ANNUAL REPORT
1986

PRUDENTIAL
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Prudential Corporation plc
Registered office and transfer office:
142 Holborn Bars London EC1N 2NH

NOTICE OF MEETING

Prudential Corporation Public Limited Company.
Incorporated in England Regd No 1397169
Notice is hereby given that the Annual General Meeting of the Company will be held at 142 Holborn Bars London EC1N 2NH on Wednesday 27 May 1987 at 12.15 pm for the following purposes:

Ordinary Business
1 To receive and consider the Directors' Report and Accounts for the year ended 31 December 1986
2 To re-elect and elect directors
3 To appoint auditors
To transact any other business proper to be transacted at the said meeting not being special business

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In connection with the re-election of directors special notice has been given to the Company, pursuant to the Companies Act 1985, that separate resolutions will be moved proposing the re-election of The Rt Hon Lord Carr of Hadley PC and Mr D S Craigen who retire by rotation and who will be aged 70 at the date of the meeting.

By order of the board of directors

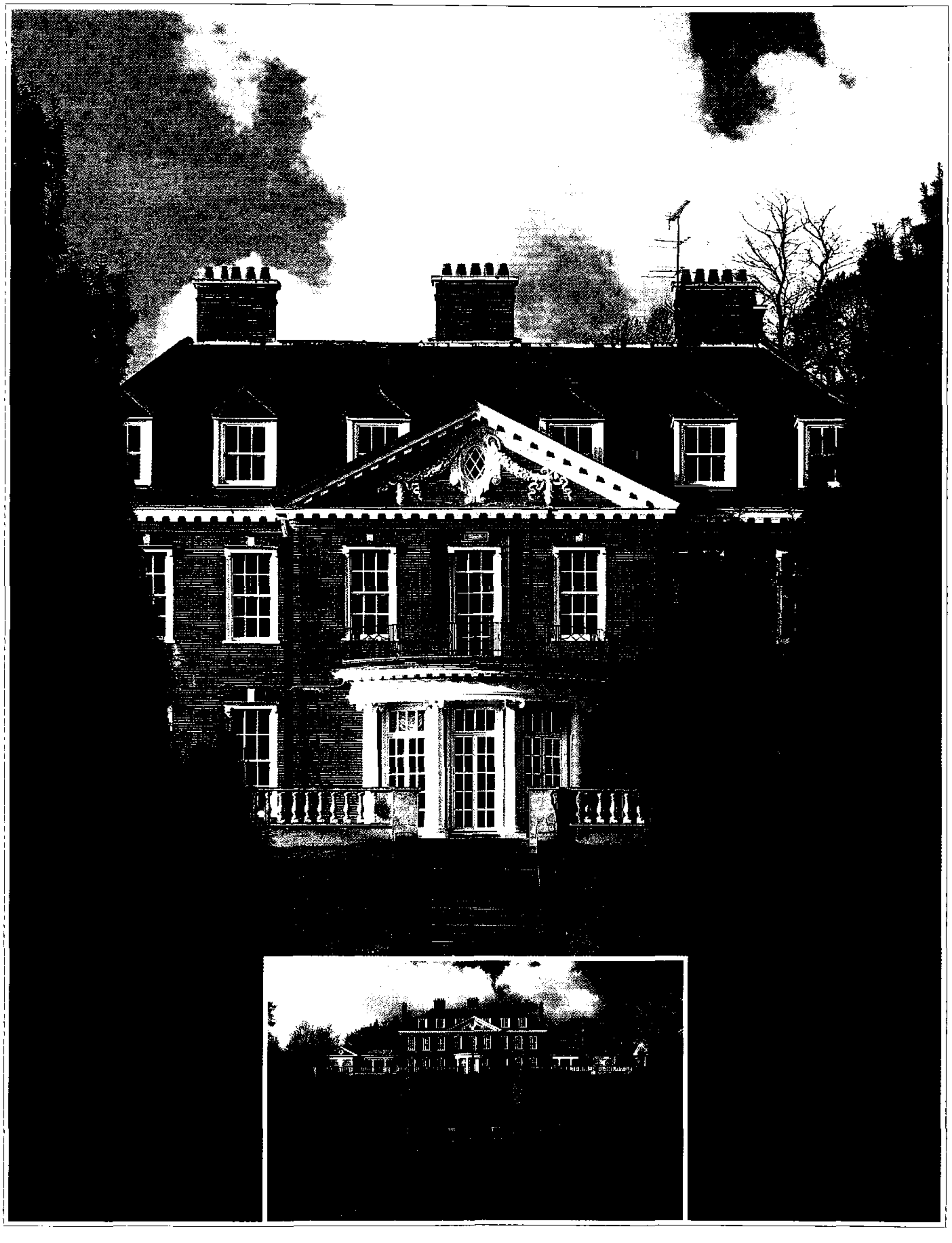
D F Roper
Secretary
142 Holborn Bars London EC1N 2NH
30 April 1987

Members' attention is drawn to the form of proxy accompanying this notice. A member entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him; a proxy need not be a member of the Company.

The register of directors' interests kept under the Companies Act 1985 will be open for inspection at the meeting.
The directors have no service contracts.

CONTENTS

During 1986, we acquired Hunton Park near Watford in Hertfordshire, for use as our group training centre. This Grade II listed country house, standing in its own 20 acre estate, is to be used as lecture rooms for corporate training purposes. New buildings within the grounds will provide dining and bedroom facilities.



SUMMARY OF RESULTS

Total profit summary	**1986 £m**	1985 £m
Profit before tax	**178.1**	110.1
Tax	**59.4**	31.7
Minority interests	**1.1**	1.0
Profit attributable to shareholders	**117.6**	77.4
Earnings per share	**34.5p**	24.5p
Dividend per share	**29.0p**	24.8p

Earnings per share and dividend per share, for 1985, have been adjusted for the rights issue made during 1986 (see note 8 on page 47).

Profit before tax by business sector £m

Ordinary long-term business	
1985	102.2
1986	**110.9**
Industrial life business	
1985	35.5
1986	**34.6**
General insurance business	
1985	−53.4
1986	**−5.1**
Investment management (UK)	
1985	1.6
1986	**6.4**
Shareholders' other income	
1985	24.2
1986	**31.3**

Profit before tax by operating division £m

UK Individual	
1985	64.3
1986	**82.9**
UK Group Pensions	
1985	10.6
1986	**10.5**
Mercantile and General Reinsurance	
1985	10.0
1986	**28.7**
Prudential Portfolio Managers	
1985	1.6
1986	**6.4**
International	
1985	−0.6
1986	**18.3**
Shareholders' other income	
1985	24.2
1986	**31.3**

CHAIRMAN'S STATEMENT

The Lord Hunt of Tanworth

I am pleased to be able to report a very considerable increase in profit from £110.1m before tax in 1985 to £178.1m.

The increase in profit has enabled us to raise the dividend for the year to 29p per share, an increase of 4.2p or 17% over the dividend of 24.8p for 1985, after adjusting for the effects of the rights issue in 1986.

Our long-term business continued to develop well and in the United Kingdom we have been able to make further substantial increases in the benefits payable under policies becoming claims, as well as to increase the profit payable to shareholders. The actions we are taking to bring about an improvement in our general insurance results are taking effect although we still have some way to go before we can feel satisfied, particularly in our United Kingdom account.

Details of the results for 1986 are shown in the table on page 5 and comments on them are in the Chief Executive's Review and in the reports from the heads of the various operating divisions.

In my statement last year I said that we were asking shareholders to provide additional capital to help finance our strategic development and to enable us to move quickly when opportunities occurred in the United Kingdom or elsewhere. We had long wanted to make a strategic acquisition in the United States but the opportunity to acquire Jackson National Life had not then arisen and our programme for establishing a national chain of estate agents was also at a very early stage. We were therefore very gratified by the confidence which shareholders showed in us in approving the rights issue at the subsequent Annual General Meeting. The success of the rights issue put us in a very strong position to carry through our plans for strategic development.

The life insurance market in the United States is large, innovative and profitable and an acquisition there would also provide the opening for us to introduce other financial services. Accordingly we established criteria for an acquisition and we were prepared to wait until we could identify a company which satisfied them in full and with whom we felt we could work comfortably. Jackson National Life is one of the United States' most progressive and rapidly growing life insurance companies. In 1986 its premium income totalled £425m and its pre-tax earnings were some £11m. Its management has a proven record of success and the plans it had developed for the future accorded with our own ideas. We were therefore happy in September to reach final agreement on terms for its acquisition which took place on 25 November at a cost of £420m. We expect Jackson National Life to make a significant contribution to our profits in the years ahead.

The acquisition attracted a good deal of favourable interest in the United States and to simplify the process by which American citizens may acquire an interest in our shares we established an American Deposit Receipt facility.

In the United Kingdom, Prudential Property Services – our estate agency subsidiary – had, by the end of 1986, already acquired 337 outlets at a cost of some £125m. This number will increase very substantially during 1987 but at a significantly lower average cost for each outlet. As I told shareholders last year we expect our estate agency business to provide a satisfactory return on investment from its main-stream operations, and in due course there will be an additional benefit from the sale of other Prudential products to new customers. This new and highly visible point of contact with the public will thus help to increase the future profitability of other parts of the Corporation.

I have singled out Jackson National and Prudential Property Services for particular comment because of their size. We have however reacted to the changes taking place in the financial services market in the United Kingdom in a number of ways. Our new unit trusts introduced in 1985 continue to perform very well and in 1986 we were joint winners of *The Observer* Unit Trust Managers of the Year award. There has been a very considerable growth in the mortgage facilities which we provide. Great interest has been shown in our Personal Equity Plan schemes. Changes similar to those in the United Kingdom are also taking place in the financial services markets in Australia and Canada and we are ensuring that we can take advantage of the opportunities offered.

As well as being a time of very considerable change for companies in the financial services sector of the economy, the present is also one of considerable opportunity. Both Jackson National and a countrywide estate agency chain in the United Kingdom are major investments for us. So too is the development of new computer systems throughout the Group – in the United Kingdom and overseas – which are designed to use the most up-to-date technology to provide a better service to the customer and to reduce operating costs. We are confident that these developments represent a good investment for our shareholders.

Another aspect of our investment in the future is in a substantially increased training budget. Our United Kingdom field staff is the largest direct sales force in financial services in Europe and we have taken a number of significant steps, including the acquisition of our own training centre, to increase the productivity, and hence the profitability, of our sales organisation. We are convinced that this will be money well spent since our United Kingdom field force is and will remain one of our major assets.

The cost of all this investment is substantial, but following the rights issue last year the total resources available to us, including our borrowing powers, are fully adequate to meet our planned needs.

While 1986 was generally marked by a considerable expansion in the Prudential Group's activities there was one major exception in that we accepted an offer for our majority holding in The Prudential Assurance Company of South Africa.

Early in 1987 we were saddened by the news of the death of Sir William Pettingell, the Chairman of our Australian and New Zealand Board. He had made a great contribution to the development of our business in these countries. His place has been taken by Sir John Mason.

Mr W G Haslam and Mr R S Skerman will be retiring from the Corporation Board at the Annual General Meeting. Both have rendered distinguished service to the Prudential. Geoffrey Haslam was our Chief Executive for six years before joining the Corporation Board in 1980 and he was a Deputy Chairman from 1980 to 1984. Ronald Skerman was our Chief Actuary for twelve years; he joined the Corporation Board in 1980 and has been a Deputy Chairman since 1985. The Directors intend to elect Sir Alexander Jarratt to succeed Mr Skerman as Deputy Chairman.

In November 1986 Sir Trevor Holdsworth, who is Chairman of GKN, was appointed to the Board and now offers himself for election.

The final section of this Report deals with our new corporate identity and logo and I hope it will make interesting reading. Launching a new identity is not a public relations gimmick. It seeks to express us as we are – innovative, competitive and expanding in a fast-changing financial services market but retaining all the principles of wise conduct and integrity represented by Prudence who has been our symbol for so long. Thus in a very real sense it stands also for our staff. The Prudential works to the highest standards and goes to great lengths to ensure that these are maintained by its employees. I close by paying tribute to them both for what they have achieved in 1986 and for the way in which they provide a valued service to our customers.

Hunt of Tanworth

THE LORD HUNT OF TANWORTH

15 April 1987

CHIEF EXECUTIVE'S REVIEW

Brian Corby

In my review last year I noted the recovery in profits from the low point in 1984, and this recovery continued strongly in 1986.

Profits before tax rose to £178.1m from £110.1m in 1985 and after tax to £117.6m from £77.4m. After adjustment for the rights issue made in 1986 earnings per share rose to 34.5p from 24.5p and the directors have declared a final dividend of 19p per share which produces a total dividend for the year of 29p compared with the equivalent of 24.8p in 1985.

Long-term profits at £145.5m were 6% higher than in 1985, despite a reduction in the non-recurrent items, and reflected good underlying growth.

Primarily due to the success of our Holborn Unit Trust business, launched in May 1985, profits from investment management in the United Kingdom increased to £6.4m from £1.6m.

The results from general insurance showed a further substantial improvement and the loss of £5.1m was markedly lower than the loss of £53.4m in 1985. We are taking appropriate measures to bring about further improvement in this business.

Long-term business

Revenue premiums rose to £2,351.9m (£1,719.1m), an increase of 37%. Part of this arose from a Canadian single premium of £280m written by Mercantile and General and if this is excluded the underlying growth was 21%. Jackson National contributed premiums for only one month in 1986: it will, of course, contribute for the full year in 1987.

We were again able to make further increases in bonuses on our with-profit policies, reflecting the high investment return on our life fund assets. Most of the increase was by way of terminal bonus but part was in reversionary form. The total cost of policyholders' bonuses rose to £977.4m (£928.3m). The total long-term profit increased to £145.5m (£137.7m). Of this £6.4m (£13.3m) arose from the declaration of bonuses in reversionary form which would otherwise have been declared as terminal bonuses. If these amounts are excluded the underlying growth rate was 12%, reflecting the continuing increase in our business and the improvement in benefits to our with-profit policyholders.

We also made a small change in the basis of apportionment of distributable surplus between with-profit policyholders and shareholders and the increase in profit on this account was some £3m (£6m).

General insurance business

Written premiums rose to £874.3m (£795.8m), an increase of 10%. The increases in premium were greater overseas than in the United Kingdom, both for direct and reinsurance business.

The trading result was materially better at a loss of £5.1m (£53.4m) as we continued to see a recovery in some major markets and as the steps we have taken to improve our results began to take effect. Areas of concern remain, however, and we will need to see further considerable improvement before we can be satisfied with the results for this business.

In the United Kingdom it was pleasing to see that the efforts we have been making to improve the results from our domestic property account have borne fruit, and we have produced a profit, albeit small. However, the motor account deteriorated further as claims frequency continued to rise. We made significant premium increases over the year and will continue to keep premiums under review until we bring about a substantial improvement. The commercial and broker account, although it showed a good growth in premium income following rate increases, continued to be disappointing.

The International division showed a welcome return to profit, with good results in Canada and Belgium. As reported on page 20, we have stopped writing business in some of our European operations where we saw no prospect of achieving satisfactory results.

I commented last year on the measures we were taking to bring about an improvement in the results of Mercantile and General. The recovery which was then reported continued into 1986 and helped by a good increase in investment income Mercantile and General showed a profit of £4.2m (loss £15.2m). The result is very encouraging, and together with the improvement in the market situation worldwide augurs well for the future.

A number of transfers have been made this year from reserves in respect of events which do not affect the result of our operations in 1986. These fall into two categories. Firstly, as mentioned above, we have discontinued business in some of our European operations; we have also, as mentioned on page 12, ceased to write extended warranty business in the United Kingdom. In respect of these businesses we have made extra provisions and provided for closure costs to an amount of £16.7m.

Secondly, as in past years, we have made extra provisions, amounting to £20.0m, for exceptional claims arising from business written in previous years, mainly related to asbestosis and environmental pollution.

These provisions have been established on a prudent basis given current information. Tax relief has been assessed in respect of only £6m thereof where we have received preliminary notice of claim; relief on the balance will be dealt with as losses are notified.

Other business

I have already mentioned the profit from our investment management business, which was £6.4m (£1.6m). In addition to the management of a substantial proportion of the Corporation's assets in the United Kingdom, Prudential Portfolio Managers also manages funds for external clients. The funds under management increased substantially in 1986 and with the acquisition of new clients will show a further increase in 1987.

Prudential Property Services was established as a separate operating division and grew very rapidly in 1986, particularly towards the end of the year; a detailed report is on page 13. Since most of the acquired businesses were in our ownership for only a small part of the year the profits were insufficient to cover the costs involved in acquisition and in integration into our organisation, so that the result for 1986 was a loss before tax of £2.1m. We shall, however, see a growing contribution to profit from this business. We are also seeing encouraging signs of the benefits to be derived from collaboration between our estate agencies and our other businesses.

Shareholders' other income, which in the accounts includes the results of Prudential Property Services just mentioned, increased to £31.3m (£24.2m). Most of this increase arose from the investment of the proceeds of the rights issue until they were used towards the purchase of Jackson National.

Financial Services Act

As I commented last year, we wholly support the objectives of the Financial Services Act which are to give greater protection to the investor. The broad proposals are not such as to create difficulties for the Prudential, but we are expressing reservations about the complexity of some of the regulations which have been drafted, which contrast with the expressed wish of the Government to reduce the burden of compliance with legislative requirements. We are also concerned that implementation should not be rushed, since there are significant practical problems associated with major changes to working procedures and computerised systems.

The Prudential and the community

The Prudential is a major company in an industry which is a vital part of the economy. As such it is inevitable that we are drawn into the debate on issues such as the need to take initiatives to combat the high level of crime, how to deal with the problems of inner cities and, more generally, the role of institutional investors. In relation to the last of these a report on our experience in relation to company takeovers is included in the report for Prudential Portfolio Managers on page 19.

We are ready to play a full part in all of these matters and to continue to take initiatives which are consistent with our prime responsibility to our customers, our staff and our shareholders.

Future prospects

1986 saw the commencement of two significant ventures for the Corporation, Prudential Property Services and Jackson National Life. We are confident that both will provide increasing profits in the years ahead. At the same time there are good prospects for growth and for increasing profits from our long established businesses, both in the United Kingdom and overseas.

In the United Kingdom we are taking steps to increase the effectiveness of our field organisation. In addition to our existing range of life and savings products we are well placed to take advantage of the very considerable opportunities for the sale of pension business, both to individual and corporate clients.

In general insurance we shall continue with the policies we have been following to bring about a further improvement in our results.

We have been successful in creating a strong investment management capability, and we will build on this strength with a view to improving the service we provide to existing clients and to attracting new ones.

Brian Corby

BRIAN CORBY

15 April 1987

UK INDIVIDUAL DIVISION

Tony Freeman
Managing Director

HOME SERVICE

Results

Home Service is provided to customers in their homes and in small businesses by our 12,000-strong field staff. Pre-tax profits from this operation were £93.1m, compared with £76.9m in 1985, a rise of 21%. The conversion of terminal bonuses to reversionary form produced a profit of £6.4m, compared with £13.3m in 1985. After eliminating the effect of these special additions, the profit from long-term products (savings, protection and pensions) was £89.5m compared with £76.1m in 1985. This profit was partially offset by a pre-tax trading loss of £2.8m from general insurance, a significant improvement on the £12.5m loss in 1985.

Long-term revenue premiums rose by 8% to £974.1m and general insurance premiums amounted to £195.1m, an increase of 5% over 1985. Sales of unit trusts were £185.1m compared with £74.5m in the eight months of 1985 following the initial launch.

Ordinary business annual premiums

New annual premiums for ordinary life assurance business were £64.2m, 21% higher than in 1985. This was mainly due to expanding sales of mortgage related endowments written in the booming mortgage market. New annual premiums for Prudential Low Cost Endowments, which are used for endowment mortgages, rose by 93% to £27.9m.

Sales of personal pensions were depressed by uncertainties over changes in legislation. After the exceptional increases of 1985 which arose from pre-Budget speculation about the possible ending of tax relief, new annual premiums were down by 22% to £37.2m. In preparation for new pension contracts being launched in the Spring of 1987 work on new computer systems progressed satisfactorily throughout 1986. For many years we have had one of the best personal pension products available in the market. We intend to ensure that we hold that position and exploit fully the major shift in the pattern of business expected to result from the new pensions arrangements which come into operation at the beginning of 1988.

Lump sum investments

1986 was another year of encouraging growth in lump sum investments. Single premium assurances increased from £56.8m to £59.5m with Prufund Investment Bond sales being particularly buoyant due to the attractions of the regular income facility. The field staff achieved considerable success in selling the Holborn range of unit trusts, accounting for 59% of all sales of the trusts during the year. The selling of unit trusts is restricted to the 5,500 members of our field staff who have completed the special training and have passed our internal examinations. Combining sales of single premium assurances and unit trusts produces an overall increase in lump sum investments of 86% over 1985 to £244.6m.

Industrial life business

Industrial life new annual premiums were £78.3m, almost unchanged compared with 1985. The market as a whole was static so our share was broadly unchanged. The short-term PruSave products continued to be popular with our customers and accounted for 35% of sales. This included the Young PruSaver policy which has been successful in its first full year contributing 7% of new annual premiums.

The industrial life product range was streamlined in 1986 to concentrate on shorter term savings and longer term protection policies. We hope this will help customers to choose the type of policy best suited to their needs.

Teacher Clare Furlonger was one of the thousands of first time home buyers able to arrange mortgage finance through our Home Loan Service.

Bonuses

The continued very high rates of return being achieved on our investments have enabled us to make further increases in the amounts payable on policies currently becoming claims. Maturity values on assurance policies have been improved by $3\frac{1}{2}\%$ for 10 year term policies increasing to $14\frac{1}{2}\%$ for 25 year term policies. Pensions at retirement under pension policies have also been increased for longer term policies, for example by 12% on a 25 year term policy.

Prudential Home Loan Service

After the success of its experimental launch in 1985 we extended the availability of the Prudential Home Loan Service to the whole of the United Kingdom in March 1986. This service embraces the many local sources of mortgage finance arranged directly by members of our field staff supplemented by mortgages financed by major lending institutions such as Citibank, Midland Bank, Barclays Bank and Clydesdale Bank. The field staff arranged £1 billion worth of loans in 1986 and this gave a substantial boost to our mortgage related life business.

General insurance personal lines

There was a major turnround in the domestic property account from a trading loss of £8.9m before tax in 1985 to a profit of £2.5m. This improvement was due to premium rate increases in 1985, the introduction of compulsory excesses in 1986 and the enhanced training of our field staff. We have also experienced a reduction in theft claims due partly to the public's increased awareness of the need for security. We helped to promote this by producing an award winning video entitled 'Stop Thief' warning of the dangers and advising on the measures which can be adopted to reduce risk. However, we are experiencing a large and increasing number of claims due to water damage from burst pipes, particularly in the severe winters experienced in recent years. We are endeavouring to make policyholders more conscious of this problem.

Our motor business, in common with the rest of the market, suffered another poor year with claims frequency rising a further 10%. This resulted in a trading loss of £5.3m before tax compared with £3.6m in 1985. During the year we increased premium rates by up to 30% with the aim of bringing the account back onto a profitable basis. We have now introduced quarterly reviews of the account so that we can react more quickly to any changes in our claims experience and in 1987 we have already implemented rate increases in January and April.

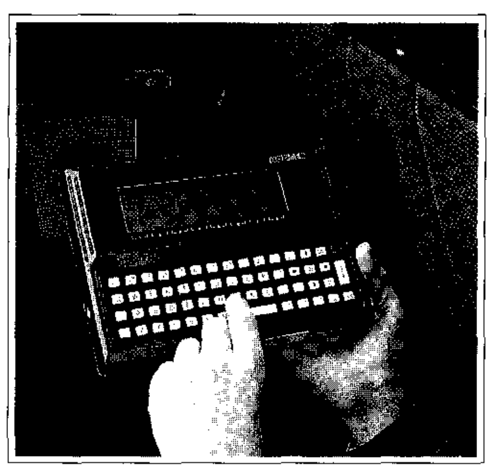
Field staff

Our field staff is one of our most important assets and we are increasing their effectiveness by better training, improved management processes and the introduction of new technology to cut down on administration and improve information flows. Trials currently being conducted with various forms of computer technology range from portable computers to nationwide networks. These are showing promising results. Also being tested are a hand held computerised collecting book and a portable computer which can produce an immediate printed quotation in the client's home.

Investing for the future

The heavy expenditure on the development of new computer systems and on training which has been a feature of all parts of our operations will continue into 1987 and beyond. We believe that the opportunities available to us through the use of advanced computer systems and new information technology must be exploited to the full, but before the benefits can be achieved substantial expenditures must be incurred. It is our current practice to write these off in the year in which they are incurred, so expense ratios are bearing the cost of investment which we are confident will produce benefits in future years.

Actor Andrew Sachs stars in the 12 minute video 'Stop Thief' centre piece of our campaign to promote greater home security. The video is being used by police Crime Prevention Officers around the country.



A British hand held computer is currently being tested by some of our representatives to record insurance premiums and other details as part of a programme to improve further the service provided to our customers.

UK INDIVIDUAL DIVISION

COMMERCIAL AND BROKER GENERAL INSURANCE BUSINESS

Results

There was a trading loss before tax of £11.4m compared with £12.7m in 1985. Premium income rose by 13% to £160.5m.

Personal lines business

Rates increases for motor and domestic property business helped to reduce the trading loss on personal lines to £4.5m compared with £6.9m in 1985. Most of the improvement arose in the domestic property account which moved to a trading profit. The 8% decline in premiums reflected high rate increases on the motor account and a deliberate reduction in the volume of business written for other personal lines. The claims experience on motor business sold through brokers continued to be worse than that on home service business, but the action taken on premium rates has now led, as planned, to a substantial reduction in the private car account.

Commercial business

Commercial lines produced a pre-tax trading loss of £6.9m, compared with £5.8m in 1985. In common with the private car account, commercial motor suffered from increased claims frequency. Premium rates have been raised substantially and we will make further increases in 1987 to help return the account to profitability. The deterioration on commercial non-motor business from a pre-tax trading loss of £3.0m in 1985 to one of £3.9m is disappointing, but this is distorted by movements in the reserves for business written in earlier years and the underlying trend is one of improvement.

After a thorough review we stopped writing extended warranty business in March 1987. Extra provisions of £14.0m were necessary to cover losses from earlier years and debts arising from the failure of reinsurers; these have been made from reserves and have no effect on results for 1986. Although we stopped writing this business in March, the extended warranties cover periods up to 1992.

VANBRUGH

Total pre-tax profit from long-term business rose from £0.1m to £1.2m. Single premiums, at £103.7m, were more than double those of 1985 and new annual premiums increased by 18% to £4.5m. This growth was partly due to improved marketing and sales management techniques and partly to a modest increase in the number of our consultants.

Until the March 1986 Budget one major reason for the sales of our single premium bonds was their use in various arrangements designed to mitigate the effect of capital transfer tax. The Finance Act 1986 replaced this by a specific inheritance tax but, in keeping with our reputation for innovation, we quickly devised suitable new arrangements.

We introduced the Holborn Unit Trusts to our intermediary connections during the final quarter of 1985 and during 1986 we sold some £20m of these successful unit trusts, in addition to the single premiums mentioned above.

Our estate agency network increased from 12 outlets at the beginning of 1986 to 337 by the year end, at a cost of some £125m. The development of this chain is proceeding through the acquisition of a high quality core firm in each of 12 regions with further regional expansion through the acquisition of smaller firms and the establishment of individual branches to ensure comprehensive coverage. We have now purchased the core firms for all regions of Great Britain except the Midlands, North East England and Scotland. The size of the chain is still expanding fast, and should soon exceed 500 outlets. The estate agencies owned by the end of 1986, during the period they contributed to our results, were operating profitably. The adverse impact on our accounts of £2.1m was the result principally of our incurring expenses in building a head office acquisitions and management team and of rebranding agencies to reflect the change in ownership.

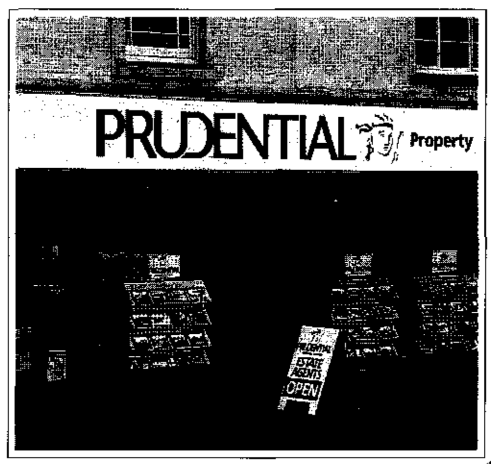
The full national coverage for which we are aiming will probably require at least 800 outlets, a level which could well be reached in 1988. The average cost per office of completing the chain is expected to be much less than the average cost of acquiring the core firms, in part because of the increasing use we can now make of the option of opening our own new offices.

Our outlets are being rebranded to operate nationally under the Prudential Property Services banner (with the exception of the central London offices trading as Chestertons Prudential). The initial response of the public to rebranding has been very encouraging, even for the long-established firms which we have acquired, and the practice of selling only Prudential insurance policies is being progressively extended throughout the chain. The initial cost of acquisition work, rebranding, and developing appropriate computer based support inevitably delays the emergence of a profit commensurate with the investment being made, but we are confident that such returns will be obtained, and in addition there will be benefits to other parts of the Group.

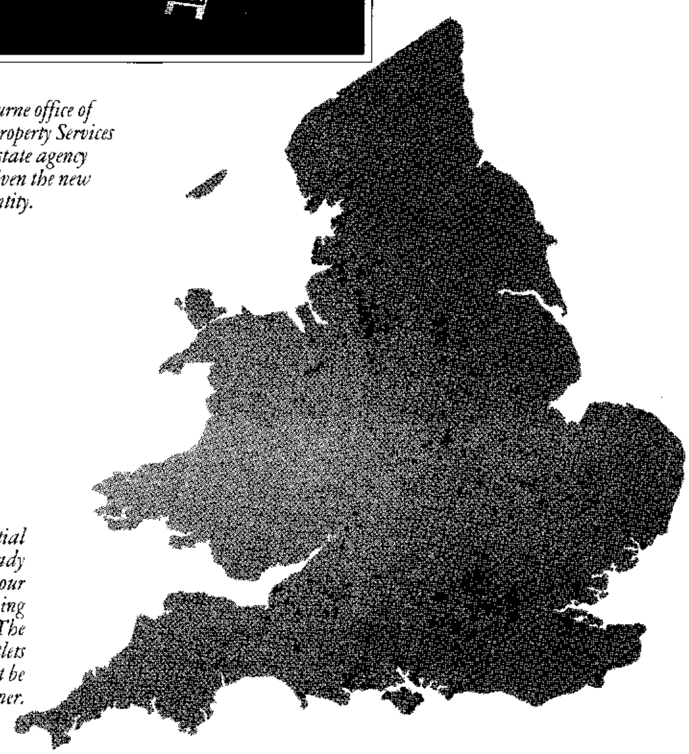
In aggregate the firms we now own sold houses for a total value of nearly £3 billion in 1986. 800 outlets would probably give us about 6% of all estate agency offices in Great Britain, from which we would expect to achieve a rather higher share of the total market.

An innovation during 1986 was the introduction, on a pilot basis, of a 'chain-breaking' service whereby, in certain circumstances, we offer to buy a client's house if there is difficulty in selling it. This service is designed to break-even in the long term, but it will help attract extra clients and therefore increase our overall profitability.

Ron Artus
Chairman



The Sitingbourne office of Prudential Property Services is one of our estate agency outlets now given the new corporate identity.



With almost 400 residential estate agency outlets already established, the map shows our progress towards achieving nationwide coverage. The black dots represent outlets whose purchase will not be completed until the summer.

UK GROUP PENSIONS DIVISION

Derek Fellows
Managing Director

The year has been a satisfactory one for the UK Group Pensions Division with an upturn in new business and much preparatory work for new legislative requirements successfully accomplished. Moreover, excellent investment performance has been maintained in our funds.

Results

Pre-tax profits at £10.5m were little changed from those for the previous year. However, these results do not include profits on segregated fund business which is now a major part of the 'other funds under management' shown on page 30.

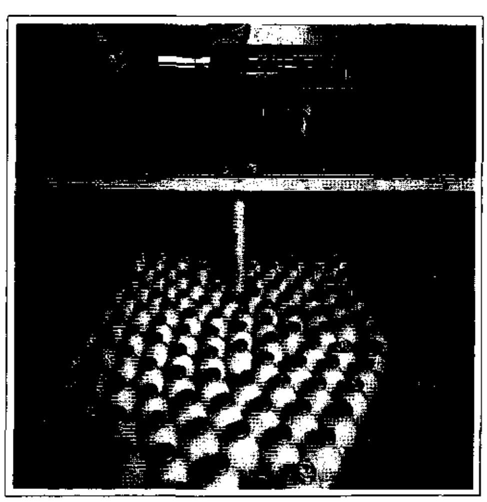
The revenue premium income of £220.1m was substantially higher than in 1985, in spite of reduced contribution rates for some defined benefit schemes with relatively large surpluses. The increase in the premium income consisted largely of contributions to new unit-linked investment accounts for small self-administered schemes, incoming transfer values for individual early leavers from company pension schemes, purchase money for 'compulsory purchase' immediate annuities and the purchase of international fund units on behalf of certain segregated fund clients.

Legislation

Of all the recent legislation and regulations affecting occupational pension schemes, the Social Security Act 1986 – with its encouragement of private sector pension provision through the 'personal pension' concept – is potentially the most far-reaching. Subject to a degree of uncertainty stemming from the forthcoming General Election, several million employees who currently are not members of an occupational scheme will have an opportunity for the first time to contract out of State earnings-related benefits through money-purchase arrangements. The majority of these employees are in small organisations and many are in transient employment. Both individual personal pensions and easily run group money purchase plans will therefore be needed. Whichever way this market develops, the Prudential as a whole is well equipped, with its experience and with new competitive pension contracts, to meet these needs.

At the same time many employees will be faced with a difficult decision, since several variable factors are involved. As a result much care will be needed by all concerned to see that pensions advice to them is put in proper perspective. This will be particularly so for younger employees who, because of the flat rate National Insurance rebate for contracting-out and the 2% 'incentive' for personal pensions, as well as a propensity to change employment, may feel inclined to opt, or stay, out of any defined benefit scheme run by their employers. We therefore generally support the measures on product disclosure already taken by the Association of British Insurers, and now pending through the Life Assurance and Unit Trust Regulatory Organisation.

Milk bottling at the Tyneside dairy of Associated Fresh Foods. We have recently set up a voluntary money purchase pension scheme for the company, which is part of the giant ASDA/MFI group.



Administration

The extensive legislative changes, which also have implications for many existing schemes, emphasise the importance of efficient and flexible administration services. We mentioned last year that our computerised administration system, which is available to corporate clients regardless of whether they use us for investment services, was being extended to embrace the new personal pension concepts. We are pleased to report that these modifications are well in hand and are on course for implementation before the new legislation becomes effective.

The major part of the relocation of group pensions staff to new quarters at Abbey Gardens in Reading has now been completed thereby strengthening our position to meet our aim of a first class service to all our clients at an acceptable cost.

Abbey Gardens in Reading, the new headquarters of our corporate pensions operations from which some 13,000 schemes are run for companies both large and small.

MERCANTILE AND GENERAL REINSURANCE

John Lock
General Manager

The highlight of the Mercantile and General group's results for 1986 was the achievement of a pre-tax trading profit on general business after several years of losses. Combined with continuing good results from long-term business, this has enabled us to report a pre-tax trading profit of £28.7m compared with £10.0m in 1985. These results reflect not only the general improvement in market conditions for reinsurers but also the impact of the measures we have taken to improve the quality of our business by achieving more realistic terms.

The effects of our better results coupled with a buoyant investment performance are reflected in our financial position, with published shareholders' funds increasing by £22m to £188m at the end of 1986, whilst the end of year solvency ratio has increased to 70% from its 1985 level of 67%. Moreover, this strong position is after taking account of transfers from retained profit and reserves of £20m to create a catastrophe reserve.

Long-term business

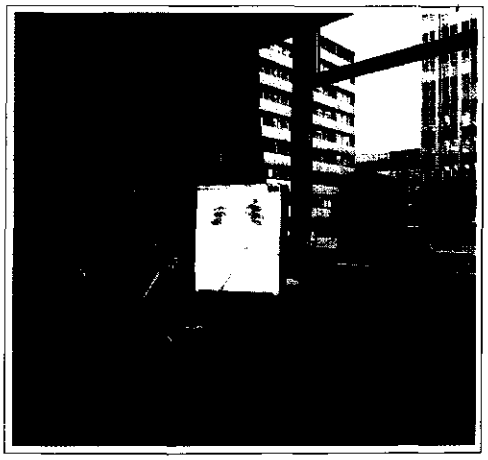
With exchange rates having only a marginal effect on premium income, worldwide revenue premiums rose by £328.9m to £532.3m. The major cause of this was an increase of £293.7m in single premiums, mainly resulting from a contract in respect of Canadian pension fund business. However, it was also a very satisfactory year for mainstream life business with revenue annual premiums increasing by 18% to £149.5m. The growing importance of our continuous disability business was emphasised by premium income increasing from £46.0m last year to £61.3m in 1986. Part of these increases derived from business written in the USA reflecting the better terms of trade now available; a further influence was our decision to retain a larger part of the gross business for our own account.

Although pre-tax profit from long-term business declined slightly from £25.2m to £24.5m, our results were again satisfactory reflecting a strong investment performance as well as the effect of the measures to restrict new business from certain territories which we mentioned in our report last year.

1986 saw the enactment of legislation which will almost certainly have a profound effect on the UK market. It will allow financial institutions to compete for new areas of business and we are therefore actively monitoring developments so that we can continue to provide new products and the high quality of service to which our clients are accustomed.

A further impact on both the direct and the reassurance industry has been the emergence of AIDS. We have sought to provide information which will enable underwriters to assess risks properly and to reduce the possibility that those who suspect they may have the disease take undue advantage of the life assurance industry. This latter problem is particularly important for us as reassurers.

Colin Trew (left) and Jerry Brown (centre), two of Mercantile and General's life underwriting experts, discuss a case with Dr Robert Brackenridge, the company's chief medical officer.



General reinsurance business

Following the cutback in our portfolio of business in recent years we registered an increase of just over 7% in our worldwide premium income to £267.5m, the major increase being recorded by our US subsidiary company. At constant exchange rates the worldwide increase was 5%.

Turning to the results, the recovery which began in 1985 was strongly maintained in 1986 and, in place of a pre-tax trading loss of £15.2m in the previous year, a profit of £4.2m was achieved. The main factors responsible for this improvement were the better terms of trade, the absence of major catastrophe losses affecting our account, the marked recovery in underwriting results in the USA and Canada and a significant increase in investment income. We are also continuing to see the effect of the action taken in recent years to improve the quality of our business. Against this the run-off of some business written in earlier years again showed a deterioration, mainly in respect of marine and aviation business. At the end of 1986 our total technical reserves amounted to 187% of premium income compared with 175% at the close of the previous year.

Although there remain a number of important insurance markets where underwriting conditions are still unsatisfactory, the market situation for general reinsurance business continues to be reasonably favourable, particularly for reinsurers such as ourselves who can offer first class security and significant capacity.

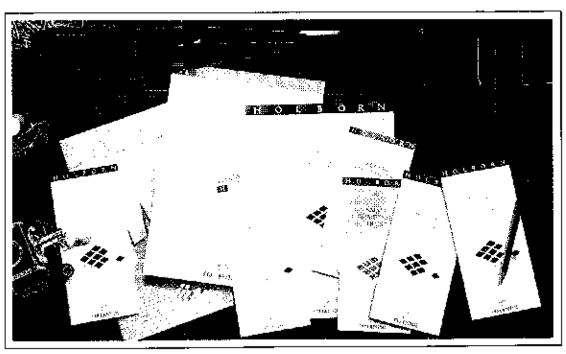
An amount of £15.0m has been transferred from reserves as a provision against possible asbestosis and pollution losses arising under discontinued contracts; this is in line with established practice.

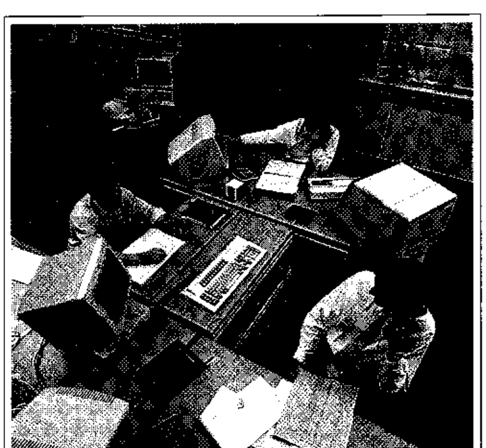
A recent example of Mercantile and General's involvement in the underwriting of natural catastrophe losses worldwide was the extensive property damage caused in Japan by Typhoon 10.

PRUDENTIAL PORTFOLIO MANAGERS

Ron Artus
Chairman

We place great importance on the quality of information provided to investors in our growing range of Holborn unit trusts.





Our bond dealers using the latest communications technology to transact clients' business in the new gilts market.

1986 was a good year for Prudential Portfolio Managers (PPM). We responded rapidly and efficiently to the many challenges presented during the year, particularly those stemming from the changing environment. Helped by the successful first full year of operation of the Holborn range of unit trusts, we achieved a pre-tax operating profit of £6.4m compared with £1.6m in 1985.

The total value of funds managed by PPM rose strongly during 1986, reflecting not only buoyant equity markets, in which we invested heavily during the year, but also the continued expansion of the Group's long-term and general insurance business, and the particularly rapid growth of our non-insurance funds, notably our Holborn Unit Trusts. By the year end we controlled investments with a market value of £20.8 billion.

Investment management

Our prime responsibility is to act as investment manager for most of the Prudential group, but investment management for external clients is becoming increasingly important. During 1986, for example, we made significant progress in the UK pension fund market. The fund figures quoted above do not include two large clients gained in December 1986, when after intensely competitive appraisals undertaken by independent consultants we were appointed to manage significant portions of both the British Rail and Unilever pension funds. Our 1987 figures will reflect these new funds and we confidently expect to see further additions to our client lists in the coming year. We believe that the size, independence and professionalism of PPM will increasingly appeal to pension fund trustees faced with deepening complexity and the potential conflicts of interest present in many of our competitors. Moreover, 1986 saw a further improvement in the investment performance we achieved for our clients. During the year pension funds managed by us typically achieved a return which was comfortably better than that of over three-quarters of the funds surveyed by the WM Company, which produces the measures of investment performance generally accepted by the pensions industry.

Our Holborn Unit Trust business continued the success of 1985, its launch year. Helped by the availability of all our unit trusts through appropriately trained members of the Prudential field staff, total 1986 sales of £311m dwarfed the £120m achieved in 1985. However, we also sell the unit trusts with great effect directly to the public and through intermediaries. The performances of our unit trusts have been satisfactory, with a number of them appearing towards the top of their sectors in 1986. As in 1985, 1986 ended on a high note: Prudential Unit Trust Managers were selected by *The Observer* as joint 'Unit Trust Managers of the Year'. However, to introduce a cautious note, the Department of Trade and Industry is currently considering revised regulations which are likely to diminish the future profitability of unit trust management.

Other initiatives during 1986 included the launch of the Nomura Prudential Global Portfolio, which is being energetically sold by Nomura in Japan. This is the first of what is intended to become a complete range of such funds; we expect to launch the second during the first half of 1987. We have also designed and launched a comprehensive range of Personal Equity Plans which has given us an early presence in this promising market.

Takeover activity

The period 1984-6 has seen a great upsurge in takeover and merger activity in the United Kingdom, and the response of institutional investors to it has been the subject of much discussion, some of it ill-informed. We have many times over the years made public our stance: a predisposition to support incumbent managements in good standing wishing to remain independent, qualified by the view that at some price a bid can be too attractive for us properly to reject it. During this period we received no less than 231 bids for our holdings in 212 companies. Of this number only 58 were contested bids fought to the end. In only 17 of these was the bidding company successful. We accepted bids against the advice of defending boards in only a few cases. Our judgement is not made on short-term considerations, but rather on a genuine attempt to judge the best long-term outcome with regard to the management of the companies in which we are invested, so as to optimise the long-term return to the beneficiaries of the funds we manage.

The changing market environments

Profound changes occurred during the year in the capital markets in which we operate and especially notable was 'Big Bang', the colloquial term for the major changes in London stock market practices. We had long been firm and enthusiastic advocates of deregulation, since we strongly believed that the Group's policyholders, pension fund members and unit trust holders would benefit from the introduction of serious competition into the workings of the Stock Exchange. It has therefore been satisfying and reassuring to see how the new markets have behaved since 'Big Bang'. In the equity market our dealing costs have been much lower, not only because of a significant reduction in the rate of commission paid to agency brokers, but also because the vigorous competition among market makers has encouraged us to deal directly with them in well over half of all our deals. The significant compression of market price spreads has also been very welcome, as has the introduction into the London markets of 'basket' or 'block' traders who are prepared to buy large portfolios en bloc. As regards the gilt market, we now deal almost exclusively net of commission and we welcome the greater liquidity and depth which competition has provided. However, our satisfaction with many aspects of the new markets stems largely from the impact upon us of price competition. We have seen only modest evidence to date of any significant improvement in the quality of other services, particularly research, and we believe that improvements in these areas are yet to come.

Alongside deregulation in the UK, the past year has seen accelerating internationalisation of the world's markets. Consistent with these developments we finalised the reorganisation of our investment management resources into global units concerned with investment and currency policies, equities and bonds instead of the formerly separate UK and foreign units. As a result we are confident that we now have a solid and improved base from which to enlarge our presence in all the fund management markets in which we are involved.

The way ahead

Looking to the future, three particular challenges remain for 1987 and beyond. We must maintain the impetus behind the development of our computer systems so that we keep abreast of the increasingly complex technology of the new City; we must continue to motivate, retain and enlarge our enthusiastic team of talented investment professionals; and we must continue to develop investment techniques, methods and products.

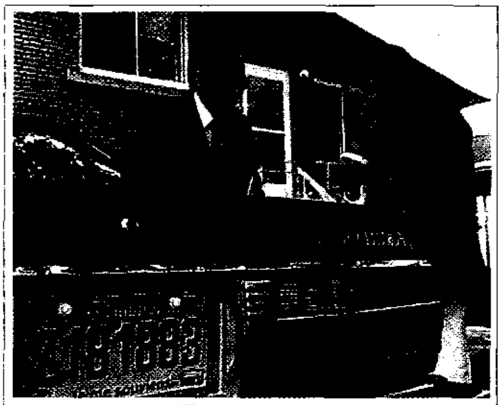
Mick Newmarch
Chief Executive

The first edition of Britain's latest national newspaper for which we provided venture capital.

In the face of considerable competition, we succeeded in becoming one of the new external fund managers for British Rail's pension scheme, managing some £750m of its investments.

INTERNATIONAL DIVISION

Brian Medhurst
Managing Director



Broker André Lafontaine visits one of our motor policy holders in Quebec.

The merger of our New Zealand operations with those of General Accident has created one of the top five insurance groups in that country.

After the unsatisfactory results of the previous year, there was a marked and very encouraging recovery in the International Division's trading profits for 1986. This was principally due to a substantial improvement in our general insurance business, notably in Canada and in the EEC. In particular the EEC results benefited from our decision to stop writing business in a number of countries where there had been continuing unsatisfactory general insurance results and to cut back in most of the others. Pre-tax profits from long-term and general insurance business combined were £18.3m compared with a loss of £0.6m in 1985.

1986 was a year of considerable activity and the major achievement of the year was the acquisition of a dynamic US life company. For some time a key element in our strategy has been to enter the US direct life market, and in November we purchased the Michigan-based Jackson National Life, a company highly regarded in its own market and whose operations will be of considerable significance to the Prudential group.

We have operated in the South African life market for some 55 years but more recently the future for smaller companies, including our local subsidiary, had become increasingly uncertain. The subsidiary has therefore been merged from January 1987 with Liberty Life Association, a major local company, in exchange for a minor holding in that company.

It had also become evident that the small size of our market share in New Zealand was becoming an increasing handicap, particularly for our general insurance business. We have therefore merged all our operations with those of General Accident with effect from January 1987. Prudential Assurance Company of New Zealand, which is 80% owned by Prudential and 20% by General Accident, has been formed to manage the combined life operations, while our general insurance business has been merged into General Accident's local company in which we have acquired a 20% holding. Economies and increased efficiency will result from the reorganisation.

At the start of 1986 we merged our Zimbabwean life branch with that of Pearl Assurance to form Prudential Assurance Company (Zimbabwe), of which we own 75%. This enlarged operation provides economies of scale, more sales outlets and better opportunities for expansion.

Our priorities for 1987 are to integrate our newly acquired and restructured operations, to maintain the profitable expansion of our life business and to continue firm action to improve our general insurance results further.

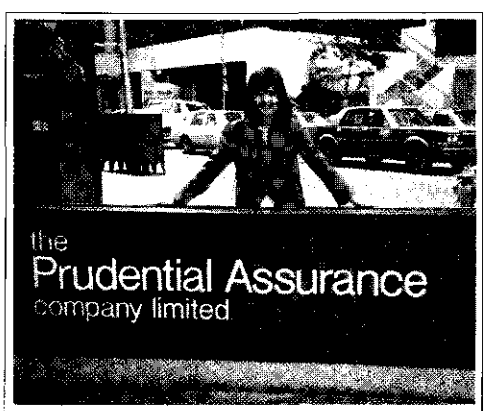
Long-term business

Pre-tax profits from long-term business rose by 8% to £13.4m and by 10% in local currencies. Within this, life profits were better by £2.3m with the largest contribution being from Australia following strong sales growth, increased bonuses to policyholders and an increase in the proportion of surplus allocated to shareholders. Premium income from life and pensions business increased in all countries except Canada where a contraction of the single premium market led to a decline in our business. Highlights of our single premium business included the sales of a new range of products in the Republic of Ireland and the successful penetration of the Australian pensions market. Annual premium sales were buoyant worldwide, with extensions of our agency networks producing particularly good figures in Australia and Singapore. Prudential Life of Ireland's entry into the pensions market helped it achieve a substantial increase in sales during the first full year under our ownership.

Despite a worldwide move to lower interest rates, all our major areas were able to maintain or increase bonus rates because of the excellent performance of our equity and property investments.

Our accident and health businesses showed mixed results. Constellation, our Canadian subsidiary, recorded a small loss, but much improved results were produced by the remainder of the business in Canada and by our Australian business which has been growing rapidly in recent years.

21 year old Eunice Gan is our top-selling life agent in Singapore and the youngest-ever qualifier for the Million Dollar Round Table, an internationally recognised life assurance sales association.



General insurance business

The firm measures which we took on general insurance business, together with a return to more realistic levels of premium rates in some markets, brought about a much needed improvement in underwriting results in most of the territories in which we operate. In summary the division made a general insurance trading profit of £4.9m before tax compared with a loss of £13.0m in 1985. Premium income increased by 11% in local currencies, and by 15% in sterling terms.

In reaction to the disastrous results in 1985, there was a dramatic and sustained improvement in trading conditions in the Canadian market. Premium rates returned to more sensible levels following the intense competition of the preceding year and aided by the more favourable conditions, we persevered with a policy of strict underwriting and expense control. There was a welcome improvement in the results of all major classes of business; our Canadian operations reported a pre-tax trading profit of £3.5m compared with a loss of £6.8m in 1985, and premium income increased by 15% in local currency. We remain cautiously optimistic for continued improvement in Canadian market conditions throughout 1987, and are well placed to take profitable advantage.

The results of our Belgian subsidiary, L'Escaut, continued to be good with a pre-tax trading profit of £3.3m compared with £2.7m in 1985. Elsewhere in Europe we have reduced our presence in the Netherlands, have stopped writing business in France apart from the handling of some prestige accounts, and have completely stopped writing business in Greece and Portugal. Our results from the Republic of Ireland are still causing concern, while in Germany we have been adversely affected by the need to strengthen reserves on cancelled business. Outside of Belgium there was a pre-tax trading loss of £3.1m on our European operations. The Caribbean produced very satisfactory profits, while results from New Zealand and the Far East remained poor.

During the year we continued our efforts to improve the quality of general insurance business written on the London market where conditions generally have been somewhat more favourable to underwriters than in recent years. Overall our London market operations produced a pre-tax trading profit of £1.0m, compared with £0.9m in 1985.

For the marine and aviation accounts combined there was a pre-tax trading profit of £0.3m compared with a loss of £0.6m in 1985. Improved trading conditions in the London marine market were maintained in 1986 and while premium rates held up well for some classes they remained inadequate for cargo business. Premium income on the marine account increased by 33% and although there was a pre-tax trading loss for the year of £0.6m, most of it arose from the need to increase reserves in respect of the potential claims and legal costs on business from which we have withdrawn. There was a very satisfactory result on the aviation account where underwriting was strictly controlled.

Two developments relating to other years have, in line with group accounting policy, required a transfer from reserves. There was £2.7m in respect of the closure cost of certain European operations referred to earlier, and a £5.0m provision for environmental pollution and asbestosis claims.

The company symbol of Jackson National as displayed at its Lansing, Michigan headquarters.

Jackson National Life

For some years it has been our intention that when an appropriate opportunity arose we should extend our activities into the USA, the world's largest life assurance market. We established criteria for our ideal acquisition and in our wide-ranging investigations Jackson National easily emerged as the most suitable candidate. The company has a fine record of profitable premium growth, a strong marketing reputation and considerable growth prospects.

The company was founded in 1961 by Tony Pasant who remains chairman and chief executive. The head office is in Lansing, Michigan, where 400 staff are based. Eleven regional offices around the country employ a further 200 staff who are responsible for sales through approximately 50,000 independent agents. These agents have been attracted to Jackson National by its high standards of service and its wide range of up-to-date individual life assurance and annuity products. The company's distribution network is extremely cost effective since several of the layers of agency management found in most US life assurance companies have been omitted to reduce expenses and to heighten the responsiveness of the company to its clients' needs. The staff of Jackson National has welcomed the partnership with us and we are optimistic about the future prospects.

Marketing staff at Jackson National, like Michael Murphy, make extensive use of personal computers in drawing up new marketing and sales material.

Jackson National's premiums grew by 16% in 1986, to $630m. Unlike some other investment vehicles, life assurance policies did not suffer any change in their advantageous tax status in the recent tax bill enacted in the USA, and this gives Jackson National a further opportunity for sales growth in 1987. The company is currently operational in only 34 states and in many of these it is only recently established and has yet to realise its full potential. In addition it is already licensed in 11 states where it is awaiting product approvals before it can start business; we hope to start operations in at least one of these states in 1987.

The acquisition of Jackson National also gives us a base from which to develop sales of other products such as unit-linked contracts, in which we have extensive experience in other markets and which are enjoying increasing popularity in the USA.

Our 1986 results include only a month of Jackson National's profits but in future years the company will be an important part of the division, and indeed of the Group, both in terms of premium income and profits.

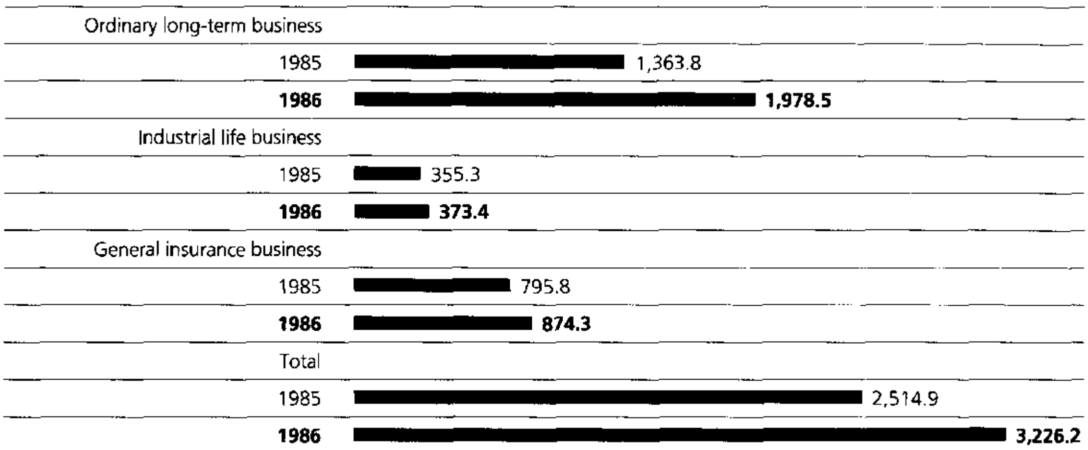
BUSINESS ANALYSIS
OF THE GROUP

PREMIUM INCOME OF THE GROUP

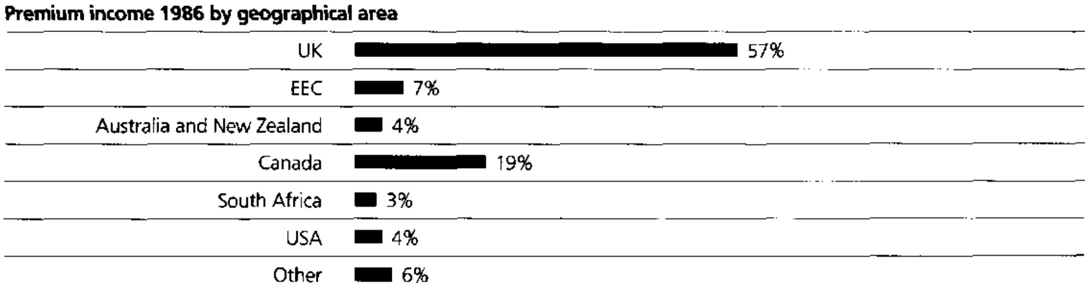
	Long-term business		General insurance business		Total	
	1986 £m	1985 £m	1986 £m	1985 £m	1986 £m	1985 £m
UK Individual division –						
Prudential Assurance	**974.1**	903.1	**355.6**	327.9	**1,329.7**	1,231.0
Vanbrugh	**129.4**	73.2	**—**	—	**129.4**	73.2
UK Group Pensions division	**220.1**	145.0	**—**	—	**220.1**	145.0
Mercantile and General Reinsurance	**532.3***	203.4	**267.5**	249.4	**799.8**	452.8
International division	**496.0**	394.4	**251.2**	218.5	**747.2**	612.9
	2,351.9	**1,719.1**	**874.3**	**795.8**	**3,226.2**	**2,514.9**

**£280m of Mercantile and General's premium income is due to a single premium contract in Canada.*

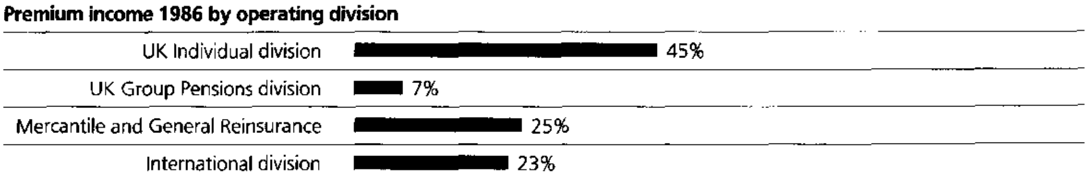
Premium income of the Group £m



Premium income 1986 by geographical area



Premium income 1986 by operating division



LONG-TERM BUSINESS

GROUP TOTAL	1986 £m	1985 £m
New business: Annual premiums	**338.9**	305.5
Single premiums	**783.4**	304.2
Revenue premium income	**2,351.9**	1,719.1
Surplus for distribution	**1,076.1**	1,016.7
Policyholders' bonuses*	**977.4**	928.3
Shareholders' profit before tax*	**145.5**	137.7

UK INDIVIDUAL DIVISION
Total

New business: Annual premiums	**184.2**	185.2
Single premiums	**164.0**	106.7
Revenue premium income	**1,103.5**	976.3
Shareholders' profit before tax*	**97.1**	89.5
Ordinary long-term business		
New business: Annual premiums	**101.4**	102.9
Single premiums	**59.5**	57.2
Revenue premium income	**600.7**	547.8
Shareholders' profit before tax*	**61.3**	53.9
Industrial life business		
New business: Annual premiums	**78.3**	78.5
Single premiums	**0.8**	0.6
Revenue premium income	**373.4**	355.3
Shareholders' profit before tax*	**34.6**	35.5
Vanbrugh		
New business: Annual premiums	**4.5**	3.8
Single premiums	**103.7**	48.9
Revenue premium income	**129.4**	73.2
Shareholders' profit before tax	**1.2**	0.1

**Including non-recurrent amounts arising from special reversionary bonuses (see note 11 on page 47)*

UK GROUP PENSIONS DIVISION
Total

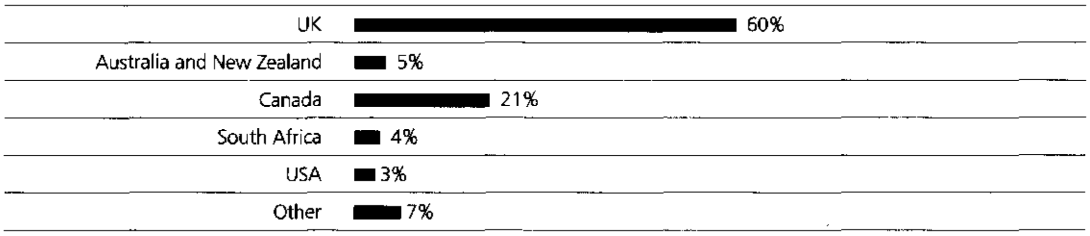
New business: Annual premiums	**39.6**	29.2
Single premiums	**110.5**	30.4
Revenue premium income	**220.1**	145.0
Shareholders' profit before tax	**10.5**	10.6
Insured plans		
New business: Annual premiums	**24.5**	23.2
Single premiums	**66.2**	27.0
Revenue premium income	**145.4**	108.9
Shareholders' profit before tax	**8.8**	9.5
Investment linked		
New business: Annual premiums	**15.1**	6.0
Single premiums	**44.3**	3.4
Revenue premium income	**74.7**	36.1
Shareholders' profit before tax	**1.7**	1.1

MERCANTILE AND GENERAL REINSURANCE		1986 £m	1985 £m
New business: Annual premiums		**45.9**	36.1
	Single premiums	**324.4***	30.7
Revenue premium income:			
	UK	**95.9**	76.1
	Canada	**310.6**	32.4
	USA	**40.8**	35.0
	Other countries	**85.0**	59.9
	Total	**532.3**	203.4
Shareholders' profit before tax		**24.5**	25.2

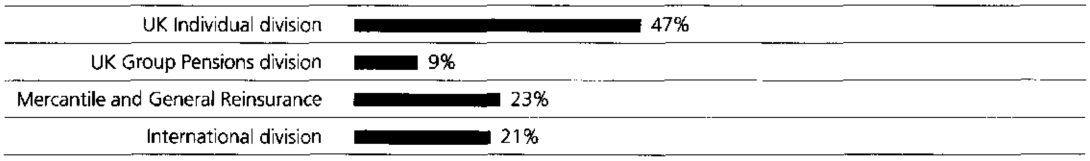
Note: *****£280m of Mercantile and General's premium income is due to a single premium contract in Canada.

INTERNATIONAL DIVISION		1986 £m	1985 £m
New business: Annual premiums		**69.2**	55.0
	Single premiums	**184.5**	136.4
Revenue premium income:			
	Australia and New Zealand	**102.0**	77.7
	Canada	**179.8**	207.7
	Republic of Ireland	**61.7**	16.2
	South Africa	**67.3**	47.2
	USA	**31.9**	—
	Other countries	**53.3**	45.6
	Total	**496.0**	394.4
Shareholders' profit before tax:			
	Australia and New Zealand	**6.5**	4.6
	Canada	**2.1**	3.4
	Republic of Ireland	**—**	0.6
	South Africa	**2.6**	2.4
	USA	**0.6**	—
	Other countries	**1.6**	1.4
	Total	**13.4**	12.4

Revenue premium income 1986 by geographical area



Revenue premium income 1986 by operating division



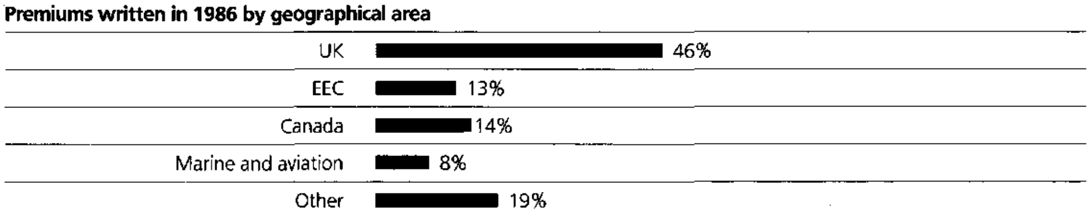
GENERAL INSURANCE BUSINESS

GROUP TOTAL			1986 £m	1985 £m
Premiums written			**874.3**	795.8
Underwriting result			**(99.9)**	(131.6)
Investment income			**94.8**	78.2
Trading profit/(loss) before tax			**(5.1)**	(53.4)
UK INDIVIDUAL DIVISION				
Total				
Premiums written			**355.6**	327.9
Underwriting result			**(42.5)**	(47.8)
Investment income			**28.3**	22.6
Trading profit/(loss) before tax			**(14.2)**	(25.2)
Home Service – personal lines – domestic property				
Premiums written			**134.8**	132.7
Underwriting result			**(4.9)**	(15.2)
Investment income			**7.4**	6.3
Trading profit/(loss) before tax			**2.5**	(8.9)
Home Service – personal lines – motor				
Premiums written			**60.3**	52.8
Underwriting result			**(10.2)**	(7.7)
Investment income			**4.9**	4.1
Trading profit/(loss) before tax			**(5.3)**	(3.6)
Commercial and broker – personal lines				
Premiums written			**36.3**	39.6
Underwriting result			**(6.6)**	(8.7)
Investment income			**2.1**	1.8
Trading profit/(loss) before tax			**(4.5)**	(6.9)
Commercial and broker – commercial lines				
Premiums written			**124.2**	102.8
Underwriting result			**(20.8)**	(16.2)
Investment income			**13.9**	10.4
Trading profit/(loss) before tax			**(6.9)**	(5.8)
MERCANTILE AND GENERAL REINSURANCE				
Premiums written	Parent company:	Fire and accident proportional	**107.7**	116.1
		Fire and accident non-proportional	**46.6**	37.2
		Marine and aviation	**30.5**	35.0
	Overseas subsidiaries		**82.7**	61.1
	Total		**267.5**	249.4
Underwriting result	Parent company:	Fire and accident proportional	**(12.2)**	(24.4)
		Fire and accident non-proportional	**(8.0)**	(1.0)
		Marine and aviation	**(15.0)**	(14.5)
	Overseas subsidiaries		**0.9**	(7.3)
	Total		**(34.3)**	(47.2)
Investment income			**38.5**	32.0
Trading profit/(loss) before tax			**4.2**	(15.2)

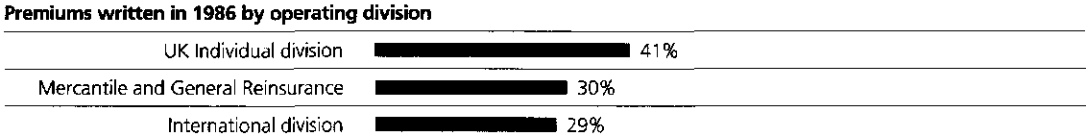
INTERNATIONAL DIVISION

Total	**1986 £m**	1985 £m
Premiums written	**251.2**	218.5
Underwriting result	**(23.1)**	(36.6)
Investment income	**28.0**	23.6
Trading profit/(loss) before tax	**4.9**	(13.0)
EEC		
Premiums written	**69.7**	56.4
Underwriting result	**(11.5)**	(13.6)
Investment income	**11.7**	9.1
Trading profit/(loss) before tax	**0.2**	(4.5)
Canada		
Premiums written	**100.3**	88.6
Underwriting result	**(3.7)**	(13.5)
Investment income	**7.2**	6.7
Trading profit/(loss) before tax	**3.5**	(6.8)
Other countries		
Premiums written	**16.3**	17.0
Underwriting result	**(1.3)**	(3.3)
Investment income	**1.2**	1.3
Trading profit/(loss) before tax	**(0.1)**	(2.0)
London market – overseas		
Premiums written	**23.8**	26.0
Underwriting result	**(3.6)**	(3.0)
Investment income	**4.6**	3.9
Trading profit/(loss) before tax	**1.0**	0.9
Marine and aviation		
Premiums written	**41.1**	30.5
Underwriting result	**(3.0)**	(3.2)
Investment income	**3.3**	2.6
Trading profit/(loss) before tax	**0.3**	(0.6)

Premiums written in 1986 by geographical area



Premiums written in 1986 by operating division



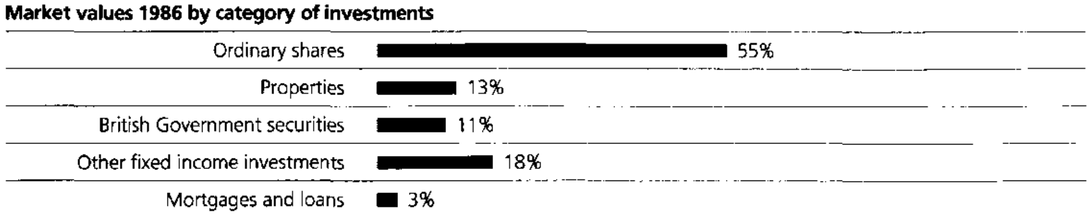
INVESTMENT MANAGEMENT

MARKET VALUES OF INVESTMENTS UNDER MANAGEMENT

	Long-term business		General insurance & shareholders' funds		Other funds under management		Total	
	1986 £m	1985 £m	**1986 £m**	1985 £m	**1986 £m**	1985 £m	**1986 £m**	1985 £m
Ordinary shares	**11,205**	8,557	**598**	476	**3,508**	2,261	**15,311**	11,294
Properties	**3,474**	3,203	**74**	59	**137**	134	**3,685**	3,396
British Government securities	**2,364**	2,505	**293**	154	**401**	461	**3,058**	3,120
Other fixed income investments	**4,013**	2,141	**674**	476	**271**	253	**4,958**	2,870
Mortgages and loans	**894**	759	**52**	39	**—**	3	**946**	801
	21,950	17,165	**1,691**	1,204	**4,317**	3,112	**27,958**	21,481

Other funds under management referred to on pages 30 and 31 include Holborn Unit Trusts, Vanbrugh Currency Fund, Holborn Currency Fund, segregated pension funds managed on a fee-paying basis and Prudential staff pension funds.

Market values 1986 by category of investments

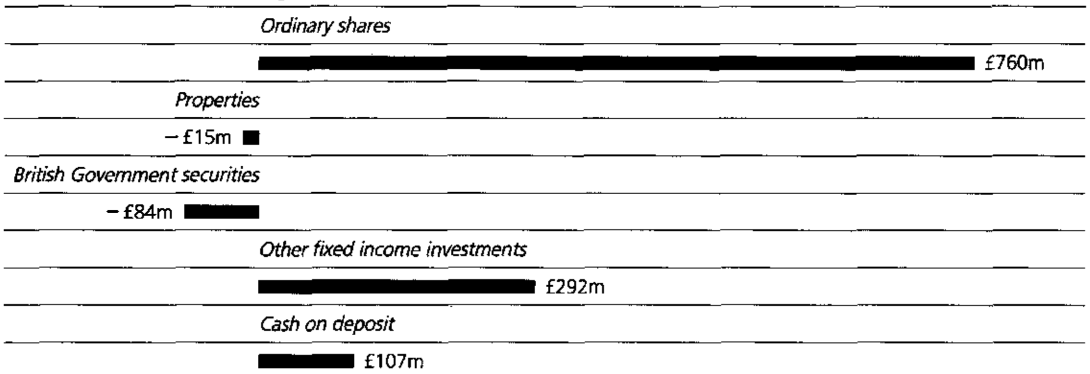


HOLBORN UNIT TRUSTS	**1986 £m**	1985 £m
Sales by field staff	**185.1**	74.5
Other sales	**126.0**	45.1
Total sales	**311.1**	119.6
Repurchases	**(64.9)***	(12.9)
Net investment	**246.2**	106.7
Market value at end of year	**682.8**	352.3

**The repurchases include £20.0m relating to Vanbrugh's holding of units in the Holborn Gilt Trust.*

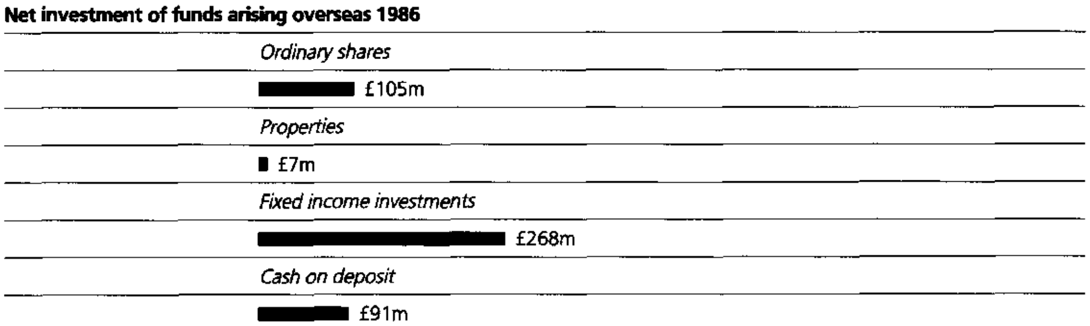
FUNDS ARISING IN THE UNITED KINGDOM – NET INVESTMENT	Long-term business 1986 £m	Long-term business 1985 £m	General insurance & shareholders' funds 1986 £m	General insurance & shareholders' funds 1985 £m	Other funds under management 1986 £m	Other funds under management 1985 £m	Total 1986 £m	Total 1985 £m
Ordinary shares	**217**	170	**(11)**	(12)	**554**	379	**760**	537
Properties	**(19)**	(256)	**7**	11	**(3)**	(17)	**(15)**	(262)
British Government securities	**(153)**	(89)	**137**	25	**(68)**	5	**(84)**	(59)
Other fixed income investments	**288**	234	**(22)**	15	**26**	70	**292**	319
Cash on deposit	**122**	(19)	**(24)**	108	**9**	25	**107**	114
	455	40	**87**	147	**518**	462	**1,060**	649

Net investment of funds arising in the United Kingdom 1986



FUNDS ARISING OVERSEAS – NET INVESTMENT	Long-term business 1986 £m	Long-term business 1985 £m	General insurance & shareholders' funds 1986 £m	General insurance & shareholders' funds 1985 £m	Other funds under management 1986 £m	Other funds under management 1985 £m	Total 1986 £m	Total 1985 £m
Ordinary shares	**87**	56	**—**	2	**18**	—	**105**	58
Properties	**7**	19	**—**	(1)	**—**	—	**7**	18
Fixed income investments	**168**	137	**100**	14	**—**	1	**268**	152
Cash on deposit	**59**	51	**42**	46	**(10)**	(22)	**91**	75
	321	263	**142**	61	**8**	(21)	**471**	303

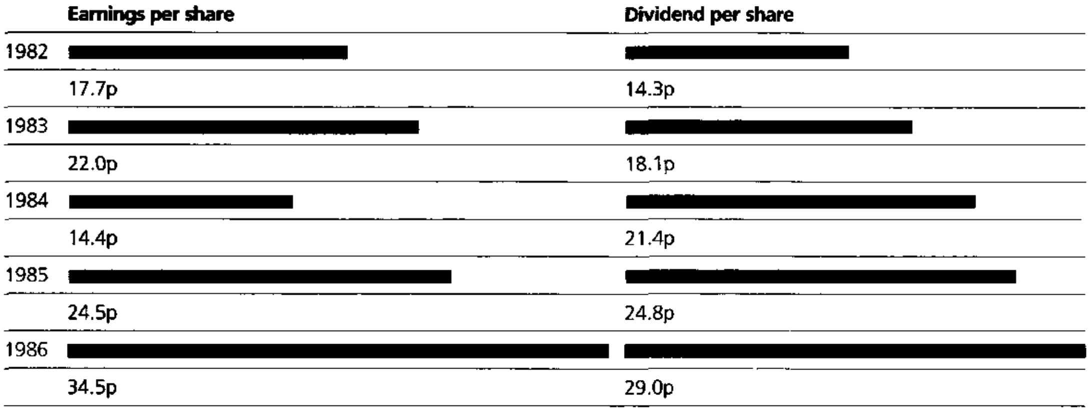
Net investment of funds arising overseas 1986



5 YEAR REVIEW OF GROUP RESULTS

SUMMARY OF RESULTS	**1986 £m**	1985 £m	1984 £m	1983 £m	1982 £m
Profit before tax from					
Ordinary long-term business	**110.9***	102.2*	95.1*	68.0	58.5
Industrial life business	**34.6***	35.5*	41.0*	21.3	18.1
General insurance business	**(5.1)**	(53.4)	(79.9)	(7.6)	(7.3)
Shareholders' other income	**37.7**	25.8	21.8	19.4	16.1
Total profit before tax	**178.1**	110.1	78.0	101.1	85.4
Tax	**59.4**	31.7	31.9	31.6	29.7
Minority interests	**1.1**	1.0	0.9	0.6	0.1
Profit attributable to shareholders	**117.6**	77.4	45.2	68.9	55.6
Dividends	**105.2**	78.3	67.1	56.7	44.8
Transfer to/(from) retained profit	**12.4**	(0.9)	(21.9)	12.2	10.8

**Including non-recurrent amounts arising from special reversionary bonuses (see note 11 on page 47).*



	1986	1985	1984	1983	1982
Earnings per share	**34.5p**	24.5p	14.4p	22.0p	17.7p
Dividend per share	**29.0p**	24.8p	21.4p	18.1p	14.3p

Earnings per share and dividend per share, for 1985 and previous years, have been adjusted for the rights issue made during 1986 (see note 8 on page 47).

5 YEAR REVIEW OF GROUP RESULTS

Ordinary long-term business	1986 £m	1985 £m	1984 £m	1983 £m	1982 £m
New business annual premiums	**260.6**	227.0	244.2	235.9	203.7
New business single premiums	**782.6**	303.6	371.7	276.9	209.1
Revenue premium income	**1,978.5**	1,363.8	1,473.1	1,222.3	1,083.3
Investment income	**915.3**	824.5	824.8	697.5	647.3
Policyholders' bonuses	**656.5***	595.9*	612.7*	471.7	396.3
Shareholders' profit before tax	**110.9***	102.2*	95.1*	68.0	58.5
Market value of investments	**16,653.9**	12,607.1	12,116.5	10,802.5	9,117.8
Industrial life business					
New business annual premiums	**78.3**	78.5	72.0	72.3	75.7
New business single premiums	**0.8**	0.6	0.1	—	—
Revenue premium income	**373.4**	355.3	338.4†	320.5	296.8
Investment income	**264.6**	246.6	232.8	207.4	201.8
Policyholders' bonuses	**320.9***	332.4*	398.6*	222.8	191.2
Shareholders' profit before tax	**34.6***	35.5*	41.0*	21.3	18.1
Market value of investments	**5,296.3**	4,558.4	4,249.4	3,773.4	3,274.5
General insurance business					
Premiums written	**874.3**	795.8	788.5	690.3	606.5
Underwriting result	**(99.9)**	(131.6)	(161.4)	(76.9)	(67.6)
Investment income	**94.8**	78.2	81.5	69.3	60.3
Trading profit/(loss) before tax	**(5.1)**	(53.4)	(79.9)	(7.6)	(7.3)
Market value of investments	**1,049.3**	793.8	786.4	719.4	630.7
Shareholders' other income					
Investment income	**43.0**	27.0	24.5	20.7	17.6
Miscellaneous net income	**4.6**	2.6	0.1	0.8	0.3
Expenses	**(9.9)**	(3.8)	(2.8)	(2.1)	(1.8)
Other income before tax	**37.7**	25.8	21.8	19.4	16.1

†Adjusted to remove the effect of an additional payment date. In 1984 there were fourteen due dates for payment of industrial life business four-weekly premiums. Some £26m of the 1984 premium income was accounted for by the additional payment date. In order not to distort the general trend in five-year tables and charts, the effect of the additional payment date has been removed.
**Including non-recurrent amounts arising from special reversionary bonuses. The total effect of these on shareholders' profit before tax is: 1986 £6.4m, 1985 £13.3m, 1984 £23.7m.*

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

P E Moody CBE FIA Deputy Chairman
A director since 1981 and Deputy Chairman since 1984. Chairman of Prudential Staff Pensions Ltd. Former Joint Secretary and Group Chief Investment Manager. Director of Laird Group and Investors in Industry. Former President of the Institute of Actuaries.

R S Skerman CBE FIA Deputy Chairman
A director since 1980 and Deputy Chairman since 1985. Former Group Chief Actuary. Former President of the Institute of Actuaries, and former Chairman of the Life Offices Association and of the British Insurers European Committee.

F B Corby FIA Group Chief Executive
A director since 1983. Director of the Bank of England. Chairman of the Association of British Insurers.

M D Abrahams
A director since 1984. Deputy Chairman of John Crowther Group and York Trust Group. Director of John Waddington.

R E Artus FSIA Executive Director
A director since 1984. Group Chief Investment Manager. Chairman of Prudential Portfolio Managers and Prudential Property Services.

Sir John Butterfield OBE FRCP
A director since 1981. Regius Professor of Physic, University of Cambridge. Master of Downing College. Member of several medical committees. Director of BCB Instrumentation. Vice-Chancellor of Cambridge University from 1983 to 1985.

The Rt Hon Lord Carr of Hadley PC
A director since 1976, Deputy Chairman from 1979 to 1980 and Chairman from 1980 to 1985. Member of Parliament from 1950 to 1976 and Home Secretary from 1972 to 1974. Director of Cadbury Schweppes.

D S Craigen
A director since 1982 and Chairman of Vanbrugh since 1982. Former Chief General Manager of Prudential Assurance. Director of Pioneer Concrete (Holdings).

D E Fellows FIA FPMI Executive Director
A director since 1985. Managing Director, UK Group Pensions Division and Chief Actuary of Prudential Assurance.

J A Freeman FCA FCMA Executive Director
A director since 1985. Managing Director, UK Individual Division.

The Hon Sir Victor Garland KBE
A director since 1984. Australian chartered accountant. Member of the Australian Federal Parliament from 1969 to 1981, holding various ministerial posts. High Commissioner for Australia in the UK from 1981 to 1983. Director of Mitchell Cotts and of a number of investment trusts.

W G Haslam OBE DFC
A director since 1980 and Deputy Chairman from 1980 to 1984. Former Chief General Manager of Prudential Assurance and Chief Executive of Prudential Corporation. Former Chairman of the British Insurance Association.

Sir Trevor Holdsworth
A director since November 1986. Chartered accountant. Chairman of GKN and Allied Colloids. Director of Midland Bank. Member of the Council of the Confederation of British Industry.

Sir Alex Jarratt CB
A director since 1985. Chairman of Smiths Industries. Deputy Chairman of Midland Bank and a director of ICI.

B Medhurst FIA Executive Director
A director since 1985. Managing Director, International Division.

J A S Neave CBE JP DL
A director since 1982. Former Managing Director of Mercantile and General Reinsurance. President of the Geneva Association, past President of the Chartered Insurance Institute and former Chairman of the Reinsurance Offices Association.

M G Newmarch Executive Director
A director since 1985. Deputy Chairman and Chief Executive of Prudential Portfolio Managers.

The Rt Hon J E Ramsden
A director since 1972 and Deputy Chairman from 1976 to 1982. Member of Parliament from 1954 to 1974, holding various ministerial posts.

The Rt Hon Lord Richardson of Duntisbourne KG MBE TD PC DL
A director since 1984. Governor of the Bank of England from 1973 to 1983. Director of Bank for International Settlements, General Electric Company, Saudi International Bank and Morgan Stanley International.

F G Wood FIA ACII
A director since 1984. Former Managing Director, Central Services and Deputy Chief General Manager of Prudential Assurance.

Sir Ronald Owen FIA, Chairman of the Company from 1975 to 1980, holds the honorary position of President of the Company.

DIRECTORS' REPORT
for the year ended 31 December 1986

Principal activity and business review
Prudential Corporation plc is the Group holding company and the principal activity of its subsidiaries is transacting insurance and reinsurance business of all classes in the United Kingdom and overseas. Particulars of principal subsidiary companies are given in the notes on the accounts on page 43.
The Group's business is reviewed in the Chairman's statement on pages 6 and 7, the Chief Executive's review on pages 8 and 9 and the divisional reports on pages 10 to 22.

Accounts
The consolidated balance sheet on page 39 shows the state of affairs of the Group at 31 December 1986. The Company's balance sheet appears on page 40 and the consolidated profit and loss account on page 38. There is a five year review of the Group on pages 32 and 33.

Directors
The present directors of the Company are shown on page 35.
Sir Peter Tennant CMG OBE retired on 28 May 1986. Mr M G Newmarch was elected a director as from 28 May 1986. Sir Trevor Holdsworth was appointed a director as from 1 November 1986 and retires in accordance with the Articles of Association and offers himself for election.
The directors retiring by rotation at the Annual General Meeting are Mr M D Abrahams, Mr R E Artus FSIA, The Rt Hon Lord Carr of Hadley PC, Mr D S Craigen and The Hon Sir Victor Garland KBE. They offer themselves for re-election.
Mr W G Haslam OBE DFC also retires by rotation but does not offer himself for re-election having reached the normal retirement age. Mr R S Skerman CBE FIA also retires having reached the normal retirement age.
No contract of significance subsisted at any time during the year in which a director is or was, for Stock Exchange purposes, materially interested.

Directors' shareholdings

	Interest in shares of 25p each of the Company		Options to acquire shares of 25p each under: The Prudential Savings-Related Share Option Scheme		The Prudential Executive Share Option Scheme	
	31 Dec 1986	1 Jan 1986*	31 Dec 1986	1 Jan 1986*	31 Dec 1986	1 Jan 1986*
Lord Hunt of Tanworth	2,650	2,000				
M D Abrahams	2,400	2,000				
R E Artus	2,000	2,000	1,084[a]	1,023[g]	31,772[e]	30,000[k]
					10,000[f]	
Sir John Butterfield	2,400	2,000				
Lord Carr of Hadley	2,400	2,000				
F B Corby	2,400	2,000	1,084[a]	1,023[g]	68,841[e]	65,000[k]
			704[b]	665[h]		
D S Craigen	2,400	2,000				
D E Fellows	2,400	2,000			26,477[e]	25,000[k]
					10,000[f]	
J A Freeman	1,250	2,000	1,334[c]	1,259[i]	26,477[e]	25,000[k]
					10,000[f]	
Sir Victor Garland	500	2,000				
W G Haslam	2,880	2,400				
Sir Trevor Holdsworth	500	500				
Sir Alex Jarratt	2,400	2,000				
B Medhurst	2,400	2,000	1,334[c]	1,259[i]	26,477[e]	25,000[k]
					10,000[f]	
P E Moody	2,400	2,000				
J A S Neave	280,939	313,939				
M G Newmarch	600	2,500	1,334[c]	1,259[i]	26,477[e]	25,000[k]
			838[d]	791[j]	10,000[f]	
J E Ramsden	2,880	2,400				
Lord Richardson of Duntisbourne	2,400	2,000				
R S Skerman	3,000	2,500				
F G Wood	2,814	2,345	1,084[a]	1,023[g]		
			704[b]	665[h]		

**or later on appointment or election.*
The shares above are beneficial interests except for 2,000 in the name of Mr M G Newmarch at 1 January 1986.

Notes
[a]exercisable October 1988 at 359.73p per share;
[b]exercisable April 1990 at 524.97p per share;
[c]exercisable October 1990 at 359.73p per share;
[d]exercisable April 1992 at 524.97p per share;
[e]exercisable normally between October 1988 and October 1995 at 641.10p per share;
[f]exercisable normally between October 1989 and October 1996 at 848.00p per share;
[g]exercisable October 1988 at 381.00p per share;
[h]exercisable April 1990 at 556.00p per share;
[i]exercisable October 1990 at 381.00p per share;
[j]exercisable April 1992 at 556.00p per share;
[k]exercisable normally between October 1988 and October 1995 at 679.00p per share.

Except as stated above none of the directors held an interest either at the beginning or the end of the year or at the date of their appointment or election, in any shares in or debentures of the Company or its subsidiaries. There has been no change in directors' shareholdings between 31 December 1986 and 31 March 1987.

Dividends
The directors have declared a final dividend for 1986 of 19p per share payable on 27 May 1987 to shareholders on the register at close of business on 29 April 1987. The dividend for the year, including the interim dividend of 10p per share paid in November 1986, amounts to 29p per share compared with 24.8p per share for 1985. The 1985 dividend has been adjusted for the rights issue made during 1986 (see note 8 on page 47).

Employees
The following information is given in respect of employees of the Group in the United Kingdom only. The policy towards employees overseas is the same but the practical application of the policy varies according to local requirements.

Number of employees
The average number of persons employed by the Group in the United Kingdom in each week of 1986 was 24,622 and the total remuneration was £294.6m.

Equal opportunity
Our policy is to recruit, develop and employ our staff on the basis of the suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, colour, race, ethnic origin, nationality or disability. To this end specific actions have taken place to:
(i) increase employee awareness of our policy by such means as training and the distribution of a written guide to equal opportunity;
(ii) review all policies and practices concerning recruitment, selection and training;
(iii) monitor the impact of our policy.

Employee involvement
Additional efforts were made during 1986 to consult with and inform employees on matters that concern them. Communications objectives have been developed and applied with the overall aim of improving employee knowledge of and involvement in the major business developments taking place throughout the year. In particular during September the Chief Executive led presentations to a wide cross-section of United Kingdom staff on these issues on the occasion of the launch of the new corporate identity; full briefing material, including videos, was prepared to assist in communication to those staff not able to attend.

Consultation and negotiation have also continued as appropriate with representative bodies of the staff on a wide range of issues such as the relocation of Group Pensions staff from Holborn to Reading.

For the fourth year running employees were encouraged to participate in the savings-related share option scheme.

The board of the trustee company of the staff pension scheme of The Prudential Assurance Company Limited has directors elected by employees of that company.

Donations
During the year the Company and its subsidiaries gave £345,000 in the United Kingdom and £137,000 overseas for charitable purposes.

Auditors
A resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the Company will be put to the Annual General Meeting.

Number of shareholders' accounts
The number of shareholders' accounts on the register at the end of the year was:

	1986	1985
	45,784	38,900

Substantial shareholders
As far as the directors were aware at 31 March 1987 no person had a shareholding of 5 per cent or more of the share capital of the Company.

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

Analysis of shareholdings in the Company at 31 December 1986

	1986 %	1985 %
Banks and other nominee companies	**48.4**	44.6
Insurance companies	**14.4**	13.3
Pension funds	**19.7**	21.8
Investment trusts and unit trusts	**0.5**	0.8
Other corporations	**3.5**	4.3
Individuals	**13.5**	15.2
	100.0	100.0

By order of the board of directors

D F Roper
Secretary

15 April 1987

CONSOLIDATED PROFIT AND LOSS ACCOUNT
year ended 31 December 1986

Profit before tax from	Note	**1986 £m**	1985 £m
Ordinary long-term business	4 & 11	**110.9**	102.2
Industrial life business	4 & 11	**34.6**	35.5
General insurance business	4 & 12	**(5.1)**	(53.4)
Shareholders' other income	1 & 15	**37.7**	25.8
Profit for the year before tax and minority interests	18	**178.1**	110.1
Tax	5	**59.4**	31.7
Minority interests	3	**1.1**	1.0
		60.5	32.7
Profit attributable to shareholders	7	117.6	77.4
Dividends			
Interim		**36.2**	27.1
Final		**69.0**	51.2
		105.2	78.3
Transfer to/(from) retained profit		**12.4**	**(0.9)**

Earnings per share			
Based on earnings of £117.6m *(£77.4m)* and 341.2m *(316.2m)* shares		**34.5p**	24.5p

The figures have been adjusted for the rights issue made during 1986 (see note 8 on page 47).

Retained profit and reserves			
Balance at beginning of year		**114.1**	136.3
Transfer from/(to) profit and loss account		**12.4**	(0.9)
Transfer to catastrophe reserve	13	**(20.0)**	—
Movement in investment reserves for the year		**31.7**	(13.4)
Goodwill written off	10	**(45.9)**	(4.0)
Transfer to general insurance investment reserves		**(15.0)**	(3.9)
Balance at end of year		**77.3**	**114.1**

CONSOLIDATED BALANCE SHEET

31 December 1986

Investments	Note	1986 £m	1985 £m
Ordinary shares		**11,803.0**	9,033.5
Properties		**3,547.4**	3,262.1
British Government securities		**2,657.0**	2,659.1
Other fixed income securities		**4,686.7**	2,617.0
Mortgages and loans		**946.7**	797.7
		23,640.8	18,369.4
Other assets			
Tax recoverable		**25.2**	63.1
Debtors		**866.8**	671.3
Deposits, bank balances and cash		**1,254.6**	899.1
		25,787.4	20,002.9
Less **Other liabilities and provisions**			
Outstanding claims		**460.3**	394.0
Other creditors		**513.5**	313.4
Bank loans and overdrafts	14	**523.0**	218.2
Other borrowings	14	**286.9**	269.6
Taxation		**31.8**	26.7
Deferred taxation	5	**15.6**	21.5
Final dividend		**69.0**	51.2
		1,900.1	1,294.6
		23,887.3	18,708.3
Less **Insurance funds and reserves**			
Ordinary long-term business	4	**17,138.5**	12,863.1
Industrial life business	4	**5,337.9**	4,574.0
General insurance business	4	**1,051.5**	903.2
		23,527.9	18,340.3
		359.4	368.0
Less **Minority interests**	3	**5.8**	3.9
		353.6	**364.1**
Capital and reserves			
Called up share capital	8	**90.6**	75.3
Share premium	9	**—**	46.4
Revaluation reserves		**185.7**	128.3
Retained profit and reserves		**77.3**	114.1
		353.6	**364.1**

BALANCE SHEET OF THE COMPANY

31 December 1986

Fixed assets	Note	1986 £m	1985 £m
Investments	17		
Shares in group companies		74.6	74.6
British Government securities		53.6	27.6
Other fixed income securities		1.0	3.2
Loans to group companies		332.0	—
		461.2	105.4
Current assets			
Debtors			
Tax recoverable		0.5	0.2
Amounts owed by group companies		306.4	94.2
Other debtors		4.2	0.4
Cash at bank		174.8	56.2
		485.9	151.0
Creditors: amounts falling due within one year			
Other creditors		8.2	3.9
Bank loans and overdrafts		283.0	—
Final dividend		69.0	51.2
		360.2	55.1
Net current assets		125.7	95.9
Total assets less current liabilities		586.9	201.3
Creditors: amounts falling due after more than one year			
Other borrowings	14	100.0	100.0
Provisions for liabilities and charges			
Deferred taxation	5	1.8	0.1
		485.1	101.2
Capital and reserves			
Called up share capital	8	90.6	75.3
Capital reserve	9	348.9	—
Revaluation reserve		0.1	0.4
Profit and loss account	7	45.5	25.5
		485.1	**101.2**

The accounts on pages 38 to 51 were approved on 15 April 1987

The Lord Hunt of Tanworth
Chairman

F B Corby
Director and Chief Executive

SOURCE AND APPLICATION OF FUNDS

(as applicable to shareholders) year ended 31 December 1986

Movements in shareholders' funds	1986 £m	1985 £m
Profit attributable to shareholders after tax	**117.6**	77.4
Increase in unrealised appreciation of investments	**103.3**	51.3
Decrease in investment reserves	**(12.3)**	(32.2)
Issues of shares (see note 1 below)	**364.2**	0.7
Dividends (see note 2 below)	**(105.2)**	(78.3)
Goodwill written off	**(441.2)**	(4.0)
	26.4	**14.9**
Increase/(decrease) in net assets		
Investments		
Net cash invested	**210.4**	54.9
Realised gains and unrealised appreciation	**276.5**	(29.9)
	486.9	25.0
Technical reserves		
General insurance fund	**(111.4)**	6.8
Outstanding claims	**(43.2)**	(26.8)
	(154.6)	(20.0)
Other assets/liabilities		
Debtors	**82.8**	12.2
Net tax recoverable	**(4.9)**	(1.6)
Other borrowings	**(3.0)**	(98.8)
Other creditors	**(211.5)**	(51.5)
Minority interests	**(1.9)**	0.2
	(138.5)	(139.5)
Net liquid funds		
Deposits, bank balances and cash	**101.8**	164.5
Bank loans and overdrafts	**(269.2)**	(15.1)
	(167.4)	149.4
	26.4	**14.9**

Shareholders' funds		
Shareholders' funds at 1 January	**554.9**	540.0
Movement for year (see above)	**26.4**	14.9
Shareholders' funds at 31 December	**581.3**	554.9
Analysed as:		
Shareholders' capital and reserves (see page 39)	**353.6**	364.1
General insurance – investment reserves (see page 45)	**16.8**	25.8
– revaluation reserves (see page 45)	**210.9**	165.0
	581.3	554.9

Notes

1 Issues of shares during the year includes £357.6m being the net proceeds of a 1 for 5 rights issue at 600p per share made on 18 June 1986.

2 Dividends paid in the year totalled £87.4m (1985 – £71.8m). The figure shown in the statement is the amount provided in the accounts for the current year's dividend.

NOTES ON THE ACCOUNTS

1 Change in accounting policy
The accounting policy on realised investment profits and losses for non-insurance companies, previously carried to investment reserves, has been changed as referred to in note 2g so as to report them as part of the profit for the year. The comparative figures have been restated.

2 Group accounting policies

a Disclosure requirements
The accounts are prepared in accordance with the provisions of Part VII Chapter II of, and Schedule 9 to, the Companies Act 1985, with the exception of the balance sheet of the Company on page 40, which is prepared in accordance with Part VII Chapter I and Schedule 4. The Company has taken advantage of the exemption from presenting its own profit and loss account.

As most of the Company's subsidiaries are insurance companies, the group accounts do not disclose certain information, some relating to provisions and reserves, which they are exempt from disclosing under the provisions of the Companies Act 1985.

b Basis of consolidation
The group accounts incorporate the assets and liabilities of the Company and all its subsidiaries at 31 December and the results for the year ended on that date with the exception of London Indemnity & General Insurance Company Limited whose accounts are not included in the group accounts as it would be misleading to do so; with the approval of the Department of Trade and Industry the particulars otherwise required to be given in accordance with paragraphs 19(4) and (7) of Schedule 9 to the Companies Act 1985 are omitted.

The results of subsidiaries acquired or disposed of are normally brought into the accounts from the date of acquisition or up to the date of disposal. However, the acquisition of Prudential Life of Ireland Limited was accounted for as a merger.

The results of associated companies attributable to the Group's shareholding are not included in the group accounts, except to the extent of dividends received, as the directors are of the opinion that the amounts involved are insignificant.

c Goodwill
Goodwill arising in the consolidated accounts is written off against shareholders' reserves when incurred.

d Investments
Investments are shown in the balance sheets at market value, determined as follows:

British Government and other quoted fixed income securities and quoted ordinary shares – based on market quotations.

Unquoted fixed income securities, long-term mortgages and loans and unquoted ordinary stocks and shares – at valuation by the directors.

Short-term loans – normally at par.

Properties – at the open market sale value. Those held in respect of linked business are valued by external valuers and other properties by employees of the Group. In all cases valuations are carried out by members of the Royal Institution of Chartered Surveyors or holders of an equivalent qualification.

Certain linked contracts provide for the unit price to include an appropriate adjustment to the valuation of linked investments for buying or selling expenses. The market value of such investments has been adjusted accordingly.

Shares in subsidiaries are shown at cost.

e Revaluation reserves
Except for linked business, unrealised appreciation and depreciation of investments are carried to revaluation reserves. In the life business funds of certain insurance subsidiaries transfers are made from revaluation reserves to the revenue accounts, representing part of the unrealised margin of market values over cost.

No provision is made for tax which would become payable if investments were realised at the values shown. The maximum amount payable is shown in note 5.

For linked business, movements in the market values of investments for the year together with realised profits or losses are dealt with in the revenue accounts.

f Investment reserves
Investment reserves are held in all funds of the Company's insurance subsidiaries. Transfers may be made from time to time from or to the respective revenue or profit and loss accounts or insurance funds.

Investment reserves are dealt with in the balance sheets as follows:

Shareholders' funds – included in retained profit and reserves.

General insurance business – shown separately in the balance sheet on page 45. These reserves are included in the general insurance business balance sheet but are attributable to shareholders.

Long-term business – amalgamated with revaluation reserves.

g Realised investment gains
Profits and losses on the realisation of investments and taxes thereon are carried to investment reserves and excluded from the revenue results, except for non-insurance companies and linked business written by insurance subsidiaries.

For non-insurance companies realised investment profits and losses are treated as shareholders' other income in the profit and loss account (see note 15).

For linked business, profits and losses on the realisation of investments and taxes thereon are included in the revenue results.

h Exchange rates
Foreign currency revenue transactions and assets, liabilities and reserves are translated at rates of exchange ruling at the end of the year, except for certain revenue transactions which are translated at rates of exchange ruling at the dates of the respective transactions. Exchange adjustments are dealt with mainly in investment reserves.

i Long-term business
Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. The amount of surplus allocated to shareholders is determined by the directors of the companies concerned in accordance with their Articles of Association. The transfer of shareholders' profit from the long-term business revenue accounts to the profit and loss account has been grossed up by the attributable tax. The transfer comprises franked investment income and income subject to corporation tax and tax has been calculated at the appropriate rates.

j Investment income
Investment income is included on an accruals basis. Dividends on ordinary shares and interest on linked business fixed income securities are included by reference to ex-dividend dates. Except for linked business, investment income is adjusted for accrued income included in the purchases and sales of securities so as to match the income with the period for which the security has been held. UK dividends are grossed up by the attaching tax credit. Investment income is shown after deducting interest payable and directly related investment expenses (see note 16).

k General insurance business
Unearned premium reserves for direct fire and casualty insurance business are calculated mainly on a proportional basis having regard to the premiums in force each month, with a deduction of 20 per cent for acquisition costs. Unexpired risk reserves are maintained when required to cover the estimated excess of liabilities over the unearned premium reserves. Extended warranty business is dealt with on a funded basis.

Outstanding claims include provisions for claims incurred but not reported at the balance sheet date.

The underwriting results on direct marine, aviation and transport business are determined at the end of the second year following the year of account to which that business relates, after allowing for all outstanding premiums and claims.

Fire and casualty proportional reinsurance business is dealt with mainly on a two-year basis, unearned premiums and outstanding claims being calculated on bases depending on individual contract terms. Non-proportional and marine and aviation reinsurance business is dealt with mainly on a funded basis (see note 19).

For all funded business, premiums less claims paid and expenses relating to the open years of account are carried forward and increased if necessary so that the funds for each year are sufficient to meet the estimated cost of all outstanding liabilities, including claims incurred but not reported and the claims expected on unexpired risks. No surpluses are transferred from the funds during the first two development years of any underwriting year.

Liabilities relating to accident non-proportional reinsurance business and to discrete liability class direct business are discounted to take account of the estimated periods over which premiums are received and claims are paid. The effect is set out in note 12.

l Fixed assets and depreciation
Major items of capital expenditure on equipment and computer development costs are amortised by equal annual instalments over their estimated useful lives. Other assets including motor vehicles, furniture and office equipment are written off in the year of purchase. All properties within the Group are regarded as investment properties and therefore they are not depreciated.

m Leased assets
Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are capitalised as if they had been purchased outright. Commitments under finance leases are included within other creditors. Depreciation on the relevant assets is charged to the profit and loss account. Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account.

For other leases the annual rentals payable/receivable are charged/credited to the appropriate revenue account or to profit and loss account.

n Taxation
Tax is charged on all profits and income earned to date, less reliefs. Provision under the liability method is made for deferred taxation arising from short-term timing differences and from timing differences which cannot be demonstrated with reasonable probability to continue into the foreseeable future. Deferred taxation has not been provided on earnings retained overseas.

o Retirement benefit schemes
Liabilities in respect of retirement benefit schemes for directors and employees of the Group are met through contributions to pension funds. Such contributions are assessed on actuarial bases designed so that the funds will be adequate to provide the pensions and other benefits expected to arise under the rules of the schemes.

3 Subsidiary companies
Particulars of principal subsidiary companies, wholly owned unless otherwise stated, are as follows:

Name	Class of share held	Country of incorporation or registration and principal operation
Compagnie d'Assurance de l'Escaut SA	Shares n.p.v.	Belgium
Jackson National Life Insurance Company	Common Shares US$1.15	United States of America
The Mercantile and General Reinsurance Company plc	Shares £1	Scotland (operating principally in UK)
Prudasco Inc.	Common Shares Can$1	Canada
The Prudential Assurance Company Limited	Shares 25p	England
The Prudential Assurance Company of South Africa Limited	Shares 10c (64.45%)	South Africa
Prudential Life of Ireland Limited	Ordinary Shares IR£1 (95%)	Republic of Ireland
Prudential Pensions Limited	Shares £1	England
Prudential Portfolio Managers Limited	Ordinary Shares £1	England
Prudential Property Services Limited	Ordinary Shares £1	England
Vanbrugh Group Limited	Shares £1	England

Except for The Prudential Assurance Company Limited, the companies listed above are owned by subsidiaries of the Company.

The principal activity of these subsidiaries is insurance with the exception of Prudential Portfolio Managers Limited, an investment management company, and Prudential Property Services Limited, a company providing estate agency and other related services.

Other subsidiaries which do not materially affect the profit of the Group or the amount of its assets are not shown.

The Prudential Assurance Company of South Africa Limited was disposed of with effect from 1 January 1987 (see note 21 on page 49).

NOTES ON THE ACCOUNTS

4 Insurance business

Long-term business revenue accounts	Note	Ordinary long-term business 1986 £m	1985 £m	Industrial life business 1986 £m	1985 £m
Premium income		**1,978.5**	1,363.8	**373.4**	355.3
Investment income	16	**915.3**	824.5	**264.6**	246.6
Transfer from investment and revaluation reserves		**339.0**	317.8	**198.0**	200.8
Increase in value of investments related to linked business		**418.0**	201.6	—	—
		3,650.8	2,707.7	**836.0**	802.7
Less					
Claims and surrenders		**1,613.1**	1,389.7	**442.6**	412.4
Commission and expenses		**377.8**	323.2	**158.4**	147.3
Tax	5	**72.4**	68.6	**30.5**	23.4
Increase/(decrease) in insurance liability		**855.7**	265.7	**(139.8)**	(136.6)
		2,919.0	2,047.2	**491.7**	446.5
Surplus for distribution		**731.8**	660.5	**344.3**	356.2
Policyholders' bonuses	11	**656.5**	595.9	**320.9**	332.4
Shareholders' profit after tax	11	**75.3**	64.6	**23.4**	23.8
Shareholders' tax		**35.6**	37.6	**11.2**	11.7
Transfers of shareholders' profit and attributable tax to the consolidated profit and loss account		**110.9**	102.2	**34.6**	35.5

Long-term business balance sheets	Note	Ordinary long-term business 1986 £m	1985 £m	Industrial life business 1986 £m	1985 £m
Investments					
Ordinary shares		**7,987.4**	5,964.6	**3,217.2**	2,592.7
Properties		**2,491.6**	2,284.4	**982.2**	918.6
British Government securities		**1,698.1**	1,821.1	**666.4**	683.7
Other fixed income securities		**3,739.9**	1,917.8	**272.8**	223.5
Mortgages and loans		**736.9**	619.2	**157.7**	139.9
		16,653.9	12,607.1	**5,296.3**	4,558.4
Other assets					
Tax recoverable		**16.4**	50.0	**0.6**	3.8
Debtors		**493.0**	307.5	**91.1**	91.4
Deposits, bank balances and cash		**738.4**	520.3	**167.4**	135.6
		17,901.7	13,484.9	**5,555.4**	4,789.2
Less Other liabilities and provisions					
Outstanding claims		**93.0**	73.0	**15.9**	12.9
Other creditors		**318.2**	241.9	**61.4**	58.5
Bank loans and overdrafts	14	**242.2**	197.2	**26.9**	38.5
Other borrowings	14	**74.7**	72.5	**107.2**	96.6
Taxation		**26.0**	25.6	**0.3**	—
Deferred taxation		**9.1**	11.6	**5.8**	8.7
		763.2	621.8	**217.5**	215.2
		17,138.5	12,863.1	**5,337.9**	4,574.0
Insurance funds		**12,425.2**	9,440.5	**2,608.6**	2,427.8
Investment and revaluation reserves		**4,713.3**	3,422.6	**2,729.3**	2,146.2
		17,138.5	12,863.1	**5,337.9**	4,574.0

General insurance business revenue account	Note	1986 £m	1985 £m
Premiums written		**874.3**	795.8
Less: Increase in insurance liability		**101.9**	77.4
		772.4	718.4
Less			
Claims		**557.2**	566.9
Commission		**156.7**	148.4
Expenses		**158.4**	134.7
		872.3	850.0
Underwriting result	18 & 19	**(99.9)**	(131.6)
Investment income	16	**94.8**	78.2
Transfer from consolidated profit and loss account		**(5.1)**	**(53.4)**

		Shareholders'		General insurance business	
Shareholders' and general insurance balance sheets	Note	1986 £m	1985 £m	1986 £m	1985 £m
Investments					
Ordinary shares		**322.8**	246.3	**275.5**	229.9
Properties		**61.3**	48.0	**12.4**	11.1
British Government securities		**66.0**	38.4	**226.6**	115.9
Other fixed income securities		**178.1**	74.9	**495.9**	400.8
Mortgages and loans		**13.2**	2.4	**38.9**	36.1
		641.4	410.0	**1,049.3**	793.8
Other assets					
Tax recoverable		**2.7**	2.5	**5.6**	8.3
Debtors		**134.6**	94.1	**356.5**	360.8
Deposits, bank balances and cash		**262.3**	109.2	**126.0**	162.6
		1,041.0	615.8	**1,537.4**	1,325.5
Less					
Other liabilities and provisions					
Outstanding claims		**—**	—	**351.4**	308.2
Other creditors		**214.6**	89.8	**127.9**	105.6
Bank loans and overdrafts	14	**286.7**	0.6	**6.8**	10.4
Other borrowings	14	**103.5**	100.5	**1.4**	—
Deferred taxation		**4.4**	3.3	**(3.8)**	(2.0)
Taxation		**3.4**	2.4	**2.2**	0.1
Final dividend		**69.0**	51.2	**—**	—
		681.6	247.8	**485.9**	422.3
		359.4	368.0	**1,051.5**	903.2
Less					
Minority interests	3	**5.8**	3.9	**—**	—
		353.6	364.1	**1,051.5**	903.2
Shareholders' funds	5	**353.6**	364.1	**—**	—
General insurance fund	12 & 13	**—**	—	**823.8**	712.4
General insurance investment reserves	5 & 18	**—**	—	**16.8**	25.8
General insurance revaluation reserves	5	**—**	—	**210.9**	165.0
		353.6	364.1	**1,051.5**	903.2

NOTES ON THE ACCOUNTS

5 Taxation
The table below gives details of the tax charged on all profits and income earned to date included in the consolidated profit and loss account on page 38 and in the revenue accounts (see note 4 on pages 44 & 45). Corporation tax has been charged at 40% less reliefs for the period up to 31 March 1986 and 35% less reliefs for the period 1 April to 31 December 1986 (45% and 40% for the corresponding periods in 1985):

	Ordinary long-term business		Industrial life business		General insurance & shareholders	
	1986 £m	1985 £m	**1986 £m**	1985 £m	**1986 £m**	1985 £m
Corporation tax	**19.8**	21.4	**2.8**	1.5	**2.6**	(12.2)
Double taxation relief	**(2.5)**	(2.3)	**(1.7)**	(1.3)	**(6.3)**	(4.0)
	17.3	19.1	**1.1**	0.2	**(3.7)**	(16.2)
Tax on franked investment income	**36.1**	33.6	**30.6**	23.4	**5.2**	6.2
Overseas taxation	**22.4**	21.8	**1.8**	1.4	**7.4**	(2.8)
	75.8	74.5	**33.5**	25.0	**8.9**	(12.8)
Adjustments re prior years	**(3.2)**	(4.0)	**(0.2)**	(2.0)	**4.3**	0.6
	72.6	70.5	**33.3**	23.0	**13.2**	(12.2)
Deferred taxation						
Current year	**(0.3)**	(0.9)	**(2.8)**	0.8	**(0.8)**	(5.8)
Prior years	**0.1**	(1.0)	**—**	(0.4)	**0.2**	0.4
	72.4	68.6	**30.5**	23.4	**12.6**	(17.6)
Shareholders' attributable tax	**(35.6)**	(37.6)	**(11.2)**	(11.7)	**46.8**	49.3
	36.8	31.0	**19.3**	11.7	**59.4**	31.7

Tax on capital gains charged in the year against investment reserves including group relief amounts to £92.7m *(£35.1m)*.
Deferred taxation in the balance sheet of the Company relates to short-term timing differences and is equal to the potential liability.
Deferred taxation in the consolidated balance sheet relates to:

	Potential liability **1986 £m**	Amount provided **1986 £m**	Potential liability 1985 £m	Amount provided 1985 £m
Short-term timing differences	**27.4**	**23.5**	23.0	23.0
Capital allowances	**15.0**	**(0.5)**	18.2	3.3
General insurance business reserves	**(11.0)**	**(7.4)**	(2.1)	(4.8)
	31.4	**15.6**	39.1	21.5
Maximum tax payable if investments were disposed of at the values shown based on a Corporation tax rate of 35% *(36%)* and a Capital Gains tax rate of 30% *(30%)*:				
Ordinary long-term business	**656.7**	**—**	489.4	—
Industrial life business	**840.0**	**—**	666.0	—
General insurance and shareholders	**109.8**	**—**	80.4	—
	1,606.5	**—**	1,235.8	—
	1,637.9	**15.6**	1,274.9	21.5

6 Major shareholdings
The Group holds shares in 62 companies, other than subsidiaries, in which the holding of at least one class of equity shares amounts in nominal value to one-fifth or more of the issued shares of that class and in a further 59 companies in which the holding exceeds one-tenth.

In view of the number involved and as they do not materially affect the profit of the Group or the amount of its assets, details relating to individual companies are not shown. Of these companies, 34 come within the definition of an associated company but due to their insignificance and the fact that they are held mainly as investments of the life funds they are not disclosed (see note 2b).

7 Profit of the Company	**1986 £m**	1985 £m
Profit of the Company for the year after tax	**125.2**	80.5
Less dividends	**105.2**	78.3
Movement in retained profit of the Company	**20.0**	2.2

8 Share capital
The Company's authorised share capital is £120,000,000 in 480,000,000 shares of 25p each of which 362,375,045 shares have been allotted, called up and fully paid.

During the year the Company issued shares as follows:

	Number of shares	Consideration £
Rights issue (1 for 5 @ 600p per share) to finance strategic development	60,257,503	361,545,018
Shares issued to acquire estate agencies	822,860	6,516,691
Allotments under the Prudential Savings-Related Share Option Scheme	8,061	29,599

Under the Prudential Savings-Related Share Option Scheme, employees in the Group have options over:

Options ordinarily exercisable	Number of shares	Option price
1988 to 1990	1,933,416	359.73p
1989 to 1991	165,169	401.28p
1990 to 1992	493,356	524.97p
1991 to 1993	269,038	804.45p

Under executive share option schemes the following options have been granted:

Options ordinarily exercisable	Number of shares	Option price
1988 to 1995	905,476	641.10p
1989 to 1996	31,770	885.65p
1989 to 1996	440,000	848.00p
1989 to 1996	22,500	842.00p

The option prices shown above have been adjusted for the effects of the rights issue.

9 Share premium and capital reserve
Movements on the share premium and capital reserve accounts during 1986 were as follows:

	Group		Company	
	Share premium £m	Capital reserve £m	Share premium £m	Capital reserve £m
Balance at beginning of year	46.4	—	—	—
Arising on issue of shares during the year	352.8	—	352.8	—
Expenses of share issues	(3.9)	—	(3.9)	—
Cancellation of share premium account	(395.3)	395.3	(348.9)	348.9
Goodwill written off	—	(395.3)	—	—
Balance at end of year	—	—	—	**348.9**

The share premium account at the beginning of the year is that of the Company's subsidiary, The Prudential Assurance Company Limited.

Shareholders' approval for the cancellation of the share premium account of the Company was obtained on 18 December 1986, and of The Prudential Assurance Company Limited on 19 December 1986. Court approval was obtained on 16 March 1987. Goodwill has been written off against the capital reserve thereby created.

10 Goodwill

Goodwill arose on acquisitions during 1986 as follows:	£m
Jackson National	350.2
Estate agents	91.0
	441.2

and has been written off as follows:	£m
Capital reserve arising on cancellation of share premium	395.3
Retained profit and reserves	45.9
	441.2

11 Long-term business
The amounts shown in respect of policyholders' bonuses and shareholders' profits reflect a declaration by Prudential Assurance of special reversionary bonuses which, according to previous practice, would have been declared in terminal form. As a result the transfers to consolidated profit and loss account before tax include largely non-recurrent amounts of £2.8m *(£5.8m)* in respect of ordinary long-term business and £3.6m *(£7.5m)* in respect of industrial life business.

12 General insurance business
The overall effect of discounting, which has been applied at a rate of 5%, is to reduce the general insurance business fund at 31 December 1986 by £55.3m *(£50.4m)* and to increase the Group profit before tax by £4.9m *(£1.1m)*.

13 Catastrophe reserve
A catastrophe reserve has been created by the specialist reinsurance subsidiary as at 31 December 1986 by transferring £20.0m from retained profit and reserves. With effect from 1 January 1987 external catastrophe retrocession protection will be augmented by covers arranged internally. Premiums and claims under these internal covers will be transferred between the general insurance business revenue account and this reserve.

14 Borrowings

Borrowings are repayable as follows:	Bank loans & overdrafts £m	Other borrowings £m
In one year or less	522.4	166.9
Between one and two years	0.1	1.6
Between two and five years	0.1	16.6
In five years or more	0.4	101.8
	523.0	**286.9**

Of the other borrowings, loans amounting to £21.2m are secured, with interest payable at various rates. Of the bank loans and overdrafts £0.3m is secured.

The Company has in issue floating rate notes amounting to £100m repayable in 1995. A subsidiary has a 5½% loan stock of £0.5m repayable in 1988 secured by a floating charge on its assets.

15 Shareholders' other income	1986 £m	1985 £m
Investment income	39.7	25.5
Profits on the realisation of investments by non-insurance companies	3.3	1.5
Miscellaneous net income	4.6	2.6
Expenses	(9.9)	(3.8)
	37.7	**25.8**

Profits and losses on the realisation of investments by non-insurance companies have been treated as shareholders' other income. This is a change of accounting policy.

16 Expenses deducted from investment income
Interest on loans and directly related investment expenses of a revenue nature have been deducted from 'investment income' in the revenue and profit and loss accounts. In previous years investment expenses were included in 'expenses' for presentational purposes. The comparative figures for 1985 have not been altered.

The amounts, including those of long-term business and general insurance business, are as follows:

	1986 £m	1985 £m
Interest on loans repayable within 5 years	29.9	32.0
Interest on other loans	7.9	2.7
Investment expenses	45.1	36.4
	82.9	**71.1**

17 Investments of the Company	British Government securities £m	Other fixed income securities £m
Market value at beginning of year	27.6	3.2
Less unrealised appreciation at beginning of year	0.4	—
Cost at beginning of year	27.2	3.2
Additions at cost	69.4	1.0
Sales at cost	(43.1)	(3.2)
Cost at end of year	53.5	1.0
Unrealised appreciation at end of year	0.1	—
Market value at end of year	**53.6**	**1.0**

All fixed income securities were quoted on recognised stock exchanges. There have been no movements during 1986 in shares in group companies.

18 Investment reserves
A provision of £36.7m *(£5.0m)* has been charged against general insurance investment reserves of the Group. This relates to items of an exceptional nature arising as follows:

	1986 £m	1985 £m
Asbestosis and other claims on business written in previous years	7.0	5.0
Environmental pollution claims	13.0	—
Closure costs of certain overseas branches	2.7	—
Cost of discontinuance of extended warranty business, including bad debt provisions	14.0	—
	36.7	5.0

19 General insurance business underwriting result
The North American and Australian subsidiaries of Mercantile and General Reinsurance, which represent 6% of Group general insurance premiums, account for all business on an annual basis. In prior years, the effect of the earlier recognition of profit under that policy has not been material in relation to Group earnings. In 1986 the general insurance business underwriting result includes profits of £7.5m which would not have been released under the policy adopted elsewhere in the Group until the second or third year of development.

20 Jackson National Life Insurance Company
During 1986 the Group acquired 100% of the Common Stock of Jackson National, a life insurance company incorporated in the USA. The fair value of the consideration, in the form of cash, amounted to £420.3m (including costs of the acquisition).

The transaction has been accounted for as an acquisition in accordance with Statement of Standard Accounting Practice No 23. Where required, changes have been made in order to achieve accounting policies and practices consistent with those applicable to the Group, notably;

(i) Valuation of investments
(ii) Treatment of realised investment gains

The results of Jackson National have been brought into account from 25 November 1986 and contributed £1.3m to the 1986 Group profit before tax.

21 The Prudential Assurance Company of South Africa Limited
During 1986 the Company reached agreement to dispose of the Group's interest in The Prudential Assurance Company of South Africa Limited to Liberty Life Association of Africa Limited. The agreement was effective from 1 January 1987. The consideration to be received is 1,400,000 shares of 1 Rand each in Liberty Life, with a fair value of £25.8m based on the market value of the shares on 31 December 1986 and translated using the financial rate of exchange. On this basis, the profit on disposal is £17.4m. This will be accounted for in the 1987 accounts as a credit to investment reserves.

The 1986 profit after tax relating to the Group's interest in The Prudential Assurance Company of South Africa Limited and included in the Group results is £1.7m translated using the commercial rate of exchange.

22 Prudential Property Services Limited
During the year Prudential Property Services Limited, a subsidiary of the Company, acquired 22 estate agency businesses. The total consideration amounted to £90.8m of which £75.9m is being met in cash and the balance of £14.9m by the issue of Prudential Corporation shares.

The consideration for certain acquisitions is being discharged in instalments. At 31 December 1986 £22.3m of the total was outstanding, of which £8.4m will be met by further issues of Prudential Corporation shares.

The Group profit before tax has been arrived at after taking into account the loss of £1.7m arising from estate agency businesses acquired during the year.

23 Auditors' remuneration
The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to £1,319,000 *(£1,071,000)*.

24 Commitments
The Group is committed to capital expenditure not provided of £17.1m *(£3.0m)* and expenditure authorised but not contracted of £26.6m *(£1.0m)* in respect of purchases of estate agency businesses and fixed assets (other than investments).

25 Emoluments of senior employees
Employees of the Group in the United Kingdom whose emoluments exceeded £30,000:

Emoluments £	£	Managerial & administrative 1986	1985	Commission earning 1986	1985
30,001 to	35,000	171	99	105	102
35,001 to	40,000	96	52	50	14
40,001 to	45,000	56	13	23	8
45,001 to	50,000	24	20	7	4
50,001 to	55,000	12	6	5	—
55,001 to	60,000	13	7	1	—
60,001 to	65,000	4	3	1	1
65,001 to	70,000	2	1	2	—
70,001 to	75,000	2	—	—	—
85,001 to	90,000	1	—	—	—
105,001 to	110,000	—	—	1	—

NOTES ON THE ACCOUNTS

26 Emoluments of directors

The aggregate amount of the emoluments of the directors of the Company for the year was £885,252 *(£684,288)*, of which £261,413 *(£271,317)* was in respect of services as a director.

In addition, contributions made to pension schemes for directors were £166,942 *(£120,372)*.

During the year an ex gratia payment of £48,000 was made by a subsidiary company to a director.

The emoluments of the Chairman amounted to £50,000 *(£49,272)*.

The emoluments of the highest paid director amounted to £137,686 *(£121,377)*.

Emoluments £ £	Number of directors 1986	1985
1 to 5,000	2	3
5,001 to 10,000	—	2
10,001 to 15,000	8	6
15,001 to 20,000	2	3
20,001 to 25,000	3	3
25,001 to 30,000	—	1
35,001 to 40,000	—	3
40,001 to 45,000	—	1
45,001 to 50,000	1	—
55,001 to 60,000	—	1
85,001 to 90,000	3	—
95,001 to 100,000	—	1
105,001 to 110,000	1	—
110,001 to 115,000	1	—
120,001 to 125,000	—	1
135,001 to 140,000	1	—

27 Loans to and transactions with directors and officers

House purchase Loans	Liability at 31 Dec 1986 £	Max liability during 1986 £	Liability at 1 Jan 1986 £
R E Artus	25,000	25,000	25,000
F B Corby	25,000	25,000	25,000
D E Fellows	35,000	35,000	35,000
J A Freeman	30,000	30,000	30,000
B Medhurst	33,000	33,000	33,000
M G Newmarch	29,950	29,950	29,950
F G Wood	13,000	13,000	13,000
Loans on policies			
F B Corby	7,025	7,918	7,025
W G Haslam	—	1,333	1,180
M G Newmarch	1,084	1,084	959

The house purchase loans are secured on the personal residences of the directors and repayment will be made from endowment policies. Interest on different portions of the loans ranges from 3.5% to 14.5%, the terms being no more favourable than those which were normally available to members of the staff when the loans were made.

The life policy loans are secured on endowment policies and repayment is made from the maturity monies or earlier at the borrowers' option, on terms available to all policyholders. The rate of interest applicable on 31 December 1986 was 13%.

There is no interest due and unpaid at 31 December 1986 on any of the above loans.

Four officers of the Company (other than directors) had outstanding on 31 December 1986 loans from subsidiary companies totalling £82,820.

ACTUARIAL REPORT AND REPORT OF THE AUDITORS

Actuarial report

Reports by the appointed actuaries of those insurance subsidiaries transacting long-term business which are required to comply with UK legislation show, in each case, that at 31 December 1986:

(i) proper records have been kept adequate for the purpose of the valuation of the liabilities of such long-term business;

(ii) the mathematical reserves constitute proper provision for the liabilities arising under or in connection with contracts for long-term business including any increase in those liabilities arising from a distribution of surplus as a result of an investigation into the financial condition of the long-term business;

(iii) for the purpose of sub-paragraph (ii) above the liabilities have been assessed in accordance with Part VI of The Insurance Companies Regulations 1981 (as amended), in the context of assets valued in accordance with Part V of those Regulations; and

(iv) the solvency margin is in excess of the minimum statutory solvency margin.

Reports by the actuaries of other insurance subsidiaries transacting long-term business show, in each case, that, at 31 December 1986 the aggregate amount of the liabilities under long-term business contracts did not exceed the value of the assets identified as representing such business.

The surpluses for distribution from long-term business were not materially affected by alterations in actuarial valuation bases.

Prudential Assurance has again declared bonuses in special reversionary form instead of in terminal form; the release of surplus to profit and loss account was higher than it would otherwise have been by some £6m (1985 – £13m) before tax.

F B Corby
Group Chief Executive
15 April 1987

Report of the auditors to the members of Prudential Corporation plc

We have audited the accounts on pages 38 to 51 in accordance with approved Auditing Standards.

In our opinion, the balance sheet of the Company gives a true and fair view of the state of the Company's affairs at 31 December 1986 and complies with the Companies Act 1985, and the consolidated accounts comply with the provisions of the Companies Act 1985 applicable to insurance companies.

Deloitte Haskins & Sells
Chartered Accountants

London

15 April 1987

GROUP MANAGEMENT

EXECUTIVE COMMITTEE

F B Corby
Group Chief Executive

R E Artus
Group Chief Investment Manager
Chairman, Prudential Portfolio Managers
Chairman, Prudential Property Services

D E Fellows
Managing Director, UK Group Pensions Division
Chief Actuary, Prudential Assurance

J A Freeman
Managing Director, UK Individual Division

J Lock
General Manager, Mercantile and General Reinsurance

B Medhurst
Managing Director, International Division

M G Newmarch
Chief Executive, Prudential Portfolio Managers

R W Paget
Group Taxation Manager

D F Roper
Secretary & Group Legal Adviser

D Sirkett
Group Finance Controller

CENTRAL SERVICES

Secretary & Group Legal Adviser
D F Roper

Group Finance Controller
D Sirkett

Group Taxation Manager
R W Paget

Group Chief Accountant
W Mills

Group Public Affairs Manager
D M Vevers

General Manager, Personnel & Administrative Services
G F Keeys

Group Personnel Manager
P A Sandham

Assistant General Manager, Administrative Services
R L Webb

General Manager, Management Services
E P Morris

Assistant General Manager, Computer Operations
D Nelson

Assistant General Manager, Systems
D F West

Chief Actuary, Prudential Assurance
D E Fellows

Deputy Actuaries, Prudential Assurance
C E Barton
P N S Clark
D R Linnell

Manager, Personal Pensions Project
T V Boardman

UK INDIVIDUAL DIVISION

Managing Director
J A Freeman

HOME SERVICE

General Manager, Actuarial & Financial Services
J L Savage

Assistant General Manager, Actuarial Services
L E Warrilow

Assistant General Manager, Financial Services
C L Blythe

General Manager, Operations
K L Bedell-Pearce

Deputy General Manager, Operations
A J Collins

Assistant General Managers, Operations
L Brown
A Burgess

National Sales Manager
T G Shrimpton

Assistant General Manager, Field Staff Industrial Relations
W R Scott

General Manager, Planning & Development
T J L Richards

General Manager, Home Service Administration
F A Friedlos

General Manager, Personnel
W G Thurston

COMMERCIAL AND BROKER GENERAL INSURANCE

General Manager, General Business
J R Powell

Assistant General Manager, General Business Operations
R S Hill

Assistant General Manager, General Business Product Development & Control
G W Hart

Assistant General Manager, General Business Projects
E J Mowbray

Assistant General Manager, General Business Finance & Systems
M E Trayhorn

VANBRUGH

General Manager
R L Sutton

PRUDENTIAL PROPERTY SERVICES

Chairman
R E Artus

Managing Director
J Bradley
(fully available from June 87)

Finance Director
M W Sullivan

Operations Director
A H Ekins

UK GROUP PENSIONS *DIVISION*

Managing Director
D E Fellows

General Manager, Pensions
J V Swales

Assistant General Managers, Pensions
A F Benke
J B Mochrie

Sales & Marketing Manager, Corporate Pensions
R H Bridges

MERCANTILE AND *GENERAL REINSURANCE*

General Manager
J Lock

Deputy General Managers
P E Crane
M S Harvey
H J Jarvis
R R Snook

Chief Actuary
M B Brown

Assistant General Managers
J O Austin
R T Edlin
P M Edwards
C J Fewell
T W Manley
L J McKinnes
R J Sansom

AUSTRALIA

General Manager
S R B France

CANADA

President (Mercantile and General Reinsurance Company of Canada)
D M Batten

President, North American Life Operations
P B Patterson

SOUTH AFRICA

General Manager
A Hart

UNITED STATES

President (Mercantile and General Reinsurance Company of America)
R F Gilmore

President (Mercantile and General Life Reassurance Company of America)
P B Patterson

PRUDENTIAL PORTFOLIO MANAGERS

Chairman
R E Artus

Deputy Chairman & Chief Executive
M G Newmarch

Finance Director
D Austen

Venture Capital & Corporate Finance Director
J R Gawthorne

Administration Director
D W Hanson

Property Director
M H Mallinson

Fixed Interest Director
P J Nowell

Equities Director
T K Pullen

Pensions Management Director
C G H Weaver

Research Director
K A West

PRUDENTIAL UNIT TRUST MANAGERS

Managing Director
A C Wren

INTERNATIONAL DIVISION

Managing Director
B Medhurst

General Managers
F M Simpson
J H Sutcliffe

Assistant General Manager
J A Hayler

Assistant General Manager & Actuary
G D Clay

AUSTRALIA

General Manager
B R Martin

BELGIUM

Managing Director (L'Escaut)
E Diercxsens

CANADA

President, Property & Casualty Operations
J J Rowen

President, Life & Pensions Operations
M A P Beck

REPUBLIC OF IRELAND

Managing Director (Prudential Life of Ireland)
A D Daly

UNITED STATES

Chairman & President (Jackson National Life)
A J Pasant

THE NEW IDENTITY

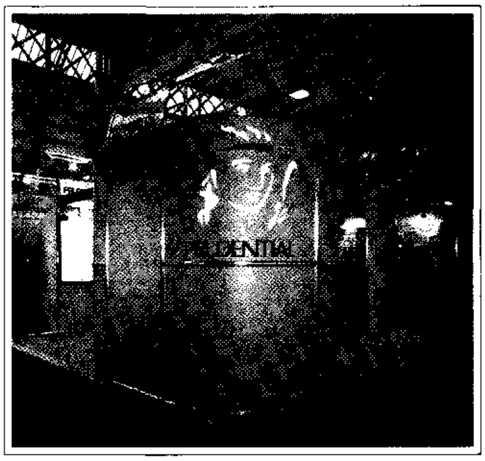
The underlying purpose of the new corporate identity is to draw together the diverse strands which make up Prudential Corporation and to present them under a common banner with a common purpose. Prudential's new identity underlines our determination to play a major role in the financial services markets.

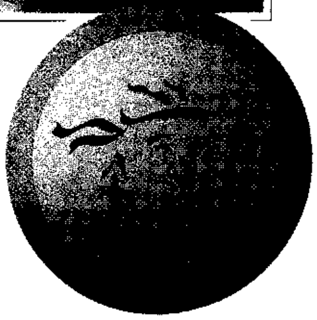
Prudential's new corporate identity was launched in September 1986. Some 8,000 members of staff of all grades from all over the United Kingdom travelled to London to see one of a series of presentations at the Royalty Theatre.

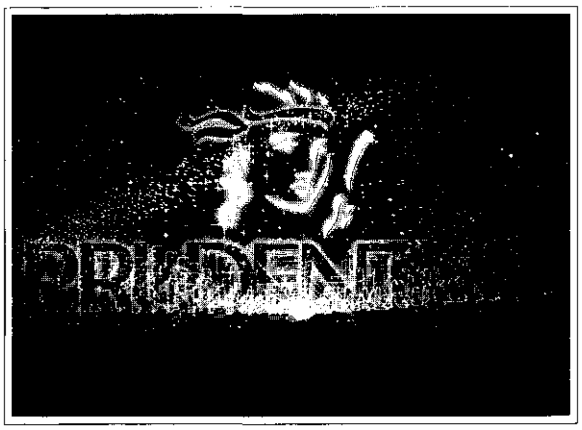
The purpose of these presentations was not only to launch the new identity but also to give staff a clearer understanding of the widening scope of Prudential's activities. For those who were unable to see the Royalty Theatre presentations some 450 separate presentations were made in Prudential offices throughout the UK.

The Irish and Australian companies swiftly followed the launch of the new identity in the United Kingdom by adopting it themselves, and the Canadian company is in the process of making the necessary changes.

Our new corporate identity has already been successfully applied to advertising boardings, exhibition stands, promotional items such as umbrellas, the week-long series of presentations to our staff at London's Royalty Theatre, and a 22,000-piece granite floor mosaic in the reception area of Holborn Bars.







Prudence, who with Justice, Fortitude and Temperance, represents one of the cardinal virtues – wise conduct, is a key symbol in Prudential's history. She appears at the top of the coat of arms of The Prudential Assurance Company and has, since the company's beginnings, provided a strong visual association with Prudential.

Prudence has been portrayed in many styles. The new corporate identity capitalises on our heritage and our name.

In the increasingly competitive and complex world of financial services, the new identity is an outward sign of how we are changing. It projects the new dynamism found in all parts of the organisation.

The new identity which features the word 'Prudential' in a new logo style and a modern interpretation of Prudence is now being widely used throughout the Corporation.

A wide range of audiences has been made aware of the new identity through television advertising – with Griff Rhys Jones in our first-ever corporate campaign – the windows of our City office, brass business plates, the Royalty Theatre presentations to staff, and the mast-head of our staff newspaper.