

AC 16.

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

Incorporated and registered in England and Wales. Registered no. 15454

Registered office: 142 Holborn Bars, London EC1N 2NH

<b>CONTENTS</b>	<b>Page</b>
Directors	2
Directors' report	3-5
Profit and loss account	6-8
Statement of total recognised gains and losses	9
Reconciliation of movement in shareholders' funds	9
Balance sheet	10-11
Accounting policies	12-14
Notes on the accounts	15-24
Statement of directors' responsibility	25
Report of the auditors	26



**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Directors**

Sir Peter Davis (Chairman)  
K L Bedell-Pearce  
J W Bloomer  
D A Higgs  
P J Nowell  
J H Sutcliffe  
M E Tucker

**Secretary**

P R Rawson

**Auditors**

Price Waterhouse, London.

## THE PRUDENTIAL ASSURANCE COMPANY LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996

#### Principal activity and business review

The principal activities of the Company are transacting long-term insurance business in the United Kingdom, Hong Kong and New Zealand and personal lines general insurance business in the United Kingdom and Hong Kong. These activities will continue in 1997.

#### Subsidiary undertakings and branches

Particulars of the Company's principal subsidiary undertakings and branches at 31 December 1996 are shown on page 21 in note 13.

#### Accounts

The state of affairs of the Company at 31 December 1996 is shown in the balance sheet on pages 10 and 11. The profit and loss account appears on pages 6 to 8.

#### Dividends

An interim dividend for 1996 of £100m was declared on 17 December 1996. The directors have declared a final dividend for 1996 of £200m.

#### Certificates

The Company is able to give, and deposit with the Secretary of State, all those certificates which are required under The Insurance Companies (Accounts and Statements) Regulations 1996, in relation to the Company for 1996.

#### Payment policy

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

#### Directors

The present directors are shown on page 2.

Mr D A Higgs and Mr M E Tucker were appointed directors on 4 March 1996 and Mr J H Maxwell ceased to be a director on 30 November 1996.

There were no other changes during the year.

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (continued)**

### **Directors' interests**

Other than Mr P J Nowell and Mr M E Tucker, all directors in office at the end of the year are also directors of Prudential Corporation plc and their interests are shown in the annual report and accounts of that company.

Mr P J Nowell and Mr M E Tucker had interests in shares of 5p each in Prudential Corporation plc as follows:

(a) in shares, including shares awarded under the Prudential Corporation Share Participation Plan:

	<u>1.1.96 or later date of appointment</u>	<u>31.12.96</u>
P J Nowell	168,078	163,823
M E Tucker	25,377	40,212

(b) under the Prudential Restricted Share Plan, in which the shares are held in trust and represent the maximum award that can be made if performance requirements of the Plan are met:

	<u>1.1.96 or later date of appointment</u>	<u>31.12.96</u>
P J Nowell	Nil	28,580
M E Tucker	Nil	50,809

(c) in options to subscribe for shares:

	<u>1 Jan 1996 or later date of appointment</u>	<u>Granted in 1996</u>	<u>Exercised in 1996</u>	<u>31 Dec 1996</u>	<u>Exercise price (pence)</u>	<u>Market price at date of exercise</u>	<u>Earliest exercise date</u>	<u>Latest exercise date</u>
P J Nowell	2,514		2,514	Nil*	167	424p		
	27,000			27,000	201		1995	2002
	88,000			88,000	328		1996	2003
	5,769			5,769*	156		1997	1998
	13,000			13,000	309		1997	2004
	34,000			34,000	296		1997	2004
	4,477			4,477*	201		1998	1999
	1,566			1,566*	249		2001	2001
		2,267		2,267*	344		2003	2003
		2,172		2,172*	359		2003	2004
	176,326	4,439	2,514	178,251				
M E Tucker	90,500		90,500	Nil	328	500.5p		
	3,731		3,731	Nil*	201	463.5p		
	17,000			17,000	296		1997	2004
	4,074			4,074*	254		2000	2000
	81,500			81,500	315		2000	2005
		2,172		2,172*	359		2003	2004
	196,805	2,172	94,231	104,746				

\*Prudential Savings-Related Share Option Scheme

## THE PRUDENTIAL ASSURANCE COMPANY LIMITED

### DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1996 (continued)

#### Directors' interests (continued)

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

Except as stated above, none of the directors in office at the end of the year had any interest in shares in, or debentures of, any group company at the beginning of the year or at their later date of appointment or at the end of the year, or was granted or exercised any right to subscribe for shares in, or debentures of, any group company during the year.

#### Employees

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

##### Equal Opportunity

The Company's policy is to recruit, develop and employ staff on the basis of the suitability of their qualifications and experience to the work to be performed, regardless of sex, marital status, creed, race, nationality or disability. Full consideration is given to continuing the employment of staff who become disabled and to providing training and career development opportunities to disabled employees. The requirements of the Disability Discrimination Act 1996 have been put into effect.

##### Employee Involvement

The Company has effective communication channels through which employees' views can be sought on issues which concern them. In 1996, the communication Talking Point was introduced in Prudential UK, covering the majority of UK-based staff, to inform staff and enable them to have their views heard at senior level. Employees were invited on two occasions to participate in the Prudential Savings-Related Share Option Scheme, on the second occasion taking advantage of the government's changes to these schemes in 1996.

The board of the corporate trustee of the Prudential Staff Pension Scheme includes directors elected by members of the Scheme, who have approved the continuation of this arrangement under the Pensions Act 1995.

#### Auditors

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

On behalf of the board of directors

P R Rawson  
Secretary  
10 March 1997

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Profit and Loss Account for the year ended 31 December 1996**

Note	<b><u>General Business Technical Account</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
	Earned premiums, net of reinsurance		
1	Gross premiums written	309	321
	Outward reinsurance premiums	(17)	(15)
		<u>292</u>	<u>306</u>
	Change in the gross provision for unearned premiums	5	11
	Total	<u>297</u>	<u>317</u>
	Claims incurred, net of reinsurance		
	Claims paid		
	Gross amount	(279)	(288)
	Reinsurers' share	25	29
		<u>(254)</u>	<u>(259)</u>
	Change in provision for claims		
	Gross amount	67	37
	Reinsurers' share	(6)	(10)
		<u>61</u>	<u>27</u>
	Total	<u>(193)</u>	<u>(232)</u>
	Change in other technical provisions, net of reinsurance	1	8
4	Net operating expenses	(75)	(90)
7	Change in the equalisation provision	(7)	-
1	<b>Balance on the general business technical account</b>	<u>23</u>	<u>3</u>
	<b><u>Analysis:</u></b>		
	Continuing operations	36	23
8	Discontinued operations	(13)	(20)
		<u>23</u>	<u>3</u>

All premiums relate to continuing operations.

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Profit and Loss Account for the year ended 31 December 1996 (continued)**

Note	<b><u>Long-term Business Technical Account</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
1	Earned premiums, net of reinsurance		
	Gross premiums written	<b>4,742</b>	3,465
	Outward reinsurance premiums	<b>(465)</b>	(378)
	Total	<b><u>4,277</u></b>	<b><u>3,087</u></b>
2	Investment income	<b>3,113</b>	2,895
	Unrealised gains on investments	<b>1,715</b>	3,877
3	Claims incurred, net of reinsurance		
	Claims paid		
	Gross amount	<b>(2,974)</b>	(2,687)
	Reinsurers' share	<b>362</b>	320
		<b><u>(2,612)</u></b>	<b><u>(2,367)</u></b>
	Change in provision for claims - gross amount	<b>(4)</b>	(1)
	Total	<b><u>(2,616)</u></b>	<b><u>(2,368)</u></b>
	Change in other technical provisions, net of reinsurance		
	Long-term business provision		
	Gross amount	<b>(3,608)</b>	(3,080)
	Reinsurers' share	<b>330</b>	471
		<b><u>(3,278)</u></b>	<b><u>(2,609)</u></b>
	Technical provision for linked liabilities	<b>(479)</b>	(32)
	Total	<b><u>(3,757)</u></b>	<b><u>(2,641)</u></b>
4	Net operating expenses	<b>(523)</b>	(531)
5	Investment expenses and charges	<b>(233)</b>	(176)
6	Tax attributable to the long-term business	<b>(157)</b>	(277)
	Transfer to the fund for future appropriations	<b>(1,601)</b>	(3,664)
	<b>Balance on the long-term business technical account</b>	<b><u>218</u></b>	<b><u>202</u></b>

All amounts relate to continuing operations.

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Profit and Loss Account for the year ended 31 December 1996 (continued)**

Note	<b><u>Non-Technical Account</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
	Balance on general business technical account	<u>23</u>	<u>3</u>
	Balance on long-term business technical account	218	202
6	Tax credit attributable to balance on the long-term business technical account	104	99
1	Balance on the long-term business technical account before tax	<u>322</u>	<u>301</u>
2	Investment income	45	98
5	Investment expenses and charges	(3)	(2)
	Other charges	(7)	-
1	Total other income	<u>35</u>	<u>96</u>
	Profit on disposal of subsidiary undertaking	-	31
	Profit on ordinary activities before tax	<u>380</u>	<u>431</u>
6	Tax on profit on ordinary activities	(110)	(118)
	Profit for the financial year	<u>270</u>	<u>313</u>
	Dividends	(300)	(340)
20	Retained loss for the financial year	<u>(30)</u>	<u>(27)</u>



**THE PRUDENTIAL ASSURANCE COMPANY LIMITED****Statement of Total Recognised Gains and Losses for the year ended 31 December 1996**

	<u>1996 £m</u>	<u>1995 £m</u>
Profit for the financial year	270	313
Other recognised gains and losses:		
Increase (decrease) in surplus on revaluation of investments in shareholder subsidiaries	(11)	119
Increase in surplus on revaluation of other shareholder investments	22	65
Total recognised gains relating to the year	<u>281</u>	<u>497</u>

**Reconciliation of Movement in Shareholders' Funds for the year ended 31 December 1996**

	<u>1996 £m</u>	<u>1995 £m</u>
Total recognised gains relating to the year	281	497
Dividends	(300)	(340)
Net movement in shareholders' funds	<u>(19)</u>	<u>157</u>
Shareholders' funds at beginning of year	695	538
Shareholders' funds at end of year	<u>676</u>	<u>695</u>

A statement of historical cost profits and losses has not been prepared as the amounts are not materially different from the profits for the financial year.

**THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

**Balance sheet as at 31 December 1996**

Note	<u>Assets</u>	<u>1996 £m</u>	<u>1995 £m</u>
	Investments		
12	Land and buildings	4,298	4,122
13	Investments in group undertakings	1,703	1,502
14	Other financial investments	37,572	33,169
		<u>43,573</u>	<u>38,793</u>
15	Assets held to cover linked liabilities	1,095	620
	Reinsurers' share of technical provisions		
16	Long-term business provision	3,340	3,010
	Claims outstanding	56	62
	Technical provisions for linked liabilities	701	623
		<u>4,097</u>	<u>3,695</u>
	Debtors		
	Debtors arising out of direct insurance operations		
	Policyholders	190	172
	Intermediaries	5	5
	Debtors arising out of reinsurance operations	9	16
17	Other debtors	378	440
		<u>582</u>	<u>633</u>
	Other assets		
	Tangible assets	26	31
	Cash at bank and in hand	61	108
		<u>87</u>	<u>139</u>
	Prepayments and accrued income		
	Accrued interest and rent	183	207
	Deferred acquisition costs		
	General business	20	19
	Long-term business	1,076	984
		<u>1,279</u>	<u>1,210</u>
18	<b>Total assets</b>	<u><b>50,713</b></u>	<u><b>45,090</b></u>

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Balance sheet as at 31 December 1996 (continued)**

Note	Liabilities	1996 £m	1995 £m
	Capital and reserves		
19	Called up share capital	75	75
	Revaluation reserve		
	Investments in shareholder subsidiaries	354	365
	Other shareholder investments	161	139
		<u>515</u>	<u>504</u>
	Capital reserve	46	46
20	Profit and loss account		
	Distributable	-	46
	Non-distributable	40	24
		<u>40</u>	<u>70</u>
	Total equity shareholders' funds	<u>676</u>	<u>695</u>
	Fund for future appropriations	13,349	11,737
	Technical provisions (excluding linked)		
	Provision for unearned premiums	152	157
21	Long-term business provision	33,159	29,582
22	Claims outstanding	551	616
7	Equalisation provision	7	-
	Other technical provisions	2	3
	Total technical provisions (excluding linked)	<u>33,871</u>	<u>30,358</u>
	Technical provision for linked liabilities	1,796	1,243
23	Provisions for other risks and charges	272	331
	Creditors		
	Creditors arising out of direct insurance operations	64	58
	Creditors arising out of reinsurance operations	21	18
24	Other creditors including taxation and social security	664	650
		<u>749</u>	<u>726</u>
	Total liabilities	<u>50,713</u>	<u>45,090</u>

The accounts on pages 6 to 24 were approved by the board of directors on 10 March 1997.

Sir Peter Davis  
Chairman

## THE PRUDENTIAL ASSURANCE COMPANY LIMITED

### Accounting Policies

#### A. Basis of preparation

The accounts are prepared in accordance with the provisions of Section 255A of and Schedule 9A to the Companies Act 1985. The accounts comply with applicable accounting standards and with guidance issued by the Association of British Insurers.

As the Company is a wholly owned subsidiary undertaking of another company registered in England and Wales, group accounts are not prepared. Accordingly, the accounts present information about the Company as an individual undertaking.

#### B. Long-term business

- (i) Premiums and annuity considerations are accounted for when due. For unit linked business, premiums are accounted for when the liabilities arising from the premiums are created. Pensions annuity contracts which vest during the year are included in claims incurred and premium income at the annuity purchase price.
- (ii) Maturity claims are accounted for on the policy maturity date. Annuities are accounted for when the annuity becomes due for payment. Surrenders are accounted for when paid and death claims when notified.
- (iii) Bonus additions made to policies are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred.
- (iv) The costs of acquiring new insurance contracts, principally commission and certain costs associated with policy issue and underwriting, are spread forward over the term of the contract to the extent that the amounts are recoverable out of future margins.
- (v) Investment income and realised and unrealised investment gains attributable to long-term business are credited to the long-term business technical account.
- (vi) Profits comprise actuarial surpluses allocated to shareholders adjusted, where appropriate, for the deferral of acquisition costs and movements in the shareholders' interest in reserves held within long-term funds. For business within the with-profits fund, the amount of surplus released to profits is determined by the directors in accordance with the Articles of Association. Unappropriated surplus is carried forward in the fund for future appropriations.
- (vii) Profits in respect of with-profits and unit linked business are calculated initially at the post-tax level and have been grossed up at the full rate of corporation tax.

## THE PRUDENTIAL ASSURANCE COMPANY LIMITED

### Accounting Policies (continued)

#### C. General business

- (i) General insurance business is accounted for on an annual accounting basis.
- (ii) Premiums are accounted for when risks are assumed. In determining the result, the proportion of premiums written relating to periods of risk beyond the year end is carried forward to subsequent accounting periods as unearned premiums, calculated on a daily basis, so that earned premiums relate to risks carried during the accounting period. A similar treatment is applied to acquisition expenses.
- (iii) Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising from events occurring in the year and adjustments to prior years' claims provisions. Outstanding claims comprise claims incurred up to but not paid at the end of the accounting period whether reported or not.
- (iv) An unexpired risks provision is established for any excess of expected claims and deferred acquisition costs over unearned premiums and investment return. The assessment of expected claims has regard to claims experience up to the end of the accounting period. No specific provision is made for major events occurring after this date.
- (v) An equalisation provision is established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995 to mitigate exceptional high loss ratios for classes of business displaying a high degree of claims volatility.
- (vi) Investment income and investment gains earned on assets matching general business provisions and related solvency capital are credited to the non technical account.
- (vii) Transactions in respect of discontinued general business operations are accounted for within the general business technical account.
- (viii) Certain long-tail liabilities in respect of discontinued operations with mean terms of settlement of at least four years are discounted to take account of the extended settlement period.

#### D. Investments

- (i) Investment income and realised and unrealised gains in respect of long-term business are included in the long-term business technical account. Other investment income and realised gains are included in the non-technical account. Realised gains on investments are calculated as the difference between sale proceeds and cost. Unrealised gains other than in respect of long-term business are accounted for directly within the revaluation reserve.
- (ii) Subsidiaries are valued by the directors at a conservative estimate of their current value. Shareholders' investments in subsidiary companies that undertake long-term business are shown at values representing their accruals basis shareholders' funds determined in accordance with the 'Draft Proposals on Accounting for Shareholders' Profits in Long-term Insurance Business' issued by the Association of British Insurers. Investments in other subsidiaries are valued at net asset value.
- (iii) Other investments are shown at market value. Properties are valued annually by the Prudential group's qualified surveyors or by professional external valuers at market value. No depreciation is provided on these properties as the directors consider that as these properties are held for investment purposes, to depreciate them would not give a true and fair view.

## THE PRUDENTIAL ASSURANCE COMPANY LIMITED

### Accounting Policies (continued)

#### E. Tax

Tax is charged on all taxable profits arising in the accounting period. Provision under the liability method is made for deferred tax arising from timing differences other than those considered likely to continue into the foreseeable future.

#### F. Foreign currencies

Foreign currency revenue transactions are translated at average exchange rates for the year. Foreign currency assets and liabilities are translated at year end exchange rates. Exchange differences are mainly taken to the profit and loss account.

#### G. Tangible assets

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

#### H. Pension costs

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

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts**

### **1 Segmental analysis**

#### **(a) Long-term business**

##### **Premiums and profit**

	<b>Gross premiums written</b>		<b>Balance on the technical account before tax</b>	
	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
United Kingdom	4,588	3,333	318	296
Hong Kong and New Zealand	154	132	4	5
	<u>4,742</u>	<u>3,465</u>	<u>322</u>	<u>301</u>

##### **New business**

	<b>Regular premiums</b>		<b>Single premiums</b>	
	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
United Kingdom	244	244	2,782	1,573
Hong Kong and New Zealand	37	35	12	16
	<u>281</u>	<u>279</u>	<u>2,794</u>	<u>1,589</u>

##### **Analysis of premium income**

##### **Gross written premiums:-**

Direct	4,705	3,432
Reinsurance accepted	37	33
	<u>4,742</u>	<u>3,465</u>

##### **Analysis of gross direct premiums:-**

Individual business	3,608	2,972
Group contracts	1,097	460
	<u>4,705</u>	<u>3,432</u>

Periodic premiums on annual contracts  
Single premiums

1,917	1,859
2,788	1,573
<u>4,705</u>	<u>3,432</u>

Participating contracts  
Non-participating contracts  
Linked long-term contracts

3,634	2,945
464	405
607	82
<u>4,705</u>	<u>3,432</u>

United Kingdom  
Other countries

4,587	3,333
118	99
<u>4,705</u>	<u>3,432</u>

##### **Net reinsurance income**

Net reinsurance income in respect of long-term business for the year ended 31 December 1996 was £203m (1995 £425m).

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **1 Segmental analysis (continued)**

#### **(b) General business**

<b>Premiums and underwriting result</b>		<b>Gross premiums written</b>		<b>Underwriting result</b>	
		<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>
Continuing operations	United Kingdom	303	315	36	22
	Hong Kong	6	6	-	1
		<u>309</u>	<u>321</u>	<u>36</u>	<u>23</u>
Discontinued operations	United Kingdom	-	-	(13)	(20)
		<u>309</u>	<u>321</u>	<u>23</u>	<u>3</u>

<b>Analysis of technical account</b>	<b>Gross premiums written</b>		<b>Gross premiums earned</b>		<b>Gross claims incurred</b>		<b>Gross operating expenses</b>		<b>Reinsurance balance</b>	
	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>
Motor										
-third party liability	8	13	11	15	13	20	2	4	-	-
-other classes	36	42	39	46	30	35	8	12	-	-
Marine, aviation and transport	-	1	1	1	17	21	2	3	3	5
Fire and other damage	260	261	258	262	152	149	64	69	-	2
Other	5	4	5	8	-	26	1	4	1	(1)
	<u>309</u>	<u>321</u>	<u>314</u>	<u>332</u>	<u>212</u>	<u>251</u>	<u>77</u>	<u>92</u>	<u>4</u>	<u>6</u>

The geographical analyses of long-term and general business premiums are based on the territory of the operating unit assuming the risk. Premiums by territory of risk are not materially different.



**THE PRUDENTIAL ASSURANCE COMPANY LIMITED****Notes on the accounts (continued)****1 Segmental analysis (continued)****(c) Net assets and shareholders' other income**

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

<b><u>Technical provisions (net of reinsurance)</u></b>	<b>Long-term business</b>		<b>General business</b>	
	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
United Kingdom	30,422	26,743	546	605
Other countries	586	539	16	19
Total	<u>31,008</u>	<u>27,282</u>	<u>562</u>	<u>624</u>

Shareholders' other income and shareholders' funds, taking into account the location of business operations of subsidiaries, relate to the following countries:-

<b><u>Shareholders' funds</u></b>	<b>Shareholders' other income</b>		<b>Shareholders' funds</b>	
	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>	<b><u>1996 £m</u></b>	<b><u>1995 £m</u></b>
United Kingdom	35	83	420	364
Australia	-	3	93	96
Holland	-	-	-	76
Italy	-	-	31	35
Singapore	-	10	122	109
Other countries	-	-	10	15
	<u>35</u>	<u>96</u>	<u>676</u>	<u>695</u>

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **2. Investment income**

	<b>Long-term business</b>		<b>Non-technical account</b>	
	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>
Income from:				
Group undertakings	23	18	7	48
Other investments				
Land and buildings	452	391	-	-
Listed investments	1,552	1,423	28	29
Other investments	136	116	13	18
	<u>2,163</u>	<u>1,948</u>	<u>48</u>	<u>95</u>
Gains (losses) on the realisation of investments	950	947	(3)	3
	<u>3,113</u>	<u>2,895</u>	<u>45</u>	<u>98</u>

### **3. Bonuses**

Bonuses added during the year are included in the change in the long-term business provision or, where the policy is no longer in force, in claims incurred. The total cost of bonuses was £1,885m (£1,780m).

### **4. Net operating expenses**

	<b>Long-term business</b>		<b>General business</b>	
	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>
Acquisition costs	420	374	40	37
Change in deferred acquisition costs	(93)	(61)	(1)	-
Administrative expenses	196	218	36	53
	<u>523</u>	<u>531</u>	<u>75</u>	<u>90</u>

Acquisition costs include commissions in respect of direct insurance business of £158m (£149m).

### **5. Investment expenses and charges**

	<b>Long-term business</b>		<b>Non-technical account</b>	
	<b>1996 £m</b>	<b>1995 £m</b>	<b>1996 £m</b>	<b>1995 £m</b>
Investment management expenses	218	165	3	2
Interest on bank borrowings	15	11	-	-
	<u>233</u>	<u>176</u>	<u>3</u>	<u>2</u>

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **6. Tax**

<u>Tax charged to long-term business technical account and non-technical account</u>	<u>Attributable to long-term funds</u>		<u>Attributable to shareholders' profits</u>	
	<u>1996 £m</u>	<u>1995 £m</u>	<u>1996 £m</u>	<u>1995 £m</u>
UK corporation tax	127	132	5	8
Double tax relief	(21)	(16)	(4)	(3)
Tax on franked investment income	106	111	2	4
Overseas tax	27	26	4	1
Prior year adjustments	(23)	(13)	1	(15)
	<u>216</u>	<u>240</u>	<u>8</u>	<u>(5)</u>
Deferred tax	(59)	37	(2)	24
	<u>157</u>	<u>277</u>	<u>6</u>	<u>19</u>
Shareholders' attributable tax	-	-	104	99
	<u>157</u>	<u>277</u>	<u>110</u>	<u>118</u>
<u>Deferred tax</u>	<u>Liability provided (asset recognised)</u>		<u>Liability not provided (asset not recognised)</u>	
	<u>1996 £m</u>	<u>1995 £m</u>	<u>1996 £m</u>	<u>1995 £m</u>
Short-term timing differences	1	11	(12)	(1)
Deferred acquisition costs	67	108	-	-
Capital allowances	(5)	3	(2)	17
General insurance technical provisions	-	-	(12)	(14)
Unrealised gains on investments	-	-	1,859	2,161
Closure cost provisions	(5)	(3)	-	-
	<u>58</u>	<u>119</u>	<u>1,833</u>	<u>2,163</u>

### **7. Equalisation provision**

An equalisation provision has been established in accordance with the requirements of the Insurance Companies (Reserves) Act 1995. The provision, which is in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date, is required by Schedule 9A of the Companies Act 1985 to be included within technical provisions in the balance sheet notwithstanding that they do not represent liabilities at the balance sheet date. This has had the effect of reducing shareholders' funds by £7m (£nil). The movement in the equalisation provision during the year resulted in a decrease in the general business technical account result and the profit before taxation of £7m (£nil).

### **8. Discontinued operations**

Discontinued general business represents business discontinued in previous years and now in run off. The general business technical account includes the following in respect of discontinued operations.

	<u>1996 £m</u>	<u>1995 £m</u>
Claims incurred, net of reinsurance		
Claims paid	(52)	(87)
Change in provision for claims	42	76
Total	<u>(10)</u>	<u>(11)</u>
Net operating expenses	(3)	(9)
Technical result	<u>(13)</u>	<u>(20)</u>

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **9. Information on staff**

	<u>1996</u>	<u>1995</u>
The average number of persons employed by the Company during the year was:		
United Kingdom	15,744	16,793
Other countries	523	565
	<u>16,267</u>	<u>17,358</u>
The costs of employment were:	<u>1996 £m</u>	<u>1995 £m</u>
Wages and salaries	340	321
Social security costs	25	24
Other pension costs (see below)	23	23
	<u>388</u>	<u>368</u>

The Company operates a number of pension schemes around the world. The largest scheme is the Company's United Kingdom scheme which covers 93% of members in all Company pension schemes. This scheme is of the defined benefit type with scheme assets held in separate trustee administered funds and was last valued as at 5 April 1993 by a qualified actuary who was an employee of the Group. Particulars of this scheme are shown in the accounts of the parent company, Prudential Corporation plc. £1m (£1m) of the pension costs related to overseas schemes.

### **10. Directors' emoluments**

The emoluments for the year were £1,764,000 (£1,282,000). These emoluments relate to services as executive directors of the Company and include pension contributions.

In addition to salary entitlements, directors participate in the Prudential Corporation Share Participation Plan under which awards are made based on the performance of the Group. The emoluments incorporate £380,000 (£256,000) in respect of the Plan, including amounts to which there is a deferred entitlement.

The Chairman of the Company was also a director of the Company's parent company during the year and all emoluments received by him from the Prudential Group were in respect of services as a director of Prudential Corporation plc. Excluding pension contributions, the emoluments of the highest paid director were £437,000 (£368,000). The emoluments of the directors fell into the following bands:-

Emoluments		Number of directors		Emoluments		Number of directors	
£	£	<u>1996</u>	<u>1995</u>	£	£	<u>1996</u>	<u>1995</u>
Nil	to 5,000	3	4	325,001	to 330,000	1	
200,001	to 205,000		1	330,001	to 335,000		1
225,001	to 230,000	1		365,001	to 370,000		1
290,001	to 295,000		1	360,001	to 365,000	1	
310,001	to 315,000	1		435,001	to 440,000	1	

In addition to the above, John Maxwell received £302,000 compensation for loss of office comprising £225,000 in respect of 12 months' salary and benefits and £77,000 in respect of 12 months' pension arrangements.

### **11. Auditors' remuneration**

Auditors' remuneration in respect of the statutory audit amounted to £558,000 (£657,000). Fees payable to the auditors in the United Kingdom for other work amounted to £151,000 (£102,000).

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **12. Land and buildings**

	<u>1996 £m</u>	<u>1995 £m</u>
Current value		
Freeholds	2,611	2,686
Leaseholds with a term of over 50 years	1,582	1,331
Leaseholds with a term of less than 50 years	105	105
	<u>4,298</u>	<u>4,122</u>
Cost	<u>2,751</u>	<u>2,716</u>

The value of land and buildings occupied by the Company amounted to £15m (£31m)

### **13. Investments in group undertakings**

	<u>Cost</u>		<u>Current value</u>	
	<u>1996 £m</u>	<u>1995 £m</u>	<u>1996 £m</u>	<u>1995 £m</u>
Shares in subsidiary undertakings				
Long-term fund investments	654	615	814	717
Shareholder investments	293	282	642	631
	<u>947</u>	<u>897</u>	<u>1,456</u>	<u>1,348</u>
Loans to subsidiary undertakings				
Long-term fund loans	243	151	243	151
Shareholder loans	4	3	4	3
	<u>247</u>	<u>154</u>	<u>247</u>	<u>154</u>
Total	<u>1,194</u>	<u>1,051</u>	<u>1,703</u>	<u>1,502</u>

All investments in group undertakings are in subsidiary undertakings. The principal subsidiary undertakings of the Company, wholly owned unless otherwise stated, were:

	<u>Class of shares held</u>	<u>Principal activity</u>	<u>Country of incorporation</u>
The Prudential Assurance Company Singapore (Pte) Limited	Ordinary shares S\$1	Insurance	Singapore
Prudential Corporation Australia Limited	Ordinary shares A\$1	Insurance	Australia
Prudential Pensions Limited	Ordinary shares £1	Pension annuities	England and Wales
Prudential Vita SpA	Ordinary shares L1,000	Insurance	Italy
The Standard Trust Limited	Ordinary shares 25p 3.5% cumulative preference stock (99.95%)	Investment trust	England and Wales
* Prudential Annuities Limited	Ordinary shares £1	Pension annuities	England and Wales
* owned by the long-term fund			

In August 1996 a subsidiary undertaking of the Company sold Prudential Leven NV which transacted long-term insurance business in Holland.

At 31 December 1996 the Company also had branches outside the United Kingdom, in Hong Kong and New Zealand.

# **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

## **Notes on the accounts (continued)**

### **14. Other financial investments**

	Cost		Current value	
	1996 £m	1995 £m	1996 £m	1995 £m
Shares and other variable yield securities and units in unit trusts	14,541	11,979	31,956	27,731
Debt securities and other fixed income securities	4,565	3,940	4,808	4,260
Loans secured by mortgages	141	303	106	240
Loans to policyholders secured by insurance policies	90	94	90	94
Other loans	10	16	10	16
Deposits with credit institutions	602	828	602	828
	<u>19,949</u>	<u>17,160</u>	<u>37,572</u>	<u>33,169</u>

Amounts included in the above ascribable to listed investments	1996 £m	1995 £m
Shares and other variable yield securities and units in unit trusts	31,821	27,645
Debt securities and other fixed income securities	4,455	3,874
	<u>36,276</u>	<u>31,519</u>

### **15. Assets held to cover linked liabilities**

	Cost		Current value	
	1996 £m	1995 £m	1996 £m	1995 £m
Assets held to cover linked liabilities	<u>939</u>	<u>463</u>	<u>1,095</u>	<u>620</u>

### **16. Reinsurers' share of technical provisions**

The reinsurers' share of the long-term business provision relates mainly to cessions to Prudential Annuities Limited, a subsidiary of the Company.

### **17. Other debtors**

	1996 £m	1995 £m
Amounts owed by parent company and fellow subsidiaries	30	24
Amounts owed by subsidiary companies	59	148
Tax recoverable	175	145
Other	114	123
	<u>378</u>	<u>440</u>

### **18. Assets attributable to the long-term business fund**

Of the total amount of assets shown in the balance sheet on page 10, £49,054m (£43,279m) is attributable to the long-term business fund.

### **19. Share capital**

The company's authorised share capital is £87,500,000 comprising 350,000,000 ordinary shares of 25p each, of which 298,388,254 shares have been issued and fully paid.

### **20. Profit and loss account reserve**

	1996 £m	1995 £m
Balance at beginning of year	70	97
Transfer to non-technical account	(30)	(27)
Balance at end of year	<u>40</u>	<u>70</u>

## **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

### **Notes on the accounts (continued)**

#### **21. Long-term business provision**

The principal valuation methods and bases adopted for the main classes of business which are not reinsured are as follows:-

##### **With-profits deposit administration and unitised with-profits business**

The provision has been taken to be the fund value (excluding terminal bonus) for deposit administration business or the notional number of units allocated to policyholders at the valuation date multiplied by the bid price of the appropriate units for unitised business. The notional number of units allocated is the actual number of units less, for regular premium contracts, the number of units which will be cancelled over the future term of the contract. Explicit provision has thus been made only for vested bonuses.

##### **Non unitised with-profits and other non-linked business**

The provision has been calculated by the net premium method using the following bases:-

	Interest Rate	Actuarial Mortality Table Reference
	%	
UK ordinary branch with-profits assurances	3.0	A67/70 - 1(m); - 6(f)
UK industrial branch with-profits assurances	3.0	A67/70 + 1
UK premium paying with-profits retirement annuities		
(i) In deferment	5.0	A67/70 - 6(m); - 11(f)
(ii) In possession	5.0	IM/IF80C10-2
UK non premium paying with-profits retirement annuities		
(i) In deferment	4.0	A67/70 - 6(m); - 11(f)
(ii) In possession	5.0	IM/IF80C10-2
UK term assurances - life business	4.75	A67/70 - 1(m); - 6(f)
UK term assurances - pensions business	5.25	A67/70 - 1(m); - 6(f)
Hong Kong with-profits assurances	4.0	A67/70
Hong Kong non-profit assurances	6.0	A67/70
New Zealand conventional assurances	4.0	A67/70

For with-profits business, the net premium valuation has made explicit provision only for vested bonuses, including those vesting following the valuation at 31 December 1996.

##### **Unit linked business**

The long-term business provision associated with unit linked business has been calculated by a discounted cashflow method which ensures that, if the valuation assumptions are fulfilled, there will be no strains emerging in future years. Specific provisions have been established for capital gains tax where appropriate and for outstanding premiums.

##### **Other long-term business provisions**

Additional provisions have been established on a global basis in respect of AIDS and the expenses and potential costs of compensating pension policyholders of the Company associated with the SIB review of pension opt-outs and transfer cases.

## **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

### **Notes on the accounts (continued)**

#### **22. Claims outstanding**

To take account of the extended settlement period, discounting has been applied to asbestos and pollution claims of the discontinued general business operations. The discount rate is 5% per annum and the average period of settlement is nine years. The overall effect of discounting is to reduce the liabilities at 31 December 1996 by £21m (£22m)

In addition, in the case of these operations, the expected future return on the investments supporting these liabilities of £34m (£48m) has been recognised in calculating the additional closure provisions.

#### **23. Provisions for other risks and charges**

	<u>1996 £m</u>	<u>1995 £m</u>
Pensions and similar obligations	21	15
Deferred tax (note 6)	58	119
Other	193	197
	<u>272</u>	<u>331</u>

#### **24. Other creditors including taxation and social security**

	<u>1996 £m</u>	<u>1995 £m</u>
Tax	64	35
Amounts owed to parent company and fellow subsidiaries	271	302
Amounts owed to subsidiary companies	76	79
Other creditors	253	234
	<u>664</u>	<u>650</u>

#### **25. Ultimate parent company**

The ultimate parent company is Prudential Corporation plc, which is the parent company which prepares group accounts. Copies of these accounts can be obtained from the Company Secretary, 142 Holborn Bars, London EC1N 2NH.

#### **26. Contingent liabilities**

The Company may be required to make payments to the Investors Compensation Scheme in respect of compensation awarded to holders of personal pension policies sold by independent financial advisors. No provision has been made in the accounts because the basis of any levy and its potential amount are not known.

#### **27. Related party transactions**

The Company has taken advantage of the exemption under Paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the Prudential group.



## **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

### **Statement of Directors' Responsibilities**

Company law requires the directors to prepare financial statements for the Company which give a true and fair view of the state of affairs of the Company as at the end of the year, and of the result for the year, and which comply with the Companies Act 1985. In preparing those statements, the directors ensure that suitable accounting policies are selected and applied consistently, that reasonable and prudent judgements and estimates are made and that applicable accounting standards are followed. They also ensure that appropriate accounting records are maintained for the preparation of those statements and that reasonable steps are taken to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Sir Peter Davis  
Chairman

10 March 1997

## **THE PRUDENTIAL ASSURANCE COMPANY LIMITED**

### **Auditors' Report to the Shareholders of The Prudential Assurance Company Limited**

We have audited the financial statements on pages 6 to 24 which have been prepared in accordance with the accounting policies set out on pages 12 to 14.

#### **Respective responsibilities of directors and auditors**

As described on page 25, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

#### **Basis of opinion**

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

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

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE  
Chartered Accountants  
and Registered Auditors  
Southwark Towers  
32 London Bridge Street,  
London SE1 9SY

10 March 1997