8% for life business and 21% for continuous disability business. Single premiums on the other hand showed a significant reduction.

Apart from the effects of currency movements, new business was also reduced by our deliberate policy to cut back business in the USA and South Africa. Terms of trade for life reinsurance business in the USA had deteriorated sharply in the two previous years and our remedial action led to a sharp drop in new business written in 1985. Similarly, unprofitable experience arising from group life business in South Africa has led to us substantially reducing our acceptances in that

market. However, we believe that the terms on which we are now writing business in these two areas will produce satisfactory results and consider that the prospects for renewed growth are encouraging.

Quality of service

In today's highly competitive conditions we have no doubt that the quality of service offered by a life reinsurer is of paramount importance in attracting business and to this end we have continued to develop the technical services we provide to the life insurance industry. In the past year these services have included organising seminars and publishing technical booklets on matters of current importance to the industry.

General reinsurance business

Encouraging improvement in results

After the very heavy losses reported in last year's Accounts, 1985 showed an encouraging improvement, but further substantial progress is necessary before our results can be considered satisfactory. The general reinsurance trading loss before tax reduced from £62.4m in 1984 to £15.2m. Much of this reduction was due to the corrective action we have taken in recent years, the effectiveness of which is now being demonstrated by the emerging results of business we have written since 1983. Furthermore, the need to strengthen reserves to cover the run-off of business written in earlier years, whilst not eliminated, was considerably reduced.

For the insurance industry as a whole 1985 was the worst year on record for losses due to natural disasters and, in the USA, hurricanes Elena and Gloria alone accounted for claims of almost \$1 billion. Overall, catastrophe losses in the US market reached a record figure of over \$4 billion. There was also an unusually heavy incidence of major aviation losses and a further escalation of liability awards, particularly in the USA. Such losses underline the continuing need for substantial and secure





reinsurance capacity which in turn can be provided only when that business can be transacted at a profit over a period of time.

During the year we again carefully reviewed the run-off pattern of our portfolio in all classes of business and as a result we have substantially increased our provisions for accident proportional and marine business. At the end of 1985 our total technical reserves had risen to 175% of premium income compared with 165% at the close of the previous year.

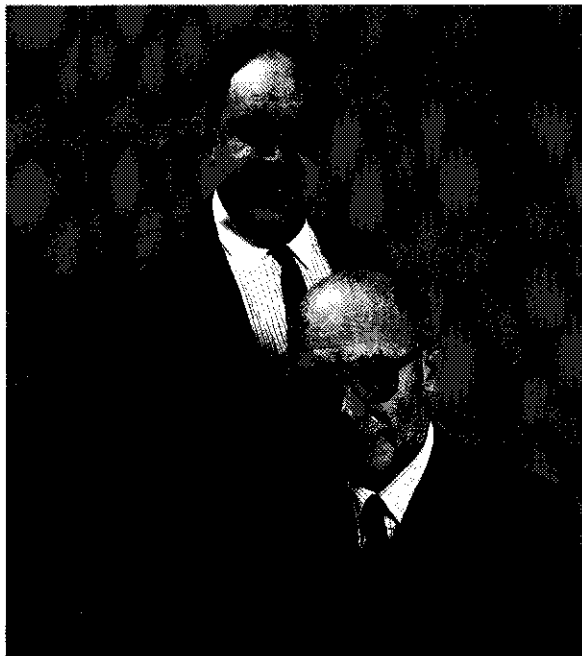
Revenue premiums in 1985 fell by 10% to £249.4m, although at constant exchange rates there was an increase of 4%. This reflects the combined impact of the pruning of the portfolio carried out over the last three years and the price increases we have obtained on recent business. Within this overall picture 1985 saw a significant increase in the premium income written by our US subsidiary which has benefited from rate increases both in the primary and the reinsurance markets.

We have been affected by the Inland Revenue's unilateral action whereby they withdrew their agreement with the UK insurance industry on technical reserves. As

a consequence certain inter-company reliefs which had been claimed in prior years have had to be reversed. The overall effect of this action has been to reduce retained earnings by £4.2m.

Looking ahead

Although there are too many markets where primary rates are inadequate there are indications of a general recovery in insurance business. In the reinsurance market the continuing contraction of capacity, the growing concern about security and the general improvement in terms of trade are all encouraging signs for Mercantile and General.



RON ARTUS CHAIRMAN (FOREGROUND)

MICK NEWMARCH CHIEF EXECUTIVE

PRUDENTIAL PORTFOLIO MANAGERS

The total market value of funds under management throughout the Group rose by £1.5 billion during 1985 to stand at £21.5 billion at the year end. The value of investments supporting the Group's long-term business funds increased, but the growth was restrained by the impact of adverse exchange rate movements during the year. There was a continuation of the trend, noted last year, for certain pension fund clients to switch from a pooled arrangement to having their investments managed on a segregated basis by Prudential Portfolio Managers (PPM). Accordingly, we saw significant growth in the category of "other funds under management". This category also benefited substantially from the inflow of funds arising from the launch of our unit trust business.

Emphasis on equity investment

During 1985 our investment policies for those of the Group's UK life funds under our management placed significant emphasis on equity investment, particularly in the UK, and on non-gilt fixed interest investment. In this latter area we have found very rewarding opportunities in the market for sterling bonds issued by foreign governments and other organisations – commonly known as "bulldogs". We also continued our practice of recent years, by realising further funds from our property portfolios for reinvestment elsewhere. In our "other funds under management", equity investment in both UK and overseas markets dominated our investment policies. Of course for many of the funds in this increasingly important category the decision to invest mainly in equities is taken by our clients. In particular this is true of our unit trusts.

"Unit Trust Group of the Year"

Our unit trust business was launched on 1 May by a new PPM subsidiary, Prudential Unit Trust Managers (PUTM), with three new trusts under the "Holborn" brand name being offered to the public for the first time. Backed by a most successful, and highly praised, marketing campaign and using the powerful resource of the UK

Individual division's field sales organisation the unit trust message was rapidly and successfully explained to tens of thousands of new investors.

Later in the year we launched five specialist trusts which we designed to attract more experienced investors and their professional intermediaries. These added impetus to the dramatic success achieved by the general funds in 1985. All funds during the year produced very competitive investment performance results and by the end of 1985 PUTM was selling more unit trusts than any other manager.

The bases of our success were a high level of customer service, easily understood literature and a determination to allow unit holders to benefit from full participation in PPM's substantial investment resources. We were very pleased to be made "Unit Trust Group of the Year" by the Sunday Telegraph which talked of our "great achievement" in attracting 30,000 investors who had never before purchased unit trusts.

Implications of our large size

1985 was a year which saw a significant heightening of take-over activity in the UK equity market with a series of vigorously contested bids attracting widespread attention for much of the year. We manage investments representing approximately 3.4% of the UK equity market for our various clients, and consequently we are invariably substantial shareholders in one or both companies involved in a bid. Under these circumstances we place great store on the need for careful fundamental research so that we can diligently exercise our voting rights in the best long term interests both of the funds we manage and of the companies concerned. We also place great emphasis on maintaining close and regular contacts with the managements of all companies in which we are a major investor so that we can monitor their progress on behalf of our clients.

Our future needs

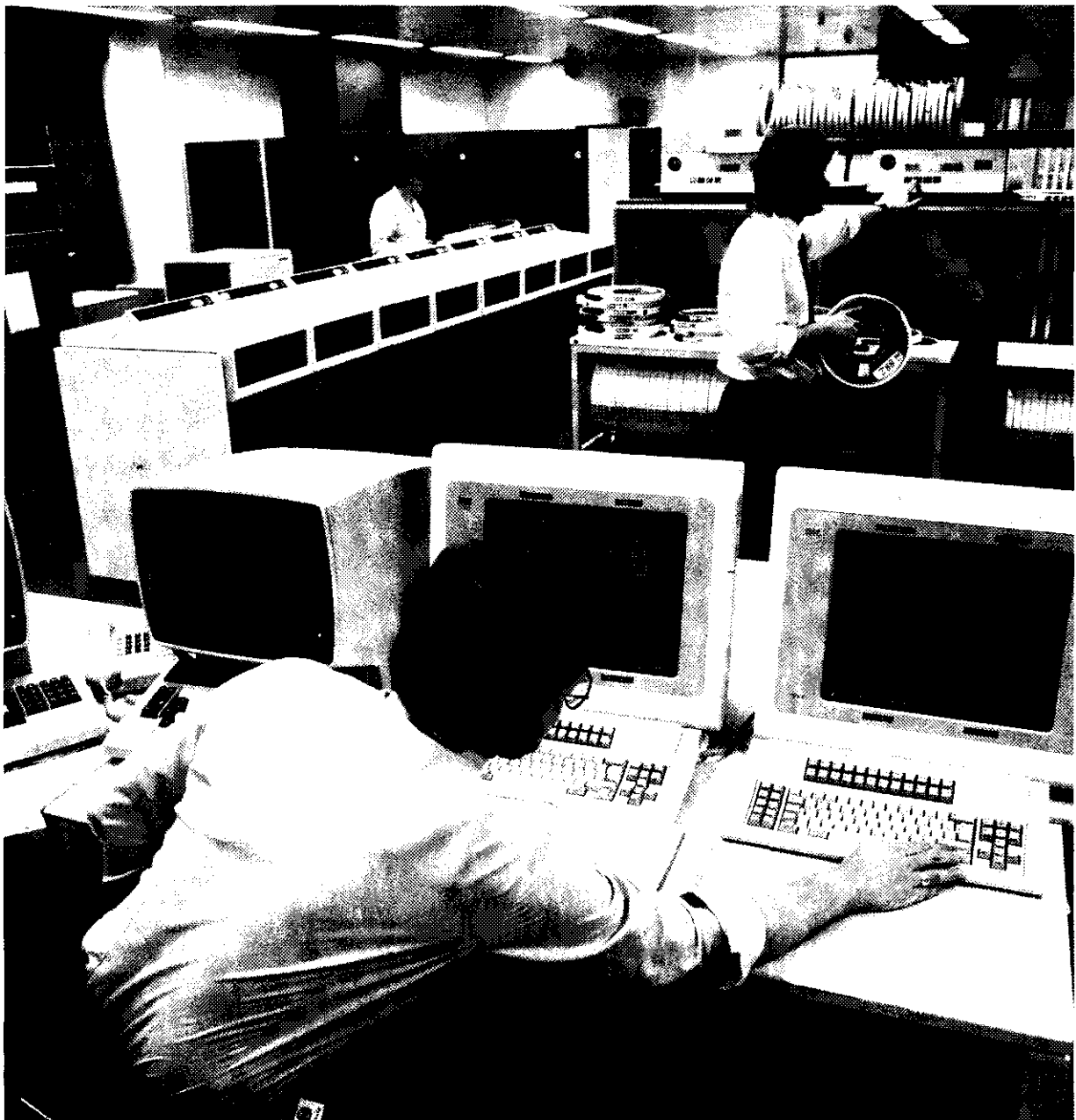
To sustain these ambitions we must motivate and retain an enthusiastic team of high calibre investment



professionals. In the City at present, given the pressures and excesses which are being stimulated by the onset of de-regulation, meeting that need is challenging. Nevertheless, we believe that our present team places us in a strong position to take advantage of future opportunities. We are also determined to ensure that they are given all the necessary modern tools to ensure that we can keep abreast of the increasingly complex technology of the City. To that end we plan a significant investment in new systems over the next year or so.

BUSINESS ANALYSIS OF THE GROUP

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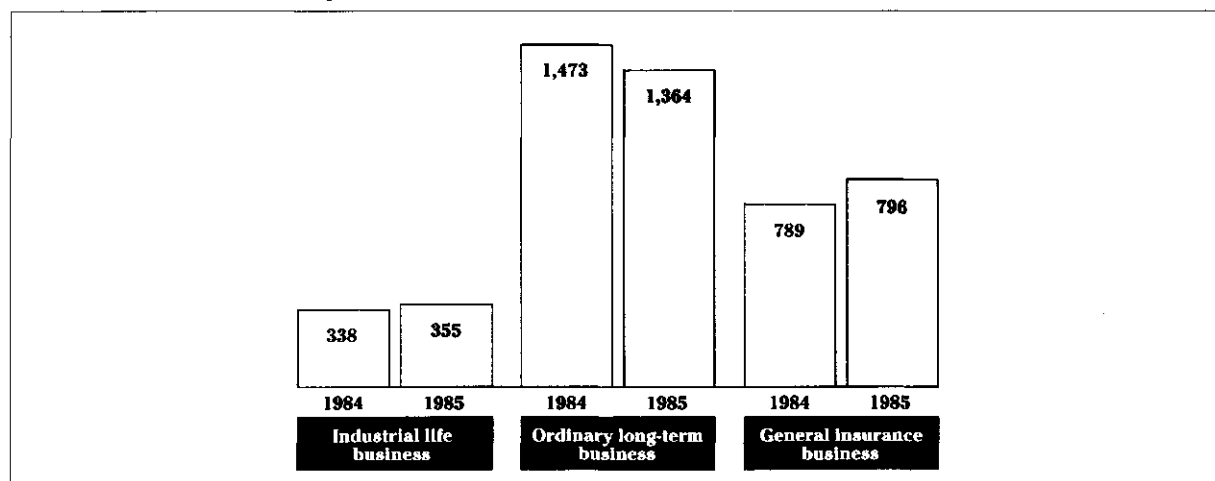


PREMIUM INCOME OF THE GROUP

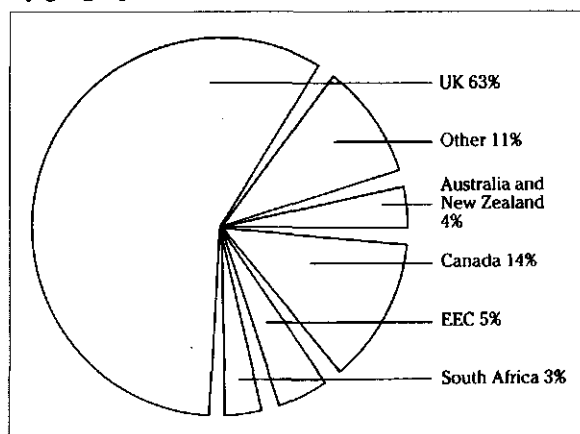
	Long-term business		General insurance business	
	1984 £m	1985 £m	1984 £m	1985 £m
UK Individual division -				
Prudential Assurance	860.0†	903.1	279.0	327.9
Vanbrugh	44.8	73.2	-	-
UK Group pensions division	166.9	145.0	-	-
Overseas division	505.1	394.4	232.6	218.5
Mercantile and General Reinsurance	234.7	203.4	276.9	249.4
	1,811.5	1,719.1	788.5	795.8

†All figures in the Business Analysis on pages 23 to 31 have been adjusted to remove the effect of the additional industrial life business payment date (see note on page 40)

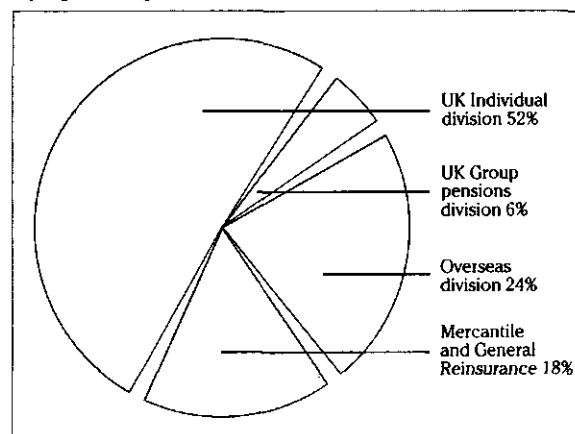
Premium income of the Group £m



By geographical area



By operating division



LONG-TERM BUSINESS

	1984 £m	1985 £m	% increase
Group total			
New business: Annual premiums	316.2	305.5	(3)
Single premiums	371.8	304.2	(18)
Revenue premium income	1,811.5†	1,719.1	(5)
Surplus for distribution	1,099.9	1,016.7	
Policyholders' bonuses *	1,011.3	928.3	
Shareholders' profit before tax *	136.1	137.7	

UK Individual division

Total

New business: Annual premiums	172.7	185.2	7
Single premiums	104.9	106.7	2
Revenue premium income	904.8†	976.3	8
Shareholders' profit before tax *	92.5	89.5	

Ordinary business

New business: Annual premiums	98.3	102.9	5
Single premiums	81.3	57.2	(30)
Revenue premium income	521.6	547.8	5
Shareholders' profit before tax *	51.5	53.9	

Industrial life business

New business: Annual premiums	72.0	78.5	9
Single premiums	0.1	0.6	500
Revenue premium income	338.4†	355.3	5
Shareholders' profit before tax *	41.0	35.5	

Vanbrugh

New business: Annual premiums	2.4	3.8	58
Single premiums	23.5	48.9	108
Revenue premium income	44.8	73.2	63
Shareholders' profit before tax	-	0.1	

† Adjusted to remove the effect of the additional industrial life business payment date (see note on page 40)

* Including non-recurrent amounts arising from special reversionary bonuses (see note 11 on page 43)

	1984 £m	1985 £m	% increase
UK Group pensions division			
Total			
New business: Annual premiums	37.3	29.2	(22)
Single premiums	21.1	30.4	44
Revenue premium income	166.9	145.0	(13)
Shareholders' profit before tax	10.0	10.6	

Insured plans

New business: Annual premiums	23.1	23.2	-
Single premiums	20.1	27.0	34
Revenue premium income	107.8	108.9	1
Shareholders' profit before tax	8.0	9.5	

Investment linked

New business: Annual premiums	14.2	6.0	(58)
Single premiums	1.0	3.4	240
Revenue premium income	59.1	36.1	(39)
Shareholders' profit before tax	2.0	1.1	

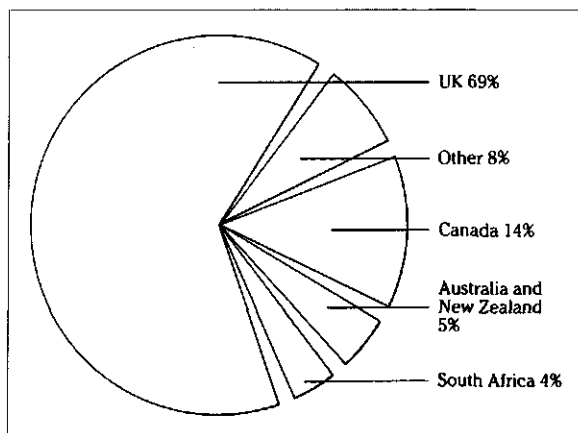
Overseas division

New business: Annual premiums	63.0	55.0	(13)
Single premiums	206.2	136.4	(34)
Revenue premium income: Canada	301.2	207.7	(31)
Australia and New Zealand	92.4	77.7	(16)
South Africa	66.1	47.2	(29)
Republic of Ireland	-	16.2	-
Other countries	45.4	45.6	-
Total	505.1	394.4	(22)
Shareholders' profit before tax	15.3	12.4	

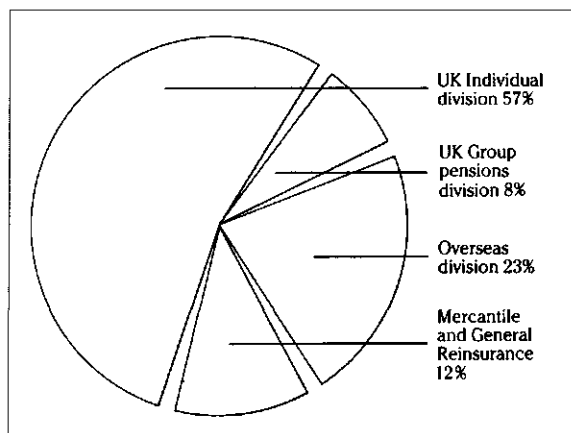
Mercantile and General Reinsurance

New business: Annual premiums	43.2	36.1	(16)
Single premiums	39.6	30.7	(22)
Revenue premium income	234.7	203.4	(13)
Shareholders' profit before tax	18.3	25.2	

Revenue premium income 1985
by geographical area



Revenue premium income 1985
by operating division

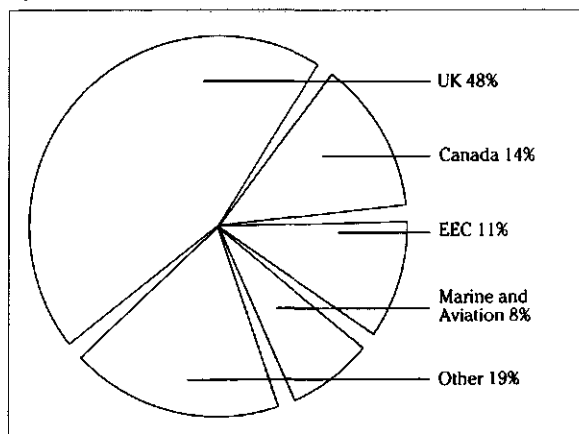


GENERAL INSURANCE BUSINESS

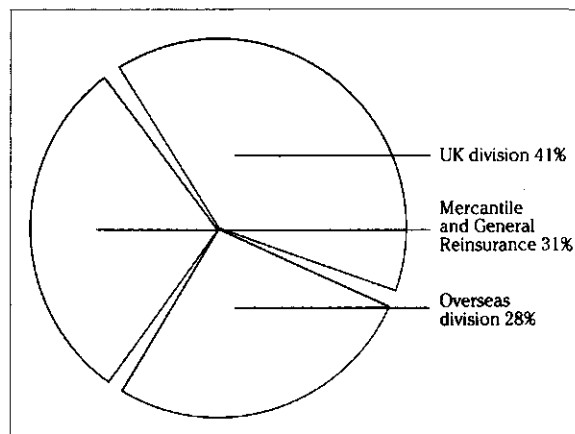
	1984 £m	1985 £m	% increase
Group total			
Premiums written	788.5	795.8	1
Underwriting result	(161.4)	(131.6)	
Investment income	81.5	78.2	(4)
Trading profit/(loss) before tax	(79.9)	(53.4)	
UK division			
Total			
Premiums written	279.0	327.9	18
Underwriting result	(54.8)	(47.8)	
Investment income	24.6	22.6	(8)
Trading profit/(loss) before tax	(30.2)	(25.2)	
Home Service – personal lines – domestic property			
Premiums written	120.9	132.7	10
Underwriting result	(15.6)	(15.2)	
Investment income	7.6	6.3	(17)
Trading profit/(loss) before tax	(8.0)	(8.9)	
Home Service – personal lines – motor			
Premiums written	49.7	52.8	6
Underwriting result	(5.6)	(7.7)	
Investment income	5.2	4.1	(21)
Trading profit/(loss) before tax	(0.4)	(3.6)	
Commercial and broker – personal lines			
Premiums written	30.2	39.6	31
Underwriting result	(6.0)	(8.7)	
Investment income	2.4	1.8	(25)
Trading profit/(loss) before tax	(3.6)	(6.9)	
Commercial and broker – commercial lines			
Premiums written	78.2	102.8	31
Underwriting result	(27.6)	(16.2)	
Investment income	9.4	10.4	11
Trading profit/(loss) before tax	(18.2)	(5.8)	
Mercantile and General Reinsurance			
Premiums written			
Parent company: Fire and accident proportional	137.9	116.1	(16)
Fire and accident non-proportional	42.6	37.2	(13)
Marine and aviation	29.5	35.0	19
Overseas subsidiaries	66.9	61.1	(9)
Total	276.9	249.4	(10)
Underwriting result			
Parent company: Fire and accident proportional	(27.6)	(24.4)	
Fire and accident non-proportional	(44.3)	(1.0)	
Marine and aviation	(8.9)	(14.5)	
Overseas subsidiaries	(12.8)	(7.3)	
Total	(93.6)	(47.2)	
Investment income	31.2	32.0	3
Trading profit/(loss) before tax	(62.4)	(15.2)	

	1984 £m	1985 £m	% increase
Overseas division			
Total			
Premiums written	232.6	218.5	(6)
Underwriting result	(13.0)	(36.6)	
Investment income	25.7	23.6	(8)
Trading profit/(loss) before tax	12.7	(13.0)	
Canada			
Premiums written	100.9	88.6	(12)
Underwriting result	(1.3)	(13.5)	
Investment income	9.3	6.7	(28)
Trading profit/(loss) before tax	8.0	(6.8)	
EEC			
Premiums written	51.2	56.4	10
Underwriting result	(3.9)	(13.6)	
Investment income	7.5	9.1	21
Trading profit/(loss) before tax	3.6	(4.5)	
Other countries			
Premiums written	19.5	17.0	(13)
Underwriting result	(0.5)	(3.3)	
Investment income	1.6	1.3	(19)
Trading profit/(loss) before tax	1.1	(2.0)	
London market - overseas			
Premiums written	34.8	26.0	(25)
Underwriting result	(5.8)	(3.0)	
Investment income	4.7	3.9	(17)
Trading profit/(loss) before tax	(1.1)	0.9	
Marine and Aviation			
Premiums written	26.2	30.5	16
Underwriting result	(1.5)	(3.2)	
Investment income	2.6	2.6	-
Trading profit/(loss) before tax	1.1	(0.6)	

**Premiums written in 1985
by geographical area**



**Premiums written in 1985
by operating division**



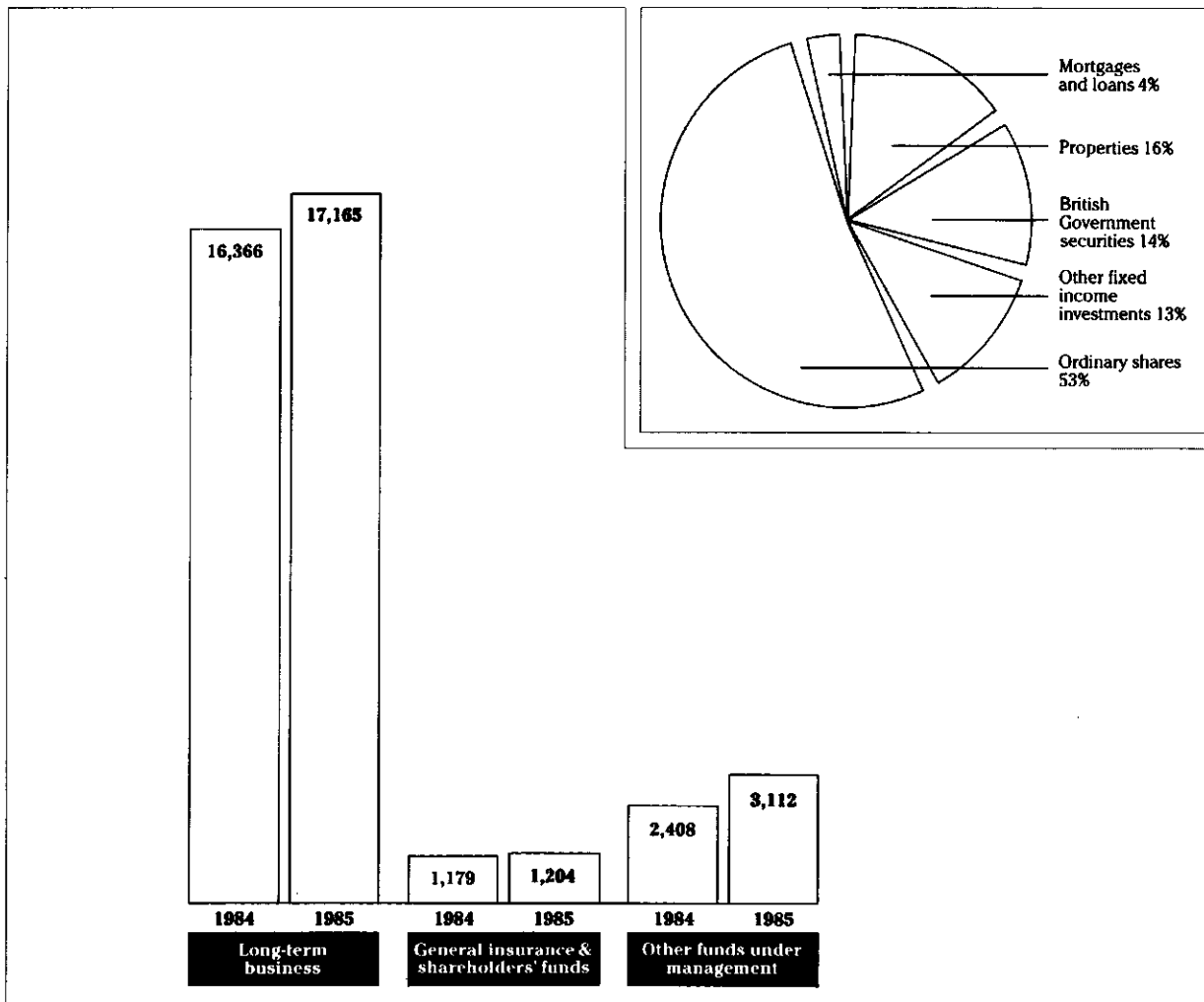
INVESTMENTS

Market values of investments under management

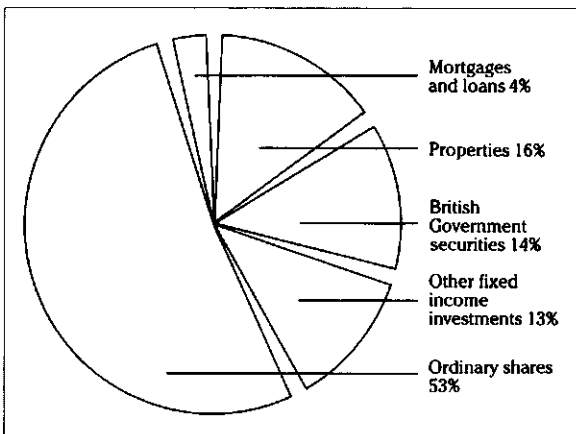
	Long-term business		General insurance & shareholders' funds		Other funds under management		Total	
	1984 \$m	1985 \$m	1984 \$m	1985 \$m	1984 \$m	1985 \$m	1984 \$m	1985 \$m
Ordinary shares	7,388	8,557	437	476	1,625	2,261	9,450	11,294
Properties	3,444	3,203	57	59	156	134	3,657	3,396
British Government securities	2,568	2,505	123	154	453	461	3,144	3,120
Other fixed income investments	2,185	2,141	522	476	170	253	2,877	2,870
Mortgages and loans	781	759	40	39	4	3	825	801
	16,366	17,165	1,179	1,204	2,408	3,112	19,953	21,481

Other funds under management referred to on pages 28 and 29 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 values by business sector \$m



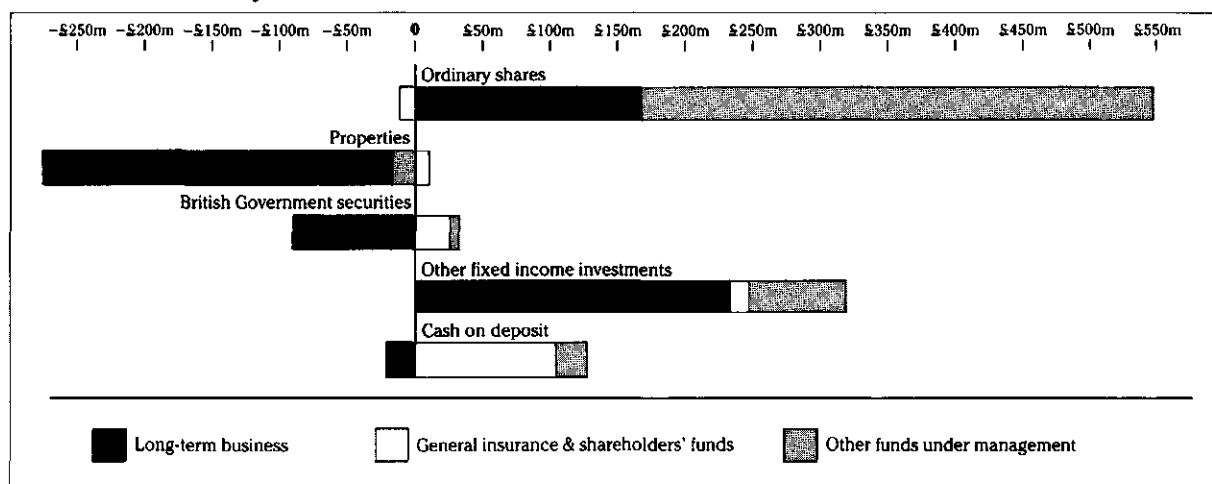
Market values by category of investments



Funds arising in the United Kingdom – net investment

	Long-term business		General insurance & shareholders' funds		Other funds under management	
	1984 £m	1985 £m	1984 £m	1985 £m	1984 £m	1985 £m
Ordinary shares	(26)	170	16	(12)	188	379
Properties	(111)	(256)	(14)	11	(4)	(17)
British Government securities	(47)	(89)	(3)	25	81	5
Other fixed income investments	215	234	(16)	15	33	70
Cash on deposit	21	(19)	(8)	108	9	25
	52	40	(25)	147	307	462

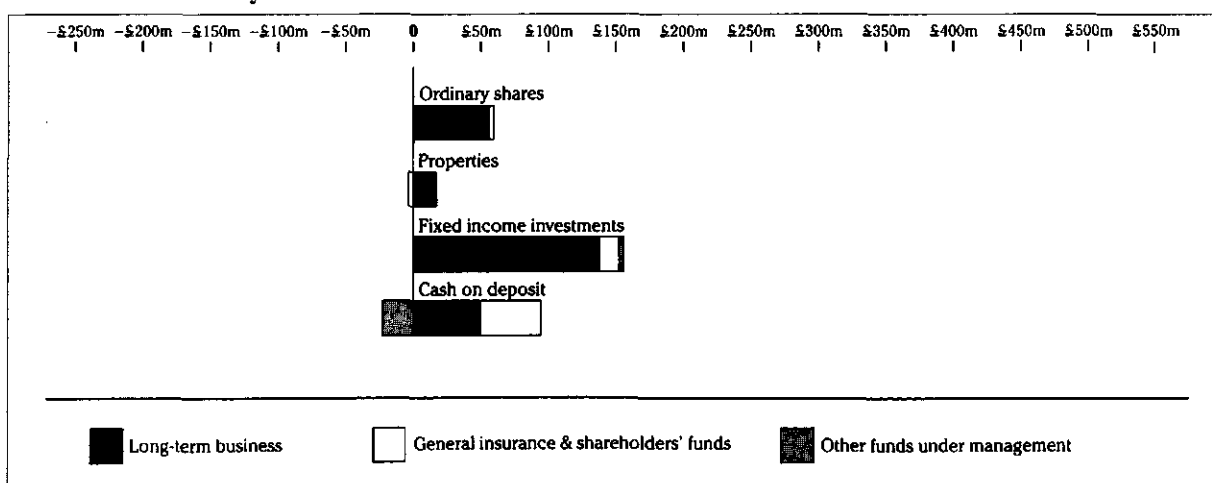
Net investment 1985 by business sector



Funds arising overseas – net investment

	Long-term business		General insurance & shareholders' funds		Other funds under management	
	1984 £m	1985 £m	1984 £m	1985 £m	1984 £m	1985 £m
Ordinary shares	(46)	56	3	2	-	-
Properties	-	19	3	(1)	-	-
Fixed income investments	373	137	57	14	2	1
Cash on deposit	(5)	51	19	46	(3)	(22)
	322	263	82	61	(1)	(21)

Net investment 1985 by business sector

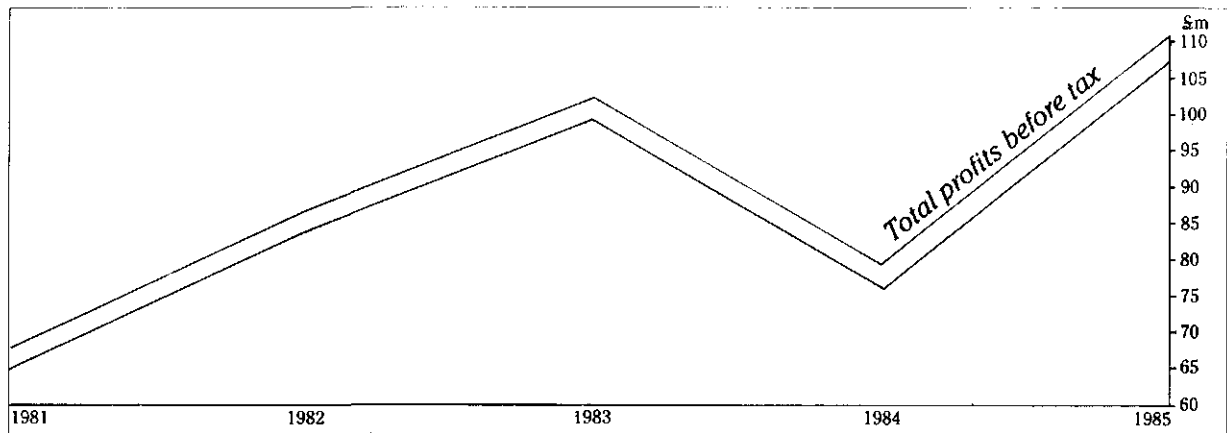


5 YEAR REVIEW OF GROUP RESULTS

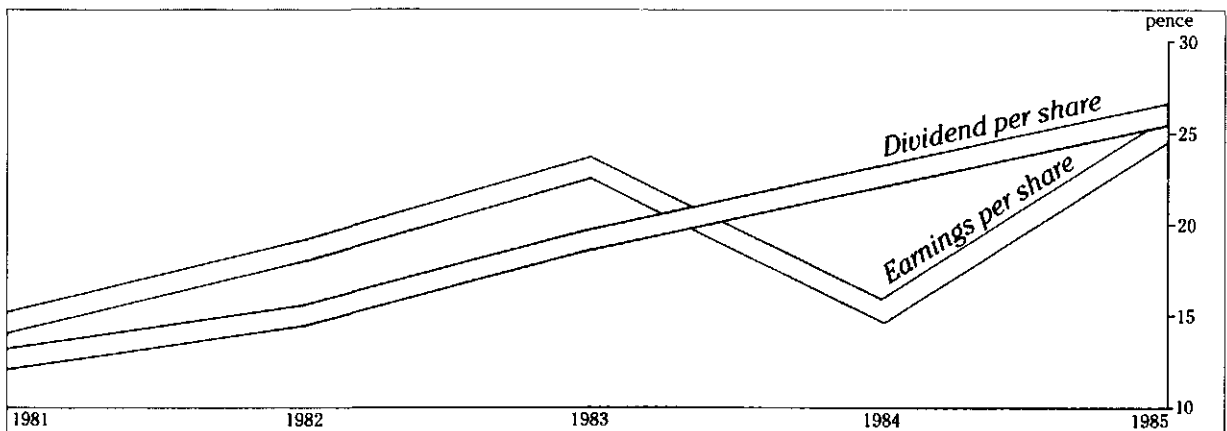
Summary of results

	1981	1982	1983	1984	1985
	£m	£m	£m	£m	£m
Profit before tax from					
Ordinary long-term business *	50.0	58.5	68.0	95.1	102.2
Industrial life business *	15.3	18.1	21.3	41.0	35.5
General insurance business	(16.7)	(7.3)	(7.6)	(79.9)	(53.4)
Shareholders' other income	18.0	16.1	19.4	21.8	24.3
Total profit before tax	66.6	85.4	101.1	78.0	108.6
Tax	(23.7)	(29.7)	(31.6)	(31.9)	(31.5)
Minority interests	0.3	(0.1)	(0.6)	(0.9)	(1.0)
Profit attributable to shareholders	43.2	55.6	68.9	45.2	76.1
Dividends	37.3	44.8	56.7	67.1	78.3
Transfer to/(from) retained profit	5.9	10.8	12.2	(21.9)	(2.2)

* Including non-recurrent amounts arising from special reversionary bonuses (see note 11 on page 43)



	1981	1982	1983	1984	1985
Earnings per share	14.5p	18.6p	23.1p	15.1p	25.3p
Dividend per share	12.5p	15.0p	19.0p	22.5p	26.0p



	1981 £m	1982 £m	1983 £m	1984 £m	1985 £m
--	------------	------------	------------	------------	------------

Ordinary long-term business

New business annual premiums	186.1	203.7	235.9	244.2	227.0
New business single premiums	140.7	209.1	276.9	371.7	303.6
Revenue premium income	958.1	1,083.3	1,222.3	1,473.1	1,363.8
Investment income	527.5	647.3	697.5	824.8	824.4
Policyholders' bonuses *	348.8	396.3	471.7	612.7	595.9
Shareholders' profit before tax *	50.0	58.5	68.0	95.1	102.2
Market value of investments	7,211.4	9,117.8	10,802.5	12,116.5	12,607.1

Industrial life business

New business annual premiums	65.8	75.7	72.3	72.0	78.5
New business single premiums	-	-	-	0.1	0.6
Revenue premium income	274.5	296.8	320.5	338.4†	355.3
Investment income	170.9	201.8	207.4	232.8	246.6
Policyholders' bonuses *	159.9	191.2	222.8	398.6	332.4
Shareholders' profit before tax *	15.3	18.1	21.3	41.0	35.5
Market value of investments	2,714.8	3,274.5	3,773.4	4,249.4	4,558.4

General insurance business

Premiums written	523.7	606.5	690.3	788.5	795.8
Underwriting result	(62.8)	(67.6)	(76.9)	(161.4)	(131.6)
Investment income	46.1	60.3	69.3	81.5	78.2
Trading profit/(loss) before tax	(16.7)	(7.3)	(7.6)	(79.9)	(53.4)
Market value of investments	484.5	630.7	719.4	786.4	793.8

Other income

Investment income	19.8	17.6	20.7	24.5	25.5
Miscellaneous net income	0.4	0.3	0.8	0.1	2.6
Expenses	(2.2)	(1.8)	(2.1)	(2.8)	(3.8)
Other income before tax	18.0	16.1	19.4	21.8	24.3

† Adjusted to remove the effect of the additional payment date (see note on page 40)

* Including non-recurrent amounts arising from special reversionary bonuses (see note 11 on page 43)

DIRECTORS' REPORT

for the year ended 31 December 1985

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 39.

A review of the Group's business appears in the Chairman's statement on pages 5 and 6, the Chief Executive's review on pages 7 and 8 and in the divisional reports on pages 9 to 21.

Accounts

The consolidated balance sheet on page 35 shows the state of affairs of the Group at 31 December 1985. The Company's balance sheet appears on page 36 and the consolidated profit and loss account on page 34. There is a five year review of the Group on pages 30 and 31.

Dividends

The directors have declared a final dividend for 1985 of 17p per share payable on 28 May 1986 to shareholders on the register at close of business on 30 April 1986. The dividend for the year, including the interim dividend of 9p per share paid in November 1985, amounts to 26p per share compared with 22.5p per share for 1984.

Directors

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

Mr D M C Donald, Mr E P Hatchett, Sir John Hogg TD and Sir Ronald Owen retired on 30 May 1985.

Sir Alex Jarratt CB, Mr D E Fellows FIA FPMI, Mr J A Freeman FCA FCMA and Mr B Medhurst FIA were elected directors as from 30 May 1985. Mr M G Newmarch was appointed a director as from 19 September 1985.

The directors retiring by rotation at the Annual General Meeting are Mr F B Corby FIA, The Rt Hon Lord Hunt of Tanworth GCB, Mr P E Moody CBE FIA, The Rt Hon J E Ramsden and The Rt Hon Lord Richardson of Duntisbourne KG PC. They offer themselves for re-election. Sir Peter Tennant CMG OBE also retires by rotation but does not offer himself for re-election.

Mr M G Newmarch who was appointed a director as from 19 September 1985 retires in accordance with the Articles of Association and offers himself for election.

Directors' shareholdings

Directors' interest in shares of the Company were as follows:

	On 31 Dec 1985	On 1 Jan 1985 (or later on appointment or election) Shares of 25p each
Lord Hunt of Tanworth	2,000	2,000
M D Abrahams	2,000	2,000
R E Artus	2,000	2,000
Sir John Butterfield	2,000	2,000
Lord Carr of Hadley	2,000	2,000
F B Corby	2,000	2,000
D S Craigen	2,000	2,000
D E Fellows (elected 30.5.85)	2,000	500
J A Freeman (elected 30.5.85)	2,000	1,000
Sir Victor Garland	2,000	2,000
W G Haslam	2,400	2,400
Sir Alex Jarratt (elected 30.5.85)	2,000	2,000
B Medhurst (elected 30.5.85)	2,000	1,000
P E Moody	2,000	2,000
J A S Neave	313,939	313,939
M G Newmarch (appointed 19.9.85)	2,500	-
J E Ramsden	2,400	2,400
Lord Richardson of Duntisbourne	2,000	2,000
R S Skerman	2,500	2,500
Sir Peter Tennant	2,400	2,400
F G Wood	2,345	2,345

NOTE: The shares above are beneficial interests except for 2000 in the name of Mr M G Newmarch

In addition to the interests shown above at 31 December 1985 the directors listed below held options to acquire shares under the Prudential Savings-Related Share Option Scheme.

	On 31 Dec 1985	On 1 Jan 1985 (or later on appointment or election) Shares of 25p each	Options exercisable
R E Artus	1,023	1,023	Oct 1988†
F B Corby	{ 1,023 665	{ 1,023 -	Oct 1988† April 1990*
J A Freeman	1,259	1,259	Oct 1990†
B Medhurst	1,259	1,259	Oct 1990†
M G Newmarch	{ 1,259 791	{ 1,259 791	Oct 1990† April 1992*
F G Wood	{ 1,023 665	{ 1,023 -	Oct 1988† April 1990*

†exercisable at 381p per share *exercisable at 556p per share

Under the Prudential Executive Share Option Scheme approved by shareholders, options to subscribe for shares of 25p each in the Company were granted on 16 October 1985 to executive directors as follows: Mr R E Artus 30,000 shares, Mr F B Corby 65,000 shares, Mr D E Fellows, Mr J A Freeman, Mr B Medhurst and Mr M G Newmarch 25,000 shares each. All the aforementioned options

continued to be held by directors at 31 December 1985. They are exercisable normally between October 1988 and October 1995 at 679p per share.

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

There has been no change in directors' shareholdings between 31 December 1985 and 31 March 1986.

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 1985 was 22,838 and the total remuneration was £263.5m.

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 and negotiation take place, as appropriate, with representative bodies of the staff and with various committees, and directly with the staff concerned. The board of the staff pension scheme of The Prudential Assurance Company Limited has directors elected by employees of that company.

1985 was a year in which a significant number of organisational, computer system and remuneration changes were introduced. Union representatives and employees affected by the changes were given the opportunity to ask questions about and to express an opinion on them. This process influenced both the nature of the change and the means of implementation on a significant number of occasions.

For the third year running employees were encouraged to participate in the savings-related share option scheme.

The Group considers that communication with employees is vital in providing a successful business environment. During the year, therefore, a review was carried out into the effectiveness of communication with the staff; this included an enquiry into employee opinion.

As a result we have now established communications objectives and are in the process of implementing plans based, in many instances, upon views expressed by the staff.

Donations

During the year the Company and its subsidiaries gave \$299,000 in the United Kingdom and £109,000 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:

	1985	1984
	28,729	28,552

Substantial shareholders

As far as the directors were aware at 31 March 1986 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 1985

	1985 %	1984 %
Banks and other nominee companies	44.6	43.6
Insurance companies	13.3	13.7
Pension funds	21.8	21.1
Investment trusts and unit trusts	0.8	1.4
Other corporations	4.3	4.1
Individuals	15.2	16.1
	100.0	100.0

By order of the board of directors

D F Roper
Secretary

16 April 1986

CONSOLIDATED PROFIT AND LOSS ACCOUNT
year ended 31 December 1985

	Note	1985 £m	1984 £m
Profit before tax from			
Ordinary long-term business	4 & 11	102.2	95.1
Industrial life business	4 & 11	35.5	41.0
General insurance business	4 & 12	(53.4)	(79.9)
Shareholders' other income	14	24.3	21.8
Profit for the year before tax and minority interests	16	108.6	78.0
Tax	5	31.5	31.9
Minority interests	3	1.0	0.9
		32.5	32.8
Profit attributable to shareholders	9	76.1	45.2
Dividends			
Interim		27.1	22.4
Final		51.2	44.7
		78.3	67.1
Transfer from retained profit		(2.2)	(21.9)
Earnings per share		25.3p	15.1p
Based on earnings of £76.1m (£45.2m) and 301.3m (298.4m) shares			

Retained profit and reserves

Balance at beginning of year as previously reported		131.4	122.2
Prior year adjustment	1 & 12	4.9	4.9
Balance at beginning of year as restated		136.3	127.1
Transfer to profit and loss account		(2.2)	(21.9)
Movement in investment reserves for the year		(12.1)	32.5
Goodwill written off	10	(4.0)	(0.9)
Transfer to general insurance investment reserves		(3.9)	(0.5)
Balance at end of year		114.1	136.3

CONSOLIDATED BALANCE SHEET
31 December 1985

	Note	1985 £m	1984 £m
Investments			
Ordinary shares		9,033.5	7,824.9
Properties		3,262.1	3,500.6
British Government securities		2,659.1	2,691.0
Other fixed income securities		2,617.0	2,706.7
Mortgages and loans		797.7	821.4
		18,369.4	17,544.6
Other assets			
Tax recoverable		63.1	51.8
Debtors		671.3	638.3
Deposits, bank balances and cash		899.1	732.4
		20,002.9	18,967.1
<i>Less</i>			
Other liabilities and provisions			
Outstanding claims		394.0	373.5
Other creditors		313.4	283.4
Loans in overseas currencies	13	349.9	355.8
Bank loans and overdrafts	13	37.4	61.1
Taxation		26.7	29.8
Deferred taxation	5	21.5	28.4
Loan stocks	13	100.5	1.7
Final dividend		51.2	44.7
		1,294.6	1,178.4
		18,708.3	17,788.7
<i>Less</i>			
Insurance funds and reserves			
Ordinary long-term business	4	12,863.1	12,315.4
Industrial life business	4	4,574.0	4,210.0
General insurance business	4	903.2	885.5
		18,340.3	17,410.9
		368.0	377.8
<i>Less</i>			
Minority interests			
	3	3.9	4.1
		364.1	373.7
Capital and reserves			
Called up share capital	7	75.3	74.6
Share premium	8	46.4	46.4
Revaluation reserves		128.3	116.4
Retained profit and reserves		114.1	136.3
		364.1	373.7

BALANCE SHEET OF THE COMPANY

31 December 1985

	Note	1985 £m	1984 £m
Fixed assets			
Investments	17		
Shares in group companies		74.6	74.6
British Government securities		27.6	14.3
Other fixed income securities		3.2	-
		105.4	88.9
Current assets			
Debtors			
Tax recoverable		0.2	0.3
Amounts owed by subsidiaries		94.2	45.8
Other debtors		0.4	0.3
Cash at bank		56.2	9.2
		151.0	55.6
Creditors: amounts falling due within one year			
Amounts due to subsidiaries		-	1.5
Other creditors		3.9	0.1
Final dividend		51.2	44.7
		55.1	46.3
Net current assets		95.9	9.3
Total assets less current liabilities		201.3	98.2
Creditors: amounts falling due after more than one year			
Loan stock	13	100.0	-
Provisions for liabilities and charges			
Deferred taxation	5	0.1	0.1
		101.2	98.1
Capital and reserves			
Called up share capital	7	75.3	74.6
Revaluation reserve		0.4	0.2
Profit and loss account		25.5	23.3
		101.2	98.1

The accounts on pages 34 to 45 were approved on 16 April 1986

Hunt of Tanworth *Chairman*

F B Corby *Director and Chief Executive*

SOURCE AND APPLICATION OF FUNDS
(as applicable to shareholders) year ended 31 December 1985

		1985 £m	1984 £m
Movements in shareholders' funds			
Profit attributable to shareholders after tax		76.1	45.2
Increase in unrealised appreciation of investments		51.3	32.1
(Decrease)/increase in investment reserves		(34.9)	25.0
Called up share capital		0.7	-
Dividends (see note 2 below)		(78.3)	(67.1)
		14.9	35.2
Increase/(decrease) in net assets			
Investments	Net cash invested	54.9	45.3
	Realised gains and unrealised appreciation	(29.9)	102.3
		25.0	147.6
Technical reserves	General insurance fund	6.8	(194.8)
	Outstanding claims	(26.8)	(50.9)
		(20.0)	(245.7)
Other assets/liabilities	Debtors	12.2	129.0
	Net tax recoverable	(1.6)	21.5
	Loan stocks	(98.8)	0.2
	Other creditors	(51.5)	(38.4)
	Minority interests	0.2	0.6
		(139.5)	112.9
Net liquid funds	Deposits, bank balances and cash	164.5	22.0
	Bank loans and overdrafts	(15.1)	(1.6)
		149.4	20.4
		14.9	35.2
Shareholders' funds			
Shareholders' funds at 1 January		540.0	504.8
Movement for year (see above)		14.9	35.2
Shareholders' funds at 31 December		554.9	540.0
Analysed as:			
	Shareholders' capital and reserves (see page 35)	364.1	373.7
	General insurance - investment reserves (see page 41)	25.8	40.7
	- revaluation reserves (see page 41)	165.0	125.6
		554.9	540.0

Notes

- (1) The format of this statement has been changed to provide more information on the movement in shareholders' capital resources.
- (2) Dividends paid in the year totalled £71.8m (1984 - £62.7m). The figure shown in the statement is the amount provided in the accounts for the current year's dividend.

NOTES ON THE ACCOUNTS

1. Change in accounting policy

The accounting policy on discounting liabilities, previously applied to accident non-proportional reinsurance business, has been extended to the discrete liability class direct business of the Group (see note 2(j) below). Comparative figures have been restated accordingly.

2. Group accounting policies

(a) Disclosure requirements

The accounts are prepared in accordance with the provisions of Part VII Chapter II of, and Schedule 9 to, the Companies Act 1985, with the exception of the balance sheet of the Company on page 36, which is prepared in accordance with Part VII Chapter I and Schedule 4.

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 Act 1985.

(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 19(4) and (7) of Schedule 9 to the Companies Act 1985 are omitted.

The results of subsidiaries acquired or disposed of are normally brought into the accounts from the date of acquisition or up to the date of disposal. However, in 1985 the acquisition of Prudential Life of Ireland Limited was accounted for as a merger (see note 18).

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 5.

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 41. 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.

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.

For all funded business, 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 and the claims expected on unexpired risks. No surpluses are transferred from the funds during the first two development years of any underwriting year.

Liabilities relating to accident non-proportional reinsurance business and to discrete liability class direct business are discounted to take account of the estimated period over which premiums are received and claims are paid. The effect is set out in note 12.

(k) Fixed assets and depreciation

Major items of capital expenditure on equipment and computer development costs are amortised by equal annual instalments over their estimated useful lives. Other assets including motor vehicles, furniture and office equipment are written off in the year of purchase.

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

(l) Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are capitalised as if they had been purchased outright. Commitments under finance leases are included within other creditors.

Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account.

For other leases the annual rentals payable/receivable are charged/credited to the appropriate revenue account or to profit and loss account.

(m) 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. Deferred taxation has not been provided on earnings retained overseas.

(n) 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 pic	Shares £1	Scotland (operating principally in UK)
Prudasco Inc.	Common Shares Can\$1	Canada
The Prudential Assurance Company Limited	Shares 25p	England
The Prudential Assurance Company of South Africa Limited	Shares 10c (64.45%)	South Africa
Prudential Life of Ireland Limited	Ordinary Shares IR£1 (95%)	Ireland
Prudential Pensions Limited	Shares £1	England
Prudential Portfolio Managers Limited	Ordinary Shares £1	England
Vanbrugh Group 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		Industrial life business	
		1985 £m	1984 £m	1985 £m	1984 £m
Premium income		1,363.8	1,473.1	355.3	364.4†
Investment income	15	824.5	824.8	246.6	232.8
Transfer from investment and revaluation reserves		317.8	295.9	200.8	260.0
Increase in value of investments related to linked business		201.6	193.3	-	-
		2,707.7	2,787.1	802.7	857.2
<i>Less</i>					
Claims and surrenders		1,389.7	1,381.6	412.4	347.2
Commission and expenses		323.2	340.7	147.3	137.8
Tax	5	68.6	53.9	23.4	23.4
Increase/(decrease) in insurance liability		265.7	336.8	(136.6)	(77.0)
		2,047.2	2,113.0	446.5	431.4
Surplus for distribution		660.5	674.1	356.2	425.8
Policyholders' bonuses	11	595.9	612.7	332.4	398.6
Shareholders' profit after tax	11	64.6	61.4	23.8	27.2
Shareholders' tax	2h	37.6	33.7	11.7	13.8
Transfers of shareholders' profit and attributable tax to the consolidated profit and loss account		102.2	95.1	35.5	41.0

†In 1984 there were fourteen due dates for payment of industrial life business four-weekly premiums. Some £26m of the 1984 premium income was 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 23 to 31.

Long-term business balance sheets

Investments					
Ordinary shares		5,964.6	5,136.1	2,592.7	2,251.7
Properties		2,284.4	2,477.6	918.6	966.4
British Government securities		1,821.1	1,827.2	683.7	740.9
Other fixed income securities		1,917.8	2,019.6	223.5	165.3
Mortgages and loans		619.2	656.0	139.9	125.1
		12,607.1	12,116.5	4,558.4	4,249.4
Other assets					
Tax recoverable		50.0	27.1	3.8	4.6
Debtors		307.5	328.9	91.4	63.4
Deposits, bank balances and cash		520.3	513.0	135.6	100.2
		13,484.9	12,985.5	4,789.2	4,417.6
<i>Less</i>					
Other liabilities and provisions					
Outstanding claims		73.0	80.8	12.9	11.4
Other creditors		241.9	244.2	58.5	85.4
Loans in overseas currencies	13	253.3	255.4	96.6	100.4
Bank loans and overdrafts	13	16.4	51.2	38.5	2.0
Taxation		25.6	25.0	-	0.1
Deferred taxation		11.6	13.5	8.7	8.3
		621.8	670.1	215.2	207.6
		12,863.1	12,315.4	4,574.0	4,210.0
Insurance funds		9,440.5	9,180.4	2,427.8	2,232.1
Investment and revaluation reserves		3,422.6	3,135.0	2,146.2	1,977.9
		12,863.1	12,315.4	4,574.0	4,210.0

General insurance business revenue account

	Note	1985 £m	1984 £m
Premiums written		795.8	788.5
Less: increase in insurance liability		77.4	143.0
		718.4	645.5
Less			
Claims	2j	566.9	530.9
Commission		148.4	148.3
Expenses		134.7	127.7
		850.0	806.9
Underwriting result		(131.6)	(161.4)
Investment income	15	78.2	81.5
Transfer from consolidated profit and loss account		(53.4)	(79.9)

Shareholders' and general insurance business balance sheets

	Note	Shareholders' 1985 £m	1984 £m	General insurance business 1985 £m	1984 £m
Investments					
Ordinary shares		246.3	263.0	229.9	174.1
Properties		48.0	37.3	11.1	19.3
British Government securities		38.4	23.8	115.9	99.2
Other fixed income securities		74.9	65.7	400.8	456.0
Mortgages and loans		2.4	2.6	36.1	37.8
		410.0	392.4	793.8	786.4
Other assets					
Tax recoverable		2.5	20.0	8.3	-
Debtors		94.1	52.5	360.8	371.0
Deposits, bank balances and cash		109.2	20.0	162.6	100.6
		615.8	484.9	1,325.5	1,258.0
Less					
Other liabilities and provisions					
Outstanding claims		-	-	308.2	281.4
Other creditors		89.8	48.6	105.6	82.6
Bank loans and overdrafts	13	0.6	2.7	10.4	6.5
Deferred taxation		3.3	6.7	(2.0)	-
Taxation		2.4	2.7	0.1	2.0
Loan stocks	13	100.5	1.7	-	-
Final dividend		51.2	44.7	-	-
		247.8	107.1	422.3	372.5
		368.0	377.8	903.2	885.5
Less					
Minority interests	3	3.9	4.1	-	-
		364.1	373.7	903.2	885.5
Shareholders' funds	5	364.1	373.7	-	-
General insurance fund	12	-	-	712.4	719.2
General insurance investment reserves		-	-	25.8	40.7
General insurance revaluation reserves	5	-	-	165.0	125.6
		364.1	373.7	903.2	885.5

5. 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 34 and in the revenue accounts (see note 4 pages 40 and 41). Corporation tax has been charged at 45% less reliefs for the period up to 31 March 1985 and 40% less reliefs for the period 1 April to 31 December 1985 (50% and 45% for the corresponding periods of 1984):

	Ordinary long-term business		Industrial life business		General insurance and shareholders	
	1985 £m	1984 £m	1985 £m	1984 £m	1985 £m	1984 £m
Corporation tax	21.4	9.8	1.5	(0.7)	(12.4)	(33.3)
Double taxation relief	(2.3)	(1.2)	(1.3)	-	(4.0)	(0.1)
Tax on franked investment income	19.1	8.6	0.2	(0.7)	(16.4)	(33.4)
Overseas tax	33.6	26.1	23.4	18.2	6.2	5.6
	21.8	20.5	1.4	1.4	(2.8)	7.1
Adjustments re prior years	74.5 (4.0)	55.2 4.8	25.0 (2.0)	18.9 1.2	(13.0) 0.6	(20.7) 8.8
Deferred taxation	70.5	60.0	23.0	20.1	(12.4)	(11.9)
Current year	(0.9)	0.6	0.8	2.4	(5.8)	(2.5)
Prior years	(1.0)	(6.7)	(0.4)	0.9	0.4	(1.2)
Shareholders' attributable tax	68.6 (37.6)	53.9 (33.7)	23.4 (11.7)	23.4 (13.8)	(17.8) 49.3	(15.6) 47.5
	31.0	20.2	11.7	9.6	31.5	31.9

Tax on capital gains charged in the year against investment reserves including group relief amounts to £35m (£38m).

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:

	Potential liability	Amount provided	Potential liability	Amount provided
	1985 £m	1985 £m	1984 £m	1984 £m
Short-term timing differences	23.0	23.0	24.9	24.9
Capital allowances	18.2	3.3	19.8	5.4
General insurance business reserves	(2.1)	(4.8)	6.4	(1.9)
	39.1	21.5	51.1	28.4
Maximum tax payable if investments were disposed of at the values shown:				
Ordinary long-term business	489.4	-	435.3	-
Industrial life business	666.0	-	631.6	-
General insurance and shareholders	80.4	-	84.8	-
	1,235.8	-	1,151.7	-
	1,274.9	21.5	1,202.8	28.4

6. Major shareholdings

The Group holds shares in 64 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 50 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, 32 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 disclosed (see note 2(b)).

7. Share capital

The Company's authorised share capital is £87,500,000 in 350,000,000 shares of 25p each of which 301,286,621 shares have been allotted, called up and fully paid. On 25 June 1985 the Company issued 2,891,850 shares of 25p each fully paid by way of a vendor placing as part consideration for the acquisition of Prudential Life of Ireland Limited (formerly The Insurance Corporation of Ireland (Life) Limited), 5,930 shares of 25p each were allotted during 1985 to persons entitled under the Prudential Savings-Related Share Option Scheme for a consideration of £22,627.

Under the Share Option Scheme employees in the Group have options over 1,901,501 shares at a subscription price of 381p, 160,952 shares at a subscription price of 425p and 475,693 shares at a subscription price of 556p. Subject to the rules of the scheme the options are normally exercisable in October 1988, March 1989, April 1990, October 1990, March 1991 and April 1992.

Under the Executive Share Option Scheme approved by shareholders, options to subscribe for 855,000 shares in the Company were granted on 16 October 1985. These options are normally exercisable from 1988 to 1995 at a subscription price of 679p per share.

8. Share premium

The share premium shown in the consolidated balance sheet is that of the Company's subsidiary, The Prudential Assurance Company Limited.

9. Profit of the Company

	1985 £m	1984 £m
Profit of the Company for the year after tax	80.5	68.0
Less dividends	78.3	67.1
Movement in retained profit of the Company	2.2	0.9

10. Goodwill

Goodwill of £4.0m arising on the acquisition of a subsidiary has been written off against retained profit and reserves.

11. Long-term business

The amounts shown in respect of policyholders' bonuses and shareholders' profits 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 largely non-recurrent amounts of £6m (£9m) in respect of ordinary long-term business and £7m (£15m) in respect of industrial life business.

12. General insurance business

The effect of extending discounting to discrete liability class business is to reduce the general business liabilities at 31 December 1985 by £4.7m (£4.5m) and to increase the group profit before tax by £0.2m (*nil*).

The overall effect of discounting, which has been applied at a rate of 5%, is to reduce the general business fund at 31 December 1985 by £50.4m (£53.3m) and to increase the group profit before tax by £1.1m (£22.2m).

The results for 1984 have been restated, increasing shareholders' retained profits and reserves at 1 January 1985 by £4.9m.

13. Loans

Of the loans in overseas currencies, an amount of £332.2m relates to unsecured loans falling due for settlement during 1986. Loans amounting to £17.7m are secured on overseas properties at rates of interest of 8% and 8.25% and are repayable as follows:

	£m
In one year or less	0.6
Between one and two years	0.6
Between two and five years	14.8
In five years or more	1.7
	17.7

Bank loans and overdrafts are repayable within one year, or on demand.

During the year the Company issued floating rate notes amounting to £100m repayable in 1995. A subsidiary has a 5% loan stock of £0.5m repayable in 1988 secured by a floating charge on its assets.

14. Shareholders' other income

	1985 £m	1984 £m
Investment income	25.5	24.5
Miscellaneous net income	2.6	0.1
Expenses	(3.8)	(2.8)
	24.3	21.8

15. 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:

	1985 £m	1984 £m
Loans repayable within 5 years	32.0	35.7
Others	2.7	0.3

16. Investment reserves

A provision of £5.0m (£13.4m) has been charged against general insurance investment reserves in the specialist reinsurance subsidiary. This relates to claims of an exceptional nature (principally asbestosis) arising from business written in previous years.

17. Investments of the Company

	British Government securities £m	Other fixed income securities £m
Market value at beginning of year	14.3	-
Less unrealised appreciation at beginning of year	0.2	-
Cost at beginning of year	14.1	-
Additions at cost	38.4	13.2
Sales at cost	(25.3)	(10.0)
Cost at end of year	27.2	3.2
Unrealised appreciation at end of year	0.4	-
Market value at end of year	27.6	3.2

All fixed income securities were quoted on recognised stock exchanges.

There have been no movements during 1985 in shares in group companies.

18. Prudential Life of Ireland Limited

During 1985 the Company acquired the whole of the share capital of The Insurance Corporation of Ireland (Life) Limited. The fair value of the consideration given was \$21.9m, which took the form of 2,891,850 shares of 25p each in the Company at a value of \$19.7m and \$2.2m cash.

The transaction, which meets the requirements of section 131 of the Companies Act 1985, has been accounted for as a merger in accordance with the option allowed by the Statement of Standard Accounting Practice No 23 - Accounting for acquisitions and mergers. However, no adjustments have been made to the comparative figures for 1984 because the effect is not considered material.

No significant accounting changes were required to achieve accounting policies consistent with those applicable to the group.

The company has subsequently been renamed Prudential Life of Ireland Limited and an interest in a proportion of the ordinary shares has been transferred to senior executives as part of an incentive scheme.

Profit of the Group attributable to shareholders for 1985:

	£m
Before the date of merger	30.8
After the date of merger	45.3
	76.1

Profit of the Group attributable to shareholders from 1 January 1985 to the date of the merger:

	£m
The Insurance Corporation of Ireland (Life) Ltd	0.3
The Prudential Group excluding The Insurance Corporation of Ireland (Life) Ltd	30.5
	30.8

19. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to \$1,071,000 (\$1,021,000).

20. Commitments

The Group is committed to capital expenditure not provided of \$3.0m (\$7.3m) and expenditure authorised but not contracted of \$1.0m (\$8.8m) in respect of fixed assets (other than investments).

21. Emoluments of senior employees

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

Emoluments £	Managerial and administrative		Commission earning	
	1985	1984	1985	1984
30,001 to 35,000	99	74	102	80
35,001 to 40,000	52	26	14	29
40,001 to 45,000	13	18	8	2
45,001 to 50,000	20	12	4	-
50,001 to 55,000	6	11	-	1
55,001 to 60,000	7	1	-	-
60,001 to 65,000	3	1	1	-
65,001 to 70,000	1	1	-	-
70,001 to 75,000	-	3	-	-

22. Emoluments of directors

The aggregate amount of the emoluments of the directors of the Company for the year was \$684,288 (\$479,724), of which \$271,317 (\$279,309) was in respect of services as a director.

In addition, contributions made to pension schemes for directors were \$120,372 (\$96,609).

The emoluments of each person who has been Chairman during the financial year so far as attributable to the period during which he was Chairman were:

Lord Carr \$20,081 (\$48,390)
Lord Hunt \$29,191

The emoluments of the highest paid director amounted to \$121,377 (\$107,664)

Emoluments £	Number of directors	
	1985	1984
1 to 5,000	3	1
5,001 to 10,000	2	2
10,001 to 15,000	6	7
15,001 to 20,000	3	5
20,001 to 25,000	3	2
25,001 to 30,000	1	-
35,001 to 40,000	3	-
40,001 to 45,000	1	-
45,001 to 50,000	-	3
55,001 to 60,000	1	-
95,001 to 100,000	1	-
105,001 to 110,000	-	1
120,001 to 125,000	1	-

23. Loans to and transactions with directors and officers

	Liability at 1 Jan 1985	Max liability during 1985	Liability at 31 Dec 1985
	£	£	£
House Purchase Loans			
R E Artus	25,000	25,000	25,000
F B Corby	25,000	25,000	25,000
D E Fellows	35,000	35,000	35,000
J A Freeman	18,000	30,000	30,000
B Medhurst	33,000	33,000	33,000
M G Newmarch	29,950	29,950	29,950
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
M G Newmarch	850	959	959

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 15.25%, 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 borrowers option, on terms available to all policyholders. The rate of interest applicable on 31 December 1985 was 13%.

There is no interest due and unpaid at 31 December 1985 on any of the above loans.

One officer of the Company (other than directors) had outstanding on 31 December 1985 a loan from a subsidiary company of \$7,695.

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 1985:

- (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 (as amended), 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 1985 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 again 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 £13m (1984 - £24m) before tax.

F B Corby
Group Chief Executive
16 April 1986

Report of the auditors to the members of Prudential Corporation plc

We have audited the accounts on pages 34 to 45 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 1985 and complies with the Companies Act 1985, and the consolidated accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.

Deloitte Haskins & Sells
Chartered Accountants
London
16 April 1986

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 Reinsurance

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

Central services

Chief Actuary,
Prudential Assurance

D E Fellows

Deputy Actuaries,
Prudential Assurance

C E Barton

D R Linnell

Secretary & Group Legal
Adviser

D F Roper

Group Finance Controller

D Sirkett

Group Taxation Manager

R W Paget

Group Chief Accountant

W Mills

Group Public Affairs
Manager

D M Vevers

General Manager
Personnel & Administrative
Services

G F Keeys

Assistant General Managers -

Personnel Operations

H J Hancock

Personnel Policy

D E Jackson

Administrative Services

R L Webb

General Manager
Management Services

E P Morris

Assistant General Managers -

Computer Operations

D Nelson

Systems

D F West

UK Individual division

Managing Director: **J A Freeman**

General Managers -

Actuarial & Financial
Services

J L Savage

Operations

L D Cary

K L Bedell-Pearce

General Business

J R Powell

Marketing

M P Hughes

Strategic Planning

T J L Richards

Home Service
Administration

F A Friedlos

General Manager,
Vanbrugh

R L Sutton

Deputy General Manager -
Operations

H Turner

Assistant General Managers -

Actuarial Services

L E Warrilow

Operations

L Brown

A J Collins

Managing Director,
Prudential Property Services

G D Clay

Assistant General Managers
General Business -

Operations

R S Hill

Product Development &
Control

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

Overseas division

Managing Director: **B Medhurst**

General Manager
F M Simpson

Assistant General Managers
P N S Clark
J A Hayler

Assistant General Manager and Actuary
J H Sutcliffe

Africa

Kenya

Chairman
M H Da Gama-Rose
Managing Director
E Thomas

The Prudential Assurance
Company of Kenya Ltd
Wabera Street, PO Box 30064
Nairobi

South Africa

Chairman
A J F Fergusson
Managing Director
P D Wharton-Hood

The Prudential Assurance
Company of South Africa Ltd
94 Main Street, PO Box 1097
Johannesburg 2000

Zimbabwe

Manager
D J Edgerton

8th Floor, Ebata House
PO Box 1683
Speke Avenue/Angwa Street
Harare

Australia and New Zealand

Chairman
Sir William Pettingell

General Manager
B R Martin

39-49 Martin Place
PO Box 4149, Sydney 2001

General Manager for New Zealand
B H Klap

332-340 Lambton Quay
PO Box 291, Wellington

Canada

Chairman
R R Latimer
President, Property &
Casualty Operations
J J Rowen

625 Dorchester Boulevard West
Montreal, Quebec

President, Life & Pensions
Operations
M A P Beck

101 Frederick Street
PO Box 9032, Kitchener, Ontario

Prudasco Inc.
(Holding Company)
Constellation Assurance
Company
The Prudential Life
Assurance Company
of England (Canada)

Prudasco Assurance Company
The Prudential Assurance
Company of England
Property and Casualty
(Canada)
The Atlantic Insurance
Company Ltd

Europe

Belgium

Chairman
P H Vanderlinden
Managing Director
E Diercxsens

Compagnie d'Assurance de l'Escaut SA
10 Borzeestraat 2000 Antwerp

Republic of Ireland

Chairman
A J Spain
Managing Director
A D Daly

Prudential Life of Ireland Ltd
Burlington House, Burlington Road
Dublin 4

France

Branch Manager
K J Allen

105 Boulevard Haussmann, 75008 Paris

Malta

Branch Manager
A A Cachia

225 Merchants Street
PO Box 271, Valletta

Netherlands

Manager (Life)
G J W Rotgans

Postbus 7257, 1007 JG Amsterdam

Fire and Accident
Representative
A Van Oosterhout

Coosingel 58, Beursgebouw
3041 DA Rotterdam

South East Asia

Hong Kong

General Manager
K A Holcombe

4204 Connaught Centre
Central

Malaysia

General Manager
Allen Ho Yick

Prudential Assurance Sdn Bhd
23rd Floor, Bangunan Kuwasa
Jalan Raja Laut, Kuala Lumpur

Singapore

General Manager
J L Child

Maxwell Road
PO Box 192, Singapore 9009

Mercantile and General Reinsurance

General Manager: **J Lock**

Deputy General Managers
P E Crane
M S Harvey
H J Jarvis
R R Snook

Chief Actuary
M B Brown

Assistant General Managers
J O Austin, R T Edlin
P M Edwards, C J Fewell
T W Manley, L J McKinnon
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

Venture Capital
J R Gawthorne

Administration
D W Hanson

Fixed Interest
P J Nowell
UK Equity
T K Pullen

Research
K A West

Managing Director,
Prudential Unit Trust
Managers
A C Wren

PRUDENTIAL IN THE COMMUNITY

Through our growing public affairs function, we continued to increase our support – both financial and practical – for a wide range of community activities during 1985. In total, the value of our financial support exceeded £1 million, reflecting our long-held belief that successful organisations have a moral and social responsibility to contribute to the well-being of those communities from which they draw their success. Any such contribution is not only good for society as a whole but good for business too.

During the year, we gave much needed financial help through our charitable donations of £400,000. In the UK alone we helped more than 350 organisations – thus enabling vital work to continue in the areas of medical research and health care; welfare for the young, the elderly and under-privileged; education and the environment.

Additionally, we were particularly anxious to give practical help and assistance to local enterprises in the UK concerned with the problems of unemployment, job-creation and the start-up of new businesses. For this reason we were a founder member of Business in the Community. The

experience and expertise of members of staff can often prove of more value than the traditional 'writing of a cheque'. As a result, we responded to the need with a planned programme of secondments to local community organisations throughout the country, involving in 1985 some 20 members of our full-time staff at a cost of around £200,000. These organisations included Project Fullemploy, Enterprise Agencies, Action Resource Centre and Opportunities for the Disabled.

Sponsorship of the arts and conservation of the environment continued to form an important part of our social awareness programme in 1985. Much of the £400,000 spent on this sponsorship was directed towards national tours and regional activities by leading orchestras, opera and theatre companies to ensure that the widest possible audience could benefit from its cultural heritage.

Through these widely varying activities we strive to make a positive contribution, both culturally and socially, to the communities in which we operate.

Understanding the heart:

Anthony Burns (left), executive director of CODA, shows our social responsibility executive, Bruce Russell, a new £1 million magnetic resonance scanner at London's Brompton Hospital. The charity finances specialist research into non-invasive diagnosis, prevention and treatment of heart disease.

On the farm:

Prudential's David Gregory – seconded to the Action Resource Centre in Belfast – sees how Brian Scott is faring since setting up with ARC's help his own business providing farmers with temporary labour and specialist services. The enterprise agency encourages job creation by providing business advice to young entrepreneurs and start-up companies.

Enterprise at work:

Jim Glenville (left), a Prudential secondee to Entrust – the Newcastle-based enterprise agency – listens to Keith Hartnell, managing director of Hartnell Alarms Control. The firm – which produces alarms and smoke detection systems – is one of the many small businesses in the Tyne and Wear district to be aided by Entrust since its set-up in 1982.

Back to school:

Local manager Bill Wiseman visits Struan House School in Alloa – Scotland's only residential school to specialise in the education and welfare of autistic children. We have given financial support to the school, run by the Scottish Society for Autistic Children.

