PRUDENTIAL CORPORATION

PRUDENTIAL CORPORATION ANNUAL REPORT 1995

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PRUDENTIAL CORPORATION

Prudential Corporation is the largest life insurance company in the United Kingdom and one of the leading life insurance companies in the world.

Prudential is focused on meeting the needs of over eight million customers for savings, financial security and retirement in its three main markets of the United Kingdom, the United States and Asia.

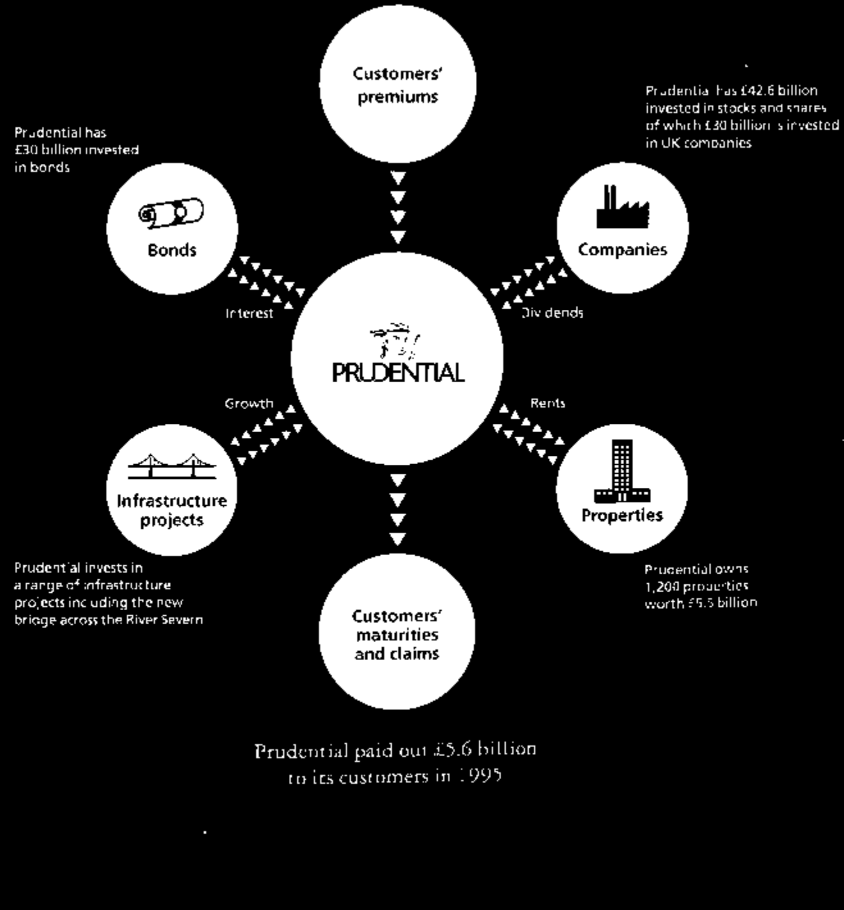
In all of its markets, Prudential gains competitive advantage from the strength of its brand, distribution management skills, marketing and product development expertise, investment management experience and financial strength.

In all its dealings, Prudential places a particular emphasis on maintaining and developing the Company's reputation for integrity and fair dealing which has been built up over nearly one hundred and fifty years.

Financial Highlights	**1995**	1994
Operating profit	**£804m**	£693m
Profit on ordinary activities before tax	**£1,044m**	£358m
Operating earnings per share	**28.7p**	26.3p
Dividend per share	**15.7p**	14.4p

IN PROVIDING CAPITAL FOR INDUSTRY AND INFRASTRUCTURE THE COLLECTIVE INVESTMENT FUNCTION OF LIFE INSURANCE PLAYS A VITAL ROLE IN MODERN SOCIETIES

Prudential collected £7.9 billion from its customers in 1995



Prudential paid out £5.6 billion to its customers in 1995

Prudential Portfolio Managers (PPM) invests in a variety of infrastructure projects and is the leading investor in the new bridge over the River Severn

With £30 billion invested, PPM is the largest institutional investor in the UK stock market. PPM has a shareholding in over 850 UK companies, including 5.5 per cent of Marks & Spencer

Prudential collected £7.9 billion of long-term business premiums from its customers in 1995.

These premiums are invested with the aim of providing policyholders with a good long-term return on their money.

In total Prudential has £82 billion invested in shares, properties, infrastructure projects and bonds.

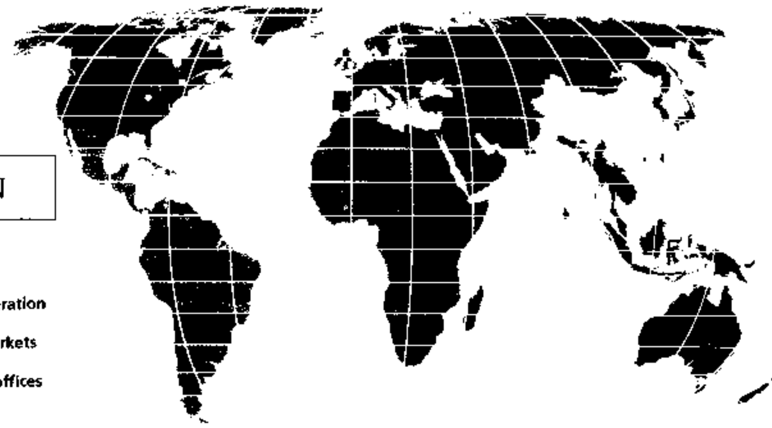
Over the long-term these investments grow and collect dividends, rents and interest which are paid back to policyholders as maturities and claims.

In 1995 Prudential paid out £5.6 billion to its customers in maturities and claims.

The average Prudential pension customer with a 25 year policy will have received an annual rate of return of 14 per cent on their investment.

In addition to providing excellent long-term returns for policyholders, the collective investment process provides capital for industry and infrastructure, creating jobs and stimulating growth.

AREAS OF OPERATION



48 per cent of Prudential's sales now come from outside the UK.

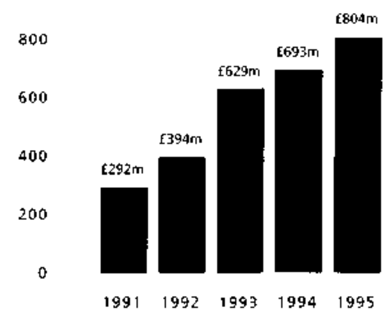
Areas of operation

Potential markets

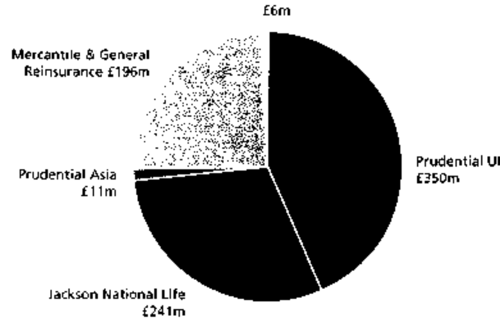
Investment offices

FINANCIAL OVERVIEW

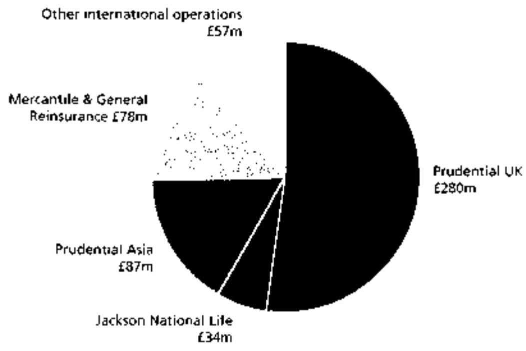
OPERATING PROFIT
£m



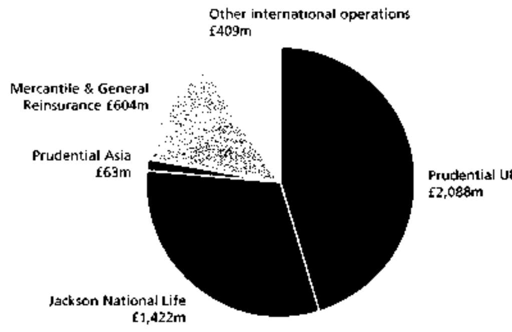
1995 OPERATING PROFIT BY DIVISION
£m



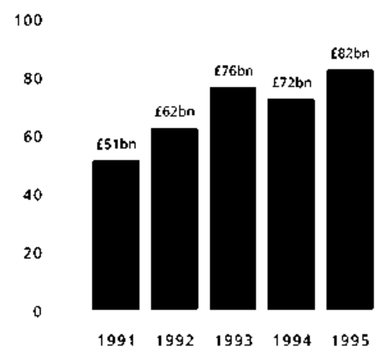
1995 GLOBAL NEW ANNUAL PREMIUM SALES
£m



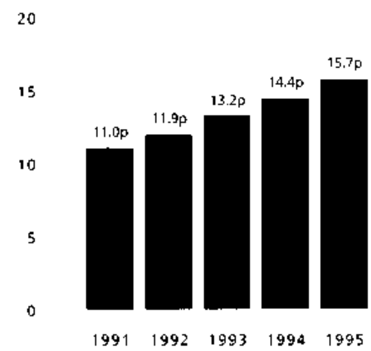
1995 GLOBAL NEW SINGLE PREMIUM SALES
£m



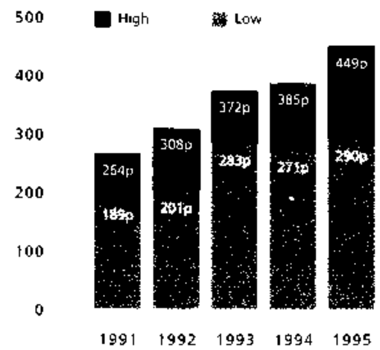
FUNDS UNDER MANAGEMENT
£bn



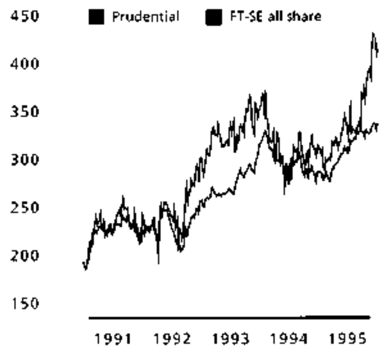
DIVIDEND PER SHARE
pence



PRUDENTIAL SHARE PRICE
pence



PRUDENTIAL SHARE PRICE
FT-SE ALL SHARE
pence



(Source: Datastream)

Prudential's share price outperformed the FT-SE all share index by 11 per cent in 1995, while its market capitalisation increased from £6 billion at the beginning of the year to £7.9 billion at the end.

CHAIRMAN'S STATEMENT

IN 1995 HALF OF OUR PROFIT AND SALES AROSE FROM OUR OPERATIONS OVERSEAS

Prudential had a successful year in 1995, with operating profit increasing by 16 per cent to £804 million and operating earnings per share rising from 26.3 pence to 28.7 pence. In light of this performance, and consistently with our progressive dividend policy, the Board has decided to increase the total dividend by nine per cent to 15.7 pence per share.

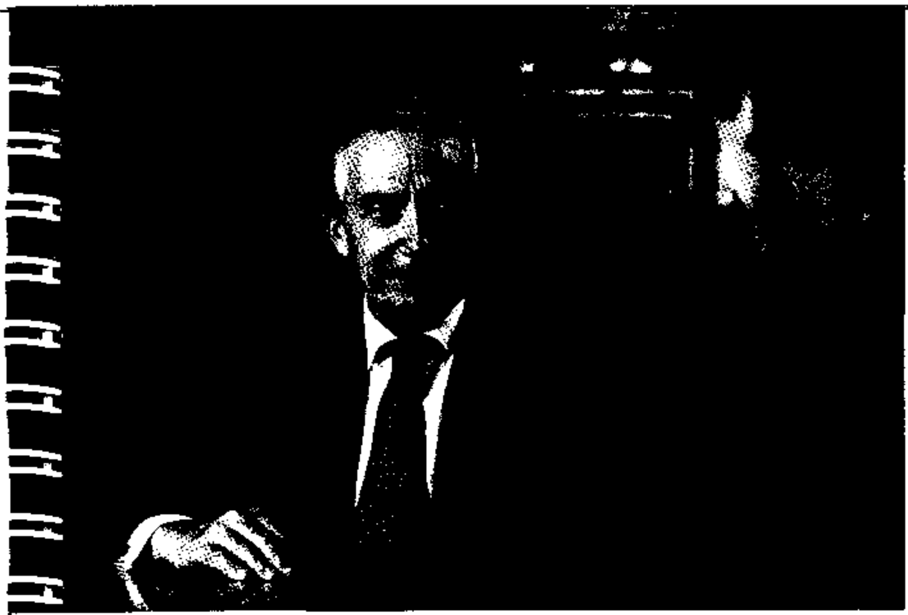
A sea change is under way in the UK life insurance sector. Some life companies are being absorbed by others, and some by banks or building societies. The borderlines between retail banking and insurance are becoming blurred with both sectors seeking the savings of the same customers.

Important changes have also taken place at Prudential. Many of those in senior management positions are new. Our plans to establish a bank are well advanced, and other steps which will have a beneficial impact on profitability are described in detail in the group chief executive's review on pages 8 to 31.

Prudential is now a truly international business. In 1995 half of our profit and sales arose from our operations overseas. We have well established and growing businesses in eight overseas countries and we are exploring a number of new markets in Asia. Our strategic focus is on three distinct geographical areas, the UK, the United States and Asia. In addition, the strength of your company, with its balanced portfolio of life, general and reinsurance business, provides the basis for its continued success.

Our UK base is of the highest importance. The life insurance industry in the UK has always played an active part in financing the growth and development of the UK economy and Prudential is at the forefront. Through its role as a collector and investor of savings, Prudential has over £30 billion invested in the equity capital of British commerce and industry, representing the savings of six million individuals. These funds are invested on a long-term basis and our investment performance has ensured that excellent returns are being achieved for our policyholders, while at the same time, these assets provide a secure source of finance for UK commerce and industry.

Prudential's strength and reputation, and the steps we are now taking, enable your company to benefit from the changes in the market place, as well as the stronger flows of savings by private individuals which I expect to see from now on. Substantial and sustained savings ratios are essential to the health of any developed society; but in the UK the proportion of disposable income saved is less than ten per cent. This compares with much higher ratios in other parts of the world,



SIR MARTIN JACOMB, CHAIRMAN. 'A significantly higher savings rate must be encouraged in the UK'

particularly in Asia. Today, with an ageing population and the need to provide for retirement and long term care costs, a healthy savings rate is more important than ever. Thus a significantly higher savings rate must be encouraged in the UK.

The reputation of the UK life insurance industry has, in recent years, been affected by the pensions transfer issue. However, this, which is an industry issue rather than a Prudential issue, is no longer in the headlines on a daily basis and confidence is beginning to be restored. Moreover the regulatory environment is calmer, which makes it easier to achieve the changes which are needed to ensure that the cost of regulation (which ultimately falls on the customer) is no heavier than is economic.

Since our last annual report Hugh Jenkins has retired as chief executive of our investment operation, Prudential Portfolio Managers (PPM). He served as head of PPM and a member of the Corporation Board for six years and made an outstanding contribution to the running of the company. We wish him well.

Hugh Jenkins is replaced as head of PPM by Derek Higgs who joined us in February 1996 from SBC Warburg where he was for many years Head of Corporate Finance. Derek Higgs' experience will be very valuable to PPM and the Corporation as a whole.

Sir Trevor Holdsworth retires from the Board at the Annual General Meeting. He has served as a non-executive director for nearly ten years, including four years as deputy chairman between 1988 and 1992. His sound advice has throughout been of great value. We thank him for his contribution which has always been much appreciated and we wish him well.

I would like to pay particular thanks to my predecessor, Sir Brian Corby, who stepped down from the post of chairman at last year's Annual General Meeting. Sir Brian joined Prudential in 1952 and served in a variety of roles eventually becoming group chief executive in 1982 and then non-executive chairman in 1990. Sir Brian's depth and breadth of knowledge of both Prudential and the insurance industry proved to be invaluable to the company over many years and will long be remembered.

Finally, I would like to thank the staff of the Prudential Group around the world for their hard work, support and enthusiasm throughout the year.

Martin W. Jacomb

Sir Martin Jacomb, Chairman

GROUP CHIEF EXECUTIVE'S REVIEW

I BELIEVE THE VALUES OF INTEGRITY, FAIR DEALING AND SECURITY ARE AT THE HEART OF ALL OUR BUSINESSES AROUND THE WORLD

Since taking over as group chief executive in May of last year, I have been examining closely both the strategy and the organisation of the Prudential Group. I believe our 1995 results demonstrate clearly the strength of our strategy in building an important group of overseas businesses. In the US we have a company that has grown ten-fold in the ten years since acquisition. In Asia we have a series of dynamic, rapidly growing companies participating in the most exciting economies in the world. However, in the UK the world of financial services is changing rapidly. Banks are buying building societies, building societies are becoming banks and both are buying life insurance companies.

Therefore, I felt it was important to initiate a major review of our place in the UK market. As a result of this review, we have accelerated our plans to set up a deposit taking and mortgage lending operation which will open for business later this year. In addition, we are examining a number of opportunities to acquire more customers, to expand our product range and our distribution capability – all with the aim of increasing our UK market share.

We have also reorganised our existing business in the UK, bringing together our separate Home Service and Prudential Financial Services businesses, to form Prudential UK under the leadership of Jim Sutcliffe as chief executive.

We have also made progress in other parts of the world. In the US we have been expanding both our product range and our distribution capability and in Asia we entered the Thai and Indonesian markets in 1995 and plan to enter the Philippines this year.

I also took the opportunity of reviewing our group head office last year and, as a result, we now have a smaller, more focused head office with clearer reporting lines and responsibilities.

In addition, we are looking at the allocation and use of capital within the Group. As a result, we are in discussions with the Department of Trade and Industry (DTI) regarding the 'unattributed assets' that lie within our with-profits fund. These discussions are focused on how a proportion of these assets, that in the past shareholders chose to leave in the fund to support business development, may be utilised most effectively in future years. At this stage the outcome of these discussions cannot be predicted and no indication can be given about their financial impact. However, I can say that any actions that result from the discussions with the DTI will not adversely affect the interests of policyholders and specifically our ability to meet policyholders' reasonable expectations.

PETER DAVIS, GROUP CHIEF EXECUTIVE. 'We are examining a number of opportunities to acquire more customers, to expand our product range and distribution capability – all with the aim of increasing UK market share'

1995 saw operating profit increasing by 16 per cent to £804 million while sales increased in the US and Asia, and showed signs of improvement in the UK.

Operating Profit	1995 £m	1994 £m
Prudential UK	**350**	381
Jackson National Life	**241**	154
Prudential Asia	**11**	9
Other international operations	**19**	22
Prudential Portfolio Managers	**32**	23
Mercantile & General Reinsurance	**196**	174
Shareholders' investment return	**45**	12
Corporate expenditure	**(22)**	(23)
Interest payable	**(68)**	(59)
Total Operating Profit	**804**	693

The growth in operating profit is mainly due to a strong result from Jackson National Life and improved investment returns. The increase was achieved despite absorbing costs of £20 million relating to our planned deposit taking and mortgage lending operation and increased general insurance claims of £35 million due to the extreme weather in the UK last year. The profit growth in the US, Asia and at our reinsurance subsidiary, Mercantile & General Reinsurance, demonstrates the benefits of the Group's breadth and diversity of operation.

Following the implementation of the EU Insurance Accounts Directive, our 1995 accounts incorporate significant changes in accounting policy and presentation. As a result of these changes (explained fully on pages 66 to 68), total profit for the year is now heavily influenced by short-term changes in investment markets. Therefore in explaining the Group's results, I will concentrate on operating profit which is less influenced by short-term investment movements and consequently better reflects current business performance.

I originally joined the Board of Prudential as a non-executive director because I admired the company's values and what it stood for. These values of integrity, fair dealing and security are fundamental to Prudential. The way in which our businesses operate varies from country to country but I believe these values are at the heart of all our businesses around the world.

Increasingly we focus on the performance of each individual business rather than examine the Group on a product wide basis. I will therefore now look at each operation as a single business entity which I hope you find helpful.

PRUDENTIAL UK

We announced in April last year our intention to merge our two UK retail businesses into a single operating unit with the ultimate aim of providing a single set of products marketed in a unified manner, serviced by a single administrative function and available via our direct salesforce, independent financial advisers or directly. This merger has proceeded apace and we are already seeing the benefits in terms of improved efficiency and reduced costs.

Profit

Profit from our savings business increased by six per cent to £306 million, as strong asset growth outweighed the effects of bonus changes. Our home and motor insurance operation again produced an excellent return on capital. However, profit was lower than in 1994 at £64 million, as a result of increased weather related claims. Total operating profit from Prudential UK declined from £381 million to £350 million, after including the investment of £20 million in our planned deposit taking and mortgage lending business. Profit margins have been held steady as a percentage of investment returns paid to policyholders. Changes in product mix largely offset each other; the collapse of the pensions transfer market was offset by the switch from

PRUDENTIAL UK

PROFIT	£350M
ANNUAL PREMIUM SALES:	£280M
SINGLE PREMIUM SALES:	£2.1BN
GROSS PREMIUMS:	£4.0BN
ASSETS:	£46BN
NO. OF CUSTOMERS:	6M
NO. OF EMPLOYEES:	17,000 (Including 6,300 strong salesforce)

MAIN PRODUCTS: Personal pensions, group pensions, endowment savings, investment bonds, PEPs, whole and term life insurance, home and motor insurance.
Mortgage and deposit products to be launched in October 1996.

CHIEF EXECUTIVE:	JIM SUTCLIFFE
HEAD OFFICE:	250 EUSTON ROAD, LONDON, NW1 2PQ

With two young sons Tony Davies and his wife Maria Carlucci from London are setting aside money for their future with a Prudence Savings Account

GROWTH IN ASSETS PROVIDES US WITH A FIRM BASIS FOR FUTURE PROFIT GROWTH

JIM SUTCLIFFE, CHIEF EXECUTIVE, PRUDENTIAL UK. 'With six million customers we have a very powerful franchise in the UK – and a franchise we are determined to grow'

PEPs into insurance products.

Assets under management grew from £38 billion to £46 billion in 1995 boosted by total premiums in excess of £4 billion, and excellent investment returns. This growth in assets provides us with a firm basis for future profit growth.

As a result of cost cutting and efficiency measures, we have continued to reduce expenses. Our fixed expenses are now £450 million compared with £600 million five years ago.

Overall, Prudential UK ended 1995 in better financial condition than for many years.

Sales

Sales of savings products in the UK continued to be difficult in 1995, with annual and single premium sales falling by 23 and 12 per cent respectively. Sales were impacted by the time constraints placed on our salespeople following the introduction of expense and commission disclosure and by customers' continuing reluctance to commit to long-term savings vehicles. However, sales did improve in the final quarter of 1995, exceeding those in the final quarter of 1994, and the prospects for the medium term look encouraging.

Bonuses

As a result of strict expense control and excellent investment returns, we were able to hold or increase the total returns paid to the majority of policyholders for the first time in several years. For example, an average 25 year Prudential pension policy will have provided customers with a compound annual return of 14 per cent, compared with an equivalent 9.5 per cent on a corresponding building society account and average inflation rates of 8.5 per cent during that time. However, as a result of the 1990s low interest, low inflation environment, reductions in the annual bonus rates continue to be necessary. In total, the value of bonuses paid or allocated will be

£1,761 million for 1995 (£1,695 million in 1994).

Distribution

Roughly 60 per cent of our sales come from our direct salesforce, and 40 per cent from independent financial advisers. During 1995 we expanded our distribution capability by setting up a new arm of the direct salesforce offering a sophisticated financial planning facility to higher net worth individuals. We now have nearly 150 salespeople working in this area. We constantly monitor the needs of existing and potential customers and how they wish to purchase our products. We will continue to update our distribution strategy to match their needs.

Products and Services

In a difficult year for sales, particularly for Personal Equity Plans, we had success with a revamped single premium investment product (Prudence Gold Bond) and sales of our immediate annuity products improved following the launch of a new quotation system.

In March last year we launched our new 'Lifestyle' group money purchase pension plan, widening the range of investment vehicles offered to customers.

We have invested heavily in Workflow and Image technology, designed to increase the efficiency of our administration, and the first phase of this project was installed in February this year. This development will improve our service standards and further reduce costs.

Pleasingly, we were again voted "Best" by WHICH? Magazine for our general insurance claims service.

In a complicated business like financial services, well trained staff are all important. Last year we invested £11 million in training our direct salesforce and on average each new member of staff spends 20 days training at our National Training Centre in addition to the on-site training they receive within their own

KEITH BEDELL-PEARCE, MANAGING DIRECTOR, PRUDENTIAL UK.
'Prudential is one of the best known and most respected brands in the UK'

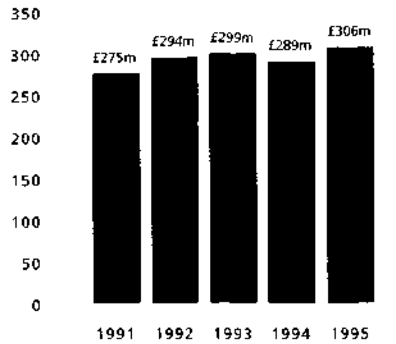
offices. Our training and competency scheme has been accredited by our regulator the Securities and Investments Board.

Banking

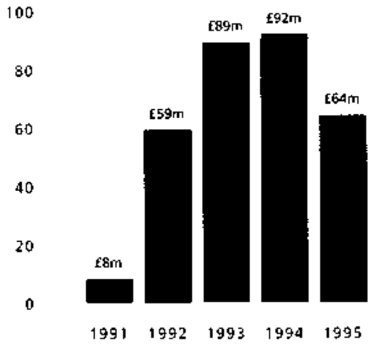
We announced last year our intention to apply to the Bank of England for a deposit taking licence. Subject to approval, we intend to open a branchless deposit and mortgage lending operation in October this year. These products, distributed via our direct salesforce and directly to the public, will broaden our product range. We already arrange £700 million a year of mortgages for our customers and pay out over £1 billion a year in maturing policies, so the opportunity exists to develop a substantial business in a short period of time. The operation, headed by Michael Harris, former chief executive of First Direct, will be based in Dudley in the West Midlands and will ultimately create 700 jobs. As we anticipated, the market for mortgages and deposit based savings is becoming increasingly competitive. However, we are more than prepared for the challenges of the marketplace and indeed are now forewarned of our competitors' strategies.

WE INTEND TO OPEN A BRANCHLESS DEPOSIT AND MORTGAGE LENDING OPERATION IN OCTOBER 1996

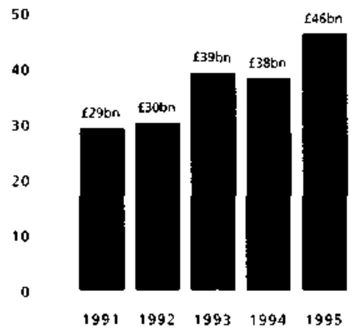
PRUDENTIAL UK
OPERATING PROFIT LONG-TERM BUSINESS
£m



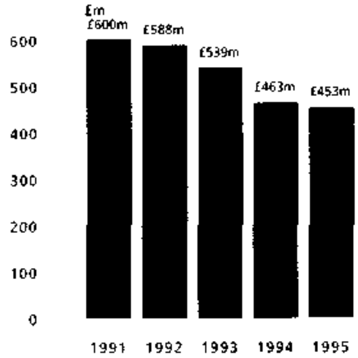
PRUDENTIAL UK
OPERATING PROFIT GENERAL BUSINESS
£m



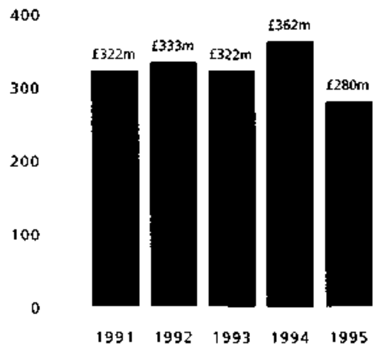
PRUDENTIAL UK
ASSETS UNDER MANAGEMENT
£bn



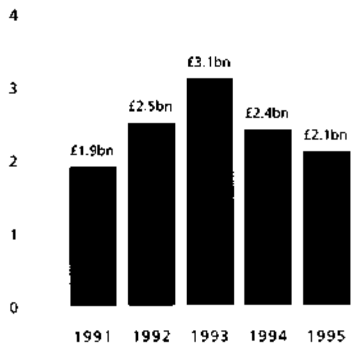
PRUDENTIAL UK
ONGOING FIXED EXPENSES
£m



PRUDENTIAL UK
ANNUAL PREMIUM SALES
£m



PRUDENTIAL UK
SINGLE PREMIUM SALES
£bn



Jackson National Life has two million customers across the United States. George Koffskey Junior and his partner, Carrol Fink, from New Orleans, who have been customers of Jackson since 1993, receiving a regular visit from their agent

IN THE TEN YEARS SINCE WE BOUGHT JACKSON ITS ASSETS HAVE GROWN FROM US$2 BILLION TO US$25 BILLION

JACKSON NATIONAL LIFE

PROFIT	US$380M
SINGLE PREMIUM SALES:	US$2.2BN
ASSETS:	US$25BN
NO. OF AGENTS:	73,000
NO. OF EMPLOYEES:	1,100
NO. OF CUSTOMERS	2M

OPERATING IN 48 US STATES
OPENING IN NEW YORK IN 1996

MAIN PRODUCTS: Annuities, guaranteed investment contracts, life products and mutual funds.

CHIEF EXECUTIVE:	BOB SALTZMAN
HEAD OFFICE:	5901 EXECUTIVE DRIVE, LANSING, MICHIGAN, 48911

JACKSON NATIONAL LIFE

It is ten years since we bought Jackson National Life and in that time its assets have grown from US$2 billion to US$25 billion and its single premium sales have risen from US$435 million to US$2.2 billion. Operating in 48 US states, with plans to be in all 50 by the end of the year, Jackson is now a significant force in the US insurance market.

Profit and Sales

In 1995 Jackson's operating profit increased by 61 per cent to US$380 million mainly due to growth in assets under management, improved investment margins and an increase in averaged investment gains. Single premium sales increased last year by six per cent to US$2.2 billion. However, as a result of lower US interest rates, sales slowed progressively over the last nine months of the year.

Products

One of Jackson's key objectives in 1995 was to diversify its product range in order to reduce dependence on interest rate sensitive products. To this end, Jackson recorded the first sales of its new guaranteed interest product towards the end of last year. This new product brought in US$100 million of premiums in 1995 and should have a

BOB SALTZMAN, CHIEF EXECUTIVE OFFICER, JACKSON NATIONAL LIFE. 'We are focused on developing our product range and distribution outlets, and expanding our geographic coverage'

significant impact on sales in 1996. Jackson has also launched a range of variable annuity products and although sales of these were initially low, we expect them to improve substantially in 1996. Jackson's basket of products, which now includes fixed and variable annuities, guaranteed interest products, life products and mutual funds, is designed to appeal to a wide cross section of customers in a variety of investment market conditions, rather than rely almost wholly on fixed annuities where sales are interest rate sensitive.

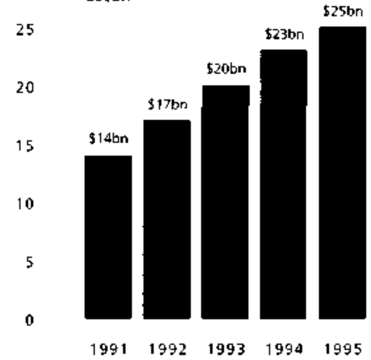
Distribution

Jackson has also been working on diversifying the distribution outlets for its products. Last year Jackson distributed over 80 per cent of its products via a network of 73,000 agents. However, Jackson has increased its focus on selling its products via banks and other financial institutions and these accounted for 13 per cent of its sales in 1995. In addition, Jackson has launched a number of products specifically aimed at broker dealers and has set up a national sales office in Los Angeles focused on marketing to this distribution channel.

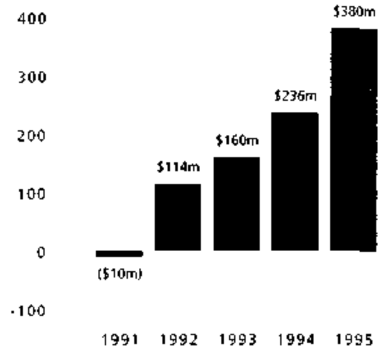
Work on establishing a subsidiary company in New York continues and Jackson hopes to open for business later this year.

Jackson has been a great success story for Prudential and an excellent investment for shareholders. Jackson now provides a quarter of our sales and 30 per cent of our operating profits, and is by far the largest of our businesses outside the UK. The story of Jackson has been characterised over the last ten years by growth: growth in assets, growth in sales and growth in profits.

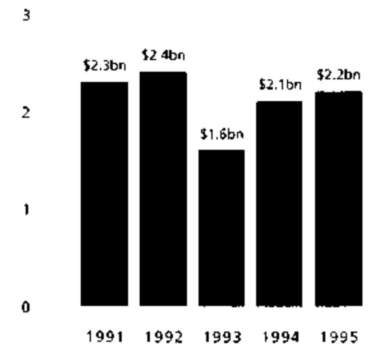
JACKSON NATIONAL LIFE
ASSETS UNDER MANAGEMENT
US$bn



JACKSON NATIONAL LIFE
OPERATING PROFIT
US$m



JACKSON NATIONAL LIFE
SINGLE PREMIUM SALES
US$bn



PRUDENTIAL ASIA

Asia is already an important business area for Prudential and will become increasingly important in the future. After an investment of £5 million in our growing Asian businesses in 1995, profit from the region increased by 22 per cent to £11 million. In addition annual premium sales grew by 26 per cent last year and, within the Group, Prudential Asia is now only second to the UK in terms of annual premium production. Reflecting this growth in the business, funds under management grew by 40 per cent in 1995 to £1.4 billion. Prudential now has over 8,500 staff and agents in Asia to service and sell to our new and existing customers.

Established Businesses

We have well established businesses in Hong Kong, Singapore and Malaysia. All performed well in 1995, with impressive increases in sales and profit. In each country we are now one of the top five life companies.

New Operations

New joint ventures in Thailand and Indonesia were officially launched in the last quarter of 1995 and are already building salesforces and generating new business. Both operations have benefited from the synergy that exists between our operations in Asia. For example,

PRUDENTIAL ASIA

PROFIT	£11M
ANNUAL PREMIUM SALES:	£87M
SINGLE PREMIUM SALES:	£63M
ASSETS:	£1.4BN
NO OF AGENTS:	7,800
NO. OF EMPLOYEES:	700

ESTABLISHED IN SINGAPORE, MALAYSIA AND HONG KONG
OPENED IN 1995 IN THAILAND AND INDONESIA
OPENING IN 1996 IN THE PHILIPPINES
REPRESENTATIVE OFFICES IN CHINA AND VIETNAM

MAIN PRODUCTS: Unit-linked and with-profits savings plans, term and whole life insurance, accident and health insurance and unit trusts.

CHIEF EXECUTIVE: MARK TUCKER

HEAD OFFICE: SUITES 901-2, CITIBANK TOWER, CITIBANK PLAZA, 3 GARDEN ROAD, HONG KONG

Prudential has 7,800 agents servicing its customers in Asia.
Jessada Manpoom, one of Prudential's customers in Thailand discussing his financial needs with Prudential TS Life representative Thawin Saosrithong.

REGIONAL SYNERGY ALLOWS US TO KEEP COSTS TO A MINIMUM AND MOVE QUICKLY AND EFFICIENTLY INTO NEW MARKETS

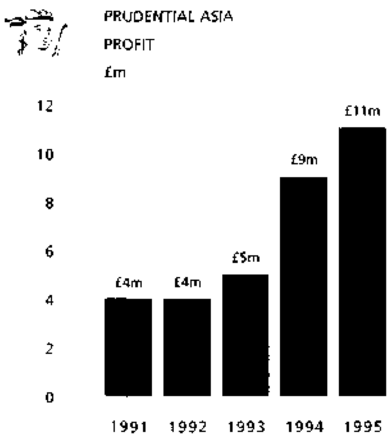
MARK TUCKER, CHIEF EXECUTIVE, PRUDENTIAL ASIA.
'We intend to be a key player in the rapidly expanding Asian insurance markets'

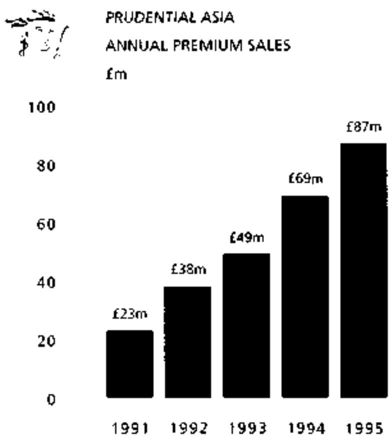
both Indonesia's and Thailand's advertising campaigns are based on the listening strategy developed in the more established markets, while Indonesia cloned Malaysia's management and information technology systems. This regional synergy allows us to keep development costs to a minimum and move both quickly and efficiently with tried and tested systems into new markets.

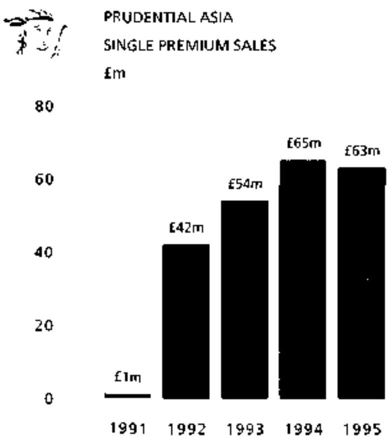
New Markets

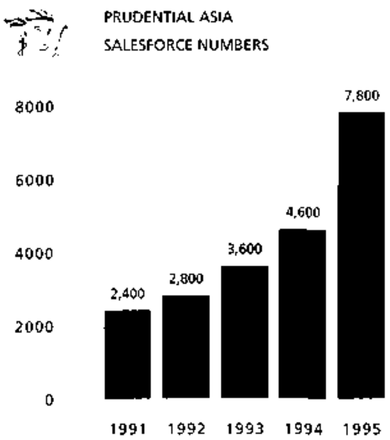
We have incorporated a company in the Philippines in 1995 and plan to open for business as a wholly owned subsidiary of Prudential later this year. In addition we are continuing to work hard to gain operating licences in both China and Vietnam. Also we are working on regaining entry into the Indian insurance market where Prudential had a significant business for 30 years.

There is little doubt about the scale of economic growth that Asia will achieve in the next twenty years. Our three pronged strategy of growing our existing businesses, building new businesses and gaining entry into new markets is intended to ensure that we will be able to be a key player in the rapidly expanding insurance markets in this region.


PRUDENTIAL ASIA
PROFIT
£m
12
10
8
6
4
2
0
£4m
£4m
£5m
£9m
£11m
1991
1992
1993
1994
1995


PRUDENTIAL ASIA
ANNUAL PREMIUM SALES
£m
100
80
60
40
20
0
£23m
£38m
£49m
£69m
£87m
1991
1992
1993
1994
1995


PRUDENTIAL ASIA
SINGLE PREMIUM SALES
£m
80
60
40
20
0
£1m
£42m
£54m
£65m
£63m
1991
1992
1993
1994
1995


PRUDENTIAL ASIA
SALESFORCE NUMBERS
8000
6000
4000
2000
0
2,400
2,800
3,600
4,600
7,800
1991
1992
1993
1994
1995

OTHER INTERNATIONAL OPERATIONS

Prudential's other international operations are based in Australia, New Zealand, Italy and Holland. Profit from these operations increased from £17 million in 1994 to £19 million in 1995.

AUSTRALIA

Excluding the non-recurrent £4 million cost of converting our operation from a branch to a subsidiary, profit in Australia rose from £14 million to £18 million. However, as a result of the introduction of compulsory pension savings and difficult investment conditions, life and pensions markets in Australia have been turbulent in the last year, with the result that sales fell by 40 per cent. In response to the changing market place, Prudential Australia has been refocusing its overall business strategy to concentrate on the growing market for group superannuation whilst, at the same time, rationalising its retail financial services business. The implementation of this strategy should leave the company better placed to deal with the more competitive market in 1996.

NEW ZEALAND

Profit in New Zealand doubled to £2 million. However, difficult investment conditions meant that sales from this operation fell by 33 per cent. To increase its competitiveness, our New Zealand operation is focused on reducing costs, increasing customer service and expanding its distribution capability through a dedicated retirement planning salesforce and increased use of telephone selling.

ITALY

Our Italian operation, Prudential Vita, continues to perform well with annual premium sales increasing by 25 per cent to £10 million, single premium sales rising marginally to £30 million and losses halving to £1 million. At the end of 1995 Prudential Vita acquired a mutual fund company adding these products to its existing life insurance range.

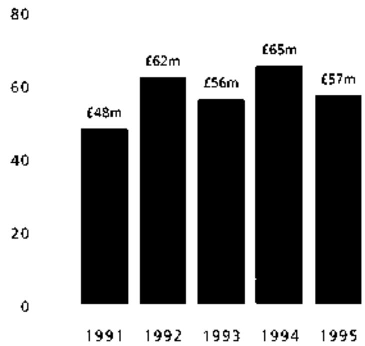
HOLLAND

Profit in Holland was unchanged at £4 million. In a crowded market place Prudential Leven doubled sales of single premium products to £40 million, while annual premium sales were constant at £4 million partly due to a sluggish market for mortgage related business.

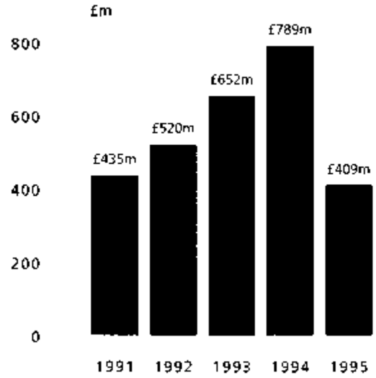
JOHN MAXWELL, EXECUTIVE DIRECTOR
responsible for other international operations

PROFIT FROM OTHER INTERNATIONAL OPERATIONS INCREASED BY 12 PER CENT IN 1995

OTHER INTERNATIONAL OPERATIONS
ANNUAL PREMIUM SALES
£m



OTHER INTERNATIONAL OPERATIONS
SINGLE PREMIUM SALES
£m



OTHER INTERNATIONAL OPERATIONS

PROFIT	£19M
ANNUAL PREMIUM SALES:	£57M
SINGLE PREMIUM SALES:	[illegible]
NO. OF EMPLOYEES	[illegible]

AUSTRALIA:

[illegible] TREVOR PERRY
[illegible] CENTRE

PRUDENTIAL PORTFOLIO MANAGERS

With funds of £82 billion under management, Prudential Portfolio Managers (PPM) is one of the largest investment management companies based in the UK. These funds are managed from eight investment offices around the world which, directed from PPM's head office in London, carry out investment activities in their local markets for all companies in the Prudential Group and external clients.

Investment Performance

PPM strives to provide consistently superior investment performance for its customers over the medium to long-term. The largest of PPM's investment funds is the UK with-profits fund. In nine out of the last ten years this fund has outperformed the relevant market indices and has grown from £11.5 billion to £30 billion. The outperformance, generated by PPM's policy of actively managing its assets rather than simply tracking movements in investment markets, has significantly added to the value of the funds during this time to the benefit of our policyholders.

The size of PPM, the scope of its activities and the wealth of expertise that resides in its investment professionals, provides a key competitive advantage for Prudential's other retail operations. In 1995 PPM had an excellent year for investment performance, winning several investment awards including the Sunday Times International Fund Manager of the Year. Our managed life and pension funds have achieved top quartile investment performance over one, two, three and five years. Additionally our managed trust was in the top one per cent of best performing funds in 1995 and was awarded best managed trust over five years.

The performance of the external segregated pension funds managed by PPM improved significantly during 1995, outstripping the average competitor by some 1.5 per cent. After a second year of outperformance, PPM is now well positioned to win new pension fund clients.

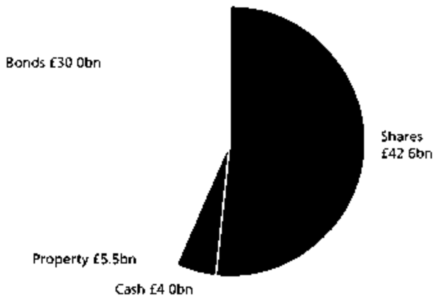
Profit

Profit from PPM, which is closely linked to the size and performance of funds under management, increased by 39 per cent to £32 million.

DEREK HIGGS joined PPM in February 1996 as chairman

IN 1995 PPM HAD AN EXCELLENT YEAR FOR INVESTMENT PERFORMANCE

PRUDENTIAL PORTFOLIO MANAGERS
TYPES OF ASSET
£bn



PRUDENTIAL PORTFOLIO MANAGERS
GLOBAL SHARE HOLDINGS
£bn

PRUDENTIAL PORTFOLIO MANAGERS

PROFIT:	£32M
TOTAL FUNDS:	£82BN

£42.6BN INVESTED IN SHARES
£30BN INVESTED IN UK SHARES
CONTROLS APPROXIMATELY 3.5% OF THE UK STOCK MARKET

OWNS 1,200 PROPERTIES WORTH £5.5BN
INVESTS IN INFRASTRUCTURE PROJECTS INCLUDING NEW BRIDGES OVER THE RIVER SEVERN AND TO THE ISLE OF SKYE
EIGHT INVESTMENT OFFICES AROUND THE WORLD:

LONDON,
CAPE TOWN,
CHICAGO,
HONG KONG,
SINGAPORE,
SYDNEY,
TORONTO,
WELLINGTON

350 EXTERNAL PENSION FUND CLIENTS

NO. OF EMPLOYEES:	1,100
CHAIRMAN:	DEREK HIGGS
HEAD OFFICE:	142 HOLBORN BARS, LONDON, EC1N 2NH

MERCANTILE & GENERAL REINSURANCE

Operating profit from our reinsurance subsidiary, Mercantile & General (M&G), grew for the third successive year in 1995, increasing by 13 per cent to £196 million. This growth trend reflects the work done by the new management team headed by John Engeström who joined the company in 1992.

Long-term Business

With 77 per cent of its premiums coming from long-term business, M&G is primarily a long-term reinsurer. Profit from the long-term business increased from £126 million in 1994 to £133 million in 1995, boosted by a strong life reinsurance result. This more than compensated for additional reserves that have been set aside for possible future disability claims. M&G's leading market position has enabled the company to successfully influence its clients to adjust future new disability business premiums to reflect current and projected claims experience. However, it has not been possible to correct the pricing of the historical business. Excluding a non-recurrent item in 1994, gross long-term premium income rose slightly despite increased competition in the market for long-term reinsurance.

General Business

Profit from M&G's general business increased by 31 per cent in 1995 to £63 million, while premium income rose by 14 per cent to £292 million. M&G's rigorous approach to underwriting and pricing general reinsurance has enabled it to increase premium income without compromising its strict profitability criteria.

Customer Focus

In order to sustain margins and combat cyclicality, M&G is seeking to deliver solutions tailored to the needs of individual clients. To this end, M&G restructured its business in 1995 to increase the focus on customer needs and improve service. The benefits of this restructuring are already beginning to come through, building on the long and successful relationships M&G already enjoys with its existing long-term clients. Of its top 25 UK clients, 60 per cent have been with the company for over 20 years, while a further 20 per cent have been customers since they opened for business.

JOHN ENGESTRÖM, CHIEF EXECUTIVE, M&G.
'With customers in more than 100 countries, we have a growing business with a truly international scope'

MERCANTILE & GENERAL CONTINUED ITS PROGRAMME OF GLOBAL EXPANSION IN 1995

PROFIT [illegible]

ANNUAL PREMIUM SALES [illegible]

[illegible]

CHIEF EXECUTIVE [illegible]

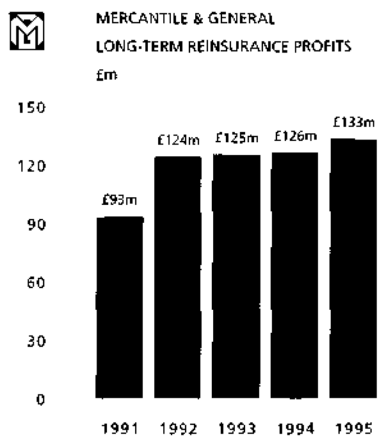
[illegible]

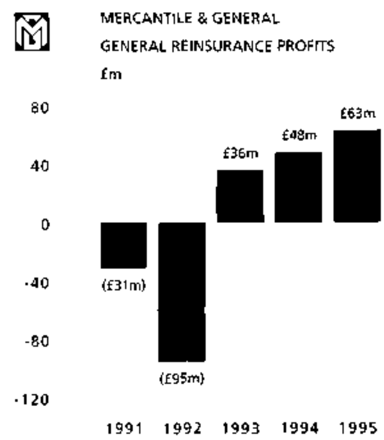
M&G opened new offices in Paris and Cologne in 1995 and strengthened its existing operations in the Far East

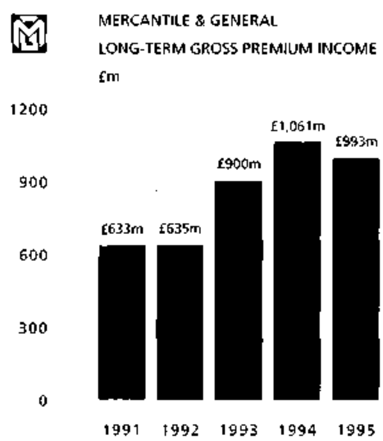
Global Reach

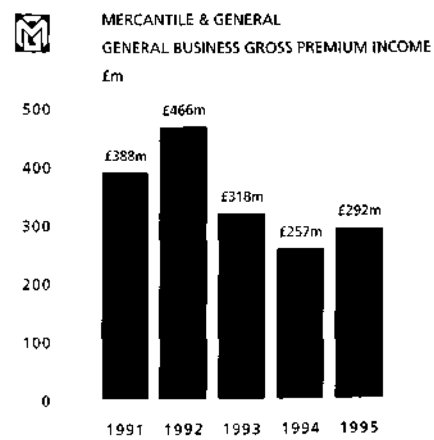
M&G continued its programme of global expansion in 1995, opening offices in Paris and Cologne and strengthening existing operations in Asia.

With the opportunities offered by the deregulation of insurance markets in Europe and Japan and the reductions in state social security provision around the world, M&G's leading position in the long-term reinsurance markets puts it in a strong position to compete and succeed.









GROUP FINANCIAL REVIEW

Financial Summary	1995 £m	Restated 1994 £m
Operating profit (including averaged investment gains)		
Before tax	**804**	693
After tax	**546**	498
Earnings per share	**28.7p**	26.3p
Profit for the year (including actual investment gains)		
Before tax	**1,044**	358
After tax	**758**	222
Earnings per share	**39.8p**	11.7p
Dividend per share	**15.7p**	14.4p
Shareholders' funds		
Statutory basis	**1,747**	1,263
Accruals basis	**4,918**	3,960

Following the implementation of the EU Insurance Accounts Directive, the 1995 accounts incorporate significant changes in accounting policies and presentation which are explained fully on pages 66 to 68. Comparative figures for 1994 have been restated accordingly.

The main changes relate to the long-term business result and to the treatment of investment gains. We are continuing to publish operating profit inclusive of averaged investment gains which we believe better reflects underlying business performance. However, it is currently unclear whether we can continue to show the total profit for the year on this basis in the new format profit and loss account. Pending agreement between the insurance industry and the Accounting Standards Board on the appropriate accounting practice for insurers' investment gains, the total profit for the year will include actual realised and unrealised investment gains arising in the year and, as a result, will be subject to significant volatility.

JONATHAN BLOOMER, GROUP FINANCE DIRECTOR. 'We ended 1995 in a very strong financial position'

Tax

The effective rate of tax on the operating profit for the year was 32 per cent. This compares with an unusually low rate of 28 per cent in 1994 which benefited from non-recurrent tax credits in Jackson National Life and Mercantile & General Reinsurance.

Earnings Per Share and Dividend

Operating earnings per share of 28.7 pence, based on post-tax operating profit including averaged investment gains, increased by nine per cent. The higher tax charge mentioned above results in the growth in operating profit being lower at the after-tax level than at the pre-tax level. The total dividend for the year of 15.7 pence per share also increased by nine per cent and is covered 1.8 times by operating profit after tax. It is important to note that the adoption of the new reporting basis under the Insurance Accounts Directive has no effect on the amount of profit available for distribution to shareholders as dividends.

Shareholders' Funds

The consolidated balance sheet on page 63 shows that shareholders' capital and reserves at the end of 1995 were £1,747 million, an increase of £484 million over 1994 as restated on the new basis. The increase primarily reflects retained operating profit after dividend payments of £246 million, together with increases in the market value of shareholder investments.

The Group's business is conducted largely through separate subsidiaries of the holding company, Prudential Corporation, and the majority of shareholders' funds are held in these subsidiaries. These subsidiaries are capitalised at a level appropriate to local regulatory and market requirements, taking account of the projected growth of their business. Group policy is that subject to these requirements and to minimising tax costs, profits earned in subsidiaries are paid up to the holding company as dividends.

The new reporting basis under the Directive, which recognises as shareholders' funds certain reserves previously held within the long-term funds, increases shareholders' funds by £655 million (1994 £530 million) compared with the old basis. However, like the old basis, the new accounting basis is derived from statutory requirements designed to demonstrate solvency. Consequently, it defers the recognition of profit and still does not recognise the overall shareholders' interest in our long-term business operations. In particular, no shareholders' interest is recognised in respect of the unattributed assets held within the main UK long-term fund. A better indication of shareholder resources is given in the supplementary accruals basis balance sheet on page 92. This basis does recognise the overall shareholders' interest but does not anticipate the results of our discussions with the DTI on the unattributed assets. For the purposes of the accruals basis results, it is assumed that only ten per cent of these assets are allocated to shareholders, subject to an allowance for the estimated future effects of taxation on pensions business. Total accruals basis shareholders' funds are £4.9 billion compared with £4 billion at the end of 1994. The increase reflects the growth of the business and higher investment values.

These funds are deployed in the Group's main operations as follows:

	1995 £bn
Prudential UK	**2.3**
Jackson National Life	**1.5**
Prudential Asia	**0.1**
Mercantile & General Reinsurance	**1.1**
Other operations	**0.6**
	5.6
Less borrowings	**(0.7)**
Accruals basis shareholders' funds	**4.9**

Funds Flow and Borrowings

The table below provides details of the holding company's funds flow.

Group Funds Flow	1995 £m	1994 £m
Group operating profit after tax	**546**	498
Dividends declared	**(300)**	(274)
Retained by businesses to finance growth	**(219)**	(192)
Funds available to holding company	**27**	32
New investment in businesses	**(33)**	(32)
Canada and Ireland disposals	**89**	(82)
Timing differences and other items	**12**	(25)
Net holding company cash movement	**95**	(107)

We believe that for an insurance group this presentation provides a clearer demonstration of the utilisation of resources than the format prescribed under FRS1 shown on page 65.

After investing £20 million in our new banking operation, the retained profit after dividends was £246 million. Of this, £219 million was retained by our businesses to finance expansion, including £135 million in Jackson National Life. A further £33 million was invested in new businesses, mainly in Asia. Following the repayment by a subsidiary of a loan made in 1994 to purchase residual assets in connection with the disposal of our Canadian operations, there was a net cash inflow to the holding company of £95 million.

After exchange movements of £14 million, year end borrowings, net of cash on deposit, were £696 million, £81 million lower than the previous year. This amounts to 40 per cent of statutory basis shareholders' funds and only 14 per cent of accruals basis shareholders' funds. It is expected that the initial start-up and capital costs of our telephone banking operation, due to open in October 1996, will be funded from internal resources.

During the year, a US $250 million ten year Eurobond was issued, enabling the repayment of all of the Group's short-term commercial paper borrowings. Gross borrowings of £730 million are now wholly at fixed rates of interest with maturity dates ranging from 1997 to 2007. The Group also retains access to both commercial paper facilities and committed and uncommitted bank facilities. The credit strength of the Group is further demonstrated by interest cover of 13 times, based on operating profit before interest.

Treasury Policy

The Group operates a central treasury function which has overall responsibility for managing the Group's capital funding as well as its central cash and liquidity positions. The treasury function is also responsible for the co-ordination of risk management and investment policy across the Group.

To reduce investment, interest rate and currency exposures, and to facilitate efficient investment management, derivative instruments are used by the Group. Derivatives are not used for trading or speculative purposes. Group policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets or liabilities. The accounting treatment of derivative contracts is consistent with that of the underlying assets or liabilities.

The Group transacts business in a wide range of currencies and our main exposure is to the US dollar. Approximately two-thirds of the Group's accruals basis net assets are held in sterling with a further quarter held in US dollars. The US dollar amount is arrived at after deducting US$691 million borrowings designed to reduce the currency exposure arising from our investment in Jackson National Life.

The currency exposure relating to the translation of reported earnings is not separately managed. However, its impact is reduced by the interest payments on foreign currency borrowings and by the adoption of average exchange rates for the translation of foreign currency revenues.

Financial Strength of Insurance Operations

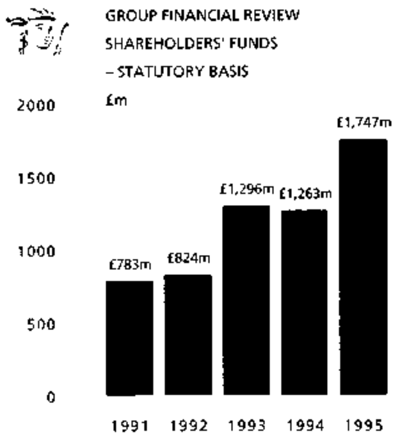
The solvency capital carried within the main UK long-term fund rose sharply in 1995 as a result of strong investment markets, dividend growth and PPM's success in exceeding market returns. We expect that the solvency ratio of free assets to liabilities of 27 per cent, compared with 19 per cent in 1994, will be above the industry average. The fund's financial strength is rated 'Aaa' by Moody's.

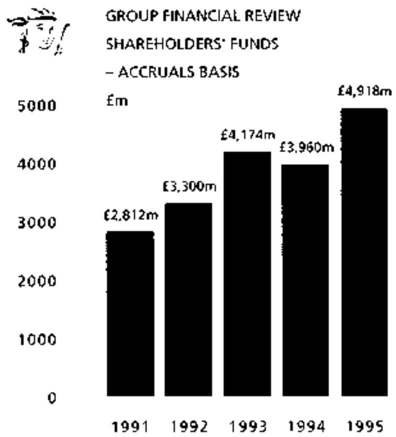
The solvency positions of our other main insurance operations were further strengthened in 1995. Jackson National Life's risk based capital ratio increased to 219 per cent of the regulatory minimum while Mercantile & General Reinsurance's main long-term fund solvency ratio was nearly three times the statutory minimum.

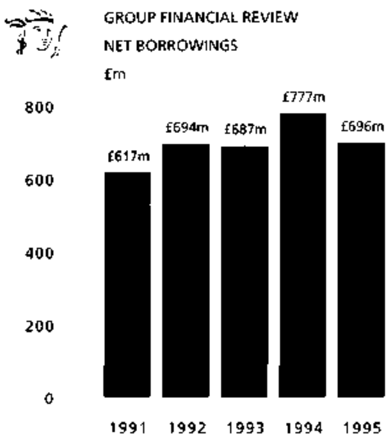
Conclusion

As a result of profit growth and favourable investment markets, we have further strengthened our balance sheet and ended 1995 in a very strong financial position.

Jonathan Bloomer, Group Finance Director


GROUP FINANCIAL REVIEW
SHAREHOLDERS' FUNDS
– STATUTORY BASIS
£m
2000
1500
1000
500
0
£783m
£824m
£1,296m
£1,263m
£1,747m
1991
1992
1993
1994
1995


GROUP FINANCIAL REVIEW
SHAREHOLDERS' FUNDS
– ACCRUALS BASIS
£m
5000
4000
3000
2000
1000
0
£2,812m
£3,300m
£4,174m
£3,960m
£4,918m
1991
1992
1993
1994
1995


GROUP FINANCIAL REVIEW
NET BORROWINGS
£m
800
600
400
200
0
£617m
£694m
£687m
£777m
£696m
1991
1992
1993
1994
1995

BOARD OF DIRECTORS

Sir Martin Jacomb* (Age 66)

Chairman

A director since March 1994 and Chairman since May 1995. Chairman of the British Council and Delta. Director of RTZ and Marks & Spencer. Member of the Nolan Committee.

Michael Abrahams CBE DL* (Age 58)

Deputy Chairman

A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions Limited. Chairman of Cavaghan and Gray. Director of John Waddington, Drummonds and the London Clinic. Deputy Chairman of the Council of the Prince of Wales' Institute of Architecture.

Keith Bedell-Pearce (Age 50)

A director since 1992 and Managing Director of Prudential UK division since July 1995. He joined Prudential in 1972 and worked for a number of years as General Manager in charge of field operations and marketing at the Home Service division, becoming Chief Executive of Prudential Financial Services in 1990.

Jonathan Bloomer FCA (Age 42)

Group Finance Director since January 1995. He was previously a senior partner in Arthur Andersen's financial markets division and managing partner for the firm's European insurance practice.

Peter Davis (Age 54)

Group Chief Executive since May 1995 and a director since June 1994. Non-executive director of Boots and Chairman of National Advisory Council for Education and Training Targets and the Basic Skills Agency. Former Chief Executive and Chairman of Reed International.

Niall FitzGerald* (Age 50)

A director since January 1993. Executive director of Unilever and vice-chairman of Unilever plc. Non-executive director of the Bank of Ireland. Chairman of the Confederation of British Industry Europe Committee.

Lord Gillmore GCMG* (Age 61)
A director since March 1995. Senior adviser to BZW, director of Vickers plc and Governor of Birkbeck College, University of London. He was Permanent Under-Secretary of State and Head of the Diplomatic Service until August 1994.

Derek Higgs (Age 52)
A director since February 1996. Chairman of Prudential Portfolio Managers. He was previously a managing director of SBC Warburg and UK country head. Former Chairman of S G Warburg & Co Ltd.

Sir Trevor Holdsworth FCA* (Age 68)
A director since 1986. Deputy Chairman from 1988 to 1992. Chairman of Allied Colloids, Lambert Howarth and Beauford. Director of Owens-Corning Inc. Chancellor of the University of Bradford. Chairman of the Wigmore Hall Trust.

John Maxwell CA CIM (Age 51)
Corporate Development Director since March 1994. He was previously Chief Executive of BPB Industries and, from 1986 to 1992, of the Provincial Group.

Jim Sutcliffe FIA (Age 39)
A director since March 1994 and Chief Executive of Prudential UK division since July 1995. He joined Prudential in 1976 in the Group Pensions area and between 1989 and 1992 he was Chief Operating Officer of Jackson National Life, before being appointed Deputy Managing Director and then Managing Director from October 1994, of the Home Service division.

Andrew Teare* (Age 53)
A director since 1992. Group Chief Executive of Rank Organisation. Former Group Chief Executive of English China Clays and former President of the National Council of Building Materials Producers.

*non-executive director

CORPORATE GOVERNANCE

The directors support the principles of corporate governance set out in the Code of Best Practice published by the Cadbury Committee and confirm that the Company has complied with the requirements of the Code throughout the year. The Company also complies with the best practice provisions on directors' remuneration, as regarding remuneration committees and annexed to the Listing Rules of the London Stock Exchange, which became effective on 31 December 1995.

Organisational Structure

The directors have established formally a clearly defined organisational structure with lines of responsibility and delegation of authority. The Board decides the objectives and strategy, directs the Group and has set out the specific matters which are reserved to it for decision. The Board normally meets monthly.

The Board has delegated to the group chief executive authority for implementing the strategy agreed by the Board and for managing the businesses of the Group. In discharging his responsibility, the group chief executive is advised and assisted by a Group Executive Committee, which includes all the executive directors, and also by a group head office team which incorporates functional specialists.

The Board has approved authority levels for decisions regarding capital expenditure, acquisitions and disposals and other matters and has delegated authority to the group chief executive, acting in conjunction with an Approvals Committee of the Board, in respect of those matters.

With the approval of the Board, the group chief executive has delegated authority to the chief executive of each business division of the Group for management of that division. Each divisional chief executive has established a management board for the division which comprises the most senior executives in the division. The management board supports and assists the divisional chief executive as well as exercising, jointly and through its individual members, authority delegated by the divisional chief executive for the management of business areas of the division.

The Board has also established the following standing committees of non-executive directors to which it has delegated certain of its responsibilities:

Audit Committee

Michael Abrahams (Chairman)

Lord Gillmore

Sir Trevor Holdsworth
Andrew Teare

The Audit Committee normally meets four times a year. Its main objective is to assist the Board in meeting its responsibilities in respect of the system of internal financial control and external financial reporting.

Remuneration Committee
Sir Trevor Holdsworth (Chairman)
Michael Abrahams
Niall FitzGerald
Lord Gillmore
Andrew Teare

The Remuneration Committee is responsible for reviewing remuneration policy and determining the remuneration packages of the executive directors, including consideration and review of long-term incentive schemes, and for exercising the powers of the Board in relation to those schemes. The Remuneration Committee's report is set out on pages 47 to 54.

Nomination Committee
Sir Martin Jacomb (Chairman)
Michael Abrahams

The Nomination Committee is responsible for considering and recommending candidates for appointment to the Board.

Internal Financial Control

The management of exposure to risk is fundamental to the Group's operations which mainly involve the acceptance of investment and underwriting risks. The Group's system of internal financial control, for which the Board has overall responsibility, is an essential and integral part of the risk management process. The main features of the Group's framework of internal financial control are as follows:

Control Environment
The Group's business values, emphasising the core values of honesty, equity and good stewardship, are set out in the 'Corporate Context' document which is distributed to staff.

Investment
There are well defined rules governing investment dealing and settlement, incorporating details of procedures and authority levels. The controls over investment strategy, compliance and performance were reviewed by the Board during 1995 and the

divisional management responsibilities for these matters and the Board's overall responsibility for the Group's investment strategy were more formally defined.

Underwriting and Acceptance of Risk
The Group has established controls over underwriting exposures covering both risks accepted and the reinsurance of these risks. Exposure limits are reviewed annually as part of the planning process.

Financial Control Procedures
Detailed controls, applicable across the Group, which address key business and financial risks and authority levels are laid down in financial and actuarial procedures manuals.

Performance Planning and Monitoring
There is a comprehensive planning and performance monitoring system based on key performance indicators for each business area. Five year business plans, incorporating detailed one year operating plans, are prepared annually for each business area and for the Group as a whole. Business area performance is monitored by functional specialists at group head office covering finance and actuarial matters. The Board receives monthly management reports comparing actual performance with plan, and dealing with key business indicators and the progress of major projects.

Financial Position
The Board receives regular reports from the group finance director on other financial matters such as investment performance, capital adequacy and financing strategy. It also receives annual reports from the group chief actuary on the financial condition of each of the Group's principal long-term insurance businesses.

Audit
There is a group internal audit function, the head of which has direct access to the chairman of the Audit Committee. In addition, each main business area has its own internal audit function. Any significant matters arising from internal audit work are reported to the Audit Committee.
The Board receives twice yearly reports by the external auditors on any weaknesses in internal financial control which come to their attention during the course of their audit work. The Audit Committee reviews action taken in response to weaknesses which are identified.

Effectiveness of Internal Financial Control

The Board has reviewed the effectiveness of the system of internal financial control in operation during the year through the monitoring process set out above. In addition, during the second half of 1995 each business area, including group head office, prepared an assessment of its risk exposures and internal financial control framework. Divisional management boards then prepared statements on the appropriateness and operational effectiveness of their frameworks. This work was reviewed by either internal or external audit and a summary of the findings was reviewed by the Audit Committee and by the full Board.

Such processes can provide only reasonable and not absolute assurance against material errors, mis-statements or loss and, in that context, the review did not reveal any significant matters which, in the opinion of the Board, indicated that the system of internal financial control was inappropriate or unsatisfactory.

Compliance

The Group's life insurance, savings and investment operations have internal compliance functions which monitor adherence to local regulatory requirements and report regularly to divisional management boards. The Board receives annual reports on both UK and overseas compliance matters.

Directors' Responsibilities for the 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 58 to 83 and the supplementary information on pages 88 to 97.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the result of the Group for the period and which comply with 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.

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to use the going concern basis in preparing the financial statements.

Environmental Policy

The directors regard concern for the environment as an integral part of good business practice and as significant amongst their wider responsibilities.

The Group therefore endeavours to limit any adverse effects to the physical environment to a practical minimum.

Within areas under its direct control the Group:

• Expects each business area to adopt a considered approach to improving on environmental standards within its own operations and to further awareness of environmental responsibilities amongst staff. Due consideration is therefore given to energy and water conservation, paper usage and recycling, waste management, minimal emissions of CFCs and other pollutants, and sourcing wood from renewable resources.

• Ensures the organisation meets or improves upon environmental laws and regulations.

Whilst in its investment activities the Group does not currently manage any funds that are specifically designated as 'ethical', it does seek to maintain a high awareness of environmental and social issues.

Prudential Portfolio Managers (PPM) believes that the boards of companies it invests in should pay due regard to environmental matters and thereby further the long-term interests of their shareholders. As a responsible investor, PPM believes companies should be able to demonstrate appropriate environmental policies.

PPM has developed environmental guidelines for the properties it owns and manages. These include systems and procedures to ensure that all land and buildings under its control optimise energy efficiency so far as practicably possible. All works of refurbishment and redevelopment of land and buildings under its control are appraised in advance for their environmental effects. In designing and procuring the works, the best practical means are applied to improve each building's environmental performance.

The directors will continue to review the Group's approach to the environment.

INVESTMENT IN THE COMMUNITY

The international nature of Prudential's business is reflected by the Group's policy of community support around the world. In 1995 contributions to community relations world-wide totalled £1.7 million.

In the UK the focus continued to be on carers and *safer communities.*

The Prudential Carers Initiative, a five year partnership with The Princess Royal Trust for Carers and with Crossroads, improves services to carers by enabling the Trust to set up Carers Centres and by helping Crossroads to increase the provision of respite care. Thirteen Prudential funded Carers Centres are now established with each providing a variety of services to almost 100 carers every month and communicating with at least five times that number.

The Prudential Youth Action Initiative, a five year partnership with Crime Concern, is rapidly increasing the number of young people actively addressing crime in their local communities by joining Youth Action Groups. During the year the number of Youth Action Groups rose to around 1,000 involving an estimated 20,000 young people.

Overseas, community investment activity is designed to meet the local needs of each company.

In the United States, Jackson National Life concentrates its efforts on recognised and respected charitable and community events.

Prudential in Australia focuses its donations on medical research and in 1995 gave its largest donation to The Multiple Sclerosis Society.

In New Zealand projects were supported which were both visible and had the capacity for involving Prudential staff. These included the Make A Wish Foundation.

In Singapore 'Pru Friends' continues to expand. This is a long term community project contributing to the welfare and development of children in Singapore.

Mercantile & General contributes financially to projects in Australia, the United States, Canada and South Africa as well as the UK. Areas of support include social welfare, education and medical research and in all cases staff are involved in the decision making process.

Prudential's sponsorship activities include The Prudential Awards for the Arts. The Awards are an annual competition designed to reward and support the best UK arts organisations, for which the prize money in 1995 totalled £250,000.

Prudential's broad range of charitable activities and arts sponsorship has enabled many organisations to carry out valuable work.

REPORT OF THE AUDITORS ON CORPORATE GOVERNANCE

to the directors of Prudential Corporation plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed your statements on pages 40 to 44 concerning the Group's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code, if not otherwise disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. The Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or corporate governance procedures, nor on the ability of the Group to continue in operational existence.

Opinion

In our opinion, your statements on internal financial control on pages 41 to 43 (other than your opinion on effectiveness which is outside the scope of our report) and on going concern on page 44 have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and are consistent with the information which came to our attention as a result of our audit work on the financial statements.

In our opinion, based on enquiry of certain directors and officers of the Group and examination of relevant documents, your statement on page 40 appropriately reflects the Group's compliance with the other paragraphs of the Code specified for our review.

Price Waterhouse
Chartered Accountants
London
11 April 1996

REMUNERATION COMMITTEE REPORT

During 1995 a Code of Best Practice on Directors' Remuneration was published by a study group chaired by Sir Richard Greenbury. Its main recommendations were either incorporated in the Listing Rules of the London Stock Exchange or annexed thereto as best practice provisions with effect from 31 December 1995. The requirements relating to 1995 are for the Remuneration Committee to provide certain information on directors' remuneration and terms of employment and this is set out on the following pages. The Committee also confirms that in framing its remuneration policy for executive directors, full consideration has been given to the matters set out in Section B of the Best Practice Provisions on Directors' Remuneration annexed to the Listing Rules.

Executive Directors' Remuneration

Remuneration Policy

The remuneration philosophy of the Company is that pay levels and benefit structures should be competitive in order to recruit and retain high calibre executives. Furthermore, remuneration should support business objectives by reflecting both individual and business performance and, in addition to annual salary and benefits, should include arrangements that are directly related to the longer-term performance of the Company.

Salary

Executive directors' salaries are reviewed by the Remuneration Committee, normally annually, having regard to individual accountabilities and performance, business results and salary levels in comparable organisations. Independent surveys are obtained on salary levels in major companies of comparable size in both the financial and non-financial sectors.

Performance Related Remuneration Arrangements

There are two incentive schemes, the Share Participation Plan and the Restricted Share Plan. The Share Participation Plan is performance related and is designed to encourage share ownership and retention by executive directors and other senior executives. The Restricted Share Plan is the main scheme for executive directors and other senior executives in the Group and is designed to provide reward contingent upon the achievement of demanding performance targets. The Restricted Share Plan was adopted by the directors and commenced in 1995 and at the forthcoming Annual General

Meeting shareholders will be asked to approve its continuation as a long-term incentive scheme for senior executives, including executive directors, as part of their remuneration.

(i) Share Participation Plan

Under this Plan, which was introduced in 1992, executive directors receive an initial cash award and they may elect to convert the after tax amount into existing shares in the Company. If this election is made, the Company will award additional shares, purchased in the market, on the basis that both sets of shares are deposited with the Plan trustee for five years. In the case of other senior executives in the Plan this period is three years. The initial and additional awards under the Plan are determined by the Remuneration Committee, based on its assessment of the overall performance of the Group, taking into account operating profit and other financial measures, progress on major projects, shareholders' expectations and earnings per share growth in recent years and relative to comparable companies.

The initial cash award is up to 15 per cent of salary at the time of the award. The additional share award is normally equivalent to the gross initial cash award but may range from nil to 30 per cent of salary, except for the group chief executive who is limited to a maximum additional award of 15 per cent of salary. Normally, a director benefits from the additional award only if the shares deposited by the director are held by the trustee for five years but the Remuneration Committee has the discretion to release the additional shares in the event of a director leaving.

In respect of 1995, an initial cash award of 15 per cent has been made. The executive directors who continued in office after the year end have elected to deposit shares with the trustee and an additional share award of 15 per cent has been granted. The emoluments shown in the table on page 52 reflect all pre-tax amounts awarded under the Plan including the cost of the additional shares.

(ii) Restricted Share Plan

The initial terms of the Plan were set out in the 1994 annual report to shareholders. The Remuneration Committee has subsequently reviewed those terms, with the help of external advisers, and has introduced changes which have made the performance requirements more demanding and, if those requirements are met, increased the level of potential reward to executive directors. Under the revised terms of the Plan, executive directors are granted a provisional annual award which gives them the right, in certain circumstances, to an allocation of shares after three years. The value of this provisional award is based on the average share price during the preceding calendar year.

Shares under the Plan are purchased in the market and the number of shares that may ultimately be allocated to the director will depend on the Company's total return to shareholders relative to other companies in the FTSE-100 share index over the period of three years from 1 January in the year of grant. In addition, the Remuneration Committee must be satisfied with the Company's overall financial performance during this period. No shares will be allocated to an executive director if the comparative ranking against other companies in the FTSE-100 index is 60th or below. The maximum possible allocation is of shares valued at up to 80 per cent (or 100 per cent in the case of the group chief executive) of basic salary at the time of the provisional award; this maximum will only be allocated if the ranking is 20th or above. Allocation of shares between the 60th and 20th points will be on a straight-line basis.

When the number of shares to be allocated has been fixed at the end of the three year period, executive directors will be able to exercise their right to receive that allocation at any time during the following seven years.

The first awards under the Restricted Share Plan will be in April 1996, with the exception of the group chief executive whose first award was with effect from April 1995. That award entitles him to an allocation of shares, if the performance requirements are fully met, up to a value of 70 per cent of salary at the time of award in accordance with the terms of the Plan which were applicable then.

The Restricted Share Plan has replaced the Executive Share Option Scheme which expired in May 1995. The award to the group chief executive in 1995 under the Plan reflects the fact that, although he joined the Company before the termination of the Executive Share Option Scheme, he did not participate in it.

The last grant of options under that Scheme was made in April 1995. Outstanding options remain in force and details are shown in the table on page 54.

Pensions

Executive directors are eligible to be members of the Prudential Staff Pension Scheme on the same basis as other members of the Scheme. The Scheme is non-contributory and provides members with a maximum pension of up to two-thirds of pensionable salary on retirement at age 60. For executive directors, pensionable salary for this purpose is basic salary plus the initial cash award element of the Share Participation Plan. This latter aspect is under review.

The Scheme also provides a 'death in service' benefit of four times pensionable salary and pensions for dependent relatives on death whether in service or following retirement. Scheme members who joined the Company after May 1989 are subject to Inland Revenue restrictions on their entitlements to benefit. Executive directors who are affected by these restrictions are paid additional salary to enable them to make personal arrangements outside the Scheme. In the case of Hugh Jenkins, who retired on 31 December 1995, the Company funded an additional pension outside the Scheme.

Benefits

Executive directors are eligible to receive certain taxable benefits, including the provision of a company car and family membership of a private medical insurance scheme.

Service Contracts

The normal notice of termination which the Company is required to give under executive directors' service contracts is now 12 months, although for newly appointed directors there may be an initial period of service of up to two years before the 12-month notice period applies.

In the case of executive directors in office prior to 1995 the notice period has been reduced to 18 months, which the Committee considers is reasonable for executive directors who previously had a notice period of three years. The Committee, when considering termination of service contracts, will have regard to the specific circumstances of each case, including mitigation.

Policy on External Appointments

Executive directors are able to accept external appointments as non-executive directors of other organisations, where appropriate. Any fees payable in connection with such appointments are waived in favour of the Group, unless otherwise agreed.

Non-Executive Directors' Remuneration

The fees of non-executive directors are reviewed periodically by the full Board after considering recommendations by the executive directors. The responsibilities placed on non-executive directors have increased significantly in recent years and are likely to continue to do so. To reflect these factors and to attract individuals with the necessary experience and ability, the executive directors believe that the current level of fees payable to non-executive directors, which has remained unchanged since June 1992 at £20,000 per annum, and £40,000 per annum in the case of the deputy chairman, should be increased. The Board has accordingly decided to increase non-executive fees to £25,000 per annum and £45,000 per annum for the deputy chairman, with effect from 1 June 1996. Arrangements for the chairman's remuneration were agreed by the Board at the time of his appointment in May 1995 and remain unchanged.

Non-executive directors do not have service contracts and are not eligible for long-term incentive schemes or pensions except that directors appointed before 1 January 1988 remain members of the Prudential Staff Pension Scheme.

Directors' Emoluments

	Salary/ Fees £000	Share Participation Plan £000	Benefits £000	Total 1995 £000	Total 1994 £000	Pension contributions (Note (i)) 1995 £000	Pension contributions (Note (i)) 1994 £000
Executive directors							
Keith Bedell-Pearce	**208**	**62**	**24**	**294**	277	**22**	22
Jonathan Bloomer (appointed 1 January 1995)	**275**	**82**	**26**	**383**	–	**153**	–
Peter Davis (appointed 1 April 1995)	**300**	**90**	**18**	**408**	–	**86**	–
Hugh Jenkins (retired 31 December 1995)	**270**	**81**	**26**	**377**	373	**243**	267
John Maxwell (appointed 9 March 1994)	**210**	**63**	**20**	**293**	225	**55**	38
Mick Newmarch (resigned 23 January 1995)	**43**	**13**	**3**	**59**	707	**4**	56
Jim Sutcliffe (appointed 9 March 1994)	**260**	**90**	**18**	**368**	219	**29**	17
Tony Freeman (retired 30 September 1994)	–	–	–	–	217	–	168
Brian Medhurst (retired 25 May 1994)	–	–	–	–	114	–	8
Total executive directors	1,566	481	135	**2,182**	2,132	**592**	576
Non-executive directors							
Michael Abrahams	**40**	–	–	**40**	40	**4**	4
Sir Brian Corby (chairman, retired 31 May 1995)	**37**	–	**4**	**41**	103	–	–
Peter Davis (appointed 1 June 1994, executive director from 1 April 1995)	**5**	–	–	**5**	12	–	–
Niall FitzGerald (Note (ii))	**20**	–	–	**20**	20	–	–
Lord Gillmore (appointed 20 March 1995)	**16**	–	–	**16**	–	–	–
Sir Trevor Holdsworth	**20**	–	–	**20**	20	**2**	2
Sir Martin Jacomb (appointed 9 March 1994, chairman from 31 May 1995)	**105**	–	5	**110**	16	–	–
Andrew Teare	**20**	–	–	**20**	20	–	–
Mary Baker (retired 25 May 1994)	–	–	–	–	8	–	–
Sir Alex Jarratt (retired 25 May 1994)	–	–	–	–	16	–	–
Total non-executive directors	263	–	9	**272**	255	**6**	6
Overall total	**1,829**	**481**	**144**	**2,454**	2,387	**598**	582
Overall total 1994	1,789	475	123	2,387	–	582	–

Notes:

(i) Pension contributions comprise payments by the Company into the Prudential Staff Pension Scheme, together with the following additional amounts in respect of directors whose entitlements under the Scheme were restricted by Inland Revenue limits:

– Salary supplements totalling £273,000 before tax to enable directors to fund personal pension arrangements were paid to Jonathan Bloomer £149,000 (including £83,000 on joining the Company in connection with past pension commitments), Peter Davis £86,000 and John Maxwell £38,000. In 1994 a supplement of £28,000 was paid to John Maxwell.

– An amount of £236,000 (£260,000) was provided by the Company to fund additional arrangements for Hugh Jenkins.

(ii) Fees in respect of Niall FitzGerald are paid to his employer.

Directors' Interests

The interests of directors in office at the end of the year in the issued share capital of the Company, excluding shares awarded by the Company under the Share Participation Plan and the Restricted Share Plan, were:

	1 Jan 1995 or later date of appointment	31 Dec 1995
Michael Abrahams	12,000	12,173
Keith Bedell-Pearce	22,557	24,929
Jonathan Bloomer	2,500	2,611
Peter Davis	2,500	15,000
Niall FitzGerald	3,177	3,319
Lord Gillmore	2,500	2,536
Sir Trevor Holdsworth	7,581	7,921
Sir Martin Jacomb	16,000	16,000
Hugh Jenkins	15,339	22,898
John Maxwell	7,700	12,804
Jim Sutcliffe	30,707	37,679
Andrew Teare	2,500	2,500

Notes:
(i) All interests disclosed above are beneficial interests.
(ii) There have been the following increases in directors' interests between 31 December 1995 and 31 March 1996:
Jonathan Bloomer 5,468 shares, Peter Davis 6,233 shares, John Maxwell 1,684 shares and Jim Sutcliffe 70 shares. In addition Derek Higgs acquired an interest in 23,915 shares between the date of his appointment and 31 March.

The interests of directors in office at the end of the year in shares awarded by the Company under the Share Participation Plan and the Restricted Share Plan were:

	1 Jan 1995	Awarded in 1995	Released in 1995	31 Dec 1995	Release year
Share Participation Plan:					
Keith Bedell-Pearce	8,855			8,855	1998
	18,368			18,368	1999
		9,738		9,738	2000
	27,223	9,738		36,961	
Hugh Jenkins (Note (i))	12,075			12,075	–
	25,883			25,883	–
		12,597		12,597	–
	37,958	12,597		50,555	
John Maxwell		8,193		8,193	2000
Jim Sutcliffe	6,783			6,783	1998
	16,883			16,883	1999
		10,768		10,768	2000
	23,666	10,768		34,434	
Restricted Share Plan:					
Peter Davis (Note (ii))		90,226		90,226	2000

Notes:
(i) The interests of Hugh Jenkins were released on his retirement.
(ii) The interests of Peter Davis are held in trust and represent the maximum award that can be made if the performance requirements referred to on page 49 are met.

Directors' Options

Options held by directors on shares in the Company under the Prudential Executive Share Option Scheme and the Prudential Savings-Related Share Option Scheme were:

	Options to subscribe for shares of 5p each in the Company				Exercise	Market price at	Earliest	Latest
	1 Jan 1995	Granted in 1995	Exercised in 1995	31 Dec 1995	price (pence)	date of exercise (pence)	exercise year	exercise year
Keith Bedell-Pearce	189,000			189,000	201		1995	2002
	105,000			105,000	328		1996	2003
	5,769			5,769*	156		1997	1998
	60,500			60,500	309		1997	2004
	6,716			6,716*	201		1998	1999
	366,985			366,985				
Jonathan Bloomer		226,750		226,750	315		1998	2005
		226,750		226,750	315		2000	2005
		7,677		7,677*	254		2002	2002
		461,177		461,177				
Hugh Jenkins	31,000		31,000		236	340.5		
	120,500		120,500		201	340.5		
	244,000			244,000	328		1996	2003
	395,500		151,500	244,000				
John Maxwell	129,250			129,250	309		1997	2004
		36,500		36,500	315		1998	2005
	129,250			129,250	309		1999	2004
	7,831			7,831*	249		2001	2001
	266,331	36,500		302,831				
Jim Sutcliffe	3,945		3,945	*	149	314		
	2,403		2,403	*	156	414		
	25,000			25,000	199		1993	1997
	137,000			137,000	201		1995	2002
	3,731			3,731*	201		1996	1997
	22,500			22,500	327		1996	2003
	61,000			61,000	328		1996	2003
	77,000			77,000	309		1997	2004
		26,500		26,500	315		1998	2005
	2,771			2,771*	249		1999	1999
	335,350	26,500	6,348	355,502				

*Prudential Savings-Related Share Option Scheme

No options lapsed during the year. The market price of the shares at 31 December 1995 was 415 pence and the range during 1995 was from 290 pence to 449 pence.

On behalf of the Board of directors

Sir Trevor Holdsworth

Chairman

Remuneration Committee

11 April 1996

DIRECTORS' REPORT

Year ended 31 December 1995

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 82. The Group's business is reviewed in the Chairman's Statement on pages 6 and 7 and the Group Chief Executive's Review on pages 8 to 31.

Financial Statements and Supplementary Information

The consolidated balance sheet on pages 62 and 63 shows the state of affairs of the Group at 31 December 1995. The Company's balance sheet appears on page 64 and the consolidated profit and loss account on pages 58 to 60. There is a five year review of the Group on pages 85 to 87. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 88 to 97.

Dividends

The directors have declared a final dividend for 1995 of 10.4 pence per share payable on 29 May 1996 to shareholders on the register at the close of business on 2 April 1996. The dividend for the year, including the interim dividend of 5.3 pence per share paid in 1995, amounts to 15.7 pence per share compared with 14.4 pence per share for 1994. The total cost of dividends for 1995 was £300 million and £458 million was transferred to reserves. With regard to the scrip dividend alternative to cash for the interim dividend in November 1995, and the letter dated 27 November 1995 from the chairman to shareholders, the market value of each new extra share on the first day of dealing (30 November 1995) was 428 pence per share.

Directors

The present directors are shown on pages 38 and 39. Jonathan Bloomer and Lord Gillmore were appointed directors on 1 January and 20 March 1995 respectively. Mick Newmarch resigned on 23 January 1995 and Sir Brian Corby and Hugh Jenkins retired from the Board on 31 May and 31 December 1995 respectively. Derek Higgs was appointed a director on 19 February 1996 and in accordance with the Articles of Association retires and offers himself for election at the Annual General Meeting. Michael Abrahams and Niall FitzGerald retire by rotation at the Annual General Meeting and offer themselves for re-election. Sir Trevor Holdsworth also retires by rotation but does not offer himself for re-election. Michael Abrahams and Niall FitzGerald do not have service contracts. The service contract of Derek Higgs is terminable any time after 18 February 1998 on not less than 12 months' prior written notice given by the employer.

A statement of directors' interests in the share capital of the Company is set out on pages 53 and 54.

Directors' and Officers' Liability Insurance

During the year the Company maintained insurance cover for the directors and officers of the Group as permitted by section 310 of the Companies Act 1985.

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.

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. A further review was completed in 1995 to ensure the effectiveness of equal opportunity policies and practices. Emphasis continues to be placed on monitoring and enhancing the awareness of equal opportunities issues.

Employee Involvement

Arrangements continued in 1995 to communicate with employees on issues which concern them and further to develop channels through which employees' views can be sought. These included a regular survey to monitor employee opinion in the Prudential UK division, which now contains the majority of UK based staff. 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 members of the Scheme.

Charitable Donations

Charitable donations made by the Group in 1995 totalled £1.7 million.

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 shareholder accounts at 31 December 1995 was 76,245 (87,525). At 31 March 1996 no notification of a 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 1995 is given below:

	1995 %	1994 %
Banks and other nominee companies	**70**	68
Insurance companies	**11**	9
Pension funds	**5**	7
Investment trusts and unit trusts	**1**	1
Other corporations	**3**	4
Individuals (held directly)	**10**	11
	100	100

CREST

The directors propose to make the Company's shares eligible for CREST, which is the new computerised system for settling sales and purchases to be introduced in the London Stock Exchange in July 1996.
Shareholders will be asked at the Annual General Meeting on 29 May 1996 to approve various amendments to the Company's Articles of Association to enable trading in the Company's shares to take place through CREST without the use of share certificates. Shareholders who wish to retain share certificates can still do so without losing any existing rights and they should notice no significant difference from the way they currently buy and sell shares.

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

Peter Rawson
Company Secretary
11 April 1996

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1995

Note	Long-term Business Technical Account	1995 £m	Restated 1994 £m
2	Gross premiums written	**7,687**	8,340
	Outward reinsurance premiums	**(204)**	(320)
	Earned premiums, net of reinsurance	**7,483**	8,020
4	Investment income	**5,331**	4,178
	Unrealised gains on investments	**4,684**	–
	Claims paid		
	Gross amount	**(5,605)**	(5,701)
	Reinsurers' share	**177**	51
	Net of reinsurance	**(5,428)**	(5,650)
	Change in the provision for claims		
	Gross amount	**(4)**	(14)
	Reinsurers' share	**5**	–
	Net of reinsurance	**1**	(14)
	Claims incurred, net of reinsurance	**(5,427)**	(5,664)
	Change in long-term business provision		
	Gross amount	**(4,218)**	(2,826)
	Reinsurers' share	**12**	108
	Net of reinsurance	**(4,206)**	(2,718)
	Change in provisions for linked liabilities, net of reinsurance	**(768)**	(2)
	Change in other technical provisions, net of reinsurance	**(4,974)**	(2,720)
5	Bonuses and rebates, net of reinsurance	**(1,024)**	(1,120)
6	Net operating expenses	**(1,115)**	(1,163)
7	Investment expenses and charges	**(206)**	(153)
	Unrealised losses on investments	**-**	(4,405)
8	Tax attributable to the long-term business	**(506)**	(111)
	Transfers (to) from the fund for future appropriations	**(3,693)**	3,451
2	**Balance on the long-term business technical account**	**553**	313

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 1995

Note	Non-Technical Account	1995 £m	Restated 1994 £m
	Balance on the general business technical account	212	4
	Balance on the long-term business technical account	553	313
8	Tax credit attributable to balance on the long-term business technical account	253	110
2	Balance on the long-term business technical account before tax	806	423
	Profit on continuing insurance activities	1,018	427
4	Investment income	190	134
	Unrealised gains on investments	135	–
7	Investment expenses and charges	(73)	(89)
	Unrealised losses on investments	–	(154)
	Allocated investment return transferred to the general business technical account	(247)	40
	Other income:		
	Investment management result	32	23
	Profit on disposal of Canadian individual life operations	31	–
	Other charges:		
	Corporate expenditure	(22)	(23)
	Bank start-up costs	(20)	-
	Profit on other activities	26	(69)
	Profit on ordinary activities before tax	1,044	358
8	Tax on profit on ordinary activities	(286)	(136)
	Profit for the financial year	758	222
	Dividends	(300)	(274)
18	**Retained profit (loss) for the financial year**	458	(52)

Reconciliation of Operating Profit to Profit on Ordinary Activities

Note		1995 £m	Restated 1994 £m
2	Operating profit before tax (including averaged investment gains)	804	693
	Adjustment from averaged investment gains to actual investment gains	209	(335)
	Profit on disposal of Canadian individual life operations	31	-
	Profit on ordinary activities before tax	1,044	358

Earnings per share

Note		1995	Restated 1994
2	Based on operating profit after tax of £546m (£498m) and 1,905m (1,896m) shares	28.7p	26.3p
	Adjustment from post-tax averaged investment gains to post-tax actual investment gains	11.1p	(14.6p)
	Based on profit for the financial year of £758m (£222m) and 1,905m (1,896m) shares	39.8p	11.7p
	Dividend per share	15.7p	14.4p

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 December 1995

Note		1995 £m	Restated 1994 £m
	Profit for the financial year	**758**	222
	Exchange movements	**16**	(21)
	Total recognised gains	**774**	201
1	Prior year adjustments on implementation of the EU Insurance Accounts Directive	**530**	508
	Total recognised gains since last annual report	**1,304**	709

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' CAPITAL AND RESERVES

Year ended 31 December 1995

Note		1995 £m	Restated 1994 £m
	Total recognised gains	**774**	201
	Goodwill (charged on acquisitions) reversed on disposal	**(17)**	20
	New share capital subscribed	**27**	20
	Dividends	**(300)**	(274)
	Net movement in shareholders' capital and reserves	**484**	(33)
	Shareholders' capital and reserves at beginning of year		
	– as originally reported	**733**	788
1	– prior year adjustments on implementation of the EU Insurance Accounts Directive	**530**	508
	– as restated	**1,263**	1,296
	Shareholders' capital and reserves at end of year	**1,747**	1,263

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 December 1995

	1995 £m	Restated 1994 £m
Reported profit on ordinary activities before tax	**1,044**	358
Unrealised investment (appreciation) depreciation	**(254)**	251
Historical cost profit on ordinary activities before tax	**790**	609
Retained historical cost profit for the year after tax and dividends	**239**	171

CONSOLIDATED BALANCE SHEET

31 December 1995

Note	Assets	1995 £m	Restated 1994 £m
	Investments		
12	Land and buildings	**4,598**	4,368
13	Other financial investments	**58,867**	50,831
	Deposits with ceding undertakings	**105**	100
		63,570	55,299
14	**Assets held to cover linked liabilities**	**6,112**	5,372
	Reinsurers' share of technical provisions		
	Provision for unearned premiums	**13**	13
	Long-term business provision	**479**	465
	Claims outstanding	**295**	351
		787	829
	Debtors		
	Debtors arising out of direct insurance operations		
	Policyholders	**197**	208
	Intermediaries	**16**	16
	Debtors arising out of reinsurance operations	**393**	363
	Other debtors		
	Tax recoverable	**222**	325
	Other	**444**	350
		1,272	1,262
	Other assets		
15	Tangible assets	**103**	99
	Cash at bank and in hand	**364**	260
		467	359
	Prepayments and accrued income		
	Accrued interest and rent	**643**	554
16	Deferred acquisition costs	**2,030**	1,900
	Other prepayments and accrued income	**17**	19
		2,690	2,473
	Total assets	**74,898**	65,594

CONSOLIDATED BALANCE SHEET

31 December 1995

Note	Liabilities	1995 £m	Restated 1994 £m
	Capital and reserves		
17	Share capital	**96**	95
17	Share premium	**114**	101
18	Profit and loss account	**1,537**	1,067
	Shareholders' funds	**1,747**	1,263
	Fund for future appropriations	**11,918**	8,083
	Technical provisions		
	Provision for unearned premiums	**267**	270
19	Long-term business provision	**50,276**	46,354
20	Claims outstanding	**1,917**	1,962
		52,460	48,586
	Technical provisions for linked liabilities	**6,112**	5,372
21	**Provisions for other risks and charges**	**325**	206
22	**Creditors**		
	Creditors arising out of direct insurance operations	**210**	217
	Creditors arising out of reinsurance operations	**185**	120
23	Debenture loans	**751**	563
23	Amounts owed to credit institutions	**5**	35
24	Other creditors including taxation and social security	**1,129**	1,099
		2,280	2,034
	Accruals and deferred income	**56**	50
	Total liabilities	**74,898**	65,594

BALANCE SHEET OF THE COMPANY

31 December 1995

Note		1995 £m	1994 £m
	Fixed assets		
	Investments		
25	Shares in subsidiary undertakings	**272**	272
25	Loans to subsidiary undertakings	**726**	688
		998	960
	Current assets		
	Debtors		
	Amounts owed by subsidiary undertakings	**305**	288
	Tax recoverable	**38**	25
	Other debtors	**-**	4
	Cash at bank and in hand	**41**	-
		384	317
	Less liabilities: amounts falling due within one year		
23	Debenture loans	**(161)**	-
	Amounts owed to subsidiary undertakings	**(48)**	(154)
	Final dividend	**(200)**	(181)
	Other creditors	**(7)**	(3)
		(416)	(338)
	Net current liabilities	**(32)**	(21)
	Total assets less current liabilities	**966**	939
	Less liabilities: amounts falling due after more than one year		
	Amounts owed to subsidiary undertakings	**(449)**	(450)
	Less provisions for liabilities and charges		
21	Deferred tax	**(32)**	(24)
		485	465
	Capital and reserves		
17	Share capital	**96**	95
17	Share premium	**114**	101
26	Retained profit	**275**	269
	Shareholders' funds	**485**	465

The financial statements on pages 58 to 83 and the supplementary information on pages 88 to 97 were approved by the Board of directors on 11 April 1996.

Sir Martin Jacomb, Chairman

Peter Davis, Group Chief Executive

Jonathan Bloomer, Group Finance Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 1995

Note		1995 £m	Restated 1994 £m
	Operations		
30	Net cash inflow from operations	**437**	288
	Servicing of finance		
	Interest paid	**(68)**	(59)
	Dividends paid	**(281)**	(258)
	Net cash outflow from servicing of finance	**(349)**	(317)
	Tax		
	Tax paid	**(37)**	(29)
	Investments (excluding short-term deposits)		
	Purchases:		
	Ordinary shares	**(86)**	(184)
	Fixed income securities	**(1,264)**	(1,389)
	Land and buildings	**(50)**	–
		(1,400)	(1,573)
	Sales:		
	Ordinary shares	**216**	73
	Fixed income securities	**1,244**	1,414
		1,460	1,487
30	Net sales (purchases) of investments (excluding short-term deposits)	**60**	(86)
	Net inflow from sale of subsidiaries	**89**	42
	Net cash inflow (outflow) from investing activities	**149**	(44)
	Net cash inflow (outflow) before financing	**200**	(102)
	Financing		
30	Issue of debenture loan	**161**	–
30	Repayment of borrowings	**(14)**	–
30	Issues of ordinary share capital	**27**	20
	Net cash inflow from financing	**174**	20
	Net inflow (outflow) in cash and cash equivalents	**374**	(82)
	Changes in cash and cash equivalents		
	Net inflow (outflow) (as above)	**374**	(82)
	Exchange translation	**13**	20
	Increase (decrease) for year	**387**	(62)
	Balance at beginning of year	**(51)**	11
	Balance at end of year	**336**	(51)
	Comprising:		
	Short-term deposits	**179**	76
	Cash at bank and in hand	**157**	81
23	Short-term debt	**–**	(208)
		336	(51)

In accordance with FRS 1, this statement shows only the cash flows of general business and shareholders' funds. Cash flows for 1994 have been restated to exclude the flows on solvency capital supporting long-term business operations.

ACCOUNTING POLICIES

(A) Changes in accounting policies and presentation

With effect from 1995 the financial statements must comply with Schedule 9A to the Companies Act 1985, as amended by the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993, which implement the requirements of the EU Insurance Accounts Directive in the UK. The Group's financial statements also comply with the guidance on the new requirements issued by the Association of British Insurers (ABI). The main changes arising from these requirements are as follows:

(i) Certain long-term business reserves held in respect of shareholder financed non-participating business which were previously accounted for as liabilities, principally investment reserves, surplus carried in the long-term business fund and contingency and similar reserves, must now be included in shareholders' funds. Reserves in respect of participating business that have not been allocated between policyholders and shareholders must now be included in the fund for future appropriations. The main effects of these changes are that some reserves held previously in the long-term business fund of Mercantile & General Reinsurance are now included in shareholders' funds, and reserves of the main UK with-profits fund of Prudential Assurance Company are now included in the fund for future appropriations.

(ii) Those acquisition costs of long-term insurance business which are not matched by policy charges are now deferred and written off against future revenues. Previously, part of these costs was deferred in the actuarial valuation but the balance was charged to revenue in the year of sale. The deferral of acquisition costs advances earnings and increases shareholders' funds of shareholder financed businesses, principally Jackson National Life and Mercantile & General Reinsurance. Earnings and shareholders' funds of with-profits business are not affected.

(iii) The new requirements are broadly consistent with generally accepted accounting practices (GAAP) in the Group's main overseas territories. Accordingly, the results of overseas operations are now consolidated on the basis of their local GAAP results rather than, as previously, their local regulatory or statutory results.

(iv) The realised and unrealised investment gains of the Group's general insurance and shareholders' funds have been reflected previously in the profit and loss account on a five year averaged basis and the gains of the Group's shareholder financed long-term businesses included in the long-term business reserves.

The directors consider that the inclusion of averaged investment gains in the profit and loss account better reflects the underlying progress of the business. However, it is unclear whether this basis can be accommodated within the requirements of the Directive.

Consequently, realised and unrealised investment gains arising in the year are now included in the technical and non-technical accounts on an unsmoothed basis, with the exception of investments carried at amortised cost where unrealised gains are not recognised in the profit for the year. The segmental analysis in note 2 on the financial statements also shows the operating results inclusive of five year averaged gains.

(v) General reinsurance business is now accounted for on an annual rather than a funded basis. Where long-tail liabilities are discounted to take account of the extended settlement period, the investment return earned over the period to settlement is no longer credited to the underwriting result. The equivalent amount is now included in the investment return allocated to the general reinsurance business operating and technical result.

(vi) Post-tax profits in respect of the main UK with-profits fund were grossed up previously at an effective rate of tax. The profits are now grossed up at the full rate of corporation tax.

(vii) The profit and loss account now comprises the general business and long-term business technical accounts (similar to the previous revenue accounts) and the non-technical account.

Two further changes have been made which are not related to the implementation of the Directive. First, in accordance with evolving UK and international practice and to reflect more fairly underlying revenue flows, foreign currency income and expenditure are now translated at average exchange rates for the year rather than at year end exchange rates. Foreign currency assets and liabilities continue to be translated at year end rates. Second, investment return on solvency capital supporting insurance activities is now credited to the technical accounts and to business area operating results rather than being included within the non-technical account.

The results of prior years have been restated to reflect the above changes in accounting policies and presentation. In accordance with

UITF 14, the effects of the new policies on the 1995 financial statements are explained in note 1.

The Group's main accounting policies, incorporating the changes set out above, are as follows:

(B) 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 and groups. The financial statements comply with applicable accounting standards and with guidance issued by the ABI. The balance sheet of the Company is prepared under 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.

(C) 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 subsidiaries acquired or disposed of are included in the financial statements from the date of acquisition or up to the effective date of disposal.

(D) Long-term business

The results for UK businesses are prepared in accordance with the modified statutory basis of accounting as set out in the ABI guidance on the new reporting requirements. The main features of this method are as follows:

(i) Premiums and annuity considerations are accounted for when due. For unit-linked business, premiums are accounted for when the liabilities arising from the premiums are created.

(ii) 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 and death claims when notified.

(iii) The costs of acquiring new insurance contracts are spread forward over the term of the contract to the extent that the amounts are recoverable out of future revenues.

(iv) Investment return, including that on assets matching solvency capital, is credited to the long-term business technical account. Investment return comprises investment income, including the amortisation of differences between cost and maturity value of those fixed income securities carried at amortised cost, together with realised and (except for fixed income securities subject to amortisation) unrealised investment gains. Business area operating results shown within the segmental analysis in note 2 on the financial statements incorporate investment gains averaged over five years, other than for with-profits and unit-linked business, or where the gain is offset by a corresponding change in the long-term business provision.

(v) Profits in respect of UK companies comprise actuarial surpluses allocated to shareholders adjusted, where appropriate, for the deferral of acquisition costs and movements in the shareholders' interest in reserves held within long-term funds. 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. Any unappropriated surplus is carried forward in the fund for future appropriations. No allocation to shareholders is made in respect of reserves held within with-profits funds. Post-tax profits in respect of the main UK with-profits fund have been grossed up at the full rate of corporation tax.

(vi) Results of overseas subsidiaries are initially determined using local GAAP bases of accounting with subsequent adjustments where necessary to comply with the Group's accounting policies. In the case of Jackson National Life, US GAAP results are adjusted to comply with UK SSAP 15 (deferred tax) and to show fixed income securities at amortised cost in the balance sheet.

(E) General insurance

General insurance business, including inwards reinsurance, is accounted for on an annual accounting basis.

(i) Premiums are accounted for when risks are assumed. In determining the result, the proportion of premiums written relating to periods of risk beyond the year end is carried forward to subsequent accounting periods as unearned premiums, calculated mainly on a daily basis, so that earned premiums relate to risks carried during the accounting period. A similar treatment is applied to acquisition expenses.

(ii) Claims incurred 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 end of the accounting period whether reported or not.

(iii) An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and investment return. The assessment of expected claims has regard to claims experience up to the end of the accounting period. No specific provision is made for major events occurring after this date.

(iv) Certain long-tail liabilities in respect of inwards reinsurance business with mean terms of settlement of over four years are discounted to take account of the extended settlement period.

(v) Investment income and realised and unrealised investment gains are allocated to the general business technical account from the non-technical account based on the level of general business provisions and solvency capital. Business area operating results shown within the segmental analysis in note 2 to the financial statements incorporate these gains averaged over five years.

(F) Investments

(i) Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. The balance of investment return is included in the non-technical account, and an allocation is made to the general business technical account. Realised gains on investments are calculated as the difference between sale proceeds and cost or amortised value.

(ii) With the exception of fixed income securities of certain North American long-term business operations and shares in subsidiary undertakings of the Company, investments are shown at market value. Properties are valued annually by the Group's qualified surveyors or by professional external valuers, at market value. No depreciation is provided on these properties as the directors consider that as these properties are held for investment, to depreciate them would not give a true and fair view.

Consistent with the valuation of liabilities, fixed income securities of certain North American long-term business operations are carried at amortised cost, subject to provisions for permanent diminutions in value. Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost or estimated realisable value.

(G) Tax

Tax is charged on all taxable profits arising in the accounting period. 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.

(H) Foreign currencies

Foreign currency revenue transactions are translated at average exchange rates for the year. Foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences on long-term business and on net investments in foreign enterprises less matching borrowings are taken to reserves. Other exchange differences are included in the profit and loss account.

(I) Goodwill

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

(J) Tangible assets

Computer equipment, fixtures, furniture and other tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives.

(K) Leased assets

Assets held under finance leases are capitalised at their fair market value. Commitments under these leases are included within amounts owed to credit institutions.

(L) Pension costs

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

NOTES ON THE FINANCIAL STATEMENTS

1 Accounting Policies and Presentation

The results have been prepared in accordance with the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 which implement the requirements of the EU Insurance Accounts Directive in the UK and with the associated guidance issued by the Association of British Insurers (ABI). Prior year comparatives have been restated on the new basis.
The main changes in the Group's accounting policies resulting from the new regulations and ABI guidance are set out on pages 66 to 68.
The principal effects of adopting the new accounting policies are as follows:

	1995 £m	1994 £m
Profit before tax		
Operating profit – previous basis	**661**	603
Impact of accounting policy changes on operating profit:		
UK with-profit transfer grossed up at standard tax rate	**18**	14
Jackson National Life change to US GAAP (including averaged realised investment gains)	**61**	16
Mercantile & General Reinsurance long-term business investment return and movement on reserves	**57**	43
Other changes, including deferral of UK acquisition costs	**7**	17
Operating profit – new basis	**804**	693
Adjustment from averaged to actual investment gains	**209**	(335)
Profit on disposal of Canadian individual life operations	**31**	–
Profit before tax – new basis	**1,044**	358
Shareholders' capital and reserves		
Capital and reserves at end of year – previous basis	**1,092**	733
Reserves held in long-term funds:		
Mercantile & General Reinsurance	**584**	487
Other	**71**	43
Capital and reserves at end of year – new basis	**1,747**	1,263

2 Segmental Analysis

General Business	Gross premiums written 1995 £m	Gross premiums written 1994 £m	Underwriting result 1995 £m	Underwriting result 1994 £m	Investment return 1995 £m	Investment return 1994 £m	Operating profit (including averaged investment gains) 1995 £m	Operating profit (including averaged investment gains) 1994 £m
Continuing operations								
Prudential UK personal lines								
Home	**261**	265	**28**	67	**30**	16	**58**	83
Motor	**54**	68	**(6)**	2	**12**	7	**6**	9
Total Prudential UK	**315**	333	**22**	69	**42**	23	**64**	92
Mercantile & General Reinsurance								
United Kingdom	**169**	160	**(36)**	(28)	**62**	35	**26**	7
North America	**82**	60	**(2)**	1	**24**	27	**22**	28
Other countries	**41**	37	**1**	1	**14**	12	**15**	13
Total Mercantile & General Reinsurance	**292**	257	**(37)**	(26)	**100**	74	**63**	48
Total continuing operations	**607**	590	**(15)**	43	**142**	97	**127**	140
Discontinued operations	**–**	–	**(20)**	1	**20**	(1)	**–**	–
Group total	**607**	590	**(35)**	44	**162**	96	**127**	140

Analysis of General Business Result per Technical Account	Profit (loss) (including actual investment gains) 1995 £m	Profit (loss) (including actual investment gains) 1994 £m
Prudential UK	**105**	59
Mercantile & General Reinsurance	**107**	(55)
Result per technical account	**212**	4

Long-term Business including Investment Products	New business: Annual premiums 1995 £m	New business: Annual premiums 1994 £m	New business: Single premiums 1995 £m	New business: Single premiums 1994 £m	Gross premiums written 1995 £m	Gross premiums written 1994 £m	Operating profit (loss) (including averaged investment gains) 1995 £m	Operating profit (loss) (including averaged investment gains) 1994 £m
Prudential UK								
Non-linked:								
Pensions	**101**	108	**300**	421	**914**	1,022	**105**	93
Life and annuity	**71**	80	**1,454**	1,292	**1,910**	1,888	**168**	175
Linked life and pensions	**3**	7	**46**	134	**96**	186	**11**	(1)
Investment products	**36**	96	**61**	168	**175**	248	**(2)**	(1)
Total individual business	**211**	291	**1,861**	2,015	**3,095**	3,344	**282**	266
Corporate pensions	**69**	71	**227**	366	**891**	853	**24**	23
Total Prudential UK	**280**	362	**2,088**	2,381	**3,986**	4,197	**306**	289
Jackson National Life	**34**	46	**1,422**	1,373	**1,895**	1,880	**241**	154
Prudential Asia								
Long-term business	**87**	69	**63**	65	**323**	257	**16**	11
Development expenses	**–**	–	**–**	–	**–**	–	**(5)**	(2)
Total Prudential Asia	**87**	69	**63**	65	**323**	257	**11**	9
Other international operations								
Australia and New Zealand	**43**	53	**339**	740	**546**	942	**16**	15
Holland and Italy	**14**	12	**70**	49	**169**	116	**3**	2
Canada and Ireland	**–**	21	**–**	103	**–**	246	**–**	5
Total other international operations	**57**	86	**409**	892	**715**	1,304	**19**	22
Mercantile & General Reinsurance								
United Kingdom	**32**	34	**74**	161	**265**	353	**77**	69
North America	**37**	28	**498**	507	**645**	636	**26**	31
Other countries	**9**	9	**32**	27	**83**	72	**30**	26
Total Mercantile & General Reinsurance	**78**	71	**604**	695	**993**	1,061	**133**	126
Group total	**536**	634	**4,586**	5,406	**7,912**	8,699	**710**	600
Total insurance	**500**	538	**4,475**	5,128	**7,687**	8,340	**712**	601
Total investment products	**36**	96	**111**	278	**225**	359	**(2)**	(1)
Group total	**536**	634	**4,586**	5,406	**7,912**	8,699	**710**	600

Analysis of Long-term Business Result per Technical Account	Profit (loss) (including actual investment gains) 1995 £m	Profit (loss) (including actual investment gains) 1994 £m
Prudential UK	**306**	289
Jackson National Life	**252**	128
Prudential Asia	**13**	9
Other international operations	**21**	7
Mercantile & General Reinsurance	**214**	(10)
Result before tax	**806**	423
Less tax	**(253)**	(110)
Result per technical account	**553**	313

The geographical analyses of long-term business and general business premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different apart from the general business of Mercantile & General Reinsurance which comprises United Kingdom £74m (£73m), Continental Europe £40m (£39m), North America £81m (£56m) and other countries £97m (£89m).

NOTES ON THE FINANCIAL STATEMENTS

2 Segmental Analysis (continued)

Other Activities	Operating profit (loss) (including averaged investment gains) 1995 £m	1994 £m
Investment return including averaged investment gains	**45**	12
Investment management result	**32**	23
Corporate expenditure	**(22)**	(23)
Interest payable	**(68)**	(59)
Bank start-up costs	**(20)**	-
Group total	**(33)**	(47)

Reconciliation to non-technical account		
Operating loss including averaged investment gains (as above)	**(33)**	(47)
Adjustment from averaged to actual investment gains	**28**	(22)
Profit on disposal of Canadian individual life operations	**31**	-
Profit (loss) included in non-technical account	**26**	(69)

Summary of Operating Profit by Activity	1995 £m	1994 £m
Long-term business	**710**	600
General business	**127**	140
Other activities	**(33)**	(47)
Group total before tax	**804**	693
Less tax	**(258)**	(195)
Group total after tax	**546**	498

Net Assets

A segmental analysis of the fund for future appropriations and the technical provisions net of reinsurance is set out below which, although liabilities, provide a more useful indication than net assets of the assets supporting the business.

	1995 £m	1994 £m
Prudential UK	**46,101**	38,658
Jackson National Life	**15,042**	13,556
Prudential Asia	**1,244**	861
Other international operations	**4,110**	5,202
Mercantile & General Reinsurance:		
United Kingdom	**2,129**	1,983
North America	**786**	690
Other countries	**291**	262
Group total	**69,703**	61,212

Analysis of Shareholders' Capital and Reserves	1995 £m	1994 £m
Prudential UK	**176**	172
Jackson National Life	**866**	704
Prudential Asia	**21**	18
Other international operations	**110**	114
Mercantile & General Reinsurance:		
United Kingdom	**351**	272
North America	**357**	263
Other countries	**186**	158
Prudential Portfolio Managers	**42**	21
Retained centrally	**334**	318
	2,443	2,040
Less borrowings net of holding company cash on deposit	**(696)**	(777)
Group total	**1,747**	1,263

In the analysis of shareholders' capital and reserves, no interest is recognised in respect of the unattributed assets held within the main UK with-profits fund.

3 Jackson National Life Results

The results of Jackson National Life are consolidated into the Group accounts based on US Generally Accepted Accounting Practices (US GAAP). However, a number of adjustments are made to the US GAAP results to comply with the Group's accounting policies. The main adjustments are:

(i) For Group reporting purposes, all fixed income securities are carried at amortised cost subject to provisions for permanent diminutions in value. Under US GAAP, fixed income securities classified as 'available for sale' are carried at market value with movements in unrealised gains and losses, including related changes in deferred acquisition costs and applicable tax, recognised as movements in shareholders' reserves.

(ii) For the purposes of determining Group operating profit, realised investment gains and losses are recognised on a five year averaged basis. Under US GAAP, these items are not included in operating income but are included in total profit before tax.

(iii) Under US GAAP, deferred tax provisions are generally established in respect of all timing differences whereas, under UK SSAP 15, provision is made only for timing differences which are expected to reverse in the foreseeable future.

Reconciliations between the US GAAP and Group reporting bases are shown below.

Profit Before Tax	1995 US $m	1994 US $m	1995 £m	1994 £m
US GAAP operating income	**312**	215	**198**	140
Averaged investment gains	**68**	21	**43**	14
Operating profit per Group accounts	**380**	236	**241**	154
Adjustment from averaged to actual investment gains	**17**	(40)	**11**	(26)
Profit before tax per Group accounts and per US GAAP	**397**	196	**252**	128
Shareholders' Funds				
US GAAP shareholders' funds	**1,893**	913	**1,219**	584
Investment value and related adjustments	**(363)**	360	**(233)**	230
Deferred tax asset eliminated	**(255)**	(257)	**(164)**	(164)
Other adjustments	**68**	85	**44**	54
Shareholders' funds per Group accounts	**1,343**	1,101	**866**	704

4 Investment Income	Long-term business 1995 £m	Long-term business 1994 £m	Non-technical account 1995 £m	Non-technical account 1994 £m
Income from				
Land and buildings	**434**	379	**6**	1
Listed investments	**3,085**	2,555	**99**	118
Unlisted investments	**265**	296	**27**	2
Other investments	**309**	284	**15**	13
	4,093	3,514	**147**	134
Gains on the realisation of investments	**1,238**	664	**43**	–
Total	**5,331**	4,178	**190**	134

5 Bonuses and Rebates, net of Reinsurance

Bonuses and rebates represent bonus additions made to policies following the annual valuation. Bonuses added during the year, before the valuation, are included either in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. Bonuses added during the year amounted to £824m (£683m).

6 Net Operating Expenses	Long-term business 1995 £m	Long-term business 1994 £m	General business 1995 £m	General business 1994 £m
Acquisition costs	**576**	580	**44**	46
Change in deferred acquisition costs	**(120)**	(90)	**(2)**	20
Administrative expenses	**491**	522	**73**	74
Reinsurance commissions and profit participation	**168**	151	**57**	55
Total	**1,115**	1,163	**172**	195

NOTES ON THE FINANCIAL STATEMENTS

7 Investment Expenses and Charges	Long-term business 1995 £m	1994 £m	Non-technical account 1995 £m	1994 £m
Interest				
On borrowings repayable within 5 years	11	8	34	28
On other borrowings	–	–	34	31
Total	11	8	68	59
Investment management expenses	195	145	5	3
Losses on the realisation of investments	–	–	–	27
Total	206	153	73	89

8 Tax

Tax Charged to the Long-term Business Technical Account and the Non-technical Account	Attributable to long-term funds 1995 £m	1994 £m	Attributable to shareholders' profits 1995 £m	1994 £m
UK corporation tax	149	70	11	(1)
Double tax relief	(18)	(16)	(12)	(12)
Tax on franked investment income	116	87	4	3
Overseas tax	180	77	14	12
Prior year adjustments	(25)	(34)	(10)	12
	402	184	7	14
Deferred tax	104	(73)	26	12
	506	111	33	26
Tax credit attributable to balance on the long-term business technical account	–	–	253	110
Total	506	111	286	136

Deferred Tax (see note 21)	Liability provided (Asset recognised) 1995 £m	1994 £m	Liability not provided (Asset not recognised) 1995 £m	1994 £m
Deferred acquisition costs	347	297	–	–
Short-term timing differences	(154)	(194)	(180)	(202)
Long-term business reserves	71	38	132	103
General insurance technical provisions	8	15	(22)	(23)
Capital allowances	3	3	19	18
Closure cost provisions	(3)	(17)	–	–
Unrelieved losses	–	–	(23)	(25)
Unrealised gains on investments	–	–	2,100	1,586
Total	272	142	2,026	1,457

9 Information on Staff

The average numbers of staff employed by the Group during the year were:	1995	1994
Prudential UK	**17,710**	19,338
Jackson National Life	**1,125**	1,121
Prudential Asia	**428**	366
Other international operations	**1,187**	2,338
Prudential Portfolio Managers	**1,093**	1,051
Mercantile & General Reinsurance	**1,321**	1,286
Group total	**22,864**	25,500

The costs of employment were:	1995 £m	1994 £m
Wages and salaries	**471**	516
Social security costs	**37**	43
Pension costs (see below)	**35**	45
Group total	**543**	604

The Group operates a number of pension schemes around the world. The largest scheme is the Group's main United Kingdom scheme which covers approximately 80% of members in all Group pension schemes. This scheme is of the defined benefit type with scheme assets held in separate trustee administered funds and was last valued as at 5 April 1993 by a qualified actuary who was 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. £6m (£10m) of the pension costs related to overseas schemes.

10 Directors' Emoluments

The aggregate emoluments of directors including pension contributions were:	1995 £000	1994 £000
For services as directors	**263**	255
Salary and benefits	**1,710**	1,657
Share participation plan	**481**	475
Pension contributions:		
Funded directly by the Company	**325**	554
Funded by salary supplements	**273**	28
Total	**3,052**	2,969

The emoluments of the Chairmen during their respective periods of office were Sir Martin Jacomb £102,000 and Sir Brian Corby £41,000 (£103,000). Excluding pension contributions funded directly by the Company, the emoluments of the highest paid director were £532,000 (£707,000) and those of the other directors fell into the following bands:

Emoluments £ £	Number of directors 1995	1994
5,001 to 10,000	–	1
10,001 to 15,000	–	1
15,001 to 20,000	4	5
35,001 to 40,000	1	1
55,001 to 60,000	1	–
110,001 to 115,000	–	1
215,001 to 220,000	–	2
250,001 to 255,000	–	1

Emoluments £ £	Number of directors 1995	1994
275,001 to 280,000	–	1
290,001 to 295,000	1	–
330,001 to 335,000	1	–
365,001 to 370,000	1	–
370,001 to 375,000	–	1
375,001 to 380,000	1	–
495,001 to 500,000	1	–

Further information on directors' remuneration is given in the Remuneration Committee Report on pages 47 to 54.
No director had an interest in shares, transactions or arrangements which requires disclosure, other than those given in the above Report.

NOTES ON THE FINANCIAL STATEMENTS

11 Fees Payable to Audit Firms	Price Waterhouse 1995 £m	Price Waterhouse 1994 £m	Other firms 1995 £m	Other firms 1994 £m	Total 1995 £m	Total 1994 £m
Statutory audit	**1.9**	1.7	**0.6**	0.5	**2.5**	2.2
Audit related services	**0.9**	1.5	**0.2**	1.8	**1.1**	3.3
Consultancy services	**0.8**	2.8	**1.4**	0.3	**2.2**	3.1
Total	**3.6**	6.0	**2.2**	2.6	**5.8**	8.6

Fees payable to Price Waterhouse for work performed in the United Kingdom other than for statutory audit amounted to £1.1m (£3.1m).

12 Land and Buildings	1995 £m	1994 £m
Current value:		
Freehold	**3,108**	3,264
Leasehold with a term of over 50 years	**1,375**	1,006
Leasehold with a term of less than 50 years	**115**	98
Total	**4,598**	4,368
Cost	**3,150**	2,906

The value of land and buildings occupied by the Group amounted to £109m (£121m).

13 Other Financial Investments	Cost 1995 £m	Cost 1994 £m	Current value 1995 £m	Current value 1994 £m
Shares and other variable yield securities and units in unit trusts	**13,117**	11,505	**29,327**	24,107
Debt securities and other fixed income securities – carried at market value	**10,588**	10,138	**11,325**	10,067
Debt securities and other fixed income securities – carried at amortised cost	**15,384**	14,186	**15,415**	14,250
Loans secured by mortgages	**771**	663	**723**	665
Loans to policyholders secured by insurance policies	**523**	497	**523**	497
Other loans	**74**	45	**76**	41
Deposits with credit institutions	**1,387**	1,174	**1,387**	1,174
Other	**79**	30	**91**	30
Total	**41,923**	38,238	**58,867**	50,831

Shares and other variable yield securities and units in unit trusts		
Listed in the United Kingdom	**21,374**	17,682
Listed overseas	**7,782**	6,302
Unlisted	**171**	123
Total	**29,327**	24,107

Debt securities and other fixed income securities – carried at market value		
Listed in the United Kingdom	**7,646**	6,287
Listed overseas	**2,161**	2,514
Unlisted	**1,518**	1,266
Total	**11,325**	10,067

Debt securities and other fixed income securities – carried at amortised cost		
Listed in the United Kingdom	**8**	8
Listed overseas	**14,027**	12,529
Unlisted	**1,380**	1,713
Total	**15,415**	14,250

The market value of debt securities and other fixed income securities valued at amortised cost was £16,201m (£13,432m).
For those debt securities and other fixed income securities valued at amortised cost where the purchase price exceeded maturity value, the unamortised difference at the year end was £40m (£8m). For those securities where the maturity value exceeded the purchase price, the difference was £603m (£380m).

14 Assets Held to Cover Linked Liabilities	Cost 1995 £m	Cost 1994 £m	Current value 1995 £m	Current value 1994 £m
Assets held to cover linked liabilities	**4,774**	4,488	**6,112**	5,372

Included in current value is £2,150m (£1,828m) in respect of managed funds.

15 Tangible Assets	Computer equipment 1995 £m	Fixtures, furniture and other items 1995 £m	Total 1995 £m
Cost at beginning of year	**70**	**137**	**207**
Additions	**27**	**17**	**44**
Disposals	**(11)**	**(14)**	**(25)**
Cost at end of year	**86**	**140**	**226**
Depreciation at beginning of year	**37**	**71**	**108**
Provided in year	**17**	**16**	**33**
Disposals	**(9)**	**(9)**	**(18)**
Depreciation at end of year	**45**	**78**	**123**
Net book value at 31 December 1995	**41**	**62**	**103**
Net book value at 31 December 1994	33	66	99

16 Deferred Acquisition Costs	Long-term business 1995 £m	Long-term business 1994 £m	General business 1995 £m	General business 1994 £m
At beginning of year	**1,862**	1,808	**38**	59
Change in deferred acquisition costs	**120**	90	**2**	(20)
Exchange adjustment	**8**	(36)	**–**	(1)
At end of year	**1,990**	1,862	**40**	38

17 Share Capital and Share Premium

The authorised share capital of the Company is £120m comprising 2,400,000,000 shares of 5p each.

Issued shares of 5p each fully paid	Number of shares	Share capital 1995 £m	Share premium 1995 £m
At beginning of year	**1,900,512,594**	**95.0**	**100.8**
Shares issued under share option schemes	**7,846,433**	**0.4**	**13.7**
Shares issued in lieu of cash dividends	**3,829,710**	**0.2**	**13.0**
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	**-**	**(13.0)**
At end of year	**1,912,188,737**	**95.6**	**114.5**

At 31 December 1995 there were 41,831,813 (46,072,520) options subsisting under share option schemes to subscribe for shares at prices ranging from 153 pence to 331 pence (149 pence to 331 pence) and exercisable by the year 2005 (2004).

18 Group Profit and Loss Account Reserve	1995 £m	1994 £m
At beginning of year	**1,067**	1,082
Retained profit (loss) for the financial year	**458**	(52)
Exchange movements	**16**	(21)
Goodwill (charged on acquisitions) reversed on disposal	**(17)**	20
Transfer from share premium in respect of shares issued in lieu of cash dividends	**13**	38
At end of year	**1,537**	1,067

NOTES ON THE FINANCIAL STATEMENTS

19 Long-term Business Provision

The principal valuation methods and assumptions are as follows:

(i) Prudential UK and Prudential Asia
The main products are with-profits deposit administration, other unitised and non-unitised with-profits contracts and non-profit pension annuities in course of payment. The calculation of the provision is based on fund value in the case of deposit administration and unitised contracts and the net premium method for non-unitised contracts. No explicit provision is made for future bonuses but the provision includes the cost of bonus added following the valuation at the end of 1995. The assumed interest rates for UK with-profits contracts valued by the net premium method range from 3%-5% whilst the rate of interest for pension annuities in course of payment is 8.2%. Mortality rates are based on published tables suitably adjusted to reflect actual experience, with an additional provision held in respect of AIDS.

(ii) Jackson National Life
The main products are interest sensitive deferred annuities and whole life assurances which, in accordance with US GAAP, are valued at policyholder account value.

(iii) Mercantile & General Reinsurance
Regular premium business is generally valued by the net premium method using rates of interest close to the yields on the backing assets. The mortality and morbidity assumptions adopted have regard to each cedant's claims experience.
For single premium business, mainly group life and disability and medical expense reinsurance, a provision is made for notified claims and claims incurred but not reported, and for unexpired risks.

20 Claims Outstanding

To take account of the extended settlement period, discounting has been applied at a rate of 5% per annum to accident non-proportional reinsurance liabilities over a mean term of 6 years and to asbestos and pollution liabilities, mainly over a mean term of 15 years. The effect of discounting is to reduce the claims outstanding at 31 December 1995 by £187m (£216m) and to reduce Group profit before tax by £10m (increase by £5m).
Also, in the case of discontinued businesses, the expected future investment return on technical provisions of £48m (£43m) has been recognised in calculating the additional closure provisions.

21 Provisions for Other Risks and Charges	1995 £m	1994 £m
Pensions and similar obligations	**21**	24
Deferred tax	**272**	142
Other	**32**	40
	325	206

The deferred tax provision of £32m (£24m) in the balance sheet of the Company relates to short-term timing differences.

22 Creditors

Except as indicated in note 23 on borrowings, all creditors are payable within a period of five years.

23 Borrowings	1995 £m	1994 £m
Debenture loans (unsecured)		
DM300m 6% Guaranteed Notes 1997	**135**	124
SF200m 4.75% Guaranteed Bonds 1998	**112**	97
US$300m 8.25% Guaranteed Bonds 2001	**193**	192
US$250m 7.125% Guaranteed Bonds 2005	**161**	–
£150m 9.375% Guaranteed Bonds 2007	**150**	150
Total debenture loans	**751**	563
Amounts owed to credit institutions		
Currency translation (asset) liability on swap transactions	**(21)**	6
Bank loans and overdrafts repayable on demand	**–**	2
Commercial paper (see note 24)	**–**	206
Total borrowings	**730**	777
Borrowings are repayable as follows:		
Within one year or on demand	**–**	221
Between one and two years	**135**	–
Between two and five years	**91**	214
After five years	**504**	342
	730	777

Notes:
(i) The Group has swapped the SF200m loan into US$141m. Consequently, the effective currencies of the borrowings at 31 December 1995 were DM300m, US$691m and £150m, equivalent in total to £730m, and the weighted average rate of interest payable was 8.3% (8.4%).
(ii) 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.
(iii) The Company's debenture loans comprised the US$250m 7.125% Guaranteed Bonds 2005 issued in the year (1994 – nil). The proceeds of the bond issue were used to repay all of the Group's short-term commercial paper borrowings.
(iv) Amounts owed to credit institutions also include £26m (£27m) obligations under finance leases.

24 Other Creditors including Taxation and Social Security	1995 £m	1994 £m
Tax	**86**	90
Commercial paper	**–**	206
Final dividend	**200**	181
Other creditors	**843**	622
	1,129	1,099

25 Investments of the Company	Shares in subsidiary undertakings 1995 £m	Loans to subsidiary undertakings 1995 £m
At beginning of year	**272**	**688**
Exchange rate movements	**–**	**4**
Advances of new loans	**–**	**41**
Repayments of loans	**–**	**(7)**
At end of year	**272**	**726**

NOTES ON THE FINANCIAL STATEMENTS

26 Profit of the Company

The profit of the Company for the year was £293m (£345m). After dividends of £300m (£274m) and a transfer from share premium of £13m (£38m) for shares issued in lieu of cash dividends, retained profit at 31 December 1995 amounted to £275m (£269m).

27 Subsidiary Undertakings

The principal subsidiary undertakings of the Company were:

	Country of incorporation
Jackson National Life Insurance Company*	USA
The Mercantile & General Reinsurance Company plc*	Scotland
Prudential Annuities Limited*	England and Wales
The Prudential Assurance Company Limited	England and Wales
Prudential Assurance Company Singapore (Pte) Limited*	Singapore
Prudential Corporation Australia Limited*	Australia
Prudential Finance BV*	The Netherlands
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 £300m (£283m).

28 Contingent Liabilities

The Group has contingent liabilities in respect of insurance and other agreements entered into in the normal course of business and in respect of litigation arising therefrom.
The Group may be required to make payments to the Investors' Compensation Scheme in respect of compensation awarded to holders of personal pension policies sold by independent financial advisers. No provision has been made in the accounts because the basis of any levy and its potential amount are not known.

29 Exchange Rates

The principal exchange rates used for translation were:

	Currency		1995	1994
Australia	A$	Average	**2.13**	2.09
		Year end	**2.09**	2.02
USA	US$	Average	**1.58**	1.53
		Year end	**1.55**	1.56

30 Cash Flow

Reconciliation of operating profit to net cash inflow from operations	1995 £m	1994 £m
Operating profit before tax	**804**	693
Add back interest charged to operating profit	**68**	59
Adjustments for non-cash items:		
Retentions by long-term business operations	**(223)**	(190)
Tax on long-term business profits and franked investment income	**(227)**	(149)
General business and shareholder averaged investment gains	**(65)**	(11)
Decrease in general business technical provisions	**(73)**	(32)
Decrease (increase) in reinsurance recoverable	**67**	(59)
Movement in other assets and liabilities	**66**	(41)
Depreciation charges	**20**	18
Net cash inflow from operations	**437**	288

Changes in investments	1995 £m	1994 £m
Net (sales) purchases of investments (excluding short-term deposits)	**(60)**	86
Realised and unrealised investment gains	**179**	(181)
Exchange translation and other movements	**20**	10
Increase (decrease) in short-term deposits	**103**	(3)
Increase (decrease) for year	**242**	(88)
General business and shareholder investments at beginning of year	**1,858**	1,946
General business and shareholder investments at end of year	**2,100**	1,858

Reconciliation of investments to balance sheet	1995 £m	1994 £m
General business and shareholder investments (as above)	**2,100**	1,858
Long-term business investments	**61,470**	53,441
	63,570	55,299

Reconciliation of cash and cash equivalents to balance sheet	1995 £m	1994 £m
Short-term deposits:		
General business and shareholders	**179**	76
Long-term business	**1,208**	1,098
	1,387	1,174
Cash at bank and in hand:		
General business and shareholders	**157**	81
Long-term business	**207**	179
	364	260

	Borrowings		Share capital (including share premium)	
Changes in borrowings and share capital	1995 £m	1994 £m	1995 £m	1994 £m
Financing:				
Net cash raised	**147**	–	**27**	20
Exchange translation	**14**	(16)	**–**	–
Transfer to retained profit in respect of shares issued in lieu of cash dividends	**–**	–	**(13)**	(38)
Increase (decrease) for year	**161**	(16)	**14**	(18)
Financing at beginning of year	**569**	585	**196**	214
Financing at end of year	**730**	569	**210**	196
Other borrowings:				
Short-term debt included in cash and cash equivalents	**–**	208	**–**	–
Total borrowings/share capital	**730**	777	**210**	196

REPORT OF THE AUDITORS ON THE FINANCIAL STATEMENTS

to the members of Prudential Corporation plc

We have audited the financial statements on pages 58 to 83 (including the additional disclosures on pages 52 to 54 relating to the remuneration of directors specified for our review by the London Stock Exchange) which have been prepared in accordance with the accounting policies set out on pages 66 to 71.

Respective responsibilities of directors and auditors

As described on pages 43 and 44, 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 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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1995 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse
Chartered Accountants
and Registered Auditors
London
11 April 1996

FIVE YEAR REVIEW

	1995 £m	Restated 1994 £m	Restated 1993 £m	Restated 1992 £m	Restated 1991 £m
Group Results					
Long-term business					
New business including investment products:					
Annual premiums	**536**	634	581	596	553
Single premiums	**4,586**	5,406	5,556	4,871	4,138
Premium income	**7,912**	8,699	8,622	7,774	6,809
General business premiums written:					
Continuing operations	**607**	590	651	781	683
Discontinued operations	–	–	–	365	557
Operating profit					
Continuing operations:					
Long-term business	**710**	600	544	504	366
General business	**127**	140	125	(36)	(23)
Other activities	**35**	12	19	(28)	6
Interest payable	**(68)**	(59)	(59)	(46)	(57)
Total continuing operations	**804**	693	629	394	292
Discontinued general insurance operations	–	–	–	8	(66)
Total operating profit	**804**	693	629	402	226
Gain (loss) on disposal/closure	**31**	–	–	–	(85)
Adjustment from averaged to actual investment gains	**209**	(335)	311	30	131
Total profit on ordinary activities before tax	**1,044**	358	940	432	272
Profit after tax:					
Operating profit (including post-tax averaged investment gains)	**546**	498	414	265	110
Profit for the year (including post-tax actual investment gains)	**758**	222	667	274	156
Shareholders' Funds and Borrowings					
Statutory basis capital and reserves:					
Employed in business operations	**2,109**	1,722	1,768	1,413	1,270
Retained centrally	**334**	318	215	105	130
	2,443	2,040	1,983	1,518	1,400
Less borrowings net of holding company cash on deposit	**(696)**	(777)	(687)	(694)	(617)
Total statutory basis capital and reserves	**1,747**	1,263	1,296	824	783
Additional accruals basis retained profit	**3,171**	2,697	2,878	2,476	2,029
Accruals basis capital and reserves	**4,918**	3,960	4,174	3,300	2,812
Assets under Management (£bn)	**70**	61	62	50	41
Share Statistics					
Earnings per share:					
Based on operating profit after tax	**28.7p**	26.3p	22.0p	14.1p	5.9p
Based on profit for the year after tax	**39.8p**	11.7p	35.4p	14.6p	8.4p
Dividend per share	**15.7p**	14.4p	13.2p	11.9p	11.0p
Market price at 31 December	**415p**	316p	361p	299p	246p
Average number of shares	**1,905m**	1,896m	1,884m	1,873m	1,865m

FIVE YEAR REVIEW

Analysis by Business Area	1995 £m	Restated 1994 £m	Restated 1993 £m	Restated 1992 £m	Restated 1991 £m
Prudential UK					
Long-term business					
New business including investment products:					
Annual premiums	**280**	362	322	333	322
Single premiums	**2,088**	2,381	3,117	2,498	1,941
Premium income	**3,986**	4,197	4,845	4,152	3,513
General business premiums written	**315**	333	333	315	295
Operating profit:					
Long-term business	**306**	289	299	294	275
General business	**64**	92	89	59	8
Bank start-up costs	**(20)**	–	–	–	–
Total operating profit	**350**	381	388	353	283
Statutory basis capital and reserves	**176**	172	156	145	143
Additional accruals basis retained profit	**2,117**	1,687	1,901	1,568	1,357
Accruals basis capital and reserves	**2,293**	1,859	2,057	1,713	1,500
Assets under management (£bn)	**46**	38	39	30	29
Jackson National Life					
Long-term business					
New business:					
Annual premiums	**34**	46	63	62	82
Single premiums	**1,422**	1,373	1,065	1,344	1,280
Premium income	**1,895**	1,880	1,578	1,753	1,676
Operating profit (including averaged realised gains)	**241**	154	107	65	(6)
US GAAP profit (including actual realised gains)	**252**	128	198	114	45
Statutory basis capital and reserves	**866**	704	632	513	391
Additional accruals basis retained profit	**602**	551	559	515	341
Accruals basis capital and reserves	**1,468**	1,255	1,191	1,028	732
Assets under management (£bn)	**15**	14	13	11	7
Prudential Asia					
Long-term business					
New business:					
Annual premiums	**87**	69	49	38	23
Single premiums	**63**	65	54	42	1
Premium income	**323**	257	206	151	69
Operating profit before development expenses	**16**	11	5	4	4
Development expenses	**(5)**	(2)	–	–	–
Net operating profit	**11**	9	5	4	4
Statutory basis capital and reserves	**21**	18	18	18	12
Additional accruals basis retained profit	**118**	88	66	41	21
Accruals basis capital and reserves	**139**	106	84	59	33
Assets under management (£bn)	**1.4**	1.0	0.9	0.6	0.4

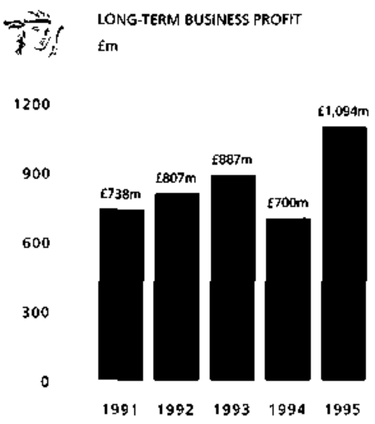
Analysis by Business Area	1995 £m	Restated 1994 £m	Restated 1993 £m	Restated 1992 £m	Restated 1991 £m
Other International Operations					
Long-term business					
New business of continuing operations:					
Annual premiums	**57**	65	56	62	48
Single premiums	**409**	789	652	520	435
Premium income	**715**	1,304	1,093	1,083	918
Operating profit	**19**	22	8	17	-
Statutory basis capital and reserves	**110**	114	127	111	106
Additional accruals basis retained profit	**111**	135	127	129	117
Accruals basis capital and reserves	**221**	249	254	240	223
Assets under management (£bn)	**4**	5	6	5	3
Mercantile & General Reinsurance					
Long-term business					
New business:					
Annual premiums	**78**	71	61	60	50
Single premiums	**604**	695	546	343	341
Premium income	**993**	1,061	900	635	633
General business premiums written	**292**	257	318	466	388
Operating profit:					
Long-term business	**133**	126	125	124	93
General business	**63**	48	36	(95)	(31)
Total operating profit	**196**	174	161	29	62
Statutory basis capital and reserves	**894**	693	825	616	606
Additional accruals basis retained profit	**223**	236	225	223	193
Accruals basis capital and reserves	**1,117**	929	1,050	839	799
Assets under management (£bn)	**4**	3	3	3	2
Prudential Portfolio Managers					
Funds under management:					
Internal non-linked funds	**64**	56	58	48	39
Unit trusts and internal linked funds	**7**	6	6	4	3
Segregated pension funds	**11**	10	12	10	9
Total funds under management (£bn)	**82**	72	76	62	51
Operating profit	**32**	23	23	8	12
Other Activities					
Shareholders' investment return	**45**	12	17	(3)	20
Corporate expenditure	**(22)**	(23)	(21)	(33)	(26)
Interest payable	**(68)**	(59)	(59)	(46)	(57)
Operating loss	**(45)**	(70)	(63)	(82)	(63)

SUPPLEMENTARY ACCRUALS BASIS RESULTS

Financial Overview	1995 £m	Restated 1994 £m
Operating profit (including averaged investment gains)		
Long-term business:		
Prudential UK	603	274
Jackson National Life	281	203
Prudential Asia	47	41
Other international operations	25	27
Mercantile & General Reinsurance	138	155
	1,094	700
General business	127	140
Other activities (including interest payable)	(33)	(47)
Total operating profit	1,188	793
Operating earnings per share (based on earnings of £801m (£529m) and 1,905m (1,896m) shares)	42.0p	27.9p
Shareholders' capital and reserves	4,918	3,960

REVIEW OF RESULTS

On the accruals basis Prudential's long-term businesses produced profits of £1,094 million in 1995, up 56 per cent on 1994. A large increase in investment returns was the main feature contributing £335 million of the £394 million increase, but there was also underlying growth of 8 per cent.

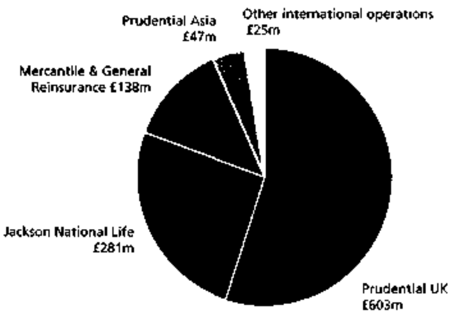


Under the accruals basis, profits are recognised as they are earned over the contract period. Future cash flows are projected over the remaining life time of the contract and, after making prudent allowances for adverse outturns (by inserting planned margins), the net present value of the expected cash flow to shareholders is recognised as profit. Under the modified statutory basis, profit is weighted more towards the final years of the contract, particularly for with-profits business due to the impact of terminal bonuses. Under the accruals basis, profit is recognised earlier than under the statutory basis and we believe this better reflects the progress of the business. The balance sheet under the accruals basis also provides a better view of the financial strength of the Group.

Profits from new business fell by 19 per cent to £215 million, mainly due to the continued difficult markets in the UK and Australia and a reduced contribution from Mercantile & General Reinsurance. By contrast the benefits of the good worldwide investment returns led to a doubling in profits from business in force and the return on accruals basis shareholders' funds.

In Prudential UK, profits more than doubled to £603 million. Although margins were maintained, profits from new business were subdued at £104 million reflecting reductions in sales volumes and changes in product mix. However, profits from businesss in force and the return on the shareholders' accrued interest increased in aggregate by over £350 million due to higher smoothed investment returns.

1995 LONG-TERM BUSINESS PROFIT BY DIVISION
£m

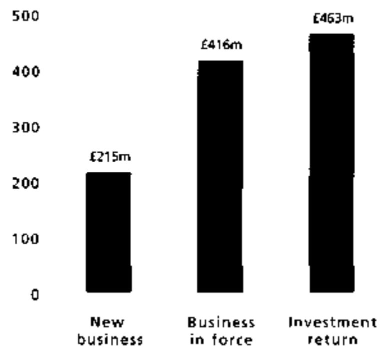


Jackson National Life, which mainly sells single premium deferred annuities, contributed total profits of £281 million, up 38 per cent. Despite only modest growth in new business, profits from this source increased by 13 per cent reflecting a more profitable mix of business written. Profits from business in force were almost twice the 1994 level mainly due to the increased asset base, higher interest margins and realised investment gains allocated to shareholders. Offsetting these positive movements was the impact of higher surrenders.

In Prudential Asia, new business profits increased by 20 per cent reflecting growth in sales across the region and reduced expense levels in Singapore. Profits from other international operations decreased to £10 million due to a much reduced contribution from Australia where trading conditions were particularly difficult in 1995.

Profits from Mercantile & General Reinsurance were 11 per cent lower at £138 million. Profits from new business were affected by the adoption of more conservative assumptions in respect of UK business sold in 1995. In particular assumptions of future claims experience for disability business were strengthened in the light of experience during the year. There was similar strengthening in

1995 LONG-TERM BUSINESS PROFIT
BY CATEGORY
£m



respect of in force disability business in both the UK and North America. Although the impact of this change was largely offset by good investment performance, there was an overall reduction of £6 million in profit from business in force.

The shareholders' accrued interest in the Group's long-term business rose by 18 per cent to £3.2 billion during 1995. This demonstrates the growth in profits retained in the long-term funds which the Group is achieving from sales of new policies and, particularly for the UK, strong investment performance. After including the net assets of £1.7 billion (1994 £1.3 billion) reported on the statutory basis, shareholders' funds on the accruals basis were £4.9 billion at the end of 1995 (1994 £4.0 billion).

SUMMARISED CONSOLIDATED PROFIT AND LOSS ACCOUNT – ACCRUALS BASIS

Year ended 31 December 1995

	1995 £m	Restated 1994 £m
Operating profit (including averaged investment gains)		
Long-term business	**1,094**	700
General business	**127**	140
Other activities (including interest payable)	**(33)**	(47)
Total operating profit	**1,188**	793
Adjustment from averaged to actual investment gains	**492**	(571)
Profit on ordinary activities before tax	**1,680**	222
Tax	**(458)**	(179)
Profit for the financial year	**1,222**	43
Dividends	**(300)**	(274)
Retained profit (loss) for the financial year	**922**	(231)

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES – ACCRUALS BASIS

Year ended 31 December 1995

	1995 £m	Restated 1994 £m
Profit for the financial year	**1,222**	43
Exchange movements	**26**	(3)
Total recognised gains	**1,248**	40
Prior year adjustments	**59**	–
Total recognised gains since last annual report	**1,307**	40

ANALYSIS OF LONG-TERM BUSINESS PROFIT – ACCRUALS BASIS

	New business		Business in force		Return on shareholders' funds		Total	
	1995 £m	Restated 1994 £m	1995 £m	Restated 1994 £m	1995 £m	Restated 1994 £m	1995 £m	Restated 1994 £m
Prudential UK	**104**	130	**261**	(40)	**238**	184	**603**	274
Jackson National Life	**61**	54	**107**	56	**113**	93	**281**	203
Prudential Asia	**24**	20	**11**	12	**12**	9	**47**	41
Other international operations	**10**	33	**–**	(23)	**15**	17	**25**	27
Mercantile & General Reinsurance	**16**	29	**37**	43	**85**	83	**138**	155
Total long-term business profit	**215**	266	**416**	48	**463**	386	**1,094**	700

SUMMARISED CONSOLIDATED BALANCE SHEET – ACCRUALS BASIS

31 December 1995

	1995 £m	Restated 1994 £m
Investments	**63,570**	55,299
Other assets	**11,328**	10,295
Total assets	**74,898**	65,594
Less liabilities	**(2,661)**	(2,290)
Total assets less liabilities	**72,237**	63,304
Less long-term business funds		
Technical provisions	**58,572**	53,958
Fund for future appropriations	**11,918**	8,083
Less shareholders' accrued interest in the long-term business	**(3,171)**	(2,697)
	67,319	59,344
Accruals basis net assets	**4,918**	3,960
Shareholders' capital and reserves		
Share capital and share premium	**210**	196
Statutory basis retained profit	**1,537**	1,067
Additional accruals basis retained profit	**3,171**	2,697
Accruals basis capital and reserves	**4,918**	3,960

RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' CAPITAL AND RESERVES – ACCRUALS BASIS

Year ended 31 December 1995

	1995 £m	Restated 1994 £m
Total recognised gains	**1,248**	40
Goodwill charged on acquisition	**(17)**	–
New share capital subscribed	**27**	20
Dividends	**(300)**	(274)
Net increase (decrease) in shareholders' capital and reserves	**958**	(214)
Shareholders' capital and reserves at beginning of year		
– as originally reported	**3,901**	4,174
– prior year adjustments	**59**	–
– as restated	**3,960**	4,174
Shareholders' capital and reserves at end of year	**4,918**	3,960

ANALYSIS OF PROFIT RETAINED IN LONG-TERM FUNDS – ACCRUALS BASIS

	1995 £m	Restated 1994 £m
Prudential UK	**2,117**	1,687
Jackson National Life	**602**	551
Prudential Asia	**118**	88
Other international operations	**111**	135
Mercantile & General Reinsurance	**223**	236
Total additional accruals basis retained profit	**3,171**	2,697

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 profit from each contract calculated under this method is the same as under the statutory basis of reporting used for the main accounts, the timing of recognition of profit is advanced.

The accruals basis can be illustrated by considering an individual contract. Using prudent assumptions of the main elements of future income and expenditure – investment return, death and disability 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.

The total profit expected to be earned is then 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 the directors to reflect their assessment of the risks which will be 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. The balance of profit not allocated to future years is recognised in the year of sale and is known as the profit from 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 basis of reporting, which is derived 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 profit 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 show more variability than profits reported on the statutory basis, although the operating profit reported under the latter is to some extent dependent on investment returns, particulary for Mercantile & General Reinsurance.

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 the directors following statutory actuarial valuations of the funds. 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 additional profit recognised using the accruals basis is represented by the shareholders' accrued interest in the long-term business and, when combined with shareholders' funds reported on the statutory 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 from the release of planned margins.

NOTES ON THE SUPPLEMENTARY ACCRUALS BASIS RESULTS

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 58 to 83.

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 ten per cent per annum, before applying planned margins, has been assumed for the UK with-profits fund of Prudential Assurance.

The proportion of surplus from the with-profits business of Prudential Assurance allocated to shareholders has been based on the present level of ten per cent 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. Management charges on unit-linked business have been projected from a smoothed unit price.

3 Planned Margins

Planned margins are designed to provide appropriate allowances for adverse outturns in future periods. The margins on the most important assumptions, expressed as proportions of those assumptions, are as follows:

Investment return	15-22%
Proprietor's margin on investment returns (US annuity products)	25%
Mortality and morbidity	5-18%
Policy discontinuances	20-50%
Expenses	20%

The planned margins used are the same as in 1994 except that the mortality planned margin for certain reinsurance contracts has been reduced from ten per cent to five per cent. Recent mortality experience has been less variable than previously projected.

4 Investment Return

The accruals basis of accounting recognises the total investment return of the long-term business to the extent attributable to shareholders including the return on solvency capital. 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 (to the extent that changes in capital values do not directly match changes in liabilities) are included in the shareholders' accrued interest as they arise. The gains 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 income 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 income investments arising in other North American subsidiaries are amortised to the original maturity date.

5 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.

6 Tax

Under the accruals method, the profit for the year is calculated initially at the post-tax level. With the exception of certain investment gains in Mercantile & General Reinsurance, which are not subject to tax, the 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.

7 Foreign Currency Translation

Foreign currency revenue has been translated at average exchange rates for the year. Foreign currency assets and liabilities have been translated at year end rates of exchange.

REPORT OF THE AUDITORS ON THE SUPPLEMENTARY ACCRUALS BASIS INFORMATION

to the members of Prudential Corporation plc

We have audited the supplementary information on pages 91 to 97, which has been prepared on the basis set out in note 1 on page 95 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 described on pages 43 and 44, 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 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 1995 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
11 April 1996

FINANCIAL CALENDAR

Payment of 1995 final dividend	29 May 1996
Annual General Meeting	29 May 1996
Announcement of 1996 interim results	11 September 1996
Ex-dividend date for 1996 interim dividend	23 September 1996
Payment of 1996 interim dividend	28 November 1996

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PRUDENTIAL
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