Prudential Corporation plc Annual Report 1993

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Planning for the future

Introduction . . .

The aim of this annual report is to update investors on the main factors and management actions that influenced and affected Prudential Corporation in 1993.

Prudential is a long-term business and our strategy and actions have long-term aims and effects. The theme of this year's annual report is planning for the future.

Prudential Corporation plc

Prudential Corporation plc is one of the ten largest life insurance companies in the world. It has funds under management of over £75 billion, representing the savings and investments of eight million customers worldwide.

Prudential's business is focused on the United Kingdom, where it is market leader, North America and the Asian and Southern Pacific markets. Its main activities are meeting medium to long-term savings, financial security and investment needs in these key markets.

Mercantile & General, one of the world's leading reinsurance companies, is also part of the Prudential Group.

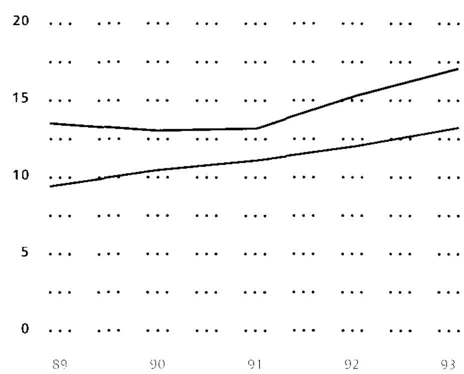
Mindful of the responsibilities of managing the savings of eight million customers, Prudential places a particular emphasis on maintaining and developing its reputation for integrity and fair dealing which has been built up over nearly 150 years.

Contents . . .

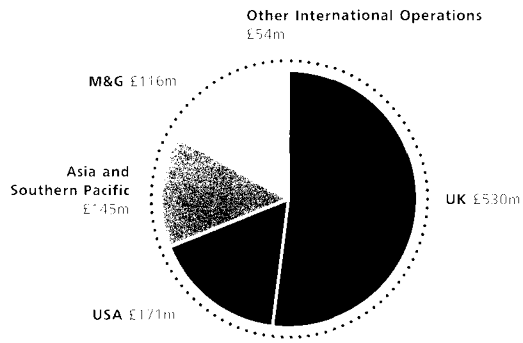
. . . Financial Overview

Profit Summary	1993	1992
Total operating profit	£648m	£457m
Profit on ordinary activities before tax	£589m	£406m
Profit for the financial year	£396m	£282m
Earnings per share	21.0p	15.0p
Dividend per share	13.2p	11.9p

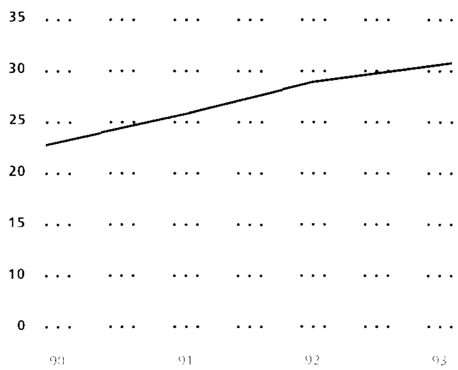
Dividend and Long-term Earnings per share (pence) - Statutory Basis



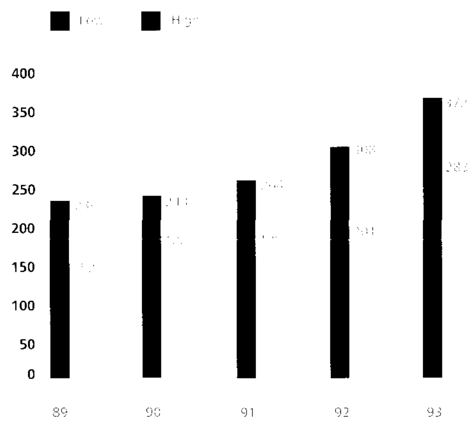
1993 Annualised New Business (£ million)



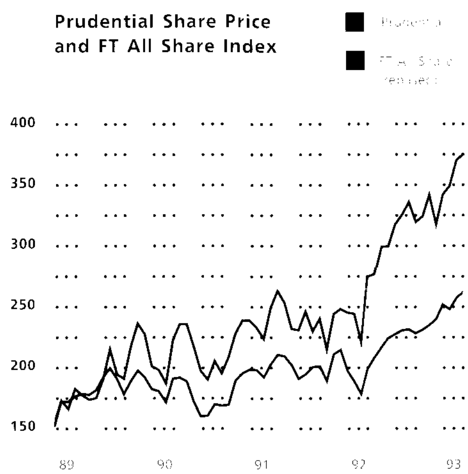
Long-term Earnings per share (pence) - Accruals Basis



Prudential Share Price (pence)

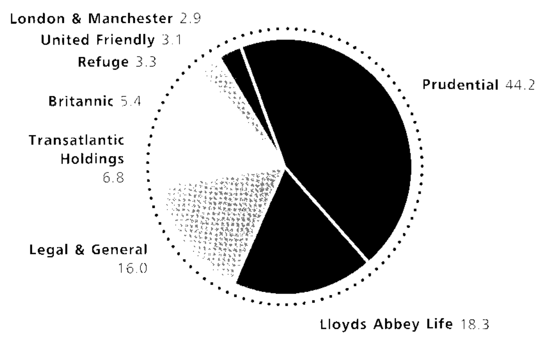


Prudential Share Price and FT All Share Index

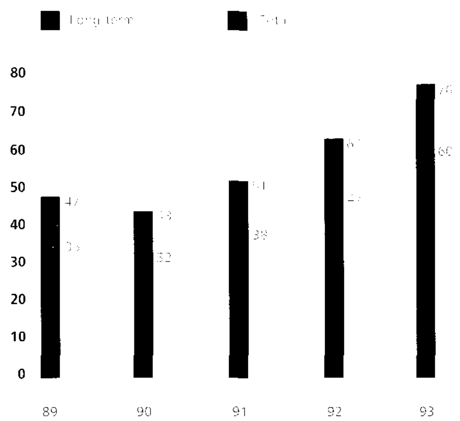


(Source Datastream)

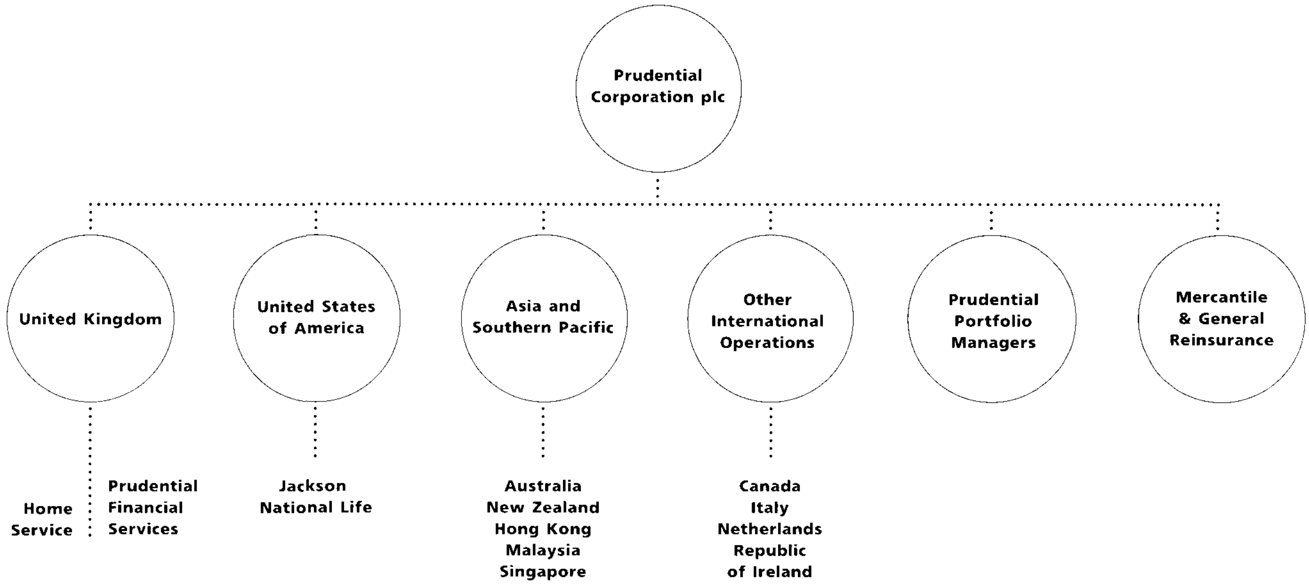
UK Life Sector Market Capitalisation (%)
as at 31 December 1993



Funds Under Management (£ billion)



. . . The Prudential Group



Group Structure

Prudential is a divisionalised business with the following main operations:

United Kingdom: Home Service

The Home Service division provides savings, investment, protection, home and motor insurance products to individuals in the UK via its direct sales force. Home Service is the biggest contributor to Prudential's profits.

United Kingdom: Prudential Financial Services

Prudential Financial Services provides individual and corporate pensions, life products and a range of unit trusts, personal equity plans, currency and money funds. These products are marketed via Prudential's direct sales force, independent financial advisers, or directly to the consumer.

United States of America: Jackson National Life

Jackson National Life is Prudential's American subsidiary. One of the leading providers of fixed rate annuities, Jackson has a network of 17 regional offices serving a distribution channel of some 80,000 licensed agents. Since acquisition in 1986 Jackson's assets have grown from US$2 billion to US$20 billion.

Asia and Southern Pacific

Prudential has successful and growing operations in Australia, New Zealand, Hong Kong, Malaysia and Singapore. Prudential now employs over 6,000 people in this region.

Other International Operations

Prudential also has operations in Canada, Italy, the Netherlands and the Republic of Ireland.

Prudential Portfolio Managers

With funds of £74 billion, Prudential Portfolio Managers is one of the world's largest investment managers. In addition to investing Prudential's funds, PPM also manages the assets of external clients. Based in London, PPM also has operations in Chicago, Toronto, Sydney and Wellington (New Zealand).

Mercantile & General Reinsurance

Mercantile & General is the UK's largest international reinsurance company. Although M&G writes both long-term and general reinsurance, 70 per cent of its premium income derives from its long-term business.

. . . Chairman's Statement

1993 saw a very satisfactory growth in statutory pre-tax profits from £406 million in 1992 to £589 million, with earnings per share rising from 15.0 pence to 21.0 pence. We have declared a final dividend of 8.7 pence, which brings the total dividend for the year to 13.2 pence, an increase of 10.9 per cent. This increase is consistent with our policy of providing shareholders with dividends which reflect the earnings from our major businesses.

I wrote last year that it was our intention to publish our results on a statutory basis and accruals basis simultaneously. This we have done and the accruals results show profits growing from £769 million to £995 million. These very much improved results reflect management actions which are described in detail in the Group Chief Executive's Review.

In the autumn of 1993 we moved our corporate headquarters back to our historical home in Holborn Bars. The refurbished building was opened by Her Majesty The Queen on 13 October. We are very pleased that Her Majesty honoured us in this way.

An important element in the relationship between any financial institution and its customers is trust. Part of the process of establishing trust between consumers and companies is an effective regulatory environment.

As we have said on many occasions, we support strongly the objectives of the Financial Services Act to give greater protection to the investor, at the same time ensuring that costs are not incurred without commensurate benefit and freedom of choice is not unreasonably restricted. There is a clear perception that the current regulatory system has not worked well and this has led to the proposition that a new regulatory body, the Personal Investment Authority (PIA), should be established to take over life office regulation. This leaves us with the choice of joining the new organisation or being regulated directly by the Securities and Investments Board (SIB). We have, after much consideration, chosen to be directly regulated by the SIB because we believe that the PIA is constituted in such a way as to be inconsistent with the principles and spirit underlying the Financial Services Act.

Over the last 12 months there has been a great deal of debate about the selling of pensions, particularly pension transfers. We have always issued very careful instructions to our sales force about the selling of personal pensions and we believe no specific provision needs to be made against possible compensation claims for the selling of pension transfer products.

As part of the process of improving investor protection, the SIB will, by the end of this year, require all life companies to disclose their charges, and possibly also surrender values, to customers at the point of sale. We support any initiative that allows customers to gain a better understanding of the product they are purchasing, and this should work to the benefit of customers as well as ourselves. We shall continue working with the SIB to achieve this end.

As the process of regulation is further developed, it is vital that the authorities pay full regard to the major contribution which the insurance industry makes to the economy in the provision of security to individuals and to businesses and in the generation of funds for long-term investments.

I am pleased to welcome Sir Martin Jacomb to our board as a non-executive director. He is currently chairman of investment managers, Postel, and his wide experience, particularly in the area of financial services, will be of very considerable value to us.

I also welcome as directors, Jim Sutcliffe, who is deputy managing director of our Home Service division, having previously been the chief operating officer of Jackson National Life, and John Maxwell, recently appointed corporate development director, whose past experience includes that of chief executive of the Provincial Group.

Three directors retire at the Annual General Meeting: Mary Baker, who among many other responsibilities was previously chairman of the London Tourist Board, joined our board in 1988; Sir Alex Jarratt, a board member since 1985, a former chairman of Smiths Industries and Reed International, who gave us valuable service being twice a deputy chairman; Brian Medhurst, an executive director, has had a long and distinguished career with Prudential, joining in 1958 as a trainee actuary and occupying a wide variety of positions before becoming head of our international operations in 1982. I take this opportunity to thank them for their help and wise advice over the years.

Michael Lawrence, our finance director, left the board at the end of December and took up the position of chief executive of the Stock Exchange. During his service with us he made a valuable contribution to our affairs and we wish him well in his new role.

Finally, I thank all the staff of Prudential throughout the world for their hard work and their support in the past year.

Sir Brian Corby pictured in the library of Prudential's refurbished corporate headquarters.

Brian Corby

Sir Brian Corby Chairman 18 April 1994

. . . Group Chief Executive's Review

Introduction

In our 1992 annual report I began my review by summarising the main elements of the long-term strategy we had formulated during the previous year.

During 1993, alongside the day-to-day running of our businesses, we have made great efforts to press ahead with those operational changes we have deemed essential for delivering our strategy. Accordingly this year I propose to devote the greatest part of my review to summarising that progress. However, to set these achievements in context I will reprise the strategy.

The Corporation will devote its energy and its resources to meeting and satisfying the medium- and long-term savings, financial security and retirement needs of individuals in its chosen markets.

The markets we shall focus on into the medium- to long-term future include the United Kingdom, North America and the Asian and Southern Pacific markets. We intend to sustain, develop and use the strength of the Prudential brand. We also intend to hone our distribution management skills, boost our marketing and product development strengths and conserve and enhance our fundamental and widely perceived financial strength. Finally we propose to continue the global development of Prudential Portfolio Managers, our investment management organisation.

Before reviewing progress towards achieving these ambitions, however, I should refer to this year's contemporaneous publication of the results of our life assurance and pensions businesses on both the conventional statutory basis and the experimental accruals basis.

We indicated our intention of doing this in last year's annual report. You will find the 1993 results on an accruals basis in a separate section towards the back of this annual report (pages 50 to 58). They were also published, in summary form, when we announced our 1993 statutory results on 22 March 1994.

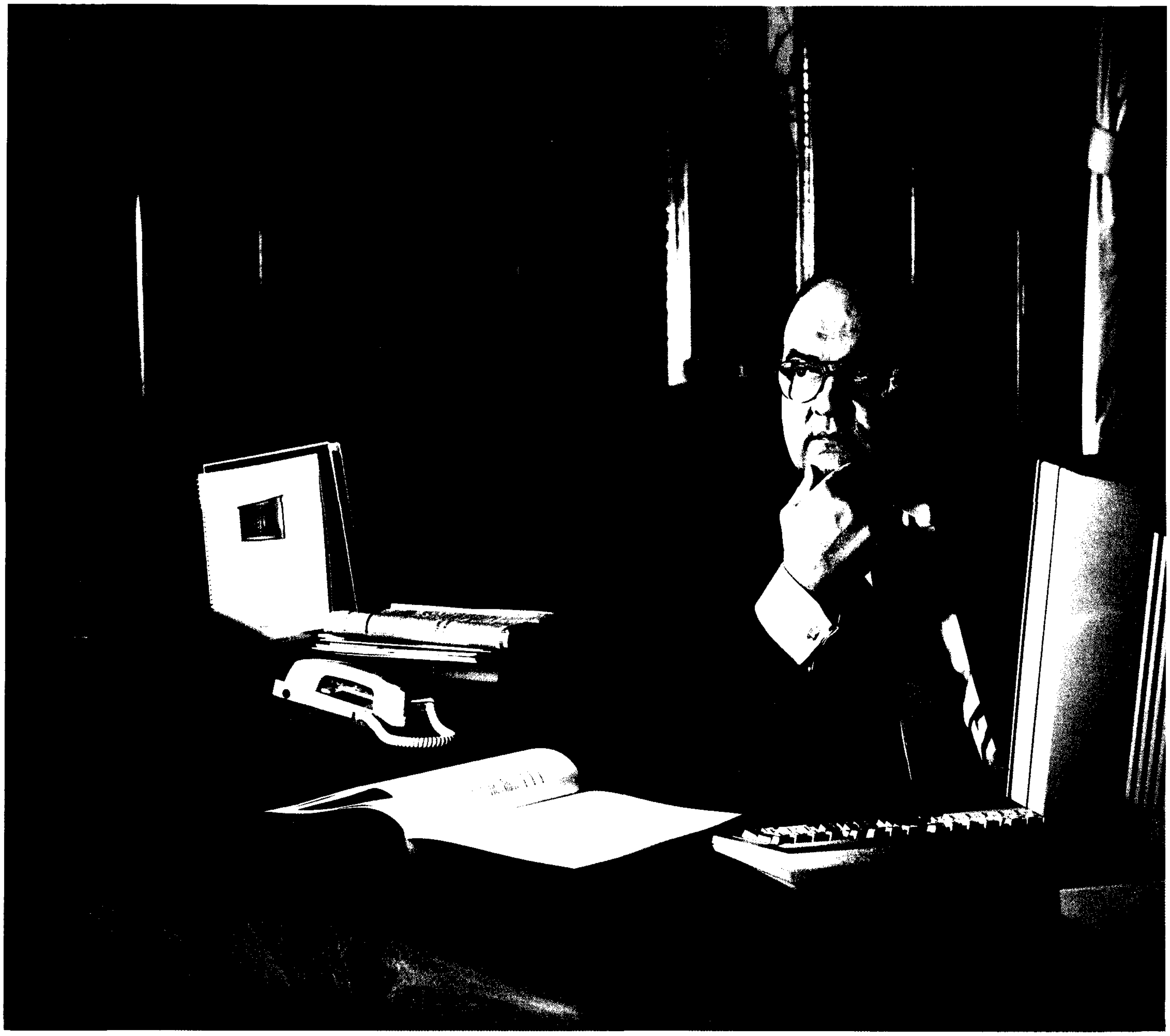
By accelerating publication of this information this year we are emphasising our conviction that accruals accounting provides investors and management alike with insights into the dynamics of our longer-term businesses.

We have no doubt that studying the outputs of this method of accounting has focused our minds and our actions to the benefit of our customers, our shareholders and our business.

We are working with others in the industry to extend the adoption and publication of essentially similar principles of accounting alongside their existing reporting methods.

We are convinced that a general embracing of the new accruals method will be an important step in providing the investment community with a much clearer insight into the complexities of our industry.

I now wish to turn to 1993 and propose to make my review in the context of the major geographical markets in which the Corporation operates. I shall begin with our most important market, the United Kingdom.



We intend to sustain, develop and use the strength of the Prudential brand.
Mick Newmarch, Group Chief Executive

. . . United Kingdom: Savings and Protection Businesses

Statutory profits from our United Kingdom savings and protection businesses rose modestly by three per cent to £283 million. The bulk of this profit reflects the shareholders' share of monies allocated from the Corporation's long-term life and pension funds to pay our policyholders their reversionary and terminal bonuses. In 1993, consistent with our policy of smoothing our returns to our policyholders with an eye to the lower nominal investment returns we are anticipating and have so far experienced in the 1990's, we have lowered reversionary bonuses and reduced payouts for shorter duration policies.

During the year our customers transferred to our care £4.4 billion. This included premiums on new and existing life assurance and pensions contracts and investments into our unit trusts, Personal Equity Plans (PEPs) or other investment arrangements. This compares with £3.7 billion received in 1992. In 1993 we paid out through claims, maturities or to customers liquidating their investments £2.7 billion, compared with £2.4 billion in 1992. Currently we have some six million customers in the United Kingdom who between them have in excess of 14 million savings arrangements administered by us.

Overall our United Kingdom business experienced a small decline in the first year's payments into new regular savings arrangements. These were down three per cent on 1992 to £322 million.

We have found that during times of economic stress and low consumer and saver confidence, our customers are reluctant to contemplate the commitment of regular savings. Such conditions ruled last year – though our sales were also affected by other factors I shall refer to later.

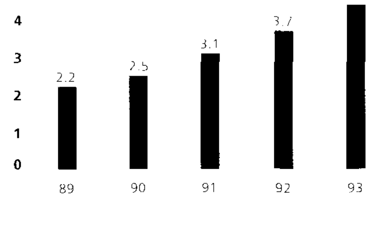
By contrast, monies passed to us as single premiums were very buoyant showing a 26 per cent increase to £2.7 billion between 1992 and 1993. These products include Prudence Bond (a unitised with-profits bond), a range of pensions products and the recently introduced Distribution Bond.

We saw a significant shift towards unit-linked products in the second half of 1993 to the extent that sales of these products made up 28 per cent of annualised (annual premiums plus 10 per cent of single premiums) new business during the year compared with under 20 per cent in 1992. Much of this growth reflects the launch of the Distribution Bond. The launch of a Prudence Managed Bond early in 1994 should help to maintain this momentum.

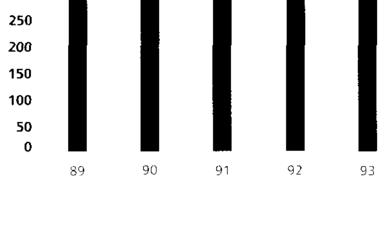
Both our United Kingdom retail savings divisions made significant progress in reorganising their affairs during 1993.

They intend to contribute powerfully to our strategic aim of enlarging and strengthening our position in the United Kingdom market.

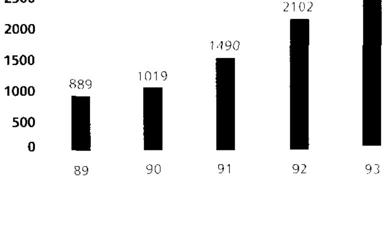
United Kingdom Savings and Protection
Total Receipts from Customers (£ billion)

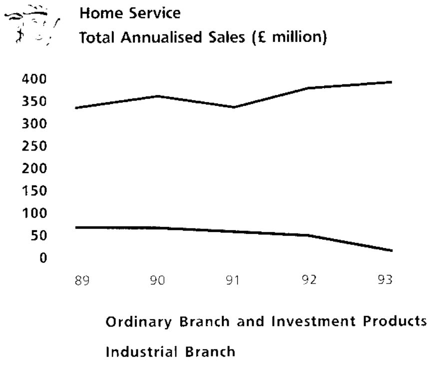


United Kingdom Savings and Protection
Regular Premium Sales (£ million)



United Kingdom Savings and Protection
Single Premium Sales (£ million)





Home Service

Fundamental structural change aimed at improving the quality of service to our customers, expanding and improving the productivity of our sales force and reducing the expenses of the business have been recurring features of Home Service's affairs in recent years. 1993 was no exception.

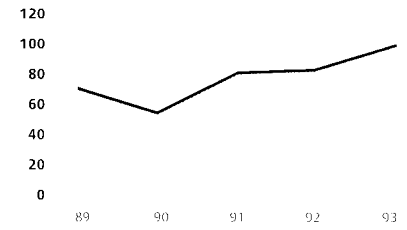
The district office and field management restructuring I referred to in last year's review was completed early in 1993. Immediately attention turned to a reorganisation of our sales force. The central objectives were to reduce ongoing expenses by £100 million per annum and to increase our capacity to sell savings and investment products which do not require us to collect cash from our customers. We had in mind a deliberate re-orientation away from our small premium Industrial Branch (or cash collection) business, which produces a drain on our policyholders' reserves and produces poorer value for our customers.

To do this we implemented some radical changes in our administration practices together with some more productive collection processes. We also expanded the team of Financial Consultants we had created in 1991 under 'Scenario 3'. As I write we employ some 4,500 Financial Consultants (up from 3,500 at the end of 1991), some 2,000 Financial Advisers, who provide advice and sell our products to existing customers only, and some 1,800 Customer Account Representatives, who devote their time to collecting cash premiums. Our ambition, of course, was to achieve the outcome without prejudicing day-to-day business; inevitably considerable disruption did occur. However, the running rate of expenses at the year-end achieved the £100 million reduction target with both the field and administration programmes delivered successfully.

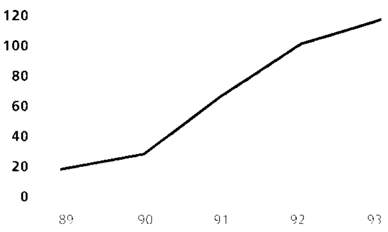
Sales results were more mixed. Sales of regular premium products, other than cash collection business, increased by six per cent. Particularly towards the end of the year, we saw high and rapidly expanding sales by the direct sales force of regular monthly instalment PEPs, which more than quadrupled on 1992 to £36 million. However, sales of cash collection regular premium products (IB) fell by 66% to £16 million. Sales of single premium products were the highlight of the year – the 36% increase showed the increasing effectiveness of the Financial Consultants in a market where Prudential has not been strong in the past. Overall, new business sold by the direct sales force showed a modest increase of three per cent. A very welcome feature was the acquisition of customers new to Prudential – over 35% of sales were to such customers.

The full benefit of these substantial changes has not yet been seen. Also the division is working on a large number of other initiatives all designed to reduce costs, improve productivity and heighten service standards. These are not easy processes and our actions do not win the immediate understanding or approval of all of our employees. Therefore, as I write, we await the outcome of tribunals applied to by some of our ex-colleagues who believe the alternative jobs we have offered them do not equate with those we have asked them to relinquish. Nevertheless, with the Home Service management team led by Tony Freeman and Jim Sutcliffe, I believe the structural changes they have introduced are necessary to allow the Corporation to have the best chance of delivering the UK strategy outlined last year, by substantially improving the quality of service we supply to our customers.

Prudential Financial Services
Total Corporate Annualised Sales (£ million)



Prudential Financial Services
Total Individual Annualised Sales (£ million)



. . . United Kingdom: Savings and Protection Businesses (continued)

Prudential Financial Services

The second key to our UK strategy is to improve and grow our Independent Financial Adviser (IFA) oriented organisation, Prudential Financial Services (PFS), selling through Prudential Holborn. In 1993, over one-third of the Corporation's total new United Kingdom business – on an annualised basis – came to us via IFAs. We rank currently as the third most important supplier of products to IFAs with an estimated share of 1993 new business in excess of six per cent. Total single premium sales were 20 per cent up on 1992 and regular premium sales grew by 13 per cent over 1992.

During the year we increased the number of Prudential Holborn broker consultants from 90 to 120. We believe these consultants, producing a per capita premium of £10 million, are the most productive in the industry. Over the last two years we estimate we have more than trebled the number of IFAs we deal with.

I mentioned last year the momentum which had developed with IFAs given our provision of Prudence Bond – our whole-life unitised with profits bond. This momentum continued into 1993 with PFS selling £784 million of Prudence Bond – 20 per cent up on 1992.

Moreover, Keith Bedell-Pearce and his team are encouraged by signs that IFA experience and satisfaction with Prudential products, service standards, brand strength and financial security are beginning to magnify our appeal for them in a widening product range. Sales of unit-linked pensions products in the retail market were buoyant – more than doubling year-on-year, while our Corporate pensions business, both linked and non-linked, showed solid overall growth of 20 per cent.

Developments and New Products

My comments on the progress of our two United Kingdom divisions have been intentionally biased towards the progress we have made during 1993. Briefly, I should also like to emphasise a number of new initiatives and product developments we are working on which have important longer-term implications. Firstly, as regards distribution methods, two extensions of our existing operations are being attempted. In our Home Service division – as an elaboration of our direct sales force – 'Prudential Private Financial Planning Service' is being piloted. By test marketing in three separate areas we are assessing what needs to be done for Prudential to develop a strong relationship with higher income individuals and households. Experimentally we are providing such customers with a detailed and tailored analysis of their savings and protection needs. The service is aimed at customers with annual incomes notably above the average salaries of traditional Prudential customers. Concurrently Prudential Financial Services is developing 'Prudential Direct', a unit concerned with selling our range of investment products using direct marketing and telephone access techniques. We believe that both initiatives, once fully established, can produce completely new sales opportunities for Prudential.

Both divisions are also working to improve service to our customers in the area of products. As well as launching Distribution Bond in 1993, PFS has this year relaunched a range of unit-linked products and a Distribution PEP. The Home Service division launched a new range of flexible pension policies in 1993 and plans to launch, in July this year, a range of flexible life and savings products. By the end of 1994 the Securities and Investments Board, prompted by the Treasury, will require all suppliers of life assurance and pensions products to disclose a range of cost, charges and surrender value information to customers at the point of sale. We have long supported such a need and have written publicly to the Office of Fair Trading offering our views as to how to achieve good disclosure. Within the Corporation we are taking steps to allow us to react rapidly to the new environment once it is delivered.

. . . Regulation

During 1993 the Corporation's senior management team in the United Kingdom has devoted substantial time to keeping abreast of, and trying to influence beneficially, developments in the regulatory environment. One issue in particular became prominent during the year: the sale of personal pensions contracts. I think it is appropriate to quote the extract from guidance which we offered to all members of occupational pension schemes which we quoted in our annual report for 1987. We said: 'We cannot over-emphasise how important it is that you thoroughly understand just how your retirement benefits would be affected should you decide to opt out and go for a personal pension. If you are already a member of a company pension scheme or will soon be eligible to join one, you will probably feel it is best to stay with your company scheme. If you have any doubts at all, discuss them with either your employer or the trustees of your company scheme.'

This advice has always governed the principles under which our sales force has sold personal pension policies to scheme members or potential members. As regards the accepting of pension transfers – reassured by the responsibility of scheme trustees and scheme actuaries always to establish fair, 'neutral' transfer values – we have acted in accordance with rules laid down by our regulator the Life and Unit Trust Regulatory Organisation (LAUTRO) as approved by the Securities and Investments Board (SIB). In so far as any of our staff have transgressed our rules in this complex area either in error, or even wilfully, as occasionally will happen in even the best ordered organisation, we rectify them in a manner fair to all. Such arrangements are consistent with the policies which govern our selling organisation. We have examined our affairs with great care following the SIB's observations about pension selling last year; we have concluded that we need make no specific provision in our accounts for compensation to our customers.

The steps to be taken to deal with any compensation due from possible disadvantageous sales of personal pensions products to individuals are still being discussed within the industry. We are confident that arrangements will emerge which are fair to all parties, based on the regulations which ruled at the time of sale. It would clearly be unfair to allow rules and standards which may now seem to be preferred to be applied retrospectively. Such action would be contrary to the approach of the regulatory system as it has developed as well as threatening further innovation by an industry which has been able – with great success – to give such a range of choice to its customers over the years.

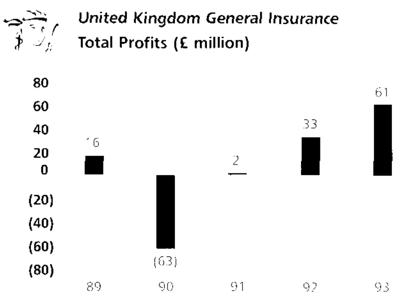
The second major issue which has had great prominence since we wrote last year has been the regulatory system itself. This issue is of fundamental importance for us and for the industry in which we operate.

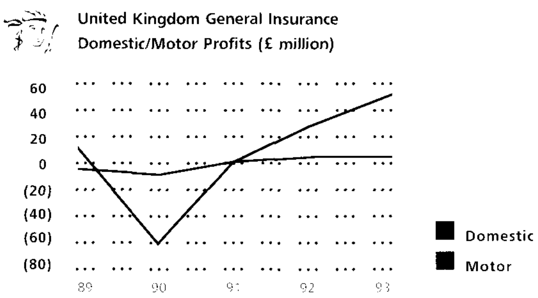
As we have said on many occasions, over many years, we support absolutely the objectives of the Financial Services Act (FSA). These embrace greater protection for the investor whilst, at the same time, ensuring that costs are not incurred without commensurate benefit. We are also anxious that consumer choice should not be increasingly restricted.

There is a clear perception that the regulatory system which has evolved under the FSA has not worked well in the case of retail savings. We share that feeling.

Since the beginning of 1992 efforts have been made to establish a new regulatory body, the Personal Investment Authority (PIA), to take on the responsibilities of existing organisations including our own lead regulator LAUTRO. This faced us with the choice of joining this new organisation or opting to be regulated by the SIB as provided under the FSA. In the event, after great and careful consideration, we have chosen to be regulated directly by the SIB because we believe that the PIA is constituted in such a way that it is inconsistent with the principles and spirit underlying the FSA. We fear there is a real risk that the PIA could go well beyond the principle set out by Professor Gower in his 'Review of Investor Protection' that 'regulation in the interests of [investor protection] should be no greater than is necessary to protect reasonable people from being made fools of'. We fear the risk of the proposed new body dictating to the market and providers how they should operate and imposing constraints which could well be to the detriment of customers who have enjoyed the freedom of choice which a competitive market so clearly creates.

We are anxious to see the development of a regulatory regime which affords all savers and investors the reassurance of proper protection through explicit rules rigorously enforced. We shall work to help deliver such a regime.





. . . United Kingdom: General Insurance Business

Over the past few years, as I explained last year, we have taken action, by sale or closure, to reduce the Corporation's exposure to direct general insurance. The last significant event in this withdrawal was the transfer of control of our Home Service commercial lines business to Provincial. Consequently our only remaining significant direct general operation is the Home Service controlled personal lines business. (Though for the record we also have a dynamic and profitable small direct insurance business in Hong Kong.)

Home Service offers personal lines insurance in the United Kingdom through our direct sales force. The use of personal lines products to allow the creation of new relationships for our sales teams to cross-sell longer-term products works well. As I have said earlier, 35 per cent of last year's sales of savings products were to customers new to Prudential. However, the management team fully understands the business also has to make a proper profit contribution to the Corporation's total affairs over time.

Our personal lines business had a good year in 1993. Gross written premiums rose by six per cent to £333 million and pre-tax profits by 85 per cent to £61 million. The main factor driving this result has been continuing good claims experience. However, greater efficiency, and therefore lower costs, have resulted from continued benefits emerging from the geographical concentration of our nationwide administration capability into five regional centres.

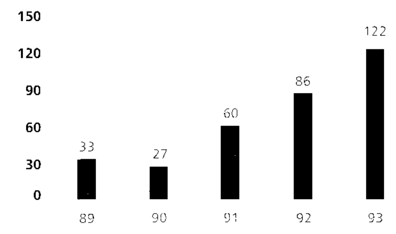
All lines of business – house contents, structures and motor – were profitable. As I have said, the benign claims experience was a significant reason for this but the more realistic premium levels allowed by the market in 1992 – which held in 1993 – contributed. Also, our personal lines underwriters control increasingly sophisticated pricing models allowing them to match premium rates to risk with beneficial effect.

A significant success during the year came with the launch of a new motor insurance product linking insurance with breakdown recovery through 'National Breakdown'.

Shareholders will recall that the Chancellor of the Exchequer last year announced the introduction of an insurance premium tax which, after recent negotiations between the industry and the Customs and Excise, has been set at 2½ per cent. Prudential is concerned over the introduction of a tax which could encourage people to reduce their already insufficient insurance cover. Therefore by increasing our general efficiency we shall not pass the tax onto our customers.

USA: Savings and Protection Business . . .

Jackson National Life
Long-term Profits (£ million)



Jackson National Life

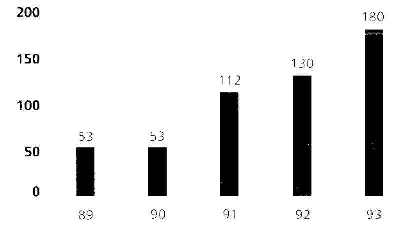
Jackson is by far our most important business outside the UK. By the end of 1993 assets under management stood at US$20 billion compared with US$17 billion at the end of 1992 and US$2 billion when we bought the company in 1986.

At £122 million Jackson's statutory profits in 1993 were 42 per cent up on those reported last year. This significant increase was due entirely to the level of realised investment gains emerging from the portfolio during the year.

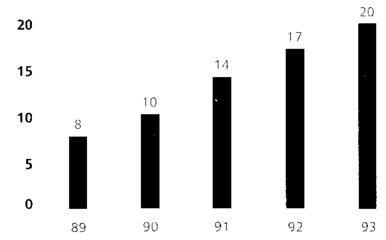
In terms of new business, Jackson had a very disappointing year. Jackson operates primarily in the market selling interest-rate sensitive products particularly single premium deferred annuities (SPDAs). Because of falling interest rates this market was difficult during the year. Similarly Jackson's second, though less important, product line of life and term life assurance products witnessed intense competition. Total annualised sales were 26 per cent down year-on-year, with the decline most severe in the second half.

The sharp decline in interest rates impacted Jackson adversely in two particular ways. Firstly, customer attention, attracted by buoyant equity markets, switched from fixed interest backed products to products backed with equity-based assets – particularly common stocks. These products – called variable annuities in the USA – are sold under different regulations from fixed interest products and Jackson to date has not provided them to the market. Secondly, Jackson found it difficult to maintain a highly competitive crediting rate advantage over its competitors in absolute terms given falling rates during the year. This tendency was exacerbated

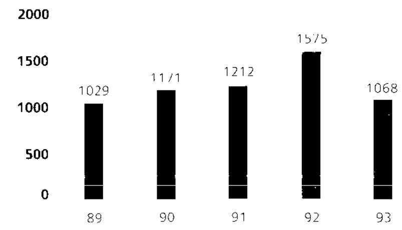
Jackson National Life
Long-term Profits (US$ million)



Jackson National Life
Assets (US$ billion)



Jackson National Life
Single Premium Sales (£ million)



by stronger regulatory limitations on portfolio mix and new risk-based capital requirements which tend to drive portfolio policy towards lower-yielding securities.

In difficult immediate market conditions, however, Jackson made progress towards strengthening itself to achieve its longer-term strategic ambitions. Late in the year a new range of 'bonus' SPDAs was introduced plus a series of annuities aimed at older people. Similarly, earlier in the year a range of new level premium term plans was introduced. Also attention will be devoted to accelerating our general ability to compete in the variable product market. It was also reassuring that in a difficult year Jackson licensed over 22,000 new agents during 1993 – roughly the same number as in 1992. At the end of the year 79,600 were licensed. Plans are well advanced for the opening of a New England regional office and a New York subsidiary during 1995. We shall also be expanding and strengthening the organisation we have created to sell Jackson products to the institutional market. Strenuous efforts will be made to accelerate the impact of our mutual fund business which was launched in 1992, with candidly disappointing results. We underestimated the difficulties of persuading members of the National Association of Securities Dealers to switch to Jackson given the lack of our funds' performance history and we underestimated the levels of training necessary to create new licensed representatives.

During the year David Pasant resigned as president and chief executive officer of Jackson. David is a son of Jackson's founder and represented the last member of the original family to be involved in the company's affairs. I am delighted that Bob Saltzman has joined us to take over David's responsibilities. He comes to us from SunAmerica, a leading Jackson competitor in the USA individual annuity market. Bob has enjoyed a very successful 30 year career in the USA insurance industry. His experience and Jackson's organisation and style augur well for the Corporation's shareholders.

. . . Asia and Southern Pacific: Savings and Protection Businesses

This year I have adopted a different format for my review to emphasise the increasingly important emergence of the Asian and Southern Pacific markets as part of our geographical strategy. Along with the United Kingdom and the USA, we see markets in this region becoming increasingly important for the Corporation and its shareholders into the future.

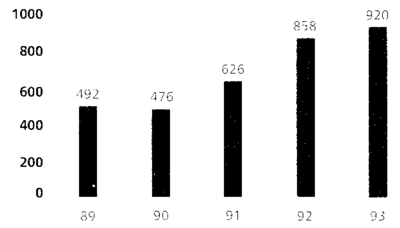
Our businesses in Australia, under Barrie Martin, and New Zealand, under John Molloy, made good progress. In both countries Prudential numbers among the top five providers.

In Australia profits showed a decline of around £7 million largely reflecting the impact of shareholder financing of the unit-linked Wealth Portfolio business throughout 1993. The swing to unit-linked business continues apace – during 1993 78 per cent of total revenue premiums were unit-linked. The range of new products has been well received in the market, particularly in the single premium format, where sales increased by 18 per cent in local currency terms. By contrast, new annual premiums were only slightly up on 1992. Overall, gross revenue premiums fell by one per cent to A$1.5 billion. Sales of unit trusts grew rapidly – particularly during the second half of the year.

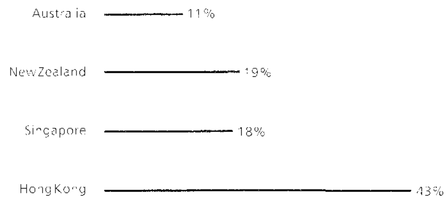
In New Zealand we saw an excellent year's progress with new record levels of sales of single premium products and unit trusts, and increased market shares in all lines of business including annual premium savings business.

In Asia, an important event during the year was the creation of a regional management team based in Hong Kong under the control of

Asia and Southern Pacific
Gross Premium Income (£ million)



Asia and Southern Pacific
Growth in Annualised Sales 1993/92



Mark Tucker – who for the two years prior to his transfer had worked in Jackson National Life. This team will maintain operational control of our existing businesses in Singapore, Hong Kong and Malaysia but is responsible also for the development of our business in other territories – particularly in China and Indonesia.

Progress in our existing Asian businesses during the year was impressive. In Singapore, pre-tax profits in local currency rose by 18 per cent, while new business increased significantly.

Our business in Singapore has introduced a range of products to react to the liberalisation of the investment rules of the Government's Central Provident Fund. The success of these enabled us to maintain our single premium market share at 25 per cent. These are unit-linked products – both annual and single premium – and were launched towards the end of 1992. Virtually all last year's single premium sales and 64 per cent of annual premium sales were unit-linked shareholder financed products.

Hong Kong posted an excellent year with gross profits in local currency terms up by 63 per cent, annual premiums up by 44 per cent and single premiums up by 13 per cent.

As I mentioned earlier, our Hong Kong property and casualty business recorded another good year with gross revenue premiums growing by four per cent and profits more than doubling.

During 1994 great efforts will be made by the new regional team to develop and consolidate our presence in China. We expect to open representative offices during 1994 in Beijing, Shanghai and Guangzhou.

In Malaysia we operate a joint venture in which we have a minority shareholding but have the management contract. Business grew well in 1993.

. . . Other International Operations: Savings and Protection Businesses

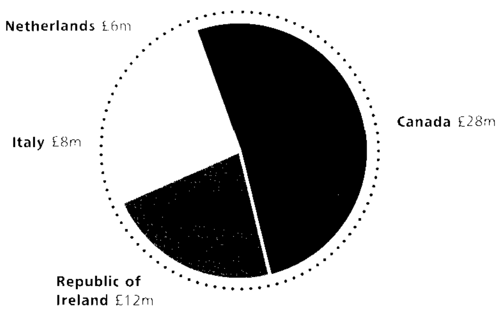
Canada

As has been the case for some years now, trading conditions in the Canadian market place proved difficult with sales volumes declining in all major product lines.

Annual premium sales declined by 39 per cent in local currency terms following the impact of stricter underwriting requirements which have been placed on group business in order to improve profitability. Sales of single premium business were also very disappointing.

In addition to declining sales, profits were also affected by the need to further strengthen provisions against the historical mortgage and bond portfolio. This is a problem which has confronted many companies operating in the difficult Canadian markets. Trading losses for the year amounted to some £9 million.

1993 Annualised New Business (£ million)



Italy

1993 was the first year in which Prudential Vita operated as a wholly-owned subsidiary of the Corporation. Great efforts have been made by the management team, under the direction of Gianni Bossi, and significant progress has been made in strengthening our distribution capability in Italy by the establishment during the year of Prudential Vita's own sales network.

Single premium sales continued to grow very rapidly in 1993, increasing by some 75 per cent over 1992. By contrast, however, annual premium sales were disappointing. The trend would appear, however, to reflect the general market movement away from annual towards single premium products.

Prudential Vita's continued success in achieving increased profits, coupled with the strengthened distribution facility, augurs well for our Italian operation's aim to become one of Italy's top ten suppliers.

Netherlands

Trading conditions in the Netherlands continued to be extremely competitive, whilst across the market as a whole, new business levels remained static.

Single premium sales declined with demand dampened in the latter part of the year by reductions in interest rates. However, the recently introduced unitised with profits contract contributed, in a harsh environment, to a very pleasing 10 per cent increase in annual premium sales.

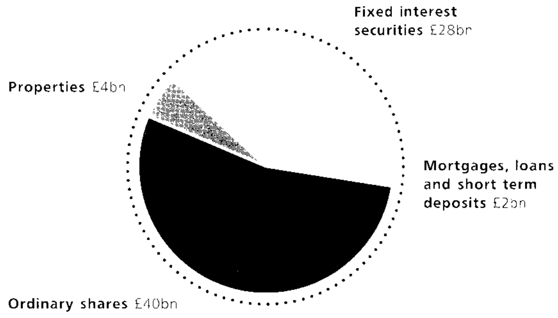
Republic of Ireland

The life operation in the Republic of Ireland had a much improved year with statutory profits of £0.6 million being earned. These results were aided by significant improvements in Irish investment markets.

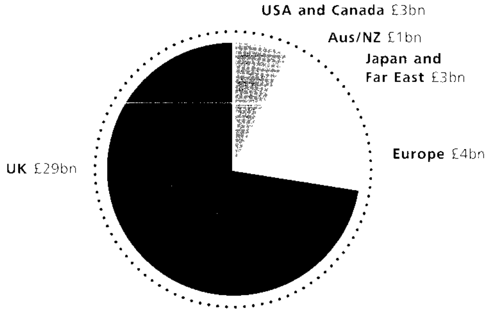
The improved result somewhat masks a decline of 10 per cent in annual premium sales brought about by a severely reduced market for mortgage endowment contracts. Single premium sales also remain subdued.

Investment Management . . .

Market Value of Funds under Management (£ billion)



Global Equity Holdings (£ billion)



In Prudential Portfolio Managers (PPM) the Corporation owns one of the world's largest investment management companies with funds managed at the end of 1993 valued at over £74 billion.

Under the leadership of Hugh Jenkins the most significant initiative for PPM in 1993 was the continuation of the drive towards globalisation. We believe the acceleration of the rate of data exchange in the world's capital markets requires us to have the highest quality investment resource located in each of the major time zones.

During 1993, in addition to our operations in London, Chicago, Sydney and Wellington, PPM Canada was established in Toronto. Further developments are planned in 1994, notably in Hong Kong, to support our developing businesses in Asia, but also in South Africa in support of the Corporation's reinsurance operations.

The strategy for these regional investment centres is not, however, limited to the management of the funds of our local operating businesses. Rather, we are working to create centres which will manage funds invested in local markets placed on behalf of the Corporation's operations wherever they are located. For example, during 1993 control of all the USA assets held for our UK businesses was transferred to PPM in Chicago. During 1994 control of the USA assets of our Australian operations will be similarly transferred. Indeed, it is envisaged that by the end of 1994 all Corporation assets will be managed in our regional centres. The strategic allocation of the funds of the Corporation's customers between asset classes, markets and currencies remains located in London.

PPM America continued to produce excellent performance for its major client, Jackson National Life, during 1993, while PPM Australia also produced satisfactory results. Prudential Venture Managers Limited (PVML), our venture capital business, had an exceptionally busy divestment year with 18 portfolio investments realised during the year on very satisfactory terms.

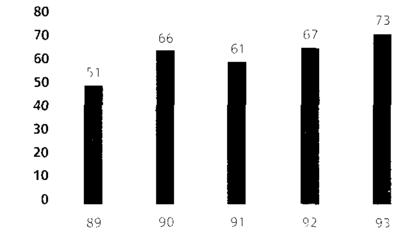
In the UK our large with profits life fund and the unitised Life and Pensions Managed funds enjoyed another good year of investment performance. However, elsewhere, particularly for third party clients outside the Corporation's own businesses, performance has been disappointing. The returns from the United Kingdom equity portfolios for 1993 were lower than those earned by our average fund manager competitor. The reason for this was because in the period immediately following the UK's departure from the Exchange Rate Mechanism, the configuration of portfolios – with all emphasis on the larger mainstream UK companies – was poorly rewarded by market behaviour given the greater buoyancy of cyclical companies. However, as the UK's economic recovery has proceeded so adjustments have been made in the bias in these portfolios.

Profits during the year at £23 million nearly trebled over 1992 (£8 million) reflecting the increase in management fees stemming from buoyant equity markets worldwide.

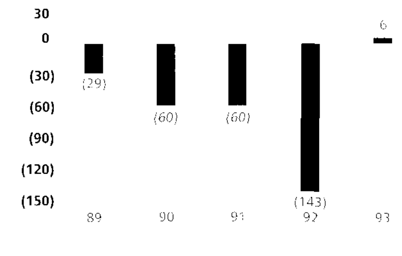
... Reinsurance:

Mercantile & General

Mercantile & General
Long-term Reinsurance Profits (£ million)



Mercantile & General
General Reinsurance Profits (£ million)



Last year I concluded my remarks on Mercantile & General by saying 'M&G's management has a clear remit to reverse the losses from general reinsurance whilst continuing to expand the company's valuable life operations'.

I am pleased to report that during 1993 substantial progress has been made to deliver both these ambitions.

On a statutory basis M&G produced an overall profit of £104 million compared with a loss last year of £45 million. This substantial improvement is owed largely to a dramatic improvement in the outcome of the general reinsurance business from a loss last year of £143 million to a profit in 1993 of £6 million.

Life reinsurance profits improved by nine per cent to £73 million demonstrating again the inherent quality of this important business.

The essential difference between M&G and other major reinsurance companies bears frequent repetition. M&G has a much greater exposure than other companies to long-term, particularly life, reinsurance. During 1993 single premium sales in this part of the business were 43 per cent up on 1992 at £552 million, particularly boosted by USA medical expenses (Medex) reinsurance business. Overall, annual premiums were flat year-on-year mainly because of intense competition in the UK term market.

M&G's franchise is particularly strong in the UK, USA and Commonwealth markets.

Determined efforts are now being made to expand into new markets notably in the Far East, from a base in Singapore, America where the North American Free Trade Alliance (NAFTA) will aid expansion and Europe, with a new office opened in Spain during 1993.

The dramatic recovery in M&G clearly took place in its general business. The fact that 1993 was a benign year helped. We experienced no severe catastrophe claims. The most severe events, floods in the Mississippi basin, early year snow storms in the USA and the Bishopsgate bomb in London, had a relatively small impact on M&G.

At the same time, though reserves for 1992 and other prior years have again been increased, the impact of this was much less than in the previous year. Given current knowledge we are now confident our reserves for Environmental Impairment Liability (EIL) and London Marine Excess of Loss business (LMX) should adequately meet our exposure.

All in all M&G's management, I believe, has developed a sound and very professional reserving policy and methodology which should substantially reduce the risk of the sort of volatility we have experienced historically.

The prognosis for business written in 1993 seems good. As I explained last year, M&G took an uncompromising stance on repricing business to ensure it was accepted only on bases which truly reflected the risks being run. It appears to us that M&G was able to exceed the premium income expected whilst maintaining or exceeding the robust return on capital requirements which now rule.

Supporting this general proposition a great deal of successful work has been done to support the whole underwriting process. New expert systems have been designed to ensure the efficiency of the decisions made by our underwriters and there has been a significant lowering of aggregate exposure to single catastrophe events. M&G has been substantially de-risked.

Overall John Engeström and his team have also done significant work to improve control and reduce costs. I am convinced that M&G is not only in better shape but is poised to achieve more successful results than at any other time during our period of ownership.

. . . Shareholders' Other Income

Other activities produced profits of £100 million, down from £134 million in 1992. The 1992 results included investment gains of £50 million arising from a restructuring of the shareholders' investment portfolio which did not recur in 1993. Offsetting this decline to a significant degree was the sharp increase to £23 million in profits from our investment management activities to which I have already referred.

Corporate expenditure fell from £33 million to £21 million. Vacant property costs were significantly lower than in 1992 but additional costs were incurred in moving our corporate headquarters back to Holborn Bars. Other central costs remain under tight control.

. . . Financial Position

The Group balance sheet shows shareholders' capital and reserves of £788 million, 56 per cent higher than at the end of 1992, reflecting last year's good operational performance and favourable worldwide investment conditions. However, statutory basis shareholders' funds represent only a part of the total shareholders' resources employed by our operations to provide solvency capital for existing activities and to support their growth and development. The majority of shareholders' financial interests lie in the profits retained in the long-term business funds and are not disclosed on the statutory balance sheet. They are shown instead on our accruals basis Group balance sheet included in the supplementary information on pages 50 to 58. Compared with the statutory basis, we consider that the accruals basis provides a better indication of our financial strength and success in developing the business. On the accruals basis, shareholders' profits retained in the long-term funds reached £3.4 billion by the end of 1993, giving total accruals basis shareholders' funds of £4.2 billion, up by 26 per cent on the previous year. Two-thirds of these resources were held in sterling, with a further quarter in North American currencies, after allowing for foreign currency borrowings. Apart from fixed income securities held to match certain liabilities, the majority of the Group's assets are invested in ordinary shares and properties as we believe that these asset classes will provide superior returns in the long term, thus enhancing returns to customers and growing our capital base. Controls are in place to ensure that the risks associated with these investments are commensurate with the size of the Group's capital base.

Summary . . .

During 1993, the principal Corporation cash flows were broadly neutral. Cash remitted from business operations, based mainly on statutory profits earned in the previous year, financed the payment of dividends to shareholders and interest on shareholders' borrowings. Consequently there was little change in the overall level of shareholders' borrowings which remained under £700 million.

Some 85 per cent of those borrowings were at fixed rates of interest with maturity dates ranging from 1997 to 2007. The rest of our financing requirements were met by flexible, short-term commercial paper. With stable borrowings and improved operating results, interest cover increased from nine to eleven times on the statutory reporting basis.

As a result of the substantial improvement in our reported profits, and consistent with our policy of providing shareholders with dividends which reflect the earnings of our major businesses, we have increased the total dividend for 1993 by 10.9 per cent to 13.2 pence per share, which is covered 1.6 times by statutory basis post-tax profits.

The good results and favourable investment markets also strengthened the Group's solvency position. Each of our principal long-term and general insurance businesses is regulated separately in its own market and, at the end of the year, their solvency ratios were all substantially in excess of the applicable minimum requirements.

In the case of the main Prudential long-term fund, the solvency ratio of free assets to liabilities was over 25 per cent, compared with less than 20 per cent at the end of 1992.

Prudential had a good year in 1993. We made significant further progress towards equipping our businesses to deliver our stated strategic ambitions. In particular, all our divisions have maintained the pressure to reduce costs, improve productivity and focus upon delivering improved value for money to our customers. At the same time, notwithstanding that the world's savings markets were generally subdued as regards our main products, we were able to increase sales in our savings businesses. We also saw a very significant improvement in the affairs of those general insurance businesses we own, not least because of actions taken over the past few years.

The next decade, I believe, will present great opportunities for Prudential even though the turbulent conditions we are presently coping with may temporarily mask that opportunity. In countries around the world people are living longer and the burden of providing for their needs, whether they live in developed or developing economies, grows heavier. Governments have little choice but to reconsider the ways in which they provide for ageing and more materially ambitious populations and there is, worldwide, a strengthening trend towards private rather than state provision.

With its brand and the resources and experience it commands, Prudential, I believe, is well placed to capitalise on these opportunities for growth.

Ranking high on the list of resources delivering competitive advantage for the Corporation, are our employees. I am confident that we enjoy the support, energy and commitment of a powerful and effective group of people worldwide. I am most pleased that is the case and personally grateful for their enthusiasm and support.

Mick Newmarch

M G Newmarch
Group Chief Executive
18 April 1994

Board of Directors

Sir Brian Corby FIA Chairman* (Age 64) 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 the University of Hertfordshire.

Michael Abrahams MBE Deputy Chairman* (Age 56) A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions Limited. Chairman of Dalepak and Wots in Store. Director of John Waddington, Drummonds and the London Clinic. Deputy Chairman of the Council of the Prince of Wales's Institute of Architecture.

Sir Alex Jarratt CB Deputy Chairman* (Age 70) 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 55) 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.

Mary Baker* (Age 57) A director since 1988. Director of Avon Cosmetics, Barclays, MFI Furniture Group and Camelot. President of Women in Management. Former Chairman of the London Tourist Board. Former Chairman of the Holiday Care Service.

Keith Bedell-Pearce (Age 48) 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 48) A director since January 1993. Executive director of Unilever. Director of the Bank of Ireland.

Tony Freeman FCA FCMA (Age 56) 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.

Sir Trevor Holdsworth FCA* (Age 66) A director since 1986. Deputy Chairman from 1988 to 1992. Chairman of Allied Colloids, Lambert Howarth, National Power and Beauford. Former Chairman of GKN. Former President of the Confederation of British Industry. Chancellor of the University of Bradford. Chairman of the Wigmore Hall Trust.

Sir Martin Jacomb* (Age 64) A director since March 1994. Chairman of Postel and the British Council. Director of the Bank of England, the Telegraph, RTZ, Marks and Spencer and Delta.

Hugh Jenkins FRICS FPMI (Age 60) 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.

John Maxwell CA CIM (Age 49) joined Prudential as Corporate Development Director in March 1994. He was previously chief executive of BPB Industries and, from 1986 to 1992, of the Provincial Group. Former non-executive director of the Alliance and Leicester Building Society.

Brian Medhurst FIA (Age 59) has been a director of the Corporation since 1985, and was Managing Director of the International division until 31 March 1994. 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.

Jim Sutcliffe FIA (Age 37) is Deputy Managing Director of the Home Service division. He joined Prudential in 1976 in the Group Pensions area and between 1989 and 1992 he was Chief Operating Officer of Jackson National Life. He was made a director of the Corporation in March 1994.

Andrew Teare* (Age 51) 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.

* non-executive director

Members of the Audit Committee

Michael Abrahams (Chairman)
Sir Trevor Holdsworth
Sir Alex Jarratt
Andrew Teare

Members of the Remuneration Committee

Sir Alex Jarratt (Chairman)
Michael Abrahams
Mary Baker
Niall FitzGerald
Sir Trevor Holdsworth
Mick Newmarch

Members of the Nomination Committee

Sir Brian Corby (Chairman)
Michael Abrahams
Sir Alex Jarratt
Mick Newmarch

Directors' Report

Year ended 31 December 1993

Principal Activity and Business Review

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

The Group's business is reviewed in the Chairman's Statement on page 6 and the Group Chief Executive's Review on pages 8 to 25.

Financial Statements and Supplementary Information

The consolidated balance sheet on page 31 shows the state of affairs of the Group at 31 December 1993. The Company's balance sheet appears on page 32 and the consolidated profit and loss account on page 30. There is a five year review of the Group on pages 48 and 49. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 50 to 58.

Dividends

The directors have declared a final dividend for 1993 of 8.7 pence per share payable on 25 May 1994 to shareholders on the register at the close of business on 8 April 1994. The dividend for the year, including the interim dividend of 4.5 pence per share paid in 1993, amounts to 13.2 pence per share compared with 11.9 pence per share for 1992. The total cost of dividends for 1993 was £250m and £146m was transferred to reserves.

Directors

The present directors are shown on pages 26 and 27. Mr N W A FitzGerald was appointed a director on 1 January 1993. Mr R E Artus, Sir Victor Garland and Sir Colin Southgate retired from the board on 26 May 1993.

Mr M J Lawrence resigned as a director on 31 December 1993.

Sir Martin Jacomb, Mr J H Maxwell and Mr J H Sutcliffe were appointed directors on 9 March 1994. They retire in accordance with the Articles of Association and offer themselves for election at the Annual General Meeting.

Mr H R Jenkins retires by rotation at the Annual General Meeting and he offers himself for re-election. Mrs M E Baker, Sir Alex Jarratt and Mr B Medhurst also retire by rotation but do not offer themselves for re-election.

The service contract of Mr H R Jenkins has an unexpired term of nineteen months. The service contracts of Mr J H Maxwell and Mr J H Sutcliffe are terminable on not less than three years prior written notice given by the employer.

Sir Martin Jacomb does not have a service contract.

A statement of directors' interests in the share capital of the Company is set out on page 46.

Employees

The following information is given in respect of employees of the Group in the United Kingdom. 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 1993 was 21,114 and their total remuneration for the year was £489m.

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.

Monitoring and increasing the awareness of equal opportunities issues continues.

Employee Involvement

Arrangements continued in 1993 to communicate with employees on issues which concern them and to develop channels through which employees' views can be sought.

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 Investment Programme

In 1993 a new community investment programme was launched focusing on two areas – carers and crime prevention.

The Prudential Carers Initiative is a five year partnership with the Princess Royal Trust for Carers and Crossroads. The initiative will help the Trust to establish twelve Carers Centres throughout the UK to provide information, guidance and counselling tailored to meet the needs of individual carers. The first centre was launched in December. A respite care service will be developed through Crossroads schemes in the same locations.

Promotion of the initiative aims not only to enhance brand awareness but also to increase public knowledge of the needs of the estimated two million people who care for an elderly, frail or disabled relative or friend in their own home.

To complement the initiative a working party has been formed consisting of senior personnel managers representing each business area, to review current employment policies in relation to the difficulties faced by carers in employment.

The Prudential Youth Action Initiative is a partnership with Crime Concern, the national crime prevention agency, and extends the Corporation's previous commitment to expanding Youth Action Groups. The groups are primarily school based and enable young people to address the incidence of crime in their own communities.

This initiative aims to increase the number of groups throughout the UK, extend the range and quality of their activities and evaluate their effectiveness in preventing crime.

Funding for these two initiatives totalled £578,000 in 1993.

Other commitments for 1993 were met and totalled £266,000.

The secondment programme represented a further contribution of £73,000 to community projects and donations of £172,000 were made overseas.

Corporate Governance

The Company has complied throughout the year with the Code of Best Practice published in December 1992 by the Committee on the Financial Aspects of Corporate Governance, except for those sections of the Code which await the publication of guidance by the accountancy profession and the formal procedure for directors to take independent professional advice, which was approved in June 1993. A statement of directors' responsibilities in respect of the preparation of financial statements appears on page 47.

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 1993 was 80,450 (68,656).

At 31 March 1994, 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:

	1993 %	1992 %
Banks and other nominee companies	**66**	64
Insurance companies	**10**	9
Pension funds	**7**	8
Investment trusts and unit trusts	**1**	1
Other corporations	**5**	6
Individuals (held directly)	**11**	12
	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
18 April 1994

Consolidated Profit and Loss Account

Year ended 31 December 1993

Note		1993 £m	1992 £m
	Gross premiums		
	Continuing operations:		
	Long-term business	7,896	7,596
	General insurance	712	796
	Discontinued operations	–	392
	Total gross premiums	8,608	8,784
	Operating profit (loss)		
	Continuing operations:		
3	Long-term business	481	444
4	General insurance	67	(110)
5	Shareholders' other income	100	134
		648	468
4	Discontinued operations	–	(11)
	Total operating profit	648	457
8	Interest payable	(59)	(51)
	Profit on ordinary activities before tax	589	406
9	Tax	(193)	(123)
	Minority interests	–	(1)
	Profit for the financial year	396	282
	Dividends	(250)	(224)
	Retained profit for the financial year	146	58

	1993	1992
Earnings per share		
Based on earnings of £396m (£282m) and 1,884m (1,873m) shares.	21.0p	15.0p
Dividend per share	13.2p	11.9p

Statement of Total Recognised Gains and Losses

Year ended 31 December 1993

Note		1993 £m	1992 £m
	Profit for the financial year	396	282
	Other recognised gains (losses)		
7	Increase (decrease) in investment gains not included in profit	110	(53)
	Exchange (losses) gains	(3)	36
	Other movements	4	(20)
		111	(37)
	Total recognised gains	507	245

These financial statements have been prepared on the statutory basis of financial reporting, using the accounting policies set out on pages 34 and 35. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 50 to 58.

Consolidated Balance Sheet

31 December 1993

Note		1993 £m	1992 £m
	Investments		
	Ordinary shares	28,340	22,046
	Properties	4,004	3,916
	British Government securities	3,359	2,343
	Other fixed income securities	22,663	18,304
	Mortgages and loans	1,479	1,437
	Short-term deposits	2,562	1,971
		62,407	50,017
	Other assets		
	Fixed assets	131	128
	Tax recoverable	274	319
	Debtors	1,679	1,618
	Bank balances and cash	336	474
		2,420	2,539
	Total assets	64,827	52,556
	***Less* Liabilities**		
13	Borrowings	689	710
	Tax	137	155
	Final dividend	165	147
	Other creditors	1,105	1,070
		2,096	2,082
12	**Total assets less liabilities**	62,731	50,474
	***Less* Insurance funds and reserves**		
12	Long-term business	60,247	48,118
14	General insurance	1,696	1,852
		61,943	49,970
		788	504
	Shareholders' capital and reserves		
19	Share capital	95	94
19	Share premium	119	93
	Revaluation reserve	179	74
	Retained profit	395	243
		788	504

Reconciliation of Movement in Shareholders' Capital and Reserves

Year ended 31 December 1993

Note		1993 £m	1992 £m
	Total recognised gains	507	245
19	New share capital subscribed	27	20
	Dividends	(250)	(224)
	Net addition to shareholders' capital and reserves	284	41
	Shareholders' capital and reserves at beginning of year	504	463
	Shareholders' capital and reserves at end of year	788	504

These financial statements have been prepared on the statutory basis of financial reporting, using the accounting policies set out on pages 34 and 35. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 50 to 58.

Balance Sheet of the Company

31 December 1993

Note		1993 £m	1992 £m
	Fixed assets		
	Investments		
17	Shares in subsidiary undertakings	299	299
17	Loans to subsidiary undertakings	697	670
		996	969
	Current assets		
	Debtors		
	Amounts owed by subsidiary undertakings	259	280
	Other debtors	1	1
		260	281
	***Less* Liabilities: amounts falling due within one year**		
13	Borrowings	9	17
	Tax	–	15
9	Deferred tax	18	11
	Amounts owed to subsidiary undertakings	232	183
	Final dividend	165	147
	Other creditors	8	8
		432	381
	Net current liabilities	172	100
	Total assets less current liabilities	824	869
	***Less* Liabilities: amounts falling due after more than one year**		
	Amounts owed to subsidiary undertakings	450	506
		374	363
	Capital and reserves		
19	Share capital	95	94
19	Share premium	119	93
20	Retained profit	160	176
		374	363

The financial statements on pages 30 to 46 and the supplementary information on pages 50 to 58 were approved by the board of directors on 18 April 1994.

Sir Brian Corby, Chairman

M G Newmarch, Group Chief Executive

General Insurance and Shareholders' Cash Flow Statement

Year ended 31 December 1993

Note		1993 £m	1992 £m
	Operations		
15	Net cash inflow from operations	242	202
	Servicing of finance		
	Interest paid	(58)	(54)
	Dividends paid	(232)	(212)
	Net cash outflow for servicing of finance	(290)	(266)
	Tax		
	Tax received	10	60
	Investments (excluding short-term deposits)		
	Purchases:		
	Ordinary shares	(163)	(321)
	Fixed income securities	(1,819)	(2,181)
		(1,982)	(2,502)
	Sales:		
	Ordinary shares	205	199
	Fixed income securities	1,601	1,851
		1,806	2,350
15	Net purchases of investments (excluding short-term deposits)	(176)	(152)
	Net inflow from sale of Canadian general insurance operations	–	58
	Net cash outflow for investment	(176)	(94)
	Net cash outflow before financing	(214)	(98)
	Financing		
	Commercial paper borrowings (excluding short-term debt):		
	Issues	–	67
	Repayments	(81)	(1)
15	Net (borrowings repaid) cash borrowed	(81)	66
15,19	Issues of ordinary share capital	27	20
	Net cash (outflow) inflow from financing	(54)	86
	Net outflow in cash and cash equivalents	(268)	(12)
	Changes in cash and cash equivalents		
	Net outflow	(268)	(12)
	Exchange translation	2	19
	(Decrease) increase for year	(266)	7
	Balance at beginning of year	327	320
	Balance at end of year	61	327
	Comprising:		
12	Short-term deposits	93	255
12	Bank balances and cash	70	105
15	Short-term debt	(102)	(33)
		61	327

Accounting Policies

(A) Disclosure requirements

The consolidated financial statements are prepared in accordance with the provisions of section 255A of, and Schedule 9A to, the Companies Act 1985 which cover the disclosures applicable to insurance companies. The financial statements 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) Basis of consolidation

The financial statements of the Group 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 financial statements from the date of acquisition or up to the date of disposal.

(C) Long-term business

Premiums and annuity considerations are accounted for when due, except for unit-linked business where premiums are accounted for when the liabilities arising from those premiums are created.
Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment.
Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified.
Tax on long-term business activities is charged to the long-term business funds.
Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. For with profits 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.

(D) General insurance

(i) Personal lines

Personal lines business is 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) Inwards reinsurance

Inwards reinsurance business is subject to delays in the receipt of information from ceding companies and is 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.

(E) 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.

(F) 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. The five year average of these gains is 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.

(G) 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.

(H) Goodwill

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

(I) Fixed assets and depreciation

Fixed assets are capitalised and depreciated by equal annual instalments over their estimated useful lives.

(J) Leased assets

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

(K) 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 Financial Statements

Note **1 Segmental Analysis**

Premiums and operating profit (loss)

	New business							
	Annual premiums		Single premiums		Gross premium income		Operating profit (loss)	
Long-term Business	**1993 £m**	1992 £m	**1993 £m**	1992 £m	**1993 £m**	1992 £m	**1993 £m**	1992 £m
United Kingdom								
Non-linked:								
Pensions	**120**	134	**656**	589	**1,221**	1,125	**91**	84
Life and annuity	**90**	126	**1,089**	846	**1,960**	1,725	**164**	160
Linked life and pensions	**4**	3	**77**	26	**133**	90	**6**	13
Total individual business	**214**	263	**1,822**	1,461	**3,314**	2,940	**261**	257
Corporate pensions	**72**	62	**620**	513	**820**	680	**21**	19
Total United Kingdom	**286**	325	**2,442**	1,974	**4,134**	3,620	**282**	276
USA	**64**	73	**1,068**	1,575	**1,588**	2,055	**122**	86
Other countries								
Australia and New Zealand	**45**	42	**552**	463	**727**	714	**6**	12
Asian markets	**39**	30	**55**	42	**193**	144	**5**	4
Other markets	**41**	61	**129**	141	**366**	369	**(7)**	(1)
Total other countries	**125**	133	**736**	646	**1,286**	1,227	**4**	15
Mercantile & General Reinsurance								
United Kingdom	**36**	38	**76**	60	**248**	226	**43**	43
North America	**16**	14	**451**	292	**568**	402	**16**	12
Other countries	**9**	9	**25**	34	**72**	66	**14**	12
Total Mercantile & General Reinsurance	**61**	61	**552**	386	**888**	694	**73**	67
3 **Group Total**	**536**	592	**4,798**	4,581	**7,896**	7,596	**481**	444

	Gross premium income		Underwriting result		Investment return		Operating profit (loss)	
Continuing General Insurance Operations	**1993 £m**	1992 £m	**1993 £m**	1992 £m	**1993 £m**	1992 £m	**1993 £m**	1992 £m
United Kingdom personal lines								
Domestic	**261**	248	**37**	10	**18**	17	**55**	27
Motor	**72**	67	**(3)**	(2)	**9**	8	**6**	6
Total United Kingdom	**333**	315	**34**	8	**27**	25	**61**	33
Mercantile & General Reinsurance								
United Kingdom	**260**	303	**(51)**	(131)	**41**	27	**(10)**	(104)
North America	**75**	123	**–**	(53)	**13**	10	**13**	(43)
Other countries	**44**	55	**(2)**	(3)	**5**	7	**3**	4
Total Mercantile & General Reinsurance	**379**	481	**(53)**	(187)	**59**	44	**6**	(143)
4 **Group Total**	**712**	796	**(19)**	(179)	**86**	69	**67**	(110)
4 **Discontinued General Insurance Operations**	**–**	392	**–**	(66)	**–**	55	**–**	(11)

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, except in respect of the general insurance operations of Mercantile & General Reinsurance, for which the analysis by territory of risk comprises United Kingdom £94m (£91m), Continental Europe £76m (£122m), North America £93m (£139m) and other countries £116m (£129m).

Premiums by class of business

Note	Long-term Business	New business: Annual premiums 1993 £m	1992 £m	New business: Single premiums 1993 £m	1992 £m	Gross premium income 1993 £m	1992 £m
	Non-linked:						
	Pensions	194	198	856	904	1,631	1,614
	Life	243	304	1,188	1,001	3,176	2,969
	Annuity	1	2	1,339	1,666	1,355	1,671
	Permanent health	30	25	486	324	669	478
	Total Non-linked	468	529	3,869	3,895	6,831	6,732
	Linked:						
	Pensions	18	27	259	225	292	263
	Life	50	36	670	461	773	601
	Total Linked	68	63	929	686	1,065	864
3	**Group Total**	536	592	4,798	4,581	7,896	7,596
	Comprising: Individual business	424	486	3,318	3,448	6,101	6,127
	Corporate business	112	106	1,480	1,133	1,795	1,469
		536	592	4,798	4,581	7,896	7,596

Note	Continuing General Insurance Operations	Gross premium income 1993 £m	1992 £m
	Property	420	491
	Liability	232	245
	Other	60	60
[illegible]	**Group Total**	712	796

Net assets and shareholders' other income – geographical analysis

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	Insurance Funds	Long-term business funds 1993 £m	1992 £m	General insurance funds 1993 £m	1992 £m
	United Kingdom	28,981	24,288	1,440	1,567
	USA	12,114	10,201	127	142
	Canada	2,250	2,233	55	58
	Australia and New Zealand	3,267	2,681	33	31
	Asian markets	489	340	3	3
	Other countries	797	690	38	51
12	**Group Total**	47,898	40,433	1,696	1,852

Note	Shareholders' Funds	Shareholders' other income 1993 £m	1992 £m	Shareholders' capital and reserves 1993 £m	1992 £m
	United Kingdom	21	49	338	228
	USA	52	56	870	739
	Canada	11	19	140	121
	Other countries	16	10	127	110
		100	134	1,475	1,198
12	*Less* Borrowings	–	–	687	694
5,12	**Group Total**	100	134	788	504

Details of Group borrowings by currency are included in note 13.

Notes on the Financial Statements

Note 2 Historical Cost Profit

A note of the historical cost profit for the year has not been presented as it is not materially different from the profit disclosed in the profit and loss account.

3 Long-term Business Revenue Account

Note		1993 £m	1992 £m
	Gross premium income	7,896	7,596
	Less reassurance	197	153
	Net premium income	7,699	7,443
6	Investment income	3,091	2,850
	Investment gains transferred from investment reserves	1,983	1,492
6	Investment gains relating to linked business	1,004	318
		13,777	12,103
	Gross claims and surrenders	4,812	4,382
	Less reassurance	160	64
	Net claims and surrenders	4,652	4,318
	Commission	564	486
	Expenses	789	856
9	Tax	175	196
	Increase in insurance liability	5,432	4,258
		11,612	10,114
	Surplus for distribution	2,165	1,989
	Less policyholders' bonuses	1,843	1,705
	Shareholders' profit after tax	322	284
9	Shareholders' tax	159	160
	Operating profit	481	444

4 General Insurance Revenue Account

Note		1993 £m	1992 £m
	Gross premium income	712	1,188
	Less reinsurance	62	140
	Net premium income	650	1,048
	Gross claims	629	985
	Less reinsurance	120	243
	Net claims	509	742
	Commission	109	187
	Expenses	83	175
	Deferred acquisition expenses	6	3
	(Decrease) increase in insurance liability	(38)	186
		669	1,293
	Underwriting result	(19)	(245)
7	Investment return	86	124
	Operating profit (loss)	67	(121)
	Comprising: Continuing operations	67	(110)
	Discontinued operations	–	(11)
		67	(121)

Note 5 Shareholders' Other Income

	1993 £m	1992 £m
Investment return:		
Investment income	55	80
Insurance company averaged investment gains	36	30
Non-insurance company realised investment gains	6	50
7	97	160
Corporate expenditure	(21)	(33)
Trading results from:		
Investment management	23	8
Unit trusts and personal equity plans	1	(1)
Operating profit	100	134

6 Long-term Business Investment Return

	1993 £m	1992 £m
Investment income	3,227	2,984
Less investment expenses	136	134
	3,091	2,850
Investment gains: non-linked business	6,686	2,487
linked business	1,004	318
Total long-term business investment return	10,781	5,655

7 General Insurance and Shareholders' Investment Return

	1993 £m	1992 £m
Investment income	120	179
Less investment expenses	4	5
	116	174
Investment gains arising in year	177	57
(Increase) decrease in investment gains not included in profit:		
Deferred investment gains	(64)	29
Non-insurance company unrealised gains	(46)	24
Total general insurance and shareholders' investment return recognised in year	183	284
Allocated to: Continuing operations		
general insurance	86	69
shareholders' other income	97	160
	183	229
Discontinued operations	–	55
	183	284

Deferred investment gains at the end of the year amounted to £138m (£74m).
Investment return arising in the year of £59m (£57m) has been credited to the closure provision in respect of discontinued general insurance operations and is not included above.

8 Interest on Borrowings

	Long-term business		General insurance and shareholders	
	1993 £m	1992 £m	1993 £m	1992 £m
Interest on borrowings repayable within 5 years	7	9	29	11
Interest on other borrowings	–	–	30	40
	7	9	59	51

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

Notes on the Financial Statements

Note 9 Tax

Tax charged to long-term business revenue account and to profit and loss account	Long-term business 1993 £m	1992 £m	General insurance and shareholders 1993 £m	1992 £m
Corporation tax	**14**	37	**19**	(42)
Double tax relief	**(14)**	(5)	**(13)**	(15)
Tax on franked investment income	**80**	90	**4**	6
Overseas tax	**108**	104	**25**	17
Prior year adjustments	**(5)**	(9)	**–**	(12)
	183	217	**35**	(46)
Deferred tax: current year	**(7)**	(21)	**2**	8
prior year	**(1)**	–	**(3)**	1
	175	196	**34**	(37)
Shareholders' attributable tax	**(159)**	(160)	**159**	160
	16	36	**193**	123

Tax charged to reserves	1993 £m	1992 £m	1993 £m	1992 £m
Current tax	**118**	67	**(1)**	3
Deferred tax	**–**	(6)	**–**	–
	118	61	**(1)**	3

Deferred tax	1993 £m	1992 £m	1993 £m	1992 £m
Liability provided (asset recognised) in balance sheets:				
Short-term timing differences	**3**	11	**4**	2
Closure cost provisions	**–**	–	**(24)**	(21)
	3	11	**(20)**	(19)
Potential liability not provided (asset not recognised):				
Unrealised gains on investments	**2,271**	1,152	**101**	69
Unrelieved losses	**(54)**	(33)	**(36)**	(37)
General insurance funds	**–**	–	**(9)**	(18)
Other timing differences	**2**	(6)	**(25)**	(22)
	2,219	1,113	**31**	(8)

The deferred tax liability of £18m (£11m) in the balance sheet of the Company relates to short-term timing differences.

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 1993 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% per annum, pensionable earnings growth 7.5% per annum, increases to pensions in payment 4% per annum and dividend growth 5% per annum.

The market value of scheme assets at that date was £2,580m and the actuarial value of the assets was sufficient to cover 122% 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 maintained at approximately 8% of pensionable earnings.

For the year ended 31 December 1993, the total pension cost for the Group was £40m (£50m) of which £6m (£4m) related to overseas schemes.

Note	11 Fees Payable to Audit Firms	Price Waterhouse 1993 £m	Price Waterhouse 1992 £m	Other firms 1993 £m	Other firms 1992 £m	Total 1993 £m	Total 1992 £m
	Statutory audit	**1.7**	1.8	**0.5**	0.8	**2.2**	2.6
	Audit related services	**1.2**	0.6	**0.8**	0.4	**2.0**	1.0
	Consultancy services	**2.5**	1.5	**0.2**	0.7	**2.7**	2.2
		5.4	3.9	**1.5**	1.9	**6.9**	5.8

Fees payable to Price Waterhouse for work performed in the United Kingdom other than for statutory audit amounted to £2.9m (£1.9m).

Note	12 Balance Sheets	Long-term business 1993 £m	Long-term business 1992 £m	General insurance and shareholders 1993 £m	General insurance and shareholders 1992 £m
	Investments				
	Ordinary shares	**27,792**	21,570	**548**	476
	Properties	**3,978**	3,887	**26**	29
	British Government securities	**2,940**	2,073	**419**	270
	Other fixed income securities	**21,049**	16,842	**1,614**	1,462
	Mortgages and loans	**1,418**	1,379	**61**	58
	Short-term deposits	**2,469**	1,716	**93**	255
		59,646	47,467	**2,761**	2,550
	Other assets				
	Fixed assets	**68**	67	**63**	61
	Tax recoverable	**178**	185	**79**	126
	Deferred tax	**(3)**	(11)	**20**	19
	Debtors	**1,356**	1,210	**782**	859
	Bank balances and cash	**266**	369	**70**	105
		1,865	1,820	**1,014**	1,170
	Total assets	**61,511**	49,287	**3,775**	3,720
	***Less* Liabilities**				
13	Borrowings	**2**	16	**687**	694
	Tax	**107**	79	**30**	76
	Final dividend	**–**	–	**165**	147
	Other creditors	**1,155**	1,074	**409**	447
		1,264	1,169	**1,291**	1,364
	Total assets less liabilities	**60,247**	48,118	**2,484**	2,356
14	***Less* General insurance funds**	**–**	–	**1,696**	1,852
		60,247	48,118	**788**	504
14	**Long-term business funds**	**47,898**	40,433	**–**	–
	Long-term business reserves	**12,349**	7,685	**–**	–
	Shareholders' capital and reserves	**–**	–	**788**	504
		60,247	48,118	**788**	504

Notes on the Financial Statements

13 Borrowings

	Long-term business		General insurance and shareholders	
	1993 £m	1992 £m	**1993 £m**	1992 £m
Bank loans and overdrafts (repayable on demand)	**–**	11	**18**	18
Secured loans:				
Canadian dollar borrowings	**2**	5	**–**	–
Unsecured loans:				
Sterling commercial paper	**–**	–	**–**	15
US dollar commercial paper	**–**	–	**84**	79
DM300m 6% Guaranteed Notes 1997	**–**	–	**117**	123
SF200m 4.75% Guaranteed Bonds 1998	**–**	–	**91**	90
US$300m 8.25% Guaranteed Bonds 2001	**–**	–	**203**	199
£150m 9.375% Guaranteed Bonds 2007	**–**	–	**150**	150
Currency translation liability on swap transactions	**–**	–	**24**	20
Total other borrowings	**2**	5	**669**	676
Total borrowings	**2**	16	**687**	694
Borrowings are repayable as follows:				
Within one year or on demand	**–**	13	**102**	112
Between two and five years	**2**	3	**232**	140
After five years	**–**	–	**353**	442
	2	16	**687**	694

The Company has bank loans and overdrafts of £9m (£17m) 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 1993 for the unsecured loans are US$742m, DM300m and £50m, equivalent in total to £669m. The weighted average rate of interest payable on these loans is 8.7% (8.4%).

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.

14 Insurance Funds

Long-term Business	1993 £m	1992 £m
Insurance funds	**47,645**	40,198
Gross outstanding claims	**283**	250
Reassurance recoverable	**(30)**	(15)
Net outstanding claims	**253**	235
Total funds	**47,898**	40,433

General Insurance	1993 £m	1992 £m
Funds gross of reinsurance:		
Unearned premiums	**185**	230
Outstanding claims	**493**	596
Inwards reinsurance and other funds	**1,343**	1,355
	2,021	2,181
Reinsurance recoverable	**(295)**	(281)
	1,726	1,900
Deferred acquisition expenses	**(30)**	(48)
Total funds net of reinsurance	**1,696**	1,852

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 1993 by £240m (£226m) and to increase Group profit before tax by £18m (£7m).

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

Note 15 General Insurance and Shareholders' Cash Flow

Reconciliation of operating profit to net cash inflow from operations	1993 £m	1992 £m
Total operating profit	648	457
Adjustments for non-cash items:		
Depreciation charges	20	29
Investment gains and other movements	(90)	(109)
Tax on long-term profits and franked investment income	(163)	(166)
(Decrease) increase in general insurance fund	(152)	188
Increase in long-term business profit transfer	(38)	(39)
Decrease (increase) in other assets	55	(156)
Decrease in other liabilities	(38)	(2)
Net cash inflow from operations	242	202

Changes in investments	1993 £m	1992 £m
Net purchases of investments (excluding short-term deposits)	176	152
Investment portfolio of Canadian general insurance operations sold in year	–	(226)
Realised and unrealised investment gains	185	57
Exchange translation and other movements	12	260
(Decrease) increase in short-term deposits	(162)	23
Increase for year	211	266
Investments at beginning of year	2,550	2,284
12 Investments at end of year	2,761	2,550

	Borrowings		Share capital (including share premium)	
Changes in borrowings and share capital	1993 £m	1992 £m	1993 £m	1992 £m
Financing:				
Net (borrowings repaid) cash raised	(81)	66	27	20
Exchange translation	5	107	–	–
(Decrease) increase for year	(76)	173	27	20
Financing at beginning of year	661	488	187	167
Financing at end of year	585	661	214	187
Other borrowings:				
Short-term debt included in cash and cash equivalents	102	33	–	–
13, 19 Total borrowings/share capital	687	694	214	187

16 Exchange Rates

The principal year end exchange rates used for translation were:

	Currency	1993	1992
Australia	A$	2.18	2.20
Canada	C$	1.96	1.92
USA	US$	1.48	1.51

17 Investments of the Company

	Shares in subsidiary undertakings 1993 £m	Loans to subsidiary undertakings 1993 £m
At beginning of year	299	670
Exchange rate movements	–	8
Advances of new loans	–	20
Repayment of loans	–	(1)
At end of year	299	697

Notes on the Financial Statements

18 Subsidiary Undertakings

The principal subsidiary undertakings of the Company were:

	Country of incorporation
Jackson National Life Insurance Company*	United States of America
The Mercantile & General Reinsurance Company plc*	Scotland
Prudential Annuities Limited*	England and Wales
The Prudential Assurance Company Limited	England and Wales
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 & 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 (£410m).

19 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 1993 £m	Share premium 1993 £m
At beginning of year	1,878,694,802	93.9	93.5
Shares issued under share option schemes	9,994,038	0.5	17.6
Shares issued in lieu of cash dividends	2,555,593	0.1	8.3
At end of year	1,891,244,433	94.5	119.4

Options subsisting under share option schemes at 31 December 1993 were:

Year options granted	Number of options	Exercise price pence per share	Period during which options are exercisable
1985	37,950	128.2	1994-1995
1987	1,339,455	157.2-199.0	1994-1997
1988	1,218,208	149.0-166.4	1994-1998
1989	3,050,964	167.0-200.5	1994-1999
1990	10,659,651	156.0-197.0	1994-2000
1991	7,822,305	192.0-248.0	1994-2001
1992	12,411,224	163.0-256.0	1995-2002
1993	8,250,524	264.0-331.0	1996-2003

20 Profit of the Company

The profit of the Company for the year was £234m (£271m). After dividends of £250m (£224m), retained profit at 31 December 1993 amounted to £160m (£176m).

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 27 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. Awards under the Plan are determined by the Committee, based on the performance of the Group, 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 based on 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 1993 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 22.

Total emoluments for the year were:

	1993 £	1992 £
Salaries, benefits and fees	**2,174,019**	2,138,457
Performance related emoluments under the Share Participation Plan (represented by shares to be held by trustee for five years)	**622,800**	487,200
Pension contributions	**434,636**	396,966
Supplementary pension contribution for M J Lawrence	**249,850**	–
	3,481,305	3,022,623

Total emoluments include £286,865 (£279,602) in respect of services as directors of the Company.

The emoluments of the Chairman and the highest paid director were:

	1993 £	1992 £
Sir Brian Corby (Chairman)		
Fees and benefits	**96,768**	88,718
M G Newmarch (Group Chief Executive)		
Salary and benefits	**543,856**	565,390
Performance related emoluments under the Share Participation Plan (represented by shares to be held by trustee for five years)	**234,000**	156,000
Pension contributions	**56,212**	47,995
	834,068	769,385

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 1993	1992	Emoluments £ – £	Number of directors 1993	1992
5,001 to 10,000	**3**	4	260,001 to 265,000	**–**	2
15,001 to 20,000	**4**	4	295,001 to 300,000	**1**	–
25,001 to 30,000	**–**	1	305,001 to 310,000	**2**	–
30,001 to 35,000	**–**	2	315,001 to 320,000	**–**	1
35,001 to 40,000	**2**	–	370,001 to 375,000	**–**	1
145,001 to 150,000	**–**	1	390,001 to 395,000	**1**	–
255,001 to 260,000	**–**	1	430,001 to 435,000	**1**	–

Notes on the Financial Statements

22 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				Options to subscribe for shares of 5p each in the Company: Prudential Executive Share Option Scheme			
	1 Jan 1993	31 Dec 1993	1 Jan 1993	Granted in 1993	Exercised in 1993	31 Dec 1993	1 Jan 1993	Granted in 1993	Exercised in 1993	31 Dec 1993
M D Abrahams	12,000	12,000								
M E Baker	2,500	2,500								
K L Bedell-Pearce	7,262	29,274	15,215		2,730	12,485	490,290	105,000	220,040	375,250
Sir Brian Corby	27,927	28,306								
N W A FitzGerald		3,040								
J A Freeman	23,522	32,816	11,163			11,163	281,250	107,000		388,250
Sir Trevor Holdsworth	6,056	6,283								
Sir Alex Jarratt	12,000	12,000								
H R Jenkins	2,582	19,648					642,500	244,000	450,000	436,500
M J Lawrence	22,308	34,221	10,514	2,613	4,830	8,297	459,600	141,500	124,600	476,500
B Medhurst	25,723	35,660	11,104			11,104	331,900		150,000	181,900
M G Newmarch	15,241	39,396	10,693			10,693	989,100	397,000	488,850	897,250
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	264.0	149.0-160.9
Executive Scheme	327.0-328.0	128.2-199.0

Options granted during the year are exercisable between 1996 and 2003.

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 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 1,190 shares held by Mr B Medhurst at 31 December 1993.

There has been the following change in directors' interests between 31 December 1993 and 31 March 1994: Mr B Medhurst acquired 2,576 shares.

Statement of Directors' Responsibilities

in respect of the preparation of financial statements

The directors have a duty to report to shareholders on the performance and financial position of the Group and are responsible for preparing the financial statements on pages 30 to 46 and the supplementary information on pages 50 to 58.

Company law requires the directors to prepare financial statements for the Company and the Group which comply with the relevant provisions of the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained for the preparation of those statements and that reasonable steps are taken to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors on the Financial Statements

to the members of Prudential Corporation plc

We have audited the financial statements on pages 30 to 46.

Respective responsibilities of directors and auditors

As described above, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the balance sheet of the Company gives a true and fair view of the state of the Company's affairs at 31 December 1993 and has been properly prepared in accordance with the Companies Act 1985, and the consolidated financial statements have been properly prepared in accordance with the provisions of the Companies Act 1985 applicable to insurance companies.

Price Waterhouse
Chartered Accountants
and Registered Auditors
London
18 April 1994

Five Year Review

	1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Summary of Results					
Operating profit (loss)					
Continuing operations:					
Long-term business	**481**	444	385	367	359
General insurance	**67**	(110)	(58)	(123)	(13)
Shareholders' other income	**100**	134	86	128	128
	648	468	413	372	474
Discontinued operations:					
General insurance	**–**	(11)	(91)	(62)	4
Estate agency	**–**	–	–	(34)	(49)
	–	(11)	(91)	(96)	(45)
Total operating profit	**648**	457	322	276	429
(Loss) gain on closure/disposal	**–**	–	(85)	33	–
Estate agency goodwill previously charged to reserves	**–**	–	–	(233)	–
Profit on ordinary activities before interest payable	**648**	457	237	76	429
Interest payable	**(59)**	(51)	(55)	(32)	(44)
Profit on ordinary activities before tax	**589**	406	182	44	385
Tax and minority interests	**(193)**	(124)	(95)	(133)	(110)
Profit for the financial year	**396**	282	87	(89)	275
Share Statistics					
Earnings per share	**21.0p**	15.0p	4.7p	(4.8p)	14.9p
Dividend per share	**13.2p**	11.9p	11.0p	10.3p	9.2p
Market price at 31 December	**361.0p**	298.5p	246.0p	196.0p	236.5p
Insurance Funds and Reserves					
Long-term business	**60,247**	48,118	38,801	32,626	34,964
General insurance	**1,696**	1,852	1,727	1,539	1,566
Shareholders' capital and reserves	**788**	504	463	503	814
Investments at Market Value					
Long-term business	**59,646**	47,467	38,254	32,339	35,042
General insurance and shareholders	**2,761**	2,550	2,284	1,939	2,265
Other funds under management	**13,205**	11,799	10,517	8,992	9,781
Total investments	**75,612**	61,816	51,055	43,270	47,088
Long-term Business Investments					
Net Investment in year					
Funds arising in United Kingdom:					
Ordinary shares	**761**	1,390	1,359	671	406
Properties	**(146)**	(117)	(192)	(152)	(142)
British Government securities	**511**	96	(532)	38	(523)
Other fixed income securities	**266**	521	257	351	628
Short-term deposits	**947**	(530)	372	(92)	304
	2,339	1,360	1,264	816	673
Funds arising overseas:					
Ordinary shares	**(187)**	93	140	200	99
Properties	**15**	3	(19)	35	44
Fixed income securities	**2,260**	2,115	1,751	1,555	1,413
Short-term deposits	**(112)**	408	14	66	186
	1,976	2,619	1,886	1,856	1,742

		1993 £m	1992 £m	1991 £m	1990 £m	1989 £m
Sales of Savings and Protection Products						
Ordinary long-term business:	annual premiums	**520**	545	487	513	503
	single premiums	**4,795**	4,557	3,404	2,722	2,484
Industrial life business:	annual premiums	**16**	47	55	65	65
	single premiums	**3**	24	26	24	22
Investment products:	regular premiums	**36**	8	–	–	–
	single premiums	**323**	200	109	105	120
Results of Continuing Operations						
Long-term Business						
Ordinary Long-term Business						
Gross premium income		**7,572**	7,221	5,768	4,825	4,381
Investment income		**2,897**	2,612	2,202	1,976	1,774
Investment gains transferred from investment reserves		**1,669**	1,314	1,027	441	889
Commission and expenses		**1,176**	1,178	946	866	827
Policyholders' bonuses		**1,480**	1,336	1,259	1,105	1,036
Shareholders' operating profit		**425**	386	320	291	284
Industrial Life Business						
Gross premium income		**324**	375	395	406	410
Investment income		**194**	238	275	308	290
Investment gains transferred from investment reserves		**314**	178	379	338	640
Commission and expenses		**177**	164	225	215	206
Policyholders' bonuses		**363**	369	418	469	464
Shareholders' operating profit		**56**	58	65	76	75
Total operating profit		**481**	444	385	367	359
General Insurance						
Gross premium income		**712**	796	645	570	564
Underwriting result		**(19)**	(179)	(122)	(190)	(92)
Investment return		**86**	69	64	67	79
Operating profit (loss)		**67**	(110)	(58)	(123)	(13)
Shareholders' Other Income						
Investment return:						
Investment income		**55**	80	71	84	77
Insurance company averaged investment gains		**36**	30	20	28	52
Non-insurance company realised investment gains		**6**	50	10	36	6
		97	160	101	148	135
Corporate expenditure		**(21)**	(33)	(26)	(26)	(25)
Trading results from:						
Investment management		**23**	8	12	7	16
Unit trusts and personal equity plans		**1**	(1)	(1)	(1)	2
Operating profit		**100**	134	86	128	128
Total continuing operations		**648**	468	413	372	474

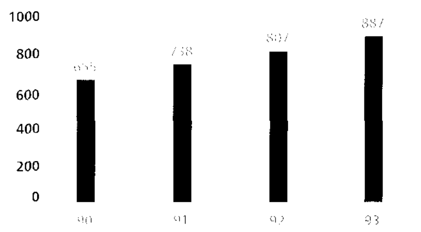
Long-term Business Results – Accruals Basis

Financial Overview	1993 £m	1992 £m
Operating profit		
Long-term business	887	807
General insurance and shareholders' other income	167	13
	1,054	820
Interest payable	(59)	(51)
Profit on ordinary activities before tax	995	769
Earnings per share	35.1p	28.5p

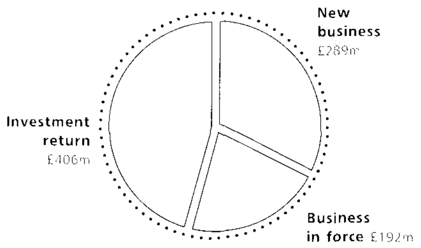
	1993 £m	1992 £m
Shareholders' capital and reserves		
Statutory basis	788	504
Profits retained in long-term funds	3,386	2,796
Accruals basis	4,174	3,300

Review of Results

Long-term Profits
(£ million)



1993 Long-term Profits by Category
(£ million)



As I explained earlier, we believe that the accruals basis of reporting provides a better insight into the performance and underlying profitability of our business than the statutory basis. However, the method is still at an experimental stage and results on this basis are therefore shown as supplementary information rather than as the principal financial statements. An explanation of the accruals basis of reporting is set out on page 56.

On the accruals basis our long-term business contributed profits of £887 million in 1993, up 10 per cent. Taken together with the significant improvement in the general insurance results, our total pre-tax profits were close to £1 billion, with earnings per share on the accruals basis increasing by 23 per cent to 35.1 pence.

Accruals profits arise from three sources – new business, business in force and the investment return on the shareholders' accrued interest in the long-term funds.

Profits from new business fell by 12 per cent to £289 million primarily as a result of a one-third fall in sales of single premium annuity products in Jackson National Life.

Profits from business in force have been reduced by a charge of £170 million resulting from a reassessment of the expected rate of future investment returns on our main UK in force portfolio. The anticipated pre-tax return has been reduced to 10 per cent per annum from the 11 per cent applied in 1992. Nevertheless good investment returns around the world in 1993, an increase in realised gains in Jackson National Life, and the benefit of expense reductions in our Home Service division helped profits from business in force to increase by 54 per cent to £192 million.

Business Area Review

The third element of the accruals profits, the investment return on the shareholders' accrued interest in the long-term business, grew by 15 per cent to £406 million.

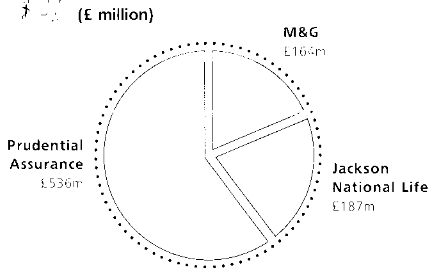
The accruals basis of reporting also shows the profits retained in the long-term business of our operations. The shareholders' accrued interest in the Group's long-term funds rose by 21 per cent to £3.4 billion during 1993 reflecting the growth in retained profits which we are achieving from sales of new policies, the management of the business in force and particularly in 1993, strong investment performance. The shareholders' accrued interest includes deferred gains of £530 million (£206 million) which under our policy of smoothing investment appreciation will be included in operating results in future years.

After including the net assets of £788 million (£504 million) reported on the statutory basis, total shareholders' funds on the accruals basis at the end of 1993 were £4.2 billion (£3.3 billion).

In my review on pages 8 to 25 I dealt in some detail with the progress in each of our main businesses. In presenting accruals information, the results of Home Service, Prudential Financial Services and our overseas retail operations (other than in the USA) are reported under Prudential Assurance, their principal operating company.

Long-term profits of the Group in 1993 were as follows:

1993 Long-term Profits by Business Area (£ million)

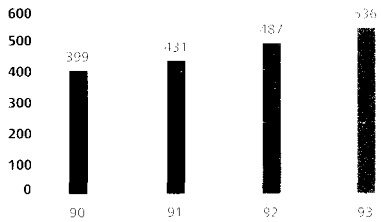


Prudential Assurance

	1993 £m	1992 £m
New business		
Annual premiums	411	458
Single premiums	3,178	2,620
Operating profit		
New business	223	226
Business in force	41	36
Investment return on the shareholders' accrued interest	272	225
	536	487
Shareholders' accrued interest in the long-term business	2,153	1,753

Prudential Assurance and its subsidiaries are responsible for all of the Group's retail operations outside the USA and sell life and pensions products to both the individual and corporate markets. These products generally have high savings and low risk content and are designed to be held for the long term. The nature of the products allows recognition in the year of sale of a high proportion of the total shareholders' profits which will ultimately emerge from new business. The other main constituent of Prudential Assurance's profits is investment return on the shareholders' accrued interest in the long-term funds, which represents profits retained in the funds primarily to meet valuation and solvency requirements.

Prudential Assurance
Long-term Profits (£ million)



Sales of single premium policies were up by 21 per cent with strong growth in most of our major markets. However, annual premium sales fell in most areas, reflecting the continued reluctance of consumers to enter into regular financial commitments. Also, profitability of individual contracts sold in the year was slightly lower than in 1992 due to our expectation of lower future investment returns. Taken together, these factors resulted in 1993 new business profits of £223 million, similar to the 1992 level.

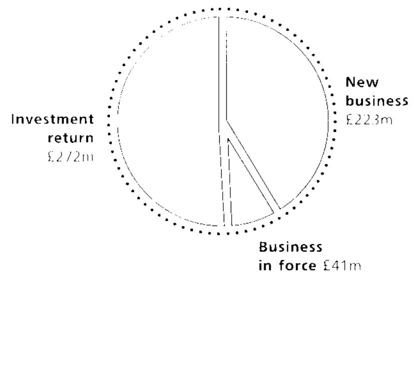
However, there were encouraging features within the 1993 new business results. In the UK, profits from Prudence Bond, our successful single premium with profits investment contract, rose by 15 per cent to £54 million, whilst overseas, our Asian and Australian operations together contributed £35 million of new business profit in 1993. Unit linked business in Australia is now financed wholly by shareholders' funds and consequently shareholders receive all of the profit previously shared with the life fund.

Profits from business in force increased by 14 per cent to £41 million. In the UK, smoothed investment returns were some £90 million higher than in 1992 but this was outweighed by the charge of £170 million for the effect of lower anticipated UK investment returns. The benefits already delivered from our cost reduction programme in the Home Service division allowed us to recognise a one-off reduction in our expected future expenses. Overseas, profits from business in force improved slightly, mainly due to much improved investment returns in Australia. However, the results of our Canadian operations were again disappointing due to the need for further provisions for investment default losses.

The investment return on the shareholders' accrued interest in the long-term funds increased by 21 per cent between 1992 and 1993 to reach £272 million reflecting both the increase in retained profits and good investment performance.

Investment return was the major contributor to

Prudential Assurance
1993 Long-term Profits by Category (£ million)



the growth in the shareholders' interest in the long-term business of Prudential Assurance which rose by 23 per cent during 1993 and stood at £2,153 million at the end of the year.

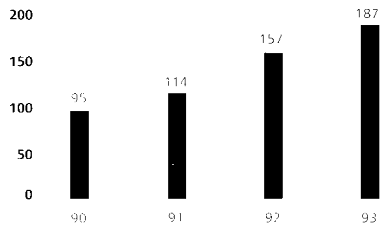
Jackson National Life	1993 £m	1992 £m
New business		
Annual premiums	64	73
Single premiums	1,068	1,575
Operating profit		
New business	39	68
Business in force	97	40
Investment return on the shareholders' accrued interest	51	49
	187	157
Shareholders' accrued interest in the long-term business	470	410

Jackson National Life sells savings and protection products in the USA individual market, with the majority of its sales being single premium annuities. In recognition of the different risk characteristics of the USA annuity market, profit emergence on Jackson's products is less weighted towards new business than is the case for Prudential Assurance. A larger proportion of profits therefore tends to arise from business in force.

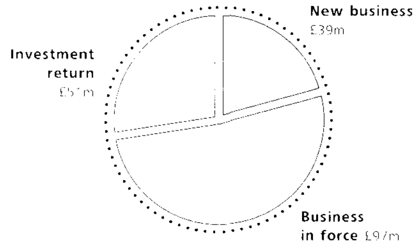
As mentioned in my review, Jackson's rapid sales growth reversed in 1993. Single premium sales fell by a third and new business profits fell accordingly, from £68 million to £39 million. On the other hand, profits from business in force more than doubled to £97 million, mainly due to a £53 million increase to £62 million in realised investment gains allocated to shareholders.

Investment returns on the shareholders' interest rose from £49 million to £51 million, the growth in the shareholders' interest being offset by lower interest rates. The shareholders' interest itself increased by 15 per cent to £470 million.

Jackson National Life
Long-term Profits (£ million)



Jackson National Life
1993 Long-term Profits by Category (£ million)

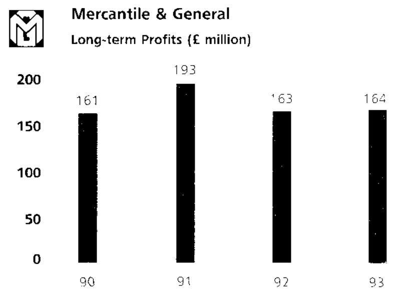


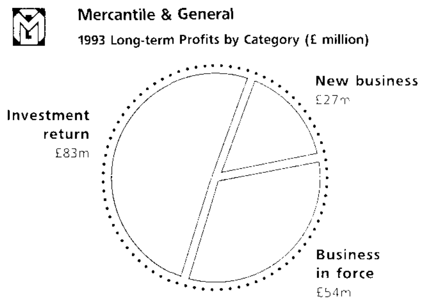
Conclusion

Mercantile & General	1993 £m	1992 £m
New business		
Annual premiums	61	61
Single premiums	552	386
Operating profit		
New business	27	35
Business in force	54	49
Investment return on the shareholders' accrued interest	83	79
	164	163
Shareholders' accrued interest in the long-term business	763	633

Mercantile & General is a major participant in worldwide life and disability reassurance markets. Its business is more exposed to underwriting risk than the Group's retail businesses whose products are mainly orientated towards the medium- to long-term savings market. The pattern of accruals profit emergence reflects this characteristic by taking a lower proportion of the ultimate profit in the year of sale.

Investment return on the shareholders' accrued interest in the long-term business forms the largest constituent of M&G's accruals basis profits, reflecting the high level of profits and solvency capital retained within M&G's long-term funds. Since M&G does not have any participating policyholders the whole of the investment return on these retained funds is attributable to shareholders.





In total, 1993 profits of £164 million were similar to the 1992 level. For new business, annual premium sales were virtually unchanged but single premiums increased by 43 per cent, mostly due to a higher level of medical expense business. However, the growth in new business profits that might be expected has been outweighed by the effects of a reassessment of the appropriate profile of accruals profit recognition for certain lines. In addition the results for UK disability business deteriorated in 1993; recent rises in premium rates in the primary market will not have significant effect for M&G until 1994. Accordingly, profits from new business fell by £8 million to £27 million in 1993.

This reduction was offset by growth in profits from business in force, up 10 per cent to £54 million, due mainly to improved investment returns. The shareholders' accrued interest in M&G's long-term business rose during 1993 to £763 million, an increase of 21 per cent.

This is the third time that we have published our results on the accruals basis. We remain committed to the development of this method of reporting. I believe that the results once again demonstrate much more clearly to both management and shareholders the factors, both positive and negative, which have contributed to the underlying performance of our main businesses.

M G Newmarch
Group Chief Executive
18 April 1994

Consolidated Profit and Loss Account – Accruals Basis

Year ended 31 December 1993

	1993 £m	1992 £m
Operating profit (loss)		
Continuing operations:		
Long-term business		
New business	289	329
Business in force	192	125
Investment return on the shareholders' accrued interest	406	353
	887	807
General insurance	67	(110)
Shareholders' other income	100	134
	1,054	831
Discontinued operations	–	(11)
Total operating profit	1,054	820
Interest payable	(59)	(51)
Profit on ordinary activities before tax	995	769
Tax	(333)	(234)
Minority interests	–	(1)
Profit for the financial year	662	534
Dividends	(250)	(224)
Retained profit for the financial year	412	310

Earnings per share		
Based on earnings of £662m (£534m) and 1,884m (1,873m) shares.	35.1p	28.5p
Dividend per share	13.2p	11.9p

Statement of Total Recognised Gains and Losses – Accruals Basis

Year ended 31 December 1993

Note		1993 £m	1992 £m
	Profit for the financial year	662	534
	Other recognised gains (losses)		
5	Increase in investment gains not included in profit	434	12
8	Exchange (losses) gains	(3)	166
	Other movements	4	(20)
		435	158
	Total recognised gains	1,097	692

This supplementary information has been prepared on the accruals basis of financial reporting described on page 56.
Financial statements prepared on the statutory basis of financial reporting are provided on pages 30 to 46.

Summarised Consolidated Balance Sheet – Accruals Basis

31 December 1993

	1993 £m	1992 £m
Investments	62,407	50,017
Other assets	2,420	2,539
Total assets	64,827	52,556
***Less* Liabilities**	2,096	2,082
Total assets less liabilities	62,731	50,474
***Less* Insurance funds and reserves**		
Long-term business	60,247	48,118
Less Shareholders' accrued interest in the long-term business	3,386	2,796
	56,861	45,322
General insurance	1,696	1,852
	58,557	47,174
	4,174	3,300
Shareholders' capital and reserves		
Share capital	95	94
Share premium	119	93
Retained profit and reserves (statutory basis)	574	317
Profit retained in long-term funds (accruals basis)	3,386	2,796
	4,174	3,300

Reconciliation of Movement in Shareholders' Capital and Reserves – Accruals Basis

Year ended 31 December 1993

	1993 £m	1992 £m
Total recognised gains	1,097	692
New share capital subscribed	27	20
Dividends	(250)	(224)
Net addition to shareholders' capital and reserves	874	488
Shareholders' capital and reserves at beginning of year	3,300	2,812
Shareholders' capital and reserves at end of year	4,174	3,300

This supplementary information has been prepared on the accruals basis of financial reporting described on page 56.
Financial statements prepared on the statutory basis of financial reporting are provided on pages 30 to 46.

The Accruals Basis of Financial Reporting

The accruals basis of financial reporting is based on conventional accounting principles and recognises profit as it accrues over the life of an insurance contract. Although total profits from long-term business calculated under this method are the same as under the statutory solvency method, the timing of recognition is different.

The timing difference can be illustrated by considering an individual contract. Using prudent assumptions of the main elements of future income and expenditure – investment return, death claims, lapses, surrenders and administration expenses – the total profit expected to be earned from the contract can be estimated at the time of its sale.

Under the statutory solvency basis of reporting, this profit will be recognised as it is released to shareholders as a series of cash flows from the long-term funds. Under the accruals method, however, the pattern of profit recognition is based on an assessment of work performed and risks borne by the insurer over the life of the contract. The total profit expected to be earned is allocated to individual financial years by incorporating planned profit margins into the assumptions made at the time of sale about future income and expenditure. These margins are set by Prudential's board to reflect work done and risks borne in future financial years. Provided that the actual outcome is in line with the original assumptions, profits will be earned in each accounting period as these margins are released. Any anticipated losses are recognised immediately as are differences between actual and assumed income and expenditure.

Major elements of work performed are marketing, staff training and policy administration, all of which are concentrated to a large extent in the year of sale. Consequently, a significant proportion of the total profit from the contract will normally be recognised in the year of sale, reflecting the success of these efforts. This element of profit is known as the profit on new business. The release of planned margins and variances between actual and assumed experience during the remainder of the contract period produces the profit on business in force.

Under the accruals method, profits are recognised earlier than under the statutory solvency basis of reporting, which derives from statutory requirements designed to ensure and demonstrate solvency in the long-term funds. The additional profits recognised at an earlier stage under the accruals method are retained within the long-term funds, thus ensuring the solvency of those funds. These retained profits are known as the shareholders' accrued interest in the long-term business and the investment return on this amount forms part of the accruals profit for the year.

The total accruals basis profits reported for an accounting year can therefore be analysed into three separate components:
• profits from new business;
• profits from business in force; and
• the investment return on the shareholders' accrued interest in the long-term business.

The accruals basis is designed to report profits which reflect business performance during the year under review, particularly new business sales and investment performance. Both sales and investment returns can change significantly from period to period and so accruals basis profits are expected to show more variability than profits reported on the statutory solvency basis.

It is important to note that the use of the accruals basis does not affect the cash surpluses which are released to shareholders' funds from the long-term funds. These continue to be determined by post-tax profits recognised on the statutory solvency basis. It should also be noted that the accruals basis does not affect amounts available for dividend payments to shareholders, as the profits which are recognised earlier when using the accruals basis are not legally distributable.

The non-distributable element of retained profit is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory solvency basis, provides an improved measure of total shareholders' funds of the Group.
It is important to realise, however, that the shareholders' accrued interest does not represent the value to shareholders of the business in force as, in future years, further profits will be earned on this business.

Notes on the Supplementary Information

1 Basis of Preparation

The accruals basis results have been prepared in accordance with the Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business issued by the Association of British Insurers in July 1992.

The information is supplementary to the financial statements on pages 30 to 46.

2 Assumptions

The accruals basis results have been prepared on the basis of prudent forecasts of future rates of investment return, policy discontinuances, mortality and morbidity, expenses, expense inflation and taxation. In preparing these forecasts, account has been taken of recent experience and general economic conditions, together with inherent uncertainty.

It has been assumed that the bases and rates of taxation, both direct and indirect, will not change materially in any of the countries in which the Group operates.

Assumed future rates of investment return reflect prevailing interest rates, the outlook for inflation and the mix of the investment portfolios. A pre-tax rate of 10% per annum, before applying planned margins, has been assumed for the UK with profits fund of Prudential Assurance, compared with a rate of 11% per annum assumed in 1992. The assumption in the current year of a lower future rate of return reduces the expected cash flows from business in force at the start of the year and has resulted in a charge to 1993 profits from business in force of £170m.

The proportion of surplus from the with profits business of Prudential Assurance allocated to shareholders has been based on the present level of 10% but with an allowance for the estimated future effects of taxation on UK pensions business.

In the UK, Department of Social Security rebate business has been treated as single premium business.

3 Planned Margins

Planned margins are designed to provide an appropriate return on risks borne and work done in future periods. The margins on the most important assumptions, expressed as proportions of those assumptions, are as follows:

Investment return	15-22%	Mortality and morbidity	8-18%
Proprietor's margin on investment returns		Policy discontinuance	20-50%
(USA annuity products)	25%	Expenses	20%

Planned margins have been restricted to below the levels shown above for products where their application would result in a loss being shown on new business which is expected to be profitable.

The planned margins used are the same as in 1992 with the exception of investment return where the margins in 1992 were 15% to 20%.

4 Investment Return

The accruals basis of accounting recognises the total investment return of the long-term business to the extent attributable to shareholders. The return comprises income and gains, both realised and unrealised, and includes expected future returns on existing contracts after providing for planned margins.

With the exception of fixed interest investments held by North American subsidiaries, investment gains during the period are included in the shareholders' accrued interest as they arise but are spread forward over five years for the purposes of calculating operating results.

In the case of North American subsidiaries, it is assumed that fixed interest investments will normally be held until maturity. Therefore unrealised gains are not reflected in the accruals results and only income received and the amortisation of the difference between cost and maturity values, to the extent attributable to shareholders, are recognised in operating results. Some investments are realised before maturity, mainly through early redemption by issuers or mortgage holders. In the case of Jackson National Life, the directors have discretion over the allocation of resulting gains between shareholders and policyholders. The amount allocated to shareholders is consistent with assumed future policyholder interest crediting rates, and is recognised in the operating result and shareholders' accrued interest in the year of realisation. Realised gains on fixed interest investments arising in other North American subsidiaries are amortised to the original maturity date.

5 Deferred Investment Gains

Deferred gains included within the shareholders' accrued interest but not yet recognised in operating results amounted to £530m (£206m), net of tax.

Notes on the Supplementary Information

6 Discount Rates
The shareholders' interests in future cash flows within the long-term funds have been discounted to present value at the post-tax rates of return assumed to be earned by the relevant funds. The release of the discount is included in the investment return on the shareholders' accrued interest.

7 Tax
Under the accruals method, the profit for the year is calculated initially at the post-tax level. This profit has been grossed up for presentation purposes at the full rates of company tax applicable to the countries and periods concerned irrespective of the effective rates of tax actually allowed for in calculating the profit after tax.

8 Foreign Currency Translation
Foreign currency amounts have been translated at year end rates of exchange. Exchange gains on the opening shareholders' interest of nil (£130m) have been excluded from profits, but are included in the Statement of Total Recognised Gains and Losses.

Report of the Auditors on the Supplementary Information

to the members of Prudential Corporation plc

We have audited the supplementary information on pages 54 to 58, which has been prepared on the basis set out in Note 1 on page 57 and is limited to a restatement of the Group profit and the shareholders' interest in the Group's life funds to an accruals basis.

Respective responsibilities of directors and auditors
As noted in the Statement of Directors' Responsibilities on page 47, the Company's directors are responsible for the preparation of the supplementary information. It is our responsibility to form an independent opinion, based on our audit, on that supplementary information and to report our opinion to you.

Basis of opinion
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the supplementary information. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary information and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the supplementary information.

Opinion
In our opinion, the accruals basis Group profit for the year ended 31 December 1993 and shareholders' interest in the life funds at that date have been properly prepared in conformity with the methodology and disclosure requirements contained in the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers in July 1992.

Price Waterhouse
Chartered Accountants
London
18 April 1994

Financial Calendar

Payment of 1993 final dividend	**25 May 1994**
Annual General Meeting	**25 May 1994**
Announcement of 1994 interim results	**14 September 1994**
Payment of 1994 interim dividend	**24 November 1994**
Announcement of 1994 full year results	**21 March 1995**

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