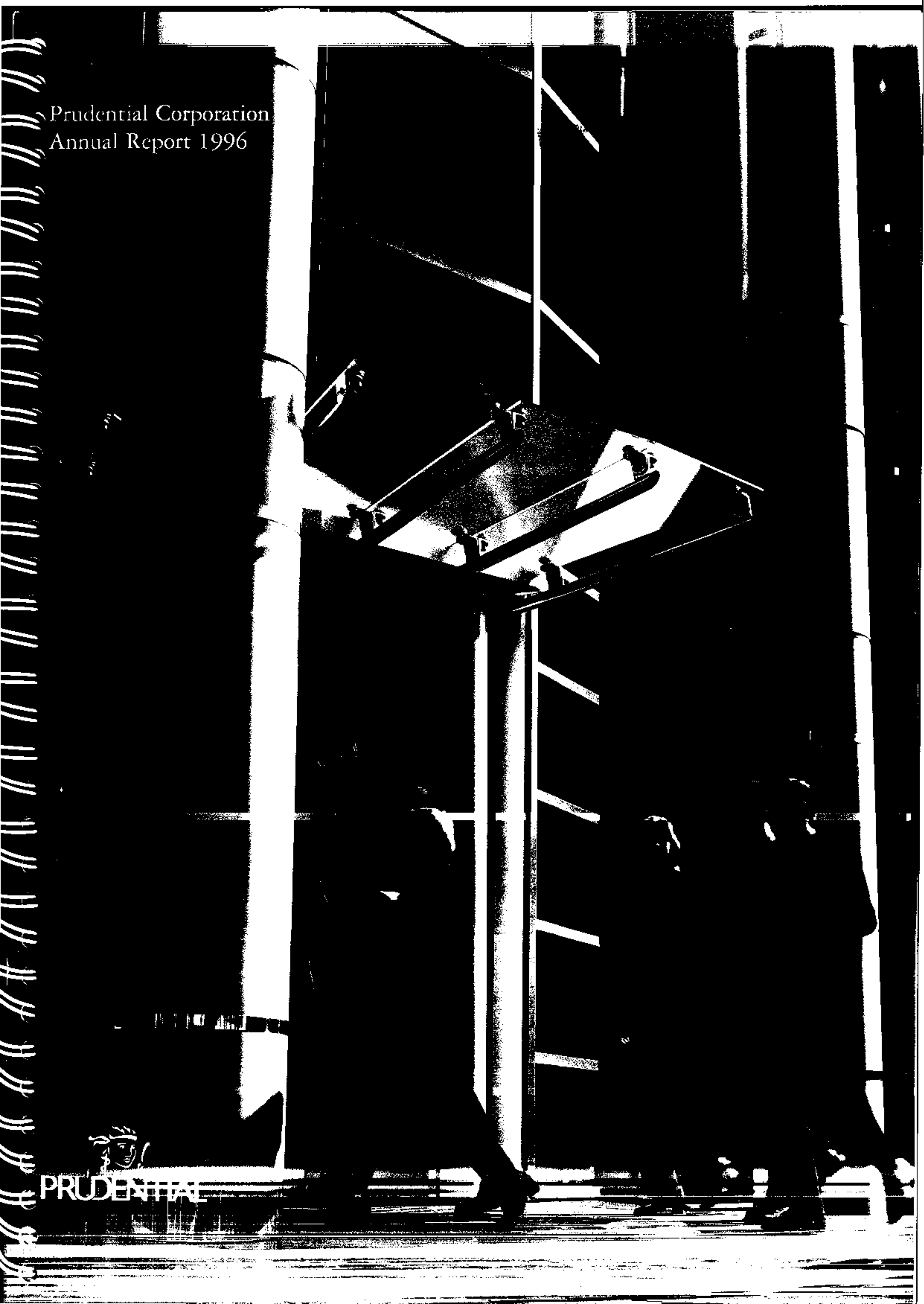
Prudential Corporation Annual Report 1996



Front cover:
Prudential Banking opened for business on 1 October 1996, with a staff of 270 at its headquarters in Dudley.

PRUDENTIAL

Prudential Corporation is the major life insurance company in the United Kingdom and one of the largest in the world. Prudential meets the savings and retirement needs of nine million customers in the United Kingdom, the United States and Asia.

Prudential's success is built on the strength of its brand, its distribution management skills, marketing and product development expertise, investment management experience and financial strength.

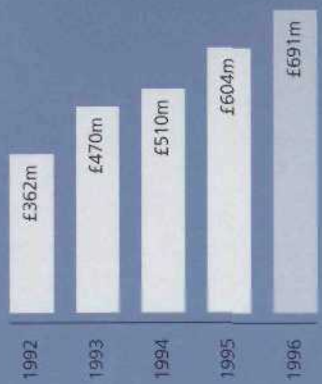
Prudential has a solid reputation for integrity and fair dealing which has been built up over nearly one hundred and fifty years.

1996 Highlights

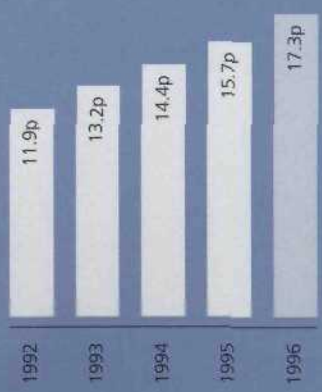
– Operating profit from continuing operations up 14 per cent
– Total dividend increased by 10 per cent to 17.3 pence per share
– Worldwide single premium sales up nearly 70 per cent
– Funds under management of £91 billion
– Accruals basis shareholders' funds of £5.8 billion
– £766 million profit on sale of Mercantile & General Reinsurance
– Banking operation launched in UK

Financial Summary	**1996**	1995
Operating profit from continuing operations	**£691m**	£604m
Profit on ordinary activities before tax	**£1,614m**	£1,044m
Operating earnings per share	**34.1p**	28.7p
Dividend per share	**17.3p**	15.7p

OPERATING PROFIT – CONTINUING OPERATIONS (£M)

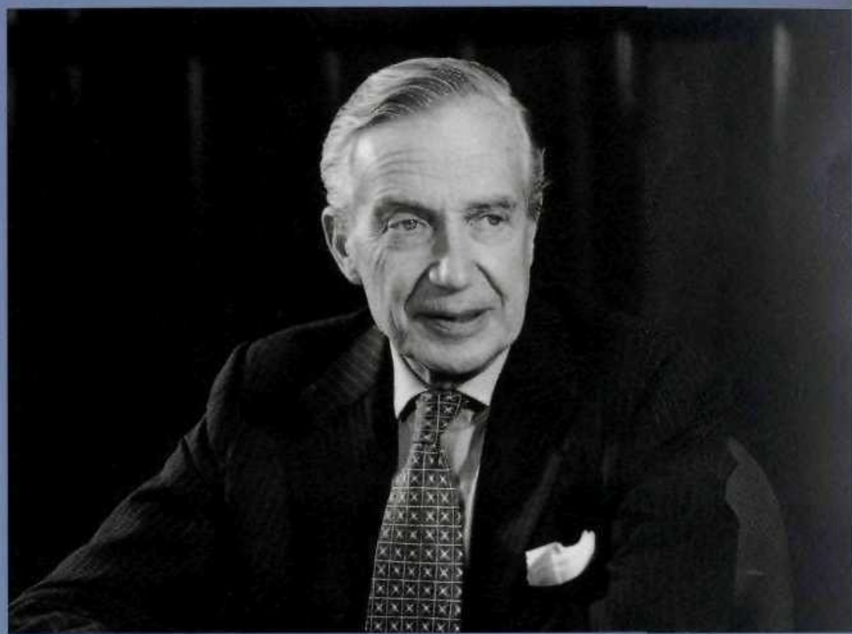


DIVIDEND PER SHARE (PENCE)



PRUDENTIAL SHARE PRICE
FT-SE ALL SHARE

Source: Datastream



'1996 was a year of real achievement for Prudential'.
Sir Martin Jacomb, Chairman.

Chairman's Statement

1996 was a year of real achievement for Prudential. Sales and profit grew in all our major operations around the world and the strategic work which has recently been undertaken by the management of your company reaped real rewards. We started a banking business in the UK and we sold the Group's reinsurance subsidiary Mercantile & General at a satisfactory price. Furthermore, we expanded our product and distribution base in the United States and extended our franchise in Asia. We are now clearly focused on the profitable development of our retail financial services and fund management operations in our chosen markets around the world. In addition we continue to develop our range of products and our distribution channels and we are particularly proud of our well-trained UK direct sales force.

Reflecting the strength of Prudential's business and the sustained implementation of our strategy, operating profit from our continuing operations rose by 14 per cent to £691 million, while operating earnings per share increased by 19 per cent to 34.1 pence per share. Given these results and our confidence in the continuing success of our business, the Board has decided to increase the total dividend by 10 per cent to 17.3 pence per share.

A prudent, effective and efficient investment management operation underpins all our businesses around the world. A reputation for consistently good investment performance, coupled with security, gives us a competitive advantage and in more recent times has become an increasingly valuable asset. Prudential Portfolio Managers (PPM) invests over £90 billion on behalf of our nine million customers and external clients around the world with the aim of securing superior investment performance. The success of this policy was demonstrated last year when the Group's £41 billion with-profits fund again outperformed the competition and the company won six Micropal awards for investment performance. In addition, PPM's long-term investment record was demonstrated by this year's maturing UK personal pensions policies, where the average customer, paying regular premiums for 25 years, received an annual rate of return of 15 per cent on their savings.

The activity of collecting the

savings of millions of individuals around the world and investing them profitably in industry and infrastructure is a vital one that benefits not just our policyholders but society as a whole. A stable and reliable source of capital is essential for any economy, whether mature or developing. PPM plays a pivotal role in providing capital for business, always investing with the intention of maximising long-term shareholder return but mindful of the need to contribute to the success of the economy and society in general. PPM's policy of investing for the long-term thus serves the dual function of earning superior returns for our policyholders and providing secure finance for industry and commerce.

Since our last annual report, John Maxwell, who was an executive director, has left Prudential. We thank him for the contribution he made to the work of Prudential and wish him well in his new role.

Ann Burdus has joined our board as a non-executive director. She has had a long career in market research and advertising and her extensive experience across a wide range of businesses will undoubtedly prove to be very valuable to us.

Indeed, it is already doing so.

We have a first rate team managing our business. This team combines insurance experts with others recruited from a wide range of business backgrounds. The benefits of their work are evident in our 1996 results.

Our group chief executive, Peter Davis, who leads this team, is to be congratulated on the knighthood he received in the New Year Honours list for his contribution to training and industry.

However, the progress we have made was only possible by virtue of the diligence, dedication and enthusiasm shown throughout the year by the entire staff of the Prudential Group around the world; I would like to thank them all for their contribution to Prudential's continued success.

Martin W. Jacomb

Sir Martin Jacomb
Chairman

Group Chief Executive's Review

Operating profit	1996 £m	1995 £m
Prudential UK		
Insurance	**398**	370
Banking	**(54)**	(20)
Jackson National Life	**328**	241
Prudential Asia	**12**	11
Other international operations	**14**	15
Prudential Portfolio Managers	**35**	32
Other (including interest payable)	**(42)**	(45)
Total continuing operations	**691**	604
Discontinued operations	**182**	200
Total operating profit	**873**	804

1996 was very successful for Prudential. It was a year in which we posted record profits and a year in which sales reached new levels in each of our three main markets. As well as continuing to grow our businesses profitably, 1996 was the year when we made substantial progress in repositioning Prudential as a global retail financial services and fund management company.

Following the strategy review we undertook in 1995, we decided to focus our operations on retail financial services and fund management. This resulted in the sale, for a substantial profit, of our reinsurance company, Mercantile & General.

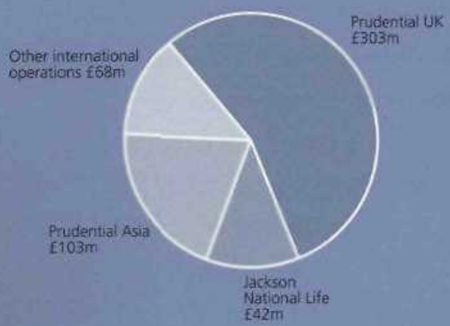
One of the reasons we have chosen to concentrate on retail financial services is the fundamental change that is taking place in each of the markets in which we operate. People are living longer and securing a comfortable retirement is becoming a more urgent priority. Increasingly governments are unable to satisfy this need and are passing greater responsibility onto individuals. With our financial strength and sound reputation, this trend offers a tremendous business opportunity for Prudential.

Consolidation of the financial services industry is taking place around the world; for example, banks are increasingly selling insurance and investment products. As a result, although Prudential is traditionally known as an insurance company, we are now increasingly focused on savings and investment products and in the UK we are expanding our range to include traditional building society and banking products. This convergence makes critical mass an important issue; hence the sale of our small Dutch company.

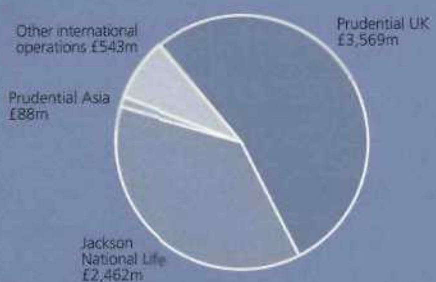
Our future role will not just be as an insurer, but as a company that collects a wide range of savings from our customers and invests them wisely and well.

In 1996 operating profit from

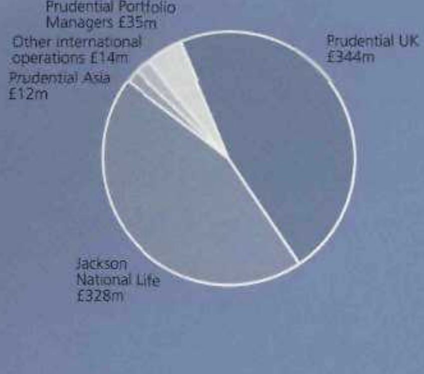
1996 GLOBAL REGULAR PREMIUM SALES (£M)

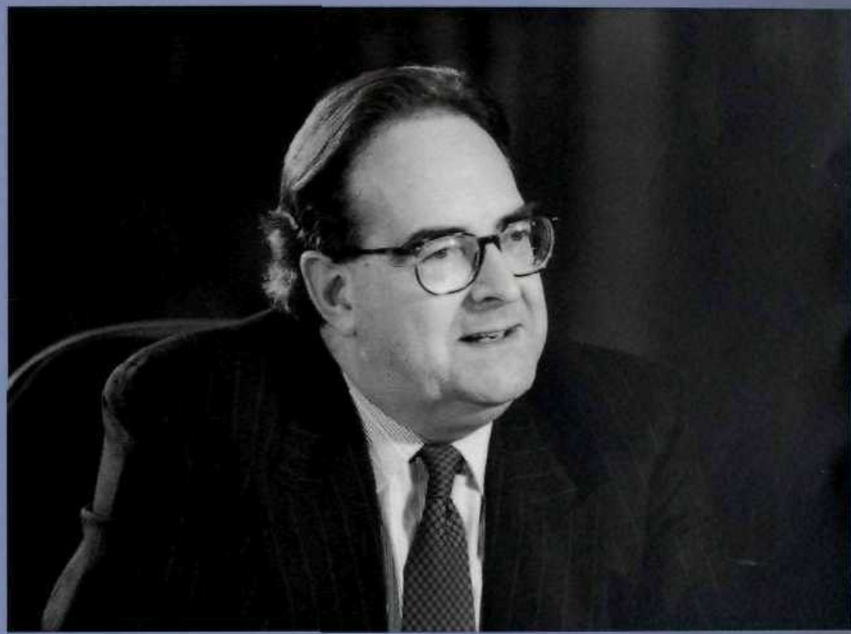


1996 GLOBAL SINGLE PREMIUM SALES (£M)



1996 GLOBAL OPERATING PROFIT (£M)





'As well as continuing to grow our businesses profitably, 1996 was the year when we made substantial progress in repositioning Prudential as a global retail financial services company.'
Sir Peter Davis, Group Chief Executive.

continuing operations grew by a healthy 14 per cent to £691 million. This growth was achieved after a £54 million investment in our new banking business and, excluding this, underlying profit was 19 per cent ahead. The increase in profit was driven by continuing strong results from Jackson National Life in the US and a solid increase in profit from Prudential UK's savings and general insurance operations. The global reach of the Prudential Group is demonstrated by the fact that half of our profit and sales now comes from our overseas businesses.

In the UK, it remains our ambition to acquire more customers and expand both our product range and distribution capability. The launch of our banking operation in October last year is one of the first steps towards achieving that ambition. We continue to examine further opportunities to realise our objectives organically and via acquisition.

As you are probably aware, we have also submitted a bid to acquire the mutual insurer, Scottish Amicable. If successful, this acquisition will strengthen our Independent Financial Adviser (IFA) operations in the UK and broaden our product range in that market.

In the US, the success of Jackson National Life is readily apparent in our results and we intend to build on this success to ensure the long-term growth and profitability of this business.

In Asia, we have a clear strategy and a proven track record. We continue to work hard to obtain operating licences in those countries we have identified as new markets, as well as building the value of both our established and our new operations.

Since my last report to you in September, we have completed the sales of our reinsurance subsidiary, Mercantile & General, to Swiss Re and our Dutch company, Prudential Leven, to Achmea. These disposals generated proceeds of £1.8 billion which are now available to further our strategic objectives.

As we have reported previously, we initiated discussions in March last year with the Department of Trade and Industry regarding the 'unattributed assets' that rest within our UK with-profits funds. These discussions are by their very nature complex and we expect they will continue for some time yet.

In the UK the review of personal pensions initiated by the Securities and Investments Board (SIB), has attracted considerable adverse publicity for the industry, and indeed for Prudential, over the last few years.

As the UK's largest provider of personal pensions, the SIB pensions review is a huge logistical exercise for Prudential and one to which we have committed considerable time, energy and resource. The 250 strong team we have working on this project began in 1995 with one million cases to examine. To date we have found that 95 per cent of these cases do not require further examination. We are working extremely hard to complete the remainder of the exercise as quickly and as thoroughly as possible. No one is keener than I am to resolve this issue.

Some of you may have seen that we have relaunched the Man from the Pru advertising in the UK. The Man from the Pru is a powerful brand image and one that, in these increasingly competitive times, we could not merely allow to remain on the shelf and gather dust. The new Man from the Pru is designed to build on our traditional values of security, reliability and individual service, and to add the more modern attributes of efficiency, flexibility and investment excellence.

To conclude, we had a good year in 1996. We have a tightly focused strategy and first class management team. Our excellent results and the successful disposals we completed last year have further strengthened an already strong financial position. We are reaping the results of hard work done in prior years and are continuing to lay the foundations for our long-term future. We will continue to work to increase the value of Prudential for you, our shareholders.

Peter Davis

Sir Peter Davis
Group Chief Executive

Prudential UK

Prudential UK

Profit (excluding bank costs)	£398m
Regular Premium Sales	£303m
Single Premium Sales	£3.6bn
Gross Premiums	£5.5bn
Assets	£52bn
Number of Customers	6.0m
Number of Employees (including 6,300 strong salesforce)	16,500

Main products Personal pensions, group pensions, with-profits savings, investment bonds, PEPs, life insurance, home and motor insurance, mortgages and deposit accounts.

Chief Executive Jim Sutcliffe

In its first full year of operation after the merger of our direct salesforce and IFA operations, Prudential UK enjoyed some notable successes. Profit from the savings and general insurance businesses increased by eight per cent, single premium sales rose by 71 per cent and, with the launch of the banking operation, Prudential UK is now a broadly based financial services organisation.

Profit

Profit from Prudential UK's insurance and investment business rose from £370 million to £398 million. As planned, £50 million was invested in the new banking operation and this business incurred a small trading loss of £4 million. Profit from the savings business grew by six per cent to £323 million, while the home and motor insurance operation again produced an excellent return on capital, where mild weather and continuing tight expense control produced a profit of £75 million, up 17 per cent on 1995.

Philip Segger from Norfolk is enjoying the benefits of tax free savings with a Prudential PEP.

Prudential UK

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Prudential UK has launched a reinvigorated Man from the Pru advertising campaign designed to reinforce Prudential's position as a leading financial services brand.

Sales

An improving economy, combined with new marketing initiatives and competitive products, resulted in substantial increases in sales. The rate of sales increased steadily throughout 1996. Overall, single premium sales rose by 71 per cent and regular premium sales grew by eight per cent. In addition, gross premium income passed £5 billion in 1996 for the first time and assets grew by 13 per cent to £52 billion. Prudential UK's salespeople worked hard throughout the year to simplify a complicated sales process with beneficial effects. We have said before that Prudential's salesforce is one of the best trained in the industry. This was borne out in 1996 with 83 per cent of the salesforce passing the new mandatory Financial Planning Certificate 3 examination well ahead of the July 1997 deadline.

Bonuses

Prudential announced a record payout for policyholders in 1996, distributing £1.9 billion in bonuses. As a result of good investment returns and a strict focus on expense control, payout levels for the majority of policyholders, particularly pensions policyholders, have been held or increased. An average Prudential policyholder with a 25 year pension policy maturing after 1 May this year will have received an annual rate of return of over 15 per cent.

Distribution

Prudential UK is now focusing on expanding its distribution capability and increasing the productivity and efficiency of its well-established direct salesforce and IFA distribution channels. In 1996 direct salesforce productivity increased by 35 per cent, while the programme instituted in 1995 to focus on higher producing IFAs has also borne fruit, with Prudential UK increasing its share of the IFA market to just under five per cent. The new direct salesforce, Prudential Financial Planning Service, set up in 1995 to focus on higher net worth individuals also continues to grow, with over 230

Keith James, with his partner Susan Katić, is one of the million people saving for their retirement with a Prudential personal pension.

Prudential UK's management team is headed by chief executive Jim Sutcliffe (centre), with John Elbourne (left) running the insurance operations and Mike Harris (right) responsible for the recently launched banking business.

salespeople compared with just over 100 at the beginning of 1996.

In addition, Prudential Direct has expanded its capability, and employs 200 people who now handle 30 per cent of Prudential UK's household general insurance sales by telephone, in addition to direct sales of unit trusts and PEPs.

Products and Services

Prudential UK continued to focus on providing cost effective, flexible products to customers, while maintaining appropriate profit margins for shareholders.

For example, in 1996 a successful marketing campaign and the excellent returns offered by the Prudence Savings Account and Prudence Bond brought in £596 million and £821 million respectively.

In the last four years, £170 million has been eliminated from Prudential UK's fixed cost base with the result that expense ratios are now extremely competitive. Fixed costs were down a further eight per cent in 1996.

Prudential UK continues to improve its administrative systems, investing principally in call centre and workflow and image technology designed to improve both effectiveness and response times.

Banking

Prudential Banking, based in Dudley in the West Midlands and employing 270 people, was launched on 1 October 1996. This operation attracted £103 million of mortgage applications and

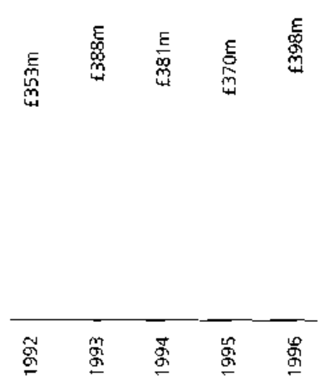
£98 million of deposits by the end of February 1997 and sales of both product lines are growing month on month. Service standards are attracting many positive comments from customers.

Prudential Banking is steadily building a book of business by offering customers competitive and flexible mortgage and deposit products. It offers deposit rates well in excess of the high street and the recent 16 month savings account provided the best rate in the market during its issue period.

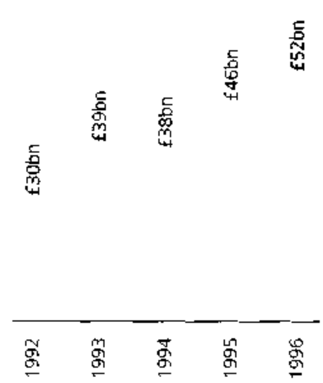
With the deposit and mortgage business growing steadily, plans are now in hand to expand the product range and move into the personal loan market later this year.

Although costs are high while the business develops, Prudential Banking is on target to move into profit in 1999.

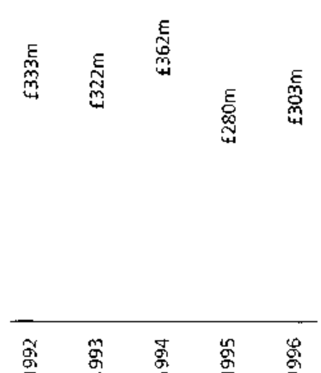
OPERATING PROFIT – INSURANCE AND INVESTMENT BUSINESS (£M)



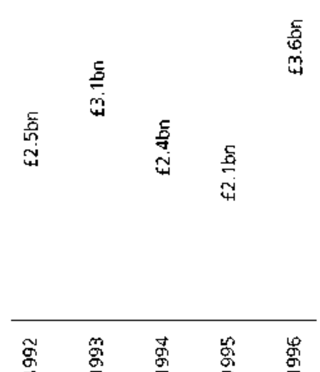
ASSETS UNDER MANAGEMENT (£BN)



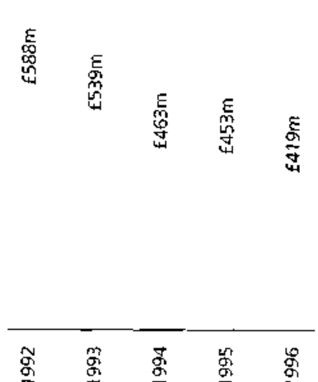
REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£BN)



FIXED COSTS (£M)



Profit	US$512m
Regular Premium Sales	US$66m
Single Premium Sales	US$3.8bn
Gross Premiums	US$4.6bn
Assets	US$27bn
Number of Customers	1.8m
Number of Employees	1,200

Main products: Fixed and variable annuities, guaranteed investment contracts and life insurance.

Chief Executive Officer	Bob Saltzman

With profit up 35 per cent and single premium sales increasing by 73 per cent, Jackson National Life, Prudential's US subsidiary, had a very successful year in 1996. Jackson is now reaping the benefits of the strategic decision to expand the company's product range, diversify its distribution capability and improve the quality of its administrative systems.

Pam and Bill Perrone from Michigan with their children Justin, Mike and Tracey. With three children Pam and Bill are setting aside some money for the future with an Ultimate 2 savings policy from Jackson National Life.

Operating profit at Jackson increased from US$380 million to US$512 million in 1996. This was due to strong growth in assets from US$25 billion to US$27 billion and an increase in the profit margins earned on Jackson's products. The target interest margin of two per cent on Jackson's main annuity product has now been achieved.

Single premium sales at Jackson increased by 73 per cent to US$3.8 billion in 1996, boosted substantially by sales of the new guaranteed investment contracts and variable annuity products, which brought in over US$1.8 billion (1995 US$100 million). Sales of the core fixed single

At its central service centre in Lansing, Michigan, Jackson processes 9,000 calls from customers and agents every day.

Bob Saltzman, Jackson's chief executive officer, pictured with Mike Wells, head of the new variable annuity operation. Jackson has strengthened its top management team in recent years with the addition of a number of new recruits from across the US financial services industry.

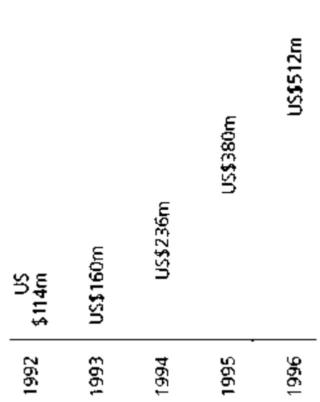
premium deferred annuity product also performed well and it is expected that Jackson will have increased its share of this market in 1996. Looking forward, Jackson is keen to continue to grow its sales of variable annuity products as rapidly as possible. Given the exceptional impact the launch of the guaranteed investment contract business had in 1996, Jackson anticipates deliberately lower growth from this business in the future.

Jackson continues to refine and expand its product range and, in October last year, an equity-linked annuity was launched which raised US$34 million in its first three months of sales. Jackson has also revitalised its range of life insurance products, increasing their flexibility and improving their pricing. In 1996, sales of these life products increased by 25 per cent.

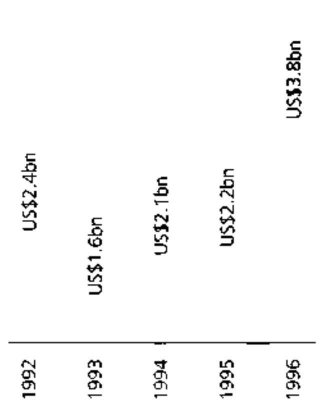
Distribution

As recently as 1994, 89 per cent of Jackson's products was distributed by its network of agents. In 1996 58 per cent of sales came via agents, 14 per cent via broker dealers and 28 per cent via banks. Jackson's strategy of diversifying distribution by expanding its broker dealer and bank networks has worked extremely well and significantly increased Jackson's competitive advantage in the marketplace. Jackson will continue to examine new ways of distributing products in 1997. Jackson is now admitted to sell insurance in New York State, the largest insurance market in the US, and plans to begin sales later in 1997, once individual product filings are approved. Jackson's funds under management have grown thirteen-fold since Prudential acquired the company in 1986. The continuing work to diversify the product range and distribution channels and improve efficiency will provide a platform for further growth at Jackson in 1997.

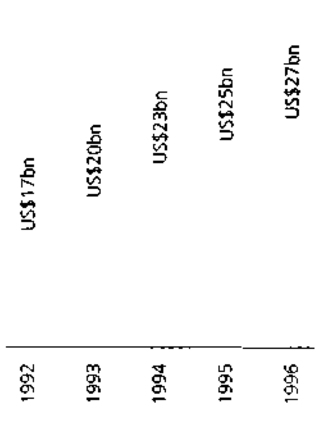
OPERATING PROFIT (US$M)



SINGLE PREMIUM SALES (US$BN)



ASSETS UNDER MANAGEMENT (US$BN)



Prudential has been established in Singapore since 1931 and is now the leading single premium company in the country.

Prudential Asia

Prudential Asia

Profit	£12m
Regular Premium Sales	£103m
Single Premium Sales	£88m
Assets	£1.5bn
Number of Customers	0.7m
Number of Agents	11,400
Number of Employees	1,000

Main products: Unit-linked and with-profits savings plans, life insurance, accident and health insurance, property and casualty insurance.

Managing Director	Mark Tucker

Prudential now has a presence in nine Asian countries, with operational businesses in Singapore, Hong Kong, Malaysia, Thailand, Indonesia and the Philippines, representative offices in China and Vietnam and a base in India. 1996 was a good year for Prudential in Asia, with sales of regular premiums passing the £100 million mark for the first time and single premium sales growing by 38 per cent. Funds under management also grew by seven per cent to £1.5 billion and sales agents and staff now total over 12,000 across Asia.

Established Businesses

Prudential's well established businesses in Singapore, Hong Kong and Malaysia continue to make progress. Prudential Singapore is now the country's leading company for single premium products, with a 26 per cent share of the market. In Malaysia Prudential's market share increased from nine per cent to over 11 per cent, making it the fourth largest company in that market.

Prudential's business in Hong Kong has performed satisfactorily

Michael and Doreena Seow from Singapore are saving for the future of their children Gabriel and Collette with a juvenile policy from Prudential Singapore.

Joseph Ip, deputy managing director, Mark Tucker, managing director, and Mina Hsu, brand and communications director, meeting at Prudential Asia's headquarters in Hong Kong.

with sales down only slightly on 1996, in a very uncertain environment.

New Operations

Prudential commenced business in Thailand and Indonesia in 1995 and opened an operation in the Philippines in 1996. Each of these businesses is expanding rapidly, adding new products to its portfolios and growing its salesforces. Prudential's experience and substantial resource network in Asia has enabled the new Philippines' operation to open its doors for business within a month of a licence being granted. Both agency and salesforce numbers exceeded their targets in 1996.

New Markets

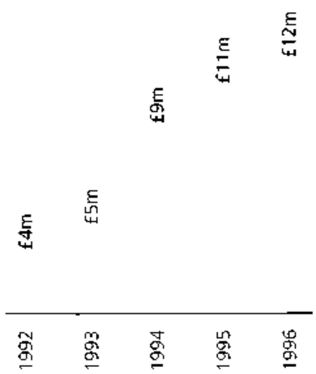
Prudential has applied to open a representative office in New Delhi and began joint venture discussions with potential partners early in 1996. India, a country in which Prudential has both experience and brand awareness, has low insurance penetration and a growing economy and therefore provides great opportunities for future growth. In addition, Prudential has applied to open two further representative offices in China to add to the existing three and has set up a second representative office in Vietnam in Ho Chi Minh City. As demonstrated in the Philippines, once entry to a market has been gained, Prudential is extremely well placed to establish quickly a strong and dynamic business.

Hong Kong resident Lewis Tse, pictured with Chan Men Ching, is insuring his life with Prudential and is one of the company's 720,000 customers in Asia.

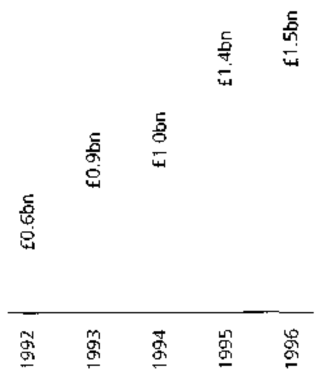
Investment

Prudential confirmed its commitment to the development of its Asian businesses in 1996 with the launch of the US$1 billion Prudential Invest Direct Asia Fund specifically designed to make infrastructure and development capital investments in the growing Asian economies, particularly China, India and Vietnam. The launch of this fund further emphasises the increasingly important role Asia will play in the future development of Prudential's worldwide business.

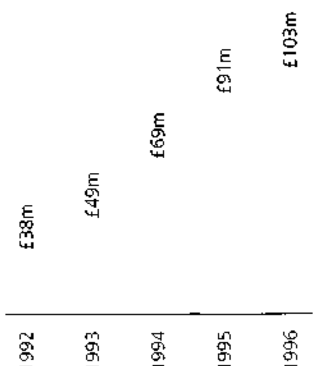
OPERATING PROFIT (£M)



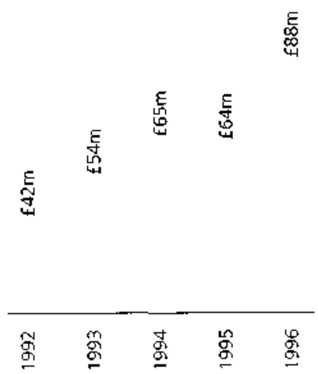
ASSETS UNDER MANAGEMENT (£BN)



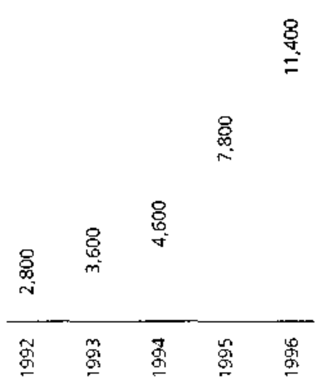
REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£M)



NUMBER OF AGENTS



Other International Operations

Other International Operations

Profit	£14m
Regular Premium Sales	£68m
Single Premium Sales	£543m
Assets	£4.1bn
Number of Customers	0.5m
Number of Employees	1,100
Director	Keith Bedell-Pearce

Prudential has businesses in Australia, New Zealand and Italy. Profit from these operations totalled £14 million in 1996 compared with £15 million in 1995.

Australia

Prudential Australia had a much better year in 1996, with single premium sales growing by 15 per cent and regular premium sales increasing by 20 per cent. In response to a rapidly changing and increasingly competitive market place, Prudential Australia has undertaken a range of strategic projects to refocus its marketing efforts on the new compulsory savings markets and improve its administrative systems and general efficiency. A number of these projects have already resulted in significant operational changes within the business and the successful entry into new product areas and distribution arrangements. Prudential Australia is now well positioned to improve further its performance in 1997.

New Zealand

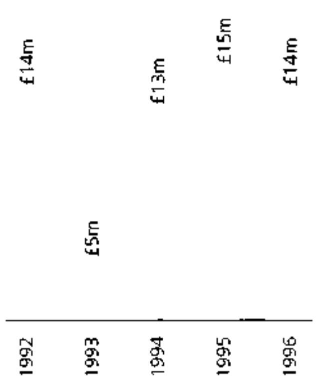
Single premium sales from Prudential New Zealand increased by 50 per cent in 1996, while regular premium sales rose by 30 per cent. The benefits of a cost reduction programme and the successful expansion of the company's retirement planning salesforce have resulted in Prudential New Zealand increasing its share of the regular premium market to 12 per cent.

Ian and Nikki Nicholas are both saving for retirement with Prudential Australia.

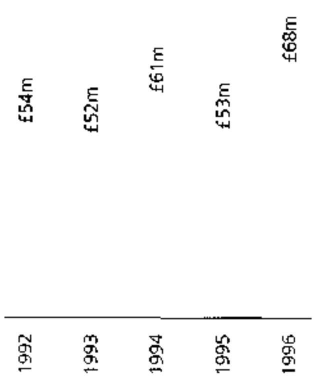
Italy

Prudential Vita continued to make progress in 1996, with single premium sales increasing by 15 per cent and regular premium sales by three per cent.

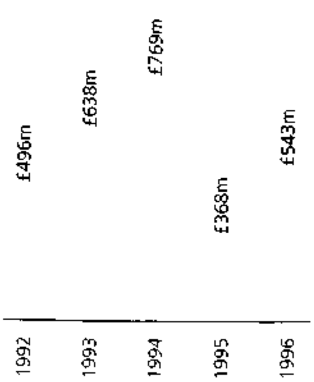
OPERATING PROFIT (£M)



REGULAR PREMIUM SALES (£M)



SINGLE PREMIUM SALES (£M)



Trevor Perry, managing director of Prudential Australia, discusses strategy with international development director, Keith Bedell-Pearce.

PPM is one of the largest property owners and developers in the UK. Current developments include Cribbs Causeway, the new 150 acre major regional shopping centre which will open in Spring 1998 and serve the West Country.

Prudential Portfolio Managers

Prudential Portfolio Managers

Profit	£35m
Total Funds Under Management	£91bn
Number of Employees	1,100
External pension fund clients	350

Investment offices around the world:
London, Cape Town, Chicago,
Hong Kong, New York, Singapore, Sydney,
Toronto, Wellington.

Chairman	Derek Higgs

Prudential Portfolio Managers (PPM) is the worldwide fund management business of Prudential and invests £91 billion on behalf of both Prudential's customers and PPM's external clients. PPM aims to provide consistently superior performance for its customers' funds through its active, value-based investment philosophy.
PPM's funds are managed by 223 investment professionals in nine investment offices around the world, with a central investment strategy co-ordinated from PPM's head office in London.

Investment Performance

Good investment performance is a key factor in gaining a competitive advantage for Prudential's retail operations.
In 1996 PPM continued to provide above average results for Prudential's nine million customers and PPM's clients around the world.
The largest of PPM's funds is the £41 billion with-profits fund which contains the savings and investments of the majority of Prudential's UK customers. Once again this fund outperformed the competition in 1996, by adding

Lorraine Baldry, chief operating officer, Derek Higgs, chairman and Rodney Dennis, chief investment officer. Headquartered in London, PPM invests £91 billion for Prudential's nine million customers and external clients around the world.

an additional return of over one per cent.

In the UK, PPM won six Micropal investment awards, in particular for the performance of the company's pension and life funds and unit trusts.

PPM's managed funds continued to perform well with the discretionary fund producing a return of 11.9 per cent in 1996 compared with an industry average of 10.7 per cent.

The performance delivered to PPM's segregated pension fund clients was close to the industry average in 1996 and the three year record now shows outperformance. As a result PPM has increased its standing among prospective clients and their advisers. An indication of this improved standing was the appointment of PPM as one of the four UK fund managers for the fixed income portfolios of Equitas.

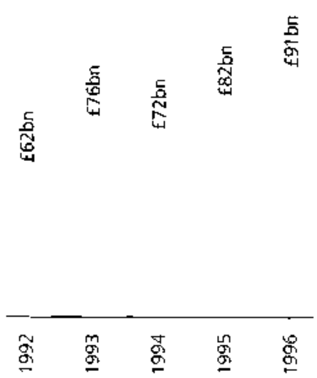
In Hong Kong, PPM Asia's investment performance was recognised with a 1996 South China Morning Post Fund Manager of the Year Award.

Management

In February 1996 Derek Higgs was appointed Chairman of PPM to lead its development as a major international fund management business. Rodney Dennis was appointed Chief Investment Officer with responsibility for worldwide investment strategy and Lorraine Baldry became Chief Operating Officer. This team has continued to develop the global potential of PPM, with particular emphasis on strengthening the investment teams in the UK and US.

PPM will shortly launch a new worldwide identity which will emphasise both its capabilities as one of the world's leading fund managers and its links with the financial strength and stability of the Prudential Group.

FUNDS UNDER MANAGEMENT (£BN)



TYPES OF ASSET (£BN)

GLOBAL EQUITY HOLDINGS (£BN)

Group Financial Review

Financial Summary	1996 £m	1995 £m
Operating profit (including averaged investment gains)		
Before tax	873	804
After tax	654	546
Earnings per share	34.1p	28.7p
Profit for the year (including actual investment gains)		
Before tax	1,614	1,044
After tax	1,407	758
Earnings per share	73.4p	39.8p
Dividend per share	17.3p	15.7p
Shareholders' funds		
Statutory basis	2,757	1,747
Accruals basis	5,821	4,918

Accounting Policies

There have been no major changes in accounting policies in 1996. During the year the insurance industry and the Accounting Standards Board have made progress towards establishing an appropriate method of accounting for investment gains. We are hopeful that during 1997 a method will be agreed which includes smoothed gains in the operating result and total realised and unrealised gains in the profit on ordinary activities, similar to the Group's present basis of reporting.

Disposal of Mercantile & General Reinsurance

Following the appointment of the new management team in 1992, there had been a strong recovery in the results of Mercantile & General. However, earnings growth in its core long-term business was slowing and, given the absence of synergy between M&G and the rest of the Group, together with the increasing need for scale in world reinsurance markets, we decided that the time was right to dispose of this business. The sale to Swiss Re produced an excellent price of £1,754 million, resulting in a gain over net asset value of £766 million. The proceeds were received in cash in December and are primarily invested in short-term deposits and money market securities to provide maximum liquidity and minimal capital risk. Although the sale will result in some short-term dilution of earnings, there is no doubt that it improves the risk profile of the Group and the overall quality of its earnings. Moreover, the interest receivable on the proceeds will be well in excess of the dividends previously received from M&G, so that there will be no reduction in the funds available centrally to support the Group's dividend.

Profit and Earnings Per Share

Operating profit before tax, at £873 million, was nine per cent up on 1995. The effective rate of tax on the operating profit for 1996 was exceptionally low at 25 per cent due to the utilisation of prior year tax credits not previously recognised in both the UK and the US. This compares with a normally expected rate of 30 per cent. As a result, operating profit earnings per share increased by 19 per cent to 34.1 pence.

Total profit before tax, after including the profit on business disposals and the adjustment from averaged to actual investment gains, was £1,614 million in 1996 and total earnings per share 73.4 pence.

Dividend

The total dividend for the year has increased by 10 per cent to 17.3 pence per share. Based on operating profit after tax, dividend cover is almost two times.

Shareholders' Funds

The consolidated balance sheet on page 55 shows that shareholders' capital and reserves at the end of 1996 were £2,757 million, an increase of over £1 billion compared with 1995. The increase primarily reflects the profit on business disposals together with retained operating profit after dividend payments. However, this figure 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 77. This basis recognises the overall shareholders' interest in the business 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 10 per cent of these assets are allocated to shareholders. Total accruals basis shareholders' funds were £5.8 billion compared with £4.9 billion at the end of 1995. The increase reflects the growth of the business and the profit on business disposals. These funds are located as follows:

	1996 £bn	1995 £bn
Prudential UK	2.5	2.3
Jackson National Life	1.6	1.5
Prudential Asia	0.2	0.1
Other international operations	0.1	0.1
Retained centrally	1.4	(0.3)
Discontinued operations	–	1.2
Accruals basis shareholders' funds	5.8	4.9

Funds Flow and Borrowings

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

	1996 £m	1995 £m
Group operating profit after tax	654	546
Dividends	(332)	(300)
Reinvested in businesses	(309)	(219)
Funds available to holding company	13	27
New investment in businesses	(46)	(33)
Disposal of businesses	1,784	89
Timing differences and other items	32	12
Net holding company cash movement	1,783	95

We believe that this presentation provides a clearer demonstration of the utilisation of the Group's resources than the format prescribed under FRS 1 shown on page 57. In 1996 the Group's

Jim Jack, group financial controller, John Pemberton, head of business development, Jonathan Bloomer, group finance director and Charles Lowe, group treasurer, at one of their regular meetings.

operations generated funds after tax of £654 million, over £100 million more than in 1995. Retained profit after dividends was £322 million, of which £309 million was reinvested in our businesses to finance expansion, principally in Jackson National Life. The disposals of Mercantile & General and the small Dutch business resulted in net sale proceeds of £1,784 million and there was an overall net cash inflow to the holding company of £1,783 million.

As a result of the above inflow and after favourable exchange movements of £62 million, at the end of 1996 there was net holding company cash of £1,149 million, compared with net borrowings of £696 millon at the end of 1995.

Gross loans of £672 million at the end of 1996 remain wholly at fixed rates of interest with maturity dates ranging from 1997 to 2007, as set out in note 18 on page 67. Some 60 per cent of the borrowings are in US dollars, in order to reduce the currency exposure arising from our investment in Jackson National Life. The Group also retains access to both commercial paper facilities and committed and uncommitted bank facilities.

The Group enjoys strong ratings from Moody's and Standard and Poors of Aa3 and AA+ respectively for its long-term debt and P1 and A1+ for commercial paper.

Treasury Policy

The Group operates a central treasury function which has overall responsibility for managing its capital funding programme 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. 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 primarily in sterling and US dollars. After adjusting for borrowings, approximately three quarters of the Group's accruals basis net assets are held in sterling with a further fifth held in US dollars.

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 further in 1996 as a result of strong investment markets, dividend growth and the achievement of above average investment returns. We expect that the solvency ratio of free assets to liabilities of 28 per cent, compared with 26 per cent in 1995, will be above the industry average. The fund's financial strength is rated Aaa by Moody's and $AAA_{(S)}$ by Standard and Poors.

The solvency position of Jackson National Life strengthened further in 1996 with its risk-based capital ratio increasing from 219 to 252 per cent of the regulatory minimum. Its claims paying ability is rated AA by Standard and Poors.

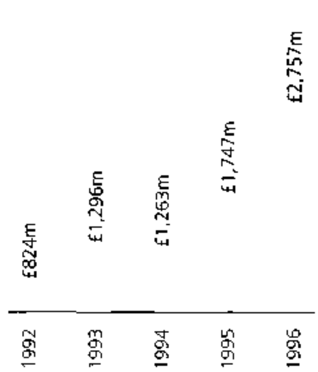
In addition, Jackson is taking advantage of attractive market conditions to access directly the US capital markets for the first time by issuing a US$250 million subordinated loan. This will be admissible for regulatory solvency purposes and will maintain Jackson's strong capital position and support its continued growth.

Conclusion

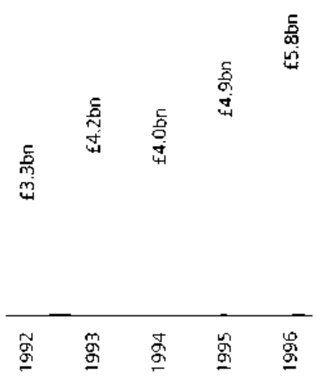
As a result of profit growth and business disposals, we have further strengthened our balance sheet and ended 1996 in a very sound position. Consequently, we are well placed to finance our strategic objectives.

Jonathan Bloomer
Group Finance Director

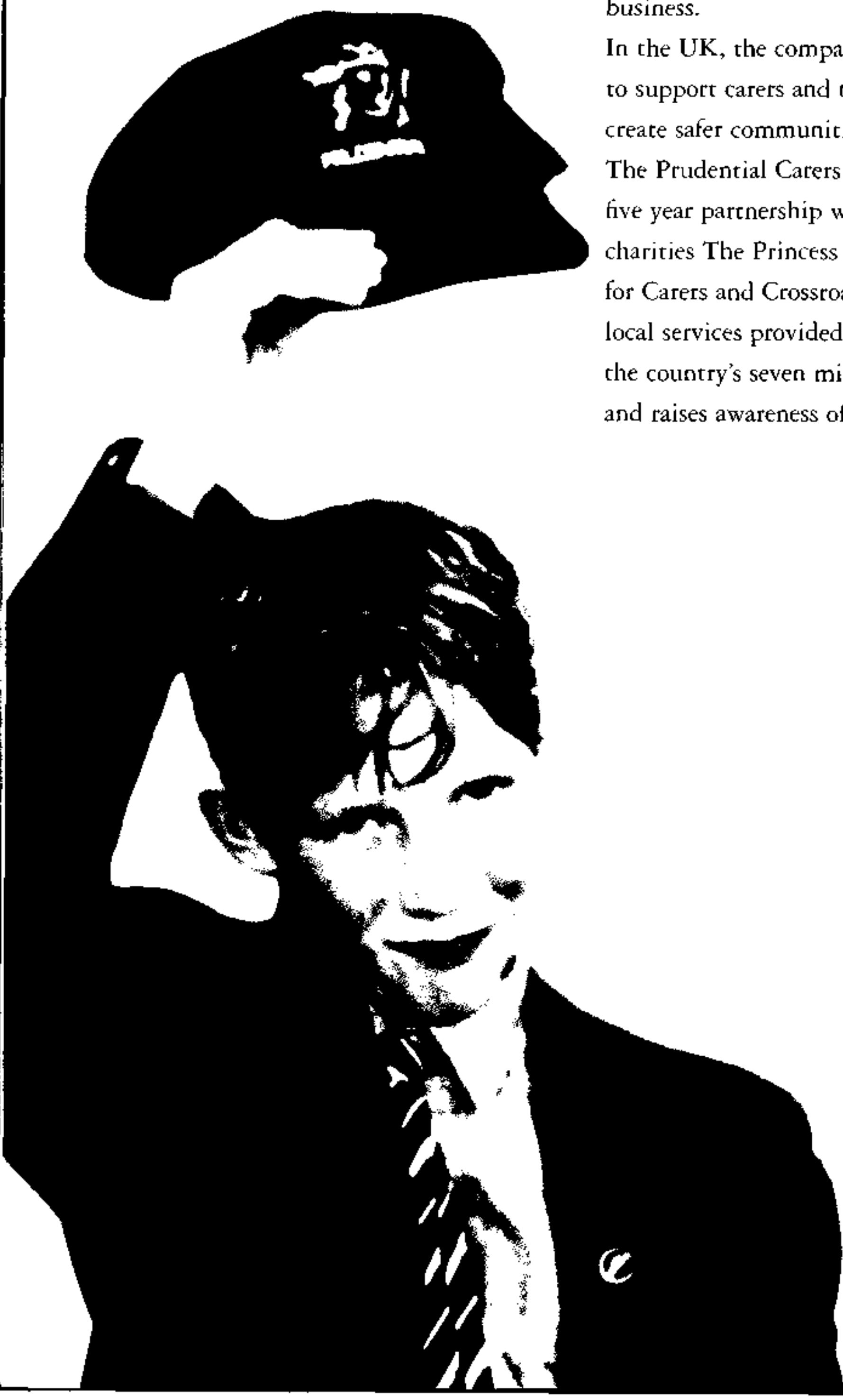
SHAREHOLDERS' FUNDS – STATUTORY BASIS (£M)



SHAREHOLDERS' FUNDS – ACCRUALS BASIS (£BN)



Investment in the Community



Investment in the community activities world-wide totalled £2.1 million in 1996, reflecting the international nature of Prudential's business.

In the UK, the company continued to support carers and to work to create safer communities.

The Prudential Carers Initiative, a five year partnership with carers charities The Princess Royal Trust for Carers and Crossroads, improves local services provided to some of the country's seven million carers and raises awareness of their needs.

Staatliche Museen Kassel, Neue Galerie

Thirteen Prudential funded Princess Royal Trust Carers Centres continue to provide support, information and advice specifically tailored to meet the individual requirements of carers. In addition, Crossroads has increased the provision of at home respite care to allow carers a vital break from their responsibilities.

The Prudential Youth Action Initiative, a five year partnership with Crime Concern, continues to help young people make their communities safer by addressing issues such as bullying, drug misuse and personal safety.

Prudential's UK sponsorship activities included The Prudential Awards for the Arts, an annual competition designed to reward and support the best UK arts organisations, and sponsorship of 'The Grand Tour' an exhibition of 18th Century art at the Tate

Gallery. Since its inception in 1989, the Prudential Awards for the Arts has benefited over 70 arts organisations to the tune of £2 million.

Overseas, each Prudential company designs a programme appropriate to local needs.

In the US, Jackson National Life contributes to projects that improve the civic and cultural life of the State of Michigan, including the YMCA's 'Invest in Youth Campaign' and the Mid Michigan Opera Company.

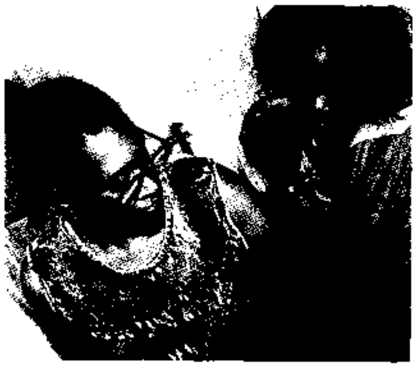
In Asia, a full programme of sponsorship and community activity was launched in 1996, with the main focus being on education and training. Other activities included the Hong Kong season of 'The Music of Andrew Lloyd Webber' and various sports events in China, Singapore and Malaysia.

In Thailand, Prudential co-operates with the national police department to assist the government's educational programme addressing drug misuse.

In Australia, Prudential supports the Multiple Sclerosis Society and medical research and a number of smaller charities.

The most notable event in New Zealand was sponsorship of a play about the life of Maria Callas, the proceeds of which were given to the 'Save the Children Fund'.

In Italy, Prudential Vita organised a concert at the Milano Conservatorio to raise funds for a UNICEF youth project.



Board of Directors

Sir Martin Jacomb*
Chairman (Age 67)
A director since 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*
Deputy Chairman (Age 59)
A director since 1984 and Deputy Chairman since 1991. Chairman of Prudential Staff Pensions, Cavaghan and Gray and the London Clinic. Director of John Waddington and Drummonds. Deputy Chairman of the Council of the Prince of Wales' Institute of Architecture.

Sir Peter Davis
(Age 55)
Group Chief Executive since May 1995 and a director since 1994. Director of Boots. Previously Chief Executive and Chairman of Reed International.

Keith Bedell-Pearce
(Age 51)
A director since 1992 and Director, International Development since November 1996. Joined Prudential in 1972.

Jonathan Bloomer FCA
(Age 42)
Group Finance Director since January 1995. Previously a senior partner of Arthur Andersen.

Ann Burdus*
(Age 63)
A director since November 1996. Director of Safeway, Dawson International and Next. Board member of the Civil Aviation Authority, the Committee of the Automobile Association and the Council of the Institute of Directors.

* non-executive director

Niall FitzGerald*
(Age 51)
A director since 1993. Chairman of Unilever and the Confederation of British Industry Europe Committee. Director of the Bank of Ireland.

Lord Gillmore GCMG*
(Age 62)
A director since March 1995. Senior adviser to BZW, director of Vickers and Governor of Birkbeck College, University of London. Previously Permanent Under-Secretary of State and Head of the Diplomatic Service.

Derek Higgs
(Age 52)
A director since February 1996. Chairman of Prudential Portfolio Managers. Previously Chairman of S.G. Warburg & Co Ltd.

Jim Sutcliffe FIA
(Age 40)
A director since 1994 and Chief Executive of Prudential UK. Joined Prudential in 1976.

Andrew Teare*
(Age 54)
A director since 1992. Group Chief Executive of The Rank Group. Previously Group Chief Executive of English China Clays.

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 throughout the year with the requirements of the Code. The Company has also complied with the best practice provisions regarding remuneration committees, annexed to the Listing Rules of the London Stock Exchange.

Organisational Structure

The organisational structure of the Group is clearly defined with lines of responsibility and delegation of authority. The Board decides the objectives and strategy and has set out the specific matters which are reserved to it for decision.
Authority is delegated to the group chief executive for implementing the strategy and for managing the Group. In discharging his responsibility, the group chief executive works with a group executive committee, comprising all the executive directors and other divisional heads, and is also assisted by a group head office team of functional specialists.
The head of each division has authority for management of that division and has established a management board comprising the most senior executives in the division.

Board Committees

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

Audit Committee
Michael Abrahams (Chairman)
Ann Burdus
Lord Gillmore
Andrew Teare

The audit committee assists the Board in meeting its responsibilities in respect of the system of internal financial control and external financial reporting.

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

The remuneration committee reviews remuneration policy and determines the remuneration packages of the executive directors. The remuneration committee's report is set out on pages 40 to 46.

Nomination Committee
Sir Martin Jacomb (Chairman)
Michael Abrahams

The nomination committee considers 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 and the main features are as follows:

Investment
The respective responsibilities of the Board and divisional management for investment strategy, compliance and performance are clearly defined. There are also detailed rules governing investment dealing and settlement, incorporating details of procedures and authority levels.

Underwriting

The Group has controls over underwriting exposures covering both risks accepted and reinsured. Exposure limits are reviewed annually as part of the planning process.

Financial Control Procedures

Detailed controls, applicable across the Group, 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 the Group as a whole. The Board receives monthly management reports comparing actual performance with plan, and highlighting key business indicators and the progress of major projects.

Financial Position

The Board receives regular reports from the group finance director on financial matters and receives annual reports from the group chief actuary on the financial condition of the Group's principal long-term insurance businesses.

Audit

The head of the group internal audit function has direct access to the chairman of the audit committee and any significant matters arising from internal audit work are reported to the committee. The audit committee receives twice-yearly reports from the external auditors on internal financial control and reviews action taken in response to any 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 processes set out above.

In addition, during the year each business area, including group head office, prepared an assessment of its risk exposures and internal financial control framework.

This work was reviewed by the external auditors and a summary of the findings was considered by the audit committee.

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 has internal compliance managers who monitor adherence to local regulatory requirements and report regularly to the 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 50 to 69 and the supplementary information on pages 74 to 79. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of

Corporate Governance

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

Prudential Portfolio Managers (PPM) believes that the boards of companies in which it invests should pay due regard to environmental matters and thereby further the long-term interests of their shareholders.

PPM has developed environmental guidelines for the properties it owns and manages so as to ensure that they optimise energy efficiency and that all works of refurbishment and redevelopment are appraised in advance for their environmental effects.

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

Report of the Auditors on Corporate Governance Matters

to the directors of Prudential Corporation plc

In addition to our audit of the financial statements, we have reviewed your statements on pages 36 to 38 concerning the Group's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and the adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v), if not otherwise disclosed.

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance 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 36 and 37 (other than your opinion on effectiveness which is outside the scope of our report) and on going concern on page 38 have provided the disclosures required by the Listing Rules referred to above 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 Company and examination of relevant documents, your statement on page 36 appropriately reflects the Group's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Price Waterhouse
Chartered Accountants
London
18 March 1997

Remuneration Committee Report

The members of the Remuneration Committee are listed on page 36. The Listing Rules of the London Stock Exchange contain a number of requirements in respect of directors' remuneration, including a report by the Remuneration Committee of the Board. The Company has complied throughout the year with Section A of the provisions annexed to the Listing Rules and, in framing its remuneration policy, the Committee has given full consideration to Section B of the provisions.

Executive Directors' Remuneration

Remuneration policy

The policy of the Company is to provide competitive remuneration packages in order to recruit and retain high calibre executives. In addition to salary and pensions, this is achieved by means of an annual bonus and a long-term incentive plan directly related to the Company's longer-term performance. The Executive Share Option Scheme terminated in May 1995, the last grant of options under the Scheme having been made in April 1995.

Salary

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

Annual bonus

Executive directors other than Derek Higgs qualify for awards under the Group's short-term deferred bonus plan, known as the Share Participation Plan. Awards are determined by the Committee based on the performance of the Group against the annual business plan, with particular reference to operating profit and other financial measures and developments. Executive directors may receive an initial cash award which, for 1996, was 15 per cent of salary at the time of the award. Either the net amount of this award must be used to buy shares or an equivalent number of shares must be lodged with the Plan trustee. The Company may then make an award of additional shares, which for 1996 was equivalent to 22.5 per cent of salary at the time of the award, on the basis that both sets of shares are held in trust for five years. If a director leaves prior to this, the additional shares may be released in certain circumstances. The total award, including the additional share award, can range from nil to 45 per cent of salary depending upon actual performance against business plan.
Derek Higgs can be awarded a bonus, payable half in shares and half in cash, which can range from nil to 100 per cent of salary, based on the overall performance of Prudential Portfolio Managers.

Benefits
Executive directors receive certain taxable benefits, principally a company car and private medical insurance.

Service contracts
In 1995, the Committee changed its policy so that the normal notice of termination which the Company is required to give executive directors is 12 months, although for newly appointed directors there may be an initial contractual period of up to two years before the 12 month notice period applies. In the case of Keith Bedell-Pearce and Jim Sutcliffe, who were in office prior to 1995, the period has been reduced to 18 months, which the Committee considers reasonable compared with a previous notice period of three years. When considering termination of service contracts, the Committee will have regard to the specific circumstances of each case, including mitigation.

Policy on external appointments
Executive directors are able, subject to the Board's approval, to accept external appointments as non-executive directors of other organisations. Fees payable in connection with such appointments are waived in favour of the Group, unless otherwise agreed.

Non-executive Directors' Remuneration

The fees for non-executive directors are reviewed annually by the Board after considering recommendations by the executive directors. With effect from 1 June 1996, non-executive directors' fees were increased to £25,000 per annum and to £45,000 per annum for the deputy chairman. The chairman's fees remained at £166,000 per annum. Non-executive directors do not have service contracts and are not eligible for the annual bonus, the long-term incentive scheme or pensions, except that directors appointed prior to 1988 remain members of the Prudential Staff Pension Scheme.

Remuneration Committee Report

Directors' Remuneration

	Salary /Fees £000	Annual Bonus £000	Benefits £000	**Total 1996 £000**	Total 1995 £000
Executive directors					
Keith Bedell-Pearce	208	82	20	**310**	294
Jonathan Bloomer	275	118	29	**422**	383
Sir Peter Davis (group chief executive from 1/5/95)	425	169	27	**621**	413
Derek Higgs (appointed 19/2/96)	261	220	14	**495**	–
John Maxwell (resigned 30/11/96, note 1)	193	58	19	**270**	293
Jim Sutcliffe	300	118	19	**437**	368
Hugh Jenkins (retired 31/12/95)	–	–	–	–	377
Mick Newmarch (resigned 23/1/95)	–	–	–	–	59
Total executive directors	1,662	765	128	**2,555**	2,187
Non-executive directors					
Michael Abrahams	43	–	–	**43**	40
Ann Burdus (appointed 21/11/96)	3	–	–	**3**	–
Niall FitzGerald (note 2)	23	–	–	**23**	20
Lord Gillmore (appointed 20/3/95)	23	–	–	**23**	16
Sir Trevor Holdsworth (retired 29/5/96)	8	–	–	**8**	20
Sir Martin Jacomb (chairman from 31/5/95)	166	–	9	**175**	110
Andrew Teare	23	–	–	**23**	20
Sir Brian Corby (chairman, retired 31/5/95)	–	–	–	–	41
Total non-executive directors	289	–	9	**298**	267
Overall total	1,951	765	137	**2,853**	2,454
Overall total 1995	1,829	481	144	2,454	–

Notes

1. In addition to the above total, John Maxwell received £302,000 compensation for loss of office comprising £225,000 in respect of 12 months' salary and benefits and £77,000 in respect of 12 months' pension arrangements.
2. Fees in respect of Niall FitzGerald are paid to his employer.
3. The annual bonus reflects all pre-tax amounts awarded under the Share Participation Plan, including the cost of the additional shares.
4. Total emoluments comprising remuneration and pension contributions were £3,295,000 (£3,052,000).

Directors' Long-term Incentive Plan

The Group's long-term incentive plan is known as the Restricted Share Plan and is designed to provide reward contingent upon the achievement of pre-determined returns to shareholders. Under this Plan executive directors are granted annually a conditional award of shares in the Company which are held in trust for three years. The conditional award is equivalent in value to 80 per cent (or 100 per cent in the case of the group chief executive) of salary at the time of the award, valuing the shares at their average price during the preceding calendar year. The number of shares which the directors are allocated out of the conditional award after three years depends on the Company's total return to shareholders relative to other companies in the FTSE 100 share index over the three years. In addition, the Committee must be satisfied with the Company's overall financial performance during this period. No shares will be allocated if the Company's total shareholder return ranks 60th or below and the maximum allocation will be awarded only if the total shareholder return is in the top 20. Between these points, allocations of shares will be on a straight line basis. The right to receive allocations may then be exercised by the director concerned at any time during the following seven years.

Details of conditional awards of shares under the Plan are shown below. These shares are held in trust and represent the conditional awards out of which allocations may be made, as stated above, in the allocation year. 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.

	Awards outstanding at 1 Jan 1996	Awarded in 1996	Awards outstanding at 31 Dec 1996	Allocation year
Keith Bedell-Pearce	–	48,037	48,037	1999
Jonathan Bloomer	–	63,511	63,511	1999
Sir Peter Davis	90,226	–	90,226	2000
	–	115,474	115,474	1999
Derek Higgs	–	69,285	69,285	1999
John Maxwell	–	48,499	48,499	1999
Jim Sutcliffe	–	69,285	69,285	1999

Directors' Shareholdings

The interests of directors in shares of the Company, including awards under the Share Participation Plan but excluding conditional awards under the Restricted Share Plan, are shown below. All interests are beneficial.

	1 Jan 1996 or date of appointment	31 Dec 1996
Michael Abrahams	12,173	12,629
Keith Bedell-Pearce	61,890	71,408
Jonathan Bloomer	2,611	17,824
Ann Burdus	–	2,500
Sir Peter Davis	15,000	32,396
Niall FitzGerald	3,319	3,444

	1 Jan 1996 or date of appointment	31 Dec 1996
Lord Gillmore	2,536	2,631
Derek Higgs	–	24,095
Sir Martin Jacomb	16,000	16,598
Jim Sutcliffe	72,113	87,937
Andrew Teare	2,500	2,500

There have been no changes between 31 December 1996 and 7 March 1997.

Remuneration Committee Report

Directors' Share Options

The Restricted Share Plan replaced the Executive Share Option Scheme in 1995 as the Group's long-term incentive plan. Outstanding options under that Scheme remain in force and are set out below together with options under the Savings-Related Share Option Scheme. In 1996 the period of service required prior to participation in the Savings-Related Scheme was reduced to six months. Under this Scheme options are granted at a 20 per cent discount and cannot normally be exercised until a minimum of three years has elapsed.

	Options outstanding at 1 Jan 1996	Granted in 1996	Exercised in 1996	Options outstanding at 31 Dec 1996	Exercise price (pence)	Market price at date of exercise	Earliest exercise date	Latest exercise date
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
	–	2,267		2,267*	344		2003	2003
	–	3,259		3,259*	359		2003	2004
	366,985	5,526		372,511				
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				
Sir Peter Davis	–	5,014		5,014*	344		2001	2001
Derek Higgs	–	5,014		5,014*	344		2001	2001
Jim Sutcliffe	3,731		3,731	–*	201	458		
	25,000			25,000	199		1993	1997
	137,000			137,000	201		1995	2002
	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
	–	1,133		1,133*	344		2003	2003
	–	2,172		2,172*	359		2003	2004
	355,502	3,305	3,731	355,076				

*Savings-Related Share Option Scheme

No options lapsed during the year. The market price of shares at 31 December 1996 was 491.5 pence and the range during 1996 was from 403 pence to 504.5 pence.

Directors' Pensions

Prudential Staff Pension Scheme

Executive directors are eligible to participate in the Prudential Staff Pension Scheme on the same basis as other members. The Scheme is non-contributory and provides members with a maximum pension of up to 38/60 of Final Pensionable Earnings at the normal retirement age of 60. Final Pensionable Earnings are the sum of the pensionable salary for the 12 months immediately preceding termination and the yearly average of the cash element of the Share Participation Plan in the 3 years immediately preceding termination of service. During the year, on the Committee's advice the Company adopted a policy that the cash element of the Share Participation Plan would not in future be included. Final Pensionable Earnings for entrants since 31 May 1989 are restricted to salary up to the Inland Revenue earnings cap. For entrants before this date, the previous definition remains unchanged but the cash element of the Share Participation Plan is under review.

The Scheme also provides on death, whether in service or following retirement, pensions for spouse and children. The spouse's pension on death in service is 54 per cent of the member's prospective pension at age 60 and, on death after retirement, is 50 per cent of the member's pension in payment. A lump sum death in service benefit of four times Final Pensionable Earnings is also provided. Pension increases after retirement are wholly discretionary but in recent years annual increases have been awarded in line with inflation. Discretionary increases are taken into account in calculating transfer values payable in lieu of deferred pension benefits. The contract of Keith Bedell-Pearce provides that in the event of his retirement at age 55, his pension will be based on the pension he would have received at normal retirement age 60 subject to a discount rate of three per cent per annum for early retirement.

Other pension arrangements

For directors subject to the earnings cap, with effect from 1 January 1996 the Company has established Funded Unapproved Retirement Benefit Schemes (FURBS) and a separate life assurance scheme to provide additional retirement and life assurance benefits based on pensionable salary (but not the cash element of the Share Participation Plan) in excess of the earnings cap. Both Sir Peter Davis and Derek Higgs participate in these arrangements.

In respect of Jonathan Bloomer, the Prudential Staff Pension Scheme provides only lump sum benefits payable on death in service. He does not participate in the FURBS and instead the Company pays a salary supplement to fund personal pension arrangements. He does however participate in the separate life assurance scheme. John Maxwell, who resigned on 30 November 1996, did not participate in the FURBS and instead received a salary supplement to fund personal pension arrangements. In 1995 supplements were paid to Jonathan Bloomer, Sir Peter Davis and John Maxwell.

Remuneration Committee Report

Pension entitlements

Details of directors' pension entitlements under the Scheme and pre-tax contributions to FURBS or salary supplements are set out in the table below.

	Age at 31 Dec 1996	Years of pensionable service at 31 Dec 1996	Additional pension earned (including inflation) during 1996 £000	Accrued entitlement based on normal retirement age: 31 Dec 1996 or date of leaving £000	Accrued entitlement based on normal retirement age: 31 Dec 1995 or date of appointment £000	Pre-tax contribution to FURBS or salary supplement: 1996 £000	Pre-tax contribution to FURBS or salary supplement: 1995 £000
Keith Bedell-Pearce	50	26	5	113	108	-	–
Jonathan Bloomer	42	-	-	–	–	72	149
Sir Peter Davis	55	1	1	2	1	132	86
Derek Higgs	52	0	1	1	0	78	–
John Maxwell (resigned 30/11/96)	52	2	1	4	3	56	38
Jim Sutcliffe	40	18	20	105	85	-	-
Michael Abrahams (note 1)	59	12	1	7	6	-	–
Sir Trevor Holdsworth (retired 29/5/96, note 1)	69	9	0	4	4	–	–

Notes

1. The normal retirement age for non-executive directors in the Scheme is 72 but pensions not discounted for early retirement are available from age 65. The spouse's pension on death in service is 50 per cent of the member's prospective pension at 72 and, on death after retirement, 50 per cent of the member's pension in payment. No lump sum benefit is payable on death in service.
2. Total pension contributions payable by the Company including contributions to FURBS and salary supplements amounted to £442,000 (£598,000).

Service Contracts of Directors Proposed for Re-election

The unexpired terms of the service contracts of Keith Bedell-Pearce and Jim Sutcliffe, who are proposed for re-election at the forthcoming annual general meeting, are 18 months. Ann Burdus and Sir Martin Jacomb, who are proposed for election and re-election respectively, do not have service contracts.

On behalf of the Board of directors

Andrew Teare
Chairman
Remuneration Committee
18 March 1997

Directors' Report

Principal Activity and Business Review

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiary undertakings is insurance in the United Kingdom and overseas. Particulars of principal subsidiary undertakings are given on page 68. The Group's business is reviewed in the Chairman's Statement on pages 2 to 4 and the Group Chief Executive's Review on pages 5 to 8.

Financial Statements and Supplementary Information

The consolidated balance sheet on pages 54 and 55 shows the state of affairs of the Group at 31 December 1996. The Company's balance sheet appears on page 56 and the consolidated profit and loss account on pages 50 to 52. There is a five year review of the Group on pages 71 to 73. Supplementary information prepared on the accruals basis of financial reporting is provided on pages 74 to 79.

Dividends

The directors have declared a final dividend for 1996 of 11.5 pence per share payable on 28 May 1997 to shareholders on the register at the close of business on 1 April 1997. The dividend for the year, including the interim dividend of 5.8 pence per share paid in 1996, amounts to 17.3 pence per share compared with 15.7 pence per share for 1995. The total cost of dividends for 1996 was £332 million.

Payment Policy

It is the policy of the Group to agree terms of payment when orders for goods and services are placed and to pay in accordance with those terms.

Directors

The present directors are shown on pages 34 and 35. Sir Trevor Holdsworth retired as a director and John Maxwell resigned as a director with effect from 29 May 1996 and 30 November 1996 respectively. Derek Higgs was appointed a director on 19 February 1996 and elected at the Annual General Meeting on 29 May 1996. Ann Burdus was appointed a director on 21 November 1996 and in accordance with the Articles of Association retires and offers herself for election at the Annual General Meeting. Sir Martin Jacomb, Keith Bedell-Pearce and Jim Sutcliffe retire by rotation at the Annual General Meeting and offer themselves for re-election. Details of directors' interests in the share capital of the Company are set out in the Remuneration Committee Report on pages 43 and 44.

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. The requirements of the Disability Discrimination Act 1996 have been put into effect.

Directors' Report

Employee Involvement

The Group has effective communication channels through which employees' views can be sought on issues which concern them. In 1996, the communication 'Talking Point' was introduced in Prudential UK, covering the majority of the Group's UK-based staff, to provide improved information and enable staff to have their views heard at senior level. Other divisions have similar communications. Employees were invited on two occasions to participate in the Prudential Savings-Related Share Option Scheme, on the second occasion taking advantage of the Government's changes to these schemes in 1996. The Scheme has now been operating for over 12 years and some 60 per cent of UK staff currently participate. The board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by members of the Scheme, who have approved the continuation of this arrangement under the Pensions Act 1995.

Charitable Donations

Charitable donations made by the Group in 1996 totalled £1.8 million.

Auditors

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

Annual General Meeting: Special Business

Disapplication of pre-emption rights

At the Annual General Meeting last year, shareholders passed a resolution giving the directors authorisation for the limited disapplication of Section 89 of the Companies Act 1985. This empowered them to allot shares for cash otherwise than in accordance with statutory pre-emption rights in certain limited circumstances. That power will expire in August 1997. Accordingly, the notice of this year's Annual General Meeting on page 81 includes a resolution to renew this authority for a further period of 15 months. The renewal of this power is limited, apart from rights issues and scrip dividends, to the issue of shares up to a maximum of 96 million shares (representing approximately five per cent of the total issued share capital of the Company at 7 March 1997). As regards rights issues and scrip dividends, the directors believe that the procedure under Section 89 is unduly restrictive and are therefore also seeking continuation of its disapplication in those circumstances. The directors have no present intention of using this power except in connection with scrip dividends. This renewed power will expire no later than 15 months after the resolution is passed.

Purchase of own shares

The directors consider that there may be circumstances in which it would be desirable for the Company to purchase its own shares in the market. Although the directors have no immediate plans to make such purchases, they would like to be able to act if circumstances arose in which they considered such purchases to be desirable. Purchases would only be made if their effect would be to increase earnings per share and would be for the benefit of shareholders generally. Accordingly, as last year, shareholders are being asked in the resolution set out in the notice of the Annual General Meeting on page 81 to authorise the Company to make market purchases of its shares up to a maximum of 192 million shares (representing approximately 10 per cent of the Company's issued share capital at 7 March 1997) at prices not exceeding 105 per cent of the average middle market quotations for the shares for the five business days before the purchase is made. The authority conferred by this resolution will expire at the conclusion of next year's Annual General Meeting.

Amendments to the Articles of Association

In the resolution set out in the notice of the Annual General Meeting on page 82, shareholders are asked to amend the Articles of the Company, for the following purposes:

Part (a) of the resolution: This amendment clarifies the existing position that the Company, in accordance with the Stock Exchange Listing Rules, will not prevent the free trading of its fully-paid shares.

Part (b): In line with normal practice, the proposed amendment prescribes both a maximum and minimum number of directors.

Part (c): This proposed amendment brings the appointment of directors to fill casual vacancies on the Board in line with other provisions of the Articles, allowing approval by a simple majority of directors.

Part (d): This proposed amendment brings the Company's Articles in line with current best practice, by providing that a Board resolution to remove any director requires the effective support of all other directors.

Parts (e), (f) and (g): These amendments ensure that the Company's Articles accord with the latest Stock Exchange Listing Rules regarding directors' conduct when considering a proposal in which they have a personal interest.

Recommendation

The directors consider that these proposals are in the best interests of the shareholders as a whole and unanimously recommend shareholders to vote in favour of the resolutions to be proposed at the Annual General Meeting, as they intend to do in respect of their own beneficial holdings amounting in aggregate to 273,962 shares.

Shareholders

The number of accounts on the share register at 31 December 1996 was 77,840 (76,245). Further information about shareholdings in the Company is given on page 83. At 7 March 1997 no notification of a shareholding of three per cent or more of the share capital of the Company had been received by the Company.

CREST

Following the amendment to the Articles of Association made by shareholders at the Annual General Meeting in 1996, the Company was an early entrant into CREST on 2 September 1996. CREST is the new computerised system for settling sales and purchases on the London Stock Exchange. At 7 March 1997 approximately 83 per cent of the Company's shares were held in CREST.

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
18 March 1997

Consolidated Profit and Loss Account

Year ended 31 December 1996

Note	General Business Technical Account	1996 £m	1995 £m
	Gross premiums written:		
	Continuing operations	303	315
8	Discontinued operations	304	292
1	Total	607	607
	Outward reinsurance premiums	(56)	(52)
	Premiums written, net of reinsurance	551	555
	Change in the provision for unearned premiums:		
	Gross amount	(6)	4
	Reinsurers' share	2	(1)
	Earned premiums, net of reinsurance	547	558
	Allocated investment return transferred from the non-technical account	138	247
	Claims paid:		
	Gross amount	(471)	(522)
	Reinsurers' share	56	73
	Net of reinsurance	(415)	(449)
	Change in the provision for claims:		
	Gross amount	62	93
	Reinsurers' share	(15)	(65)
	Net of reinsurance	47	28
	Claims incurred, net of reinsurance	(368)	(421)
5	Net operating expenses	(153)	(172)
	Change in the equalisation provision	(7)	–
1	Balance on the general business technical account	157	212
	Analysed between:		
	Continuing operations	68	105
8	Discontinued operations	89	107
		157	212

Consolidated Profit and Loss Account

Year ended 31 December 1996

Note	Long-term Business Technical Account	1996 £m	1995 £m
	Gross premiums written:		
	Continuing operations	9,361	6,593
8	Discontinued operations	1,222	1,094
1	Total	10,583	7,687
	Outward reinsurance premiums	(263)	(204)
	Earned premiums, net of reinsurance	10,320	7,483
3	Investment income	5,933	5,331
	Unrealised gains on investments	1,647	4,684
4	Claims paid:		
	Gross amount	(7,103)	(5,605)
	Reinsurers' share	282	177
	Net of reinsurance	(6,821)	(5,428)
	Change in the provision for claims:		
	Gross amount	(29)	(4)
	Reinsurers' share	11	5
	Net of reinsurance	(18)	1
	Claims incurred, net of reinsurance	(6,839)	(5,427)
4	Change in long-term business provision:		
	Gross amount	(6,168)	(5,213)
	Reinsurers' share	26	12
	Net of reinsurance	(6,142)	(5,201)
	Change in provisions for linked liabilities, net of reinsurance	(1,025)	(797)
	Change in other technical provisions, net of reinsurance	(7,167)	(5,998)
5	Net operating expenses	(1,175)	(1,115)
6	Investment expenses and charges	(269)	(206)
7	Tax attributable to the long-term business	(349)	(506)
	Transfers to the fund for future appropriations	(1,585)	(3,693)
1	**Balance on the long-term business technical account**	516	553
	Analysed between:		
	Continuing operations	459	382
8	Discontinued operations	57	171
		516	553

Consolidated Profit and Loss Account

Year ended 31 December 1996

Note	Non-technical Account	1996 £m	1995 £m
	Insurance activities		
	Balance on the general business technical account	157	212
	Balance on the long-term business technical account	516	553
7	Tax credit attributable to balance on the long-term business technical account	214	253
1	Balance on the long-term business technical account before tax	730	806
	Profit on insurance activities	887	1,018
	Analysed between:		
1	Continuing operations	717	693
1	Discontinued operations	170	325
	Other activities		
3	Investment income	192	190
	Unrealised gains on investments	-	135
6	Investment expenses and charges	(67)	(73)
	Unrealised losses on investments	(14)	–
	Allocated investment return transferred to the general business technical account	(138)	(247)
	Other income:		
	Investment management result	35	32
8	Profit on business disposals	797	31
	Other charges:		
	Corporate expenditure	(24)	(22)
	Banking	(54)	(20)
	Profit on other activities	727	26
	Profit on ordinary activities before tax	1,614	1,044
7	Tax on profit on ordinary activities	(207)	(286)
	Profit for the financial year	1,407	758
	Dividends	(332)	(300)
16	**Retained profit for the financial year**	1,075	458

Reconciliation of Operating Profit to Profit on Ordinary Activities

Note		1996 £m	1995 £m
1	Operating profit before tax (including averaged investment gains)	873	804
8	Profit on business disposals	797	31
	Adjustment from averaged to actual investment gains	(56)	209
	Profit on ordinary activities before tax	1,614	1,044

Earnings per share

Note		1996	1995
1	Based on operating profit after tax of £654m (£546m) and 1,917m (1,905m) shares	34.1p	28.7p
	Adjustment in respect of profit on business disposals	41.6p	1.6p
	Adjustment from post-tax averaged to post-tax actual investment gains	(2.3)p	9.5p
	Based on profit for the financial year of £1,407m (£758m) and 1,917m (1,905m) shares	73.4p	39.8p
	Dividend per share	17.3p	15.7p

Statement of Total Recognised Gains and Losses

Year ended 31 December 1996

	1996 £m	1995 £m
Profit for the financial year	1,407	758
Exchange movements	(138)	16
Total recognised gains	1,269	774

Reconciliation of Movement in Shareholders' Capital and Reserves

Year ended 31 December 1996

	1996 £m	1995 £m
Total recognised gains	1,269	774
Goodwill reversed on disposals (charged on acquisitions)	38	(17)
New share capital subscribed	35	27
Dividends	(332)	(300)
Net movement in shareholders' capital and reserves	1,010	484
Shareholders' capital and reserves at beginning of year	1,747	1,263
Shareholders' capital and reserves at end of year	2,757	1,747

Consolidated Balance Sheet

31 December 1996

Note	Assets	1996 £m	1995 £m
	Investments		
12	Land and buildings	4,817	4,598
13	Other financial investments	62,200	58,621
	Deposits with ceding undertakings	–	105
		67,017	63,324
14	**Assets held to cover linked liabilities**	6,948	6,358
	Reinsurers' share of technical provisions		
	Provision for unearned premiums	1	13
	Long-term business provision	216	479
	Claims outstanding	75	295
	Technical provisions for linked liabilities	250	–
		542	787
	Debtors		
	Debtors arising out of direct insurance operations:		
	Policyholders	211	197
	Intermediaries	8	16
	Debtors arising out of reinsurance operations	21	393
	Other debtors:		
	Tax recoverable	223	255
	Other	385	444
		848	1,305
	Other assets		
	Banking business assets	98	–
	Tangible assets	96	103
	Cash at bank and in hand	345	364
		539	467
	Prepayments and accrued income		
	Accrued interest and rent	566	643
	Deferred acquisition costs:		
	Long-term business	1,936	1,990
	General business	20	40
	Other prepayments and accrued income	23	17
		2,545	2,690
	Total assets	78,439	74,931

Consolidated Balance Sheet

31 December 1996

Note	Liabilities	1996 £m	1995 £m
	Capital and reserves		
15	Share capital	96	96
15	Share premium	131	114
16	Profit and loss account	2,530	1,537
	Shareholders' funds - equity interests	2,757	1,747
	Fund for future appropriations	13,485	11,918
	Technical provisions		
	Provision for unearned premiums	153	267
17	Long-term business provision	51,668	50,030
	Claims outstanding	666	1,917
	Equalisation provision	7	-
		52,494	52,214
	Technical provisions for linked liabilities	7,198	6,358
	Provisions for other risks and charges		
	Pensions and similar obligations	28	21
7	Deferred tax	120	272
	Other	46	32
		194	325
	Creditors		
	Creditors arising out of direct insurance operations	195	210
	Creditors arising out of reinsurance operations	84	185
18	Debenture loans	672	751
	Amounts owed to credit institutions	90	26
	Other creditors including taxation and social security:		
	Banking business liabilities	56	-
	Tax	140	119
	Final dividend	221	200
	Other creditors	803	822
		2,261	2,313
	Accruals and deferred income	50	56
	Total liabilities	78,439	74,931

Balance Sheet of the Company

31 December 1996

Note		1996 £m	1995 £m
	Fixed assets		
	Investments:		
19	Shares in subsidiary undertakings	360	272
19	Loans to subsidiary undertakings	1,148	726
		1,508	998
	Current assets		
	Debtors:		
	Amounts owed by subsidiary undertakings	280	305
	Tax recoverable	–	38
	Other debtors	9	–
	Other investments	1,758	–
	Cash at bank and in hand	58	41
		2,105	384
	Less liabilities: amounts falling due within one year		
18	Debenture loans	(146)	(161)
	Amounts owed to subsidiary undertakings	(281)	(48)
	Final dividend	(221)	(200)
	Other creditors	(12)	(7)
		(660)	(416)
	Net current assets (liabilities)	1,445	(32)
	Total assets less current liabilities	2,953	966
	Less liabilities: amounts falling due after more than one year		
	Amounts owed to subsidiary undertakings	(1,050)	(449)
	Less provisions for liabilities and charges		
	Deferred tax	–	(32)
		1,903	485
	Capital and reserves		
15	Share capital	96	96
15	Share premium	131	114
20	Retained profit	1,676	275
	Shareholders' funds	1,903	485

The financial statements on pages 50 to 69 and the supplementary information on pages 74 to 79 were approved by the Board of directors on 18 March 1997.

Sir Martin Jacomb, Chairman

Sir Peter Davis, Group Chief Executive

Jonathan Bloomer, Group Finance Director

Consolidated Cash Flow Statement

Year ended 31 December 1996

Note		Continuing operations 1996 £m	Discontinued operations 1996 £m	Total 1996 £m	Restated Total 1995 £m
	Operating activities				
23	Net cash inflow from operating activities	134	125	259	437
	Servicing of finance				
	Interest paid	(61)	–	(61)	(68)
	Tax				
	Tax paid	32	(35)	(3)	(37)
	Disposals				
8	Proceeds from disposal of subsidiaries, net of expenses	1,784	–	1,784	89
	Dividends from discontinued operations	55	(55)	–	–
	Cash and short-term deposits disposed of with subsidiaries	–	(47)	(47)	–
	Net cash inflow from disposals	1,839	(102)	1,737	89
	Equity dividends				
	Equity dividends paid	(310)	–	(310)	(281)
	Financing				
	Issue of debenture loan	–	–	–	161
	Repayment of borrowings	–	–	–	(209)
15	Issues of ordinary share capital	35	–	35	27
	Net cash inflow (outflow) from financing	35	–	35	(21)
	Net cash inflow	1,669	(12)	1,657	119
	The net cash inflow was invested as follows:				
	Portfolio investments				
	Purchases:				
	Ordinary shares	10	17	27	86
	Fixed income securities	899	1,314	2,213	1,264
	Land and buildings	3	–	3	50
		912	1,331	2,243	1,400
	Sales:				
	Ordinary shares	(133)	(39)	(172)	(216)
	Fixed income securities	(169)	(1,197)	(1,366)	(1,244)
	Land and buildings	(12)	–	(12)	–
		(314)	(1,236)	(1,550)	(1,460)
23	Net purchases (sales) of portfolio investments	598	95	693	(60)
23	Increase in cash and short-term deposits	1,071	(107)	964	179
		1,669	(12)	1,657	119

The cash flow statement is prepared in accordance with FRS 1 as revised and comparative figures have been restated. In accordance with the FRS, this statement shows only the cash flows of general business and shareholders' funds. Cash flows for discontinued operations are in respect of Mercantile & General and Prudential Leven, the Group's Dutch operation, which were sold during the year.

Accounting Policies

(A) Disclosure requirements

The consolidated financial statements are prepared in accordance with the provisions of Section 255A of and Schedule 9A to the Companies Act 1985 which cover the disclosures applicable to insurance companies and groups. The financial statements comply with applicable accounting standards and with guidance issued by the Association of British Insurers. 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.

(B) Basis of consolidation

The financial statements of the Group incorporate the assets, liabilities and results of the Company and its subsidiary undertakings. The results of subsidiaries acquired or disposed of are included in the financial statements from the date of acquisition or up to the effective date of disposal.

(C) Investments

(i) 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. Investment return in respect of long-term business is included in the long-term business technical account. Other investment return is included in the non-technical account and an allocation is made to the general business technical account as set out in E(v) below. 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 Jackson National Life 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 the 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 Jackson National Life are carried at amortised cost, subject to provisions for permanent diminution in value. Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost or estimated realisable value.

(D) Long-term business

The results are prepared in accordance with the modified statutory basis of accounting as set out in guidance issued by the Association of British Insurers. 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) Those costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, which are not matched by policy charges are amortised against margins in future revenues on the related insurance contracts, to the extent that the amounts are recoverable out of the margins.

(iv) Investment return, including that on assets matching solvency capital, is credited to the long-term business technical account. Business area operating results shown within the segmental analysis in note 1 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, other than for with-profits business, for the deferral of acquisition costs and movements in the shareholders' interest in reserves held within long-term funds. Profits in respect of with-profits and unit-linked business are calculated initially at the post-tax level and have been grossed up at the full rate of corporation tax. For with-profits business, unappropriated surplus is carried forward in the fund for future appropriations and no allocation is made to shareholders.

(vi) Results of overseas subsidiaries are determined initially 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 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 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) An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 in order to reduce the impact of claims volatility.

(v) Investment return is allocated to the general business technical account from the non-technical account based on the level of assets matching general business provisions and solvency capital. Business area operating results shown within the

Accounting Policies

segmental analysis in note 1 on the financial statements incorporate investment gains averaged over five years.

(F) 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.

(G) 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.

(H) Goodwill

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

(I) Tangible assets

Tangible assets, principally computer equipment, fixtures and furniture, are capitalised and depreciated by equal annual instalments over their estimated useful lives.

(J) Leased assets

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

(K) Pension costs

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

Notes on the Financial Statements

1 Segmental Analysis

Long-term Business including Investment Products	New business Regular 1996 £m	1995 £m	Single 1996 £m	1995 £m	Gross premiums written 1996 £m	1995 £m	Operating profit (including averaged investment gains) 1996 £m	1995 £m
Continuing operations								
Prudential UK								
Pensions	185	173	611	544	1,623	1,484	137	131
Life and annuity	61	71	2,829	1,483	3,655	2,327	193	177
Investment products	57	36	129	61	254	175	(7)	(2)
Total Prudential UK	303	280	3,569	2,088	5,532	3,986	323	306
Jackson National Life	42	34	2,462	1,421	2,928	1,895	328	241
Prudential Asia								
Long-term business	103	91	88	64	466	323	20	16
Development expenses	–	–	–	–	–	–	(8)	(5)
Total Prudential Asia	103	91	88	64	466	323	12	11
Other international operations	68	53	543	368	824	614	14	15
Total continuing operations	516	458	6,662	3,941	9,750	6,818	677	573
Discontinued operations	80	81	666	637	1,222	1,094	101	137
Group total	596	539	7,328	4,578	10,972	7,912	778	710
Analysed between:								
Insurance	537	503	7,065	4,467	10,583	7,687	785	712
Investment products	59	36	263	111	389	225	(7)	(2)
	596	539	7,328	4,578	10,972	7,912	778	710

Analysis of Long-term Business Result per Technical Account	Profit (including actual investment gains) 1996 £m	1995 £m
Prudential UK	323	306
Jackson National Life	300	252
Prudential Asia	12	13
Other international operations	14	17
Discontinued operations	81	218
Result before tax	730	806
Tax	(214)	(253)
Result per technical account	516	553

General Business	Gross premiums written 1996 £m	1995 £m	Underwriting result 1996 £m	1995 £m	Investment return 1996 £m	1995 £m	Operating profit (including averaged investment gains) 1996 £m	1995 £m
Continuing operations								
Prudential UK								
Home	259	261	39	28	29	30	68	58
Motor	44	54	(3)	(6)	10	12	7	6
Total continuing operations	303	315	36	22	39	42	75	64
Discontinued operations	304	292	(17)	(57)	98	120	81	63
Group total	607	607	19	(35)	137	162	156	127

Analysis of General Business Result per Technical Account	Profit (including actual investment gains) 1996 £m	1995 £m
Prudential UK	68	105
Discontinued operations	89	107
Result per technical account	157	212

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.

Notes on the Financial Statements

Other Activities	Operating profit (including averaged investment gains) 1996 £m	1995 £m
Investment return including averaged investment gains	43	45
Investment management result	35	32
Corporate expenditure	(24)	(22)
Interest payable	(61)	(68)
Banking	(54)	(20)
Group total	(61)	(33)

Reconciliation to Non-technical Account	1996 £m	1995 £m
Operating result including averaged investment gains (as above)	(61)	(33)
Profit on business disposals	797	31
Adjustment from averaged to actual investment gains	(9)	28
Result per non-technical account	727	26

Summary of Operating Profit by Activity	1996 £m	1995 £m
Long-term business	778	710
General business	156	127
Banking	(54)	(20)
Other	(7)	(13)
Group total before tax	873	804
Tax	(219)	(258)
Group total after tax	654	546

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.

Analysis of Fund for Future Appropriations and Net Technical Provisions	1996 £m	1995 £m
Prudential UK	52,275	46,101
Jackson National Life	15,367	15,042
Prudential Asia	1,342	1,244
Other international operations	3,651	3,666
Discontinued operations	-	3,650
Group total	72,635	69,703

Analysis of Shareholders' Capital and Reserves	1996 £m	1995 £m
Prudential UK	210	176
Jackson National Life	1,017	866
Prudential Asia	38	36
Other international operations	84	90
Prudential Portfolio Managers	49	42
Retained centrally	2,027	352
Discontinued operations	-	915
	3,425	2,477
Central borrowings	(668)	(730)
Group total	2,757	1,747

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.

2 Jackson National Life

The results of Jackson National Life are consolidated into the Group accounts based on US Generally Accepted Accounting Practices (US GAAP). However, certain adjustments are made to the US GAAP results to comply with the Group's accounting policies, principally:
(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, 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 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	1996 US$m	1995 US$m	1996 £m	1995 £m
US GAAP operating income	450	312	288	198
Averaged investment gains	62	68	40	43
Operating profit per Group accounts	512	380	328	241
Adjustment from averaged to actual investment gains	(44)	17	(28)	11
Profit before tax per Group accounts and per US GAAP	468	397	300	252
Shareholders' Funds				
US GAAP shareholders' funds	2,014	1,893	1,177	1,219
Investment value and related adjustments	(151)	(363)	(88)	(233)
Deferred tax asset eliminated	(212)	(255)	(124)	(164)
Other adjustments	89	68	52	44
Shareholders' funds per Group accounts	1,740	1,343	1,017	866
Exchange rates used for translation were:				
Average rate for the year for profit before tax			1.56	1.58
Year end rate for shareholders' funds			1.71	1.55

3 Investment Income

	Long-term business		Non-technical account	
	1996 £m	1995 £m	1996 £m	1995 £m
Income from:				
Land and buildings	496	434	2	6
Listed investments	3,357	3,085	92	99
Other investments	628	574	35	42
	4,481	4,093	129	147
Gains on the realisation of investments	1,452	1,238	63	43
Total	5,933	5,331	192	190

4 Policyholder Bonuses

Bonuses added during the year are included in the change in long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £1,959m (£1,848m).

5 Net Operating Expenses

	Long-term business		General business	
	1996 £m	1995 £m	1996 £m	1995 £m
Acquisition costs	723	616	52	44
Change in deferred acquisition costs	(144)	(120)	(3)	(2)
Administrative expenses	468	451	52	73
Reinsurance commissions and profit participation	128	168	52	57
Total	1,175	1,115	153	172

6 Investment Expenses and Charges

	Long-term business		Non-technical account	
	1996 £m	1995 £m	1996 £m	1995 £m
Interest on loans	15	11	61	68
Investment management expenses	254	195	6	5
Total	269	206	67	73

Notes on the Financial Statements

7 Tax

Tax Charged to the Long-term Business Technical Account and the Non-technical Account	Attributable to long-term funds 1996 £m	1995 £m	Attributable to shareholders' profits 1996 £m	1995 £m
UK corporation tax	158	149	12	11
Double tax relief	(22)	(18)	(12)	(12)
Tax on franked investment income	112	116	4	4
Overseas tax	162	180	(27)	14
Prior year adjustments	(22)	(25)	(4)	(10)
	388	402	(27)	7
Deferred tax	(39)	104	20	26
	349	506	(7)	33
Tax credit attributable to balance on the long-term business technical account	–	–	214	253
Total	349	506	207	286
Analysed between:				
Tax on operating profit	–	–	219	258
Tax on adjustment from averaged to actual investment gains	–	–	(12)	28
Total	–	–	207	286

Deferred Tax	Liability provided (asset recognised) 1996 £m	1995 £m	Liability not provided (asset not recognised) 1996 £m	1995 £m
Deferred acquisition costs	295	347	–	–
Short-term timing differences	(162)	(154)	(144)	(180)
Long-term business reserves	–	71	82	132
General insurance technical provisions	–	8	(12)	(22)
Capital allowances	(8)	3	(1)	19
Closure cost provisions	(5)	(3)	–	–
Unrelieved losses	–	–	(21)	(23)
Unrealised gains on investments	–	–	1,775	2,100
Total	120	272	1,679	2,026

8 Business Disposals

On 27 August the Group sold its Dutch operation to Achmea Group for £52m and on 6 December it sold Mercantile & General Reinsurance to Swiss Re for £1,754m. After disposal costs, sale proceeds totalled £1,784m. Net assets at the date of the disposals amounted to £987m resulting in profit on disposals both before and after tax of £797m. The net assets disposed of are shown in note 23. The long-term and general business technical accounts include the following amounts in respect of these operations.

Long-term Business	1996 £m	1995 £m
Gross premiums written	1,222	1,094
Earned premiums, net of reinsurance	1,042	957
Investment income	302	275
Unrealised (losses) gains on investments	(45)	139
Claims incurred, net of reinsurance	(718)	(615)
Change in other technical provisions, net of reinsurance	(219)	(294)
Net operating expenses	(276)	(239)
Investment expenses and charges	(5)	(4)
Tax attributable to the long-term business	(24)	(48)
Technical result after tax (including actual investment gains)	57	171

General Business	1996 £m	1995 £m
Gross premiums written	304	292
Earned premiums, net of reinsurance	254	245
Allocated investment return transferred from the non-technical account	95	143
Claims incurred, net of reinsurance	(176)	(197)
Net operating expenses	(84)	(84)
Technical result (including actual investment gains)	89	107

The disposal of these operations resulted in the release of deferred tax liabilities of £118m.

9 [illegible]

The average numbers of staff employed by the Group during the year were:

	1996	1995
Prudential UK	**16,487**	17,710
Jackson National Life	**1,159**	1,125
Prudential Asia	**979**	628
Other international operations	**1,070**	1,117
Prudential Portfolio Managers	**1,095**	1,093
Discontinued operations	**1,397**	1,391
Group total	**22,187**	23,064

The costs of employment were:

	1996 £m	1995 £m
Wages and salaries	**524**	486
Social security costs	**40**	37
Other pension costs (see below)	**34**	35
Group total	**598**	558

The Group operates a number of pension schemes around the world. The largest scheme is the Group's main United Kingdom scheme whose membership represents approximately 80% of members of 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 (£6m) of the pension costs related to overseas schemes.

10 [illegible]

Information on directors' remuneration is given in the Remuneration Committee Report on pages 40 to 46.
No director had an interest in shares, transactions or arrangements which requires disclosure, other than those given in that Report.

11 [illegible]	Price Waterhouse		Other firms		Total	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Statutory audit	**1.5**	1.9	**0.5**	0.6	**2.0**	2.5
Audit related services:						
Regulatory returns and accruals basis audits	**0.3**	0.3	**0.1**	0.1	**0.4**	0.4
Tax and accounting advice	**0.7**	0.6	**0.1**	0.1	**0.8**	0.7
Disposal of Mercantile & General Reinsurance	**2.5**	–	**8.6**	–	**11.1**	–
Consultancy services	**0.5**	0.8	**0.5**	1.4	**1.0**	2.2
Total	**5.5**	3.6	**9.8**	2.2	**15.3**	5.8

Fees payable to Price Waterhouse for the statutory audit of the Company were £0.1m (£0.1m) and for work performed for the Group in the United Kingdom other than for statutory audit £3.3m (£1.1m).

[illegible]	1996 £m	1995 £m
Current value:		
Freehold	**3,077**	3,108
Leasehold with a term of over 50 years	**1,617**	1,375
Leasehold with a term of less than 50 years	**123**	115
Total	**4,817**	4,598

The cost of land and buildings was £3,263m (£3,150m). The value of land and buildings occupied by the Group was £57m (£109m).

Notes on the Financial Statements

[illegible] Other Financial Investments

	Cost 1996 £m	Cost 1995 £m	Current value 1996 £m	Current value 1995 £m
Shares and other variable yield securities and units in unit trusts	15,201	13,117	32,866	29,327
Debt securities and other fixed income securities - carried at market value	10,364	10,385	10,959	11,079
Debt securities and other fixed income securities - carried at amortised cost	14,157	15,384	14,208	15,415
Loans secured by mortgages	1,052	771	1,042	723
Loans to policyholders secured by insurance policies	532	523	532	523
Other loans	43	74	43	76
Deposits with credit institutions	2,412	1,387	2,412	1,387
Other	139	79	138	91
Total	43,900	41,720	62,200	58,621

Amounts included in the above ascribable to listed investments were:	1996 £m	1995 £m
Shares and other variable yield securities and units in unit trusts	32,675	29,156
Debt securities and other fixed income securities - carried at market value	9,256	9,807
Debt securities and other fixed income securities - carried at amortised cost	12,388	14,035
Total	54,319	52,998

The market value of debt securities and other fixed income securities carried at amortised cost was £14,470m (£16,201m). For those debt securities and other fixed income securities carried at amortised cost where the purchase price exceeded maturity value, the unamortised difference at the year end was £2m (£40m); where the maturity value exceeded the purchase price, the difference was £145m (£603m).

[illegible] Linked Liabilities

	Cost 1996 £m	Cost 1995 £m	Current value 1996 £m	Current value 1995 £m
Assets held to cover linked liabilities	5,782	5,255	6,948	6,358

Current value includes £2,186m (£2,150m) in respect of managed funds.

[illegible] 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 1996 £m	Share premium 1996 £m
At beginning of year	1,912,188,737	95.6	114.5
Shares issued under share option schemes	7,468,691	0.4	16.9
Shares issued in lieu of cash dividends	4,143,278	0.2	18.0
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	-	(18.0)
At end of year	1,923,800,706	96.2	131.4

At 31 December 1996 there were options subsisting under share option schemes to subscribe for 43,141,344 (41,831,813) shares at prices ranging from 150 pence to 359 pence (150 pence to 331 pence) and exercisable by the year 2005 (2005).

[illegible] Group Profit and Loss Account Reserve

	1996 £m	1995 £m
At beginning of year	1,537	1,067
Retained profit for the financial year	1,075	458
Exchange movements	(138)	16
Goodwill reversed on disposals (charged on acquisitions)	38	(17)
Transfer from share premium in respect of shares issued in lieu of cash dividends	18	13
At end of year	2,530	1,537

17 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 bonuses added following the valuation at the end of 1996. 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 8.1%. 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, guaranteed investment contracts, unit-linked deferred annuities and term assurances. The interest sensitive, guaranteed investment and unit-linked products are valued at policyholder account value. The term assurances are valued by a net premium method, with allowance made for discontinuances and claims expenses. Mortality rates are based on published tables suitably adjusted to reflect actual experience. Rates of interest vary between 6.0% and 9.5%.

(iii) Australia
The main products are with-profits whole life assurances and interest sensitive, unit-linked and risk premium contracts. There is also a portfolio of fixed-term annuities. The calculation of the provision is based on the new Margin on Services method introduced in 1996. The provision is calculated using a gross premium valuation method incorporating planned margins to ensure that no profit is credited at issue.

18 Borrowings

	1996 £m	1995 £m
Debenture loans (unsecured)		
DM300m 6% Guaranteed Notes 1997	114	135
SF200m 4.75% Guaranteed Bonds 1998	87	112
US$300m 8.25% Guaranteed Bonds 2001	175	193
US$250m 7.125% Guaranteed Bonds 2005	146	161
£150m 9.375% Guaranteed Bonds 2007	150	150
Total debenture loans	672	751
Currency translation asset on swap transaction	(4)	(21)
Bank overdrafts repayable on demand	39	–
Total borrowings	707	730
Borrowings are repayable as follows:		
Within one year or on demand	153	-
Between one and two years	83	135
Between two and five years	175	91
After five years	296	504
	707	730

Notes:

(i) The Group has swapped the SF200m loan into US$141m. Consequently, the effective currencies of the debenture loans at 31 December 1996 were DM300m, US$691m and £150m, equivalent in total to £668m. The weighted average rate of interest payable was 8.3% (8.3%).

(ii) The US$250m and £150m loans are the only creditors payable after five years.

(iii) The Company's debenture loans comprise the US$250m 7.125% Guaranteed Bonds 2005 issued in 1995.

(iv) 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.

Notes on the Financial Statements

19 Investments of the Company

	Shares in subsidiary undertakings 1996 £m	Loans to subsidiary undertakings 1996 £m
At beginning of year	272	726
Investment in Prudential Banking	88	–
Exchange rate movements	–	(31)
Advances of new loans	–	704
Repayments of loans	–	(251)
At end of year	360	1,148

20 Profit of the Company

The profit of the Company for the year was £1,715m (£293m). After dividends of £332m (£300m) and a transfer from share premium of £18m (£13m) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 1996 amounted to £1,676m (£275m).

21 Subsidiary Undertakings

The principal subsidiary undertakings of the Company at 31 December 1996 were:

	Main activity	Country of incorporation
Jackson National Life Insurance Company*	Insurance	USA
Prudential Annuities Limited*	Insurance	England and Wales
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
Prudential Banking plc	Banking	England and Wales
Prudential Corporation Australia Limited*	Insurance	Australia
Prudential Finance BV*	Finance	The Netherlands
Prudential Portfolio Managers Limited	Investment management	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.

The cumulative goodwill charged against the Group's reserves arising on acquisitions of subsidiary undertakings that remain part of the Group amounted to £265m (£300m).

22 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.

23 Cash Flow

Reconciliation of Operating Profit to Net Cash Inflow from Operations	Continuing operations 1996 £m	Discontinued operations 1996 £m	Total 1996 £m	Total 1995 £m
Operating profit before tax	691	182	**873**	804
Add back interest charged to operating profit	61	–	**61**	68
Adjustments for non-cash items:				
Reinvested in long-term business operations	(264)	(71)	**(335)**	(223)
Tax on long-term business profits and franked investment income	(204)	(26)	**(230)**	(227)
General business and shareholder averaged investment gains	(50)	(8)	**(58)**	(65)
Decrease in general business technical provisions	(68)	(7)	**(75)**	(73)
Decrease in reinsurance recoverable	3	14	**17**	67
Movement in other assets and liabilities	(50)	38	**(12)**	66
Depreciation	15	3	**18**	20
Net cash inflow from operating activities	134	125	**259**	437

Changes in Investments Net of Financing	1996 £m	1995 £m
Increase in cash and short-term deposits	964	179
Net purchases (sales) of portfolio investments	693	(60)
Decrease in loans	–	48
Share capital issued	(35)	(27)
Movements arising from cash flow	1,622	140
Investment appreciation	50	179
Investments of subsidiaries sold in year	(962)	–
Exchange translation and other	(66)	19
Transfer to retained profit in respect of shares issued in lieu of cash dividends	18	13
Portfolio investments net of financing at beginning of year	1,317	966
Portfolio investments net of financing at end of year	1,979	1,317
Represented by:		
Investments (including short-term deposits)	2,717	2,100
Cash at bank and in hand	157	157
Borrowings	(668)	(730)
Share capital and share premium	(227)	(210)
	1,979	1,317

Reconciliation of Investments to Balance Sheet	1996 £m	1995 £m
General business and shareholders (as above)	2,717	2,100
Long-term business	64,300	61,224
Total investments per balance sheet	67,017	63,324

Reconciliation of Cash to Balance Sheet	1996 £m	1995 £m
General business and shareholders (as above)	157	157
Long-term business	188	207
Total cash at bank and in hand per balance sheet	345	364

Reconciliation of Borrowings to Balance Sheet	1996 £m	1995 £m
General business and shareholders (as above)	668	730
Long-term business	39	–
Total borrowings per note 18	707	730

Disposals	1996 £m	1995 £m
Net assets disposed of:		
Investments	962	–
Short-term deposits	33	–
General business technical provisions	(1,173)	–
Reinsurance recoverable	222	–
Cash at bank and in hand	14	–
Other general business assets	132	–
Net assets held in long-term business operations	759	58
Goodwill written back on sale under UITF3	38	–
	987	58
Profit on disposal	797	31
Proceeds received in cash, net of disposal costs	1,784	89

Report of the Auditors on the Financial Statements

to the members of Prudential Corporation plc

We have audited the financial statements on pages 50 to 69 (including the additional disclosures on pages 42 to 44 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 58 to 60.

Respective responsibilities of directors and auditors

As described on pages 37 and 38 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 1996 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
18 March 1997

Five Year Review

Group Summary	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Results for the year					
Long-term business (including investment products)					
New business of continuing operations:					
Regular	**516**	458	559	509	528
Single	**6,662**	3,941	4,691	4,984	4,504
Premium income:					
Continuing operations	**9,750**	6,818	7,338	7,356	6,813
Discontinued operations	**1,222**	1,094	1,361	1,266	961
General business premiums written:					
Continuing operations	**303**	315	333	333	315
Discontinued operations	**304**	292	257	318	831
Operating profit					
Continuing operations:					
Long-term business	**677**	573	465	421	377
General business	**75**	64	92	89	59
Banking	**(54)**	(20)	–	–	–
Other activities	**54**	55	12	19	(28)
Interest payable	**(61)**	(68)	(59)	(59)	(46)
Total continuing operations	**691**	604	510	470	362
Discontinued operations	**182**	200	183	159	40
Total operating profit	**873**	804	693	629	402
Profit on business disposals	**797**	31	–	–	-
Adjustment from averaged to actual investment gains	**(56)**	209	(335)	311	30
Total profit on ordinary activities before tax	**1,614**	1,044	358	940	432
Profit after tax:					
Operating profit (including post-tax averaged investment gains)	**654**	546	498	414	265
Profit for the year (including post-tax actual investment gains)	**1,407**	758	222	667	274
Shareholders' Funds and Borrowings					
Statutory basis capital and reserves:					
Employed in business operations	**1,398**	2,125	1,722	1,768	1,413
Retained centrally	**2,027**	352	318	215	105
	3,425	2,477	2,040	1,983	1,518
Central borrowings	**(668)**	(730)	(777)	(687)	(694)
Total statutory basis capital and reserves	**2,757**	1,747	1,263	1,296	824
Additional accruals basis retained profit	**3,064**	3,171	2,697	2,878	2,476
Accruals basis capital and reserves	**5,821**	4,918	3,960	4,174	3,300
Funds under Management (£bn)	**91**	82	72	76	62
Share Statistics					
Earnings per share:					
Based on operating profit after tax	**34.1p**	28.7p	26.3p	22.0p	14.1p
Based on profit for the year after tax	**73.4p**	39.8p	11.7p	35.4p	14.6p
Dividend per share	**17.3p**	15.7p	14.4p	13.2p	11.9p
Market price at 31 December	**491.5p**	415p	316p	361p	299p
Average number of shares	**1,917m**	1,905m	1,896m	1,884m	1,873m

Five Year Review

Analysis by Business Area	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Prudential UK					
Long-term business					
New business including investment products:					
Regular	**303**	280	362	322	333
Single	**3,569**	2,088	2,381	3,117	2,498
Premium income	**5,532**	3,986	4,197	4,845	4,152
General business premiums written	**303**	315	333	333	315
Operating profit:					
Long-term business	**323**	306	289	299	294
General business	**75**	64	92	89	59
Banking	**(54)**	(20)	–	–	–
Total operating profit	**344**	350	381	388	353
Statutory basis capital and reserves	**210**	176	172	156	145
Additional accruals basis retained profit	**2,323**	2,117	1,687	1,901	1,568
Accruals basis capital and reserves	**2,533**	2,293	1,859	2,057	1,713
Assets under management (£bn)	**52**	46	38	39	30
Jackson National Life					
Long-term business					
New business:					
Regular	**42**	34	46	63	62
Single	**2,462**	1,421	1,373	1,065	1,344
Premium income	**2,928**	1,895	1,880	1,578	1,753
Operating profit (including averaged realised gains)	**328**	241	154	107	65
US GAAP profit (including actual realised gains)	**300**	252	128	198	114
Statutory basis capital and reserves	**1,017**	866	704	632	513
Additional accruals basis retained profit	**535**	602	551	559	515
Accruals basis capital and reserves	**1,552**	1,468	1,255	1,191	1,028
Assets under management (£bn)	**16**	15	14	13	11
Prudential Asia					
Long-term business					
New business:					
Regular	**103**	91	69	49	38
Single	**88**	64	65	54	42
Premium income	**466**	323	257	206	151
Operating profit before development expenses	**20**	16	11	5	4
Development expenses	**(8)**	(5)	(2)	–	–
Net operating profit	**12**	11	9	5	4
Statutory basis capital and reserves	**38**	36	18	18	18
Additional accruals basis retained profit	**140**	118	88	66	41
Accruals basis capital and reserves	**178**	154	106	84	59
Assets under management (£bn)	**1.5**	1.4	1.0	0.9	0.6

Analysis by Business Area	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Other international operations					
Long-term business of continuing operations					
New business including investment products:					
Regular	**68**	53	61	52	54
Single	**543**	368	769	638	496
Premium income	**824**	614	1,004	767	754
Operating profit	**14**	15	13	5	14
Statutory basis capital and reserves	**84**	90	77	62	50
Additional accruals basis retained profit	**66**	60	64	61	41
Accruals basis capital and reserves	**150**	150	141	123	91
Assets under management (£bn)	**4**	4	4	3	3
Prudential Portfolio Managers					
Funds under management:					
Internal non-linked funds (£bn)	**67**	60	52	52	43
Unit trusts and internal linked funds (£bn)	**8**	7	6	6	4
Segregated pension funds (£bn)	**12**	11	10	12	10
Discontinued operations (£bn)	**4**	4	4	6	5
Total funds under management (£bn)	**91**	82	72	76	62
Operating profit	**35**	32	23	23	8
Other operating profit					
Shareholders' investment return	**43**	45	12	17	(3)
Corporate expenditure	**(24)**	(22)	(23)	(21)	(33)
Interest payable	**(61)**	(68)	(59)	(59)	(46)
Operating result	**(42)**	(45)	(70)	(63)	(82)

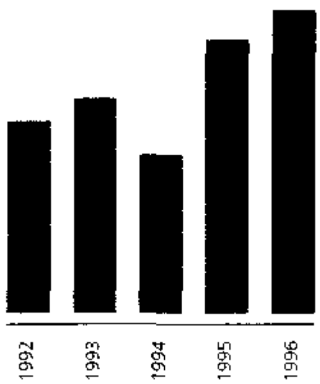
Accruals Basis Supplementary Information

Financial Overview	1996 £m	1995 £m
Operating profit (including averaged investment gains)		
Continuing operations		
Long-term business:		
Prudential UK	631	603
Jackson National Life	337	281
Prudential Asia	61	47
Other international operations	19	18
	1,048	949
General business	75	64
Other activities (including banking and interest payable)	(61)	(33)
Total continuing operations	1,062	980
Discontinued operations		
Long-term business	101	145
General business	81	63
Total discontinued operations	182	208
Total operating profit	1,244	1,188
Operating earnings per share (based on earnings of £874m (£801m) and 1,917m (1,905m) shares)	45.6p	42.0p
Shareholders' capital and reserves	5,821	4,918

Review of Results

On the accruals accounting basis Prudential's total operating profit in 1996 increased by five per cent to £1,244 million, while operating earnings per share increased from 42.0 pence to 45.6 pence. Prudential's continuing operations produced a profit of £1,048 million, up 10 per cent, boosted by much improved new business profit.

LONG-TERM BUSINESS PROFIT OF CONTINUING OPERATIONS (£M)



Profit from new business increased by 39 per cent to £276 million reflecting substantial increases in sales from all of the Group's operations. By contrast, the profit from business in force and the return on shareholders' funds increased by only three per cent in 1996, following exceptional investment returns in 1995.

Prudential UK

At Prudential UK, profit increased from £603 million to £631 million. Substantial sales growth was the main reason for a 40 per cent increase in new business profit to £145 million. However, lower investment returns contributed to a marginal fall in profits from business in force and the return on shareholders' funds.

Jackson National Life

Jackson National Life contributed a total profit of £337 million, up 20 per cent. Single premium sales increased by over 70 per cent with new business profits increasing by 36 per cent. New business profit included a contribution from sales of lower margin guaranteed investment contracts which were launched at the end of 1995. Profit from business in force increased by 23 per cent to £132 million mainly as a result of an increased asset base and higher interest margins.

Prudential Asia

In Prudential Asia, new business profit increased by 50 per cent reflecting continued sales growth, improved margins and better product mix.

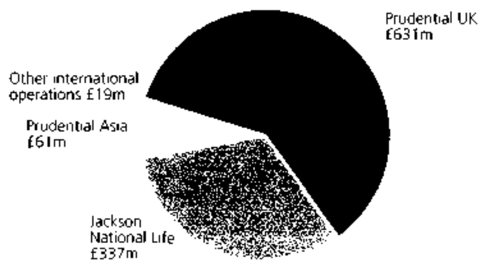
Other international operations

New business profit from other international operations increased to £13 million mainly due to improved sales and lower expenses in Australia.

Shareholders' funds

After including the net assets reported on the statutory basis, shareholders' funds on the accruals basis were £5.8 billion at the end of 1996 (£4.9 billion). The shareholders' accrued interest in the Group's long-term business fell by three per cent to £3.1 billion, reflecting the sale of Mercantile & General and Prudential Leven. Excluding exchange rate effects, the accrued interest of Prudential's continuing operations grew by nine per cent. This demonstrates the growth in profit retained in the long-term funds, which the group is achieving from strong sales and good investment performance.

1996 LONG-TERM BUSINESS PROFIT OF CONTINUING OPERATIONS BY BUSINESS AREA (£M)



TYPES OF ASSET (£BN)

Summarised Consolidated Profit and Loss Account – Accruals Basis

Year ended 31 December 1996

	1996 £m	1995 £m
Operating profit (including averaged investment gains)		
Continuing operations:		
Long-term business	1,048	949
General business	75	64
Other activities (including banking and interest payable)	(61)	(33)
Total continuing operations	1,062	980
Discontinued operations:		
Long-term business	101	145
General business	81	63
Total discontinued operations	182	208
Total operating profit	1,244	1,188
Profit on business disposals	571	–
Adjustment from averaged to actual investment gains	(40)	492
Profit on ordinary activities before tax (including actual investment gains)	1,775	1,680
Tax	(364)	(458)
Profit for the financial year	1,411	1,222
Dividends	(332)	(300)
Retained profit for the financial year	1,079	922

Statement of Total Recognised Gains and Losses – Accruals Basis

Year ended 31 December 1996

	1996 £m	1995 £m
Profit for the financial year	1,411	1,222
Exchange movements	(211)	26
Total recognised gains	1,200	1,248

Analysis of Long-term Business Profit – Accruals Basis Continuing Operations

Year ended 31 December 1996

	New business		Business in force		Return on shareholders' funds		Total	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Prudential UK	145	104	218	261	268	238	631	603
Jackson National Life	83	61	132	107	122	113	337	281
Prudential Asia	35	24	12	11	14	12	61	47
Other international operations	13	9	(10)	(2)	16	11	19	18
Total long-term business profit	276	198	352	377	420	374	1,048	949

Summarised Consolidated Balance Sheet – Accruals Basis

31 December 1996

	1996 £m	1995 £m
Investments	67,017	63,324
Other assets	11,422	11,607
Total assets	78,439	74,931
Less liabilities	(2,505)	(2,694)
Total assets less liabilities	75,934	72,237
Less long-term business funds		
Technical provisions	59,692	58,572
Fund for future appropriations	13,485	11,918
Less shareholders' accrued interest in the long-term business	(3,064)	(3,171)
	70,113	67,319
Accruals basis net assets	5,821	4,918
Shareholders' capital and reserves		
Share capital and share premium	227	210
Statutory basis retained profit	2,530	1,537
Additional accruals basis retained profit	3,064	3,171
Accruals basis capital and reserves	5,821	4,918

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

31 December 1996

	1996 £m	1995 £m
Total recognised gains	1,200	1,248
Goodwill charged on acquisition	–	(17)
New share capital subscribed	35	27
Dividends	(332)	(300)
Net increase in shareholders' capital and reserves	903	958
Shareholders' capital and reserves at beginning of year	4,918	3,960
Shareholders' capital and reserves at end of year	5,821	4,918
Comprising:		
Prudential UK	2,533	2,293
Jackson National Life	1,552	1,468
Prudential Asia	178	154
Other operations (including net shareholders' cash/borrowings)	1,558	(189)
Discontinued operations	–	1,192
	5,821	4,918

Notes on the Accruals Basis Supplementary Information

1 Basis of Preparation

The accruals basis results have been prepared in accordance with the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers. The information is supplementary to the financial statements on pages 50 to 69.

2 Assumptions

The accruals basis results incorporate prudent forecasts of future rates of investment return, policy discontinuances, mortality, 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 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.

The proportion of surplus allocated to shareholders from the UK with-profits business has been based on the present level of ten per cent but with an allowance for the estimated future effects of taxation on UK pension 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 against the risk of 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 are the same as in 1995.

4 Investment Return

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

With the exception of fixed interest investments held by Jackson National Life, 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 Jackson National Life, 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. The directors have discretion over the allocation of the resulting gains between shareholders and policyholders. The amount allocated to shareholders is consistent with assumed future interest crediting rates to policyholders, and is recognised in the operating result and shareholders' accrued interest in the year of realisation.

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

The profit for the year is calculated initially at the post-tax level and has been grossed up for presentation purposes at the effective rates of tax applicable to the countries and periods concerned, normally the full local rates.

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.

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 modified 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, 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 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 produce the profit on business in force.

The additional profits recognised at an earlier stage under the accruals method are retained within the long-term funds and are known as the shareholders' accrued interest in the long-term business. The investment return on this amount also forms part of the accruals profit for the year.

The total accruals basis profit 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.

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 profit reported on the statutory basis.

The use of the accruals basis does not affect either the cash surpluses which are released to shareholders' funds from the long-term funds, which continue to be determined by the directors following statutory actuarial valuations of the funds, or amounts available for dividend payments to shareholders.

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 should be noted, however, that the shareholders' accrued interest does not represent the full 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.

Report of the Auditors on the Accruals Basis Supplementary Information

to the members of Prudential Corporation plc

We have audited the supplementary information on pages 76 to 78, which has been prepared on the basis set out in note 1 on page 78 and is limited to a restatement of the Group profit and the shareholders' interest in the Group's long-term business to an accruals basis.

Respective responsibilities of directors and auditors

As described on pages 37 and 38, 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 1996 and shareholders' interest in the long-term business at that date have been properly prepared in conformity with the methodology and disclosure requirements contained in the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers in July 1992.

Price Waterhouse
Chartered Accountants
London
18 March 1997

Notice of Annual General Meeting

Prudential Corporation Public Limited Company. Incorporated and registered in England and Wales.
Registered number 1397169.
Notice is hereby given that the Annual General Meeting of the Company will be held at the Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Thursday 8 May 1997 at 12 noon for the transaction of the following business:

Ordinary Business

Resolution 1 To receive and consider the Directors' Report and the Financial Statements for the year ended 31 December 1996 with the Auditors' report thereon.

Resolution 2 To re-elect as a director Sir Martin Jacomb.

Resolution 3 To re-elect as a director Mr K L Bedell-Pearce.

Resolution 4 To re-elect as a director Mr J H Sutcliffe.

Resolution 5 To elect as a director Mrs J A Burdus.

Resolution 6 To re-appoint Price Waterhouse as auditors and to authorise the directors to fix the amount of their remuneration.

Special Business (An explanation of this business is given on pages 48 and 49 in the Directors' Report.)
As special business, to consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

Resolution 7 THAT the Directors are hereby empowered pursuant to section 95 of the Companies Act 1985 during the period from the date of the passing of this resolution until 8 August 1998 to allot shares of 5p in the capital of the Company pursuant to the authority conferred by resolution of the shareholders on 29 May 1996 as if section 89(1) of the Companies Act 1985 did not apply to such allotment, provided that this power shall be limited to the allotment of up to a maximum number of 96 million shares except:–

(a) in connection with a scrip dividend offer; and

(b) in connection with a rights issue to all shareholders where the shares attributable to the interests of those shareholders are proportionate (to the extent practicable) to the respective number of shares of 5p each held by them, subject to such exclusions or other arrangements as the Directors may consider necessary or expedient to deal with legal or practical problems in respect of shareholders resident outside the United Kingdom, fractional entitlements or otherwise.

Resolution 8 THAT the Company is hereby generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of shares of 5p in the capital of the Company provided that:

(a) the maximum number of shares hereby authorised to be purchased is 192 million;

(b) the maximum price which may be paid for each share is an amount equal to 105 per cent of the average of the middle market quotations for a share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and the minimum price which may be paid for each share is 5p exclusive of expenses; and

Notice of Annual General Meeting

(c) the authority conferred by this resolution shall, unless renewed prior to such time, expire at the end of the Annual General Meeting to be held in 1998.

Resolution 9 THAT the Articles of Association of the Company are hereby amended as follows:–

(a) In Article 14 replace the first sentence with
'The Directors may decline to register any transfer of Shares which are not fully-paid upon which the Company has a lien or in respect of which the transfer is to a transferee of whom they do not approve.'.
(b) Replace Article 59 with
'Until otherwise determined by a general meeting the number of the Directors shall be not less than eight and not more than sixteen.'.
(c) In Article 61 delete the words in the third to fifth lines reading 'no appointment under this Article shall have effect unless two-thirds at least of the Directors concur therein and'.
(d) Replace Article 65(g) with
'If he is removed from office by a resolution of the Directors which either no Director or no Director except the holder of the office to be vacated has voted against.'.
(e) Replace the first paragraph of Article 66(2) with
'A Director shall not vote, nor shall he be counted in the quorum present at the meeting, in respect of any contract or arrangement in which he has an interest which (together with any interest of any person connected with him) is to his knowledge a material interest not being an interest in Shares or debentures of the Company. Neither of these prohibitions shall, however, apply to:–'.
(f) In Article 66(2)(b) replace the words 'he is not the holder of' in the third line of the Article with the words 'he and any person connected with him are not the holders of'.
(g) Replace Article 66(2)(c) with
'any arrangement for the benefit of the employees of the Company or any of its subsidiaries which only gives the Director benefits which are also given to the employees to which the arrangement relates;'.

Other Matters

To deal with any other matter proper to be dealt with at the meeting not being special business.

On behalf of the Board of directors

Peter Rawson
Company Secretary
142 Holborn Bars
London EC1N 2NH
2 April 1997

Shareholder Information

Annual General Meeting	8 May 1997
Payment of 1996 final dividend	28 May 1997
Announcement of 1997 interim results	6 August 1997
Ex-dividend date for 1997 interim dividend	22 September 1997
Payment of 1997 interim dividend	27 November 1997

Analysis of Registered

Size of shareholding	Number of shareholders	%	Number of shares	%
Over 10,000,000	23		457,232,679	23
1,000,001 – 10,000,000	282	1	807,629,504	42
500,001 – 1,000,000	212		151,988,742	8
100,001 – 500,000	898	1	207,809,064	11
50,001 – 100,000	604	1	44,095,844	2
10,001 – 50,000	4,696	6	92,929,705	5
5,001 – 10,000	7,417	9	52,442,578	3
1,001 – 5,000	41,738	54	96,077,786	5
1 – 1,000	21,970	28	13,594,804	1
Total	**77,840**	**100**	**1,923,800,706**	**100**

Sharedealing Facilities

Stockbrokers Cazenove & Co offer a postal sharedealing service to Prudential shareholders at competitive commission rates. For details telephone 0171 588 2828 or write to 12 Tokenhouse Yard, London, EC2R 7AN.

Corporate Headquarters
142 Holborn Bars
London EC1N 2NH
Tel: 0171 583 1415
Fax: 0171 548 3725

Prudential UK
250 Euston Road
London NW1 2PQ
Tel: 0171 334 9000
Fax: 0171 334 6334

Jackson National Life
5901 Executive Drive
Lansing
Michigan 48911
United States
Tel: 001 517 394 3400
Fax: 001 517 887 5012

Prudential Asia
Suites 2910-14
Two Pacific Place
88 Queensway
Hong Kong
Tel: 00 852 2918 6300
Fax: 00 852 2525 7522

Prudential Portfolio Managers
142 Holborn Bars
London EC1N 2NH
Tel: 0171 405 9222
Fax: 0171 548 3360

Media and general enquiries:
Mike Davies
London
Tel: 0171 548 3721
Fax: 0171 548 3725

Analyst enquiries:
George Culmer
London
Tel: 0171 548 3537
Fax: 0171 548 3699

Shareholder enquiries:
Prudential Registrars
142 Holborn Bars
London EC1N 2NH
Tel: 0171 548 3817
Fax: 0171 548 3802

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