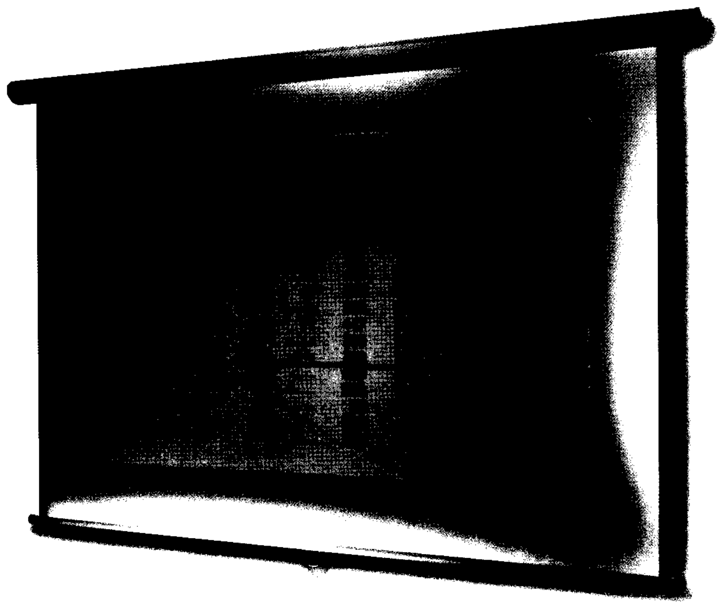
Prudential Corporation plc Annual Report 1992

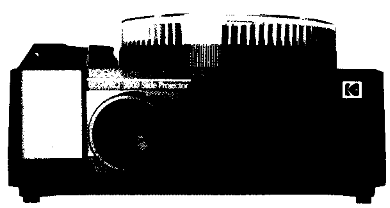


Presentation of Results

Introduction

The aim of this year's annual report is to provide investors with an insight into Prudential's operations worldwide as well as to describe the main factors affecting the Group's results for 1992.

We have therefore adopted the theme of an investor presentation, which we hope you will find both helpful and illuminating.



Contents

Prudential Corporation plc

Prudential Corporation plc is one of the ten largest life insurance companies in the world with funds under management of over £60 billion, representing the savings and investments of over eight million customers worldwide.

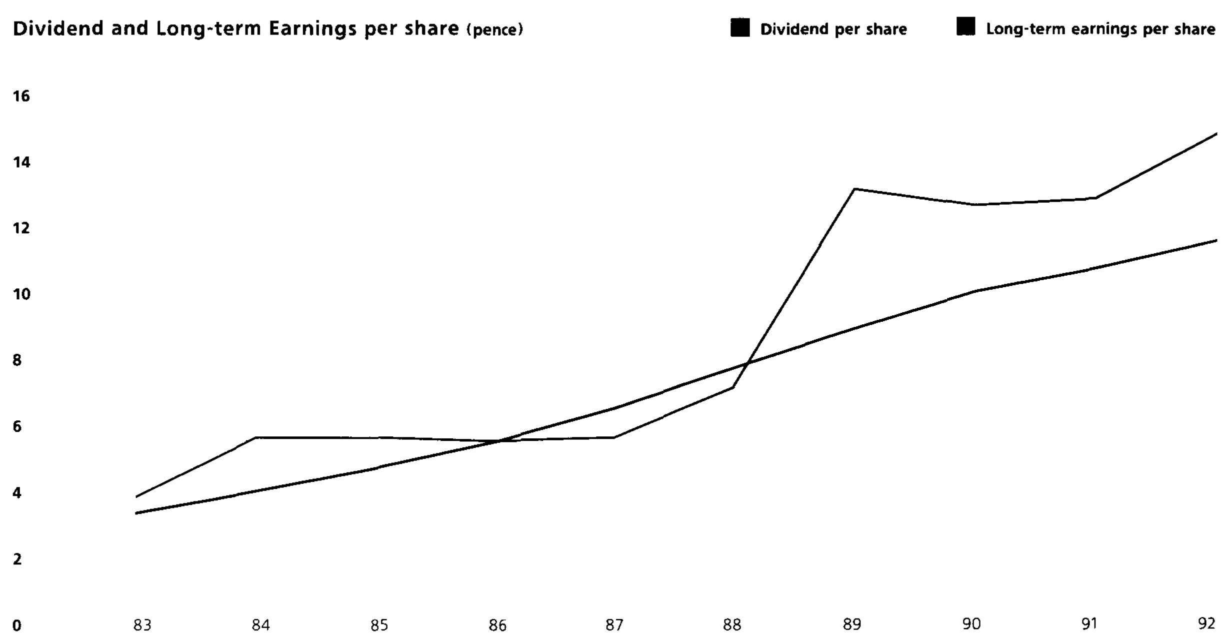
In addition to being the market leader in the United Kingdom, Prudential has significant interests overseas, in particular in North America and the Pacific markets. The Group also comprises Mercantile & General, one of the world's leading reinsurance companies.

The main focus of Prudential's activities is on meeting people's needs for medium to long-term savings, financial security and retirement. Mindful of the responsibilities which this entails, Prudential places particular emphasis on maintaining its reputation for integrity and fair dealing.

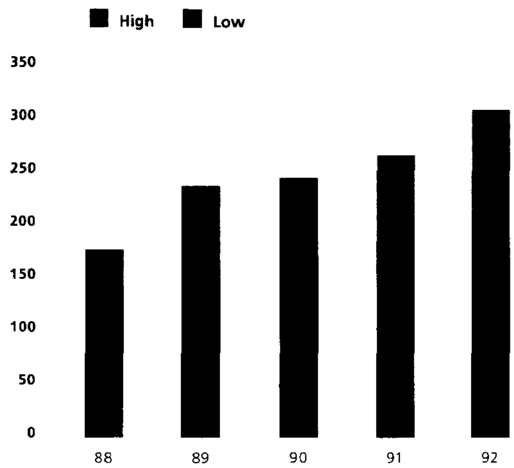
Financial Overview

Profit Summary	1992 £m	1991 £m
Total operating profit	**£457m**	£322m
Profit on ordinary activities before tax	**£406m**	£182m
Profit for the financial year	**£282m**	£87m
Earnings per share	**15.0p**	4.7p
Dividend per share	**11.9p**	11.0p

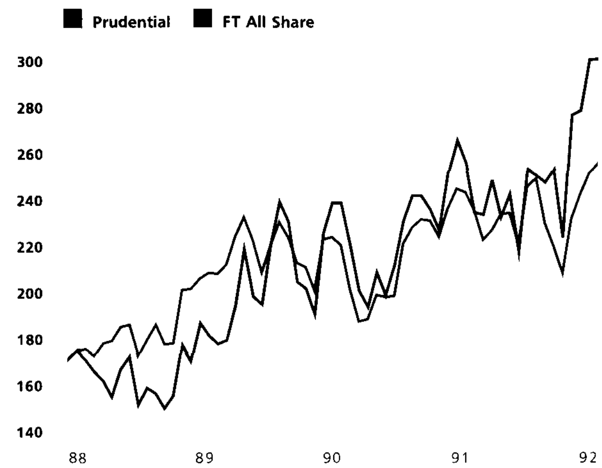
Dividend and Long-term Earnings per share (pence)



Prudential Share Price (pence)

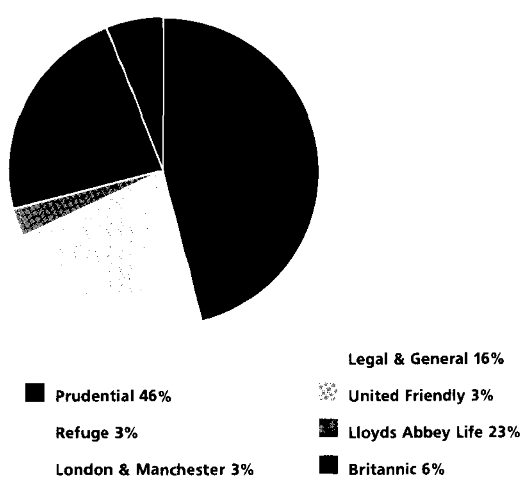


Prudential Share Price and FT All Share Index

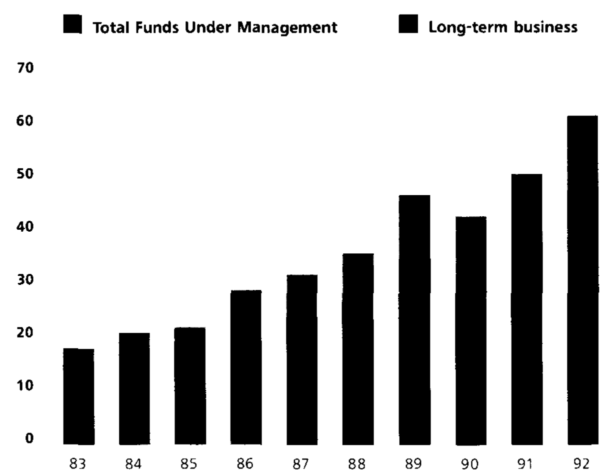


(Source: Datastream)

Market Capitalisation — UK Life Sector



Total Funds Under Management (£ billion)



Prudential in Context

Prudential Corporation plc

Home Service | **Prudential Financial Services** | **Jackson National Life** | **International** | **Prudential Portfolio Managers** | **Mercantile & General Reinsurance**

Group Structure

Prudential embarked upon a process of divisionalisation in the early 1980s, the aim being to establish operating divisions focused on specific business areas with the freedom and flexibility to respond quickly to their particular markets. The Group now comprises six main operating divisions.

Home Service

The Home Service division accounts for over a quarter of the group's premium income and is the biggest contributor to Group profits. It provides savings, investment and protection products, together with personal lines general insurance to individuals in the UK. Its direct sales force is the largest of its kind in Europe.

Prudential Financial Services

Prudential Financial Services comprises three business units which complement the activities of the Home Service division. Prudential Life & Pensions provides both individual and corporate pensions as well as life products such as the Prudence Bond. Prudential Investment Products provides a range of unit trusts, personal equity plans, currency and money funds. These products are marketed either through Prudential's direct sales force, via Independent Financial Advisers or direct. Prudential Holborn is a sales operation focused exclusively on the IFA market.

Jackson National Life

Jackson National Life is Prudential's American subsidiary. Acquired in 1986 JNL has grown rapidly to become one of the leading providers of interest rate sensitive products in the United States, the world's largest market for insurance. JNL has a network of 17 regional offices servicing a distribution channel of some 80,000 agents.

International

The International division is responsible for Prudential's operations outside the UK and the USA. These include Australia, New Zealand, Singapore, Hong Kong and Malaysia – the Pacific markets, Canada, the Republic of Ireland, the Netherlands and Italy.

Prudential Portfolio Managers

Prudential Portfolio Managers is one of the world's largest investment management organisations. In addition to managing funds on behalf of business divisions across the group, PPM is also charged with attracting monies from external clients. Based in London, PPM has also recently established subsidiaries in Chicago and Sydney.

Mercantile & General Reinsurance

Mercantile & General is the UK's largest international reinsurer and has been part of the Prudential Group since the early 1970s. M&G conducts both life and non-life reinsurance, however the main focus of its business is on the former where it is one of the largest writers in the world, contributing 15 per cent of the Group's long-term profits.

The World's Largest Life Insurance Companies

		Life assets US$ billion 1991
1	Nippon Life	222.0
2	Dai-Ichi Mutual Life	155.1
3	Prudential of America	148.4
4	Sumitomo Life	135.6
5	Metropolitan Life	110.8
6	Meiji Mutual Life	93.5
7	Prudential Corporation plc*	72.4
8	Asahi Mutual Life	71.9
9	Mitsui Mutual Life	58.5
10	Teachers Insurance & Annuity*	55.6

(Source: Fortune, August 1992) *publicly quoted

Chairman's Statement

One of the keys to Prudential's success over the last 140 years has been our reputation for integrity and fair dealing.

Prudential demonstrated the strength and resilience of its business despite the continuing recession in 1992. Pre-tax profits amounted to £406m as against £182m in 1991 and earnings per share grew to 15.0 pence per share compared to 4.7 pence the previous year.

Consistent with our policy of providing shareholders with a progressive and steady increase in dividends based upon the quality of earnings from our long-term businesses, the board has declared a final dividend of 7.8 pence. This brings the total dividend for the year to 11.9 pence per share, an increase of 8.2 per cent on 1991.

These results reflect a number of important management actions which are having an increasingly beneficial impact on both the profitability and the value of the Group. These will be described in greater detail by Mick Newmarch in his Group Chief Executive's Review.

The most important change is in the overall mix of Prudential's business. The focus of our attention and resources is firmly directed towards long-term business, that is life assurance, pensions, savings and investments. This has been the area of Prudential's traditional strength and one where we can derive particular advantage from our knowledge, experience, and market positions.

With funds under management of £62 billion, including life assets in excess of £47 billion, Prudential is one of the largest life insurance companies in the world. In addition to being the market leader in the UK, we have established a significant presence in the world's largest market for insurance, the United States, through our subsidiary Jackson National Life. We are also rapidly developing our operations in the fast growing economies of the Pacific markets. At the same time, we have taken significant measures to reduce our exposure to volatile sources of earnings such as general insurance and in particular to redress the losses from the non-life activities of Mercantile & General.

In last year's Annual Report I said that Prudential welcomed the trend towards tighter regulation in the financial services sector. One of the keys to Prudential's success over the last 140 years has been our reputation for integrity and fair dealing. Individuals have a right to expect the very highest standards from those to whom they entrust their savings. We therefore place a great deal of emphasis on ensuring that the products and services which we provide reflect these values.

We agree with the broad thrust of the recommendations made by the Office of Fair Trading in respect of greater transparency in the UK. Life insurance companies and other providers of financial services should disclose sufficient information to enable potential customers to make choices on a properly informed basis. This approach should benefit those organisations such as Prudential which can demonstrate that their products and services provide value for money.

As the UK's largest institutional investor, Prudential has always taken a leading role in matters of corporate governance. It will therefore come as no surprise that we agree with the spirit of the recommendations made by the Cadbury Committee, including the need for audit and remuneration committees, consisting wholly or mainly of non-executive directors. Details of the composition of these committees are set out on page 25. We also believe in the merits of having a majority of strong non-executive directors on the board.

It gives me particular pleasure to welcome two new non-executive directors – Andrew Teare, group chief executive of English China Clays, and Niall FitzGerald, a director of Unilever. They have extensive commercial experience and are already making an important contribution to the workings of the board. At the same time it is with regret that I announce the retirement of three distinguished colleagues this year. Ron Artus joined the board in 1984, initially in an executive capacity as the Group's chief investment manager having had a long and distinguished career with the Prudential. Sir Victor Garland, who was formerly High Commissioner for Australia, joined the board in the same year as a non-executive director. Finally Sir Colin Southgate, a non-executive director for the past four years, has decided to leave the board because of increased commitments following his appointment as chairman of PowerGen. The board is grateful for the benefit of their combined wisdom and experience over the years.

Good corporate governance is not only about having the right checks and controls. Increasingly it is about the management of a company recognising and responding to the proper expectations of its owners. We believe that senior management should be exposed to the same risks and rewards as shareholders. In order to build that community of interest we have introduced a Share Participation Plan to encourage senior management to hold shares in Prudential. Details of the Plan are set out in the Notes on the Accounts. As investors ourselves we are pleased to note that a number of other UK companies have since introduced similar schemes.

Information is an increasingly valuable commodity in the investment community and Prudential has set new standards of financial reporting for the life insurance industry with the introduction of accruals accounting. We shall be publishing a supplementary Report on 20 May with the aim of providing investors with useful additional information on the progress and profitability of our long-term operations. In future years our intention is to provide statutory and accruals figures simultaneously. Meanwhile, it is important to note that these statutory results have been prepared in accordance with the new accounting standard FRS3 – Reporting Financial Performance. Although the appearance of the profit and loss account has changed significantly, our total profit and earnings per share for the current year are the same as under the previous requirements.

None of the achievements of the year would have been possible without the considerable effort and support of the management and staff and I thank them all.

Sir Brian Corby
Chairman
19 April 1993

Group Chief Executive's Review

Introduction

I have two principal objectives for this Review. Firstly, to describe briefly and in broad terms the main conclusions we have reached over the past twelve months, following work we have done to establish the preferred long-term strategy for the Corporation. Secondly, to describe and analyse the financial and operational progress made by our major businesses during 1992. Ultimately, of course, the delivery of a successful long-term outcome requires us to make tactical and operational decisions continuously consistent with our more distant ambitions. I hope you will feel, having read this Review, that the many decisions and actions we took during 1992 were consistent with our longer-term plans.

Observations on Strategy

In last year's Review I alluded to the strategic work and examinations I anticipated we would carry out during 1992. I shall not now attempt to summarise the totality of the substantial work we did last year. Nor do I wish to imply that every detail of our long-term quest is now clear to us. Indeed, so strong is our sense that the strategic process is dynamic that we believe the ultimate detail is probably never clear. However, we have now reached a number of fundamental conclusions which we are confident will govern our future development and behaviour and it is these conclusions I wish to summarise. We think it is most illuminating to do this in response to four major questions:

What will Prudential be doing in the future?

We intend that the Corporation will be engaged primarily in meeting the medium to long-term savings, financial security and retirement needs of individuals. This means the businesses which do not clearly match this core definition we do not regard as proper long-term constituents of our enterprise. We shall contemplate modifying this pure proposition only if we believe a peripheral business, with reliability, can aid the momentum of our defined core business. For an example, we shall continue to offer, as we do presently, personal lines general insurance through our direct sales force in the United Kingdom.

Where will Prudential be operating in the future?

Prudential is the largest insurance company in the United Kingdom. We aim to strengthen and enlarge our UK market position in our existing distribution channels and market segments in the near-term future and then seek to extend our position substantially via channel development, product evolution and other appropriate means in the medium to longer-term. In North America we aim to concentrate support on Jackson National Life in meeting what we perceive is its full growth potential. This implies further geographical expansion among the states of the USA, distribution channel diversification within the USA, and product diversification. We also believe that the development of Jackson's mutual fund business will aid the latter ambition. We intend to accelerate the development of our businesses in the Pacific markets mainly by calling for more robust organic growth. As regards Europe, an extensive analysis of opportunities in our defined core business suggests to us that we shall not see a pan-European medium and long-term savings market until beyond 2000. Our European initiatives, therefore, we plan to remain as they presently are, based upon particular and limited market presence. Outside the four main world market segments described we maintain a limited monitoring facility but we anticipate no advancement into other territories this century.

How will Prudential be operating in the future?

In all our chosen markets we anticipate substantial environmental change. A general theme, but most notably in the UK, will be advancing customer awareness. Fanned by greater transparency and disclosure prompted by consumerists and regulators, we expect markets to become more critical and competitive. In all markets where possible and appropriate, we anticipate using the strength of our brand to demonstrate our relevance to more demanding customers.

We intend that the Corporation will be engaged primarily in meeting the medium to long-term savings, financial security, and retirement needs of individuals.
Mick Newmarch, Group Chief Executive

We intend to lead the market in reacting to their needs. We also expect and plan to derive competitive advantage from our distribution management skills, our marketing and product development strengths, and from our fundamental and widely perceived financial strength. Finally, in Prudential Portfolio Managers, we have an increasingly powerful, globally equipped investment management organisation which we will continue to develop.

With what aims will Prudential be operating in the future?

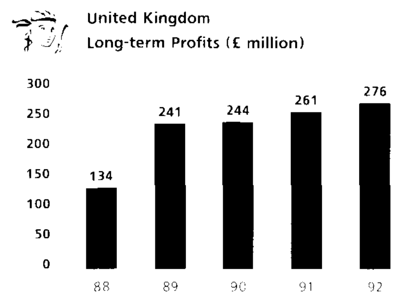
We shall be aiming to satisfy three interdependent constituencies. For our shareholders we intend to deliver an attractive and stably rising flow of dividends. At the same time we shall be organising the Corporation's affairs so as to deliver business developments which offer strong prospects for dividend continuation and enhancement into the longer-term future. Also, we shall limit our participation in businesses which risk delivering unacceptable earnings volatility. For our customers we intend to provide impeccably reliable and prudent collective investment opportunities offered clearly and fairly in such a way as to preserve and enhance the Prudential's brand and reputation for openness and fair dealing. Finally, for our employees we shall offer appropriately rewarded and personally satisfying careers with opportunities for career development and personal 'stretching' in an open, sympathetic and dynamic environment.

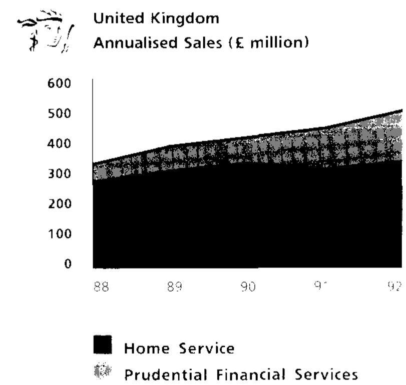
I am conscious that these four brief answers represent but the tip of the iceberg of our strategic deliberations. However, I believe they embrace the essential elements of the major directions in which we are now moving and I shall look forward to elaborating on them and reporting on progress in future Reviews.

I now wish to review events in 1992. Where possible I shall relate action and events to our strategic intentions as described.

I shall begin with the main focus of the group; medium and long-term savings, financial security and retirement products – our long-term business.

Long-term Business: United Kingdom





In the United Kingdom long-term profits rose by six per cent to £276m and revenue premiums by 22 per cent to £3.6 billion.

Consistently with one's expectations in a recession, new regular annual premium contracts declined market-wide reflecting savers' reluctance to undertake commitments at a time of low confidence. Prudential, by contrast, managed to achieve a modest increase. Single premium business was buoyant, reflecting a redistribution of stored savings away from building societies and banks as interest rates fell. Prudential's single premium business experienced strong growth, up by 40 per cent to nearly £2 billion. Sales of the popular Prudence Bond continued apace while single premium pension sales were also strongly up.

As I explained earlier, our long-term ambition is to emphasise our leading position in the UK market. To achieve this at present we are developing and strengthening a two-pronged distribution strategy. Until fairly recently Prudential relied almost exclusively on its powerful direct sales force. Although modest attempts were mounted in the 1970's and 1980's, little success was achieved in winning the attention of the important Independent Financial Adviser segment of the market. The growing presence of Prudential Financial Services through its selling arm, Prudential Holborn, however, is changing that. We are taking up an increasingly important position as a preferred supplier in the IFA market.

Over the past five years Prudential's new UK business on an annualised equivalent basis has in total grown at a compound rate of 11.5 per cent. Not only has the quality of our products and services allowed this growth but also the emerging success of our multi-channel distribution strategy.

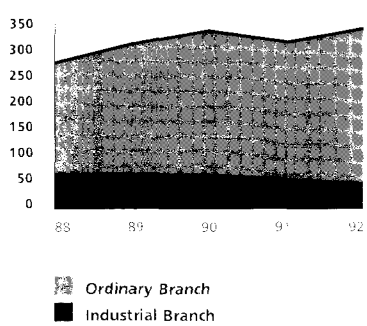
Home Service

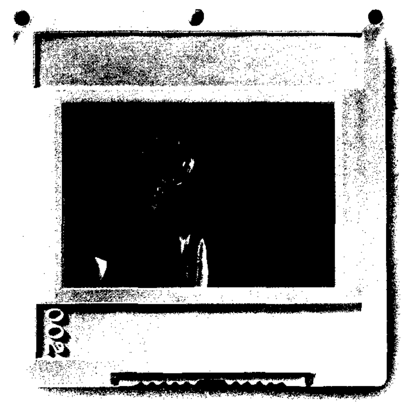
Our dominant UK distribution resource remains our direct sales force controlled by Tony Freeman's Home Service division. During 1992 we continued our campaign to improve the productivity of this group. We have continued to build on the completion of Scenario 3 which I described at length in last year's Review. Last year financial consultants accounted for two-thirds of the direct sales force's new life and pension business with each sales representative on average producing £50,000 of annualised new business, significantly ahead of their peers in most other insurance companies.

We have now decided to enlarge our sales force of financial consultants, at the same time increasing the sales focus of our customer service representatives. These changes reflect our increased emphasis on Ordinary Branch business which now accounts for 85 per cent of our new business in the UK, the remainder coming from the traditional or Industrial Branch business. These further developments have the twin aims of increasing sales productivity and reducing costs – both of which feed through as improved value for policyholders and increased profits for shareholders.

Also last year we introduced significant measures aimed at further reducing the infrastructure expenses of our direct selling operation. We have concentrated 396 district offices down to a network of 180 branches, each responsible for an average of £12m premium income per annum. Twelve regional administration offices are being replaced by one central administration office in Bristol and five smaller regional sales support units. Finally, we have rigorously examined Home Service head office costs and accordingly reduced staffing levels. We anticipate that by the end of 1993 we shall have succeeded in reducing annual Home Service division costs by around £100m.

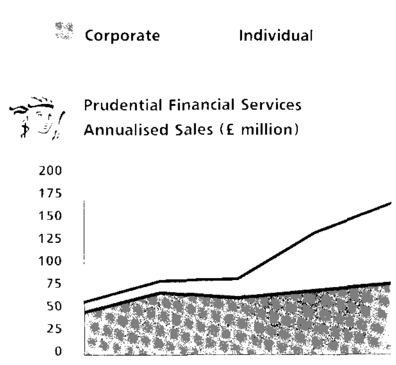
Home Service
Annualised Sales (£ million)





We intend to enlarge our sales force of financial consultants who are already among the most productive in the industry.
Tony Freeman,
Managing Director
Home Service

Long-term Business: United Kingdom



Prudential Financial Services

I mentioned earlier the increasing importance of our IFA distribution arm under the ultimate control of Keith Bedell-Pearce within Prudential Financial Services division. We believe Prudential is the fastest growing company serving the IFA market – on an annualised basis almost one-third of Prudential's new UK business last year derived from IFAs. There seems, as research shows, to be little overlap between the population segments served by our two distribution arms. Accordingly, IFA sales can be regarded as genuinely incremental for the Prudential.

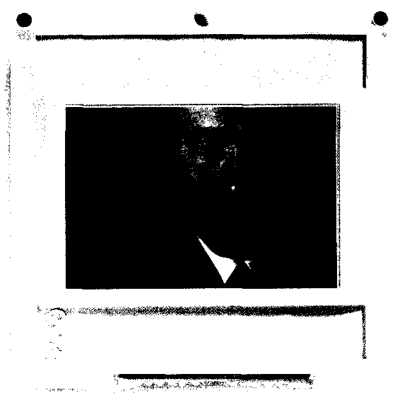
Undoubtedly one of the main factors influencing our success with IFAs has been the appeal of Prudence Bond – our whole-life unitised with-profit bond. Last year this brought in premiums of £835m, largely from customers of IFAs. Prudence Bond has trebled the number of IFAs dealing with Prudential and sales of other products, particularly pensions, are expanding as a result of the contact established with these IFAs. Prudential is one of the few companies in the UK to be strong in both the individual and corporate pensions markets with the resultant balance of product mix affording greater stability from which to grow the business.

As well as increasing the number of IFAs with whom we regularly conduct business, our strategy has been to encourage our broker sales consultants to work closely with particular IFAs to develop targeted sales which benefit both the adviser's and Prudential's business. As a result, we find our sales consultants tend to be more productive and successful than many of their counterparts elsewhere in the industry. Last year each produced around £2m in new annualised premiums. This approach and our overall success last year enabled Prudential to expand its share of the IFA individual market segment to around five per cent. We are now well advanced towards achieving our goal of being one of the largest suppliers in this market segment.

Bonuses

This year in respect of our long-term UK business I should again mention developments in the area of the bonuses we pay to our policyholders. The great majority of our long-term business derives from with-profits policies. Their appeal rests upon their ability to provide smoothed investment returns which, because the underlying assets are real (i.e. ordinary shares and property), over time tend to exceed those given by the deposit products offered by building societies or banks. The concept of smoothing delivers protection against the volatility implicit in direct equity related products.

The with-profits policy provides an excellent means for individuals to invest lump sums or



Prudential is the fastest growing company serving the IFA market. We are now well advanced towards achieving our goal of being one of the largest suppliers among this market segment.
Keith-Bedell Pearce, Chief Executive Prudential Financial Services

save on a regular basis. Its return is based on the addition of bonuses. At Prudential we declare two main classes of bonus each year. Reversionary bonuses accrue each year and once added form part of the guaranteed benefits. Terminal bonuses, as their name suggests, are paid only at the end of the policy when it becomes payable on maturity or on death.

Since 1989 our bonus declaration has been based on an asset share model which is designed to reflect the returns earned on the assets held in the fund. In view of the lower nominal investment returns that are likely to be earned in the 1990s, we have, in common with the rest of the industry, gradually reduced the amount of both reversionary and terminal bonuses. Payout levels for assurances were reduced by 7-8 per cent for 10-15 year terms but only by 3.4 per cent for 25 year terms this year. Nevertheless, the real rates of return offered by our with-profits policies remain attractive, in the light of lower inflation and interest rates. Our products remain extremely competitive, as is evidenced by our new business sales, and we are confident that they will remain so.

Persistency

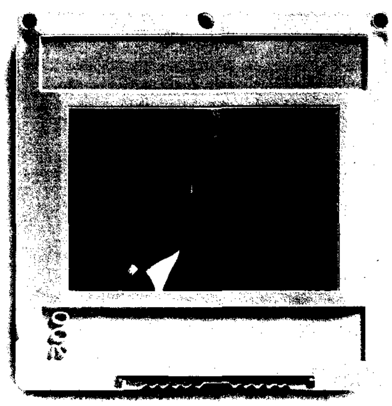
One final aspect of our business in the UK during 1992 involves some observations on persistency. In addition to increasing sales and decreasing costs, it is vital that we improve levels of persistency – the maintenance of contracts for their full term.

During 1992, Prudential chaired an indepth investigation by a number of leading life offices into the problems of policies being terminated prematurely. This found, perhaps not surprisingly, that the main reason people let policies lapse was their inability to maintain contributions due to a change in financial circumstances. Whilst the recession has undoubtedly had a major effect, it is incumbent upon insurance companies to introduce greater flexibility into their products and services if they are to improve persistency.

In this respect, it is apparent that the vast majority of individuals do not readily distinguish between different types of pensions contract – what they really want is a relationship with an organisation that can meet their needs for retirement provision over a long-term period. It is only sensible therefore that we organise our affairs accordingly. In order to accommodate the changing needs of our customers, we have therefore introduced radical changes to our range of pensions to enable individuals to switch between different types of product according to their particular circumstances without being penalised. For instance, on joining a company scheme, someone with a personal pension can convert into paying free-standing additional voluntary contributions instead and vice versa. These moves are consistent with our determination to deal fairly with our customers but they also, of course, improve the quality and profitability of our own business.

Long-term Business International: United States

Jackson is now established as the fourth largest writer of individual annuities in the USA.
David Pasant, President Jackson National Life



Our most important business outside the UK is in the USA – Jackson National Life – directed by David Pasant and his team. In 1992 Jackson delivered another excellent result with profits rising by 43 per cent to £86m, equal to 19 per cent of the Group's total long-term profits. Although the strength of the dollar last year accounted for approximately half of this increase, the company's growth record since our purchase in 1986 has been spectacular, with assets under management rising from $2 billion to $17 billion.

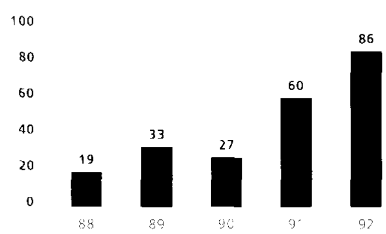
Jackson operates primarily in the market for interest rate sensitive products and is now established as the fourth largest writer of individual annuities in the USA. In the first half of 1992 declining US interest rates had an adverse impact on sales. However, judicious management of crediting rates to customers and a more supportive market environment in the second half of the year saw a very strong sales recovery to the point where overall sales year on year were higher and the second half delivered all time record levels of sales. Jackson is also a major provider of life assurance products in the USA, although sales of these products remained dull throughout the year.

Jackson's powerful industry position rests upon a number of critical operational features, embedded in the company conceptually at the time of our purchase in 1986, but which have been honed and developed by the present management team.

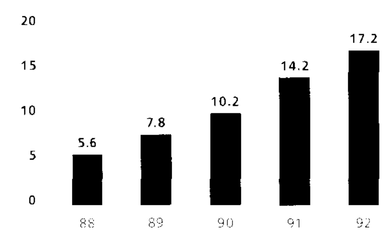
The company is, par excellence, a potent low cost producer based on a flat management environment and carrying no superfluous supervisory baggage. Where possible the provision of support services is contracted out to gain the advantages of competitive marginal pricing. This low cost environment benefits customers through superior crediting rates in their policies, and the agency force through competitive commissions – but neither at the expense of margins. These factors, added to a nimble and innovative marketing attitude plus dynamic regional offices, have allowed Jackson to develop and sustain a very powerful distribution machine. The company presently sells through some 80,000 licensed agents. This allows high volumes of premiums from widely dispersed sources, thus avoiding the risk of being over-dependent on a limited number of highly influential producers.

Our strategic ambitions for Jackson were summarised in my earlier remarks. During the latter half of 1992 Jackson added mutual funds to its range of products. These include both bond and equity based products, all managed by PPM America, the subsidiary of Prudential Portfolio Managers based in Chicago. We believe that broadening Jackson's product range should enable us to take greater advantage of the company's distribution muscle and to be equipped to react to further fluctuations in consumer sentiment more effectively.

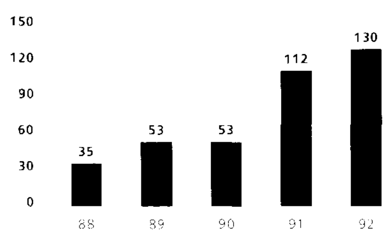
Jackson National Life
Profits (£ million)



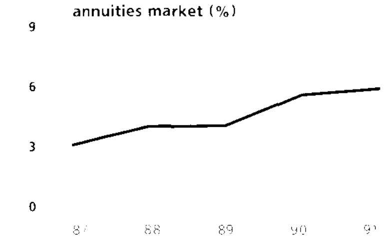
Jackson National Life
Assets (US$ billion)



Jackson National Life
Profits (US$ million)



Jackson National Life
Share of US individual
annuities market (%)



Though small scale, the Pacific markets represent the fastest growing area of Prudential's operations.

International Operations

Our other international businesses, under the control of Brian Medhurst and his colleagues in our International division, are widely spread outside the UK and the USA.

Pacific Markets

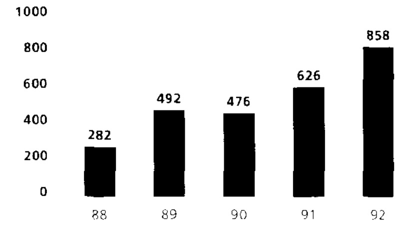
In both Australia and New Zealand Prudential is among the top five companies, commanding over seven per cent of the market in terms of revenue premiums. At the same time the Group is developing an increasing presence in South East Asia, where it is established as the largest European life insurer within our existing areas of operations with businesses in Singapore, Malaysia and Hong Kong.

The Australian operation produced profits of £11m, down £5m from the previous year. The main factors impacting the results were further reductions in bonus rates and the continuing recession which held back retail sales of annual products. Good progress, however, was achieved in the investment and corporate markets. As a result, although new annual premiums were static, single premiums increased by 24 per cent in local currency terms. New Zealand also achieved good growth in new business with annual premiums up 22 per cent and single premiums more than doubling. In both countries sales of unit trusts grew by over 270 per cent.

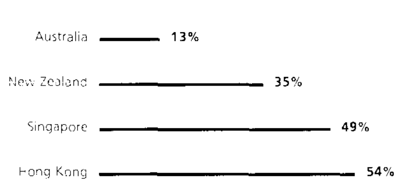
Prudential has established a powerful position in Singapore through its sales force of 1,400 agents and our intention is to grow this to around 2,000 over the next few years whilst continuing to improve productivity at the rate of over 13 per cent per annum. During 1992 the Singapore operation became the first company to enter the unit linked market in a significant way, attracting good support and new annual business also grew by a healthy 23 per cent.

In Malaysia we operate a joint venture and our associated company continued to grow its business substantially. Meanwhile in Hong Kong the rapid growth in the agency sales force – from 170 in 1989 to 400 in 1992 – helped to fuel increases in annual and

Pacific Markets
Gross Premium Income (£ million)



Pacific Markets
Growth in Annualised Sales 1992/1991



single premiums of 53 per cent and 165 per cent respectively.

Whilst the Australian operation is by far Prudential's largest operation in this region, we believe the economies of South East Asia offer great growth potential. They have experienced a prolonged period of rapid economic growth through the 1980s which we believe is likely to continue into the next century. Although countries have entered their growth cycles at different times – and there are differences in the character of each country's development – they share some key similarities. The populations of these countries are young and hard-working. Mirroring the strong growth in their consumer culture, they are increasingly receptive to life insurance and related savings and investment products. The growth in personal wealth, relatively evenly spread, is resulting in high and stable savings ratios.

We believe, as indicated in our summary strategy, that by building a carefully considered portfolio of businesses, it is possible to consider these territories as a region and to share management expertise across the different operations. Key areas of commonality include consumer behaviour and preference, product design, sales and marketing processes, distribution and administration systems.

Furthermore, a company with a presence across a number of different countries will tend to achieve a higher profile in any one country. Prudential is ranked third in Singapore, sixth in Malaysia, and our intention is to grow our business in Hong Kong to the number four position within the next few years.

We believe the economies of South East Asia offer great growth potential.
Brian Medhurst,
Managing Director
International

International Operations

Canada

Trading conditions in Canada remained difficult, but new annual premiums advanced by 60 per cent. Long-term new single premium business growth was constrained by our decision to pursue higher profit margins. Considerable effort is being committed to working out the problems in the commercial mortgage and bond portfolios, but further provisions for asset write-downs were required resulting in a trading loss amounting to £6m (£19m in 1991).

Republic of Ireland

Our life operation in Ireland had a mixed year. Single premium sales were depressed due to changes in individual taxation and disappointing investment performance. By contrast, there was an increase in the sale of annual premiums resulting from the maturing of the direct sales force and the link with the Irish Permanent Building Society. As a result, the company is now ranked fifth in terms of new annual premium business.

Netherlands

Ranked 17th in the individual life market, Prudential Leven relies on brokers for the distribution of its products which are targeted at high net worth individuals. The introduction of unfavourable tax changes at the beginning of 1992 had an adverse impact on the sales of new annual premiums. Single premiums, however, grew substantially as a result of strong sales of annuities.

Italy

We entered the Italian life market in 1988 through a joint venture with Benetton – establishing Prudential Vita, a life operation in Milan, to complement an existing interest in Prudential Assicurazioni, a general insurance business based in Rome. Subsequently, Benetton transferred its interest to L'Abeille Group, part of the French insurer Groupe Victoire. At the end of last year, we decided to take full control of Prudential Vita whilst relinquishing our interest in the general insurance business.
Since its launch the life operation has enjoyed rapid growth. Last year, annual premiums grew by 50 per cent and single premiums showed even higher growth following the successful launch of a new product. In five years Prudential Vita has established itself as one of the top 30 companies in the Italian market. Over the next ten years our ambition is for it to become one of the top ten.

General Insurance

Last year I reported our decision to close our UK commercial broker business. During 1992 we took further determined action to move out of direct general insurance business, such that by the end of 1992 the only significant exposure remained our personal lines business sold through our Home Service division direct sales force. As I indicated earlier, the synergy between this product and our long-term business in the UK is valuable.

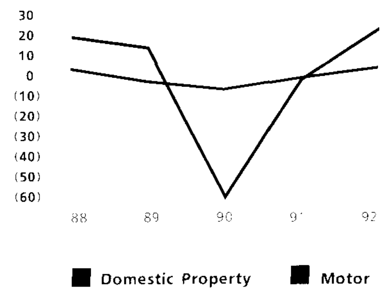
The overall result of our UK personal lines business last year showed a notable improvement. Total profits of £33m compared with profits of £2m in the previous year. This much improved performance reflected the combined benefits of relatively clement weather, a reduction in the level and incidence of claims, and the impact of premium increases. This business has also been subjected to a fundamental restructuring. We now operate from regional administration centres in London, Cardiff, Nottingham, Chester and Glasgow, providing improved service to customers at much lower cost. The result mentioned above was after bearing the impact of £10m of restructuring expenditure. This business now has some two million customers in the UK.

The action we took during the year to reduce our exposure to general business led to the following withdrawals. We sold our property and casualty business in Canada to General Accident. The disposal price of C$165m was at a small discount to net asset value but represented, we believe, a fair deal, placing the business, moreover, in sound alternative hands. We closed our marine operation, St Helens Trust, which we owned jointly with the Pearl, though we have taken the responsibility for managing the closure into our 'run-off' group. We closed our small general business based in Dublin serving the Irish market. Later in the year we entered into an agreement for transferring control of our Home Service commercial lines business to Provincial. Finally, as part of the deal allowing us to gain full control of our long-term business in Italy, we have relinquished all ownership of Prudential Assicurazioni in Rome to L'Abeille. All provisions in respect of these withdrawals have been taken in the 1992 accounts.

The closure provision included in our 1991 accounts in respect of our UK commercial broker business was assessed in detail at the end of 1992 and judged adequate.

In summary, with the exception of a small business in Hong Kong, the Corporation's exposure to direct general insurance is now limited to our personal lines business in the UK. All other businesses are now eliminated from our portfolio.

General Insurance Results
UK Personal Lines (£ million)



Investment Management

As one of the earliest moves towards divisionalisation of the Corporation's businesses, Prudential Portfolio Managers was established in 1982. Its mission was not only to provide investment management for the Group's internal funds but also to compete for external monies. Ten years on, Prudential is one of the world's largest investment management organisations with funds under management in excess of £60 billion.

Recent years have seen consistent progress under the leadership of Hugh Jenkins in the process of globalising PPM's operations.

In 1991 we established PPM America in Chicago initially to manage Jackson National Life's bond portfolio. In both 1991 and 1992 it delivered top quartile performance for fixed interest securities. More recently, PPM has taken responsibility for Jackson's range of mutual funds. We are confident that it is only a matter of time before PPM America establishes a powerful and marketable track record.

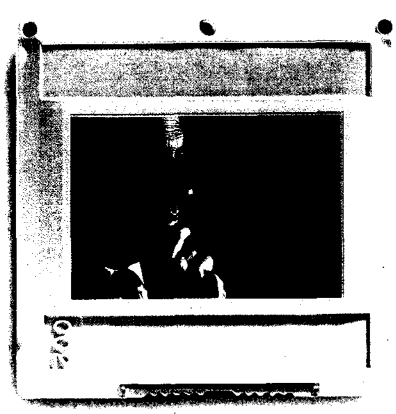
Last year our investment operation in Sydney became PPM Australia, managing the A$4 billion portfolio of our life insurance subsidiary. PPM Australia also competes in the market for segregated pension fund business, where it has won over A$1 billion of new funds.

Meanwhile in London, PPM also took over responsibility for M&G's £3 billion portfolio. The core of PPM's business remains in the UK where we are the largest institutional investor controlling on average over 3.5 per cent of all listed securities on the London Stock Market.

PPM's fee income is closely linked to the value of its funds under management which in turn is subject to fluctuations in investment markets. PPM's response to this inherent risk has been to build a flexible organisation with systems and processes that can shed cost or increase capacity as required, whilst maintaining service and quality standards.

Over the last two years the property investment function has been restructured and staff numbers reduced by 30 per cent. More recently, the front, back and middle office operations of the securities function have also been reorganised with responsibilities more clearly defined in order to ensure a sharper focus and increased efficiency. The impact of these restructurings depressed profits which amounted to £8m in 1992.

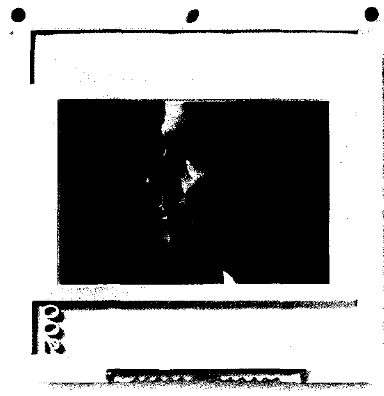
PPM also manages over £1 billion of retail investment products on behalf of Prudential Investment Products, a subsidiary of Prudential Financial Services. This includes unit trusts, personal equity plans, currency and money funds. We are keen to expand our presence in this area and have strengthened the management team and restructured the business. Responsibility for sales has been transferred to the distribution arm of our retail operations, following the successful precedent established by the Prudence Bond. We anticipate that as the public appetite for unit linked products returns, this will result in increased sales in future years.



PPM's mission is not only to provide investment management for the Group's internal funds but also to compete for external monies. Prudential is now one of the world's largest investment organisations with funds under management in excess of £60 billion.
Hugh Jenkins, Chief Executive Prudential Portfolio Managers

Reinsurance

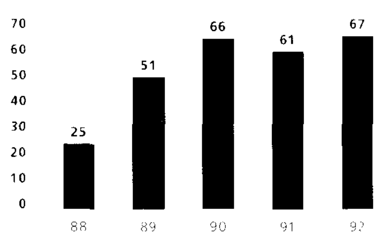
We have adopted a realistic and forceful strategy in order to correct the difficulties in M&G's general business operation and to ensure sustainable growth in the earnings from its long-term business.
John Engeström, Chief Executive Mercantile & General Reinsurance



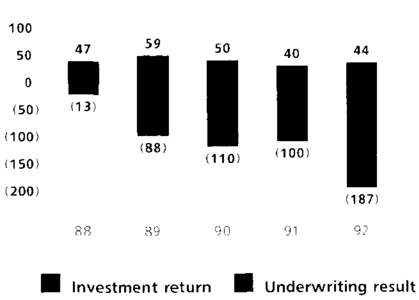
Mercantile & General is one of the world's leading reinsurance companies. However, unlike the majority of its peer companies M&G's business portfolio is predominantly concerned with the provision of long-term, particularly life, reinsurance. This contrasts with the general reinsurance orientation of the other major companies.

The difference in quality and acceptability of the results of these two lines of business is pronounced. For example, over the past five years profits from M&G's long-term operations have more than doubled.

Mercantile & General
Life Profits (£ million)



Mercantile & General
Non-Life Results (£ million)



By contrast M&G's general reinsurance operations have produced consistent losses. The results published by a reinsurance company in any one year – particularly with regard to its general insurance lines – tend to reflect the development of business written in earlier years. In recent years as more information has become available it has become clear that reserves against unreported claims were insufficient. It has also become clear that for a number of years cover has been provided at unrealistically low premiums. The £143m loss reported for 1992 in the general insurance account reflected a necessary bolstering of reserves given improved information. The London Marine Excess of Loss (LMX) account in particular again punished the M&G. This line of business is no longer written. The loss, however, also reflected the impact of new business taken on during 1991 and 1992 against an over-optimistic view of the hardening of the market.

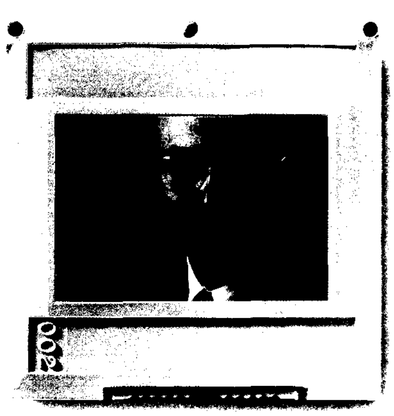
During 1992 we installed a new management team to deal sternly with the loss-making general accounts. John Engeström, managing director, and Hans-Erik Andersson, director in charge of general business, were both recruited from Skandia Re. Richard Brewster was transferred from Prudential Portfolio Managers as finance director. These three joined Roger Sansom and Peter Patterson who between them run M&G's global long-term reinsurance business. As general reinsurance contracts came up for renewal towards the end of last year, M&G took an uncompromising stance in repricing the business, vowing 'to turn the market or turn away from it'. As a result, M&G has been prepared to shed half its UK general reinsurance business, retaining only that which it is confident will yield satisfactory returns. The company has also taken firm action on costs, reducing worldwide staffing levels on the general side by some 25 per cent.

By contrast, M&G's life reinsurance operations continued to flourish with a 10 per cent increase in profits and a 13 per cent rise in gross premium income. M&G is one of the largest and most respected companies in this business, with market shares of over a third in the UK and a major presence in North America. M&G has the potential for significantly expanding its presence in both Europe and the Pacific markets.

M&G's management have a clear remit to reverse the losses from general reinsurance whilst continuing to expand the company's valuable life operations. I am confident that as a result of their actions, M&G will emerge stronger and fitter and its value to shareholders significantly enhanced.

Shareholders' Other Income

Profits from shareholders' other income increased from £86m to £134m. This was largely as a result of equity gains of £50m arising from a reorganisation of the shareholders' funds investment portfolio. The cost of providing for the disposal of properties vacated following various restructurings led to an increase in corporate expenditure, however the underlying trend was a decrease in central costs. This is consistent with the aim I expressed last year that the central team should impress by its quality rather than oppress by its size.



The accruals method affords shareholders a better insight into the performance of our long-term businesses and has met with a positive response from the investment community.
Michael Lawrence, Group Finance Director

Financial Position

Published shareholders' funds amounted to £504m. It is important to bear in mind, however, that this does not take into account a significant asset – the shareholders' accrued interest in the life fund. One of the advantages of the new accruals method of reporting profits from long-term business is that it does include an amount on the balance sheet in respect of this asset.

Borrowings remained static in underlying currency while the increased profits meant that interest cover increased from four to nine times. We consider that our ability to service debt from our revenues is a much more useful indicator than the traditional gearing ratio, as the latter is based on shareholders' funds which are inadequately stated under the current statutory basis.

Meanwhile, Prudential's general insurance solvency position remains healthy, in part benefiting from a reduction in our premium base following our withdrawals from various business areas.

In terms of dividend policy, our aim has been to provide on a consistent basis an above-average stream of dividends related principally to the growth in profits from our long-term businesses. The 1992 dividend is covered 1.2 times by post-tax profits.

Financial Reporting

As the UK's largest institutional investor, we are keen to raise standards of financial reporting among the companies in which we invest. At the same time, as a major quoted company in our own right, it is essential that we practise what we preach.

The accounts of UK life insurers have traditionally been prepared on a statutory basis, designed primarily to satisfy regulators' solvency requirements. Whilst this basis contains much information that is useful, it fails to give an accurate picture as to the underlying profitability of the enterprise. Last year Prudential took the lead in improving the quality of financial reporting with the publication of supplementary information prepared on an accruals basis. This afforded shareholders a better insight into the performance of our long-term businesses in respect of 1990 and 1991. Although the accruals method is still at an experimental stage, it has met with a positive response from the investment community and we look forward to other insurers joining with us in providing investors with a clearer understanding as to the underlying profitability of their businesses. Next year we intend to publish statutory and accruals figures together both at the time of the preliminary announcement of our results and in the Annual Report. Meanwhile, we

Summary

shall be sending shareholders a supplementary report in respect of our performance in 1992 prior to this year's Annual General Meeting.

This year our accounts have been revised significantly due to the introduction of FRS3 – Reporting Financial Performance. Further major changes will be required in 1995 when the EC Insurance Accounts Directive is due to take effect in the UK. This is intended to harmonise the presentation of the accounts of insurance companies in all member states and will introduce the requirement for them to show a 'true and fair view', thereby bringing them into line with other industries.

In my Review last year I asserted that we had made substantial progress towards advantageously changing the balance of our business. In 1992, I believe we maintained that momentum by the continuation of strategic withdrawals from the general insurance market. At the same time, despite having to operate in difficult markets worldwide, we have been able to increase sales of our long-term businesses whilst taking vigorous measures to reduce costs and improve productivity. We now have a clear focus of the preferred direction of our business into the future, not least as a result of the detailed strategic examination we have made. I believe that Prudential is well equipped and well poised to accept the opportunities we see the world's markets affording us in the future.

Sir Brian Corby earlier made particular reference to the values of integrity and fair dealing which remain indelibly associated with Prudential. I am sure that in an increasingly uncertain and competitive world the Prudential's reputation, embodied in its brand, is and will remain a source of increasingly powerful competitive advantage.

I am clear that my responsibility, working with all my colleagues throughout the Corporation, is to sustain and enhance that reputation by managing our affairs, always, so as to deliver a fair and valuable outcome to our customers. I am very conscious of the powerful contribution made by all the Corporation's employees in recent years, but in particular during 1992. Most sincerely I should like to thank them for their efforts and for their loyalty and enthusiasm.

M G Newmarch
Group Chief Executive
19 April 1993

Board of Directors

Sir Brian Corby FIA Chairman (Age 63) A director since 1983 and Chairman since 1990. Former Group Chief Executive. Chairman of the South Bank Board. Former director of the Bank of England. Former Chairman of the Association of British Insurers. Former President of the Confederation of British Industry. Chancellor of University of Hertfordshire.

Michael Abrahams MBE Deputy Chairman (Age 55) A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions Limited. Chairman of Dalepak. Director of John Waddington, Drummonds and the London Clinic.

Sir Alex Jarratt CB Deputy Chairman (Age 69) A director since 1985 and Deputy Chairman since 1992 and from 1987 to 1991. Director and former Chairman of Smiths Industries. Former Chairman of Reed International. Former Deputy Chairman of Midland Bank. Chancellor of the University of Birmingham. Chairman of the Centre for Dispute Resolution.

Mick Newmarch (Age 54) 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. He is also a member of the Board of the Association of British Insurers.

Ronald Artus CBE FIIMR (Age 61) A director since 1984. Former Group Chief Investment Manager. Director of Electrocomponents and General Electric Company. Independent director of The Securities and Futures Authority.

Mary Baker (Age 56) A director since 1988. Director of Avon Cosmetics, Barclays and MFI Furniture Group. President of Women in Management. Former Chairman of the London Tourist Board. Former Chairman of Holiday Care Service.

Keith Bedell-Pearce (Age 47) became a director in January 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.

Niall FitzGerald (Age 47) A director since January 1993. Executive director of Unilever. Director of the Bank of Ireland.

Tony Freeman FCA FCMA (Age 55) 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 58) 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 Sheffield International and a number of investment trusts. Vice Chairman of the South Bank Board.

Sir Trevor Holdsworth FCA (Age 65) A director since 1986. Deputy Chairman from 1988 to 1992. Chairman of Allied Colloids, National Power and Beauford. Former Chairman of GKN. Former President of the Confederation of British Industry. Chancellor of University of Bradford. Chairman of the Wigmore Hall Trust.

Hugh Jenkins FRICS FPMI (Age 59) 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 49) 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 Chairman of the 100 Group, a member of the Council of the Defence Research Agency and is a Freeman of the City of London.

Brian Medhurst FIA (Age 58) 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.

Sir Colin Southgate (Age 54) A director since 1989. Chairman of Thorn EMI. Director of PowerGen and the Bank of England. Vice Chairman of the South Bank Board.

Andrew Teare (Age 50) A director since August 1992. Group Chief Executive of English China Clays. Director of NFC. Former President of the National Council of Building Materials Producers.

Members of the Audit Committee

Michael Abrahams (Chairman)
Sir Victor Garland
Sir Trevor Holdsworth
Sir Alex Jarratt
Sir Colin Southgate

Members of the Remuneration Committee

Sir Alex Jarratt (Chairman)
Michael Abrahams
Mary Baker
Sir Trevor Holdsworth
Mick Newmarch
Sir Colin Southgate

Directors' Report

Year ended 31 December 1992

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 43.

The Group's business is reviewed in the Chairman's Statement on pages 6 and 7 and the Group Chief Executive's Review on pages 8 to 23.

Accounts

The consolidated balance sheet on page 30 shows the state of affairs of the Group at 31 December 1992. The Company's balance sheet appears on page 31 and the consolidated profit and loss account on page 28. There is a five year review of the Group on pages 47 and 48.

Dividends

The directors have declared a final dividend for 1992 of 7.8 pence per share payable on 26 May 1993 to shareholders on the register at the close of business on 8 April 1993. The dividend for the year, including the interim dividend of 4.1 pence per share paid in 1992, amounts to 11.9 pence per share compared with 11.0 pence per share for 1991. The total cost of dividends for 1992 was £224m and £58m was transferred to reserves.

Directors

The present directors are shown on pages 24 and 25. Mr K L Bedell-Pearce was appointed a director on 1 January 1992. Lord Butterfield, Lord Hunt and Mr J A S Neave retired on 27 May 1992. Mr J Lock retired on 30 June 1992.

Mr A H Teare and Mr N W A FitzGerald were appointed directors on 12 August 1992 and 1 January 1993 respectively. They retire in accordance with the Articles of Association and offer themselves for election at the Annual General Meeting.

Mr M D Abrahams and Sir Trevor Holdsworth retire by rotation at the Annual General Meeting and they offer themselves for re-election. Mr R E Artus and Sir Victor Garland also retire by rotation but do not offer themselves for re-election. Sir Colin Southgate is to resign as a director from the end of the Annual General Meeting.

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

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 1992 was 23,619 and their total remuneration was £517m.

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 1992, this policy was taken forward by developing good practice guidelines and increasing awareness of equal opportunity issues. Monitoring achievement of the policy continues and links with external bodies which can assist in this area have been strengthened.

Employee Involvement

Arrangements continued in 1992 to communicate with employees on issues which concern them. Increasingly channels are being developed to involve staff in significant business decisions through a number of consultation methods, such as focus groups and questionnaires. 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 includes directors elected by the members of the scheme.

Community Support

Through the services of the Charities Aid Foundation, the Company and its subsidiary undertakings enabled United Kingdom charities to receive over £496,000 in 1992. A further £158,000 was given directly for charitable purposes in the United Kingdom, and donations of £230,000 were made overseas.

Financial and other support was given to a range of community organisations across the United Kingdom. These included organisations working in the fields of education, health care and disability, medical research and crime prevention.

During the year staff participating in the secondment programme represented a further contribution of £159,000 to charitable projects. A pilot project involving 100-hour assignments as part of the field staff management development was also undertaken.

The Company has reviewed its community support programme in the light of developments in social policy and community care. Arising from this review a new five year programme will commence in 1993 focusing support on two areas: carers in the community and safer communities.

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 1992 was 68,656 (64,525). At 30 March 1993, 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:

	1992 %	1991 %
Banks and other nominee companies	**64**	58
Insurance companies	**9**	13
Pension funds	**8**	8
Investment trusts and unit trusts	**1**	1
Other corporations	**6**	7
Individuals (held direct)	**12**	13
	100	100

Close Company Provisions

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

On behalf of the board of directors

P R Rawson
Secretary
19 April 1993

Consolidated Profit and Loss Account

Year ended 31 December 1992

Note		1992 £m	1991 £m
	Gross premiums		
	Continuing operations:		
	Long-term business	**7,596**	6,163
	General insurance	**796**	645
	Discontinued operations	**392**	544
	Total gross premiums	**8,784**	7,352
	Operating profit (loss)		
	Continuing operations:		
2	Long-term business	**444**	385
3	General insurance	**(110)**	(58)
5	Shareholders' other income	**134**	86
		468	413
3	Discontinued operations	**(11)**	(91)
	Total operating profit	**457**	322
	Loss on closure of commercial broker business	**–**	(85)
	Profit on ordinary activities before interest payable	**457**	237
6	Interest payable	**(51)**	(55)
	Profit on ordinary activities before tax	**406**	182
7	Tax	**(123)**	(94)
	Minority interests	**(1)**	(1)
	Profit for the financial year	**282**	87
	Dividends	**(224)**	(206)
	Retained profit (loss) for the financial year	**58**	(119)
	Earnings per share		
	Based on earnings of £282m (£87m) and 1,873m (1,865m) shares	**15.0p**	4.7p
	Dividend per share	**11.9p**	11.0p

The 1991 figures have been restated following the implementation of FRS 3 – Reporting Financial Performance.

Statement of Total Recognised Gains and Losses

Year ended 31 December 1992

Note		1992 £m	1991 £m
	Profit for the financial year	**282**	87
	Other recognised (losses) gains:		
9	(Decrease) increase in investment gains not included in profit	**(53)**	77
	Exchange gains (losses)	**36**	(6)
	Other movements	**(20)**	(1)
		(37)	70
	Total recognised gains	**245**	157

Statement of Retained Profit and Reserves

Year ended 31 December 1992

	1992 £m	1991 £m
Profit for the financial year	**282**	87
Dividends	**(224)**	(206)
Retained profit (loss) for the financial year	**58**	(119)
Other recognised (losses) gains	**(37)**	70
Movement in retained profit and reserves	**21**	(49)
Retained profit and reserves at beginning of year	**296**	345
Retained profit and reserves at end of year	**317**	296
Comprising: Retained profit	**243**	140
Revaluation reserve	**74**	156
	317	296

Reconciliation of Movement in Shareholders' Funds

Year ended 31 December 1992

Note		1992 £m	1991 £m
	Movement in retained profit and reserves	**21**	(49)
17	New share capital subscribed	**20**	9
	Net addition to (deduction from) shareholders' funds	**41**	(40)
	Shareholders' funds at beginning of year	**463**	503
	Shareholders' funds at end of year	**504**	463

Consolidated Balance Sheet

31 December 1992

Note		1992 £m	1991 £m
	Investments		
	Ordinary shares	**22,046**	17,772
	Properties	**3,916**	4,398
	British Government securities	**2,343**	1,907
	Other fixed income securities	**18,304**	13,073
	Mortgages and loans	**1,437**	1,382
	Short-term deposits	**1,971**	2,006
		50,017	40,538
	Other Assets		
	Fixed assets	**128**	133
	Tax recoverable	**319**	313
	Debtors	**1,618**	1,482
	Bank balances and cash	**474**	363
		2,539	2,291
	Total Assets	**52,556**	42,829
	***Less* Liabilities**		
14	Borrowings	**710**	800
	Tax	**155**	107
	Final dividend	**147**	135
	Other creditors	**1,069**	791
	Minority interests	**1**	5
		2,082	1,838
13	**Total Assets less Liabilities**	**50,474**	40,991
	***Less* Insurance Funds and Reserves**		
13	Long-term business	**48,118**	38,801
15	General insurance	**1,852**	1,727
		49,970	40,528
		504	463
	Shareholders' Capital and Reserves		
17	Share capital	**94**	93
17	Share premium	**93**	74
	Retained profit and reserves	**317**	296
		504	463

Balance Sheet of the Company

31 December 1992

Note		1992 £m	1991 £m
	Fixed Assets		
	Investments		
18	Shares in subsidiary undertakings	**299**	299
18	Loans to subsidiary undertakings	**670**	601
		969	900
	Current Assets		
	Debtors		
	Amounts owed by subsidiary undertakings	**262**	165
	Tax recoverable	**18**	—
	Other debtors	**1**	4
		281	169
	***Less* Liabilities: amounts falling due within one year**		
14	Borrowings	**17**	91
	Tax	**15**	—
7	Deferred tax	**11**	4
	Amounts owed to subsidiary undertakings	**183**	123
	Final dividend	**147**	135
	Other creditors	**8**	8
		381	361
	Net Current Liabilities	**100**	192
	Total Assets less Current Liabilities	**869**	708
	***Less* Liabilities: amounts falling due after more than one year**		
	Amounts owed to subsidiary undertakings	**506**	412
		363	296
	Capital and Reserves		
17	Share capital	**94**	93
17	Share premium	**93**	74
19	Retained profit	**176**	129
		363	296

The accounts on pages 28 to 45 were approved by the board of directors on 19 April 1993.

Sir Brian Corby, Chairman

M G Newmarch, Group Chief Executive

M J Lawrence, Group Finance Director

General Insurance and Shareholders' Cash Flow Statement

Year ended 31 December 1992

Note		1992 £m	1991 £m
	Operations		
16	Net cash inflow from operations	**202**	353
	Servicing of finance		
	Interest paid	**(54)**	(53)
	Dividends paid	**(212)**	(198)
	Net cash outflow for servicing of finance	**(266)**	(251)
	Tax		
	Tax received	**60**	64
	Investments (excluding short-term deposits)		
	Purchases:		
	Ordinary shares	**(321)**	(231)
	Fixed income securities	**(2,181)**	(1,532)
		(2,502)	(1,763)
	Sales:		
	Ordinary shares	**499**	218
	Fixed income securities	**1,851**	1,188
		2,350	1,406
16	Net purchases of investments (excluding short-term deposits)	**(152)**	(357)
16	Net inflow from sale of Canadian general insurance operations	**58**	–
	Net cash outflow for investment	**(94)**	(357)
	Net cash outflow before financing	**(98)**	(191)
	Financing		
	Net cash borrowed (excluding short-term debt):		
	Issues – Commercial Paper	**67**	–
14	– US$300m Bond	**–**	160
	Repayments	**(1)**	(19)
16		**66**	141
17, 16	Issues of ordinary share capital	**20**	9
	Net cash inflow from financing	**86**	150
	Net outflow in cash and cash equivalents	**(12)**	(41)
	Changes in cash and cash equivalents		
	Net outflow	**(12)**	(41)
	Exchange translation	**19**	–
	Increase (decrease) for year	**7**	(41)
	Balance at beginning of year	**320**	361
	Balance at end of year	**327**	320
	Comprising:		
13	Short-term deposits	**255**	232
13	Bank balances and cash	**105**	217
14	Short-term debt	**(33)**	(129)
		327	320

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.

(B) FRS 3 – Reporting Financial Performance

The Group has implemented FRS 3 – Reporting Financial Performance as modified by FRED 5 in respect of the investments of insurance groups which allows the Group to retain its existing accounting policies for investment gains. Comparative figures have been restated as explained in Note 1 on the accounts. A statement of total recognised gains and losses and a reconciliation of the movement in shareholders' funds are also provided.

(C) Basis of consolidation

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

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

(D) 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 with-profit and reinsurance business, the amount of surplus released to profits is determined by the directors of the companies concerned in accordance with the relevant Articles of Association. For other business the release to profits comprises the whole of the surplus arising in the year.

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

(E) General insurance

(i) Personal and commercial lines

Personal and commercial lines are accounted for on an annual basis with profits recognised in the financial year in which the risk is carried.

Premiums written are accounted for when risks are assumed. In determining the underwriting result 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 daily basis.

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

An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and anticipated investment return.

(ii) Reinsurance and marine and aviation

Reinsurance and marine and aviation are subject to delays in the receipt of information from ceding companies and are accounted for on a funded basis.

Premiums and claims are recorded in the accounting period in which they are notified. The aggregate net revenue in respect of each underwriting year is carried forward as a fund and additional provisions are made if necessary to meet the estimated costs of all outstanding liabilities including claims incurred but not reported and claims expected on periods of risk beyond the year end.

The minimum development period before profit is recognised on an underwriting year depends upon the nature of the business and ranges from one to three years. Where applicable, unearned premiums are calculated on the basis of individual contract terms or on a pro-rata basis.

(iii) Discounting

Certain long-tail liabilities in respect of reinsurance and discontinued businesses are discounted to take account of the extended settlement period. The investment return earned over the period to settlement is credited to the underwriting result.

Accounting Policies

(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 valuations

Listed investments are shown at market value, properties at open market value as valued by the Group's qualified surveyors or by professional external valuers and unlisted investments, mortgages and loans at directors' valuation. Shares in subsidiary undertakings are shown at cost less provisions for diminution in value.

(ii) Investment gains

– Long-term business funds

For non-linked business, realised and unrealised gains and related tax are taken to investment reserves. Transfers are made between investment reserves and the long-term business revenue account as determined by the directors of the companies concerned.

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

– General insurance and shareholders' funds

Insurance company realised and unrealised gains are taken initially to reserves. These gains are averaged over five years and credited to operating results. The unrealised element is subsequently transferred back to revaluation reserve.

Non-insurance company realised gains are included in operating results. Unrealised gains are taken to revaluation reserve.

(H) Foreign currencies

Foreign currency revenue transactions, assets and liabilities are translated at year end exchange rates except that certain revenue transactions are translated at rates ruling at the transaction dates. Within general insurance and shareholders' funds, exchange differences 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

Fixed assets 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 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 FRS 3 — Reporting Financial Performance

The accounts have been prepared in accordance with FRS 3 — Reporting Financial Performance. The 1991 comparative figures have been restated accordingly with the result that the loss on closure of commercial broker business of £85m before tax has been charged to the 1991 profit on ordinary activities rather than being shown as an extraordinary item net of tax. The restatement reduces 1991 profit on ordinary activities before tax to £182m (previously £267m), profit for the financial year to £87m (previously £140m) and earnings per share to 4.7p (previously 7.5p). A note on historical cost profits and losses has not been prepared as published and historical cost profits are not materially different.

Note	2 Long-term Business Revenue Account	1992 £m	1991 £m
4	Gross premium income	7,596	6,163
	Less reassurance	153	144
	Net premium income	7,443	6,019
8	Investment income	2,850	2,477
	Investment gains transferred from investment reserves	1,492	1,406
8	Investment gains relating to linked business	318	299
		12,103	10,201
	Gross claims and surrenders	4,382	3,760
	Less reassurance	64	92
	Net claims and surrenders	4,318	3,668
	Commission	486	417
	Expenses	856	754
7	Tax	196	151
	Increase in insurance liability	4,258	3,289
		10,114	8,279
	Surplus for distribution	1,989	1,922
	Less policyholders' bonuses	1,705	1,677
	Shareholders' profit after tax	284	245
7	Shareholders' tax	160	140
4	Operating profit	444	385

Note	3 General Insurance Revenue Account	1992 £m	1991 £m
4	Gross premiums written	1,188	1,189
	Less reinsurance	140	140
	Net premiums written	1,048	1,049
	Gross claims	985	1,105
	Less reinsurance	243	221
	Net claims	742	884
	Commission	187	182
	Expenses	175	193
	Deferred acquisition expenses	3	(12)
	Increase in insurance liability	186	85
		1,293	1,332
4	Underwriting result	(245)	(283)
4, 9	Investment return	124	134
4	Operating loss	(121)	(149)
4	Comprising: continuing operations	(110)	(58)
4	discontinued operations	(11)	(91)
		(121)	(149)

Notes on the Accounts

4 Segmental Analysis

Premiums and operating profit (loss)

	New business				Gross premium income		Operating profit (loss)	
	Annual premiums		Single premiums					
Long-term Business	**1992 £m**	1991 £m	**1992 £m**	1991 £m	**1992 £m**	1991 £m	**1992 £m**	1991 £m
United Kingdom								
Non-linked:								
Pensions	**134**	132	**589**	512	**1,125**	997	**84**	74
Life and annuity	**126**	136	**846**	408	**1,725**	1,280	**160**	162
Linked life and pensions	**3**	3	**26**	41	**90**	107	**13**	6
Total individual business	**263**	271	**1,461**	961	**2,940**	2,384	**257**	242
Corporate pensions	**62**	49	**513**	447	**680**	594	**19**	19
Total United Kingdom	**325**	320	**1,974**	1,408	**3,620**	2,978	**276**	261
USA	**73**	78	**1,575**	1,212	**2,055**	1,586	**86**	60
Pacific Markets								
Australia	**35**	31	**445**	322	**667**	529	**11**	16
Other	**37**	23	**60**	7	**191**	97	**5**	4
Total Pacific Markets	**72**	54	**505**	329	**858**	626	**16**	20
Other countries	**61**	40	**141**	154	**369**	357	**(1)**	(17)
Mercantile and General Reinsurance								
United Kingdom	**52**	46	**9**	59	**226**	271	**43**	40
North America	**72**	112	**–**	–	**402**	295	**12**	1
Other countries	**17**	12	**2**	1	**66**	50	**12**	20
Total Mercantile and General Reinsurance	**141**	170	**11**	60	**694**	616	**67**	61
Group Total	**672**	662	**4,206**	3,163	**7,596**	6,163	**444**	385

	Gross premiums written		Underwriting result		Investment return		Operating profit (loss)	
Continuing General Insurance operations	**1992 £m**	1991 £m	**1992 £m**	1991 £m	**1992 £m**	1991 £m	**1992 £m**	1991 £m
United Kingdom personal lines								
Domestic	**248**	227	**10**	(15)	**17**	16	**27**	1
Motor	**67**	68	**(2)**	(7)	**8**	8	**6**	1
Total United Kingdom	**315**	295	**8**	(22)	**25**	24	**33**	2
Mercantile and General Reinsurance								
United Kingdom	**303**	214	**(131)**	(87)	**27**	28	**(104)**	(59)
North America	**123**	103	**(53)**	(10)	**10**	8	**(43)**	(2)
Other countries	**55**	33	**(3)**	(3)	**7**	4	**4**	1
Total Mercantile and General Reinsurance	**481**	350	**(187)**	(100)	**44**	40	**(143)**	(60)
Group Total	**796**	645	**(179)**	(122)	**69**	64	**(110)**	(58)
Discontinued General Insurance operations								
United Kingdom								
Home Service commercial	**72**	70	**(13)**	(22)	**14**	9	**1**	(13)
Commercial broker business	**51**	225	**(9)**	(113)	**9**	36	**–**	(77)
Total United Kingdom	**123**	295	**(22)**	(135)	**23**	45	**1**	(90)
Canada	**158**	148	**(16)**	(13)	**19**	15	**3**	2
Marine, aviation and other	**111**	101	**(28)**	(13)	**13**	10	**(15)**	(3)
Group Total	**392**	544	**(66)**	(161)	**55**	70	**(11)**	(91)

The 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.

Premiums by class of business

Note	Long-term Business	New business: Annual premiums 1992 £m	1991 £m	New business: Single premiums 1992 £m	1991 £m	Gross premium income 1992 £m	1991 £m
	Non-linked:						
	Pensions	**201**	186	**891**	798	**1,614**	1,450
	Life	**314**	313	**960**	530	**2,969**	2,369
	Annuity	**2**	1	**1,669**	1,360	**1,671**	1,373
	Permanent health	**92**	133	–	1	**478**	338
	Total Non-linked	**609**	633	**3,520**	2,689	**6,732**	5,530
	Linked:						
	Pensions	**27**	8	**225**	184	**263**	212
	Life	**36**	21	**461**	290	**601**	421
	Total Linked	**63**	29	**686**	474	**864**	633
	Group Total	**672**	662	**4,206**	3,163	**7,596**	6,163
	Comprising: Group business	**186**	192	**758**	618	**1,469**	1,204
	Individual business	**486**	470	**3,448**	2,545	**6,127**	4,959
		672	662	**4,206**	3,163	**7,596**	6,163

Continuing General Insurance operations	Gross premiums written 1992 £m	1991 £m
Property	**491**	415
Liability	**245**	189
Other	**60**	41
Group Total	**796**	645

Net assets and shareholders' other income

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 funds 1992 £m	1991 £m	General insurance funds 1992 £m	1991 £m
	United Kingdom	**24,288**	20,460	**1,567**	1,356
	Australia	**2,485**	1,877	**31**	22
	Canada	**2,233**	2,134	**58**	221
	USA	**10,201**	6,685	**142**	79
	Other countries	**1,226**	969	**54**	49
13	**Group Total**	**40,433**	32,125	**1,852**	1,727

Note	Shareholders' Funds – geographical analysis	Shareholders' other income 1992 £m	1991 £m	Shareholders' capital and reserves 1992 £m	1991 £m
	United Kingdom	**49**	26	**228**	240
	Canada	**19**	17	**121**	188
	USA	**56**	34	**739**	564
	Other countries	**10**	9	**110**	88
		134	86	**1,198**	1,080
13	*Less* Borrowings	–	–	**694**	617
5, 13	**Group Total**	**134**	86	**504**	463

Details of Group borrowings by currency are included in note 14.

Notes on the Accounts

Note	5 Shareholders' Other Income	1992 £m	1991 £m
	Investment return:		
	Investment income	**80**	71
	Insurance company averaged investment gains	**30**	20
	Non-insurance company realised investment gains	**50**	10
9		**160**	101
	Corporate expenditure	**(33)**	(26)
	Trading results from:		
	Investment management	**8**	12
	Unit trusts and personal equity plans	**(1)**	(1)
4	Operating profit	**134**	86

	Long-term business		General insurance and shareholders	
6 Interest on Borrowings	**1992 £m**	1991 £m	**1992 £m**	1991 £m
Interest on borrowings repayable within 5 years	**9**	31	**11**	24
Interest on other borrowings	**–**	–	**40**	31
	9	31	**51**	55

Interest charged to the long-term business revenue account is deducted from investment income.

7 Tax

		Long-term business		General insurance and shareholders	
	Tax charged to long-term business revenue account and to profit and loss account	**1992 £m**	1991 £m	**1992 £m**	1991 £m
	Corporation tax	**37**	29	**(42)**	(25)
	Double tax relief	**(5)**	(3)	**(15)**	(8)
	Tax on franked investment income	**90**	83	**6**	7
	Overseas tax	**104**	62	**17**	–
	Prior year adjustments	**(9)**	(13)	**(12)**	(6)
		217	158	**(46)**	(32)
	Deferred tax: current year	**(21)**	9	**8**	(14)
	prior year	**–**	(16)	**1**	–
		196	151	**(37)**	(46)
	Shareholders' attributable tax	**(160)**	(140)	**160**	140
		36	11	**123**	94
	Tax charged to reserves				
	Current tax	**67**	65	**3**	2
	Deferred tax	**(6)**	17	**–**	–
		61	82	**3**	2
	Deferred tax				
	Liability provided (asset recognised) in balance sheets:				
	Short-term timing differences	**11**	32	**2**	5
	Closure cost provisions	**–**	–	**(21)**	(32)
13		**11**	32	**(19)**	(27)
	Potential liability not provided (asset not recognised):				
	Unrealised gains on investments	**1,152**	836	**69**	90
	Unrelieved losses	**(33)**	(2)	**(37)**	(35)
	General insurance funds	**–**	–	**(18)**	(28)
	Other timing differences	**(6)**	(12)	**(22)**	(11)
		1,113	822	**(8)**	16

The deferred tax liability of £11m (£4m) in the balance sheet of the Company relates to short-term timing differences.

8 Long-term Business Investment Return

	1992 £m	1991 £m
Investment income	2,984	2,590
Less investment expenses	134	113
	2,850	2,477
Investment gains: non-linked business	2,487	2,420
linked business	318	299
Total long-term business investment return	5,655	5,196

9 General Insurance and Shareholders' Investment Return

	1992 £m	1991 £m
Investment income	179	191
Less investment expenses	5	4
	174	187
Investment gains arising in the year	57	125
Decrease (increase) in investment gains not included in profit:		
Deferred investment gains	29	(64)
Non-insurance company unrealised gains	24	(13)
General insurance and shareholders' investment return recognised in year	284	235
Allocated to: Continuing operations		
general insurance	69	64
shareholders' other income	160	101
	229	165
Discontinued operations	55	70
	284	235

Deferred investment gains at the end of the year amounted to £74m (£103m).
Investment return arising in the year of £57m (£nil) has been credited to the closure provision in respect of discontinued commercial broker business and is not included above.

10 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 approximately 75% of eligible employees in service, 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 £50m (£40m) of which £4m (£5m) related to overseas schemes.

11 Fees Payable to Audit Firms

	Price Waterhouse		Other Firms		Total	
	1992 £m	1991 £m	1992 £m	1991 £m	1992 £m	1991 £m
Statutory audit	1.8	1.5	0.8	0.9	2.6	2.4
Audit related services	0.6	0.2	0.4	1.1	1.0	1.3
Consultancy services	1.5	0.2	0.7	1.2	2.2	1.4
	3.9	1.9	1.9	3.2	5.8	5.1

Fees payable to Price Waterhouse for work performed in the United Kingdom other than for statutory audit amounted to £1.9m (£0.3m).

Notes on the Accounts

Note **12 Exchange Rates**

The principal year end exchange rates used for translation were:

	Currency	1992	1991
Australia	A$	**2.20**	2.46
Canada	C$	**1.92**	2.16
USA	US$	**1.51**	1.87

Note	13 Balance Sheets	Long-term business 1992 £m	Long-term business 1991 £m	General insurance and shareholders 1992 £m	General insurance and shareholders 1991 £m
	Investments				
	Ordinary shares	**21,570**	17,149	**476**	623
	Properties	**3,887**	4,370	**29**	28
	British Government securities	**2,073**	1,750	**270**	157
	Other fixed income securities	**16,842**	11,908	**1,462**	1,165
	Mortgages and loans	**1,379**	1,303	**58**	79
	Short-term deposits	**1,716**	1,774	**255**	232
		47,467	38,254	**2,550**	2,284
	Other Assets				
	Fixed assets	**67**	68	**61**	65
	Tax recoverable	**185**	228	**126**	85
	Deferred tax	**(11)**	(32)	**19**	27
	Debtors	**1,210**	1,113	**859**	754
	Bank balances and cash	**369**	146	**105**	217
		1,820	1,523	**1,170**	1,148
	Total Assets	**49,287**	39,777	**3,720**	3,432
	***Less* Liabilities**				
14	Borrowings	**16**	183	**694**	617
	Tax	**79**	87	**76**	15
	Final dividend	–	–	**147**	135
	Other creditors	**1,074**	706	**446**	470
	Minority interests	–	–	**1**	5
		1,169	976	**1,364**	1,242
	Total Assets less Liabilities	**48,118**	38,801	**2,356**	2,190
15	***Less* General Insurance Funds**	–	–	**1,852**	1,727
		48,118	38,801	**504**	463
15	**Long-term Business Funds**	**40,433**	32,125	–	–
	Long-term Business Reserves	**7,685**	6,676	–	–
	Shareholders' Capital and Reserves	–	–	**504**	463
		48,118	38,801	**504**	463

14 Borrowings	Long-term business 1992 £m	Long-term business 1991 £m	General insurance and shareholders 1992 £m	General insurance and shareholders 1991 £m
Bank loans and overdrafts (repayable on demand)	**11**	174	**18**	91
Secured loans:				
Canadian dollar borrowings (7% to 13%)	**5**	9	**–**	1
Unsecured loans:				
Sterling commercial paper 1993 (7.3% to 7.4%)	–	–	**15**	38
US dollar commercial paper 1993 (3.5% to 3.7%)	–	–	**79**	–
DM300m 6% Guaranteed Notes 1997	–	–	**123**	106
SF200m 4.75% Guaranteed Bonds 1998	–	–	**90**	79
US$300m 8.25% Guaranteed Bonds 2001	–	–	**199**	160
£150m 9.375% Guaranteed Bonds 2007	–	–	**150**	150
Currency translation liability (asset) on swap transactions	–	–	**20**	(8)
Total other borrowings	**5**	9	**676**	526
Total borrowings	**16**	183	**694**	617
Borrowings are repayable as follows:				
Within one year or on demand	**13**	182	**112**	130
Between two and five years	**3**	1	**140**	–
After five years	–	–	**442**	487
	16	183	**694**	617

The Company has bank loans and overdrafts of £17m (£91m) 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 1992 for the unsecured loans are US$738m, DM300m and £65m, equivalent in total to £676m. The weighted average rate of interest payable on these loans is 8.4% (8.6%).

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.

15 Insurance Funds

Long-term Business	1992 £m	1991 £m
Insurance funds	**40,198**	31,932
Gross outstanding claims	**250**	207
Reassurance recoverable	**(15)**	(14)
Net outstanding claims	**235**	193
Total funds	**40,433**	32,125

General Insurance	1992 £m	1991 £m
Funds gross of reinsurance:		
Unearned premiums	**230**	373
Outstanding claims	**596**	711
Inwards reinsurance and other funds	**1,355**	1,019
	2,181	2,103
Reinsurance recoverable	**(281)**	(298)
	1,900	1,805
Deferred acquisition expenses	**(48)**	(78)
Total funds net of reinsurance	**1,852**	1,727

Discounting has been applied to certain long-tail general insurance funds in respect of accident non-proportional reinsurance, direct liability business and asbestos and pollution claims. The discount rate applied is 5% per annum and the average periods of settlement are between three and fifteen years. The overall effect of discounting is to reduce the general insurance funds at 31 December 1992 by £226m (£191m) and to increase Group profit before tax by £7m (£22m).

In addition, in the case of discontinued businesses, the future investment return on technical reserves has been recognised in calculating the closure provisions.

Notes on the Accounts

16 General Insurance and Shareholders' Cash Flow

Note	Reconciliation of operating profit to net cash inflow from operations	1992 £m	1991 £m
	Total operating profit	457	322
	Adjustments for non-cash items:		
	Depreciation charges	29	32
	Investment gains and other movements	(109)	(61)
	Tax on long-term profits and franked investment income	(166)	(147)
	Increase in general insurance fund	188	159
	(Increase) decrease in amounts due from long-term business	(191)	63
	(Increase) decrease in other assets	(4)	14
	Decrease in other liabilities	(2)	(29)
	Net cash inflow from operations	202	353

Note	Changes in investments	1992 £m	1991 £m
	Net purchases of investments (excluding short-term deposits)	152	357
	Investment portfolio of Canadian general insurance operations sold in year	(226)	—
	Realised and unrealised investment gains	57	125
	Exchange translation and other movements	260	33
	Increase (decrease) in short-term deposits	23	(170)
	Increase for year	266	345
	Investments at beginning of year	2,284	1,939
13	Investments at end of year	2,550	2,284

Note		Borrowings		Share capital (including share premium)	
	Changes in borrowings and share capital	1992 £m	1991 £m	1992 £m	1991 £m
	Financing:				
	Net cash raised	66	141	20	9
	Exchange translation	107	4	—	—
	Increase for year	173	145	20	9
	Financing at beginning of year	488	343	167	158
	Financing at end of year	661	488	187	167
	Other borrowings:				
	Short-term debt included in cash and cash equivalents	33	129	—	—
14, 17	Total borrowings/share capital	694	617	187	167

Sale of Canadian general insurance operations

Net assets disposed of	1992 £m
Investments	226
Cash and cash equivalents	22
General insurance fund	(199)
Other net assets	42
	91
Less Cash consideration net of expenses	80
Loss on disposal	11

These operations contributed £15m to the Group's net cash inflow from operations.

Analysis of net inflow of cash and cash equivalents	1992 £m
Cash consideration net of expenses	80
Short-term deposits disposed of in sale	(8)
Bank balances and cash disposed of in sale	(14)
Net inflow	58

17 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 1992 £m	Share premium 1992 £m
At beginning of year	1,868,007,475	93.4	73.8
Shares issued under share option schemes	5,425,712	0.3	8.6
Shares issued in lieu of cash dividends	5,261,615	0.2	11.1
At end of year	1,878,694,802	93.9	93.5

Options subsisting under share option schemes at 31 December 1992 were:

Year options granted	Number of options	Exercise price pence per share	Period during which options are exercisable
1985	200,280	105.0-128.2	1993-1995
1986	682,878	160.9-177.1	1993-1996
1987	2,687,175	157.2-199.0	1993-1997
1988	2,647,108	149.0-166.4	1993-1998
1989	4,979,239	167.0-200.5	1993-1999
1990	17,254,840	156.0-197.0	1993-2000
1991	9,418,661	192.0-248.0	1994-2001
1992	15,209,556	163.0-256.0	1995-2002

18 Investments of the Company

	Shares in subsidiary undertakings 1992 £m	Loans to subsidiary undertakings 1992 £m
At beginning of year	299	601
Exchange rate movements	—	66
Advances of new loans	—	18
Repayment of loans	—	(15)
At end of year	299	670

19 Profit of the Company

The profit of the Company for the year was £271m (£170m). After dividends of £224m (£206m), retained profit at 31 December 1992 amounted to £176m (£129m).

20 Subsidiary Undertakings

The principal subsidiary undertakings of the Company were:

	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
Prudential Annuities Limited*	England and Wales
The Prudential Assurance Company Limited	England and Wales
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 remain part of the Group amounted to £410m (£404m).

Notes on the Accounts

21 Directors' Emoluments

The emoluments of executive directors other than the group chief executive are determined by the Remuneration Committee. This Committee comprises the non-executive directors as noted on page 25 and the group chief executive.
The emoluments of the group chief executive are determined by the non-executive members of the Committee.
In addition to salary entitlements, the executive directors participate in the Prudential Corporation Share Participation Plan which took effect from 1 January 1992. Based on the performance of the Group, awards under the Plan are determined by the Committee, taking into account shareholders' expectations and earnings per share growth in recent years and relative to comparable companies.
The Plan operates by the payment initially of cash awards. The directors may elect to use the after tax payments or existing holdings of shares to the same value to provide shares in the Company which are lodged with the trustee of the Plan. The Committee then approves additional share awards normally equivalent to the gross amounts of the cash awards. These additional shares are purchased in the market and held by the trustee. A condition of the Plan is that a director normally benefits from the additional award only if the shares which are lodged by the director are held by the trustee for five years.
In respect of 1992 all executive directors elected to lodge shares with the trustee. The emoluments shown below reflect all pre-tax amounts awarded under the Plan including the cost of additional shares.
Executive directors also qualify for share options under the Prudential Executive Share Option Scheme and the Prudential Savings-Related Share Option Scheme. Details of holdings of share options are included in note 23.

Total emoluments for the year were:	1992 £	1991 £
Salaries, benefits and fees	**2,138,457**	1,917,132
Performance related emoluments:		
Share Participation Plan (represented by shares to be held by trustee for five years)	**487,200**	–
Cash bonus under previous arrangements	**–**	125,750
Pension contributions	**396,966**	369,671
	3,022,623	2,412,553

The emoluments of the Chairman and the highest paid director were:		
Sir Brian Corby (Chairman)		
Fees	**88,718**	78,279
M G Newmarch (Group Chief Executive)		
Salary and benefits	**565,390**	549,070
Performance related emoluments:		
Share Participation Plan (represented by shares to be held by trustee for five years)	**156,000**	–
Cash bonus under previous arrangements	**–**	37,500
Pension contributions	**47,995**	30,544
	769,385	617,114

Excluding pension contributions, the emoluments of individual directors, other than the Chairman and highest paid director, fell into the following bands:

Emoluments £ £	Number of directors 1992	1991	Emoluments £ £	Number of directors 1992	1991
5,001 to 10,000	**4**	2	200,001 to 205,000	**–**	1
10,001 to 15,000	**–**	1	235,001 to 240,000	**–**	1
15,001 to 20,000	**4**	7	250,001 to 255,000	**–**	1
20,001 to 25,000	**–**	1	255,001 to 260,000	**1**	–
25,001 to 30,000	**1**	1	260,001 to 265,000	**2**	–
30,001 to 35,000	**2**	1	280,001 to 285,000	**–**	1
145,001 to 150,000	**1**	–	315,001 to 320,000	**1**	–
180,001 to 185,000	**–**	1	370,001 to 375,000	**1**	–

The arrangements for performance related emoluments explained above took effect from 1 January 1992. Performance related emoluments under the Share Participation Plan are included above on an earned basis. The 1991 emoluments shown above include amounts paid in the year under the previous scheme.
The emoluments shown above include £279,602 (£296,052) in respect of services as directors.

22 Arrangements with Directors

(i) House Purchase Loan

Mr J Lock who retired on 30 June 1992 has a house purchase loan of £30,000 secured on his personal residence which is due to be repaid from the proceeds of endowment policies. Up to 30 June 1992 there was no movement on the loan nor any interest due and unpaid. Interest on different portions of the loan ranged from 4% to 8.5%, the terms being no more favourable than those which were normally available to members of staff when the loan was made.

(ii) Other Arrangements

In 1987 a wholly owned subsidiary of the Company and Mr M G Newmarch jointly purchased a property in London at a total price of £772,500 of which Mr Newmarch contributed £225,000. During 1992 the arrangements in respect of the property remained unchanged. In January 1993 the property was sold and the proceeds of £450,000 shared between the subsidiary and Mr Newmarch in the same proportions as the purchase price.

23 Directors' Interests

	Interest in shares of 5p each in the Company		Options to subscribe for shares of 5p each in the Company: Prudential Savings-Related Share Option Scheme				Prudential Executive Share Option Scheme			
	1 Jan 1992 or later date of appointment	31 Dec 1992	1 Jan 1992	Granted in 1992	Exercised in 1992	31 Dec 1992	1 Jan 1992	Granted in 1992	Exercised in 1992	31 Dec 1992
M D Abrahams	12,000	12,000								
R E Artus	16,357	53,074					263,200		263,200	
M E Baker	2,500	2,500								
K L Bedell-Pearce	6,908	7,262	15,215			15,215	301,290	189,000		490,290
Sir Brian Corby	26,558	27,927								
J A Freeman	13,303	23,522	11,163			11,163	429,000	25,500	173,250	281,250
Sir Victor Garland	2,500	2,500								
Sir Trevor Holdsworth	5,759	6,056								
Sir Alex Jarratt	12,000	12,000								
H R Jenkins	2,582	2,582					522,000	120,500		642,500
M J Lawrence	30,000	22,308	10,514			10,514	401,600	58,000		459,600
B Medhurst	23,142	25,723	11,104			11,104	419,900		88,000	331,900
M G Newmarch	10,446	15,241	14,883		4,190	10,693	697,600	291,500		989,100
Sir Colin Southgate	25,232	26,114								
A H Teare	2,500	2,500								

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	–	105.0
Executive Scheme	200.7	164.0-199.0

Options granted during the year are exercisable between 1995 and 2002.

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 at the beginning of the year or later date of appointment 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 1,148 shares held by Mr B Medhurst at 31 December 1992.

There have been the following changes in directors' interests between 31 December 1992 and 30 March 1993:

Mr N W A FitzGerald acquired 3,000 shares; Mr M J Lawrence acquired 2,985 shares; Mr M G Newmarch exercised options under the Prudential Executive Share Option Scheme to acquire 218,850 shares which were subsequently sold.

Report of the Auditors

to the members of Prudential Corporation plc

We have audited the accounts on pages 28 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 1992 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

19 April 1993

Five Year Review

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Summary of Results					
Operating profit (loss)					
Continuing operations:					
Long-term business	**444**	385	367	359	201
General insurance	**(110)**	(58)	(123)	(13)	63
Shareholders' other income	**134**	86	128	128	87
	468	413	372	474	351
Discontinued operations:					
General insurance	**(11)**	(91)	(62)	4	24
Estate agency	**–**	–	(34)	(49)	17
	(11)	(91)	(96)	(45)	41
Total operating profit	**457**	322	276	429	392
(Loss) gain on closure/disposal	**–**	(85)	33	–	–
Estate agency goodwill previously charged to reserves	**–**	–	(233)	–	–
Profit on ordinary activities before interest payable	**457**	237	76	429	392
Interest payable	**(51)**	(55)	(32)	(44)	(39)
Profit on ordinary activities before tax	**406**	182	44	385	353
Tax and minority interests	**(124)**	(95)	(133)	(110)	(108)
Profit for the financial year	**282**	87	(89)	275	245
Share Statistics					
Earnings per share	**15.0p**	4.7p	(4.8p)	14.9p	13.3p
Dividend per share	**11.9p**	11.0p	10.3p	9.2p	8.0p
Market price at 31 December	**298.5p**	246.0p	196.0p	236.5p	152.5p
Insurance Funds and Reserves					
Long-term business	**48,118**	38,801	32,626	34,964	27,203
General insurance	**1,852**	1,727	1,539	1,566	1,275
Shareholders' capital and reserves	**504**	463	503	814	608
Investments at Market Value					
Long-term business	**47,467**	38,254	32,339	35,042	27,350
General insurance and shareholders	**2,550**	2,284	1,939	2,265	2,059
Other funds under management	**11,799**	10,517	8,992	9,781	6,868
Total investments	**61,816**	51,055	43,270	47,088	36,277
Long-term Business Investments					
Net investment in year					
Funds arising in United Kingdom:					
Ordinary shares	**1,390**	1,359	671	406	(183)
Properties	**(117)**	(192)	(152)	(142)	187
British Government securities	**96**	(532)	38	(523)	219
Other fixed income securities	**521**	257	351	628	337
Short-term deposits	**(530)**	372	(92)	304	(313)
	1,360	1,264	816	673	247
Funds arising overseas:					
Ordinary shares	**93**	140	200	99	95
Properties	**3**	(19)	35	44	(77)
Fixed income securities	**2,115**	1,751	1,555	1,413	1,431
Short-term deposits	**408**	14	66	186	197
	2,619	1,886	1,856	1,742	1,646

Five Year Review

	1992 £m	1991 £m	1990 £m	1989 £m	1988 £m
Continuing operations					
Long-term Business					
Ordinary Long-term Business					
New business: annual premiums	**625**	607	598	567	432
single premiums	**4,182**	3,137	2,546	2,343	1,765
Gross premium income	**7,221**	5,768	4,825	4,381	3,386
Investment income	**2,612**	2,202	1,976	1,774	1,369
Investment gains transferred from investment reserves	**1,314**	1,027	441	889	497
Commission and expenses	**1,178**	946	866	827	661
Policyholders' bonuses	**1,336**	1,259	1,105	1,036	779
Shareholders' operating profit	**386**	320	291	284	161
Industrial Life Business					
New business: annual premiums	**47**	55	65	65	66
single premiums	**24**	26	24	22	16
Gross premium income	**375**	395	406	410	412
Investment income	**238**	275	308	290	275
Investment gains transferred from investment reserves	**178**	379	338	640	217
Commission and expenses	**164**	225	215	206	176
Policyholders' bonuses	**369**	418	469	464	342
Shareholders' operating profit	**58**	65	76	75	40
Total operating profit	**444**	385	367	359	201
General Insurance					
Gross premiums written	**796**	645	570	564	510
Underwriting result	**(179)**	(122)	(190)	(92)	–
Investment return	**69**	64	67	79	63
Operating (loss) profit	**(110)**	(58)	(123)	(13)	63
Shareholders' Other Income					
Investment return:					
Investment income	**80**	71	84	77	56
Insurance company averaged investment gains	**30**	20	28	52	33
Non-insurance company realised investment gains	**50**	10	36	6	6
	160	101	148	135	95
Corporate expenditure	**(33)**	(26)	(26)	(25)	(12)
Trading results from:					
Investment management	**8**	12	7	16	8
Unit trusts and personal equity plans	**(1)**	(1)	(1)	2	(4)
Operating profit	**134**	86	128	128	87
Total continuing operations	**468**	413	372	474	351
Discontinued operations					
General Insurance					
Gross premiums written	**392**	544	585	591	486
Underwriting result	**(66)**	(161)	(128)	(59)	(28)
Investment return	**55**	70	66	63	52
Operating (loss) profit	**(11)**	(91)	(62)	4	24
Estate Agency					
Operating (loss) profit	–	–	(34)	(49)	17
Total discontinued operations	**(11)**	(91)	(96)	(45)	41

Financial Calendar

Announcement of 1992 accruals basis results	**20 May 1993**
Payment of 1992 final dividend	**26 May 1993**
Annual General Meeting	**26 May 1993**
Announcement of 1993 interim results	**8 September 1993**
Payment of 1993 interim dividend	**25 November 1993**
Announcement of 1993 full year results	**22 March 1994**

PRUDENTIAL
CORPORATION

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