

ANNUAL REPORT 1988

PRUDENTIAL CORPORATION PLC



PRUDENTIAL CORPORATION

The Prudential is one of the world's largest and strongest Financial Services groups. It directly employs 40,000 people in over 30 countries. Its main businesses are life assurance, pensions, general insurance called property and casualty in many countries, investment management, unit trusts, reinsurance and estate agency. It has more than 8 million customers and is the largest single investor in the British stock market.

In all its core businesses the Prudential seeks to be a leading provider of services with a reputation for security and integrity, for value for money and quality of service. The current trend towards deregulation throughout the world provides opportunities for further expansion and development.

In promoting its businesses the Prudential's aims are:

- to increase profitability and earnings per share and thus reward our **Shareholders**, encourage investment and facilitate further expansion:*
- to give **Customer** satisfaction through high quality products accompanied by high standards of service, courtesy and fair dealing:*
- to provide our **Staff** with the leadership, training and working conditions essential to their success and to operate personnel policies based on ability with no discrimination on grounds of sex, race, colour or creed:*
- to abide by the spirit of laws as well as their letter and to be a significant contributor to the development and wellbeing of the wider **Community** in which we operate.*

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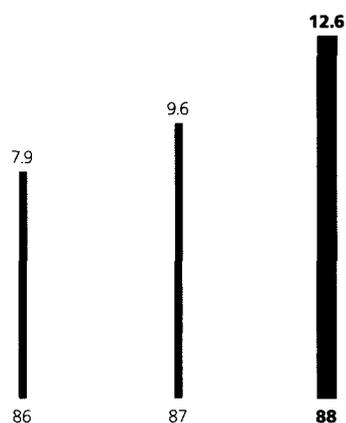
FINANCIAL HIGHLIGHTS

TOTAL PROFIT SUMMARY

	1988	1987
Trading profit before tax	£352.6m	£260.0m
Profit attributable to shareholders	£231.5m	£174.5m
Earnings per share	12.6p	9.6p
Dividend per share	8.0p	6.8p

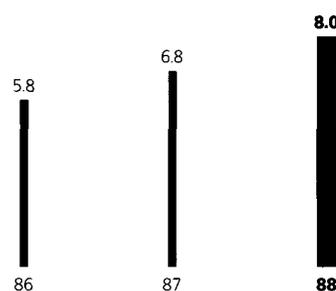
EARNINGS PER SHARE

pence



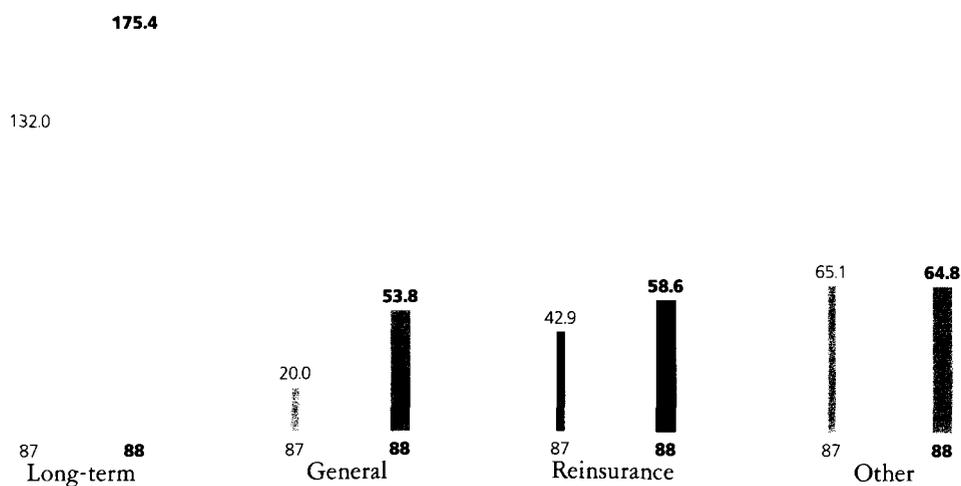
DIVIDEND PER SHARE

pence



TRADING PROFIT BEFORE TAX BY BUSINESS SECTOR

£ millions





CHAIRMAN'S STATEMENT



I am glad to be able to tell shareholders that 1988 was a very good year for the Prudential. In our main business areas we saw strong growth and much increased profitability. As a result our trading profit before tax rose by 36% to £352.6m, and earnings per share rose by 31% to 12.6p. We are increasing the total dividend for the year to 8.0p per share which is an increase of 18% over last year.

Our United Kingdom long-term business had a splendid year with total sales up by 31%. Pension sales have been outstanding and we established ourselves as the market leader in the new personal pensions for those contracting out of the State Earnings Related Pension Scheme. Overseas there were strong performances in our long-term businesses in Australia, Canada and the United States with Jackson National being outstanding and attaining premium income exceeding US\$2bn. As a result our premium income from overseas is now about as large as that from the United Kingdom. Our general business results were good with a very significant improvement in the United Kingdom, for which the mild winter was only partly responsible. Our worldwide reinsurance business had another successful year. The expansion of our non-insurance activities has continued satisfactorily and in particular we have continued to develop our estate agency business.

Looking ahead we have to accept that some of our business is cyclical in nature. Nevertheless we face the future with great confidence believing that our strategy for further development both at home and overseas is soundly based. Our core businesses are all in good shape with life profits in particular showing encouraging growth, and our expansion into other financial services has been carefully chosen not only to be profitable in its own right but to complement and support our main activities.

In order to maximise the strength of the Corporation, we believe that in the future more resources available to support the development of our business should be held in shareholders' funds rather than in the long-term funds of The Prudential Assurance Company. We intend to increase the transfer to shareholders from the declared surpluses of the latter funds, a step which will enable the more flexible pursuit of our longer term strategic objectives. More detail of our intentions is given in the Chief Executive's Review.

The Annual General Meeting this year will be held in the Plaisterers Hall since we shall have vacated our Holborn headquarters to allow its redevelopment. In addition to transacting the usual shareholders' business it will mark some important changes to our Board.

Lord Carr of Hadley will retire. He joined the Board of The Prudential Assurance Company in 1976 and the Corporation Board when it was established in 1978. He was Deputy Chairman from 1979-80 and Chairman from 1980-85. He has thus played a leading role at a time when we were both changing our organisational structure and diversifying our activities. We owe him a large debt of gratitude for his unfailing interest and wise counsel. Mr Desmond Craigen will also retire at the AGM. Desmond Craigen joined the Prudential in 1934, was General Manager from 1969-78 and Chief General Manager from 1979-81. He joined the Board in 1982 and we have benefited greatly from his advice. Both Lord Carr and Mr Craigen will be much missed.

Mr Derek Fellows, Chief Actuary since 1981, retired at the end of 1988. He had been a member of the Corporation Board since 1985 and he left us following his appointment as an Executive Director of the Securities and Investments Board. We congratulate him on his new appointment although we are sad to see him go.

We are proposing the election to the Board at the AGM of Mr Colin Southgate, who is Chairman and Chief Executive of Thorn EMI.

We have announced two other changes although they will not take place until next year. Mr Brian Corby will retire as Group Chief Executive in March 1990 and his place will be taken by Mr Michael Newmarch. The Directors propose to elect Mr Corby as Chairman when my own term expires in May 1990.

Finally you will note that for the first time this report begins with a mission statement which sets out what your Company is and what its aims are. The achievement of those aims depends, however, on each member of our staff, in all our businesses throughout the world, and I would like to thank them both for 1988's excellent results and for the way in which they strive to maintain the Prudential's reputation.

THE LORD HUNT OF TANWORTH 11 APRIL 1989

Hunt of Tanworth

CHIEF EXECUTIVE'S REVIEW

"In an increasingly competitive environment, satisfying the needs of our customers is fundamental to our business strategy and to our success."



During 1988 the Group achieved good results in its established businesses, whilst continuing its policy of expansion and diversification. Trading profit before tax rose by 36% to £352.6m, and earnings per share rose by 31% to 12.6p. A final dividend of 5.3p has been declared, giving a total dividend for the year of 8.0p, an increase of 18%. Dividend cover improves from 1.4 in 1987 to 1.6 in 1988.

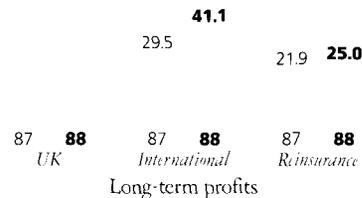
More than half of the Group's profits continues to derive from long-term business, mainly pensions and savings related products, which in 1988 contributed £200.4m, an increase of 30% over 1987. Profits from annual premium

business emerge over a number of years so that the growth in annual premiums in force at the end of the year to £1.8bn, an increase of 16% over the year, provides good prospects for the future. We achieved a very satisfactory increase of 24% to £3.8bn in total gross premium income.

£m **134.3**

102.5

The total cost of bonuses allocated to our with profit policyholders was £1,120.3m (1987 £992.6m). The overall investment result from our funds in the UK returned to a level similar to that for 1986 after the lower level for 1987. For individual business we have improved the policy proceeds for longer term contracts in the UK by up to 12% while maintaining levels at most shorter durations. For corporate pensions business at the longer durations we have made significant increases in the total proceeds although the amounts payable at the shorter durations have been reduced slightly.

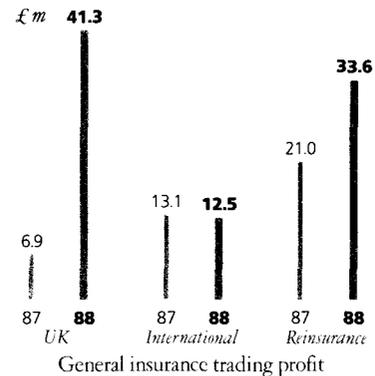


Worldwide general insurance results show a marked improvement, with trading profit more than doubling to £87.4m. Most of the profit comes either from our retail sales

of insurance products in the United Kingdom, or from our general reinsurance activities. Transfers from reserves to cover claims for business no longer written, mainly due to asbestosis, amounted to £6.5m (1987 £9.2m).

The remainder of the Group's profits, £64.8m, compared with £65.1m in 1987, relates to fees we receive for investment management services, sales of unit trusts and PEPs in the UK, estate agency, and the return we receive from shareholder assets which are partly employed

as solvency margins in general insurance. In particular, our estate agency business has produced a satisfactory return at this point in its development, a profit of £17.2m compared with £4.5m in 1987, as we continue to build a national branch network. However, our unit trust and PEP business has suffered following the stock market fall in October 1987, with a loss for the year of £3.9m.



UNITED KINGDOM

Our business in the United Kingdom was conducted against the background of three significant factors. First was the introduction of the Financial Services Act. We were able successfully to make the changes required but, whilst we are totally in agreement with the objectives of the legislation, I must continue to express concern at the detail of the regulations and the burden of enforcement. We support changes now being discussed which should simplify the operation of the Act without in any way diminishing the benefit to the consumer.

One of the consequences of the Financial Services Act has been to highlight even more the attention insurance companies and other organisations in the financial services industry pay to their distribution systems. We believe, as the market develops, that we are strongly placed to achieve a competitive marketing advantage through our established direct selling field force, our extensive High Street presence through Prudential Property Services and the continuing development of Prudential Holborn.

The second significant factor was the introduction in the middle of the year of changes in pension legislation. Prior to the change, many customers took the opportunity to purchase personal pensions which will no longer be available under the new legislation, in order to benefit from the larger lump sums available on retirement. Following the change, our products, marketing effort and operating systems were all in place and we were able to write a significant amount of new business and introduce a number of new



Elizabeth Tilley and her husband George at their Hertfordshire home. Mrs Tilley is one of Prudential Holborn's VIP investors.

FOLLOWING PRUDENTIAL'S ENTRY INTO THE UNIT TRUST MARKET IN 1985, PRUDENTIAL HOLBORN (WITH FUNDS UNDER MANAGEMENT OF £1.1 BILLION) IS ALREADY ONE OF THE UK'S TOP TEN UNIT TRUST GROUPS.

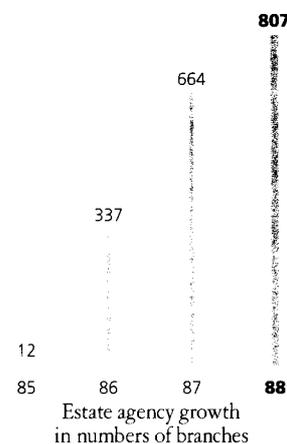


Pru-Coach - a specialist insurance policy for small transport firms - gives vital protection to Freeway Transport, the business of John Walls and Linda Brittain, which takes elderly people to day centres for the local council.

MORE THAN 100,000 SMALL FIRMS IN THE UK INSURE THEIR BUSINESSES WITH PRUDENTIAL.

1987 (£0.2m), was achieved. Trading profit on commercial non-motor business amounted to £14.9m (1987 £6.5m). Generally during 1988 we continued to apply stricter underwriting controls and were prepared to sacrifice premium income in pursuit of improvements to the quality of our business.

We have made significant steps during 1988 to improve and to add to the way in which we distribute our products to our customers. We intend to continue this process in the current year. A major reorganisation of our direct selling field staff is under way. This will result in a clearer division between specialist sales staff, trained to give advice on a wider range of products than before, and customer service staff specialising in servicing our policyholders. Both Prudential Holborn and our general insurance businesses will continue to expand the network of brokers with whom we conduct business. Our Corporate Pensions division is expanding its force of specialist sales staff to assist corporate clients in meeting the requirements of the new pension regime. At Prudential Property Services our focus is on the retail housing market and on the opportunities for increasing sales of endowment assurance policies linked to mortgages that our presence in that market gives us. We aim to extend our geographical coverage, with particular emphasis on the more buoyant areas of the country, and are increasing the number of specialist financial service advisers in our branches.



INTERNATIONAL

Our total revenue premiums for long-term business grew by 42% to attain £1.8bn, reflecting strong sales successes of the major operations in the USA, Canada and Australia.

In the United States, Jackson National's trading profit was £19.4m (1987 £14.6m) and gross premium income exceeded £1.1bn. Much of Jackson National's business is single premiums, which provide the low risk alternative to equities and unit trusts that many investors have been seeking since the fall in the stock market in 1987. Legislative changes have reduced the attraction of the single premium life product, and a modified version will be introduced shortly; sales of the single premium annuity contract were buoyant and future prospects are good. Equally important from a longer term point of view is the growth in annual premium sales assisted by new products including

£ m	87	88
Long-term new business Jackson National	591.8	939.9
	36.2	55.5
	Annual	Single



Lifeline Ultimate, designed to improve protection against certain "life-threatening" diseases. Annual premiums in force at the end of the year were some £187m, an increase of £49m over the year.

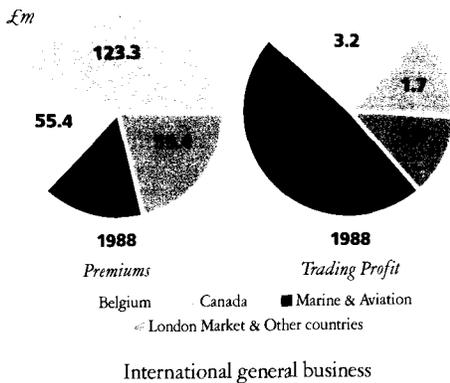
Over 50% of Jackson's premiums comes from Michigan, Illinois, California and Florida. However, it is licensed to sell life assurance in most American states and a particularly pleasing feature of 1988 was that whilst our established offices showed excellent growth, an increasing share of business came from the newer offices.

In Australia the market was very buoyant and we achieved considerable growth in premiums. Since the end of the year we have made two significant steps to strengthen our position with the acquisitions of Aetna Life and In-Life. The purchase of the Australian interests of Aetna will make Prudential the fifth largest life office in Australia in terms of its annual premium income and, equally important, will enable us to achieve economies of scale in our operations. In-Life was purchased for its ownership of a computer software company which will provide financial planning services to our agents and customers.

In Canada, business progressed well in both sales and profitability with greater growth coming from group annuity and individual savings accumulation products.

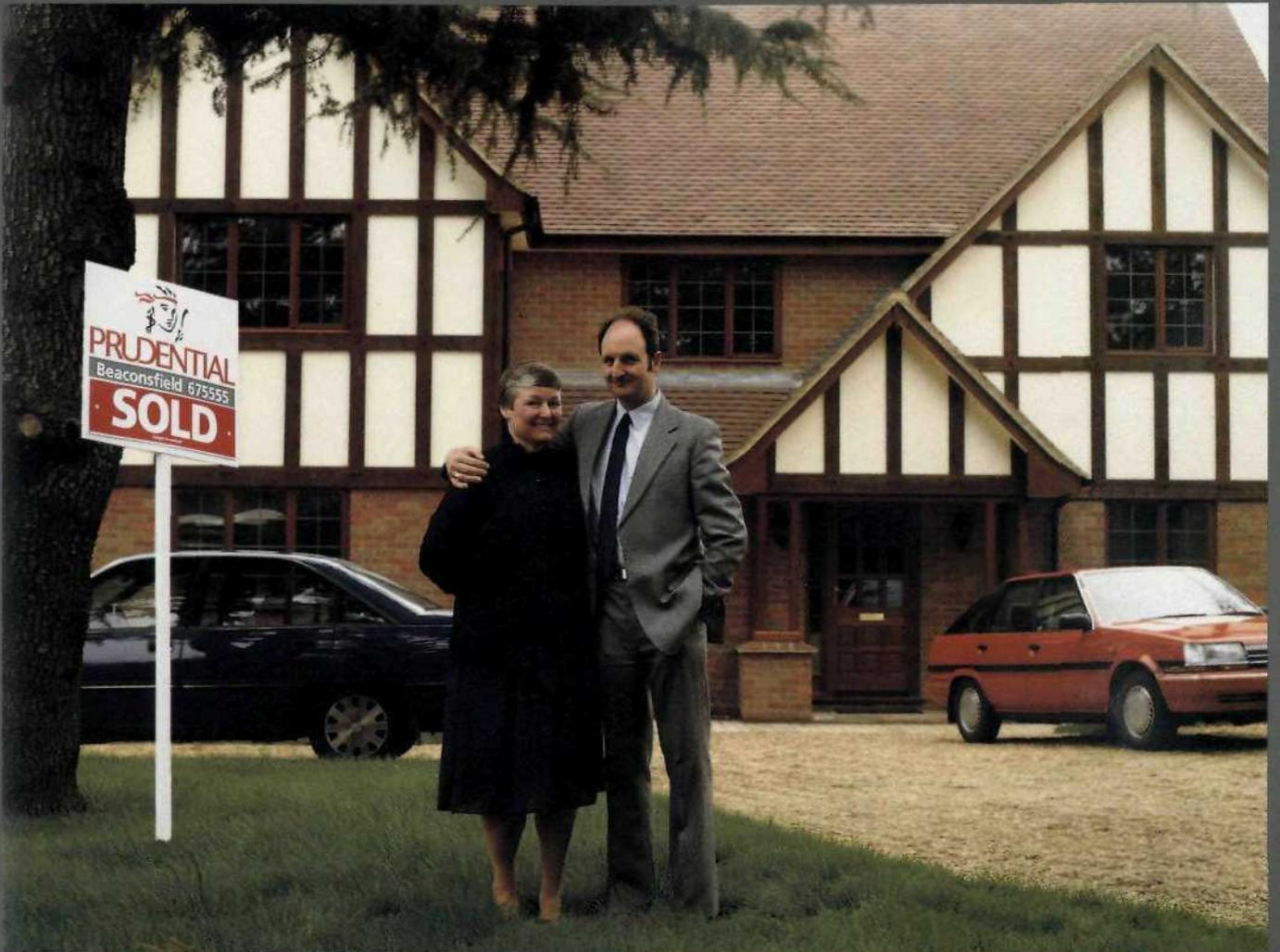
Within the EEC, other than in the United Kingdom, Prudential Life of Ireland recovered from a slow start to the year to produce a profit of £3.1m (1987 £3.2m). In Holland we have replaced the local branch of The Prudential Assurance Company with a Dutch subsidiary. Progress in Italy with the setting up of a life company jointly owned with Benetton has been good and provides a sound base for future growth.

In general business, total premiums rose to £284.3m from £268.5m. Some 43% of



this business is in Canada, where results were affected by very severe weather early in the year and by Government intervention in setting motor premiums in Ontario. Trading profit in Canada was therefore only £1.7m (1987 £1.9m). The bulk of our remaining business is in Belgium, where we achieved trading profits of £3.2m, below the results in 1987 (£7.0m). London Market, marine, aviation and transport business

produced a profit of £7.3m, at a similar level to 1987, mainly reflecting the quality of long-tail business written in earlier years.



Geoffrey Marsh and his wife Jenny, who sold and bought both their properties through Prudential Property Services, shown outside their new home in Beaconsfield.

DURING 1988, PRUDENTIAL PROPERTY SERVICES ACCOUNTED FOR 60 PER CENT OF THE GROWTH IN PRUDENTIAL'S UK MORTGAGE RELATED ENDOWMENT SALES.



Among the very first customers of Prudential Vita, the new Italian life company, are Fulvio Vanoli and his wife Nadia, with their niece Debora.

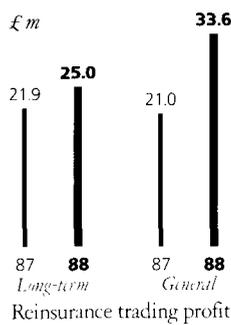
IN 1988, OVER HALF PRUDENTIAL'S LONG-TERM PREMIUM INCOME CAME FROM OUTSIDE THE UK.

REINSURANCE

Total net revenue premiums for long-term business were 15% below the 1987 total because of the inclusion last year of one large single premium contract in Canada. Excluding this, underlying premiums increased 21% to £299.3m.

Profits from the long-term business are held back by continuing uncertainties about the likely level of future claims for deaths related to AIDS. We have reviewed the terms on which business is written in all markets, making changes as appropriate. Additional reserves are held on a basis which in the United Kingdom is accepted as the industry norm and elsewhere in relation to our assessment of the underlying risk. The overall effect has been to maintain the after tax profits of our long-term reinsurance business at 1987 levels. Recent reports lead us to take a rather less pessimistic view of the effect on our business of this dreadful disease than we did last year but until more experience is

available to us, we do not believe it prudent to relax our cautious stance.



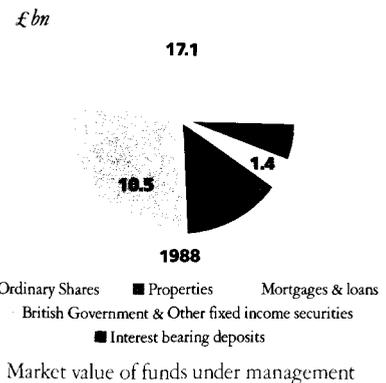
Total general reinsurance net premiums have fallen 5% to £237.7m compared with 1987. This fall in volume reflects the tendencies for insurance companies to carry higher retentions following a period of improved results. The trading result for 1988 of £33.6m is 60% ahead of 1987 (£21.0m), principally due to an improved underwriting performance. However, the downturn in the cycle has already started and is particularly marked in the American market.

In recent years Mercantile and General has greatly strengthened its reserves and followed a more rigorous approach to the terms on which it competes for the available business.

Mercantile and General continues to expand its worldwide operations. It has strengthened its position in the Far East by recently opening an office in Singapore and within the EEC plans are well advanced to open a branch office in Italy.

INVESTMENT MANAGEMENT

Total worldwide funds under management rose by 15% to £36.3bn. The buoyancy of the commercial property market in the UK was once again a major factor in this increase. At the year end 47% of the funds under management were invested in equities, 29% in British Government and other fixed interest securities, 15% in property and the balance in mortgages and loans and interest bearing deposits.





Our investment management produced results helpful to our competitive position in most areas, and we are now able to compete strongly and effectively for new funds to manage from pension fund trustees outside the Group. These segregated pension funds now account for 16% of the total funds managed by Prudential Portfolio Managers.

UK LIFE TAXATION

In May 1988, the Inland Revenue issued a consultative document concerned with possible revisions to the existing bases of life assurance taxation. We are pleased that in his 1989 Budget statement the Chancellor has accepted that a radical reform of taxation is unnecessary. We look forward to discussions with the Revenue aimed at correcting anomalies in the present method of taxation.

HOLBORN BARS

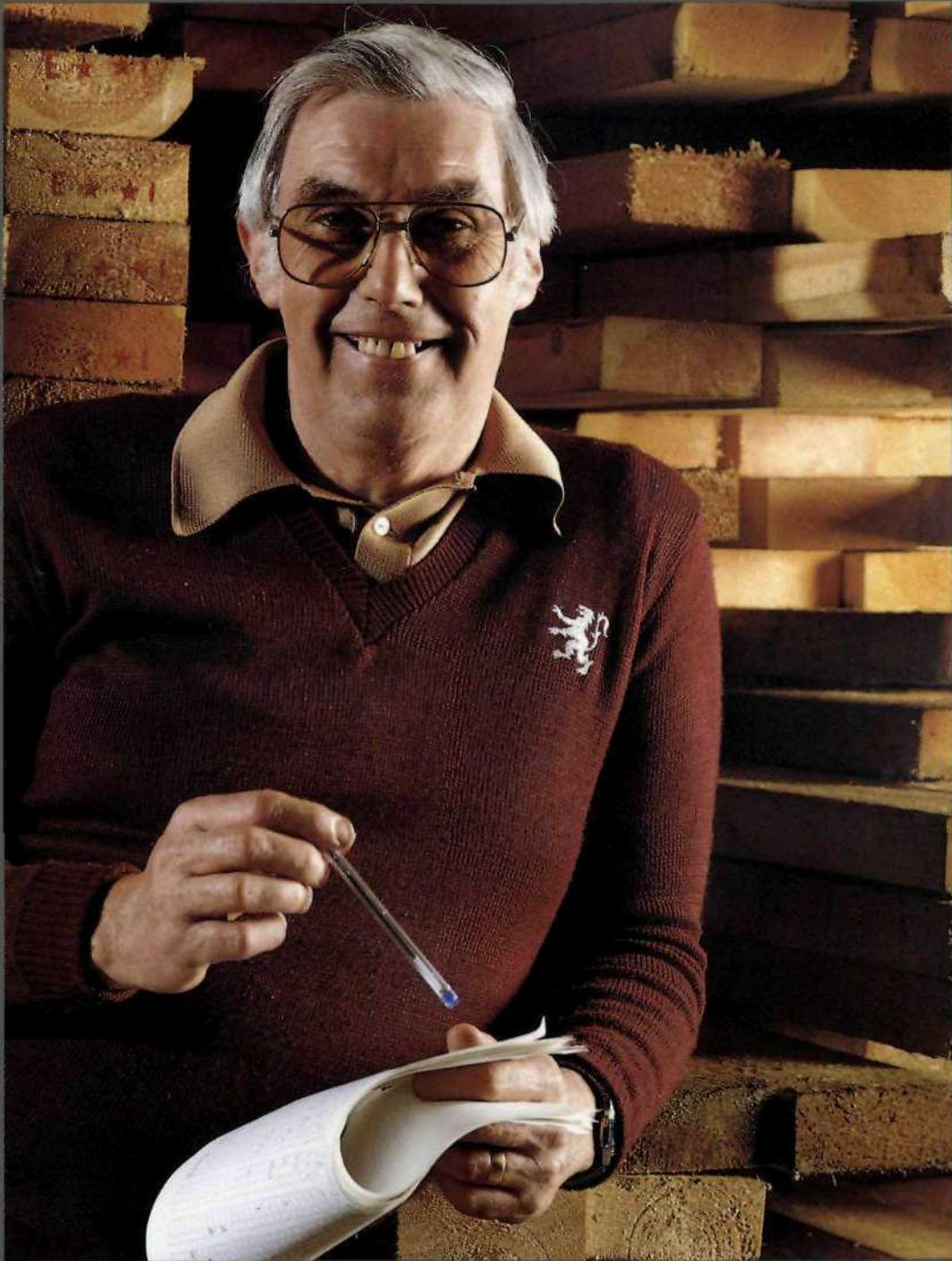
As mentioned in the annual report last year, a major programme of refurbishment for our head office in Holborn is due to commence in mid 1989. The best of the architectural features of the Grade II* listed building will be retained and on completion in some three years' time we will have created a more modern and efficient workplace. Staff have been relocated for the duration of the refurbishment, but we will ensure that the existing standards of service to our customers are maintained.

OUR CUSTOMERS AND OUR STAFF

In an increasingly competitive environment, satisfying the needs of our customers is fundamental to our business strategy and to our success. The financial services industry is one where relationships between a company and its customers are of the utmost importance. To this end the Prudential aims to recruit and train staff to provide a high standard of service to the customer. Staff are trained to use the most up-to-date technology in providing an efficient service, the most recent examples being the introduction of electronic collecting books for the field force and the national estate agency computer network to provide a nationwide housing database for potential customers. The Hunton Park training centre, dedicated to the training of staff, became operational at the end of 1988.

WITH PROFIT BUSINESS

The with profit contract is a very popular product, combining protection and long-term savings. The contract involves the investment of premiums, after deduction of charges to cover expenses and the cost of life cover, in a managed pool of assets, and we aim to



Martin Scott, foreman at Great Northern Timber Company (manufacturers of garden furniture) who, along with half the firm's permanent workforce, has decided to opt out of SERPS in favour of a Prudential personal pension.

IN 1988, ONE IN FOUR OF THOSE OPTING OUT OF THE STATE EARNINGS RELATED PENSION SCHEME CHOSE A WITH PROFIT PERSONAL PENSION WITH PRUDENTIAL.



Brian Cross, a bus driver with Greater Manchester Transport Authority. He is one of some 80,000 public employees now able to top-up their pensions through a Prudential AVC scheme, arranged through the administrative authority Tameside Metropolitan Borough Council.

PRUDENTIAL MANAGES PENSION FUND INVESTMENTS FOR OVER 13,000 SCHEMES OF UK COMPANIES AND LOCAL AUTHORITIES.

provide policyholders with a good return from the value of their invested premiums. This return reflects the longer term performance of the underlying investments, with the objective of avoiding the effects of short term fluctuations in the value of stock market securities and other assets whilst at the same time retaining fairness as between different groups of policyholders. We were pleased this year to be able to declare increases, some substantial for longer term contracts, in the amounts payable under these policies in the United Kingdom, following the annual assessment of the investment performance of the assets constituting the long-term fund over the duration of the policies.

The conduct of with profit business requires the backing of substantial resources over and above those required to meet contractual liabilities and to demonstrate solvency. These resources, which have been built up in our long-term funds over many years, enable the smoothing process to take place for both new and existing business and finance the acquisition of new business. In addition, we have shareholders' funds which are available for the development of our business, including our life business if required.

In recent years a number of changes have taken place in relation to the types of policies being sold and the nature of the competition we face; the pace of change seems likely to accelerate, and we have come to the view that more resources should be held in shareholders' funds, rather than in the long-term funds, to support the development of our business.

Against this background we have reconsidered our approach to the level of profits transferred out of the long-term fund of The Prudential Assurance Company Limited into shareholders' funds. By the Articles of Association of that company the transfer must be no more than 10% of the divisible profits of the long-term business. Since 1952 the level of the transfer has been below the maximum, standing at 7.5% in 1987 for the Ordinary Branch fund. For 1988, we have increased this proportion to just under 8%, with slightly lower proportions applying to the Industrial Branch fund. Further, it is our intention to take the transfer in respect of 1989 to the maximum level and, as required by Section 30 of the Insurance Companies Act 1982, we shall give formal notice to that effect at the appropriate time. If we had taken this step in respect of 1988 additional long-term profits of some £30m after taxation would have been included in our profit and loss account.

Given the strength of our long-term funds, we shall continue to provide a good return to our policyholders on their savings, reflecting our investment experience. At the same time we shall position ourselves better to meet a changing and more competitive environment in the interests of both our customers and our shareholders.



THE FUTURE

1988 has shown very encouraging growth in the major areas of our business. Profits from our life business, which continues to be the core of our operations, are widely considered to be of high quality by virtue of their consistency. Our expansion into other financial services complements this core business and we are seeing the benefits through such activities as sales of life policies through our estate agents. Growth in new annual premiums continues and this gives a sound basis for optimism for future profits.

In the European Economic Community we are moving towards a single market, although progress is likely to be slow and uneven. We are following developments closely so that we can identify profitable opportunities for entry and expansion as they arise.

We look forward to the future with confidence as we believe that the steps we are taking to strengthen our established businesses and to investigate and take opportunities elsewhere put us in a strong position.

A handwritten signature in cursive script that reads "Brian Corby".

BRIAN CORBY 11 APRIL 1989

DIRECTORS

THE RT HON LORD HUNT OF TANWORTH GCB

CHAIRMAN

(AGE 69) 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.

SIR TREVOR HOLDSWORTH FCA DEPUTY CHAIRMAN

(AGE 61) A director since 1986 and Deputy Chairman since May 1988. Former Chairman of GKN. Chairman of Allied Colloids and British Satellite Broadcasting. President of Confederation of British Industry from May 1988.

SIR ALEX JARRATT CB DEPUTY CHAIRMAN

(AGE 65) A director since 1985 and Deputy Chairman since 1987. Chairman of Smiths Industries. Deputy Chairman of Midland Bank and director of ICI.

BRIAN CORBY FIA GROUP CHIEF EXECUTIVE

(AGE 59) An executive director since 1983. Director of the Bank of England. Former Chairman of the Association of British Insurers.

MICHAEL ABRAHAMS MBE

(AGE 51) A director since 1984. Former Deputy Chairman of John Crowther Group. Deputy Chairman of York Trust Group. Director of John Waddington, Dalepak, and Drummonds.

RONALD ARTUS FSIA

(AGE 57) An executive director since 1984. Group Chief Investment Manager. Chairman of Prudential Portfolio Managers and Prudential Property Services.

MARY BAKER

(AGE 52) A director since January 1988. Former Chairman of the London Tourist Board. Director of Thames Television, Avon Cosmetics and Barclays.

THE RT HON LORD BUTTERFIELD OBE DM FRCP

(AGE 69) A director since 1981. Former Regius Professor of Physic, University of Cambridge. Former 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

(AGE 72) 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.

DESMOND CRAIGEN

(AGE 72) A director since 1982. Former Chief General Manager of Prudential Assurance. Director of Pioneer Concrete (Holdings).

SIR RONALD DEARING CB

(AGE 58) A director since 1987. Former Chairman of Post Office Corporation. Chairman of the County of

Durham Development Company. Chairman of The Polytechnics and Colleges Funding Council. Chairman of the review committee of accounting standards. Director of Whitbread and British Coal.

ANTHONY FREEMAN FCA FCMA

(AGE 51) An executive director since 1985. Managing Director, UK Individual Division. Director of LAUTRO.

THE HON SIR VICTOR GARLAND KBE FCA

(AGE 54) A director since 1984. 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 a number of investment trusts. Deputy Chairman of the South Bank Board.

MICHAEL LAWRENCE FCA

(AGE 45) An executive director since January 1988. Group Finance Director. Director of Port of London Authority.

JOHN LOCK FCII

(AGE 58) An executive director since May 1988. Managing Director, Mercantile and General Reinsurance.

BRIAN MEDHURST FIA

(AGE 54) An executive director since 1985. Managing Director, International Division.

PETER MOODY CBE FIA

(AGE 70) A director since 1981 and Deputy Chairman from 1984 to 1988. Chairman of Prudential Staff Pensions. Former Joint Secretary and Group Chief Investment Manager. Director of Laird Group and 3i Group. Former President of the Institute of Actuaries.

JULIUS NEAVE CBE JP DL

(AGE 69) A director since 1982. Former Managing Director of Mercantile and General Reinsurance. Past President of the Geneva Association, past President of the Chartered Insurance Institute and former Chairman of the Reinsurance Offices Association.

MICHAEL NEWMARCH

(AGE 50) An executive director since 1985. Deputy Chairman and Chief Executive of Prudential Portfolio Managers. Chairman of Prudential Holborn and Prudential Corporate Pensions.

THE RT HON JAMES RAMSDEN

(AGE 65) A director since 1972 and Deputy Chairman from 1976 to 1982. Member of Parliament from 1954 to 1974, holding various ministerial posts. Chairman of the London Clinic.

GORDON WOOD FIA

(AGE 64) A director since 1984. Former Managing Director, Central Services and Deputy Chief General Manager of Prudential Assurance.

DIRECTORS' REPORT

for the year ended 31 December 1988

PRINCIPAL ACTIVITY AND BUSINESS REVIEW

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiaries is the provision of financial services, including the transaction of 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 38.

The Group's business is reviewed in the Chairman's statement on pages 4 and 5 and the Chief Executive's review on pages 6 to 20.

ACCOUNTS

The consolidated balance sheet on page 27 shows the state of affairs of the Group at 31 December 1988. The Company's balance sheet appears on page 28 and the consolidated profit and loss account on page 26. There is a five year review of the Group on pages 43 and 44.

DIRECTORS

The present directors are shown on page 21.

Mr M J Lawrence became a director on 1 January 1988, Mrs M E Baker became a director on 20 January 1988 and Mr J Lock became a director on 25 May 1988. Lord Richardson retired on 25 May 1988 and Mr D E Fellows retired on 31 December 1988.

The directors retiring by rotation at the Annual General Meeting are Mr F B Corby, Lord Hunt, Mr P E Moody, Mr M G Newmarch, Mr J E Ramsden and Mr F G Wood. They offer themselves for re-election. Lord Carr also retires by rotation but does not offer himself for re-election, having reached the normal retirement age. Mr D S Craigen retires having also reached the normal retirement age. The directors are also proposing the election of Mr C G Southgate.

The executive directors have service contracts. The contracts of those offering themselves for re-election, Mr F B Corby and Mr M G Newmarch, are not for a fixed period but are terminable on not less than three years' prior written notice given by the employer.

A statement of directors' shareholdings is set out on page 41.

DIVIDENDS

The directors have declared a final dividend for 1988 of 5.3p per share payable on 31 May 1989 to shareholders on the register at the close of business on 13 April 1989. The dividend for the year, including the interim dividend of 2.7p per share paid in 1988, amounts to 8.0p per share compared with 6.8p per share for 1987. (The 1987 figure has been adjusted for the sub-division of the ordinary shares effected on 25 May 1988.)

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 1988 was 30,625 and their total remuneration was £425.1m.

EQUAL OPPORTUNITY

Group policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, ethnic origin, nationality or disability.

EMPLOYEE INVOLVEMENT

Continued efforts were made in 1988 to communicate with employees on issues which concern them, and a major impetus was given to developing channels through which employees' views could be sought.

For the sixth 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 the employees of that company.

DONATIONS

During the year the Company and its subsidiaries made charitable donations of £539,000 in the UK and £187,000 overseas.

In the UK, financial support was directed to a wide range of organisations including Education 2000, The Prince's Youth Business Trust, Business in the Community and a broad cross-section of projects in the fields of health and community welfare.

The Company contributed an additional £340,000 in the UK by way of secondment of seventeen members of staff to organisations concerned with social issues, education and unemployment.

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

	1988	1987
Number of registered shareholders' accounts at 31 December	57,081	51,136

SUBSTANTIAL SHAREHOLDERS

As far as the directors were aware at 31 March 1989 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 1988	1988 %	1987 %
Banks and other nominee companies	52.1	50.5
Insurance companies	16.4	15.4
Pension funds	12.6	15.7
Investment trusts and unit trusts	0.6	0.5
Other corporations	4.2	3.9
Individuals	14.1	14.0
	100.0	100.0

By order of the board of directors

P R Rawson
Secretary

11 April 1989

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 the Plaisterers Hall, 1 London Wall, London EC2Y 5JU on Wednesday 31 May 1989 at 11.30 am for the following purposes:

ORDINARY BUSINESS

- 1 To receive and consider the Directors' Report and Accounts for the year ended 31 December 1988.
 - 2 To re-elect as directors, Mr F B Corby, Lord Hunt of Tanworth, Mr P E Moody, Mr M G Newmarch, Mr J E Ramsden and Mr F G Wood and to elect as a director Mr C G Southgate.
 - 3 To appoint auditors.
- To transact any other business proper to be transacted at the said meeting not being special business.

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following resolutions set out in the separate notice sent herewith:

- 1 Ordinary resolution
To confirm the directors' authority to offer shares instead of cash in respect of any dividend.
- 2 Ordinary resolution
To amend the Rules of the Prudential Executive Share Option Scheme.

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 Lord Hunt of Tanworth and Mr P E Moody who retire by rotation and who will be aged 69 and 70 respectively at the date of the meeting.

By order of the board of directors

P R Rawson
Secretary
142 Holborn Bars London EC1N 2NH
4 May 1989

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 available for inspection at the meeting. Copies of the service contracts of executive directors (which are not expiring or determinable without compensation within one year) will be available for inspection at the transfer office of the Company, 1 Stephen Street, London W1P 2AP, during business hours on any weekday (excluding Saturdays and bank holidays) from the date of this notice until the date of the meeting and will be available for inspection at the Plaisterers Hall for 30 minutes prior to, and at, the meeting.

FINANCIAL CALENDAR

Payment of 1988 final dividend	31 May 1989
Annual General Meeting	31 May 1989
Announcement of 1989 interim results	13 September 1989
Payment of 1989 interim dividend	30 November 1989
Announcement of 1989 full year results	27 March 1990

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 1988:

(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 1988 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.

F B Corby
Group Chief Executive

11 April 1989

REPORT OF THE AUDITORS

to the members of Prudential Corporation plc

We have audited the accounts on pages 25 to 42 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 1988 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

11 April 1989

CONSOLIDATED PROFIT AND LOSS ACCOUNT

year ended 31 December 1988

	Note	1988 £m	1987 £m
TRADING PROFIT BEFORE TAX FROM			
Long-term business	1	200.4	153.9
General insurance business	2	87.4	41.0
Shareholders' other income	3	64.8	65.1
TOTAL TRADING PROFIT BEFORE TAX		352.6	260.0
Transfer to revaluation reserve	5	(13.0)	(17.6)
Profit for the year before tax and minority interests		339.6	242.4
Tax	12	107.9	67.7
Minority interests		0.2	0.2
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		231.5	174.5
DIVIDENDS			
Interim		49.6	42.0
Final		97.9	82.4
		147.5	124.4
TRANSFER TO RETAINED PROFIT	5	84.0	50.1
EARNINGS PER SHARE			
Based on earnings of £231.5m (£174.5m) and			
1833.3m (1821.5m)† shares			
		12.6p	9.6p

†The 1987 figures have been adjusted to take account of the sub-division of the shares effected on 25 May 1988.

CONSOLIDATED BALANCE SHEET

31 December 1988

	Note	1988 £m	1987 £m
INVESTMENTS			
Ordinary shares		11,928.8	10,972.8
Properties		5,155.6	4,099.8
British Government securities		2,916.6	2,814.3
Other fixed income securities		6,599.2	5,055.7
Mortgages and loans		1,423.7	1,105.1
Interest bearing deposits		1,385.2	1,433.0
		29,409.1	25,480.7
OTHER ASSETS			
Fixed assets		89.9	50.9
Tax recoverable		88.1	5.5
Debtors		1,234.2	918.0
Bank balances and cash		16.3	20.0
		1,428.5	994.4
TOTAL ASSETS		30,837.6	26,475.1
<i>Less</i>			
LIABILITIES AND PROVISIONS			
Outstanding claims		515.8	457.4
Other creditors		764.9	547.0
Bank loans and overdrafts	9	276.3	555.5
Other borrowings	9	550.5	408.2
Taxation		48.0	41.1
Deferred taxation	12	11.3	18.6
Final dividend		97.9	82.4
		2,264.7	2,110.2
TOTAL ASSETS LESS LIABILITIES		28,572.9	24,364.9
<i>Less</i>			
INSURANCE FUNDS AND RESERVES			
Long-term business	4	27,087.4	23,032.2
General insurance business	4 & 6	874.9	825.6
		27,962.3	23,857.8
		610.6	507.1
<i>Less</i>			
MINORITY INTERESTS		2.3	0.8
		608.3	506.3
SHAREHOLDERS' CAPITAL AND RESERVES			
Share capital	8	92.0	91.4
Share premium	7	36.3	21.3
Reserves	5	480.0	393.6
		608.3	506.3

BALANCE SHEET OF THE COMPANY

31 December 1988

	Note	1988 £m	1987 £m
FIXED ASSETS			
TANGIBLE ASSETS	19	7.7	—
INVESTMENTS	20		
Shares in group companies		153.2	145.2
Loans to group companies		489.6	243.6
British Government securities		—	15.2
		650.5	404.0
CURRENT ASSETS			
DEBTORS			
Deferred taxation	12	2.5	2.4
Tax recoverable		11.5	2.9
Amounts owed by group companies		239.0	282.8
Other debtors		2.4	1.0
CASH AT BANK AND IN HAND		21.7	170.9
		277.1	460.0
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR			
Amounts owed to group companies		29.7	23.1
Other creditors		15.4	5.2
Bank loans and overdrafts	9	—	67.2
Final dividend		97.9	82.4
		143.0	177.9
NET CURRENT ASSETS		134.1	282.1
TOTAL ASSETS LESS CURRENT LIABILITIES		784.6	686.1
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR			
Amounts owed to group companies		324.4	233.6
Other borrowings	9	100.0	100.0
		360.2	352.5
CAPITAL AND RESERVES			
Called up share capital	8	92.0	91.4
Share premium	7	36.3	21.3
Capital reserve	7	137.4	191.2
Revaluation reserve	7	—	0.4
Profit and loss account	18	94.5	48.2
		360.2	352.5

The accounts on pages 25 to 42 were approved by the board of directors on 11 April 1989

The Lord Hunt of Tanworth, Chairman

F B Corby, Director and Chief Executive

SHAREHOLDERS' SOURCE AND APPLICATION OF FUNDS

year ended 31 December 1988

	1988 £m	1987 £m
MOVEMENTS IN SHAREHOLDERS' CAPITAL AND RESERVES		
Profit attributable to shareholders after tax	231.5	174.5
Increase/(decrease) in unrealised appreciation of investments		
- insurance companies	20.2	(80.1)
- other activities	8.1	(23.1)
Increase in reserves	29.0	28.0
Issues of shares (net of expenses)	15.6	22.1
Dividends†	(147.5)	(124.4)
Goodwill written off	(54.9)	(72.0)
	102.0	(75.0)
INCREASE/(DECREASE) IN NET ASSETS		
INVESTMENTS		
Net cash invested	13.2	92.3
Realised and unrealised gains/(losses)		
- insurance companies	54.3	(22.6)
- other activities	14.3	(5.1)
Exchange gains/(losses) and other movements	24.8	(136.9)
	106.6	(72.3)
TECHNICAL RESERVES		
General insurance fund	(49.3)	(1.8)
Outstanding claims	(49.0)	0.5
	(98.3)	(1.3)
OTHER ASSETS/LIABILITIES		
Fixed assets	33.1	14.1
Debtors	64.9	49.1
Net tax recoverable	9.8	(1.1)
Other borrowings	(83.4)	(232.2)
Other creditors	(22.5)	(10.0)
Minority interests	(1.5)	5.0
	0.4	(175.1)
NET LIQUID FUNDS		
Bank balances and cash	(5.1)	(10.0)
Bank loans and overdrafts	98.4	183.7
	93.3	173.7
	102.0	(75.0)
SHAREHOLDERS' CAPITAL AND RESERVES		
Shareholders' capital and reserves at 1 January	506.3	581.3
Movement for year (see above)	102.0	(75.0)
Shareholders' capital and reserves at 31 December	608.3	506.3

† Dividends paid in the year totalled £132.0m (£111.0m). The figure shown in the statement is the amount provided in the accounts for the current year's dividend.

GROUP ACCOUNTING POLICIES

A) DISCLOSURE REQUIREMENTS

The consolidated accounts are prepared in accordance with the provisions of section 259 of, and Schedule 9 to, the Companies Act 1985 which cover the disclosures applicable to insurance companies. The balance sheet of the Company is prepared in accordance with the provisions of Schedule 4, which apply to companies generally. The Company has taken advantage of the exemption under section 228 of the Companies Act 1985 from presenting its own profit and loss account.

B) BASIS OF CONSOLIDATION

The group accounts incorporate the assets, liabilities and results of the Company and all its significant subsidiaries.

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.

C) 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 and retained profit.

D) GOODWILL

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

E) 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 timing differences other than those considered likely to continue into the foreseeable future. Deferred taxation has not been provided on earnings retained overseas and no provision is made for tax which would become payable if investments were realised at the values shown.

F) LONG-TERM BUSINESS

Premiums and annuity considerations are accounted for when due, except for unit-linked policies where premiums are accounted for when the liabilities arising from those premiums are created.

Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid. Death claims and all other claims are accounted for when notified.

For non-linked business, realised gains and losses and taxes thereon are carried to investment reserve. Unrealised gains and losses are carried to revaluation reserve. Transfers are made from time to time between investment reserve and the long-term business revenue account or insurance fund. In the life business funds of certain subsidiaries transfers are made from revaluation reserve to the revenue account. The amount of any transfer is determined by the directors of the companies concerned.

For linked business investment gains and losses are dealt with in the revenue account.

Long-term profits are allocated from surpluses determined as the result of annual actuarial valuations. For non-linked business, the amount of surplus allocated to shareholders is determined by the directors of the companies concerned in accordance with the Articles of Association. For linked and long-term accident and disability business the whole of the surplus arising is allocated to shareholders.

The transfer of shareholders' profit from the long-term business revenue accounts to the profit and loss account is grossed up by the attributable tax. The transfer comprises income subject to corporation tax and franked investment income.

G) GENERAL INSURANCE BUSINESS

(i) Underwriting results

The underwriting results of general insurance business are determined on an annual basis, except:

- Fire and accident proportional reinsurance business is dealt with mainly on a deferred annual basis.
- Marine, aviation and transport business and accident non-proportional reinsurance business are dealt with mainly on a three year funded basis. Fire non-proportional business is dealt with on a funded basis, profits being recognised after one to three years.

For business dealt with on an annual basis, premiums written are accounted for in the year in which the risks are assumed. The unearned proportion of the premiums and acquisition costs incurred in writing business relating to periods of risk beyond the financial year end are deferred to subsequent accounting periods. Claims

comprise paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions.

For all funded business and business dealt with on a deferred annual basis, premiums and claims are recorded in the accounting period in which they are notified.

(ii) Insurance provisions

For business dealt with on an annual basis, unearned premiums are calculated mainly on a proportional basis having regard to the premiums in force each month. The proportion of commission and other acquisition expenses relating to unearned premiums is carried forward as deferred acquisition expenses. For business dealt with on a deferred annual basis, unearned premiums are calculated on the basis of individual contract terms.

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 costs of all outstanding liabilities, including claims incurred but not reported and the claims expected on unexpired risks. *exclude funded business and*

Outstanding claims comprise provisions for all claims incurred up to but not paid at the financial year end, whether reported or not, ~~and the balance of open years' accounts for funded business.~~

Provisions are made as necessary for any estimated future losses relating to unexpired risks at the financial year end and for underwriting losses expected to arise on open years' accounts for funded business.

Certain liabilities are discounted to take account of the estimated periods over which premiums are received and claims paid.

H) INVESTMENT INCOME

Investment income is shown after deducting interest payable and directly related investment expenses.

Income arising on assets matching general insurance technical reserves is credited to the general insurance revenue account.

I) OTHER INCOME

Estate agency income earned on property sales is recognised on the date of exchange of contracts. Initial charges on the sale of unit trusts are credited to income on the associated contract date. Other investment management fee income is recognised on an accruals basis.

J) INVESTMENT GAINS AND LOSSES OF GENERAL INSURANCE AND SHAREHOLDERS' FUNDS

For general insurance business and shareholders' funds of insurance subsidiaries, realised and unrealised gains and losses are averaged over five years. Those gains and losses relating to assets matching general insurance technical reserves are dealt with in the general insurance revenue account; other gains and losses are dealt with in the profit and loss account. The averaged amount of unrealised investment gains and losses is transferred to revaluation reserve from the profit and loss account and excluded from profit before tax. Attributable tax on realised gains is included in the taxation charge in the profit and loss account. Realised net gains not yet recognised in the general insurance revenue account or the profit and loss account are shown in the consolidated balance sheet net of taxation as a deferred realised gains reserve. Unrealised appreciation on investments held at the year end is shown in the revaluation reserve in the consolidated balance sheet.

For non-insurance companies, realised gains and losses for the year are dealt with in the profit and loss account. Unrealised gains and losses for the year are carried directly to revaluation reserve.

K) INVESTMENTS

Listed investments are shown at market value. Properties are shown at open market value. Unlisted investments and long-term mortgages and loans are shown at directors' valuation. Short-term loans are shown at par. Shares in subsidiaries are shown at cost.

L) FIXED ASSETS AND DEPRECIATION

Major items of capital expenditure on computer equipment, vehicles, furniture and office equipment are capitalised and depreciated by equal annual instalments over their estimated useful lives.

M) LEASED ASSETS

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

N) RETIREMENT BENEFIT SCHEMES

Contributions to pension funds 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 directors' and employees' pension schemes.



NOTES ON THE ACCOUNTS

1 LONG-TERM BUSINESS REVENUE ACCOUNT	Note	1988 £m	1987 £m
Gross premium income		3,797.3	3,065.3
<i>Less</i> reinsurance		79.3	42.2
Net premium income		3,718.0	3,023.1
Investment income	10	1,643.9	1,346.2
Transfer from investment and revaluation reserves		714.4	679.2
Increase/(decrease) in value of investments related to linked business		252.3	(13.5)
		6,328.6	5,035.0
<hr/>			
Gross claims and surrenders		2,342.3	2,033.3
<i>Less</i> reinsurance		61.4	30.3
Net claims and surrenders		2,280.9	2,003.0
Commission and expenses		837.3	664.2
Tax	12	79.6	114.7
Increase in insurance liability		1,875.1	1,152.2
		5,072.9	3,934.1
<hr/>			
Surplus for distribution		1,255.7	1,100.9
Policyholders' bonuses		1,120.3	992.6
Shareholders' profit after tax		135.4	108.3
Shareholders' tax		65.0	45.6
Transfer of shareholders' profit and attributable tax to the consolidated profit and loss account		200.4	153.9
<hr/>			
The shareholders' profits from long-term business are analysed as follows:			
Life (non-linked) - Ordinary business		139.1	110.5
- Industrial business		40.1	34.5
Linked business		9.7	(0.8)
Long-term accident and disability		11.5	9.7
		200.4	153.9
<hr/>			
2 GENERAL INSURANCE BUSINESS REVENUE ACCOUNT	Note	1988 £m	1987 £m
Gross premiums written		995.6	969.2
<i>Less</i> reinsurance		95.9	109.9
Net premiums written		899.7	859.3
<i>Less</i> increase in insurance liability		53.8	77.6
		845.9	781.7
<hr/>			
Gross claims		622.2	661.2
<i>Less</i> reinsurance		87.9	120.2
Net claims		534.3	541.0
Commission		156.3	148.3
Expenses		187.7	170.2
Deferred acquisition expenses		(4.8)	(5.0)
		873.5	854.5
<hr/>			
Underwriting result	5	(27.6)	(72.8)
Investment income	10	96.3	92.1
Investment gains <i>net gain</i>	5	18.7	21.7
Transfer to consolidated profit and loss account		87.4	41.0

3 SHAREHOLDERS' OTHER INCOME

	Note	1988 £m	1987 £m
Investment income	10	56.3	62.3
Investment gains of insurance companies	5	33.2	32.3
Realised investment gains of non-insurance companies		6.2	7.7
Corporate expenditure		(12.6)	(16.9)
Interest on borrowings		(39.6)	(37.3)
		43.5	48.1
Trading profits/(losses) from:			
Investment management (UK)		8.0	6.4
Unit trusts and PEPs		(3.9)	6.1
Estate agency		17.2	4.5
		64.8	65.1

4 BALANCE SHEETS

	Note	Long-term business		Shareholders' and general insurance	
		1988 £m	1987 £m	1988 £m	1987 £m
Investments					
Ordinary shares		11,320.7	10,422.4	608.1	550.4
Properties		5,097.3	4,052.2	58.3	47.6
British Government securities		2,719.8	2,534.6	196.8	279.7
Other fixed income securities		5,891.5	4,394.4	707.7	661.3
Mortgages and loans		1,369.5	1,056.9	54.2	48.2
Interest bearing deposits		951.2	1,067.7	434.0	365.3
		27,350.0	23,528.2	2,059.1	1,952.5
Other assets					
Fixed assets		11.4	5.5	78.5	45.4
Tax recoverable		87.4	10.6	5.3	6.3
Debtors		844.8	589.5	582.1	517.2
Bank balances and cash		8.5	7.1	7.8	12.9
		952.1	612.7	673.7	581.8
Total assets		28,302.1	24,140.9	2,732.8	2,534.3
Less					
Other liabilities and provisions					
Outstanding claims		115.9	106.5	399.9	350.9
Other creditors		634.4	419.6	323.1	316.1
Bank loans and overdrafts	9	264.5	445.3	11.8	110.2
Other borrowings	9	130.4	71.5	420.1	336.7
Taxation		47.0	42.5	5.7	10.0
Deferred taxation		22.5	23.3	(11.2)	(4.7)
Final dividend				97.9	82.4
		1,214.7	1,108.7	1,247.3	1,201.6
Total assets less liabilities		27,087.4	23,032.2	1,485.5	1,332.7
Less					
General insurance business fund	6			874.9	825.6
Minority interests				2.3	0.8
		27,087.4	23,032.2	608.3	506.3
Long-term insurance funds and reserves					
Insurance funds		19,318.0	16,033.8		
Investment and revaluation reserves		7,769.4	6,998.4		
Shareholders' capital and reserves				608.3	506.3
		27,087.4	23,032.2	608.3	506.3



5 ANALYSIS OF RESERVES

	Revaluation reserve £m	Deferred realised gains reserve £m	Retained profit £m	Total £m
Balance at beginning of year	221.4	60.4	111.8	393.6
Profit for the year			84.0	84.0
Investment gains <i>retained</i>				
Investment gains of insurance companies	20.2	34.1		54.3
Unrealised investment gains of non-insurance companies	8.1			8.1
Tax on realised gains		(6.8)		(6.8)
Transfer to general insurance business revenue account	(1.6)	(17.1)		(18.7)
Transfer to shareholders' other income	(11.4)	(21.8)		(33.2)
Tax on transfer of realised gains		12.7		12.7
Transfer from profit and loss account	13.0			13.0
Goodwill written off	(54.9)			(54.9)
Other movements (including exchange adjustments)			27.9	27.9
Balance at end of year	194.8	61.5	223.7	480.0

The following amounts have been charged/(credited) against retained profit of the Group:

	1988 £m	1987 £m
General insurance provisions		
Asbestosis and other exceptional claims arising on business written in previous years	6.5	9.2
Other		
Financing cost related to the purchase of Jackson National Life Insurance Company	—	8.8
Profit on sale of the Group's interest in The Prudential Assurance Company of South Africa Limited	—	(16.5)
	—	(7.7)

6 GENERAL INSURANCE BUSINESS

The general insurance business fund comprises the following:

	1988 £m	1987 £m
Net unearned premiums	313.8	322.4
Marine and aviation fund	59.7	56.3
Reinsurance fund	522.0	467.2
Other funds	38.7	33.2
	934.2	879.1
Deferred acquisition expenses	(59.3)	(53.5)
	874.9	825.6

Outstanding claims comprise the following:

	1988 £m	1987 £m
Gross outstanding claims	445.4	422.7
Reinsurance recoverable	(45.5)	(71.8)
	399.9	350.9

Discounting has been applied to accident non-proportional reinsurance and discrete liability class direct business at the rate of 5%. These liabilities have been discounted over their mean terms, of between two and seven years. The overall effect of discounting is to reduce the general insurance business fund at 31 December 1988 by £70.4m (£69.2m). There was no effect on Group profit before tax. For 1987, the effect of discounting was to increase profit before tax by £12.0m.

7 SHARE PREMIUM AND CAPITAL RESERVE

	Group share premium £m	Company share premium £m	Company capital reserve £m	Company revaluation reserve £m
Balance at beginning of year	21.3	21.3	191.2	0.4
Arising on issue of shares during the year	16.7	16.7	—	—
Expenses of debenture issue (net of tax relief)	(1.7)	(1.7)	—	—
Transfer to profit and loss account on sale of investments	—	—	—	(0.4)
Write-off of amount owed by a subsidiary company	—	—	(53.8)	—
Balance at end of year	36.3	36.3	137.4	—

The ~~write-off of~~ ^{written off} amount owed by a subsidiary company represents goodwill arising in the current year on purchases of estate agency businesses by the subsidiary which have been financed by the Company.

8 SHARE CAPITAL

The Company's authorised share capital is £120,000,000 in 2,400,000,000 shares of 5p each of which 1,840,467,559 shares have been allotted, called up and fully paid.

During the year the Company issued shares as follows:

	Number of shares	Consideration £
Shares issued to acquire estate agency businesses	7,563,149	12,874,876
Allotments under the Prudential Savings-Related Share Option Scheme	3,977,895	2,975,262
Allotments under the scrip dividend election	934,925	1,438,850

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

	Number of shares	Option price
Options ordinarily exercisable		
1989 to 1990	5,018,353	71.9p
1989 to 1991	706,955	80.3p
1990 to 1992	2,194,360	105.0p
1991 to 1993	1,163,495	160.9p
1992 to 1994	1,664,645	157.2p
1993 to 1995	1,928,540	149.0p

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

	Number of shares	Option price
Options ordinarily exercisable		
1989 to 1995	4,289,100	128.2p
1989 to 1996	158,850	177.1p
1989 to 1996	2,233,310	169.6p
1989 to 1996	79,190	168.4p
1990 to 1997	543,000	175.2p
1990 to 1997	4,055,500	199.0p
1991 to 1998	2,290,900	164.0p
1991 to 1998	32,100	166.4p
1991 to 1998	710,980	150.0p
1991 to 1998	77,820	153.0p

The option prices shown above have been adjusted for the effects of the rights issue made during 1986 and take account of the sub-division of the shares effected on 25 May 1988.

9 BORROWINGS

	Company		Consolidated long-term		Consolidated shareholders' and general insurance	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Bank loans and overdrafts (repayable on demand)	—	67.2	264.5	445.3	11.8	110.2
Loans secured						
Canadian dollar borrowings at interest rates between 10% and 12%	—	—	7.6	—	—	—
Australian dollar borrowings at various interest rates	—	—	78.3	54.5	—	—
US dollar mortgage 1989-1991 at 8%	—	—	12.7	12.7	—	—
Other	—	—	—	—	1.3	3.2
Loans unsecured						
SF200m 4.75% Guaranteed Bonds 1988-1998	—	—	—	—	77.9	—
DM300m 6% Guaranteed Notes 1987-1997	—	—	—	—	92.6	89.1
£150m 9.375% Guaranteed Bonds 2007	—	—	—	—	150.0	150.0
£100m Floating Rate Notes 1995	100.0	100.0	—	—	98.0	94.4
Other	—	—	31.8	4.3	0.3	—
Total other borrowings	100.0	100.0	130.4	71.5	420.1	336.7
Total borrowings	100.0	167.2	394.9	516.8	431.9	446.9

Borrowings are repayable as follows:

In one year or less	—	67.2	352.7	465.8	12.1	111.1
Between one and two years	—	—	24.3	26.5	—	0.3
Between two and five years	—	—	17.2	24.5	1.3	2.0
After five years	100.0	100.0	0.7	—	418.5	333.5
	100.0	167.2	394.9	516.8	431.9	446.9

The DM300m 6% Guaranteed Notes 1987-1997 have been swapped for US\$167.5m with interest payable at 9.64% in respect of half of the principal and at floating rates in respect of the balance.

The Company has lent £100m to Prudential Finance BV on terms equivalent to those applying to the Floating Rate Notes 1995. Prudential Finance BV swapped this liability for US\$177.3m with interest payable at 9.86% on US\$79m of the principal and at 9.797% in respect of the balance.

On 7 January 1988 Prudential Finance BV issued SF200m 4.75% Guaranteed Bonds 1988-1998. The proceeds, which were swapped for US\$141m with interest payable at 9.97%, were lent by debenture to the Company to repay short-term borrowings.

10 INVESTMENT RETURN

	Long-term business		Shareholders' and general insurance	
	1988 £m	1987 £m	1988 £m	1987 £m
Investment income	1,725.1	1,415.2	155.9	156.8
Less investment expenses	81.2	69.0	3.3	2.4
	1,643.9	1,346.2	152.6	154.4
Current year actual investment gains				
unrealised	939.6	94.3	28.3	(92.9)
realised	627.0	589.0	40.3	65.2
Total investment return	3,210.5	2,029.5	221.2	126.7

Dealt with as follows:

Profit for the year				
Investment income				
General insurance business			96.3	92.1
Shareholders			56.3	62.3
Realised investment gains of non-insurance companies			6.2	7.7
Deferred realised gains reserve				
Realised investment gains of insurance companies			34.1	57.5
Revaluation reserve				
Unrealised investment gains of insurance companies			20.2	(80.1)
Unrealised investment gains of non-insurance companies			8.1	(12.8)
Long-term business revenue account	1,643.9	1,346.2		
Long-term business investment and revaluation reserves	1,566.6	683.3		
	3,210.5	2,029.5	221.2	126.7

11 INTEREST PAID

	Long-term business		Shareholders' and general insurance	
	1988 £m	1987 £m	1988 £m	1987 £m
Interest on loans repayable within 5 years	42.8	11.6	1.0	16.4
Interest on other loans	—	—	39.4	22.8
	42.8	11.6	40.4	39.2

12 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 26 and in the long-term business revenue account (see note 1 on page 32). UK Corporation tax has been charged at 35%.

	Long-term business		Shareholders' and general insurance	
	1988 £m	1987 £m	1988 £m	1987 £m
Corporation tax	7.9	13.9	29.0	12.5
Double taxation relief	(0.5)	(2.0)	(9.3)	(7.2)
	7.4	11.9	19.7	5.3
Taxation charged on averaged realised gains credited to profit and loss account (see note 5)			12.7	13.6
Tax on franked investment income	58.8	64.5	4.0	5.4
Overseas tax	27.8	28.0	16.0	12.0
	94.0	104.4	52.4	36.3
Adjustments re prior years	(13.4)	9.2	(2.7)	0.7
	80.6	113.6	49.7	37.0
Deferred tax				
Current year	2.6	1.1	(9.7)	(15.7)
Prior years	(3.6)	—	2.9	0.8
	79.6	114.7	42.9	22.1
Shareholders' attributable tax	(65.0)	(45.6)	65.0	45.6
	14.6	69.1	107.9	67.7

Taxation charged in the year against reserves amounts to £37.4m (£97.9m), as follows:

	Share premium account (Re debenture issue expenses)		Revaluation reserve		Other reserves	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Current tax	(0.9)	(2.6)	2.4	—	35.7	83.2
Deferred tax	—	—	—	4.5	0.2	12.8
	(0.9)	(2.6)	2.4	4.5	35.9	96.0

Deferred taxation in the balance sheet of the Company relates to short-term timing differences. Deferred taxation in the consolidated balance sheet relates to:

	Potential liability	Amount provided	Potential liability	Amount provided
	1988 £m	1988 £m	1987 £m	1987 £m
Short-term timing differences	37.6	33.8	44.3	33.8
Capital allowances	11.7	(4.0)	11.8	(1.2)
General insurance business reserves	(26.6)	(18.5)	(21.1)	(14.0)
	22.7	11.3	35.0	18.6

The maximum tax payable if investments were disposed of at the values shown based on a Corporation tax rate of 35% and a reduced rate applicable to life policyholders' chargeable gains of 30%, is £1,090m (£990m). No provision has been made in the accounts for these amounts.



13 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)
Prudential Corporation Canada*	Common Shares C\$1	Canada
The Prudential Assurance Company Limited	Shares 25p	England
Prudential Life of Ireland Limited*	Ordinary Shares IR£1 (95 ⁰⁰)	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
Prudential Holborn Limited*	Ordinary Shares £1	England

* owned by a subsidiary of the Company.

The principal activity of these subsidiaries is insurance with the exception of Prudential Portfolio Managers Limited, an investment management company, Prudential Holborn Limited, a financial services 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.

14 MAJOR SHAREHOLDINGS

The Group holds shares in 41 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 46 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, 31 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.

15 PRUDENTIAL PROPERTY SERVICES LIMITED

During the year Prudential Property Services Limited acquired 61 estate agency businesses. The total cost of acquisition amounted to £55.1m of which £37.7m is being met in cash and the balance of £17.4m by the issue of shares in the Company.

The consideration for certain acquisitions is being discharged in instalments. At 31 December 1988 £14.2m of the total was outstanding, of which £9.0m will be met by further issues of shares in the Company.

16 AUSTRALASIAN ACQUISITIONS

The Prudential Assurance Company Limited has agreed to acquire the Australian and New Zealand life assurance interests of Aetna Life and Casualty Limited for a cash consideration of £46.7m, subject to adjustment to reflect the audited net assets being acquired.

The Prudential Assurance Company Limited has also agreed to acquire Investors Life Insurance Company of Australia Limited for a cash consideration of £7.8m.

The agreements became unconditional on 23 February 1989 and 10 March 1989 respectively, the effective dates of the acquisitions. The interests acquired will be held as assets of the long-term insurance fund of The Prudential Assurance Company Limited.

17 COMMITMENTS

The Group is committed to capital expenditure not provided of £26.6m (£9.2m) and expenditure authorised but not contracted of £18.6m (£25.0m) in respect of purchases of estate agency businesses and fixed assets (other than investments).

18 PROFIT OF THE COMPANY	1988 £m	1987 £m
Profit of the Company for the year after tax	193.8	127.1
<i>Less</i> dividends	147.5	124.4
Movement in retained profit of the Company	46.3	2.7

19 TANGIBLE ASSETS OF THE COMPANY	£m
Cost	
Balance at beginning of year	—
Additions	8.2
Balance at end of year	8.2
Depreciation	
Balance at beginning of year	—
Provided during year	0.5
Balance at end of year	0.5
Net book value at end of year	7.7
Net book value at beginning of year	—

20 INVESTMENTS OF THE COMPANY	British Government securities £m	Shares in group companies £m	Loans to group companies £m
Market value at beginning of year	15.2		
<i>Less</i> unrealised appreciation at beginning of year	(0.4)		
Cost at beginning of year	14.8		
Additions at cost	94.1		
Sales at cost	(108.9)		
Cost at end of year	—		
Unrealised appreciation at end of year	—		
Market value at end of year	—		
		145.2	243.6
Balance at beginning of year		—	118.8
Re-classification of short-term loans		8.0	127.2
Advances of new capital		153.2	489.6
Balance at end of year			

21 EXCHANGE RATES

The principal rates of exchange used for translation are:

	Currency	Value of Sterling	
		1988	1987
Australia	A\$	2.115	2.600
Belgium	BF	67.550	62.350
Canada	C\$	2.154	2.444
Republic of Ireland	IR£	1.201	1.120
United States of America	US\$	1.809	1.878



22 EMOLUMENTS OF DIRECTORS

The aggregate amount of the emoluments of the directors of the Company for the year was £1,801,168 (£1,327,532), of which £286,993 (£269,183) was in respect of services as a director. The emoluments of the Chairman amounted to £60,000 (£55,863). The emoluments of the highest paid director amounted to £241,985 (£197,279).

Emoluments		Number of directors	
£	£	1988	1987
1,001 to	5,000	—	2
5,001 to	10,000	1	—
10,001 to	15,000	8	8
15,001 to	20,000	1	2
20,001 to	25,000	3	2
25,001 to	30,000	1	1
55,001 to	60,000	1	1
80,001 to	85,000	1	—
115,001 to	120,000	—	2
125,001 to	130,000	—	1
130,001 to	135,000	—	1
145,001 to	150,000	2	—
150,001 to	155,000	1	—
155,001 to	160,000	1	—
160,001 to	165,000	1	—
165,001 to	170,000	—	1
175,001 to	180,000	1	—
195,001 to	200,000	—	1
240,001 to	245,000	1	—

23 EMOLUMENTS OF SENIOR EMPLOYEES

Employees of the Group in the United Kingdom whose emoluments exceeded £30,000:

Emoluments		Managerial & administrative		Commission earning	
£	£	1988	1987	1988	1987
30,001 to	35,000	291	323	391	250
35,001 to	40,000	161	132	197	98
40,001 to	45,000	80	52	84	51
45,001 to	50,000	48	25	36	27
50,001 to	55,000	21	14	31	8
55,001 to	60,000	19	19	17	7
60,001 to	65,000	24	8	9	4
65,001 to	70,000	8	7	5	1
70,001 to	75,000	7	8	2	—
75,001 to	80,000	9	3	1	1
80,001 to	85,000	10	—	1	1
85,001 to	90,000	6	—	—	2
90,001 to	95,000	4	1	—	—
95,001 to	100,000	2	—	—	—
100,001 to	105,000	1	—	—	—
105,001 to	110,000	2	2	—	—
110,001 to	115,000	1	2	—	—
115,001 to	120,000	2	—	—	—
120,001 to	125,000	1	—	—	—

24 DIRECTORS' SHAREHOLDINGS

	Interest in shares of 5p each of the Company		The Prudential Savings- Related Share Option Scheme		The Prudential Executive Share Option Scheme	
	31 Dec 1988	1 Jan 1988† (or appoint- ment if later)	31 Dec 1988	1 Jan 1988† (or appoint- ment if later)	31 Dec 1988	1 Jan 1988† (or appoint- ment if later)
Lord Hunt of Tanworth	13,250	13,250				
M D Abrahams	12,000	12,000				
R E Artus	15,595	10,000		5,420	401,360	309,360
Mrs M E Baker	2,500	2,500				
Lord Butterfield	12,000	12,000				
Lord Carr of Hadley	12,000	12,000				
F B Corby	12,420	7,000	3,520	8,940	487,205	487,205
D S Craigen	12,000	12,000				
Sir Ronald Dearing	2,500	2,500				
D E Fellows (retired 31 December 1988)	12,000	12,000			182,385	182,385
J A Freeman	6,359	6,250	6,670	6,670	379,885	270,385
Sir Victor Garland	2,500	2,500				
Sir Trevor Holdsworth	5,043	2,500				
Sir Alex Jarratt	12,000	12,000				
M J Lawrence	2,500	2,500	4,830		365,500	
J Lock	2,500	2,500	10,485	10,485	394,085	340,385
B Medhurst	13,210	12,000	9,485	6,670	358,385	265,885
P F Moody	12,000	12,000				
J A S Neave	1,404,695	1,404,695				
M G Newmarch	3,052	3,000	10,860	10,860	479,885	351,385
J E Ramsden	14,400	14,400				
F G Wood	19,736	14,070	3,520	8,940		

Notes

Except as stated above none of the directors held an interest either at the beginning of the year or at the date of their appointment, if later, or at the end of the year in any shares in or debentures of the Company or its subsidiaries.

†The interests disclosed at 1 January 1988 have been adjusted to take account of the sub-division of the shares effected on 25 May 1988.

All interests disclosed above are beneficial interests except for 1,000 shares held by Mr B Medhurst at 31 December 1988.

There has been no change in directors' shareholdings between 31 December 1988 and 31 March 1989.



25 LOANS TO AND TRANSACTIONS WITH DIRECTORS AND OFFICERS

	Liability at 31 Dec 1988	Max liability during 1988	Liability at 1 Jan 1988
	£	£	£
House purchase loans			
R E Artus	29,170	30,000	30,000
F B Corby	25,000	25,000	25,000
D E Fellows (retired 31 December 1988)	35,000	35,000	35,000
J A Freeman	30,000	30,000	30,000
J Lock	50,000	50,000	50,000
B Medhurst	30,000	30,000	30,000
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	7,938	7,025

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 15.25%, 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 loan is secured on an endowment policy and repayment is made from the maturity monies or earlier at the borrower's option, on terms available to all policyholders. The rate of interest applicable on 31 December 1988 was 13%.

There is no interest due and unpaid at 31 December 1988 on any of the above loans.

In 1987 the Company and Mr Newmarch jointly purchased a residence in London at a total price (excluding the expenses of purchase) of £772,500, of which Mr Newmarch contributed £225,000. The property is held by Prudential Leasing Services Limited (a wholly owned subsidiary of the Company) and Mr Newmarch under the terms of a Trust Deed which apportions the expenses of maintenance and the proceeds of sale of the premises in the same proportions in which the purchase price was shared.

No other contract of significance subsisted at any time during the year in which a director is or was, for Stock Exchange purposes, materially interested.

26 AUDITORS' REMUNERATION

The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to £1,843,000 (£1,608,000).

FIVE YEAR REVIEW

SUMMARY OF RESULTS	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
Trading profit before tax from					
Long-term business	200.4	153.9	145.5*	137.7*	136.1*
General insurance business	87.4	41.0	18.3	(53.4)	(79.9)
Shareholders' other income	64.8	65.1	87.1	25.8	21.8
Total trading profit before tax	352.6	260.0	250.9	110.1	78.0
Transfer to revaluation reserve	(13.0)	(17.6)	(44.4)	not available	
Profit for the year before tax and minority interests	339.6	242.4	206.5	110.1	78.0
Tax	107.9	67.7	71.3	31.7	31.9
Minority interests	0.2	0.2	1.1	1.0	0.9
Profit attributable to shareholders	231.5	174.5	134.1	77.4	45.2
Dividends	147.5	124.4	105.2	78.3	67.1
Transfer to/(from) retained profit	84.0	50.1	28.9	(0.9)	(21.9)
SHARE STATISTICS					
Earnings per share	12.6p	9.6p	7.9p	4.9p	2.9p
Dividend per share	8.0p	6.8p	5.8p	5.0p	4.3p
Market price at 31 December	152.5p	164.2p	141.6p	147.3p	95.4p
INVESTMENTS AT MARKET VALUE					
Long-term business	27,350.0	23,528.2	22,741.1	17,808.5	16,963.3
Shareholders' and general insurance business	2,059.1	1,952.5	1,974.7	1,395.6	1,270.5
Total investments	29,409.1	25,480.7	24,715.8	19,204.1	18,233.8
RESERVES					
Long-term funds and reserves	27,087.4	23,032.2	22,476.4	17,437.1	16,525.4
General insurance business fund	874.9	825.6	823.8	712.4	719.2
Shareholders' capital and reserves	608.3	506.3	581.3	554.9	540.0

* Including non-recurrent amounts arising from special reversionary bonuses.

Earnings per share, dividend per share and share prices take account of the sub-division of the shares effected on 25 May 1988 and, where necessary, have been adjusted for the rights issue made during 1986.

Figures have been restated for material changes in accounting policies except for 1985 and earlier years which have not been restated for the following:

The accounting policy for investment gains in the general insurance and shareholders' funds of insurance companies was changed so as to include total gains (averaged over five years) in the general insurance business revenue account and profit and loss account. Previously such gains were dealt with in reserves.

The allocation of investment return between general insurance and shareholders' funds was changed so as to include the investment return on assets in excess of general insurance technical reserves in shareholders' other income.

FIVE YEAR REVIEW

continued

	1988 £m	1987 £m	1986 £m	1985 £m	1984 £m
LONG-TERM BUSINESS					
Ordinary long-term business					
New business annual premiums	431.7	294.5	253.7	229.5	269.4
New business single premiums	1,765.2	1,335.1	820.7	348.1	451.0
Revenue premium income	3,385.7	2,672.6	2,049.8	1,439.0	1,581.6
Transfer from investment and revaluation reserves	497.4	452.2	339.0	317.8	295.9
Commission and expenses	661.2	497.8	377.8	323.2	340.7
Investment income	1,369.2	1,090.3	915.3	824.5	824.8
Policyholders' bonuses	778.5	669.4	656.5*	595.9*	612.7*
Shareholders' profit before tax	160.3	119.4	110.9*	102.2*	95.1*
Industrial life business					
New business annual premiums	66.0	81.9	78.3	78.5	72.0
New business single premiums	15.8	4.2	0.8	0.6	0.1
Revenue premium income	411.6	392.7	373.4	355.3	338.4†
Transfer from investment and revaluation reserves	217.0	227.0	198.0	200.8	260.0
Commission and expenses	176.1	166.4	158.4	147.8	137.8
Investment income	274.7	255.9	264.6	246.6	232.8
Policyholders' bonuses	341.8	323.2	320.9*	332.4*	398.6*
Shareholders' profit before tax	40.1	34.5	34.6*	35.5*	41.0*
GENERAL INSURANCE BUSINESS					
Premiums written	995.6	969.2	967.3	905.6	959.3
Underwriting result	(27.6)	(72.8)	(99.9)	(131.6)	(161.4)
Investment income	96.3	92.1	86.1	78.2	81.5
Investment gains - averaged	18.7	21.7	32.1	not available	
Trading profit/(loss) before tax	87.4	41.0	18.3	(53.4)	(79.9)
Current year actual investment gains/(losses)					
realised	10.9	27.2	24.6	7.5	15.3
unrealised	(5.1)	(28.4)	15.8	25.4	0.3
SHAREHOLDERS' OTHER INCOME					
Investment income	56.3	62.3	61.5	27.5	24.2
Insurance company investment gains - averaged	33.2	32.3	40.7	not available	
Non insurance company investment gains	6.2	7.7	3.3	1.5	-
Trading profits from					
Investment management (UK)	8.0	6.4	1.4	0.9	0.7
Unit trusts and PEPs	(3.9)	6.1	4.6	0.7	(0.2)
Estate agency	17.2	4.5	(2.1)	(0.1)	-
Corporate expenditure	(12.6)	(16.9)	(9.9)	(3.8)	(2.8)
Interest on borrowings	(39.6)	(37.3)	(12.4)	(0.9)	(0.1)
Other income before tax	64.8	65.1	87.1	25.8	21.8
Current year actual insurance company investment gains/(losses)					
realised	23.2	30.3	27.2	13.8	14.5
unrealised	25.3	(51.7)	56.3	13.9	13.2

Figures for 1985 and earlier years have not been restated for the changes in accounting policy referred to in the note at the foot of page 43.

†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.

STATISTICAL ANALYSIS

BUSINESS OF THE GROUP

	Long-term business		General insurance business		Total	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Insurance						
Premium income						
United Kingdom						
UK Individual Division	1,283.5	1,090.6	428.4	400.6	1,711.9	1,491.2
Prudential Corporate Pensions	330.3	246.6			330.3	246.6
Prudential Holborn	83.2	126.1			83.2	126.1
Total United Kingdom	1,697.0	1,463.3	428.4	400.6	2,125.4	1,863.9
International	1,754.9	1,236.6	284.3	268.5	2,039.2	1,505.1
Mercantile and General Reinsurance	345.4	365.4	282.9	300.1	628.3	665.5
	3,797.3	3,065.3	995.6	969.2	4,792.9	4,034.5
<hr/>						
			1988 £m		1987 £m	
Investment Management (UK)						
Net new monies						
Segregated pension funds			380.2			1,194.7
Unit trusts and PEPs			(43.1)			507.2
Other funds			1.0			26.0
			338.1			1,727.9
<hr/>						
			1988 £m		1987 £m	
Estate Agency and Related Services						
Prudential Property Services -- fee income						
Residential property and mortgage services			115.7			73.3
Commercial property sales and services			9.2			5.8
Other services			32.1			22.6
			157.0			101.7
<hr/>						
			1988 £m		1987 £m	
Unit Trusts and PEPs						
Sales by field staff			36.7			365.6
Other sales			135.5			311.2
Total sales			172.2			676.8
Repurchases			(215.3)			(169.6)
Net investment			(43.1)			507.2



INVESTMENT MANAGEMENT

	Long-term business		Shareholders' and general insurance		Other funds under management		Total	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Market values of funds under management								
Ordinary shares	11,320.7	10,422.4	608.1	550.4	5,185.5	4,471.2	17,114.3	15,444.0
Properties	5,097.3	4,052.2	58.3	47.6	156.7	127.5	5,312.3	4,227.3
British Government securities	2,719.8	2,534.6	196.8	279.7	710.2	750.8	3,626.8	3,565.1
Other fixed income securities	5,891.5	4,394.4	707.7	661.3	213.9	399.7	6,813.1	5,455.4
Mortgages and loans	1,369.5	1,056.9	54.2	48.2	4.0	7.9	1,427.7	1,113.0
Interest bearing deposits	951.2	1,067.7	434.0	365.3	597.8	310.4	1,983.0	1,743.4
	27,350.0	23,528.2	2,059.1	1,952.5	6,868.1	6,067.5	36,277.2	31,548.2

	Long-term business		Shareholders' and general insurance		Other funds under management		Total	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Funds arising in the United Kingdom - net investment								
Ordinary shares	(183.3)	(27.9)	(13.6)	6.9	388.4	1,372.9	191.5	1,351.9
Properties	187.3	(43.1)	(2.9)	3.3	4.4	(30.1)	188.8	(69.9)
British Government securities	219.0	15.0	(78.1)	(15.1)	(112.0)	324.1	28.9	324.0
Other fixed income investments	337.0	359.2	(2.6)	(1.1)	(200.3)	100.9	134.1	459.0
Interest bearing deposits	(313.3)	228.9	23.4	7.1	317.1	131.5	27.2	367.5
	246.7	532.1	(73.8)	1.1	397.6	1,899.3	570.5	2,432.5

	Long-term business		Shareholders' and general insurance		Other funds under management		Total	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Funds arising overseas - net investment								
Ordinary shares	95.5	12.2	10.6	(13.5)	(7.8)	28.3	98.3	27.0
Properties	(77.2)	(5.7)	11.1	3.8	-	-	(66.1)	(1.9)
Fixed income investments	1,431.2	955.0	20.0	108.1	(0.2)	1.2	1,451.0	1,064.3
Interest bearing deposits	196.8	87.1	45.3	(7.2)	(13.4)	(4.4)	228.7	75.5
	1,646.3	1,048.6	87.0	91.2	(21.4)	25.1	1,711.9	1,164.9

LONG-TERM BUSINESS

	New business				Revenue		Shareholders' profit before tax	
	Annualised annual premiums		Single premiums		premium income		before tax	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
Analysis by territory								
United Kingdom								
Individual pensions	105.4	51.0	134.4	23.7	386.7	227.5	25.8	21.3
Corporate pensions	27.8	26.4	237.9	163.4	330.3	246.6	12.1	9.9
Endowment/annuity	139.6	135.8	29.5	18.2	808.0	758.4	92.6	74.8
Unit linked	14.9	19.4	97.2	164.8	172.0	230.8	3.8	(3.5)
Total United Kingdom	287.7	232.6	499.0	370.1	1,697.0	1,463.3	134.3	102.5

Australia	50.6	20.9	96.4	82.1	222.0	152.6	11.1	6.1
Canada	11.4	9.3	140.0	90.0	255.9	186.3	4.1	3.2
Republic of Ireland	6.0	5.4	30.4	66.3	50.2	84.4	3.1	3.2
USA	55.5	36.2	939.9	591.8	1,129.1	732.3	19.4	14.6
Other countries	20.7	21.8	14.7	9.5	97.7	81.0	3.4	2.4
Total International	144.2	93.6	1,221.4	839.7	1,754.9	1,236.6	41.1	29.5

Mercantile and General Reinsurance	65.8	50.2	60.6	129.5	345.4	365.4	25.0	21.9
Group Total	497.7	376.4	1,781.0	1,339.3	3,797.3	3,065.3	200.4	153.9

Analysis by type of business								
Life and annuity	434.6	316.2	1,532.8	948.7	3,253.5	2,426.9	184.1	138.5
Linked long-term	17.1	26.8	237.9	384.0	346.2	481.5	9.9	9.0
Permanent health	41.5	29.4	1.1	0.1	147.8	111.2	5.6	6.1
Other	4.5	4.0	9.2	6.5	49.8	45.7	0.8	0.3
Group Total	497.7	376.4	1,781.0	1,339.3	3,797.3	3,065.3	200.4	153.9

GENERAL INSURANCE BUSINESS

	Premiums written		Underwriting result		Investment return		Trading profit before tax	
	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m	1988 £m	1987 £m
	United Kingdom							
Home Service								
Domestic property	158.4	144.6	13.5	(8.9)	9.4	9.6	22.9	0.7
Motor	68.4	67.6	(0.1)	(3.5)	6.4	6.6	6.3	3.1
Total Home Service	226.8	212.2	13.4	(12.4)	15.8	16.2	29.2	3.8

Commercial and broker								
Personal lines	37.3	37.1	(1.7)	(6.2)	2.8	2.7	1.1	(3.5)
Commercial lines	164.3	151.3	(7.4)	(13.0)	18.4	19.6	11.0	6.6
Total Commercial and broker	201.6	188.4	(9.1)	(19.2)	21.2	22.3	12.1	3.1
Total United Kingdom	428.4	400.6	4.3	(31.6)	37.0	38.5	41.3	6.9

Canada	123.3	101.5	(8.5)	(6.6)	10.2	8.5	1.7	1.9
Belgium	55.4	57.1	(5.9)	(4.3)	9.1	11.3	3.2	7.0
London market and other countries	59.4	57.8	(5.6)	(9.2)	7.2	7.9	1.6	(1.3)
Marine and aviation	46.2	52.1	1.1	1.0	4.9	4.5	6.0	5.5
Total International	284.3	268.5	(18.9)	(19.1)	31.4	32.2	12.5	13.1

Mercantile and General Reinsurance								
Parent company								
Fire and accident proportional	111.5	119.0	(2.2)	(12.1)	11.9	12.6	9.7	0.5
Fire and accident non-proportional	51.7	51.6	(4.9)	(5.5)	17.6	18.3	12.7	12.8
Marine and aviation	34.4	42.4	(5.0)	(3.8)	4.4	4.0	(0.6)	0.2
Overseas subsidiaries	85.3	87.1	(0.9)	(0.7)	12.7	8.2	11.8	7.5
Total Mercantile and General Reinsurance	282.9	300.1	(13.0)	(22.1)	46.6	43.1	33.6	21.0
Group Total	995.6	969.2	(27.6)	(72.8)	115.0	113.8	87.4	41.0



GROUP MANAGEMENT

GROUP EXECUTIVE

EXECUTIVE DIRECTORS

BRIAN CORBY FIA

Group Chief Executive
Chairman, Prudential Assurance
Chairman, Mercantile and
General Reinsurance

RONALD ARTUS FSIA

Group Chief Investment Manager
Chairman, Prudential
Portfolio Managers
Chairman, Prudential
Property Services

ANTHONY FREEMAN FCA FCMA

Managing Director,
UK Individual Division

MICHAEL LAWRENCE FCA

Group Finance Director

JOHN LOCK FCII

Managing Director, Mercantile
and General Reinsurance

BRIAN MEDHURST FIA

Managing Director,
International Division

MICHAEL NEWMARCH

Chief Executive,
Prudential Portfolio Managers
Chairman, Prudential Holborn

CENTRAL SERVICES

MICHAEL LAWRENCE FCA

Group Finance Director

REGINALD PAGET FCCA

Group Taxation Manager

MICHAEL COLE

Group Taxation Manager (designate)

WILLIAM MILLS FCCA

Group Chief Accountant

DAVID WESTBY AIB FCT

Group Treasurer

HUGH JARVIS FIA

Group Chief Actuary

PETER CLARK FIA

DAVID LINNELL FIA FPMI

Group Deputy Actuaries

SHELLEY GREY LLB

Group Legal Adviser

ALAN BRAKEFIELD Solicitor

Group Property Legal Adviser

DONALD SIRKETT FIA

General Manager,
Group Strategic Planning

DAVID VEVERS

Group Public Affairs Manager

GEOFFREY KEEYS

General Manager, Personnel and
Administrative Services

ANDREW JONES

Group Personnel Policy Manager

NICHOLAS ALLISTON

Assistant General Manager,
Administrative Services

ERNEST MORRIS

Group General Manager,
Management Services

DEREK NELSON

Assistant General Manager,
Computer Operations

BARRY PAGE FCII

Assistant General Manager, Systems

UK INDIVIDUAL DIVISION

ANTHONY FREEMAN FCA FCMA

Managing Director

HOME SERVICE

KEITH BEDELL-PEARCE

Director and General Manager,
Field Operations and Marketing

JOHN SAVAGE FIA FPMI

Director of Administration

COLIN BLYTHE FCCA

Head of Finance

THOMAS BOARDMAN FIA

Life Administration Manager

ANTHONY BURGESS

Assistant General Manager,
Field Operations

JOHN COLLINS FCII

Deputy General Manager,
Field Operations

TERENCE MORLEY

Assistant General Manager,
Field Operations

TIMOTHY RICHARDS FIA

Planning and Development Manager

WILLIAM SCOTT FIPM

Assistant General Manager,
Field Staff Industrial Relations

TERENCE SHRIMPTON

National Sales Manager

ALAN SMITH FIA

National Operations Manager

WILLIAM THURSTON

Head of Personnel

MARK TRAYHORN FIA

General Insurance Manager

LAURENCE WARRILOW FIA

Life Actuary

DAVID WEST

Information Systems Manager

PETER WRIGHT FIA ACII

Valuation Actuary

COMMERCIAL AND BROKER

GENERAL INSURANCE

JOHN POWELL ACIB

Managing Director

GORDON HART FCII

Business Development Director

ANDREW PYE FCII

Marketing Director

PHILLIP SMITH FCMA

Finance Director

PRUDENTIAL HOLBORN

MICHAEL NEWMARCH

Chairman

ALAN WREN

Chief Executive

STEPHEN BESENT

Systems Director

JOHN BROWNE

Business Planning Director

DAVID CHEESEMAN FIA

Chief Actuary

JUSTIN HARRINGTON FCA

Finance Director

DAVID HARRISON FCCA

Administration Director

ANTHONY KEMPSTER MBA FCII ACIS

Marketing Director

MICHAEL NEVILL ACII

Sales Director

TREVOR PULLEN

Investment Director

PRUDENTIAL PROPERTY SERVICES

RONALD ARTUS FSIA
Chairman
JOSEPH BRADLEY ACMA
Managing Director
MICHAEL DUDLEY FCA
Finance Director
ANTHONY EKINS
Operations Director

PRUDENTIAL CORPORATE PENSIONS

MICHAEL NEWMARCH
Chairman
PETER NOWELL FIA
Chief Executive
RICHARD GAWTHORNE FCA
Finance Director
DAVID GREY
Systems Director
ROGER HUNT ACII FPMI
Marketing Director
MICHAEL SHELLEY FIA
Chief Actuary
GILES WEAVER FCA
Investment Director
ANTHONY KERSLAKE FIA
Assistant General Manager
ROBERT BRIDGES FCII FPMI
Sales Manager

MERCANTILE AND GENERAL REINSURANCE

JOHN LOCK FCII
Managing Director
PETER CRANE FCA FCIS
Executive Director
JOHN AUSTIN
MICHAEL HARVEY FCA
ROGER SANSOM FIA
General Managers
MICHAEL BROWN FIA ASA
Chief Actuary and General Manager
RONALD EDLIN ACIS
PETER EDWARDS FCII
COLIN FEWELL FCII
THOMAS MANLEY
LESLIE MCKINNES ACII
Assistant General Managers

AUSTRALIA

STEPHEN FRANCE FAII
Managing Director
(Mercantile and General
Australia Group)

CANADA

DONALD BATTEN FIIIC FIA^{rb} FAIC
President (Mercantile and General
Reinsurance Company of Canada)
PETER PATTERSON FSA FCIA
President, North American Life
Operations

SOUTH AFRICA

ANTHONY HART FFA AIA ASA
Managing Director (Mercantile and
General Reinsurance Company of
South Africa)

UNITED STATES

PAUL HAWKSWORTH
President (Mercantile and General
Reinsurance Company of America)
PETER PATTERSON FSA FCIA
President (Mercantile and General Life
Reinsurance Company of America)

PRUDENTIAL PORTFOLIO MANAGERS

RONALD ARTUS FSIA
Chairman
MICHAEL NEWMARCH
Deputy Chairman and Chief Executive
DEREK AUSTEN FCA
Finance Director
CHRISTOPHER CHEETHAM
Global Strategy Director
DAVID HANSON FIA
Administration Director
MICHAEL MALLINSON FRICS
Property Director
TREVOR PULLEN
Equities Director
GILES WEAVER FCA
Pensions Management Director

INTERNATIONAL DIVISION

BRIAN MEDHURST FIA
Managing Director
CHARLES BOUCHER FCA FCT
Finance Director
ADRIAN DALY FIA
General Manager
GRAHAM CLAY FIA
Assistant General Manager and Actuary
ROBIN BARRACLOUGH FCII
Assistant General Manager,
Property and Casualty

AUSTRALIA

BARRIE MARTIN AAII
Managing Director

BELGIUM

ETIENNE DIERCXSENS
Managing Director
(L'Escaut)

CANADA

JOHN ROWEN FIIIC
President,
Property and Casualty Operations
MICHAEL BECK FSA FCIA
President,
Life and Pensions Operations

REPUBLIC OF IRELAND

FRANK MACHUGH
Managing Director
(Prudential Life of Ireland)

UNITED STATES

DAVID PASANT
President and Chief Executive
(Jackson National Life)

NOTES

