Prudential Corporation plc   Annual Report 1991

That was last year, this is the progress

Prudential Corporation

Prudential is one of the world's largest and strongest financial services groups. Its main businesses are life assurance and pensions, life and general reinsurance, general insurance and investment management.

Prudential has more than eight million customers and is Britain's biggest institutional investor with funds under management in excess of £51 billion.

Contents

Review of the Year

The most significant of these changes is the initiative to reorganise the structure and operating practices of our staff in the field. Tony Freeman and his management team are aimin

...eptable terms.

Whilst the results of general insurance business are cyclical, losses of the order seen in 1990 cannot be sustained. A number of signific price increases have already been made an

During 1991 we completed the restructuring of our direct sales force ahead of schedule.

The closure of our general insurance broker business in the United Kingdom will release working capital and improve the quality of future earnings.

...nt information ... the Corporation. I am confident that we are now firmly focussed on the critical pulses of the reinsurance business and that as conditions in markets improve — as the recent

...million, reflecting the continued g of the life fund. In America, Jackson National Life maintained its profitability in a difficult market. Long-term business profits from our reinsurance ... Mercantile and G

There was a strong underlying improvement in profits from Mercantile and General's long-term business.

Profits from our United States subsidiary Jackson National Life more than doubled to £60m.

...ervice Division I am determined also to see the Group become much more effective in selling Prudential's life, pensions and investment products through other major United Kingdom distribution channels.

In pursuit of this ambition

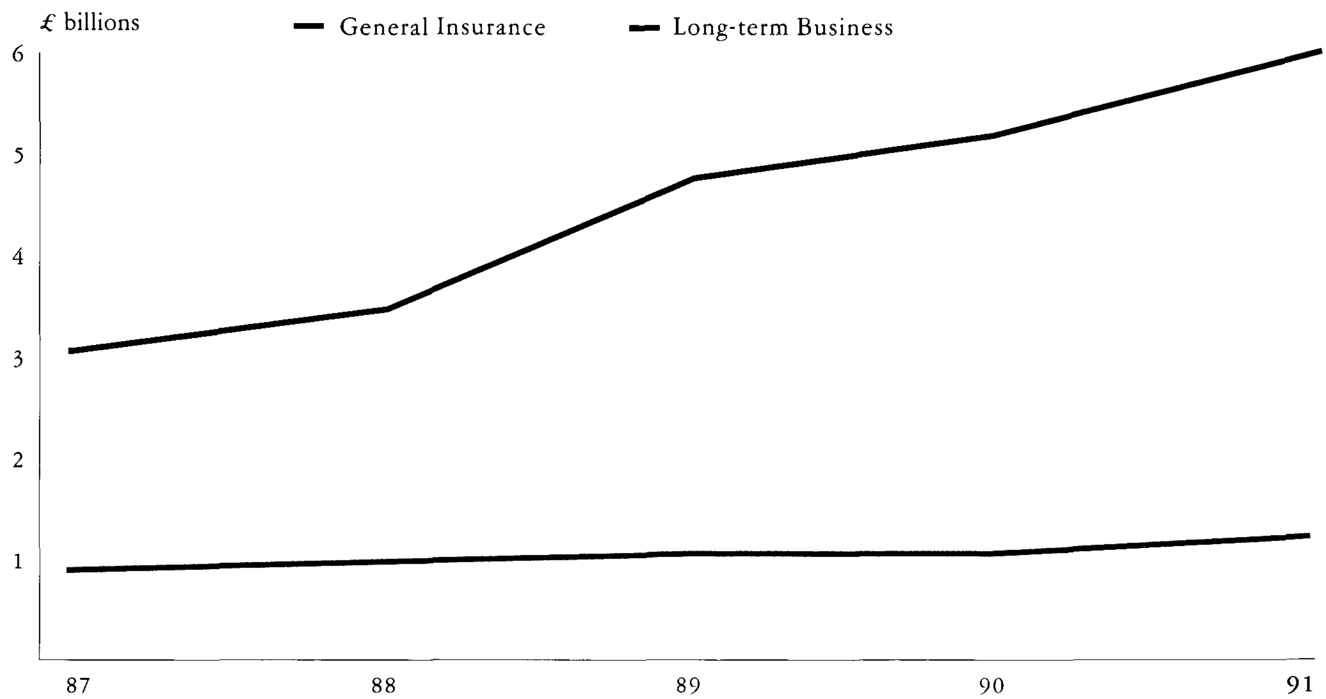
We have significantly increased our share of the independent financial adviser market in the United Kingdom. IFAs accounted for over £330m sales of our new investment contract, the Prudence Bond.

Financial Overview

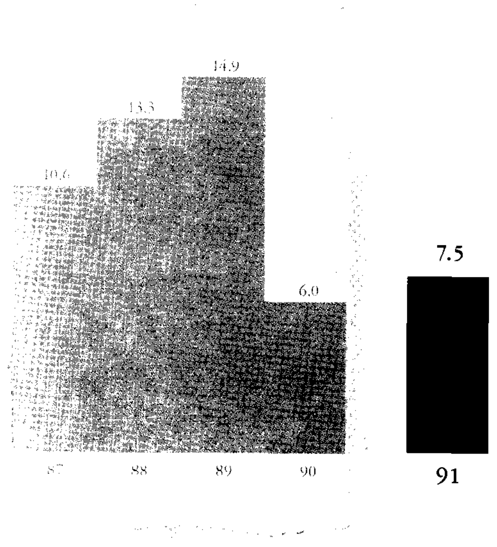
Profit Summary

	1991	1990
Profit on ordinary activities before tax	£267m	£243.8m
Profit attributable to shareholders before extraordinary items	£140m	£111.2m
Profit attributable to shareholders after extraordinary items	£87m	£144.0m
Earnings per share	7.5p	6.0p
Dividend per share	11.0p	10.3p

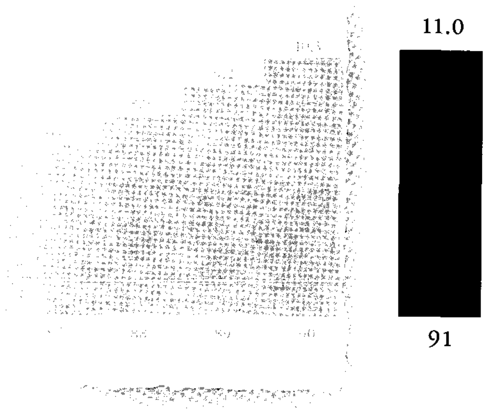
Gross Premium Income



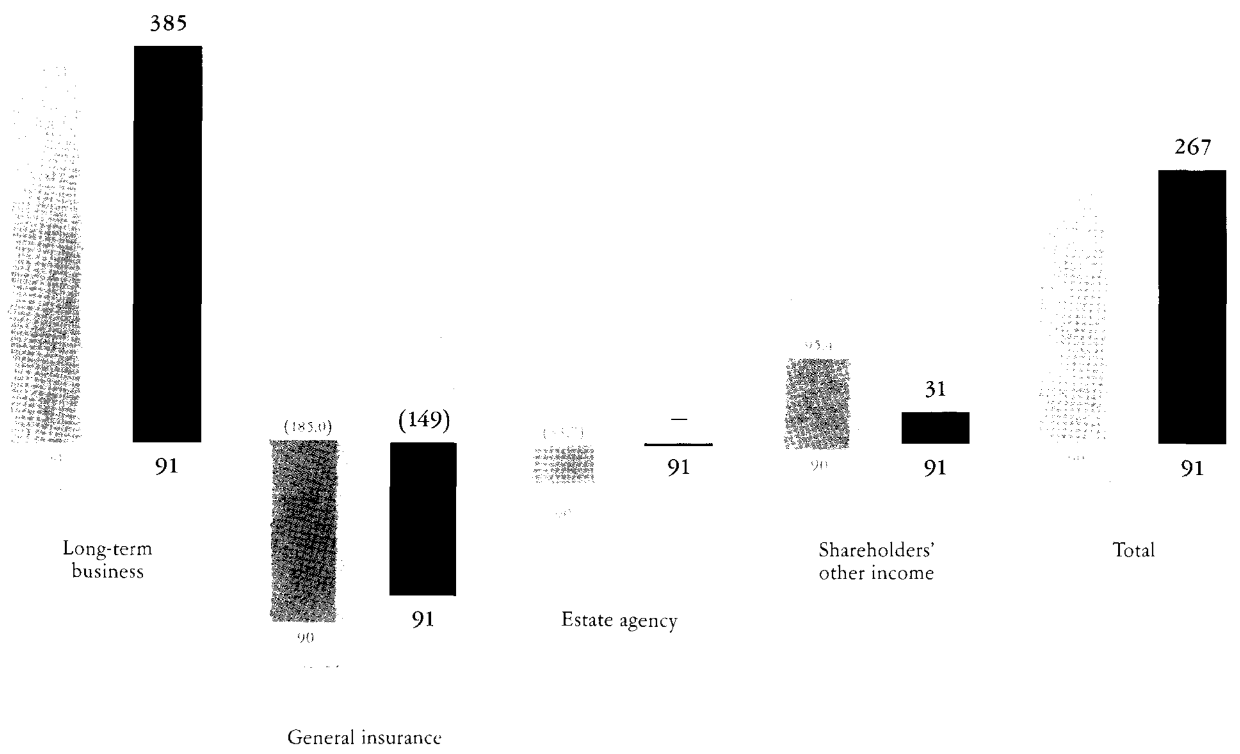
Earnings per share *pence*



Dividend per share *pence*



Profit before tax £ *millions*



Chairman's Statement

1991 was another difficult year for the insurance industry. Recession continued to affect our major markets and general insurance results were again very poor. Nevertheless I believe that as a result of the actions we have taken, Prudential is now in much better shape and well positioned to take advantage of future opportunities.

Pre-tax profits increased by 9% to £267m. Earnings per share rose by 25% and we decided to increase the total dividend for the year by 6.8% to 11.0 pence per share.

The main focus of Prudential's operations is its long-term insurance and savings business; the prospect for future growth in these markets is encouraging. Demographic change means that throughout the major economies populations are growing older. As a result, governments have paved the way for the private sector to compete in providing retirement benefits which the State alone would be unable to offer.

Prudential looks after the savings and investments of some eight million customers worldwide. As the United Kingdom's largest life insurer we have the financial strength and stability which individuals can rely on and which they find particularly reassuring in times of uncertainty.

Since Prudential was established in 1848 we have been entrusted with the savings of many millions of individuals. It is a responsibility we are well qualified to shoulder. In particular, we recognise how important it is that individuals should feel confident that the product they buy will meet their needs. We have therefore welcomed the trend towards tighter regulation in the financial services sector. At the same time it must be recognised that a balance needs to be struck and the cost of regulation to the consumer should not be allowed to outweigh the benefits. The United Kingdom's life insurance industry is one of the most competitive in the world and provides policyholders with excellent value for money. We shall play a full part in the continuing discussions as to the future of the regulatory system.

As Britain's largest institutional investor we devote considerable resources to investment management. We take an active stance in exercising our responsibilities as a shareholder and we welcome the constructive discussions now taking place on matters of corporate governance.

We believe that boards should comprise a balance of executive directors and independent non-executives. We also believe that committees of the board such as the audit and remuneration committees should consist wholly or largely of experienced non-executive directors. The membership of our own committees is set out on page 25.

Over the years we have reviewed from time to time the working of our own board. As a result of our last review, we decided that the board would operate more effectively with a smaller number of directors and you will see that over the last two years the size of the board has been reduced from 20 to 15. Nevertheless, we remain of the view that in our case independent non-executive directors should be in the majority and we intend to announce further appointments in the coming year.

We have also reviewed how best we can link the remuneration of our senior executives to long-term performance. As a result, with effect from 1992, we have cancelled the former cash bonus scheme and replaced it with an equity based scheme, which encourages senior executives to buy shares in Prudential and hold them for a minimum of five years.

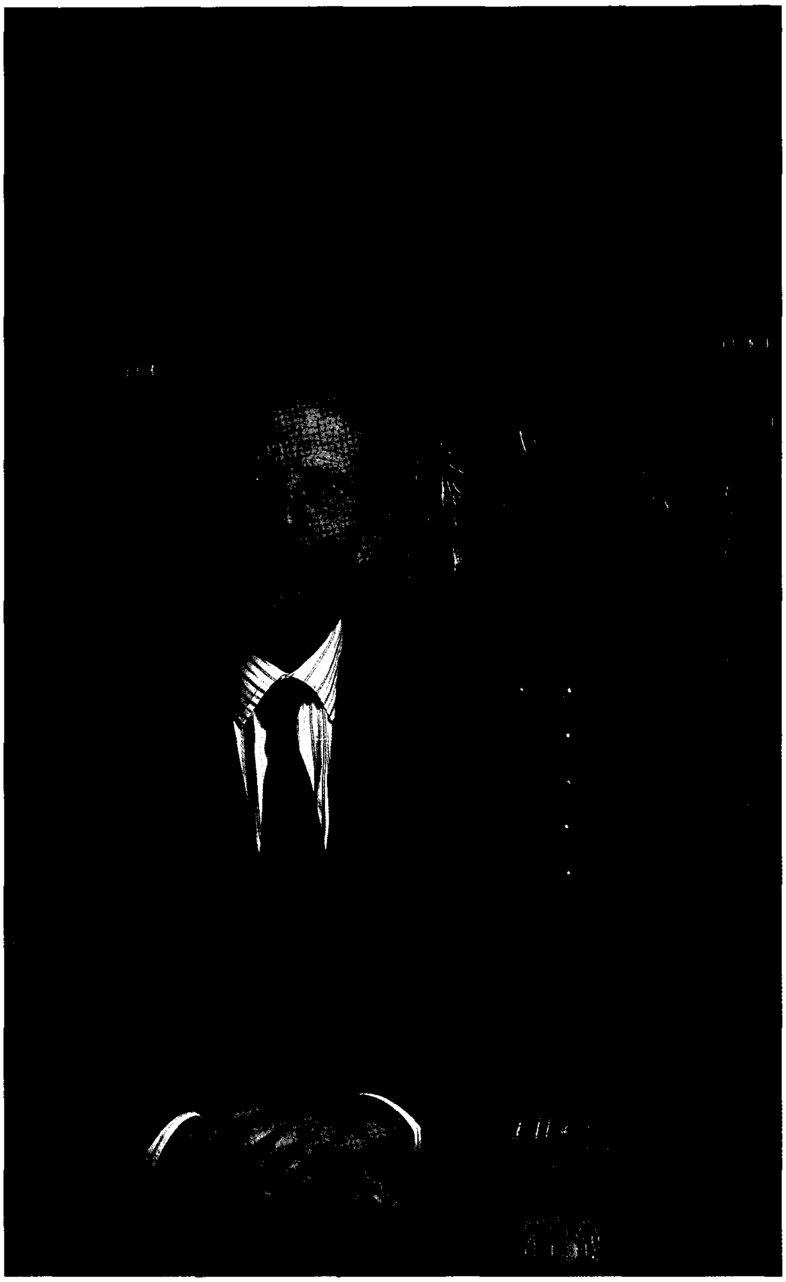
Three directors retire at the Annual General Meeting. The Rt Hon Lord Hunt of Tanworth joined the board in 1980 and was Chairman from 1985-1990. As a former Cabinet Secretary his experience has been particularly valuable to us. The Rt Hon Lord Butterfield, who had a very distinguished academic career, including being Vice Chancellor of Cambridge University, retires after 10 years on the board. Mr Julius Neave who joined the board in 1982 also retires. Prior to his joining the board he had been managing director of Mercantile and General and had given many years of distinguished service. I thank them all most warmly for the contribution they have made to the affairs of the Corporation.

Mr Keith Bedell-Pearce joined the board at the beginning of 1992 as an executive director. In 1991 he was appointed chief executive of Prudential Financial Services and has been responsible for launching the extension of our business into the independent financial adviser market.

Sir Trevor Holdsworth completes his term as deputy chairman at the Annual General Meeting but will remain on the board. The directors intend to elect Sir Alex Jarratt to succeed him as deputy chairman and I am very pleased that Sir Alex has agreed, given that he has previously served in this capacity for four years.

Finally, I thank all Prudential staff throughout the world for their very considerable efforts and continued support.

Sir Brian Corby Chairman, 16 April 1992



Sir Brian Corby, seated in the traditional Chairman's chair which features the Corporation's symbol of Prudence.

Review of Operations

Mick Newmarch, Group Chief Executive, pictured outside Prudential's head office at 142 Holborn Bars.

Introduction

In last year's Annual Report I devoted some time to describing actions which we had been taking aimed at improving the competitive positions of our major businesses for the medium and longer term future. This year I should like to report on the progress we have made during the past year and describe in some detail certain new initiatives.

In this Review you will see direct references to some of last year's remarks. By their very nature most annual reports tend to concentrate on the events of the past year. However, given our main businesses are long-term, we think it appropriate to provide our shareholders with a feeling of the continuity in the management of the Corporation's affairs.

The economic environment in 1991, as in 1990, continued to be difficult. The developing worldwide recession affected not only the United Kingdom but also many of our overseas markets, generally depressing consumer confidence and inhibiting individuals from committing themselves to regular long-term savings contracts. As a result annual premium sales remained largely static. However, we achieved a marked increase in the sale of single premium policies. We can attribute this to two particular factors. Firstly, as interest rates have fallen, customers have tended to move their stored short-term savings into longer-term products. Secondly, the adverse publicity attracted by the affairs of a number of lesser financial organisations has prompted a movement towards well-known and reliable institutions, a "flight to quality".

Another by-product of recession has been the increase in the level of claims on general insurance policies. Our general insurance operations again produced substantial losses. However, as a result of the decision to close our United Kingdom broker business, announced with our figures in March, losses on this scale should not be repeated in future years.

In the following pages I shall describe the main actions we have taken to improve the profitability of our businesses, beginning with the main focus of the Group, long-term business.

Long-term Business

Long-term business is the cornerstone of the Group's operations. As the Five Year Review on pages 47 to 48 demonstrates, it provides a source of high quality, stable earnings which underpin the Group's overall results.

During 1991 we continued to take actions to strengthen our long-term businesses. In the United Kingdom, we delivered the restructuring of our direct sales force ahead of schedule and we increased our share of the independent financial adviser market significantly. In the United States, Jackson National Life had yet another excellent year and elsewhere, notably in the Pacific Rim, we continued to develop our operations successfully.

Bonus Rates

We manage our long-term life and pension funds so as to achieve for our policyholders returns over time which aim to protect them from inflation. At the same time we also protect them from the risk of excessive volatility in paid returns by applying a smoothing process. This entire arrangement, of course, embraces all of our with-profit policyholders and, accordingly, policies over different periods of time.

not supported by current interest rates, and looking ahead it is likely that economic policies designed to minimise inflation will persist. On this basis fixed interest rates are likely to move lower rather than higher. We came to the conclusion that reductions in reversionary [illegible] are not only inevitable but that we

Each year we declare two classes of bonus; reversionary, which are guaranteed additions to the policy, and terminal, which are allocated only when a policy becomes payable. Since 1989 our bonus declarations have been based upon a model which reflects the returns earned on the assets held in the fund over time.

One of the main actions we announced last year was a reduction in bonus rates. Since then a number of our competitors have reached similar conclusions and reduced bonuses. Following the United Kingdom's entry into the Exchange Rate Mechanism, it seems possible that we are entering into a new era of lower inflation and, consequently, lower interest rates. This, of course, is good news for policyholders. However, as a result of the lower nominal returns which we foresee in the 1990's, compared to the previous decade, we believe that bonuses may need to come down further still.

Consistent with this thesis we have again declared reductions in both reversionary and terminal bonuses, particularly for shorter durations. For instance, claims values on conventional assurance policies have been reduced by 7% for 10 to 15 year terms but only by 2.1% for 25 year terms. These are prudent measures which we believe will maintain the strength of our long-term life funds. What matters most from the policyholders' point of view is the real rather than nominal returns provided by their investments with us which we are confident will continue to give good value.

New Accounting Proposals

The strength of our long-term funds provides substantial benefit not only to our with-profit policyholders, but also to our shareholders. However, this value is not yet reflected in our accounts. Over the last two years, the Association of British Insurers has been looking at ways in which profit from long-term business should be reported.

In last year's Annual Report, I indicated that we expected an industry wide position would be proposed and adopted during 1991 and that we envisaged reporting on the new basis in respect of that year. I regret to say that given the difficulty of reaching consensus between all relevant parties, this has not proved to be possible. However, progress continues to be made and our present expectation is that during the course of the current year we shall publish supplementary information which will display our affairs on an "accruals" basis. This method aims to reflect the value of our long-term business to shareholders by accruing profit as it arises. Both the Accounting Standards Board and the Department of Trade and Industry have been consulted and have endorsed the proposal as a sensible, experimental way forward. Much of the credit for this progress rests with Michael Lawrence, our group finance director, who chaired the ABI Steering Group. It is good to see the rigour and energy he has devoted to achieving the introduction of a clearer approach to life profit reporting finally being rewarded.

United Kingdom

Profits from our long-term businesses in the United Kingdom grew by 7% to £261m and revenue premiums amounted to £3.0 billion, compared to £2.4 billion the previous year. In terms of new business, there was a marginal decline in new annual premiums to £320m but a 52% increase in single premiums to £1.4 billion. I have already alluded to the impact of the recession on discretionary spending, but there were other factors which contributed to sales being lower than might otherwise have been the case.

During 1991 we made substantial progress with the restructuring of our direct sales force. "Scenario 3", the process of change we have described in previous reports, was delivered ahead of schedule. During the year 60,000 working days were devoted to instruction and training rather than selling. We also experienced a dispute with our sales force union, the National Union of Insurance Workers, during the process of introduction; this inevitably caused further disruption. Nevertheless, the early evidence is that the changes made are improving both efficiency and productivity as required, auguring well for the future. I shall deal with Scenario 3 in greater detail later.

Long-term Business (continued)

Products

Our long-term products embrace pensions, life assurance, savings and investment contracts. These provide valuable benefits to our customers and our control of them places us in an important position in both the financial and social environment of the United Kingdom.

As I write we have some six million policyholders in the United Kingdom with over 20 million policies in force. Last year we paid claims and maturity amounts totalling £3.7 billion.

Best Advice

The Prudential takes particular care to ensure that customers are recommended products which most precisely suit their requirements. Even before the Financial Services Act came into effect, we had in place a comprehensive system of checks and controls to ensure that Prudential representatives gave "best advice". A detailed personal financial review (PFR) has to be completed before any product can be recommended. This provides a comprehensive record of the customer's personal circumstances, it outlines their objectives, and enables our representatives to determine how best to help the customer meet them. Each PFR is reviewed by a sales manager to ensure that it has been properly completed. We also run spot checks from our administration headquarters as a final step in our process of quality control. Last year we invested over £20m in training in this area of our business. As a result we are confident that Prudential policyholders are among the best served in the market.

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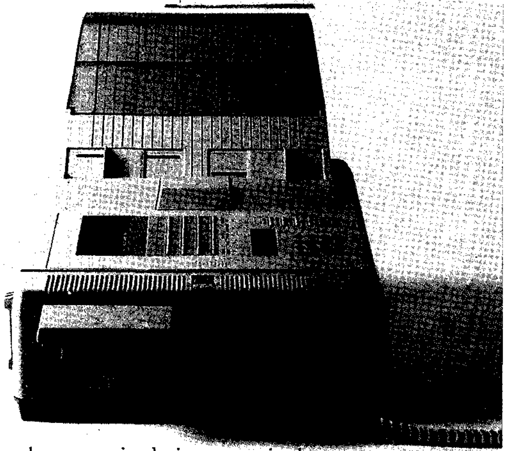
chose to opt out; it is pleasing for us to record that half a million of those are Prudential customers. Due to further legislative simplification a new market opportunity is emerging in the pensions area — that for 'free-standing additional voluntary contributions' (FSAVCs) which are policies that allow the topping up of pensions provisions for those already in a company pension scheme. Twelve million employees in the United Kingdom are in this position, and we believe most would benefit from further provision for their retirement. While some will, and should, opt to top up through their company's own Additional Voluntary Contribution scheme, many will increase benefits by taking the FSAVC route. We are confident that we are particularly well placed to win an important share of this new product opportunity.

Efficient Administration

This quality of service extends to the administration of those policies once issued. Prudential has become the first insurance company to gain approval from the British Standards Institution for standards of efficiency in its Industrial Branch administration departments in Reading and Belfast. Our administration areas process over one million proposals for new business and send over six million letters to customers each year. This requires a high degree of efficiency and a total commitment to quality of service. Our success in this area was also recognised by the Department of Employment in the form of a National Training Award.

As a first step, following a careful review of the previously separate businesses of Prudential Corporate Pensions and Prudential Holborn, the new team has made a number of early organisational changes. Firstly, all broker sales



operations have been united into a single business to provide a very sharp focus on the broker distribution channel. Secondly, the remainin[illegible] these two divisions ha[illegible]

Marketing Focus

Since the mid-80s we have adopted a more focused approach to the marketing of our long-term products. In particular, we have reduced our sales of Industrial Branch business, where premiums are collected in cash, and increased the emphasis on Ordinary Branch business, which involves a direct debit from the customer's bank or building society account. The great majority of our sales activity is orientated towards Ordinary Branch products, such as pensions and investments. Demand for Industrial Branch products, however, remains in certain areas of our market place and we continue to supply such products whilst attempting to advise our customers of the merits of Ordinary Branch contracts.

Pensions

Pensions are one of our core products and Prudential is the established leader in this market. We have enjoyed particular success in the sale of personal pensions and we have in recent years launched a range of products to meet the requirements of our customers. Many of those who contracted out of the State Earnings Related Pension Scheme have decided to top up their contributions and, in an otherwise depressed market, those top-ups have accounted for much of our new business.

As people move jobs, many of them decide to transfer the pensions entitlement which they have accumulated with various employers into a single plan. We have developed pension transfer plans for both our Home Service distribution channel and for independent financial advisers in order to capitalise on this market opportunity.

We have also enjoyed a degree of success in the small but emerging market for additional voluntary contributions (AVCs). Last year we launched a free standing AVC which we named the Prudential Independent Pension as its main benefit is the independence which it affords to individuals who wish to add to their pensions independently of their employer. We also extended the selling of AVC schemes for those who prefer to top up their contributions within their existing company schemes.

Although our Home Service division accounts for the vast majority of our pensions sales, we are developing an increasingly powerful franchise among independent financial advisers (IFAs). This has resulted in a substantial rise in our share of personal pensions business in recent years. Prudential is also one of the leading providers of corporate pensions and is one of the few companies operating in the IFA market which is strong in both retail and corporate business.

Long-term Business (continued)

Prudence Bond

Our relationship with IFAs was given an additional fillip by the launch of the Prudence Bond at the end of April last year. By the end of December IFAs had made sales of over £330m.

The Prudence Bond is a single premium whole-life unitised investment bond; the with-profit option formed one of the most successful financial products of 1991. These products provide an attractive vehicle for investors looking for long-term growth, but who wish to avoid some of the potential short-term volatility associated with the stockmarket. Although the bonds are backed mainly by equities, maturity values are "smoothed" by the addition of bonuses. Whilst bonuses will fluctuate over time, these bonds offer the potential for real returns ahead of what might otherwise be achieved by leaving money on deposit.

Towards the end of 1991 our direct sales force began actively selling a tailored version of the Prudence Bond. In November and December they achieved sales of over £20m, well above expectations, and are continuing to increase sales this year. Part of this success can be attributed to the effects of the restructuring programme which we completed last year.

Scenario 3

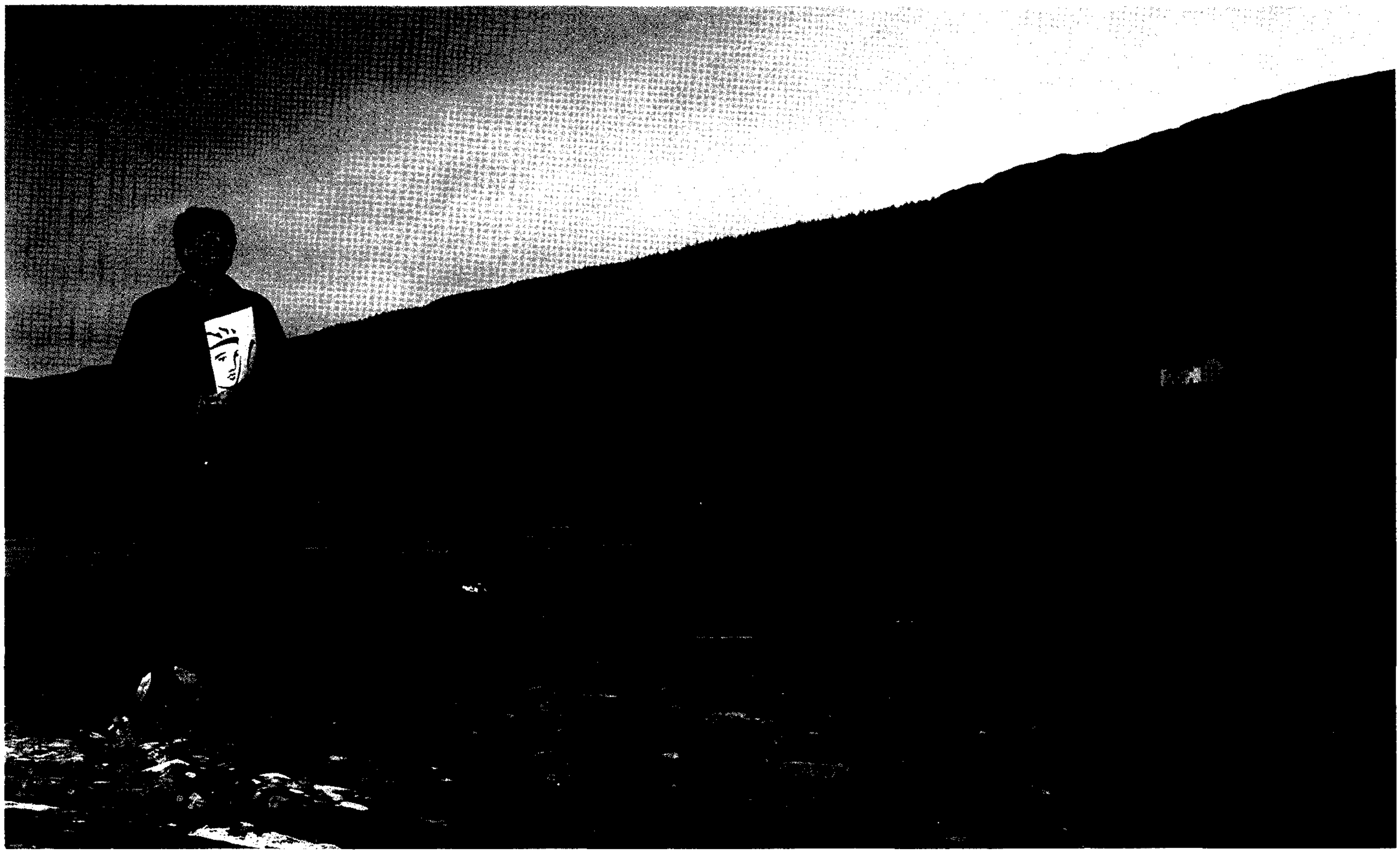
The restructuring and re-invigoration of our direct sales force is potentially so important to the Corporation that it justifies explaining the critical elements again.

The fundamental aim of Scenario 3 is to make our direct sales operation in the United Kingdom more efficient and more effective. Our success in developing this critically important distribution channel hinges on a number of factors.

Not only must we continue to provide our existing customers with good products and high quality service, but we must also expand our share of the mass middle market by attracting new customers. To achieve this we have reorganised our direct sales force into two distinct groupings — customer service representatives and financial consultants. The former concentrate on the traditional role of the agent, collecting premiums and providing a basic range of products. The latter, who undergo more extensive training, are licensed to advise on a wider range of products and their role is firmly focused on selling.

The process of restructuring an operation of this scale is highly complex and involves a great deal of upheaval. However, there was overwhelming support for the changes as our employees recognised the benefits which will eventually flow through both to our customers and to themselves. Although Scenario 3 has now been fully implemented ahead of schedule, there were inevitably hitches along the way. The National Union of Insurance Workers objected to the way certain

Linda Maclellan, customer services representative, regularly visits customers on the Isle of Jura.



procedures were introduced, in particular a new management reporting structure.

The Management Framework uses agreed key performance indicators to assess information about individuals' sales activity and performance. This enables district management not only to monitor and plan sales activity but also to provide support, such as additional training, where necessary. Combined with the introduction of personal goals, this provides both discipline and motivation.

After lengthy discussions and some limited industrial action, I am pleased to say that the dynamics of this flow of information have now been amicably agreed.

Another aspect of Scenario 3 is the increased emphasis on the use of information technology. Representatives are now equipped with electronic collecting books to simplify and speed up the process of data entry and recall. Computer modelling has also been used to reconfigure districts' territorial boundaries in order to optimise the way agencies are allocated.

Long-term Business International

Jackson National Life

Outside the United Kingdom, our most important long-term business operation is our United States subsidiary, Jackson National Life.

Since we acquired Jackson in 1986 it has enjoyed spectacular growth. Assets managed have grown from US$2 billion to US$13 billion while profits have quadrupled to US$112m.

1991 was, however, an extremely difficult year for the United States life insurance industry. Following the collapse of a number of insurance companies, including Executive Life and Mutual Benefit, there was severe adverse publicity regarding the quality of insurers' assets.

In response to these concerns — though overwhelmingly for marketing rather than for investment reasons — we took steps to lower the level of non-investment grade bonds in Jackson's portfolio. This was achieved with the help of our newly established investment subsidiary, PPM America, led by its president Russ Swansen. The proportion of these bonds has been halved and now stands at less than 10% of Jackson's total portfolio. Moreover, Jackson has negligible exposure to commercial property and mortgages, which have been, and remain, a serious concern for the United States life industry at large. As a result, we believe Jackson is well positioned to benefit from the perceived "flight to quality" presently being made by American investors.

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termed "junk" bonds. 1990 proved a difficult year for the non-investment grade market in the USA as the slowing economy put severe pressure on many companies prompting either default or a refinancing of their highly geared positions, to the detriment of the original bondholders. We looked very closely at Jackson's exposures and concluded that we should set up a reserve to cover potential defaults

Jackson's own bond portfolio. Despite

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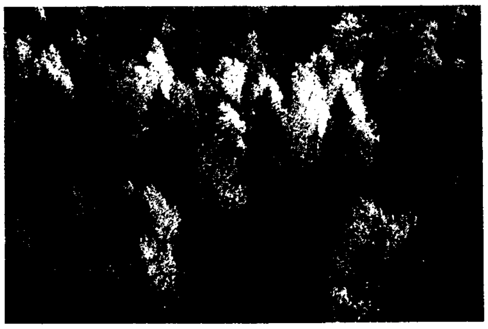


to the benefit of shareholders over any reasonable period, irrespective of the amounts of capital and management time devoted to the enterprise.

We have ceased writing new business and are already well into the first phase of the closure programme. Seven out of 22 regional offices have been closed with business transferred to remaining branches. Some 400 jobs, representing a third of the total workforce, have already been shed.

For a company with the Prudential's traditions and attitudes such decisions are painful, moreover they clearly confront the ambitions of large numbers of loyal employees. It should be clear, therefore, that these decisions have not been made lightly. To a substantial degree, of course, they are forced upon us by the intense competition prevailing in the modern financial services environment.

Although the closure of this division produces an extraordinary loss of £53m, the net effect will be to release working capital and ultimately to enhance the quality of our future earnings.

Home Service

By contrast, our Home Service operation's general insurance services division, which provides mainly

... million against potential claims.

We have also looked closely at our private household insurance and decided to simplify considerably the types of policy we sell. Our new product has proved very successful in its test launch areas, and we expect significant benefits from it in the future.

...der to improve the performance of our ...rance business, we raised most

Products such as Plain Speaking Home Insurance are attracting new customers to Prudential.

personal lines products such as household and motor insurance, turned in a much improved result last year. Excluding £13m of losses in respect of small commercial lines business transferred from the broker division the previous year, it reduced losses from £67m in 1990 to make a small profit, no mean achievement given the difficult market conditions.

This success was partly due to increased premium rates and a stricter approach to underwriting leading to a 9% reduction in the total number of contracts. We also benefited from the introduction of a new household policy. As its name suggests, Plain Speaking Home Insurance seeks to demystify household insurance by dispensing with the jargon too often associated with such policies. By combining both structure and contents insurance into a single integrated package we have made it easier for customers to ensure that they have adequate cover. Policies such as these provide a useful adjunct to the range of life, pensions, and savings products provided by our direct sales force to the public. They also help to expand our base of customers.

General Insurance (continued)

To build upon this success, it is important that we continue to reduce costs and improve efficiency wherever possible. In July last year we announced a major restructuring programme which will eventually streamline the number of regional centres from 22 to 5, and reduce the number of staff involved from 1,550 to 1,000. One element of the programme is the introduction of regional telephone claims handling centres. These reduce the amount of paperwork involved in processing claims and improve the efficiency and quality of service to our customers. Overall, the restructuring programme is proceeding according to schedule.

International Operations

Having sold our Belgian subsidiary L'Escaut in 1990, we have reduced the Group's exposure to general insurance overseas. Outside the United Kingdom our main property and casualty operation is in Canada. This business produced a small profit in 1991, a good result given the impact of the recession and the Calgary hailstorm which produced a record loss for the Canadian market.

Reinsurance

At the time of the interim results, we took the opportunity to remind shareholders of the substantial value which exists within our reinsurance subsidiary, Mercantile and General. M&G is the largest United Kingdom reinsurance company and one of the best known companies in many of the world markets in which it operates. As the insurers' insurer, M&G is active in both the life and non-life markets.

A major resource of the Corporation is our reinsurance subsidiary Mercantile and General. During 1990 long-term business showed buoyant growth. Underlying profits from this [illegible]

During the year a team of my central colleagues has worked closely with M&G's senior management jointly to develop improved management systems and controls and to propose procedures which will enhance operational efficiency. As part of this process we have redefined the responsibilities and accountabilities of certain key senior managers within M&G. We have also appointed a new finance director from elsewhere within the Corporation.

As regards the year's trading, we saw a substantial improvement in the underlying performance of M&G's life reinsurance business. The reported profit of £61m showed a marginal decrease on the previous year but the 1990 figure was inflated by a large non-recurring release of reserves. We have also identified significant releasable value within M&G's life operations which should flow out for some years into the future. The earnings from M&G's life business are high quality.

months. I am glad to see he is well into his stride.

During the course of 1990 we created PPM America, based in Chicago, and we have recruited a very professional team of fund managers and analysts. This team has taken responsibility for the day-to-day management of Jackson's US$10 billion portfolio and we are very satisfied with the way the resource is maturing.

An important ingredient in Jackson's success has been its distribution network of independent licensed agents. During 1991 Jackson attracted 22,000 new agents whilst rigorously weeding out non-performing agents. As a result, the total number licensed at the end of 1991 was 85,000, almost double the number in 1986 and we are very content with the quality of this distribution channel.

Jackson services its agents through a network of regional offices and in October the company established a new office in Charlotte, North Carolina, bringing the total to 17. On average each office has a staff of 37 serving 5,000 agents and generating over US$140m of new premiums per year. Jackson expects to continue opening new regional offices whilst at the same time reconfiguring existing ones in order to maximise market penetration.

The majority of Jackson's premiums come from individual annuity products, where it is one of the top five providers in the United States. From time to time there has been speculation that the United States government may introduce legislation which could jeopardise the fiscal advantages of certain of these products, but a recent proposal along these lines was overwhelmingly rejected by Congress and we are confident that Jackson will continue to be able to provide consumers with competitive products.

After five years of extremely rapid growth, Jackson's business is now beginning to mature and yield a greater amount of profit. During 1991 we provided Jackson with a further US$300m to meet capital adequacy requirements, resulting from its growth. On the basis of our current forecasts we do not envisage that Jackson will require significant further funding by the Corporation. Indeed, in December it remitted its first dividend to the Corporation of US$100m.

During the year Jim Sutcliffe, chief operating officer at Jackson, returned to the United Kingdom to take up the role of deputy managing director of our Home Service division. As a result we have appointed Dennis Cross as chief operating officer at Jackson to work closely with David Pasant, president. Dennis Cross was formerly a senior vice president at United Services Automobile Association, the Texas based financial services group, and brings with him many years' experience within the United States insurance industry.

Long-term Business International (continued)

Other International Operations

Our other overseas operations had a mixed year.

Our Canadian subsidiary produced an extremely disappointing result mainly due to exposure within its portfolio to certain assets. Its trading losses amounted to C$45m, of which C$37m relates to provisions arising from a thorough review of actual and possible defaults in the company's mortgage and bond portfolios.

By contrast, our Australian operation produced an increase in profits to A$40m, a good performance given the state of the economy. Although non-linked profits were held back by bonus cuts, linked profits increased as a result of sales of linked policies boosting funds under management. In terms of total premiums, Prudential is the fifth largest insurer in Australia and now has a 6% share of the market.

Elsewhere in the Pacific Rim our operations in New Zealand, Hong Kong, Singapore and Malaysia continued to flourish.

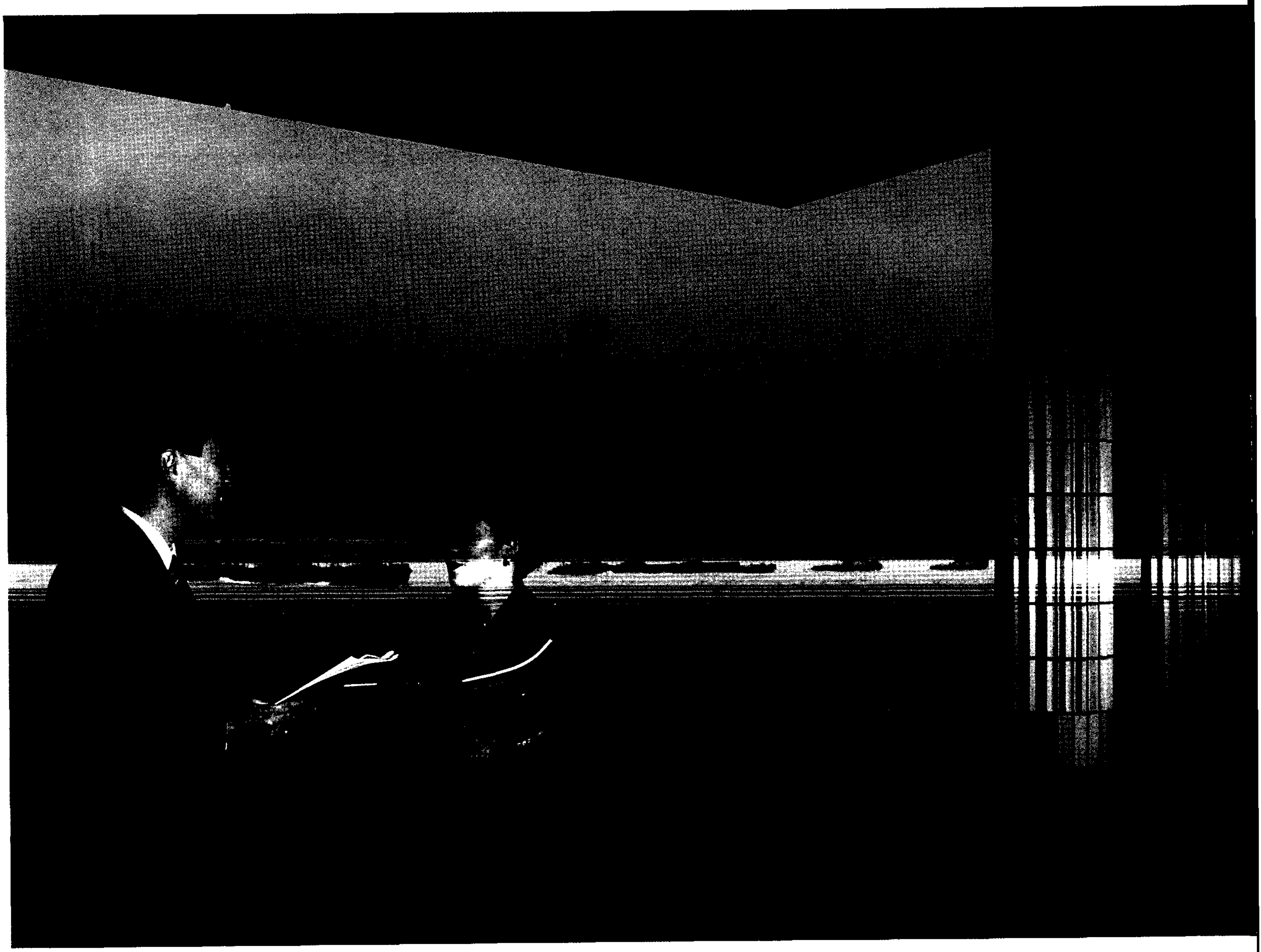
Our New Zealand life business increased its market share to over 9% with revenue premiums growing to over NZ$100m. In Hong Kong and Singapore, following another year of strong sales growth, we are investing in new computer systems to cope with the projected volume of business and to enable new products to be introduced. Meanwhile, we have continued to see rapid growth through our associated company in Malaysia with a 44% increase in new business.

All this adds up to a growing presence in the emerging markets of the Pacific Rim, where we see some exciting opportunities.

Despite the progress being made towards the single market in Europe, we do not yet see the same opportunities for life and pensions activities in the European Community, although we have important businesses in Italy, the Netherlands and the Republic of Ireland.

Whilst our Italian subsidiary Prudential Vita had a very good year with new annual premium business growing by 49%, our Dutch company had a disappointing year with new annual premium business remaining depressed due to a government review of taxation issues as well as the general decline in the life and mortgage market.

The underlying profitability of Prudential Life of Ireland remained strong. Annual premium sales increased in a difficult market, however the loss of Allied Irish Banks as a distribution channel affected sales of single premium products. In response we have since forged a link with the Irish Permanent Building Society, and are developing a direct sales force. As a result we expect a better performance in 1992.



Henry Cheng, sales manager, and Michelle Pau, one of our top performing sales agents, in Hong Kong.

General Insurance

We have been considering how best to ensure that we improve our overall general insurance performance. Various actions have already been taken, for example a number of significant price increases have been implemented both during the year and early in 1991; other remedial actions are being taken.

In last year's Annual Report I said that remedial actions were being taken to improve the performance of our general insurance operations.

The benefits of some of these actions, in particular in relation to our Home Service division personal lines business, have already begun to show through. However, it became clear as the year progressed and our analysis became more penetrating that more drastic measures were required elsewhere.

In 1991 overall losses from our general insurance businesses amounted to £149m. Although this represents a 20% reduction on the previous year, it is nevertheless an extremely disappointing and unsustainable result. The majority of these losses arose through our United Kingdom broker business and through the non-life reinsurance activities of Mercantile and General.

United Kingdom

In common with other direct insurers our results were severely affected by high levels of claims in respect of fire and theft. For instance, domestic theft claims rose from 14,000 in the second quarter of 1990 to over 19,000 in the fourth quarter of 1991, despite a sought after decline in the number of policies we issued. Moreover, the average size of domestic theft claims increased from below £600 to over £800 during the same period.

However, whilst the industry has been severely hit by losses from subsidence and mortgage guarantee business, our exposure to these is relatively small and so the impact of them on our results was not as great. Subsidence claims cost £12m and mortgage guarantee claims £23m.

Our United Kingdom direct general insurance operations have historically been conducted through two quite different distribution channels — independent general insurance brokers on the one hand, and the direct sales force of our Home Service division on the other hand.

Broker Business

Prudential has been in general insurance since around 1915, however we have never really developed sufficient scale in the broker market. In 1987 we established this business as a separate division, based in Welwyn Garden City, in order to provide it with greater focus on its particular market. Following these actions the division made small profits from 1987 to 1989, but these have been dwarfed by losses in the last two years.

A serious problem has been the small scale of the operation. Its size has impeded its ability to operate effectively. In the market at large there is serious overcapacity and fierce competition to maintain market share through unprofitable, even irrational, pricing. In these circumstances a small operation like ours has little realistic prospect of flourishing. After a thorough and detailed review of all the available options, therefore, we decided to withdraw from this market segment absolutely and so announced our intention when we published our annual results on 24 March. In essence we concluded that we could see no prospect of a proper return being earned

We are confident that the profits declared this year provide a firm base for future growth.

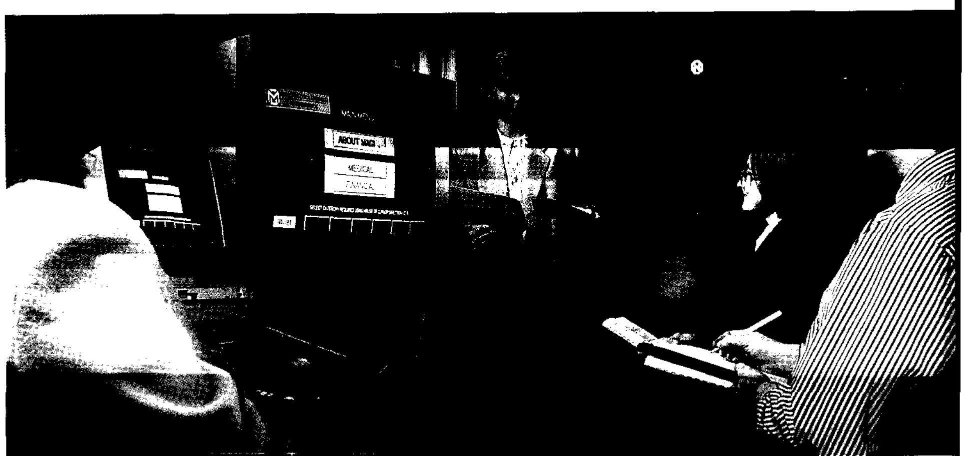
On the non-life side, M&G reported a net operating loss of £60m. This loss reflects both the strengthening of provisions in respect of business written in prior years and the projected loss for business written during 1991.

Provisions for the earlier years needed to be increased in two areas. First, following a thorough review of M&G's exposure to latent disease and pollution claims, loss reserves have been increased by £18m to a level we believe to be in accordance with the best market practice given all the available information. Secondly, we have increased provisions for marine business by over £15m in the light of further claims development information. Since 1989 M&G has been taking action to withdraw from certain areas of marine business which have contributed to the losses reported this year and in recent years.

Operating conditions in 1991 continued to be unfavourable. Apart from the underlying problems of rate inadequacy, a number of major losses affected M&G including Japanese typhoons, the fire at the London Underwriting Centre and the Calgary hailstorm. In aggregate these cost M&G £20m, slightly more than the storms which ravaged Northern Europe in the early part of 1990.

The terms and conditions for existing and new business have now improved significantly, reflecting the impact of the poor experience of the reinsurance market in the past few years and the consequent withdrawal of capacity from that market. This bodes well for future profitability.

When we published our interim figures last autumn, we took pains to emphasise the ambitions we have as owners of M&G, in summary to optimise and accelerate the release of value for the Corporation's shareholders. I am confident that the analysis we have done since then, and the actions we have taken subsequently, are a determined and well-conceived step in the right direction.



Mercantile and General runs an extensive training programme for underwriters as part of the service it offers to its clients.

Other Activities

Investment Management

Our investment management operation, Prudential Portfolio Managers had an excellent year in 1991, with fee income benefiting not only from growth in fund values but also from superior investment performance.

Profits almost doubled from the previous year to £12m, benefiting from top quartile investment performance. During the year PPM gained some £600m of new business from segregated pension funds and is poised to do well in 1992 on the back of its strong investment record.

Following the establishment of PPM America in 1990 to manage Jackson National Life's portfolio, we have continued the process of globalisation by integrating our investment operation in Sydney into a new company, PPM Australia. Under the managing directorship of Ian Horton, the Australian investment team is responsible not only for managing A$4 billion of Prudential's Australian funds, but also for developing new external business.

..ately at the heart of all our usinesses. The efficient management of the funds gathered by all of our selling and marketing businesses is fundamentally necessary to provide us with long-term competitive advantage. Hugh Jenkins has now run Prudential Portfolio Managers fo...

Retail Investment Products

PPM also produced excellent investment performance on behalf of Prudential's unit trust clients.

Following the restructuring within Prudential Financial Services under Keith Bedell-Pearce, we have renamed what was the unit trust and PEP operation Prudential Investment Products to reflect its wider scope. We are expanding its existing range of unit trusts and personal equity plans by re-launching our range of currency funds.

Sales of unit trusts in the United Kingdom remained disappointingly low, reflecting the public's preference for products which offer smoothed investment returns, such as the Prudence Bond. We are nevertheless committed to offering consumers a choice of investment vehicles, which by investing in equities provide the best chance of enhancing the value of their savings.

Financial Position

Solvency margins on our general insurance businesses remain satisfactory at over 40% within the Prudential Assurance Company businesses and 65% within the Mercantile and General. Shareholders' funds, however, decreased to £463m.

The year end level of borrowings at £617m reflects both the necessity to meet general insurance losses as well as the injection of further funds into Jackson during the year. We believe it is misleading to apply traditional balance sheet analysis to a largely life assurance organisation as our major asset — the life fund and, in particular, the shareholders' share of the "estate" — is not shown in the balance sheet. A more reliable measure of our financial condition is provided by our interest cover — our ability to service debt costs from revenues. Interest payments on shareholder borrowings at the end of last year were covered six times by profit before interest. The actions we have taken this year, we believe, will result in an increasing level of cover.

During 1991 we launched a Eurobond issue which on admirably tight terms raised US$300m for 10 years at 8.25%. The proceeds were used partially to refinance our commercial paper borrowings. As a result some 80% of our debt is now financed by long-term instruments.

Senior Management

In addition to building on and supplementing the actions we described last year, we have made a number of appointments which substantially strengthen the Corporation's senior team.

It gives me great pleasure to have Keith Bedell-Pearce — as the Chairman has mentioned earlier — joining our team of executive directors.

We have also made a number of new appointments to our central control team.

Peter Nowell, who was formerly managing director of our corporate pensions business, has been appointed group chief actuary, succeeding Hugh Jarvis who retired during last year.

We have appointed Laurel Powers-Freeling, formerly an officer with Morgan Stanley, as director of corporate strategy to work with me and my senior colleagues in the formulation of our longer-term strategies. During the latter half of this year we shall be holding a conference for senior managers throughout the Prudential group to outline the way we intend to move forward. I expect to be reporting on the outcome of this process in next year's report to shareholders.

The Prudential brand is an outstandingly powerful weapon in our armoury and to enhance its value we have appointed Jeremy Wyatt, previously deputy managing director of Biss Lancaster plc, as director of corporate communications. Prudential's "I want to be" advertising campaign is now established as one of the most successful in the financial services sector.

During 1991 we completely reorganised our in-house legal function, reducing the number of staff by 140 and focusing instead on a small high calibre central team

Senior Management (continued)

supplemented by external resources. To head up this function we have recruited Derek Councell, formerly director of legal services at Guinness plc.

My aim is to see our central team impress by its quality rather than oppress by its size. We have maintained stringent controls on the number of our central staff. Excluding the costs of restructuring our legal function which amounted to £3m, central costs borne by our shareholders fell to £23m.

Our management team is committed to improving the quality of the Corporation's earnings and determined, whilst paying due regard to the proper expectations of our policyholders, customers and employees, to deliver increased value to our shareholders. The Chairman has mentioned a significant change which the remuneration committee has agreed during the year in the remuneration package of senior executives — initially in the United Kingdom.

Instead of paying an annual cash bonus heavily based on short-term historical performance, we have introduced an equity based scheme which will lead to senior executives developing an increasingly important community of interest with the Corporation's shareholders.

Although senior executives will continue to be entitled to annual cash awards, they will now be encouraged to invest these sums by buying shares in Prudential. If they elect to do this, their investment will be matched by the Corporation in the form of additional shares. However, a condition of the Share Participation Plan is that both sets of shares must then be held for a period of five years during which time they cannot be sold or transferred. The aim of this restriction is specifically to promote and reward long-term corporate performance.

Summary

Our financial results for 1991 show a modest improvement on the previous year, with the severely adverse outcome of our broker and reinsurance general businesses dragging us back, and the restructuring of our United Kingdom sales organisation impeding sales in our major market. However, I believe we have made substantial progress towards advantageously changing the balance of our business during the year and in improving and strengthening our operational and control processes in our businesses, both in the United Kingdom and overseas.

We have made solid progress during the year in improving the base of our affairs and we are concentrating increasingly on improving our competitive strengths. The Corporation's senior management team worldwide is amply demonstrating its quality and determination by its actions. I am also increasingly reassured by the depth of talent in our organisation as I spend more time moving around the Corporation at all levels. We look forward to reporting further solid progress during 1992.

Mick Newmarch Group Chief Executive, 16 April 1992

Executive Directors

Michael Lawrence *Brian Medhurst* *Keith Bedell-Pearce* *Hugh Jenkins*

John Lock *Mick Newmarch* *Tony Freeman*

Board of Directors

Sir Brian Corby FIA **Chairman** (Age 62) A director since 1983 and Chairman since 1990. Former Group Chief Executive. Director of the Bank of England. President of the Confederation of British Industry. Chairman of the South Bank Board. Former Chairman of the Association of British Insurers.

Michael Abrahams MBE **Deputy Chairman** (Age 54) A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions Limited. Director of John Waddington, Dalepak, Drummonds and the London Clinic. Former Deputy Chairman of John Crowther Group.

Sir Trevor Holdsworth FCA **Deputy Chairman** (Age 64) A director since 1986 and Deputy Chairman since 1988. Chairman of Allied Colloids, National Power and Beauford. Former Chairman of GKN. Former President of the Confederation of British Industry.

Mick Newmarch (Age 53) was appointed Group Chief Executive in 1990. He began his career at Prudential in 1955 in the Economic Intelligence Department and thereafter gained extensive experience in all aspects of investment analysis and fund management in both the United Kingdom and foreign capital markets. In 1981 he set up Prudential Portfolio Managers and became its Chief Executive. He was made a director of the Corporation in 1985.

Ronald Artus CBE FSIA (Age 60) A director since 1984. Former Group Chief Investment Manager. Director of Electrocomponents and General Electric Company.

Mary Baker (Age 55) A director since 1988. Director of Avon Cosmetics, Barclays and the Independent Broadcasting Telethon Trust. Chairman of Holiday Care Service and President of Women in Management. Former Chairman of the London Tourist Board.

Keith Bedell-Pearce (Age 46) became a director at the beginning of 1992 and has been Chief Executive of Prudential Financial Services since 1990. He joined Prudential in 1972 as a systems manager and subsequently qualified as a solicitor. He worked for a number of years as a company and commercial law specialist, following which he became Marketing Director of Prudential Portfolio Managers and then General Manager in charge of field operations and marketing at the Home Service division.

The Rt Hon Lord Butterfield OBE DM FRCP (Age 72) A director since 1981. Chairman of the Croucher Foundation (Hong Kong). Former Regius Professor of Physic, University of Cambridge. Former Master of Downing College. Vice Chancellor of Cambridge University from 1983 to 1985.

Tony Freeman FCA FCMA (Age 54) joined Prudential in 1977 and was appointed Group Chief Accountant in 1980. In 1984 he became Managing Director of the Home Service division and was appointed to the board of the Corporation in 1985. Prior to joining Prudential he was a senior manager with the National Freight Corporation. He is also a director of LAUTRO.

The Hon Sir Victor Garland KBE FCA (Age 57) A director since 1984. Member of the Australian Federal Parliament from 1969 to 1981, holding various ministerial posts. High Commissioner for Australia in the United Kingdom from 1981 to 1983. Director of Ratners Group and a number of investment trusts. Vice Chairman of the South Bank Board.

The Rt Hon Lord Hunt of Tanworth GCB (Age 72) A director since 1980. Chairman from 1985 to 1990 and Deputy Chairman from 1982 to 1985. Secretary of the Cabinet from 1973 to 1979. Chairman of Banque Nationale de Paris plc.

Sir Alex Jarratt CB (Age 68) A director since 1985 and Deputy Chairman from 1987 to 1991. Director and former Chairman of Smiths Industries. Former Chairman of Reed International. Former Deputy Chairman of Midland Bank. Chancellor of University of Birmingham.

Hugh Jenkins FRICS FPMI (Age 58) is Chief Executive of Prudential Portfolio Managers. Prior to joining Prudential in November 1989 as a director, he was Group Investment Director at Allied Dunbar Assurance. Before that he was Director-General of Investments with British Coal Pensions. He is Chairman of the Department of the Environment's Property Advisory Group and a former lay member of the Stock Exchange Council and City Capital Markets Committee and also Vice Chairman of the National Association of Pension Funds.

Michael Lawrence FCA (Age 48) joined Prudential as Group Finance Director in 1988 from Price Waterhouse where he was a senior partner. He was a non-executive director of the Port of London Authority from 1983 to 1989 and acted as adviser to the Secretary of State for Transport in relation to the privatisation of the National Bus Company. He is currently a member of the Council of the Defence Research Agency and is a Freeman of the City of London.

John Lock FCII (Age 61) has been a director since 1988 and is Chief Executive of Mercantile and General Reinsurance. He is on the board of the Geneva Association, a former Chairman of the Reinsurance Offices Association and Vice President of the Insurance Institute of London.

Brian Medhurst FIA (Age 57) is Managing Director of the International Division and has been a director of the Corporation since 1985. His whole career has been with Prudential, initially as an actuary including four years in South Africa, then in investment management becoming Joint Chief Investment Manager from 1980 to 1982.

Julius Neave CBE JP DL (Age 72) A director since 1982. Former Managing Director of Mercantile and General Reinsurance. Honorary President of the Geneva Association, past President of the Chartered Insurance Institute and former Chairman of the Reinsurance Offices Association.

Colin Southgate (Age 53) A director since 1989. Chairman and Chief Executive of Thorn EMI. Director of Lucas Industries, PowerGen and the Bank of England. Vice Chairman of the South Bank Board.

Members of the Audit Committee
Sir Trevor Holdsworth (Chairman)
Michael Abrahams
Sir Victor Garland
Colin Southgate

Members of the Remuneration Committee
Sir Trevor Holdsworth (Chairman)
Michael Abrahams
Sir Alex Jarratt
Mick Newmarch
Colin Southgate

Directors' Report

for the year ended 31 December 1991

Principal Activity and Business Review

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiary undertakings is insurance and reinsurance business in the United Kingdom and overseas. Particulars of principal subsidiary undertakings are given on page 44.

The Group's business is reviewed in the Chairman's Statement on pages 4 to 5 and the Review of Operations on pages 6 to 24.

Accounts

The consolidated balance sheet on page 30 shows the state of affairs of the Group at 31 December 1991. The Company's balance sheet appears on page 31 and the consolidated profit and loss account on page 29. There is a five year review of the Group on pages 47 to 48.

Dividends

The directors have declared a final dividend for 1991 of 7.2 pence per share payable on 27 May 1992 to shareholders on the register at the close of business on 9 April 1992. The dividend for the year, including the interim dividend of 3.8 pence per share paid in 1991, amounts to 11.0 pence per share compared with 10.3 pence per share for 1990. The total cost of dividends for 1991 was £206 million requiring a transfer of £119 million from reserves.

Directors

The present directors are shown on page 25.

Sir Ronald Dearing, Mr P E Moody and Mr J E Ramsden retired on 29 May 1991.

Mr K L Bedell-Pearce was appointed a director on 1 January 1992. He retires in accordance with the Articles of Association and offers himself for election at the Annual General Meeting.

The directors retiring by rotation at the Annual General Meeting are Sir Brian Corby, Mr J Lock, Mr M G Newmarch and Mr C G Southgate. They offer themselves for re-election. Lord Hunt also retires by rotation but does not offer himself for re-election. Lord Butterfield and Mr J A S Neave retire at the Annual General Meeting.

The service contract of Mr M G Newmarch is not for a fixed period but is terminable on not less than three years' prior written notice given by the employer. The service contract of Mr J Lock has an unexpired term of less than one year.

A statement of directors' interests in the share capital of the Company is set out on page 45.

Share Participation Plan

During 1992 changes have been made to the way in which senior executives are remunerated.

In summary a cash bonus of up to 15% of basic salary will normally be awarded to executives, depending upon their level of seniority. However, this award may be restricted by the remuneration committee in years of poor corporate performance. Executives may elect to use these payments to buy shares in Prudential, in which case the Company will match their gross investment with additional shares bought in the market. In exceptionally good years, additional shares may be allocated. A condition of the plan is that the entire shareholding thus acquired must then be held for a minimum period of five years during which the shares cannot be sold, pledged, or transferred. Full details of the scheme will be available at the Annual General Meeting.

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 Group in the United Kingdom in each week of 1991 was 25,886 and their total remuneration was £525 million.

Equal Opportunity

Group policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees.

During 1991, this policy was furthered by concentrating on the spread of existing good practice and the extension of personal development opportunities. Annual monitoring is used to evaluate the extent to which the policy is implemented and its objectives achieved.

Employee Involvement

Arrangements continued in 1991 to communicate with employees on issues which concern them, and to develop channels through which employees' views can be sought, including the further use of employee attitude surveys. Discussion groups, drawn from a cross-section of employees and focusing on key issues affecting their work, have been used as an additional means of participation during substantial organisational change. Employees were again invited to participate in the Prudential Savings-Related Share Option Scheme. The board of the corporate trustee of The Prudential Staff Pension Scheme has directors elected by the members of the scheme.

Community Support

By using the Charities Aid Foundation, the Company and its subsidiary undertakings enabled United Kingdom charities to receive over £876,000 in 1991. A further £173,000 was given directly for charitable purposes in the United Kingdom, and donations of £218,000 were made overseas.

A broad range of financial and other support was given to over 300 selected community organisations across the United Kingdom. Areas of particular interest included education and training; medical research and health care; the special needs of elderly people, those with mental and physical disabilities and their carers; and other social issues such as homelessness, substance abuse and crime prevention, with a special focus on young people.

During the year staff participating in the secondment programme represented a further contribution of £251,000 to charitable projects.

Auditors

A resolution proposing the re-appointment of Price Waterhouse as auditors of the Company will be put to the Annual General Meeting.

Shareholders

The number of registered shareholders at 31 December 1991 was 64,525 (63,198). At 31 March 1992, no notification of a current shareholding of three per cent or more of the share capital of the Company had been received by the Company.

An analysis of shareholdings in the Company at 31 December is given below:

	1991 %	1990 %
Banks and other nominee companies	**58**	56
Insurance companies	**13**	15
Pension funds	**8**	10
Investment trusts and unit trusts	**1**	1
Other corporations	**7**	5
Individuals (held directly)	**13**	13
	100	100

Close Company Provisions

The close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

By order of the board of directors

P R Rawson
Secretary

16 April 1992

Notice of Meeting

Prudential Corporation Public Limited Company. Incorporated and Registered in England and Wales. Registered number 1397169.

Notice is hereby given that the Annual General Meeting of the Company will be held at the Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Wednesday 27 May 1992 at 11.30 am for the following purposes:

Ordinary Business

1 To receive and consider the Directors' Report and the Accounts for the year ended 31 December 1991 with the Auditors' Report thereon.
2 To re-elect as directors, Sir Brian Corby, Mr J Lock, Mr M G Newmarch and Mr C G Southgate and to elect as a director Mr K L Bedell-Pearce.
3 To re-appoint Price Waterhouse as auditors.

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

By order of the board of directors

P R Rawson
Secretary
1 Stephen Street, London W1P 2AP

30 April 1992

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 available for inspection at the meeting. Copies of the service contracts of executive directors (unless expiring or determinable without compensation within one year) will be available for inspection at the transfer office of the Company, 1 Stephen Street, London W1P 2AP, during business hours on any weekday (excluding Saturdays and bank holidays) from the date of this notice until the date of the meeting and will be available for inspection at the Plaisterers Hall for 30 minutes prior to, and at, the meeting.

Financial Calendar

Payment of 1991 final dividend	27 May 1992
Annual General Meeting	27 May 1992
Announcement of 1992 interim results	9 September 1992
Payment of 1992 interim dividend	26 November 1992
Announcement of 1992 full year results	23 March 1993

Consolidated Profit and Loss Account

year ended 31 December 1991

Note		1991 £m	1990 £m
	Profit/(loss) before tax from		
1	Long-term business	385	367
2	General insurance	(149)	(185)
	Estate agency	–	(34)
3	Shareholders' other income	31	96
	Profit on ordinary activities before tax	267	244
5	Tax	(126)	(133)
	Minority interests	(1)	–
	Profit attributable to shareholders before extraordinary items	140	111
6	Extraordinary items	(53)	33
	Profit attributable to shareholders after extraordinary items	87	144
	Dividends	(206)	(192)
	Transfer from reserves	(119)	(48)

	1991	1990
Earnings per share Based on earnings of £140m (£111m) and 1,865m (1,856m) shares	7.5p	6.0p
Dividend per share	11.0p	10.3p

Movements in Consolidated Reserves

year ended 31 December 1991

Note		1991 £m	1990 £m
	Transfer to profit and loss account	(119)	(48)
8	Increase/(decrease) in deferred investment gains	64	(140)
	Tax on deferred investment gains	(8)	–
	Non-insurance company unrealised investment gains/(losses)	13	(73)
	Exchange losses	(6)	(34)
	Other movements	7	(29)
	Movements in reserves	(49)	(324)
	Balance at beginning of year	345	669
	Balance at end of year	296	345
	Comprising: Retained profit	140	242
	Revaluation reserve	156	103
		296	345

Consolidated Balance Sheet

31 December 1991

Note		1991 £m	1990 £m
	Investments		
	Ordinary shares	17,772	14,051
	Properties	4,398	5,170
	British Government securities	1,907	2,232
	Other fixed income securities	13,073	9,727
	Mortgages and loans	1,382	1,270
	Short-term deposits	2,006	1,828
		40,538	34,278
	Other Assets		
	Fixed assets	133	138
	Tax recoverable	313	423
	Debtors	1,482	1,446
	Bank balances and cash	363	262
		2,291	2,269
	Total Assets	42,829	36,547
	***Less* Liabilities**		
	Bank loans and overdrafts	265	327
	Other borrowings	535	469
	Tax	102	117
	Deferred tax	5	9
	Final dividend	135	127
	Other creditors	791	826
	Minority interests	5	4
		1,838	1,879
9	**Total Assets less Liabilities**	40,991	34,668
	***Less* Insurance Funds and Reserves**		
11	Long-term business	38,801	32,626
11	General insurance	1,727	1,539
		40,528	34,165
		463	503
	Shareholders' Capital and Reserves		
12	Share capital	93	93
12	Share premium	74	65
	Reserves	296	345
		463	503

Balance Sheet of the Company

31 December 1991

Note		1991 £m	1990 £m
	Fixed Assets		
	Investments		
18	Shares in subsidiary undertakings	299	226
18	Loans to subsidiary undertakings	601	573
		900	799
	Current Assets		
	Debtors		
	Amounts owed by subsidiary undertakings	165	153
	Other debtors	4	3
	Bank Balances and Cash	—	30
		169	186
	***Less* Liabilities: amounts falling due within one year**		
10	Bank loans and overdrafts	91	2
5	Deferred tax	4	—
	Amounts owed to subsidiary undertakings	123	200
	Final dividend	135	127
	Other creditors	8	8
		361	337
	Net Current Liabilities	192	151
	Total Assets less Current Liabilities	708	648
	***Less* Liabilities: amounts falling due after more than one year**		
	Amounts owed to subsidiary undertakings	412	325
		296	323
	Capital and Reserves		
12	Share capital	93	93
12	Share premium	74	65
	Reserves	129	165
		296	323

The accounts on pages 29 to 45 were approved by the board of directors on 16 April 1992.

Sir Brian Corby, Chairman

M G Newmarch, Group Chief Executive

M J Lawrence, Group Finance Director

Shareholders' and General Insurance Cash Flow Statement

year ended 31 December 1991

Note		1991 £m	1990 £m
	Operations		
16	Net cash inflow from operations	353	216
	Servicing of finance		
	Interest paid	(53)	(33)
	Dividends paid	(198)	(178)
	Net cash outflow for servicing of finance	(251)	(211)
	Tax		
	Tax received/(paid)	64	(66)
	Investment		
	Net (purchases)/sales of investments (excluding short-term deposits):		
	Ordinary shares	(13)	22
	Properties	—	(10)
	Fixed income securities	(344)	6
16	Net (purchases)/sales of investments (excluding short-term deposits)	(357)	18
	Proceeds from sale of Belgian subsidiary undertaking	—	145
	Net cash (outflow)/inflow for investment	(357)	163
	Net cash (outflow)/inflow before financing	(191)	102
	Financing		
12	Issues of ordinary share capital	9	13
10	Bond issue US$300m 8.25% 2001	160	—
	Repayment of Floating Rate Notes 1995	—	(47)
	Other borrowings (excluding bank loans and overdrafts) — (outflow)/inflow	(97)	135
16	Net cash inflow from financing	72	101
	Net (outflow)/inflow in cash and cash equivalents	(119)	203

Note		1991 £m	1990 £m
	Changes in cash and cash equivalents		
	Net (outflow)/inflow	(119)	203
	Exchange translation	3	(22)
	(Decrease)/increase for year	(116)	181
	Balance at beginning of year	474	293
	Balance at end of year	358	474
9	Comprising:		
	Short-term deposits	232	402
	Bank balances and cash	217	85
	Bank loans and overdrafts	(91)	(13)
		358	474

Accounting Policies

(A) Disclosure requirements

The consolidated accounts are prepared in accordance with the provisions of section 255 of, and Schedule 9 to, the Companies Act 1985 which cover the disclosures applicable to insurance companies. The accounts are prepared in accordance with applicable accounting standards and with the statement of recommended practice issued by the Association of British Insurers. The balance sheet of the Company is prepared in accordance with the provisions of Schedule 4 to the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under section 230 of the Companies Act 1985 from presenting its own profit and loss account.

The accounts include a cash flow statement prepared in accordance with Financial Reporting Standard No. 1 issued by the Accounting Standards Board in place of the statement of source and application of funds.

(B) Basis of consolidation

The Group accounts incorporate the assets, liabilities and results of the Company and its significant subsidiary undertakings.

The results of subsidiary undertakings acquired or disposed of are normally included in the accounts from the date of acquisition or up to the date of disposal.

(C) Long-term business

Premiums and annuity considerations are accounted for when due, except for unit-linked business where premiums are accounted for when the liabilities arising from those premiums are created.

Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified.

Tax on long-term business activities is charged to the long-term business funds.

Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. For business deemed by directors to be linked and for long-term accident and disability business, the whole of the surplus arising is allocated to shareholders. For other life business, the amount of surplus allocated to shareholders is determined by the directors of the companies concerned in accordance with the relevant Articles of Association.

The transfer of shareholders' profit from the long-term business revenue account to the profit and loss account is grossed up by attributable tax.

(D) General insurance

General insurance is accounted for on an annual basis, except that:

- Fire and accident proportional reinsurance business is dealt with mainly on a deferred annual basis.
- Marine and aviation business and accident non-proportional reinsurance business are dealt with mainly on a three year funded basis.
- Fire non-proportional reinsurance business is dealt with on a funded basis, profits being recognised after one to three years.

For business dealt with on an annual basis, premiums written are accounted for in the year in which the risks are assumed. Claims comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions.

For business dealt with on a deferred annual or funded basis, premiums and claims are recorded in the accounting period in which they are notified.

The following bases are applied in calculating the underwriting results:

(i) Unearned premiums

For business dealt with on an annual basis, the proportion of the premiums written and acquisition costs incurred relating to periods of risk beyond the year end are carried forward to subsequent accounting periods as unearned premiums and deferred acquisition expenses. The amounts carried forward are calculated mainly on a monthly proportional basis. For business dealt with on a deferred annual basis, unearned premiums on closed years are calculated on the basis of individual contract terms.

(ii) Outstanding claims

Outstanding claims comprise claims incurred up to but not paid at the year end whether reported or not.

(iii) Open year funds

For business dealt with on a deferred annual or funded basis, the aggregate net revenue relating to open years of account is carried forward as a fund. The fund for each year is increased if necessary to meet the estimated costs of all outstanding liabilities including claims incurred but not reported and the claims expected on periods of risk beyond the year end.

(iv) Unexpired risks

For business dealt with on an annual basis, provision is made for any excess of expected claims over unearned premiums (net of deferred acquisition costs) and anticipated investment return.

(v) Discounting

Certain long-tail liabilities are discounted to take account of the estimated periods over which premiums are received and claims are paid.

Accounting Policies

(E) Other income

Investment management fee income is recognised on an accruals basis. Initial charges on the sale of unit trusts are credited to income on the associated contract date.

(F) Tax

Tax is charged on all profits and income earned to date less reliefs. Provision under the liability method is made for deferred tax arising from timing differences other than those considered likely to continue into the foreseeable future. Under this policy, deferred tax is not provided on earnings retained overseas and no provision is made for tax which would become payable if investments were realised at the values shown.

(G) Investments

(i) Investment income

Investment income is shown after deducting interest payable and directly related investment expenses. Income arising on assets matching general insurance technical reserves is credited to the general insurance revenue account.

(ii) Investment valuations

Listed investments are shown at market value. Properties are shown at open market value as valued by the Group's qualified surveyors or by professional external valuers. Unlisted investments and long-term mortgages and loans are shown at directors' valuation. Short-term loans are shown at par. Shares in subsidiary undertakings are shown at cost less provisions for diminution in value.

(iii) Investment gains and losses

— Long-term business funds

For non-linked business, both realised and unrealised investment gains and losses and tax thereon are taken to investment reserves. Transfers are made from time to time between investment reserves and the long-term business revenue account. The amount of any transfer is determined by the directors of the undertaking concerned.

For linked business, investment gains and losses are dealt with in the revenue account.

— General insurance and shareholders' funds

Insurance company realised and unrealised gains and losses are taken to reserves. These gains and losses are averaged over five years and transferred to investment return within the revenue account and the profit and loss account. The unrealised element is subsequently transferred back to revaluation reserve.

Non-insurance company realised gains and losses are included in shareholders' other income. Unrealised gains and losses are taken to revaluation reserve.

(H) Foreign currencies

Foreign currency revenue transactions, assets and liabilities 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. Within general insurance and shareholders' funds, exchange gains and losses on net investments in foreign enterprises less matching borrowings are taken to retained profit and other exchange differences to shareholders' other income. Exchange differences on long-term business are taken to investment reserves.

(I) Goodwill

Goodwill is written off against reserves in the year of acquisition.

(J) Fixed assets and depreciation

Major items of capital expenditure on computer equipment, vehicles, furniture and office equipment are capitalised and depreciated by equal annual instalments over their estimated useful lives.

(K) Leased assets

Assets held under finance leases are capitalised at their fair market value. Commitments under these leases are included within other creditors.

(L) Pension costs

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

Notes on the Accounts

Note	1 Long-term Business Revenue Account	1991 £m	1990 £m
4	Gross premium income	6,163	5,231
	Less reassurance	144	90
	Net premium income	6,019	5,141
7	Investment income	2,477	2,284
	Transfer from investment reserves	1,406	779
	Increase/(decrease) in value of investments related to linked business	299	(561)
		10,201	7,643
	Gross claims and surrenders	3,760	3,059
	Less reassurance	92	38
	Net claims and surrenders	3,668	3,021
	Commission	417	419
	Expenses	754	662
5	Tax	151	97
	Increase in insurance liability	3,289	1,631
		8,279	5,830
	Surplus for distribution	1,922	1,813
	Less policyholders' bonuses	1,677	1,574
	Shareholders' profit after tax	245	239
5	Shareholders' tax	140	128
4	Profit before tax	385	367

Note	2 General Insurance Revenue Account	1991 £m	1990 £m
4	Gross premiums written	1,189	1,155
	Less reinsurance	140	129
	Net premiums written	1,049	1,026
	Gross claims	1,116	1,089
	Less reinsurance	221	221
	Net claims	895	868
	Commission	182	181
	Expenses	193	230
	Deferred acquisition expenses	(12)	(6)
	Increase in insurance liability	85	71
		1,343	1,344
4	Underwriting result	(294)	(318)
4, 7	Investment return	145	133
4	Loss before tax	(149)	(185)

Note	3 Shareholders' Other Income	1991 £m	1990 £m
7	Investment return	101	148
13	Interest on borrowings	(55)	(32)
	Corporate expenditure	(26)	(26)
		20	90
	Trading results from:		
	Investment management	12	7
	Unit trusts and personal equity plans	(1)	(1)
4	Profit before tax	31	96

Notes on the Accounts

4 Segmental Analysis

Long-term Business and General Insurance

Premiums and profit/(loss) before tax

Long-term Business	New business: Annual premiums 1991 £m	1990 £m	Single premiums 1991 £m	1990 £m	Gross premium income 1991 £m	1990 £m	Profit/(loss) before tax 1991 £m	1990 £m
United Kingdom								
Non-linked:								
Pensions	132	134	512	406	997	855	74	56
Life and annuity	136	162	408	40	1,280	883	162	168
Linked life and pensions	3	11	41	91	107	157	6	1
Total individual business	271	307	961	537	2,384	1,895	242	225
Corporate pensions	49	32	447	389	594	506	19	19
Total United Kingdom	320	339	1,408	926	2,978	2,401	261	244
International								
Australia	31	45	322	227	529	403	16	15
Canada	19	16	135	134	260	247	(19)	7
Republic of Ireland	9	8	5	30	43	62	1	4
USA	78	86	1,212	1,171	1,586	1,474	60	27
Other countries	35	31	21	21	151	130	5	4
Total International	172	186	1,695	1,583	2,569	2,316	63	57
Mercantile and General Reinsurance								
United Kingdom	46	40	59	60	271	251	40	62
North America	112	83	—	—	295	208	1	(4)
Other countries	12	15	1	1	50	55	20	8
Total Mercantile and General Reinsurance	170	138	60	61	616	514	61	66
Group total	662	663	3,163	2,570	6,163	5,231	385	367

General Insurance	Gross premiums written 1991 £m	1990 £m	Underwriting result 1991 £m	1990 £m	Investment return 1991 £m	1990 £m	Profit/(loss) before tax 1991 £m	1990 £m
United Kingdom								
Home Service:								
Domestic property	227	194	(15)	(67)	16	9	1	(58)
Motor	68	72	(7)	(13)	8	8	1	(5)
Commercial lines	70	71	(22)	(12)	9	8	(13)	(4)
	365	337	(44)	(92)	33	25	(11)	(67)
Broker Business:								
Commercial lines	159	155	(95)	(47)	24	20	(71)	(27)
London market	36	30	(7)	(13)	8	6	1	(7)
Other	30	41	(11)	(18)	4	4	(7)	(14)
	225	226	(113)	(78)	36	30	(77)	(48)
Total United Kingdom	590	563	(157)	(170)	69	55	(88)	(115)
International								
Canada	148	140	(13)	(9)	15	12	2	3
Belgium	—	55	—	(15)	—	6	—	(9)
Other countries	24	30	—	(3)	3	4	3	1
Marine and aviation	77	63	(12)	(11)	6	6	(6)	(5)
Total International	249	288	(25)	(38)	24	28	(1)	(10)
Mercantile and General Reinsurance								
United Kingdom	214	179	(96)	(100)	37	35	(59)	(65)
North America	103	84	(13)	(6)	11	9	(2)	3
Other countries	33	41	(3)	(4)	4	6	1	2
Total Mercantile and General Reinsurance	350	304	(112)	(110)	52	50	(60)	(60)
Group total	1,189	1,155	(294)	(318)	145	133	(149)	(185)

The above geographical analyses of premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.

Long-term Business and General Insurance (continued)

Premiums by class of business

Note	Long-term Business	New business: Annual premiums 1991 £m	1990 £m	New business: Single premiums 1991 £m	1990 £m	Gross premium income 1991 £m	1990 £m
	Non-linked:						
	Pensions	186	172	798	677	1,450	1,263
	Life	313	387	530	313	2,369	1,995
	Annuity	1	1	1,360	1,248	1,373	1,272
	Permanent health	133	83	1	1	338	253
		633	643	2,689	2,239	5,530	4,783
	Linked:						
	Pensions	8	10	184	151	212	174
	Life	21	10	290	180	421	274
		29	20	474	331	633	448
	Group total	662	663	3,163	2,570	6,163	5,231
	Comprising: Group business	192	154	618	514	1,204	958
	Individual business	470	509	2,545	2,056	4,959	4,273
		662	663	3,163	2,570	6,163	5,231

General Insurance (including inwards reinsurance)	Gross premiums written 1991 £m	1990 £m
Property	626	577
Liability	445	479
Marine and aviation	118	99
Group total	1,189	1,155

Net assets

Shareholders' funds held to meet solvency requirements are not regarded as operating net assets for the purposes of calculating profits of the long-term and general insurance businesses. Therefore the net assets of these businesses are considered to be nil. The geographical spread of the businesses is indicated by the following analysis of insurance funds:

Note		Long-term business insurance funds 1991 £m	1990 £m	General insurance fund 1991 £m	1990 £m
	United Kingdom	20,358	17,488	1,356	1,199
	Australia	1,863	1,473	22	19
	Canada	2,098	1,840	221	199
	USA	6,655	5,102	79	69
	Other countries	958	794	49	53
11	**Group total**	31,932	26,697	1,727	1,539

Note	Shareholders' Funds — geographical analysis	Shareholders' other income 1991 £m	1990 £m	Shareholders' capital and reserves 1991 £m	1990 £m
	United Kingdom	26	80	240	423
	Canada	17	15	188	128
	USA	34	19	564	351
	Other countries	9	14	88	70
		86	128	1,080	972
13, 10	*Less* Group interest payable/borrowings	55	32	617	469
3, 9	**Group total**	31	96	463	503

Details of Group borrowings by currency are included in note 10.

Notes on the Accounts

5 Tax

Note	Tax charged to long-term revenue account and to profit and loss account	Long-term business 1991 £m	Long-term business 1990 £m	General insurance and shareholders 1991 £m	General insurance and shareholders 1990 £m
	Corporation tax	29	44	(25)	(32)
	Double tax relief	(3)	(4)	(8)	(7)
	Tax on franked investment income	83	82	7	6
	Overseas tax	62	49	–	19
	Prior year adjustments	(13)	(61)	(6)	6
		158	110	(32)	(8)
	Deferred tax: current year	9	(12)	18	(1)
	prior year	(16)	(1)	–	14
		151	97	(14)	5
	Shareholders' attributable tax	(140)	(128)	140	128
		11	(31)	126	133

Details of tax in respect of extraordinary items are included in note 6.
The long-term business charge in 1990 was reduced by £91m due to the utilisation of exceptional tax losses arising in 1989.

Tax charged/(credited) to reserves	1991 £m	1990 £m	1991 £m	1990 £m
Current tax	65	(32)	2	(9)
Deferred tax	17	5	–	1
	82	(27)	2	(8)

Note	Deferred tax	1991 £m	1990 £m	1991 £m	1990 £m
	Amount provided/(asset recognised) in balance sheets:				
	Short-term timing differences	32	22	5	3
	Unrelieved losses	–	–	–	(16)
6	Closure costs of general insurance broker business	–	–	(32)	–
9		32	22	(27)	(13)
	Potential liability not provided:				
	Unrealised gains on investments	836	621	90	74
	Unrelieved losses	(2)	(8)	(35)	(37)
	General insurance reserves	–	–	(28)	(22)
	Other timing differences	(12)	12	(11)	1
		822	625	16	16

The deferred tax liability in the balance sheet of the Company of £4m (£nil) relates to short-term timing differences.

Note	6 Extraordinary Items	1991 £m	1990 £m
	Extraordinary income:		
	Profit on sale of Belgian subsidiary undertaking	–	86
	Extraordinary charges:		
	Closure costs of general insurance broker business	(85)	–
	Closure costs of estate agency operations	–	(41)
	Closure costs of overseas insurance agencies	–	(12)
	Extraordinary (loss)/profit before tax	(85)	33
5	Tax	32	–
	Extraordinary (loss)/profit after tax	(53)	33

Closure costs of general insurance broker business incorporate the full costs of discontinuing the business including trading losses arising after the year end less the anticipated return on investments matching the technical reserves.

7 Investment Return

Note	Long-term Business	1991 £m	1990 £m
	Investment income	2,590	2,381
	Less investment expenses	113	97
1		2,477	2,284
	Investment gains/(losses)	2,420	(3,175)
		4,897	(891)

Note		General insurance		Shareholders	
	General Insurance and Shareholders	1991 £m	1990 £m	1991 £m	1990 £m
	Investment income	129	124	73	86
	Less investment expenses	2	2	2	2
		127	122	71	84
	Insurance company averaged investment gains: realised	26	22	16	23
	unrealised	(8)	(11)	4	5
	Non-insurance company realised investment gains	–	–	10	36
2, 3		145	133	101	148

8 Insurance Company Deferred Investment Gains

Note	General Insurance and Shareholders	1991 £m	1990 £m
	Investment gains/(losses) for the year: realised	60	29
	unrealised	42	(130)
		102	(101)
7	*Less* included in: general insurance investment return	(18)	(11)
7	shareholders' investment return	(20)	(28)
	Increase/(decrease) in deferred investment gains	64	(140)
	Deferred gains at beginning of year	39	179
	Deferred gains at end of year	103	39

Note	9 Balance Sheets	Long-term business 1991 £m	Long-term business 1990 £m	General insurance and shareholders 1991 £m	General insurance and shareholders 1990 £m
	Investments				
	Ordinary shares	17,149	13,514	623	537
	Properties	4,370	5,133	28	37
	British Government securities	1,750	2,138	157	94
	Other fixed income securities	11,908	8,915	1,165	812
	Mortgages and loans	1,303	1,213	79	57
	Short-term deposits	1,774	1,426	232	402
		38,254	32,339	2,284	1,939
	Other Assets				
	Fixed assets	68	35	65	103
	Tax recoverable	228	314	85	109
	Debtors	1,113	1,024	754	769
	Bank balances and cash	146	177	217	85
		1,555	1,550	1,121	1,066
	Total Assets	39,809	33,889	3,405	3,005
	***Less* Liabilities**				
10	Bank loans and overdrafts	174	314	91	13
10	Other borrowings	9	13	526	456
	Tax	87	100	15	17
5	Deferred tax	32	22	(27)	(13)
	Final dividend	—	—	135	127
	Other creditors	706	814	470	359
	Minority interests	—	—	5	4
		1,008	1,263	1,215	963
	Total Assets less Liabilities	38,801	32,626	2,190	2,042
11	***Less* General Insurance Fund**	—	—	1,727	1,539
		38,801	32,626	463	503
11	**Long-term Business Funds and Reserves**	38,801	32,626	—	—
4	**Shareholders' Capital and Reserves**	—	—	463	503
		38,801	32,626	463	503

Note 10 Borrowings	Long-term business 1991 £m	Long-term business 1990 £m	General insurance and shareholders 1991 £m	General insurance and shareholders 1990 £m
Bank loans and overdrafts (repayable on demand)	174	314	91	13
Secured loans:				
Canadian dollar borrowings (8% to 13%)	9	7	1	1
Other	—	6	—	—
Unsecured loans:				
Sterling commercial paper 1992 (10.6% to 11%)	—	—	34	45
Eurodollar commercial paper	—	—	—	82
DM300m 6% Guaranteed Notes 1987-1997	—	—	106	104
SF200m 4.75% Guaranteed Bonds 1988-1998	—	—	75	73
US$300m 8.25% Guaranteed Bonds 2001	—	—	160	—
£150m 9.375% Guaranteed Bonds 2007	—	—	150	150
Other	—	—	—	1
Total other borrowings	9	13	526	456
Total borrowings	183	327	617	469
Borrowings are repayable as follows:				
Within one year or on demand	181	320	126	141
Between one and two years	1	6	—	1
Between two and five years	1	1	—	—
After five years	—	—	491	327
	183	327	617	469

The Company has bank loans and overdrafts of £91m (£2m) which are wholly repayable within one year or on demand.
The Group has entered into a number of swap transactions in respect of unsecured loans of the general insurance and shareholders' funds. As a result of these transactions, the effective liabilities at 31 December 1991 for the unsecured loans are US$618m, DM300m and £89m, equivalent in total to £525m. The weighted average rate of interest payable on these loans is 8.6% (8.5%).
Under the terms of the Group's arrangements with its main United Kingdom banker, the bank has a right of set off between credit balances, other than those of long-term funds, and all overdrawn balances of those Group undertakings with similar arrangements.

11 Insurance Funds and Reserves

Note	Long-term Business	1991 £m	1990 £m
4	Insurance funds	31,932	26,697
	Gross outstanding claims	207	145
	Reassurance recoverable	(14)	(6)
	Net outstanding claims	193	139
	Investment reserves	6,676	5,790
	Total funds and reserves	38,801	32,626

Note	General Insurance	1991 £m	1990 £m
	Gross fund:		
	Unearned premiums	373	343
	Outstanding claims	711	598
	Reinsurance and other funds	1,019	965
		2,103	1,906
	Reinsurance recoverable	(298)	(302)
		1,805	1,604
	Deferred acquisition expenses	(78)	(65)
4	Total net fund	1,727	1,539

Discounting has been applied to certain long-tail general insurance business funds at the rate of 5% per annum.
The funds which are discounted relate to accident non-proportional reinsurance, direct liability business and asbestos and pollution losses. The mean terms of settlement are between three and seven and a half years. The overall effect of discounting is to reduce the general insurance fund at 31 December 1991 by £137m (£114m) and to increase Group profit before tax by £22m (£13m).

12 Share Capital and Share Premium

Authorised share capital is £120m comprising 2,400,000,000 shares of 5p each.

Issued shares of 5p each fully paid	Number of shares	Share capital 1991 £m	Share premium 1991 £m
Balance at beginning of year	1,861,305,970	93.1	65.3
Shares issued under share option schemes	5,364,483	0.2	6.7
Shares issued in lieu of dividends	1,308,197	0.1	3.1
Shares issued to acquire subsidiary undertakings	28,825	–	0.1
Expenses of bond issue	–	–	(1.4)
Balance at end of year	1,868,007,475	93.4	73.8

Options subsisting under the share option schemes at 31 December 1991 were:

Year options granted	Number of options	Price of options pence per share	Period during which options are exercisable
1985	1,239,235	105.0-128.2	1992-1995
1986	1,035,175	160.9-177.1	1992-1996
1987	4,115,655	157.2-199.0	1992-1997
1988	3,465,465	149.0-166.4	1992-1998
1989	6,656,496	167.0-200.5	1992-1999
1990	20,322,305	156.0-197.0	1993-2000
1991	11,066,168	192.0-248.0	1994-2001

13 Interest on Borrowings

	Long-term business		General insurance and shareholders	
	1991 £m	1990 £m	1991 £m	1990 £m
Interest on borrowings repayable within 5 years	31	70	24	5
Interest on other borrowings	–	–	31	28
	31	70	55	33
Charged to:				
Long-term business revenue account	31	70	–	–
General insurance revenue account	–	–	–	1
Shareholders' other income	–	–	55	32
	31	70	55	33

Interest charged to the long-term business and general insurance revenue accounts is deducted from investment income.

14 Pension Costs

The Group operates a number of pension schemes around the world. The major schemes are of the defined benefit type with scheme assets held in separate trustee administered funds.

The Group's main United Kingdom scheme, which covers 74% of the scheme members in service within the Group, was valued as at 5 April 1990 by a qualified actuary who is an employee of the Group. The projected accrued benefits method was used and the principal actuarial assumptions adopted were investment return 9.5% per annum, pensionable earnings growth 8.0% per annum, increases to pensions in payment 4.5% per annum and dividend growth 4.5% per annum.

The market value of scheme assets at that date was £2,059m and the actuarial value of the assets was sufficient to cover 128% of the benefits that had accrued to members, allowing for expected future increases in earnings. As a result of the actuarial valuation, the employer's contribution rate was reduced from 16.0% to approximately 8.0% of pensionable earnings, thereby spreading the actuarial surplus over the average remaining service lives of current employees after allowing for expected future increases in earnings.

The total pension cost for the Group was £40m (£69m) of which £5m (£3m) related to overseas schemes.

15 Commitments

The Group is committed to capital expenditure not provided of £4m (£5m) and to expenditure authorised but not contracted of £10m (£4m) in respect of purchases of fixed assets (other than investments).

16 Shareholders' and General Insurance Cash Flow

Note	Reconciliation of operating profit to net cash inflow from operations	1991 £m	1990 £m
	Profit on ordinary activities before tax	267	244
	Less Investment gains and other reserve movements	(61)	(102)
	Tax on long-term profits and franked investment income	(147)	(134)
3	*Add* Interest charged to profit and loss account	55	32
		114	40
	Increase in general insurance fund	159	224
	Decrease/(increase) in other assets	57	(106)
	Increase in other liabilities	23	58
	Net cash inflow from operations	353	216

Note	Changes in investments	1991 £m	1990 £m
	Net purchases/(sales) of investments (excluding short-term deposits)	357	(18)
	Investment portfolio of Belgian subsidiary undertaking sold in year	–	(178)
	Realised and unrealised investment gains/(losses)	125	(138)
	Exchange translation	33	(152)
	(Decrease)/increase in short-term deposits	(170)	160
	Increase/(decrease) for year	345	(326)
	Balance at beginning of year	1,939	2,265
9	Balance at end of year	2,284	1,939

Note		Share capital (including share premium)		Borrowings (excluding bank loans and overdrafts)		Total	
	Changes in financing	1991 £m	1990 £m	1991 £m	1990 £m	1991 £m	1990 £m
	Net cash inflow	9	13	63	88	72	101
	Exchange translation	–	–	7	(38)	7	(38)
	Increase for year	9	13	70	50	79	63
	Balance at beginning of year	158	145	456	406	614	551
12, 10	Balance at end of year	167	158	526	456	693	614

17 Auditors' Remuneration

The remuneration of the auditors charged in the year amounted to £2,111,000 in respect of 1991 and £286,000 in respect of the previous year. The comparative figures for 1990 were £2,461,000 and £nil.

18 Investments of the Company	Shares in subsidiary undertakings 1991 £m	Loans to subsidiary undertakings 1991 £m
Balance at beginning of year	226	573
Exchange rate movements	–	11
Advances of new capital/loans	73	77
Repayment of loans	–	(60)
Balance at end of year	299	601

19 Profit of the Company

The profit of the Company for the year was £174m (£147m). After dividends of £206m (£192m) and exchange translation losses of £4m (£17m), retained profit at 31 December 1991 amounted to £129m (£165m).

Notes on the Accounts

20 Exchange Rates

The principal rates of exchange used for translation were:

	Currency	1991	1990
Australia	A$	**2.46**	2.50
Canada	C$	**2.16**	2.24
United States of America	US$	**1.87**	1.93

21 Subsidiary Undertakings

The principal subsidiary undertakings of the Company are:

	Country of incorporation
Jackson National Life Insurance Company*	United States of America
The Mercantile and General Life Reassurance Company of Canada*	Canada
The Mercantile and General Reinsurance Company of America*	United States of America
The Mercantile and General Reinsurance Company plc*	Scotland
The Prudential Assurance Company Limited	England and Wales
The Prudential Assurance Company of England Property and Casualty (Canada)*	Canada
The Prudential Life Assurance Company of England (Canada)*	Canada
Prudential Finance BV*	The Netherlands
Prudential Financial Services Limited	England and Wales
Prudential Portfolio Managers Limited	England and Wales

*owned by a subsidiary undertaking of the Company.

Each undertaking has only one class of ordinary shares all of which are held by the Group and operates mainly in its country of incorporation, apart from The Mercantile and General Reinsurance Company plc which operates mainly in England.

The main activity of these undertakings is insurance with the exception of Prudential Finance BV, a finance company, and Prudential Portfolio Managers Limited, an investment management company. Other undertakings that do not materially affect the profit of the Group or the amount of its assets are not shown.

The cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiary undertakings that are still part of the Group amounted to £404m (£398m).

22 Directors' Emoluments

Aggregate directors' emoluments including pension contributions were £2,412,553 (£2,929,155), of which £296,052 (£333,029) were in respect of services as directors. The emoluments of executive directors include performance bonuses of £125,750 (£362,373) paid during the year. These bonuses take account of performance in the previous three years.

Excluding pension contributions, the emoluments of the Chairman amounted to £78,279 (£75,000 – two Chairmen) and those of the highest paid director to £586,570 (£543,673). Excluding pension contributions, the emoluments of individual directors, including the Chairman and the highest paid director, fell into the following bands:

Emoluments £		£	Number of directors 1991	1990
5,001	to	10,000	2	1
10,001	to	15,000	1	—
15,001	to	20,000	7	8
20,001	to	25,000	1	—
25,001	to	30,000	1	—
30,001	to	35,000	1	3
40,001	to	45,000	—	1
75,001	to	80,000	1	
135,001	to	140,000	—	1
180,001	to	185,000	1	
185,001	to	190,000	—	1

Emoluments £		£	Number of directors 1991	1990
200,001	to	205,000	1	1
205,001	to	210,000	—	1
220,001	to	225,000	—	1
230,001	to	235,000	—	1
235,001	to	240,000	1	—
250,001	to	255,000	1	—
260,001	to	265,000	—	1
280,001	to	285,000	1	—
540,001	to	545,000	—	1
585,001	to	590,000	1	—

23 Loans to and Transactions with Directors

(i) House Purchase Loan
Mr J Lock has a house purchase loan of £30,000 secured on his personal residence which will be repaid from the proceeds of endowment policies. There was no movement on the loan during the year and no interest due and unpaid at the end of the year. Interest on different portions of the loan ranges from 4% to 8.5%, the terms being no more favourable than those which were normally available to members of the staff when the loan was made.

(ii) Transactions
In 1987 the Company and Mr M G Newmarch jointly purchased a residence in London at a total price (excluding the expenses of purchase) of £772,500, of which Mr Newmarch contributed £225,000. The property is held by Prudential Leasing Services Limited (a wholly owned subsidiary undertaking of the Company) and Mr Newmarch, under the terms of a Trust Deed which apportions the expenses of maintenance and the proceeds of sale of the premises in the same proportions in which the purchase price was shared. No other contract of significance subsisted at any time during the year in which a director is or was materially interested.

24 Directors' Interests

	Interest in shares of 5p each in the Company		Options to subscribe for shares of 5p each in the Company: The Prudential Savings-Related Share Option Scheme				The Prudential Executive Share Option Scheme			
	1 Jan 1991	31 Dec 1991	1 Jan 1991	Granted in 1991	Exercised in 1991	31 Dec 1991	1 Jan 1991	Granted in 1991	Exercised in 1991	31 Dec 1991
M D Abrahams	12,000	12,000								
R E Artus	16,357	16,357					263,200			263,200
Mrs M E Baker	2,500	2,500								
Lord Butterfield	16,901	17,440								
Sir Brian Corby	26,558	26,558								
J A Freeman	13,303	13,303	7,432	3,731		11,163	429,000			429,000
Sir Victor Garland	2,500	2,500								
Sir Trevor Holdsworth	5,518	5,759								
Lord Hunt of Tanworth	13,250	13,250								
Sir Alex Jarratt	12,000	12,000								
H R Jenkins	2,544	2,582					491,000	31,000		522,000
M J Lawrence	2,500	30,000	4,830	5,684		10,514	490,100	33,500	122,000	401,600
J Lock	2,500	2,500	18,784	3,731	6,670	15,845	418,700		180,750	237,950
B Medhurst	22,170	23,142	7,373	3,731		11,104	419,900			419,900
J A S Neave	1,392,695	1,392,695								
M G Newmarch	3,337	10,446	17,822	3,731	6,670	14,883	637,600	60,000		697,600
C G Southgate	25,184	25,232								

Options granted to and exercised by directors during the year were at the following prices:

	Granted pence per share	Exercised pence per share
Savings-Related Scheme	192.0-201.0	71.9
Executive Scheme	236.0	164.0-199.0

Options granted during the year are exercisable between 1994 and 2001.
Except as stated above none of the directors in office at the end of the year had any interest in shares in, or debentures of, any Group company either at the beginning of the year or at the end of the year, or was granted or exercised any right to subscribe for shares in, or debentures of, any Group company during the year.
All interests disclosed above are beneficial interests except for 1,093 shares held by Mr B Medhurst at 31 December 1991.
There have been no changes in directors' interests between 31 December 1991 and 31 March 1992.

Report of the Auditors

to the members of Prudential Corporation plc

We have audited the accounts on pages 29 to 45 in accordance with Auditing Standards.
In our opinion, the balance sheet of the Company gives a true and fair view of the Company's affairs at 31 December 1991 and has been properly prepared in accordance with the Companies Act 1985, and the consolidated accounts have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

Price Waterhouse
Chartered Accountants
and Registered Auditor
London

16 April 1992

Five Year Review

	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Summary of Results					
Profit/(loss) before tax from:					
Long-term business	385	367	359	201	154
General insurance	(149)	(185)	(9)	87	41
Estate agency	–	(34)	(49)	17	4
Shareholders' other income	31	96	84	48	61
Profit on ordinary activities before tax	267	244	385	353	260
Tax	(126)	(133)	(110)	(108)	(68)
Minority interests	(1)	–	–	–	–
Profit attributable to shareholders before extraordinary items	140	111	275	245	192
Extraordinary items	(53)	33	–	–	–
Profit attributable to shareholders after extraordinary items	87	144	275	245	192
Share Statistics					
Earnings per share	7.5p	6.0p	14.9p	13.3p	10.6p
Dividend per share	11.0p	10.3p	9.2p	8.0p	6.8p
Market price at 31 December	246.0p	196.0p	236.5p	152.5p	164.2p
Insurance Funds and Reserves					
Long-term business	38,801	32,626	34,964	27,203	23,139
General insurance	1,727	1,539	1,566	1,275	1,177
Shareholders' capital and reserves	463	503	814	608	506
Investments at Market Value					
Long-term business	38,254	32,339	35,042	27,350	23,528
General insurance and shareholders	2,284	1,939	2,265	2,059	1,953
Other funds under management	10,517	8,992	9,781	6,868	6,068
Total investments	51,055	43,270	47,088	36,277	31,549
Long-term Business Investments					
Net investment in year					
Funds arising in United Kingdom:					
Ordinary shares	1,359	671	406	(183)	(28)
Properties	(192)	(152)	(142)	187	(43)
British Government securities	(532)	38	(523)	219	15
Other fixed income securities	257	351	628	337	359
Short-term deposits	372	(92)	304	(313)	229
	1,264	816	673	247	532
Funds arising overseas:					
Ordinary shares	140	200	99	95	12
Properties	(19)	35	44	(77)	(5)
Fixed income securities	1,751	1,555	1,413	1,431	955
Short-term deposits	14	66	186	197	87
	1,886	1,856	1,742	1,646	1,049

Where necessary, earnings per share, dividend per share and share price take account of the sub-division of the shares effected on 25 May 1988.

Five Year Review

	1991 £m	1990 £m	1989 £m	1988 £m	1987 £m
Long-term Business					
Ordinary Long-term Business					
New business: annual premiums	607	598	567	432	295
single premiums	3,137	2,546	2,343	1,765	1,335
Gross premium income	5,768	4,825	4,381	3,386	2,673
Investment income	2,202	1,976	1,774	1,369	1,090
Transfer from investment reserves	1,027	441	889	497	452
Commission and expenses	946	866	827	661	498
Policyholders' bonuses	1,259	1,105	1,036	779	669
Shareholders' profit before tax	320	291	284	161	119
Industrial Life Business					
New business: annual premiums	55	65	65	66	82
single premiums	26	24	22	16	4
Gross premium income	395	406	410	412	393
Investment income	275	308	290	275	256
Transfer from investment reserves	379	338	640	217	227
Commission and expenses	225	215	206	176	166
Policyholders' bonuses	418	469	464	342	323
Shareholders' profit before tax	65	76	75	40	35
General Insurance					
Gross premiums written	1,189	1,155	1,155	996	969
Underwriting result	(294)	(318)	(150)	(28)	(73)
Investment income	127	122	118	96	92
Averaged investment gains	18	11	23	19	22
(Loss)/profit before tax	(149)	(185)	(9)	87	41
Shareholders' Other Income					
Investment income	71	84	77	56	63
Interest on borrowings	(55)	(32)	(44)	(39)	(37)
Insurance company averaged investment gains	20	28	52	33	32
Non-insurance company realised investment gains	10	36	6	6	8
Corporate expenditure	(26)	(26)	(25)	(12)	(17)
Trading results from:					
Investment management	12	7	16	8	6
Unit trusts and personal equity plans	(1)	(1)	2	(4)	6
Profit before tax	31	96	84	48	61

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PRUDENTIAL
CORPORATION

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