

Prudential Corporation plc

Annual Report and Accounts 1981

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Prudential Corporation plc

Annual Report and Accounts 1981

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Registered Office:
142 Holborn Bars London EC1N 2NH

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de uitsluiting waar men de zekste ding...
 Verzekeringert... Prudential polissen...
 zijn uiteraard wettelijk en...
 In Engeland profiteert jaarlijks...
 Nu kan dat ook aan deze zijde...
 Uw verzekeringsadviseur...
 Prudential
 Gentlemen in verzekeringen.

Prudential
 普泰
 保險

PRUBOND
 die buigsame
 skema vir die
 wêreld van vandag

l'Escaut S.R.
 Compagnie d'Assurance

FONDS DE PLACEMENT POUR CAISSES DE RETRAITE
 RAPPORT ANNUEL DE 1980



Prudential Pensions Limited

A Guide to the Group Investment
 Linked Pension Plan



April 1981

M
 Mercantile and General Reinsurance

Smoking and Health-
 Product Design
 in
 Life Assurance

**Prudential
 Health
 Insurance**

**Private Combined
 (Hearth and Home)
 Insurance**



**Vanbrugh Currency Fund
 Limited**

Security for the
 self-employed!

make saving easy
 with the
 Pru-Ten Savings Plan

PPI



Prudential

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Prudential



Notice of Meeting

Prudential Corporation Public Limited Company
Incorporated in England Regd. No. 1397169
Notice is hereby given that the Annual General Meeting of this Company will be held at the Registered Office of the Company, No. 142 Holborn Bars London EC1 on Thursday 27 May 1982 at 12.15 p.m. for the following purposes:

Ordinary Business

To receive and consider the Directors' Report and Statement of Accounts for the year ended 31 December 1981

To re-elect and elect Directors

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 Resolution:

THAT the Directors be and they are hereby authorised unconditionally to exercise the power of the Company to allot relevant securities (within the meaning of Section 14 of the Companies Act 1980) up to an aggregate nominal amount of £12,900,000 and this authority shall (unless previously revoked or renewed) expire five years after the date of the passing of this resolution.

In connection with the re-election of Directors special notice has been given to the Company, pursuant to the Companies Act 1948, that separate resolutions will be moved proposing the re-election of Mr Harry Gordon Clarke FIA and Sir John Nicholson Hogg TD who retire by rotation and who will be aged 73 and 69 respectively at the date of the Meeting.

By order of the Board of Directors

R E Artus

Secretary

142 Holborn Bars London EC1N 2NH

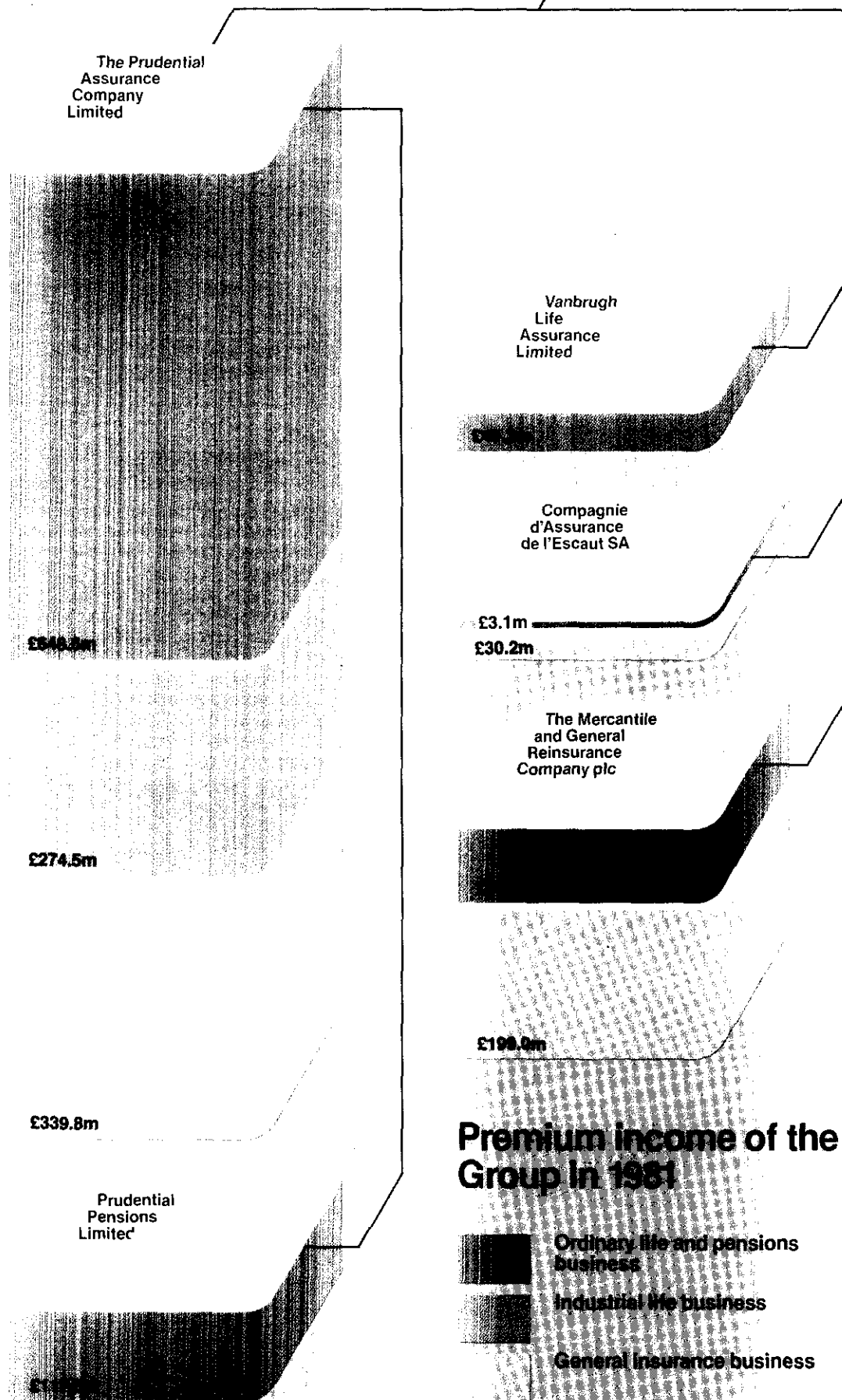
23 April 1982

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 1967 will be open for inspection at the Meeting. The Directors have no service contracts.

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Prudential Corporation plc



Premium income of the Group in 1981

-  Ordinary life and pensions business
-  Industrial life business
-  General insurance business

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Directors and Group Management

Directors

The Rt Hon Lord Carr of Hadley PC
Chairman

W G Haslam DFC
Deputy Chairman

The Rt Hon J E Ramsden
Deputy Chairman

Sir John Butterfield OBE FRCP

H G Clarke FIA

D M C Donald ws

E P Hatchett FIA

Sir John Hogg TD

The Rt Hon Lord Hunt of Tanworth GCB

P E Moody CBE FIA

A F Murray CBE FIA

The Rt Hon Lord O'Brien of Lothbury GBE PC

Sir Ronald Owen FIA

D A Reid

R S Skerman CBE FIA

Sir Peter Tennant CMG OBE

Group Management

F B Corby FIA
Chief Executive

R E Artus
Secretary and Group Chief Investment Manager

D Sirkett FIA
Manager – Corporate Financial Planning

J A Freeman FCA FCMA
Group Chief Accountant

R W Paget FCCA
Group Taxation Manager

D F Roper
Group Legal Adviser

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Summary of Results

Abridged Group Profit and Loss Account year ended 31 December 1981

	1981 £m	1980 £m
Profits from:		
Ordinary life business	31.3	22.4
Industrial life business	10.2	7.1
General insurance business	(8.2)	2.5
	33.3	32.0
Shareholders' other income	9.9	10.5
Profit for the year after taxation	43.2	42.5
Dividends paid and payable	37.3	32.8
Retained profit for the year	5.9	9.7

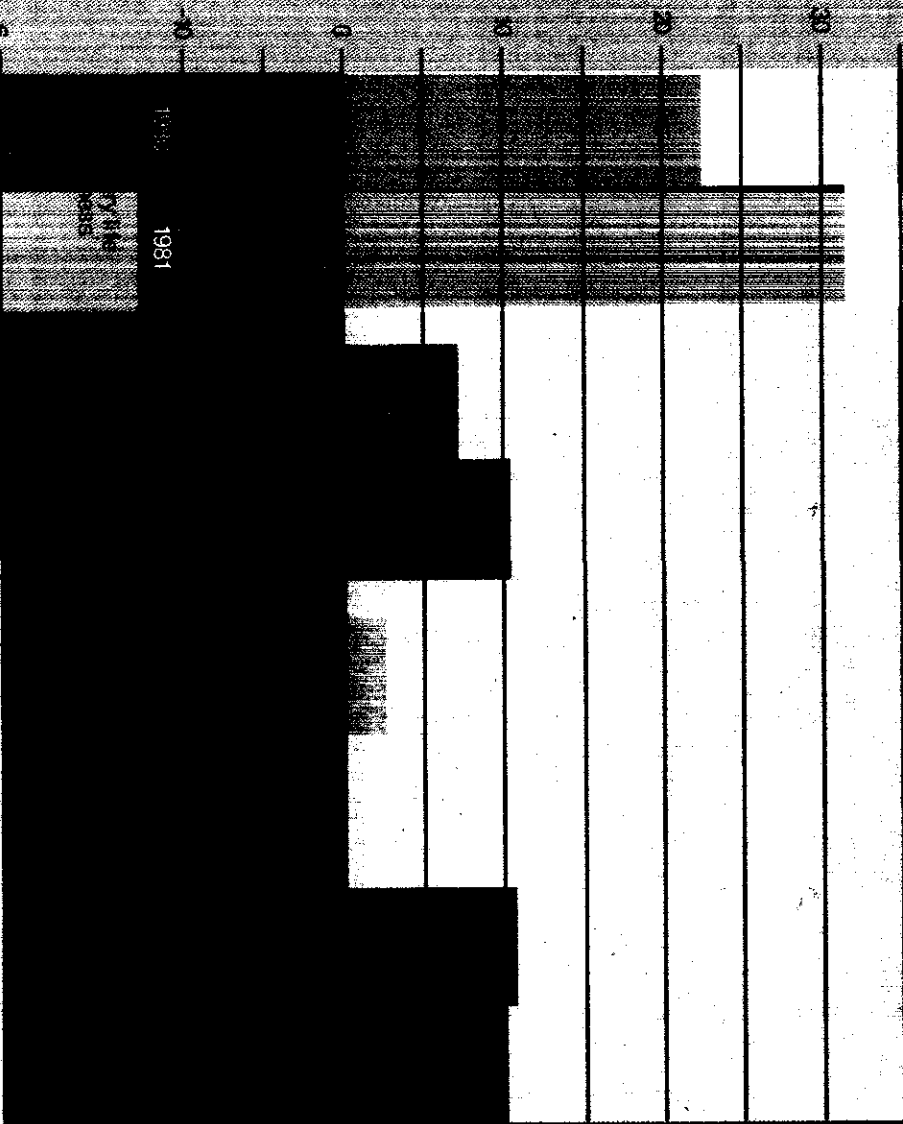
Abridged Group Balance Sheet 31 December 1981

	1981 £m	1980 £m
Shareholders' funds	198.2	193.0
Ordinary life business funds	5,729.8	4,847.7
Industrial life business funds	1,538.1	1,374.4
General insurance business funds	477.8	365.0
	7,943.9	6,780.1
Investments	7,678.4	6,586.9
Other net assets	236.8	164.5
	7,915.2	6,751.4
Goodwill	28.7	28.7
	7,943.9	6,780.1

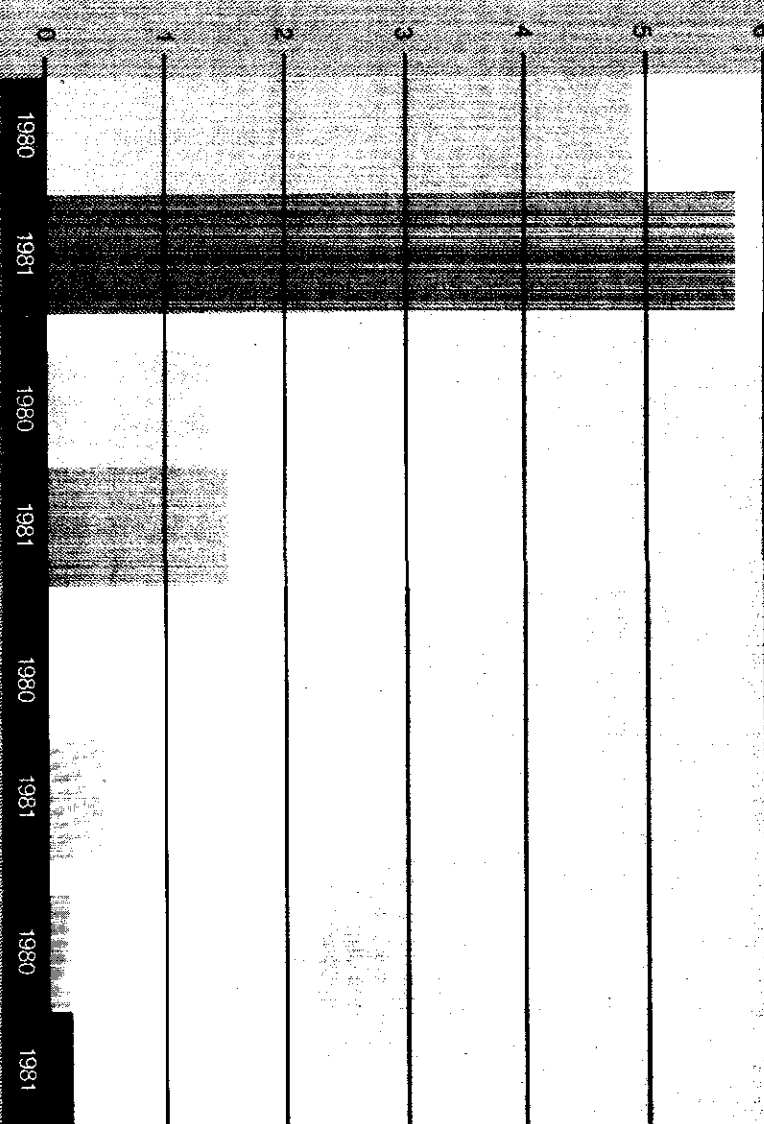
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Profits
\$m



Funds
\$100m



General life
business

Industrial life
business

General insurance
business

Shareholders

1980

1981

1980

1981

1980

1981

1980

1981

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Chairman's Statement

Results and dividends

Total profits of the Group for 1981 were £43.2m compared with £42.5m in 1980. There was substantial growth in life profits, but underwriting losses in general business increased sharply.

The directors have declared a final dividend of 8.0p per share, making a total for the year of 12.5p per share, which is an increase of 13.6 per cent over last year. In deciding on this increase the directors had in mind the strong growth in life profits.

I comment below on the main features of our business in 1981. More detailed information concerning the individual sectors is given in the Progress Report.

Life business

The profits from the life business of the Group rose by 41 per cent to £41.5m, with increases from Prudential Assurance, Mercantile & General and Vanbrugh. Total life premium income increased by 16 per cent to £1,187m.

In our life funds throughout the world the benefits from our investment policy continue to be seen, particularly in those many areas where we have a high proportion of equities and property, and they are reflected in our bonuses to policyholders and in the transfers to shareholders.

In the United Kingdom, Prudential Assurance has made significant increases in bonuses on policies in both the Ordinary and Industrial Branches. Since the increased bonuses derive largely from achieved investment performance, it is appropriate that to a considerable extent they should be related to the period for which the policies have been in force. This has led us to declare, as in the past, relatively high terminal bonuses. In view, however, of the high proportion of bonuses in terminal form which would otherwise result, we have decided that for individual policies part of this year's profit distribution should be in the form of a reversionary bonus, also related to the duration for which each policy has been in force. The extent and timing of any further such moves will depend upon the future progress of our business and on our investment results.

In a number of countries in which we operate overseas we have made substantial increases in bonuses to the with profit policyholders of Prudential Assurance, for reasons similar to those in the United Kingdom.

The total value of the bonuses declared by Prudential Assurance for the benefit of its policyholders increased by more than one-third to £508m and the corresponding profits to shareholders increased by a similar proportion to £33.3m.

Mercantile & General's life business continued to make good progress and there was a marked increase in profits to shareholders at £6.0m compared with £3.8m in 1980.

1981 has been yet another year when the profitability and great underlying strength of our life business has brought substantial benefits to both our policyholders

and shareholders. Our objective is one of soundly based expansion and to this end we are giving particular attention to strengthening our marketing and selling organisation, as well as to keeping our range of products and services up to date. We are also exploring ways in which we can use our very considerable investment expertise to develop further the investment management services which we provide, both in the United Kingdom and overseas.

General insurance

The results of our general insurance business in 1981 were very unsatisfactory, producing an underwriting loss of £59.0m (£33.9m in 1980) and a loss of £8.2m after tax and investment income on the general insurance funds compared with a profit of £2.5m in 1980.

In common with other insurers we have found underwriting conditions in most areas in which we operate extremely unfavourable and it has been very difficult to obtain business at adequate rates of premium. This is the result of a combination of factors including the economic situation, high levels of inflation and overcapacity in the market.

In the United Kingdom these factors were reflected principally in the results from our commercial business. For our domestic property and motor business there was some improvement in the results despite the considerable cost of the unusually severe weather in December. The action which we have taken to improve the profitability of our important domestic account, to which I referred in my statement last year, appears to be beginning to bear fruit.

Overseas the main part of Prudential Assurance's business is in Canada where the deteriorating results continued in 1981. There have been considerable increases in Canadian premium rates, but it may be that we shall have to wait until 1983 before we see a recovery in the industry. In Australia our underwriting loss was slightly greater than in 1980. The business of our subsidiary operating there, Prudential Cornhill, has been merged as from 4 January 1982 with that of the Phoenix Assurance Company of Australia Limited, to form Phoenix Prudential Australia, in which we hold 39.75 per cent of the capital. In Belgium L'Escaut's results were also much worse than in 1980, largely due to a series of substantial losses on fire business.

Mercantile & General has been facing the same problems as exist elsewhere, especially that of severe competition in an even more extreme form and its results have been seriously affected as a consequence. Substantial strengthening of the technical reserves relating to earlier underwriting years has also been necessary. We continue to pursue a cautious underwriting policy in the light of these conditions. Regrettably we see little sign of an early improvement in the underlying situation in the international reinsurance market.

The state of the general insurance market worldwide is very unsatisfactory. All companies in the Prudential Group are reviewing their operations particularly in regard to premium rating and the level of P00020448

are confident that we shall return to a satisfactory level of profitability, but it is likely to be a year or so before we see significant progress.

The capital base of the Group remains one of substantial strength. At the end of 1981 the value of the Group's free reserves was equal to 49 per cent of its short-term general insurance premium income.

Appointments and retirements

Mr Kenneth Usherwood's appointment as President of Prudential Assurance comes to an end at that company's Annual General Meeting this year. His services to the Group began in 1924. He was the Chief General Manager of Prudential Assurance from 1961-1967, joined the Board in 1968 and held the offices of Deputy Chairman from 1969-1970 and Chairman from 1970-1975. Between 1962 and 1964 he was President of the Institute of Actuaries. The Group has benefited greatly from his knowledge and wise counsel and we have enjoyed his stimulating company over many years. We wish him continued good health in the future.

Mr James Ramsden will be completing a term of office as Deputy Chairman immediately following the Annual General Meeting, but will continue as a director. It is the directors' intention to elect Lord Hunt to succeed him as Deputy Chairman.

During the year Sir John Butterfield, Master of Downing College and Regius Professor of Physic at the University of Cambridge, was appointed to the Board. He now offers himself for election.

At the end of the year Mr Desmond Craigen retired from his position as Chief General Manager and director of Prudential Assurance, following a long and distinguished career of over 47 years' service. The directors are pleased to recommend his election to the Board.

At Mercantile & General Mr Julius Neave will retire next month as Managing Director, after 44 years' service during which he has become a leading figure in the international reinsurance industry. The directors are pleased to recommend Mr Neave's election to the Board.

Mr Brian Corby, previously Group General Manager, was appointed Chief Executive of the Corporation with effect from 1 January 1982. Mr Corby also assumed the duties of Chief General Manager of Prudential Assurance on the retirement of Mr Craigen. He is succeeded as Chief Actuary of that company by Mr Derek Fellows. Following Mr Neave's retirement, Mr Peter Howell will become Managing Director of Mercantile & General.

I am deeply sorry to report the death of Mr Christopher Whitehorn, our Group Legal Adviser, who will be sadly missed by all his friends and colleagues. Amongst his many valuable services to the Group was the part he played in the formation of Prudential Corporation.

General

In the wake of the civil disturbances in some of our inner city areas last year, attention has been given to

the roles which national financial institutions and central and local government authorities might play in programmes designed to arrest the economic decay of such areas. The debate will doubtless continue for some time to come. Whatever solution is found it will not be solely one of providing funds; leadership and management skills will also be needed. We have taken an active role in a number of bodies which are working in areas of immediate concern, and have seconded a number of members of our staff to work on particular projects. We are considering whether there are further ways in which we can properly respond to proposals which are put to us and whether there are any initiatives which we ourselves should take.

There is a duty on institutions whose role it is to invest people's savings to have prime regard for those from whom the savings have come. Nonetheless, it is possible that a widening of the range of commercially sensible investment projects may result from the current exchange of views and experience between central and local government officials, institutional investors and local business leaders. We must hope that it will.

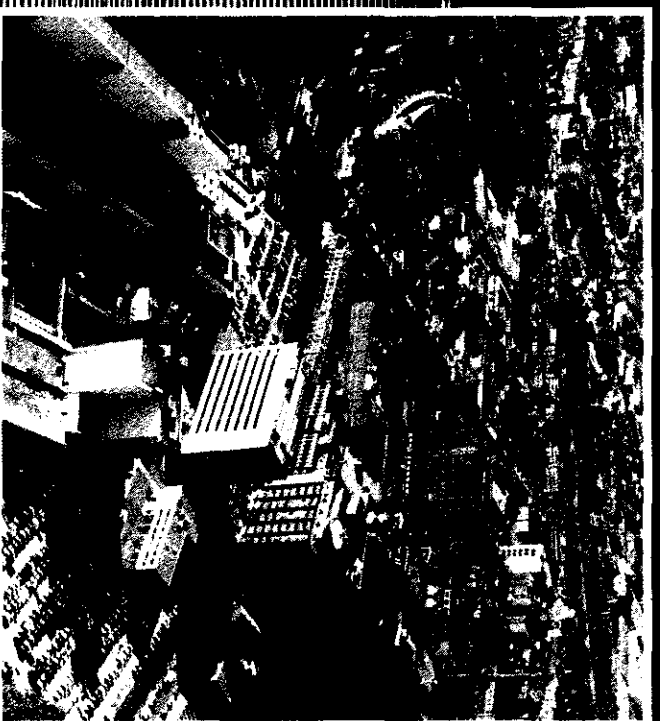
Throughout our history we can I believe justly claim to have been good employers; nevertheless, during 1981, the "Year of the Disabled", we made a point of conducting a thorough review of our policy on the employment of disabled persons. As a result specific appointments have been made with responsibility for ensuring that our effort in this area is maintained and developed, and our contacts with organisations for disabled persons have been strengthened.

We place a very high priority on the quality of the service which we give to our policyholders and their beneficiaries. Through Prudential's field staff in the United Kingdom we are able to provide a nationwide service, but inevitably there are occasions when a member of the public feels he has been less than fairly treated. We accept that there is a good case for an aggrieved person to have the opportunity to submit his complaint to an independent body, and accordingly Prudential Assurance has joined the Insurance Ombudsman Bureau. Vanbrugh is also applying to join.

Prudential Corporation staff work in a large number of countries and in very different conditions. We are proud of the fact that whatever the problems may have been in the cities of the United Kingdom in 1981, in Northern Ireland or elsewhere, we have continued to provide for the insurance needs of our policyholders. I thank all our staff for their hard work and their dedication in what has been a difficult year.

Carr of Hadley
Chairman
15 April 1982

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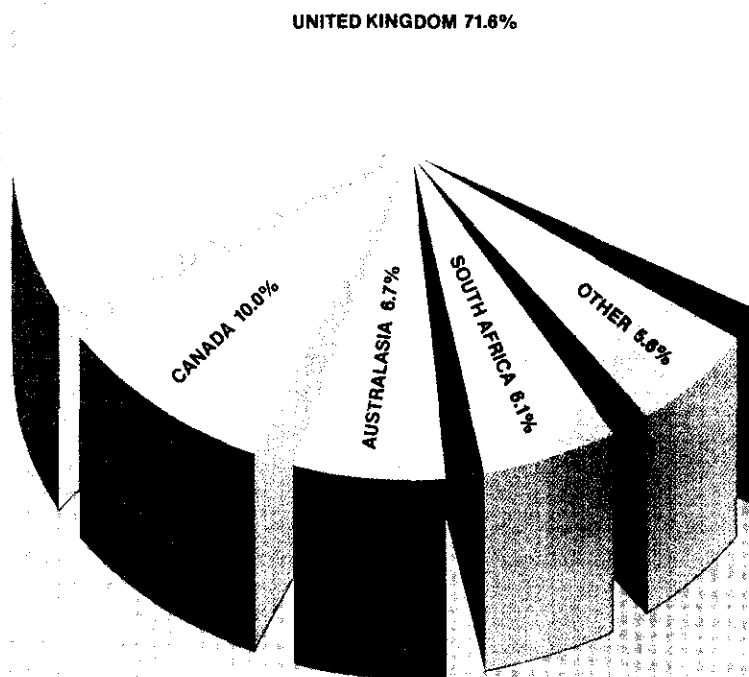
Progress Report Life Business

Life business Summary

The worldwide Ordinary and Industrial life business of the Group was as follows:

	1981 £m	1980 £m	% increase
New business:			
Annual premiums	241.9	212.1	14
Single premiums	140.7	104.4	35
Total revenue premium income	1,187.3	1,020.3	16
Business in force at the end of the year:			
Annual premium income	1,070.0	948.0	13
Sums assured, including bonus	53,650.6	45,207.2	19
Annuities per annum (immediate and deferred) including bonus	1,117.4	945.8	18

Source of ordinary life business revenue premium income of the Group in 1981.



Facing Page

As reported on television and in the national press, Prudential agent Alvin Bell was quickly on the scene to bring Prudential service to his clients when winter floods hit Selby, Yorkshire.

Inset Left: The Belgian head office of Agfa-Gevaert, photographic manufacturers, for which L'Escaut is the leading fire insurance underwriter.

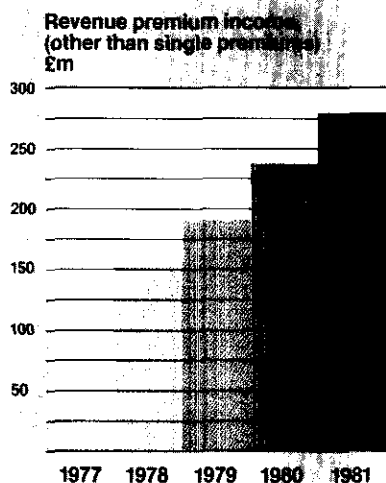
Inset Right: Ma Kee Meng, a Prudential Group Manager in Malaysia, visits a client company, General Lumber (Holdings) Bhd.

Industrial life business is transacted only in the United Kingdom.

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Individual Life Business — United Kingdom

Ordinary Life Business —
Prudential Assurance



	1981 £m	1980 £m	% increase
New business:			
Annual premiums	66.0	62.3	6
Single premiums	19.8	12.5	58
Total revenue premium income	298.1	250.0	19

Sales of new annual premium business in this sector of our market, which is predominantly with-profits endowment policies and personal retirement plans, were inhibited by the difficult economic conditions prevailing. Some improvement in our sales growth was however seen in the fourth quarter. The level of unit-linked business showed another substantial increase and accounted for over 5 per cent of new annual premiums.

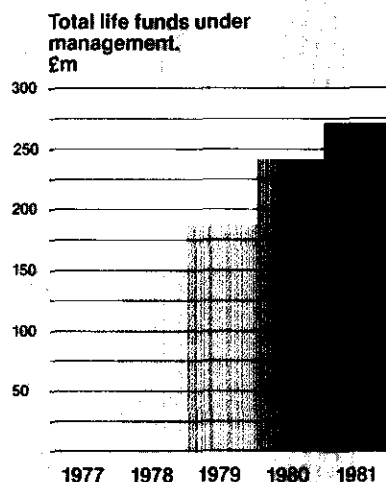
Single premium business was buoyant, particularly in the second half of the year, with substantial increases in the major classes of business, which are income bonds, immediate annuities and personal retirement policies.

Due to the continuing good investment returns on our life funds we have been able to declare substantially higher bonuses to policyholders.

The annual reversionary bonus for assurances has been increased by £0.20 to £5.30 per cent of sum assured for 1981. The scale of terminal bonuses payable on claims has also been materially improved and an additional reversionary bonus has been declared for policies issued in 1980 or earlier on a scale rising from £0.20 per cent for year of issue 1980 to a maximum of £3.00 per cent for policies issued in 1966 or earlier. The effect of these higher bonuses is to increase the total policy proceeds payable under endowment policies maturing in April 1982, as compared with the corresponding figures for 1981, by between 7 and 11 per cent, depending on the term of the policy.

For retirement annuity contracts, the annual reversionary bonus has been increased by £0.40 to £8.20 per cent of the basic annuity. There has also been an increase in terminal and final bonuses taken together.

Ordinary Life Business —
Vanbrugh



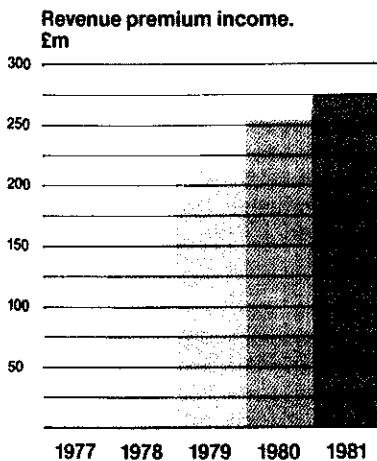
	1981 £m	1980 £m	% increase
New business:			
Annual premiums	7.8	2.1	271
Single premiums	29.5	39.1	(25)
Total revenue premium income	49.3	51.3	(4)

The exceptional increase in new annual premiums occurred almost entirely in sales of contracts for the self-employed which included the highly successful 'loanback' facility introduced by Vanbrugh in the autumn of 1980.

Towards the end of 1981 the 'Vanbrugh Inheritance Trust' was introduced, designed to help the private investor to reduce the burden of capital transfer tax without losing access to existing capital. This new plan has attracted keen interest from the major insurance brokers and financial advisers.

Vanbrugh established a subsidiary company in Jersey during 1981 to manage a currency fund which by the year end was worth £17m. This is not insurance business and is therefore not included in the table above.

Industrial Life Business



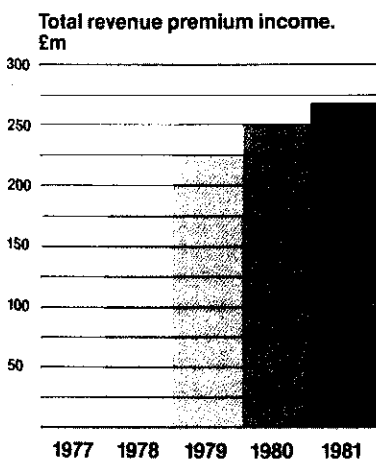
	1981 £m	1980 £m	% increase
New business premiums	65.8	61.6	7
Total revenue premium income	274.5	253.3	8

The continuing economic recession has affected sales of new Industrial life business in the United Kingdom and the rate of growth in new premiums for 1981 was considerably lower than in recent years. The number of new policies we sold fell by 3 per cent but new premiums showed an increase of 7 per cent, which was greater than that of our major competitors and raised our market share for new business to about 30 per cent.

The pattern of new business showed little change, with sales of ten-year endowment policies producing about 70 per cent of new annual premium income.

We have been able to declare substantially higher bonuses to policyholders for the same reason as for Prudential Assurance's Ordinary life business. The annual reversionary bonus has been increased by £0.20 to £3.60 per cent of sum assured for 1981. The scale of terminal bonuses payable on claims has also been materially improved and an additional reversionary bonus has been declared for policies issued in 1980 or earlier on a scale rising from £0.20 per cent for year of issue 1980 to a maximum of £3.00 per cent for policies issued in 1966 or earlier. The effect of these higher bonuses is to increase the total policy proceeds payable under endowment policies maturing in April 1982, as compared with the corresponding figures for 1981, by between 6 and 11 per cent, depending on the term of the policy.

Group Pensions Business — United Kingdom



	1981 £m	1980 £m	% increase
New business:			
Annual premiums:			
Annuities and assurances	26.2	24.2	8
Investment-linked plans	19.0	18.5	3
	<u>45.2</u>	<u>42.7</u>	6
Single premiums:			
Annuities and assurances	28.3	22.1	28
Investment-linked plans	13.2	6.2	113
	<u>41.5</u>	<u>28.3</u>	47
Total revenue premium income:			
Annuities and assurances	149.4	148.7	—
Investment-linked plans	117.5	100.9	16
	<u>266.9</u>	<u>249.6</u>	7

New annual premiums for group pensions business showed a 6 per cent increase notwithstanding the difficult economic conditions, a result which compared favourably with that of the industry generally. New premiums in respect of new entrants and increases in benefits for existing schemes were however only some 3 per cent higher in 1981, which is indicative of the effect of the recession on many of our pension clients. New annual premiums for executive pension plans increased by 15 per cent to £2.5m, much of the business being obtained through our Field Staff.

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The increase of 47 per cent in new single premiums was largely due to payments by employers who try, when finances permit, to increase current pensions in order to compensate at least in part for the effect of inflation.

The figures in the table exclude £37m (1980 £34m) received from certain large pension funds for investment on a segregated fund basis by Prudential Portfolio Managers.

As with Prudential Assurance's individual business it has been possible to make further increases in bonuses for group pensions business. Under cash accumulation and executive pension contracts the rate of bonus interest on accumulated cash has been increased by £0.40 per cent to £6.40 per cent and terminal bonuses on amounts withdrawn to secure retirement benefits have been increased by £1.00 per cent to £3.50 per cent for each year of deposit.

Life and Pensions Business — Overseas

	1981 £m	1980 £m	% increase
New business:			
Annual premiums	35.6	25.6	39
Single premiums	43.1	18.4	134
Total revenue premium income	204.2	141.5	44

The increases in our overseas business shown above are inflated by the weakening of sterling during 1981 relative to the currencies in which most of our business is written. Assuming unchanged exchange rates, the increases would have been 26 per cent for new annual premiums, 97 per cent for new single premiums and 26 per cent for total revenue premium income.

In Australia, new business results were much better than in recent years, with new annual premiums up 36 per cent to A\$13.4m (£7.9m). Single premiums were also up sharply but this was due to the investment of our staff pension fund in a new unit-linked contract which should prove attractive to large superannuation schemes.

In Canada, new annual premiums fell by 4 per cent to C\$18.5m (£8.1m). Single premiums more than doubled to C\$64m (£28.4m), reflecting the popularity of annuity contracts; C\$20m arose from the reinvestment of surrender values which are guaranteed at a level which is currently very attractive.

We continue to maintain our share of the buoyant market in South Africa and recorded growth of 41 per cent in new annual premiums to R22.1m (£12.1m).

We have increased bonuses in nearly all countries. In the light of favourable investment experience, there have been significant increases in reversionary bonuses in Australia, and in South Africa a special bonus on policies becoming claims has been granted. In Canada the improvements include an increase in existing reversionary bonuses on assurances and a consequent enhancement of amounts payable on death or maturity; these increases will not be reflected in cash surrender values and the effect should be to help in the conservation of existing business.

Specialist Reinsurance Business

	1981 £m	1980 £m	% increase
New business:			
Annual premiums	21.5	17.8	21
Single premiums	6.8	6.1	11
Total revenue premium income	94.3	74.6	26

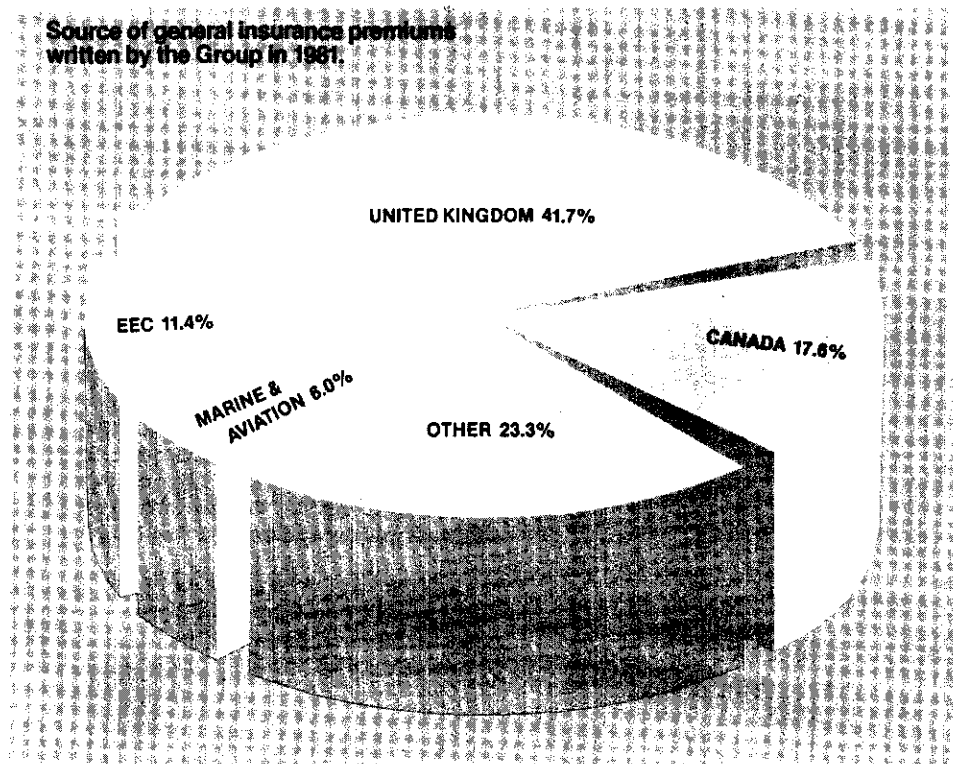
At Mercantile & General the life business has continued to develop satisfactorily. New business annual premiums overseas, amounting to £13.6m, were buoyant and the growth in terms of local currencies was 25 per cent. The United States business had another very successful year and new annual premiums were up by 43 per cent to US\$10.0m (£5.2m). New annual premiums in the United Kingdom were marginally lower than in 1980.

Progress Report General Insurance

General Insurance Summary

	1981 £m	1980 £m	% increase
Premiums written:			
Fire and accident			
United Kingdom	201.7	173.4	16
Canada	74.6	48.5	54
EEC	37.1	37.0	-
Other	44.8	34.8	29
Marine and aviation	11.8	8.9	33
Specialist reinsurance	199.0	153.4	30
	<u>569.0</u>	<u>456.0</u>	25
Underwriting results:			
Fire and accident			
United Kingdom	(9.7)	(9.3)	
Canada	(10.4)	(2.9)	
EEC	(4.7)	(3.6)	
Other	(9.9)	(4.0)	
Marine and aviation	(1.0)	(1.7)	
Specialist reinsurance	(23.3)	(12.4)	
	<u>(59.0)</u>	<u>(33.9)</u>	
Investment income	46.1	33.6	
Trading profit before tax	(12.9)	(0.3)	
Taxation credit	4.7	2.8	
Profit after tax	<u>(8.2)</u>	<u>2.5</u>	

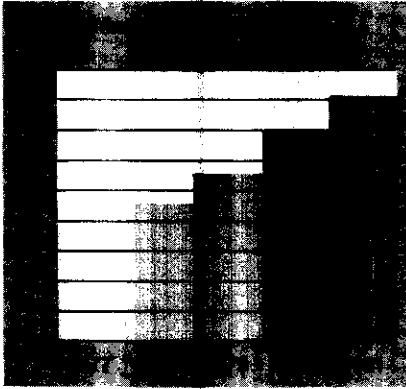
Source of general insurance premiums written by the Group in 1981.



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Progress Report General Insurance

Fire and Accident Insurance — United Kingdom



	1981 £m	1980 £m	% increase
Premiums written	201.7	173.4	16
Underwriting result	(9.7)	(9.3)	

Particularly severe weather conditions in December produced estimated additional claims of £5.5m, which cancelled out the improvement in our United Kingdom underwriting results which had been achieved earlier in the year. The bad weather continued into 1982 and is expected to give rise to additional claims in the property account of some £6m which will be reflected in the 1982 results.

In the domestic property account we have in recent years tried to ensure that policyholders increase their sums insured in line with inflation, and we have also made some increases in premium rates. This action has produced a substantial increase (26 per cent) in written premiums in 1981 and despite the bad weather, the underwriting loss has been reduced to £5.2m, compared with £6.7m in 1980.

Competition for motor business has been increasing markedly in recent years, and we have had to keep premium increases to a minimum in spite of a noticeable increase in manufacturers' spare parts costs above the rate of inflation. Nevertheless, written premiums increased by 10 per cent and there was an improvement in the underwriting loss to £2.2m, compared with £3.4m in 1980.

All classes of commercial business, other than fire, showed underwriting losses. The effects on the commercial insurance market of the economic recession and of increasing competition from both home and overseas insurers have been well publicised, and these factors have held back our premium growth. The underwriting results of our liability account and combined package policies for shops and hotels were particularly bad and these accounts are receiving our urgent attention.

Fire and Accident Insurance — Overseas

	1981 £m	1980 £m	% increase
Premiums written	156.5	120.3	30
Underwriting result	(25.0)	(10.5)	

Throughout the year conditions in most overseas insurance markets were unusually difficult. Economic difficulties and higher interest rates worldwide combined to produce an abundance of underwriting capacity, with the result that premium rates were depressed, often below prudent levels. Against this background there was an increase in our premium income of 30 per cent in sterling terms, equivalent to 17 per cent at constant rates of exchange, but a marked deterioration in the underwriting results. We are taking strenuous action to improve this situation, although we recognise that this may lead to some loss of business.

In Canada, earlier indications of stability and improvement have failed to materialise. The growth in our premium income in local currency was 22 per cent, which in part reflects rate increases, but premium rates are still inadequate for all major classes of business. The liability results were particularly poor.

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In Belgium, where the market has been very competitive and rate increases on certain lines have been held back by government control, the growth in L'Escaut's premiums was only 4 per cent. All major classes of business produced substantial underwriting losses, particularly the commercial fire account which was affected by a number of major fires. Elsewhere in Europe there was an underwriting loss overall, despite a return to profitability in France and Germany.

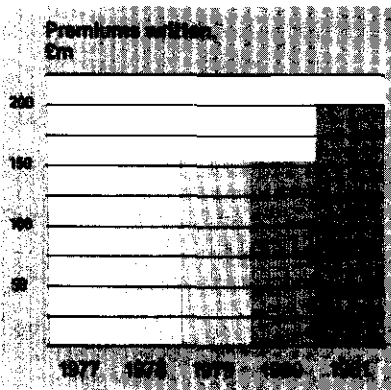
In Australia conditions continued to deteriorate and our subsidiary, Prudential Cornhill Insurance, had an underwriting loss of £2.5m.

There was a substantial worsening of the results for overseas business written on the London market and for our treaty reinsurance business, which together produced an underwriting loss of £5.7m.

Marine and Aviation

Despite the efforts being made in both the marine and aviation markets, rating levels improved only marginally and worldwide competition for quality business remained intense. However, the underwriting loss of £1.0m compares favourably with the loss of £1.7m in 1980.

Specialist Reinsurance



	1981 £m	1980 £m	% increase
Premiums written:			
<i>Fire, accident and miscellaneous</i>	176.3	135.2	30
Marine and aviation	22.7	18.2	25
	<u>199.0</u>	<u>153.4</u>	30
Underwriting result	(23.3)	(12.4)	

Underwriting conditions have continued to be extremely unfavourable due to a combination of economic recession, inflation and inadequate rates for both insurance and reinsurance business. Much of the increase in premium income was due to the fall in the value of sterling, but our policy of selective expansion led to some growth, particularly in non-proportional treaty business.

The underwriting results reported in the 1981 accounts reflect to a large extent the developing experience of reinsurance written in 1980 and earlier years. Fire reinsurance has again produced heavy underwriting losses and a marked deterioration in our accident business has led us to strengthen the technical reserves substantially. On the other hand, 1981 has seen some slight signs of improvement in the Marine and Aviation business, although basic rates in these classes are not yet at an economic level.

Investment Income

Investment income on short-term general insurance and shareholders' funds combined increased from £52.3m to £65.9m, a rise of 26 per cent. If exchange rates had remained unchanged the growth would have been 19 per cent.

Progress Report Investments

Investment Funds under Management

	Life business £m	General insurance and Shareholders £m	Other funds under management £m
Market values at the end of 1981			
Ordinary shares	3,864	252	512
Properties	3,206	64	153
British Government securities	1,494	80	208
Other fixed income securities	789	331	52
Mortgages and loans	482	28	5
	<u>9,835</u>	<u>755</u>	<u>930</u>

The table above shows for the first time a market value analysis by class of asset of the funds managed by the Group. The strength of the position built up by successful investment over the years, especially in property and in ordinary shares, is reflected in the significant increase in bonus levels which we have been able to make this year in the United Kingdom and a number of other countries in which we operate.

Net Investment in 1981

	Life business £m	General insurance and Shareholders £m	Other funds under management £m
Funds arising in the United Kingdom			
Ordinary shares—United Kingdom	188	10	76
Ordinary shares—Overseas	128	5	22
Properties	73	4	12
British Government securities			
—fixed income	(24)	10	11
—index linked	93	—	32
Other fixed income securities (including mortgages)	22	27	8
Increase in cash	38	7	13
	<u>518</u>	<u>63</u>	<u>174</u>
Funds arising overseas			
Ordinary shares	14	(5)	2
Properties	27	5	—
Fixed income securities (including mortgages)	87	14	2
Increase in cash	39	9	1
	<u>167</u>	<u>23</u>	<u>5</u>

Money available for net investment by our life assurance funds in the United Kingdom fell in 1981, principally because of the impact of a higher level of surrenders of policies. The amounts arising in other funds increased substantially and the total new money for investment in all the United Kingdom funds we manage, at £755m, was similar to that for 1980.

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Investment in ordinary shares in the United Kingdom was greater than for some time, partly in response to the high level of additional capital raised by way of rights issues. Our programme of increasing the proportion of total funds invested in a spread of overseas countries to a higher, yet still modest, level was continued, and at the year end about 5% of our United Kingdom life funds were so invested.

A new feature of our investment pattern was the use we were able to make for the first time of long-term index linked Government stocks in pension funds under our management in the United Kingdom. After heavy investment in orthodox Government stocks in recent years we made a modest net disinvestment in 1981.

The total of funds arising overseas, the greater part of which relates to life business, increased substantially during 1981. These funds arise from a wide variety of countries, in most of which the pattern of investment is much more heavily concentrated in fixed interest forms as a result of statutory regulation or official encouragement in the form of tax advantages.

United Kingdom Property Development

Our property portfolios have largely been assembled by the acquisition of existing buildings or through finance arrangements whereby a property company constructs a new building in return for a share of the equity and the Prudential as investor provides all or most of the capital cost. The use of an external developer has generally meant that we were able to reduce our level of risk but in return we had to concede a significant share of any profit. In the mid 1970s it was decided that we should undertake a higher proportion of direct development. By this decision we hoped to increase our returns and also improve the quality of our buildings by exercising complete control over their design and construction. We pursued our objective both by the acquisition of a small property development company, Edger Investments, which has a wide range of contacts in the property world, and by the formation of our own in-house development team. Both approaches have proved successful; we have completed a number of major schemes and have a programme which amply fulfils our current investment needs.

There are currently 14 projects either under construction or on which a start is imminent and these will cost in excess of £100m. They range in size from 5 nursery industrial units on a small inner city site in Bristol to a City of London office block providing 125,000 square feet of net space.

We are also in varying stages of designing, planning or negotiating 18 other projects totalling perhaps £140m. These include a major scheme for redevelopment of Reading Station with a current building cost of £52m.

Prudential Portfolio Managers

The column in the table opposite headed "Other funds under management" relates principally to non-insurance fund assets managed for a fee by Prudential Portfolio Managers. This company is gradually extending the range of its fund management activities and we expect to continue this process. Management of funds arising outside the United Kingdom for investment both here and overseas is receiving attention. There is a growing demand for such a service and we are well equipped to provide it on terms which should produce a satisfactory profit for the Group.

Prudential Portfolio Managers also acts as investment advisers to the Jersey-based Vanbrugh Currency Fund, which was launched in April 1981. Its returns and performance have been most encouraging and by the end of the year the value of the Fund was some £17m.

Directors' Report

for the year ended 31 December 1981

Principal Activity

Prudential Corporation plc is the Group holding company and the principal activity of its subsidiaries is transacting insurance and reinsurance business of all classes in the United Kingdom and overseas. Particulars of principal subsidiary companies are given in notes on the accounts on page 28.

Accounts

The Consolidated Balance sheet on page 23 shows the state of affairs of the Group at 31 December 1981. The Company's Balance sheet appears on page 24 and the Consolidated Profit and loss account on page 22.

There is a five-year review of the Group on page 35.

Dividends

The Directors have declared a final dividend for 1981 of 8.0p per share payable on 27 May 1982 to shareholders on the Register at close of business on 29 April 1982. The dividend for the year, including the interim dividend of 4.5p per share paid in November 1981, amounts to 12.5p per share compared with 11.0p per share for 1980.

Directors

The present Directors of the Company are shown on page 5.

The Directors retiring by rotation are The Rt Hon Lord Carr of Hadley PC, H G Clarke FIA, D M C Donald ws, Sir John Hogg TD and D A Reid. They offer themselves for re-election.

Sir John Butterfield OBE FRCP who was appointed a Director as from 17 September 1981, retires in accordance with the Articles of Association and offers himself for election.

The Directors recommend the election of D S Craigen and J A S Neave CBE JP.

J A T Barstow DSO TD DL and F M Redington FIA retired on 28 May 1981.

Directors' Shareholdings

According to the Registers kept under Section 29 of the Companies Act 1967, Directors' interests in shares of the Company were as follows:

	Shares of 25p each			
	On 31 December 1981		†On 1 January 1981	
	Beneficially held	Other Interest	Beneficially held	Other interest
Lord Carr of Hadley	2,000		2,000	
W G Haslam	2,500		2,500	
J E Ramsden	2,400		2,400	
Sir John Butterfield (appointed 17.9.81)	2,000		2,000	
H G Clarke	4,824		4,824	
D M C Donald	3,600		3,600	
E P Hatchett	2,064		2,064	
Sir John Hogg	4,392		4,392	
Lord Hunt of Tanworth	2,000		2,000	
P E Moody (elected 28.5.81)	2,000		2,000	
A F Murray	2,400	918	2,400	918
Lord O'Brien of Lothbury	2,400		2,400	
Sir Ronald Owen	6,000		6,000	
D A Reid	152,256	343,295	152,256	379,161
R S Skerman	2,500		2,500	
Sir Peter Tennant	2,400		2,400	

†or later on election or appointment if after 1 January 1981

Except as stated above none of the Directors had an interest, either at the beginning or at the end of the year, in any shares in or debentures of the Company or of its subsidiaries.

There has been no change in Directors' shareholdings between 31 December 1981 and 2 April 1982.

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Employees The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1981 was 23,117 and the aggregate remuneration paid or payable in respect of these employees during 1981 amounted to £196,721,730.

Employment of disabled persons During the financial year, the policy of the Group has been:

(a) to give full and fair consideration to applications for employment made by disabled persons, having regard to their particular aptitudes and abilities, by recruiting on the basis of ability to carry out the job.

(b) whenever possible to continue the employment of and to arrange appropriate training for, employees of the Group who have become disabled persons while they were employed by the Group.

(c) provided they have the ability to carry out the job, to arrange for the training, career development and promotion of disabled persons on the same basis as that for able-bodied persons.

Donations During the year the Company and its subsidiaries gave £178,589 in the United Kingdom and £63,734 overseas for charitable purposes.

Auditors In accordance with Section 14 of the Companies Act 1976, 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 The number of shareholders on the register at the end of the year was:

1981	1980
30,000	31,100

Substantial Shareholdings As far as the Directors were aware at 2 April 1982 no person has a shareholding of 5 per cent or more of the share capital of the Company.

Analysis of Shareholdings in the Company at 31 December 1981

	1981	1980
	%	%
Banks (mainly nominee holdings)	38.0	36.5
Insurance companies	13.2	13.0
Pension funds	22.3	21.7
Investment trusts and unit trusts	2.3	2.3
Other corporations	4.8	6.4
Individuals	19.4	20.1
	100.0	100.0

**Power to issue Capital—
Proposed Resolution**

Under Section 14 of the Companies Act 1980, the Directors may not exercise the right previously given to them under the Company's Articles of Association to issue and allot new equity shares unless authorised to do so by an ordinary resolution of the Company and the authority may not exceed 5 years. Shareholders are being asked to pass a resolution under this Section (shown under "Special Business" in the Notice of Meeting on page 3) the effect of which will be to confer upon the Directors authority to issue shares in the Company in exchange for assets other than cash. In proposing this resolution your Directors are adopting the same practice as many other listed companies, and whilst no share issue is in contemplation at the moment, it could well be that the absence of the power for which Directors are asking could prove inconvenient and could involve the expense of calling an Extraordinary General Meeting of the Company. No issue will be made which would effectively change the control of the Company without the prior approval of the Company in General Meeting.

Carr of Hadley
Chairman
15 April 1982

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Consolidated Profit and Loss Account

year ended 31 December 1981

	Note	1981 £m	1980 £m
Profit after taxation from:			
Ordinary life business	1g & 11	31.3	22.4
Industrial life business	1g & 11	10.2	7.1
General insurance business	1h & 11	(8.2)	2.5
Shareholders' other income:			
Investment income	1i & 5	19.8	18.7
Miscellaneous income		2.2	1.0
Expenses		(3.7)	(1.9)
		18.3	17.8
Taxation	1k & 12	(8.4)	(7.3)
		9.9	10.5
Profit for the year after taxation	6	43.2	42.5
Dividends:			
Interim		13.4	11.9
Final		23.9	20.9
		37.3	32.8
Retained profit for the year		5.9	9.7

Earnings per share 14.5p 14.2p
Based on earnings of £43.2m (£42.5m) and 298,388,254 shares

	Note	1981 £m	1980 £m
Retained profit			
Balance at the beginning of the year		72.0	64.3
Retained profit for the year		5.9	9.7
		77.9	74.0
Transfer to Investment reserve	7a	(0.7)	(1.8)
Loss on sale of investments of the Company		—	(0.2)
Balance at the end of the year		77.2	72.0

P00020462

Consolidated Balance Sheet

31 December 1981

	Note	1981 £m	1980 £m
Shareholders' funds			
Share capital	3	74.6	74.6
Share premium		46.4	46.4
Retained profit		77.2	72.0
		198.2	193.0
Insurance funds			
Ordinary life business		5,729.8	4,847.7
Industrial life business		1,538.1	1,374.4
General insurance business		477.8	365.0
		7,943.9	6,780.1
Investments			
	1d		
Ordinary stocks and shares		2,345.6	1,905.8
Properties		2,054.9	1,698.3
British Government securities		1,594.6	1,624.0
Other fixed income securities		1,150.6	917.4
Mortgages and loans		532.7	441.4
		7,678.4	6,586.9
<i>Market value</i>	1e	10,590.0	9,310.0
Other assets			
Tax recoverable		19.7	6.0
Debtors		373.6	319.0
Deposits, bank balances and cash		475.9	334.7
		8,547.6	7,246.6
<i>Less</i>			
Other liabilities and provisions			
Outstanding claims		260.2	204.9
Other creditors		176.4	149.4
Unsecured loans in overseas currencies	4	111.2	63.4
Bank loans and overdrafts	4	20.2	21.4
Deferred taxation	12	26.0	23.4
Taxation		12.6	9.6
Loan stocks of a subsidiary	4	1.9	2.2
Final dividend		23.9	20.9
		632.4	495.2
		7,915.2	6,751.4
Goodwill	1c	28.7	28.7
		7,943.9	6,780.1

P00020463

Balance Sheet of the Company

31 December 1981

	Note	1981 £m	1980 £m
Shareholders' funds			
Share capital	3	74.6	74.6
Retained profit	6	8.8	8.1
		83.4	82.7
Investments			
British Government securities	1d	6.6	6.6
(Market value £7.6m (1980 £7.3m))	1e		
Shares in subsidiaries		74.6	74.6
Other assets			
Tax recoverable		0.1	0.1
Amounts due from subsidiaries		25.0	20.9
Deposits and bank balances		1.0	1.4
		107.3	103.6
Less			
Final dividend		23.9	20.9
		83.4	82.7

The financial statements on pages 22 to 34 were approved by the Board of Directors on 15 April 1982 and are signed on its behalf by:

Carr of Hadley *Chairman*

W G Haslam *Director*

F B Corby *Chief Executive*

15 April 1982

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Source and Application of Funds

of the Group (excluding Life)
year ended 31 December 1981

	1981 £m	1980 £m
Source of funds		
Profit for the year after taxation	43.2	42.5
Transfer to Investment reserve	(0.7)	(1.8)
Loss on sale of investments of the Company	—	(0.2)
	42.5	40.5
Adjustment for item not involving movement of funds:		
Depreciation	1.7	1.5
	44.2	42.0
Increase in General insurance business funds	112.8	25.1
	157.0	67.1
Application of funds		
Dividends paid	34.3	29.8
Increases/(decreases) in investments:		
Ordinary stocks and shares	22.3	7.4
Properties	9.1	9.2
British Government securities	4.8	(11.6)
Other fixed income securities	62.7	36.9
Mortgages and loans	2.7	(0.8)
	101.6	41.1
Movement in other assets, liabilities and provisions		
Debtors	45.8	10.0
Outstanding claims	(43.6)	(8.2)
Taxation	4.4	(2.7)
Unsecured loans in overseas currencies	(0.5)	(1.6)
Loan stocks of a subsidiary	0.3	0.2
Other creditors	(2.5)	5.7
Deposits, bank balances and cash	17.5	(13.0)
Bank loans and overdrafts	(0.3)	5.8
	21.1	(3.8)
	157.0	67.1

Movements during the year include the effect of exchange revaluation and are after application of the balances of Investment reserve accounts.

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Notes on the Accounts

1. Group accounting policies

The principal accounting policies of the Group are set out below.

(a) Disclosure requirements

As most of the Company's subsidiaries are insurance companies the group accounts do not disclose certain information, including some relating to provisions and reserves, which they are exempt from disclosing under the provisions of the Companies Acts 1948 and 1967. They are not required to comply with the accounting and disclosure provisions of the Companies Act 1981.

For insurance business, with the exception of linked business, profits and losses on the realisation of investments, taxes thereon and exchange adjustments are excluded from the reported revenue results and dealt with through Investment reserve accounts. Transfers may be made from time to time from or to the respective Revenue or Profit and loss accounts or insurance funds.

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

(b) Basis of consolidation

The group accounts incorporate the assets and liabilities of the Company and all its subsidiaries at 31 December and the results for the year ended on that date with the exception of London Indemnity and General Insurance Company Limited whose accounts are not included in the group accounts as it would be misleading to do so; with the approval of the Department of Trade the particulars otherwise required to be given in accordance with paragraphs 15(4) and (6) of the Eighth Schedule to the Companies Act 1948 are omitted.

The results of subsidiaries acquired or disposed of are brought into the accounts from the date of acquisition or up to the date of disposal.

(c) Goodwill

Goodwill represents the difference between the Balance sheet values of the investments in subsidiaries and their net asset values at their dates of acquisition adjusted by application of reserves.

(d) Balance sheet values of investments and subsidiaries

With the exception of those related to linked business, investments are stated mainly at cost, but are:

- (i) increased in the life funds of certain insurance subsidiaries by part of unrealised margins transferred to the Revenue accounts,
- (ii) adjusted in all branches of the insurance subsidiaries by the application of the balances of Investment reserve accounts,
- (iii) adjusted by depreciation on certain properties.

Linked business investments are included at market value.

In the Balance sheet of the Company shares in subsidiaries are stated at cost.

(e) Market values of investments

Market values are based on market quotations where available. In all other cases values are estimated by the directors of the various companies.

(f) Exchange rates

Foreign currency assets and liabilities and revenue transactions for the year are translated at rates of exchange ruling at the end of the year. However, certain foreign currency investments held in the UK are translated at the rates of exchange ruling on the dates of acquisition and certain revenue transactions are translated at rates of exchange ruling on the dates of the respective transactions.

(g) Long-term business

Long-term insurance profits are allocated from the surpluses determined as the result of annual actuarial valuations. The amount of the surplus allocated to shareholders is determined by the directors of the companies concerned in accordance with their Articles of Association.

(h) Short-term business

Unearned premium reserves for direct fire and accident insurance business are calculated on a proportional basis having regard to the premiums in force each month, with a deduction of 20 per cent for acquisition costs. Unexpired risk reserves are maintained to cover the estimated excess of liabilities over the unearned premium reserves.

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

The underwriting results on marine, aviation and transport business are determined at the end of the second year following the year of account to which that business relates, after allowing for all outstanding premiums and claims. Premiums less claims paid and expenses relating to the two open years of account are carried forward and increased if necessary, so that the funds for each year are sufficient to meet the estimated cost of all outstanding claims, whether notified or not, and the claims expected on unexpired risks.

Fire and accident proportional reinsurance business is dealt with on a two year basis, unearned premiums and outstanding claims being calculated on bases depending on individual contract terms. Non-proportional business is dealt with on a funded basis.

(i) Investment income

Dividends on ordinary shares are included on the basis of the date on which payment is due except those relating to linked business, which are included by reference to ex-dividend dates. All other income is included on an accruals basis. Investment income is adjusted for accrued income included in the purchases and sales of securities so as to match the income with the period for which the security has been held.

UK dividends are grossed up by the amount of the attaching tax credit.

Group investment income is shown less depreciation and interest payable.

(j) Depreciation

Motor vehicles, furniture and office equipment are written off in the year of purchase. Major capital expenditure on computer equipment, development costs and plant and machinery in investment properties is amortised by equal annual instalments over the estimated useful life.

All properties within the Group are regarded as investment properties as defined in the Statement of Standard Accounting Practice No. 19. They are not individually depreciated except that leasehold properties are amortised over the last 50 years or less of the lease.

(k) Taxation

Taxation is charged on all profits and income earned to date, less reliefs. Provision under the liability method is made for all potential taxation arising from short-term timing differences and from originating timing differences which cannot be demonstrated with reasonable probability to continue into the foreseeable future.

(l) Retirement benefit schemes

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

2. 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
The Mercantile and General Reinsurance Company plc	Shares £1	Scotland (operating principally in UK)
The Prudential Assurance Company Limited	Shares 25p	England
The Prudential Assurance Company of South Africa Limited	Shares R1	South Africa
Prudential Cornhill Insurance Company of Australia Limited	Shares A\$1 (66.67%) Preferred Ordinary Shares A\$1	Australia
Prudential Pensions Limited	Shares £1	England
Prudential Portfolio Managers Limited	Shares £1	England
The Standard Trust Limited	Ordinary Shares 25p 3½% Cumulative Preference Stock (99.9%)	England
Vanbrugh Life Assurance Limited	Ordinary Shares £1	England

The principal activity of these subsidiaries is insurance with the exception of Prudential Portfolio Managers Limited, an investment management company, and The Standard Trust Limited which is an investment trust.

In view of the number involved, other subsidiaries which do not materially affect the profit of the Group or the amount of its assets are not shown.

Prudential Cornhill Insurance Company of Australia Limited ceased to be a subsidiary company on 4 January 1982 when the shareholding was acquired by Phoenix Prudential Australia Limited in consideration for a minority shareholding in that company.

3. Share capital

The Company's authorised Share capital is £87,500,000 in 350,000,000 shares of 25p each of which 298,388,254 shares have been issued fully paid.

4. Loans

The unsecured loans in overseas currencies fall due for settlement by 1984. Bank loans and overdrafts are repayable in one year or less, or on demand. Loan stocks of a subsidiary are repayable by the following dates:

	£m
1985	1.1 at 3½%
1985	0.1 at 4½%
1988	0.7 at 5½%
	1.9

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5. Interest on loans

Interest on loans and bank overdrafts deducted from group investment income, including that of life business and general insurance business, is as follows:

	1981 £m	1980 £m
Loans repayable within 5 years	15.9	8.9
Others	0.1	0.1

6. Profit and loss account

	1981 £m	1980 £m
Profit of the Company for the year after taxation	38.0	33.7
Less Dividends	37.3	32.8
	0.7	0.9
Loss on sale of investments of the Company	—	(0.2)
Movement in retained profit of the Company	0.7	0.7

7. Investment reserve

(a) The transfer to Investment reserve shown in the Consolidated Profit and loss account is in respect of undistributable profits arising from adjustments to the results of certain subsidiary companies to bring their accounting policies into line with those of the Group.

(b) A provision of £10.0m has been charged against Investment reserve. This mainly relates to possible claims arising in the specialist reinsurance subsidiary in respect of earlier underwriting years.

8. Major shareholdings

The Group holds shares in 31 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 39 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, 26 come within the definition of associated companies but due to their insignificance and the fact that several are held wholly or partly as investments of the life funds they are not listed nor are their results included in the Group accounts except to the extent of dividends received.

9. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to £717,000 (£568,000).

10. Commitments

The Group is committed to capital expenditure not provided of £8.0m (£3.8m) and expenditure authorised but not contracted of £1.6m (£0.1m) in respect of office buildings and computer equipment.

11. Insurance business

Life business Revenue accounts	Note	Ordinary life business		Industrial life business	
		1981 £m	1980 £m	1981 £m	1980 £m
Premium income		912.8	767.0	274.5	253.3
Investment income	1i & 5	517.9	450.3	170.9	157.8
Other income*		156.5	173.3	74.7	32.1
		1,587.2	1,390.6	520.1	443.2
Less:					
Claims		587.3	436.0	214.5	176.5
Commissions and expenses		198.0	159.4	113.9	106.3
Taxation	1k & 12	31.2	28.7	17.8	14.7
Increase in insurance liability		390.6	484.6	3.8	25.4
		1,207.1	1,108.7	350.0	322.9
Surplus for distribution		380.1	281.9	170.1	120.3
Policyholders' bonuses		348.8	259.5	159.9	113.2
Transfers to Consolidated Profit and loss account	1g	31.3	22.4	10.2	7.1

*comprises part of unrealised margin of market values of investments over their Balance sheet values (Ordinary life £120.5m (£59.0m), Industrial life £74.7m (£32.1m)) and increase in value of investments related to linked business (Ordinary life £36.0m (£114.3m)).

Life business
Balance sheets

Insurance funds		5,729.8	4,847.7	1,538.1	1,374.4
Investments	1d				
Ordinary stocks and shares		1,718.1	1,355.6	459.0	403.9
Properties		1,540.4	1,279.5	471.8	383.5
British Government securities		1,057.0	1,091.4	460.6	460.5
Other fixed income securities		762.2	584.5	64.8	72.0
Mortgages and loans		420.9	348.1	79.3	63.5
		5,498.6	4,659.1	1,535.5	1,383.4
Market value	1e	7,120.0	6,150.0	2,715.0	2,500.0
Other assets					
Tax recoverable		9.8	5.4	0.3	—
Debtors		170.7	157.0	33.1	28.4
Deposits, bank balances and cash		333.0	247.0	71.9	39.5
		6,012.1	5,068.5	1,640.8	1,451.3
Less:					
Other liabilities and provisions					
Outstanding claims		51.3	40.7	7.6	6.5
Other creditors		116.9	89.5	46.6	39.8
Unsecured loans in overseas currencies	4	73.9	43.3	35.2	18.5
Bank loans and overdrafts	4	14.0	25.0	7.4	3.3
Deferred taxation	1k	14.6	14.8	5.9	5.3
Taxation		11.6	7.5	—	3.5
		282.3	220.8	102.7	76.9
		5,729.8	4,847.7	1,538.1	1,374.4

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General insurance business
Revenue accounts

	Note	1981 £m	1980 £m
Premiums written		569.0	456.0
Less increase in insurance liability		73.5	50.0
		495.5	406.0
Long-term business investment income	1i & 5	9.6	6.9
		505.1	412.9
Less:			
Claims		355.7	275.2
Commissions and expenses		208.4	171.6
		564.1	446.8
Underwriting loss	1h	(59.0)	(33.9)
Short-term business investment income	1i & 5	46.1	33.6
Loss before taxation		(12.9)	(0.3)
Taxation credit	1k & 12	(4.7)	(2.8)
Transfer to Consolidated Profit and loss account		(8.2)	2.5

Shareholders' and
General insurance business
Balance sheets

	Note	Shareholders'		General insurance business	
		1981 £m	1980 £m	1981 £m	1980 £m
Shareholders' funds		198.2	193.0	—	—
Insurance funds		—	—	477.8	365.0
Investments	1d				
Ordinary stocks and shares		55.0	48.0	113.5	98.2
Properties		7.4	8.5	35.3	26.8
British Government securities		39.6	39.2	37.4	33.0
Other fixed income securities		52.0	51.0	271.6	209.9
Mortgages and loans		0.4	—	32.1	29.8
		154.4	146.7	489.9	397.7
<i>Market value</i>	1e	175.0	170.0	580.0	490.0
Other assets					
Tax recoverable		0.2	0.7	9.4	3.3
Debtors		40.2	37.4	180.6	136.9
Deposits, bank balances and cash		14.7	12.6	60.0	43.8
		209.5	197.4	739.9	581.7
Less:					
Other liabilities and provisions					
Outstanding claims	1h	—	—	201.3	157.7
Other creditors		7.6	4.4	56.4	56.4
Unsecured loans in overseas currencies	4	2.1	1.6	—	—
Bank loans and overdrafts	4	—	—	2.4	1.3
Deferred taxation	1k	4.3	3.7	1.2	(0.4)
Taxation		0.2	0.3	0.8	1.7
Loan stocks of a subsidiary	4	1.9	2.2	—	—
Final dividend		23.9	20.9	—	—
		40.0	33.1	262.1	216.7
Goodwill	1c	169.5	164.3	477.8	365.0
		28.7	28.7	—	—
		198.2	193.0	477.8	365.0

12. Taxation

	Ordinary life business		Industrial life business		General insurance business		Profit and loss	
	1981 £m	1980 £m	1981 £m	1980 £m	1981 £m	1980 £m	1981 £m	1980 £m
Corporation tax at 52% less reliefs	5.8	5.8	1.7	1.4	(9.5)	(4.6)	6.0	5.9
Double taxation relief	(0.1)	(0.4)	—	(0.4)	(0.4)	(1.5)	(0.6)	(0.7)
Tax on franked investment income	5.7	5.4	1.7	1.0	(9.9)	(6.1)	5.4	5.2
Overseas taxation	16.3	16.5	15.1	14.2	2.5	2.1	1.4	1.4
	11.2	7.9	0.7	0.4	1.5	1.9	0.8	0.6
Adjustments re prior years	33.2	29.8	17.5	15.6	(5.9)	(2.1)	7.6	7.2
	(0.6)	(3.4)	(0.2)	(1.4)	0.2	(0.5)	0.1	(1.1)
Deferred taxation:	32.6	26.4	17.3	14.2	(5.7)	(2.6)	7.7	6.1
Current year	1.1	2.5	0.4	0.5	1.2	(0.2)	1.3	0.5
Prior years	(2.1)	—	0.2	—	—	—	(0.4)	0.6
Group relief	(0.4)	(0.2)	(0.1)	—	(0.2)	—	(0.2)	0.1
	31.2	28.7	17.8	14.7	(4.7)	(2.8)	8.4	7.3

The table above gives details of the taxation charged in the Consolidated Profit and loss account on page 22 and in Revenue accounts (see note 11 pages 30 and 31) on all profits and income earned to date.

Tax on capital gains charged in the year against Investment reserve accounts amounts to £5.8m (£13.1m).

Deferred taxation in the Balance sheet of the Company relates to short-term timing differences.

Deferred taxation in the Consolidated Balance sheet relates to:

	1981		1980	
	Potential liability £m	Amount provided £m	Potential liability £m	Amount provided £m
Short-term timing differences	22.6	22.6	20.7	20.7
Tax allowances	13.9	6.1	11.8	6.1
General insurance business reserves	7.2	(2.7)	2.7	(3.4)
	43.7	26.0	35.2	23.4
Maximum tax payable if investments were disposed of at market values:				
Ordinary life business	255.1	—	219.0	—
Industrial life business	369.5	—	317.1	—
General insurance business	26.0	—	29.6	—
Profit and loss	8.5	—	10.7	—
	659.1	—	576.4	—
	702.8	26.0	611.6	23.4

The close company provisions of the Income and Corporation Taxes Act 1970, as amended, do not apply to the Company.

13. Emoluments of Directors and senior employees

The aggregate amount of the emoluments of the Directors of the Company for the year was £229,961 (£215,208).

The sum of £15,000 was paid to a Director on his giving up office as a Director of the Company.

In addition, contributions made to pension schemes for Directors were £41,703 (£36,551).

The emoluments of the Chairman amounted to £40,765 (£34,132 — *Sir Ronald Owen* £13,480 and *Lord Carr* £20,652).

The table below shows the number of Directors of the Company and senior employees of the Group in the United Kingdom whose emoluments were within the bands stated:

Emoluments £	Number of Directors		Number of employees	
	1981	1980	1981	1980
1 to 5,000	3	—		
5,001 to 10,000	8	11		
10,001 to 15,000	2	1		
15,001 to 20,000	3	4		
20,001 to 25,000	1	—	391	222
25,001 to 30,000	—	1	113	40
30,001 to 35,000	—	—	20	12
35,001 to 40,000	—	—	16	14
40,001 to 45,000	1	—	7	1
45,001 to 50,000	—	—	3	1
50,001 to 55,000	—	—	—	2
55,001 to 60,000	—	—	2	2
60,001 to 65,000	—	—	2	—
65,001 to 70,000	—	—	1	1
80,001 to 85,000	—	—	1	—

14. Loans to and transactions with Directors and officers

No loans were granted to Directors in 1981 but the following loans subsisted during the year, the loans being granted before the person concerned became a Director of the Company.

	Liability at 1 January 1981 £	Maximum liability during 1981 £	Liability at 31 December 1981 £
House Purchase Loan			
Mr P E Moody	12,000	12,000	12,000
Loans on Policies			
Mr W G Haslam	1,350	1,351	1,305

The house purchase loan is secured on the personal residence of the Director and repayment will be made from endowment policies; interest on different portions of the loan is at 3.5 per cent and 8 per cent, the terms being no more favourable than those which were normally available to members of the staff when the loan was made.

The life policy loans are secured on endowment policies 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 1981 was 13%.

There is no interest due and unpaid at 31 December 1981 on any of the above loans.

Officers of the Company (other than Directors) had outstanding on 31 December 1981 loans from a subsidiary company to a total of £91,270 and the number of officers concerned is 5.

Actuarial Reports and Report of the Auditors

Actuarial Reports

Reports by the actuaries of the various insurance subsidiaries show in each case that at 31 December 1981 the aggregate amount of the liabilities under long-term business contracts did not exceed the value of the assets identified as representing the long-term business.

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

Prudential Assurance has declared a bonus in reversionary form which according to previous practice would have been declared in terminal form; the release of surplus to Profit and loss account was higher than it would otherwise have been by some £2.5m.

F B Corby
Chief Executive
15 April 1982

Report of the Auditors to the members of Prudential Corporation plc

We have audited the financial statements on pages 22 to 34 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 1981 and complies with the Companies Acts 1948 to 1981, and the Consolidated accounts comply with the provisions of the Companies Acts 1948 to 1981 applicable to insurance companies.

Deloitte Haskins & Sells
Chartered Accountants
London
15 April 1982

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Five Year Review of the Group

	1981 £m	1980 £m	1979 £m	1978 £m	1977 £m
Ordinary Life Business					
New business annual premiums	176.1	150.5	137.9	109.3	83.4
Revenue premium income	912.8	767.0	675.5	594.8	532.8
Investment income	517.9	450.3	379.1	298.7	250.9
Policyholders' bonuses	348.8	259.5	211.2	176.0	156.7
Balance sheet value of investments	5,498.6	4,659.1	4,002.0	3,537.7	3,131.9
Market value of investments	7,120.0	6,150.0	4,940.0	4,310.0	3,750.0
Industrial Life Business					
New business annual premiums	65.8	61.6	49.4	35.5	32.8
Revenue premium income	274.5	253.3	213.5	166.5	149.6
Investment income	170.9	157.8	140.6	112.5	96.0
Policyholders' bonuses	159.9	113.2	92.5	72.5	63.8
Balance sheet value of investments	1,535.5	1,383.4	1,245.8	1,155.1	1,043.9
Market value of investments	2,715.0	2,500.0	2,000.0	1,840.0	1,660.0
General Insurance Business					
Premiums written	569.0	456.0	416.7	394.4	358.4
Underwriting profit/(loss)	(59.0)	(33.9)	(15.2)	(4.2)	(9.5)
Investment income	46.1	33.6	32.5	27.2	23.4
Balance sheet value of investments	489.9	397.7	365.4	331.8	302.3
Market value of investments	580.0	490.0	430.0	390.0	360.0
Profit and Loss Account					
Profit from Ordinary life business	31.3	22.4	18.5	12.4	11.7
Profit from Industrial life business	10.2	7.1	5.7	4.8	4.2
Profit from General insurance business	(8.2)	2.5	11.6	16.2	10.4
Shareholders' other income					
Investment income	19.8	18.7	16.2	13.3	9.5
Miscellaneous income	2.2	1.0	0.6	0.5	0.4
Expenses	(3.7)	(1.9)	(1.7)	(0.8)	(0.7)
Taxation	(8.4)	(7.3)	(5.3)	(5.2)	(3.6)
	9.9	10.5	9.8	7.8	5.6
Profit after taxation	43.2	42.5	45.6	41.2	31.9
Retained profit for the year	5.9	9.7	17.3	17.1	12.1
Earnings per share	14.5p	14.2p	15.3p	13.8p	10.7p
Dividend per share	12.5p	11.0p	9.5p	8.063p	6.648p

1 The margins between market values and Balance sheet values of investments are not in themselves a guide to the strength of a life business fund.

2 No allowance has been made for tax on capital gains that would arise if the assets were realised at the values shown (see note 12 on page 32).

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