Prudent

One Hundred and Twenty Sixth Annual Report
and Statement of Accounts
The Prudential Assurance Company Limited

Mr John Stubbs and Mr Paul Stubbs on Manor Farm at Calcethorpe, Lincolnshire. The farmhouse, cottages and outbuildings are insured by the Prudential. The Company offers comprehensive insurance services for farms throughout the country.

Contents

The Prudential encourages young husbands to provide for their families. Mr Gordon Neal, a young assistant buyer, is shown with his family. He lives in south west London and has two endowment policies with profits and 'Heritage' benefits which could give his family an income for up to 25 years.

The Prudential Assurance Company Limited

President

Sir John Serocold Paget Mellor Bt

Directors

Kenneth Ascough Usherwood CBE FIA *Chairman*
Harry Gordon Clarke FIA *Deputy Chairman*
Sir John Nicholson Hogg TD *Deputy Chairman*
John Anthony Tristram Barstow DSO TD DL
Leslie Brown FIA
The Rt Hon Lord Caccia GCMG GCVO
Reginald Edgar Montgomery
Angus Fraser Murray CBE FIA
The Rt Hon Lord O'Brien of Lothbury GBE PC
Ronald Hugh Owen FIA
The Rt Hon James Edward Ramsden
Frank Mitchell Redington FIA
Desmond Arthur Reid
The Rt Hon Lord Strathalmond CMG OBE TD
Sir Peter Frank Dalrymple Tennant CMG OBE

Chief General Manager	W G Haslam DFC	
General Managers	D S Craigen BA	J L Maxted LLM
Deputy General Manager	F B Corby MA FIA	
Assistant General Manager & Actuary (Overseas)	F G Wood FIA ACII	
Assistant General Managers	D C Bourdon FIA	H A Metcalf MBE ERD ACII
	A L Davis	F M Simpson ACII
	J E G Inglish FCII	J W Whittle DSC VRD
	A L Martin	
Chief Legal Adviser	C F Whitehorn	
Agency Managers	L D Cary	P R Meikle ACII
	J H Long	S A Ryder
Senior Fire & Accident Managers	A W McOwan FCII	J R Wickison FCII
Deputy Managers—Management Services	J Hasloch ACCA ACII	J R Powell
Marine Underwriter	L A Noakes	
Aviation Underwriter	C R Jeffs	
Joint Secretaries and Investment Managers	E P Hatchett FIA	P E Moody FIA
Deputy Investment Managers	R E Artus MA	G J Titford FIA
Chief Surveyor	M R Dunnett FRICS	
Deputy Chief Surveyor	E E Chapman MBE FRICS	
Senior Assistant Investment Managers	B Medhurst MA FIA	D Sirkett BSc FIA
Assistant Secretary	C F M Lello FCCA	
Taxation Manager	E J Braybrook ACCA ACIS	
Chief Actuary	R S Skerman CBE FIA	
Actuary (UK)	Miss M C Allanach FIA	
Group Pensions Manager	D E Fellows FIA	
Deputy Actuary (UK)	C E Barton FIA	
Deputy Group Pensions Managers	J L Savage BSc FIA	S C Young
General Manager for Australia and New Zealand	R B Levey FIA	
President for Canada	A P Bodiley MBE FCII	
General Manager for Southern Africa	J B Ellingham FIA	

Chairman's Statement

A difficult background

The nation entered 1974 against a very difficult background. The over-stimulation of demand in 1972, combined with soaring world prices of raw materials in 1973, left us with a dangerously large foreign payments deficit even before the four-fold rise in oil prices in late 1973. Yet, as a nation, we surely made our situation a good deal worse for ourselves than it need have been. Our willingness to finance the foreign payments deficit by borrowing on the strength of our standing as a potential large-scale producer of oil from the North Sea in a few years' time, rather than taking steps to reduce the deficit quickly, led to a continuous state of nervousness as to the standing of sterling. Prices in Britain continued to rise strongly throughout the year, well after the pace of the rise had begun to lessen in a number of other industrial countries. This unwelcome result followed from two basic causes. In the first place, we failed to establish a national consensus which would have allowed more effective restraint on wage increases. Secondly, the initial policy we adopted of attempting to suppress, not the causes of the inflation, but its symptoms, by limiting the extent of allowable price increases, had to be gradually modified. Until relaxations were made the private sector found itself caught between the need for a vastly increased supply of funds to finance the cost of stocks and work in progress and rising wage costs, whilst the restraint on price increases prevented it from generating the funds required. Forces were at work which, if allowed to gather pace, threatened to bring about a collapse of the private sector. Nor was the public sector in any better shape. Increasing deficits in the nationalised industries signified their inability to bring prices into harmony with reality, until a welcome change of Government policy was announced in the March 1974 Budget.

A breakdown of confidence

Following the change of Government in February, many investors came to fear the possibility that the Authorities might be prepared to take advantage of the growing difficulties of the private sector to achieve an irreversible swing in the balance of the economy in favour of the public sector. In this atmosphere prices of ordinary shares fell by an extent comparable with that seen in the Great Depression and during the worst days of the war. Industrial investment programmes began to be severely cut back; because of this, the general weakness of share prices, and the exceptionally high level of interest rates, the demand for new long term capital fell away almost entirely. The despondency of those months may now seem to have been overdone. But it was not without cause.

Restoring confidence

Fortunately, after the October election the Government's actions began to belie the worst fears as to their intentions. The Chancellor's November measures eased the tax treatment of the appreciating values of stocks held by companies and made it easier to reflect cost increases in higher prices. Subsequently, the decision to end the freeze on commercial rents showed a willingness to help the property market, the weakness of which had brought strain to major areas of the financial system. More recently the tax levels for North Sea oil have been pitched so as to reinforce the belief that there is now a greater acceptance on the part of the Government that unless industry is encouraged to believe that effort and investment will be properly rewarded then our economic system would become rapidly paralysed.

It must, however, be said that after the strains of last year, confidence in British industry and commerce is still a tender plant. The Government has given some encouragement to the development of a better atmosphere in ways already mentioned. Yet it is still capable of undoing much of the beneficial impact of such moves by the content and presentation of its policies in other areas. The Industry Bill provides an example of this. Benefits might well be obtainable from securing a better alignment of public and private sector planning in some industrial fields, and such a co-operative approach seems to have enjoyed some success on occasions in countries such as France and Japan. But much of the Industry Bill, and especially the way in which the case for it is argued by some of its principal proponents, suggests to the business community that the purpose is not so much to help the private sector to be more successful, but rather to extend substantially the scope of the public sector.

The importance of stabilising the purchasing power of money

A full restoration of confidence is, however, impossible as long as we continue to suffer from a high level of inflation. In my last two annual statements I have referred to the damaging effects on our economy and our society of lack of confidence in money as a store of value. In 1972 I was reporting on a year in which our currency lost 7% of its purchasing power, and in 1973 a year in which it lost just under 10%. Over the course of 1974 the pound lost about 20% of its purchasing power. The strain of inflation at such rates cannot be supported for very long before it brings social and economic damage of a very severe order, and it is now a matter of great urgency to give priority to reversing the trend. If the process of achieving this reversal is not to lead to regrettably high levels of unemployment, it is clearly necessary that the levels of wage awards should be reduced. Maintaining a sensible balance in the economy during this process also seems to us to require a much more critical look at the levels of public sector expenditure.

The importance of E.E.C. membership

Potentially the greatest threat to the prospect of a sustained improvement in general business confidence in Britain, is the possibility that we may rescind our membership of the European Economic Community. Whilst the benefits of membership had always to be seen as essentially long-term, the penalties of withdrawing could prove to be substantial and immediate. Many of our old trading ties have already been loosened and much effort has been put into strengthening European links. To withdraw now might well leave us without the benefit of either, and at a time when our economic position is not such as to be readily capable of bearing the strains which might ensue. It is my belief that the case for our continuing membership rests on the view that it is in our long-term political and economic interest to be part of the mainstream of European development.

Membership of the European Community is not essential to your Company's insurance business in continental countries, although with the long-term harmonisation of insurance legislation we would expect gradually to extend our interests there. Fundamentally, however, we are dependent on the production by our investment portfolio of a good long-term rate of return, and the development of our business thus depends on the economic prosperity of the country. We believe that if Britain now turns its back on its European partners the task of achieving an improvement in the country's prosperity will become immensely more difficult. This will harm especially those large sections of the community the bulk of whose savings lies in their interest in insurance policies and pension funds.

The protection of policyholders

The extraordinary fall in 1974 in the value of all the principal classes of long-term investments held by financial institutions, inevitably produced its casualties. The remarkable thing is that there were not more than there were. For this much credit is due to the judgment and leadership shown by the Bank of England and to the clearing banks for the support they gave.

It is a matter for regret for the insurance industry as a whole that during 1974 several insurance offices experienced financial difficulties. Early in the year we acquired the issued share capital of Vavasseur Life Assurance Limited and thus safeguarded the position of its policyholders. Subsequently there were further cases where we co-operated with other offices in a variety of ways in order to maintain the good name of the insurance industry, although where the trouble seemed to stem from unduly generous terms or incautious guarantees, we did not fully support such benefits.

The Government has introduced a bill providing for a Guarantee Scheme to be supported by a levy on insurers to protect policyholders if an insurer became unable to fulfil its contracts. The Insurance Industry has made it clear to the Government that any such arrangement is objectionable because it would involve using part of the savings and insurance premiums of policyholders who are insured with financially sound insurers in order to safeguard the position of those who have chosen otherwise. If the life business of an insurer consists largely of contracts participating in profits and therefore involving limited guarantees, as does our business, it is never likely to be in financial difficulty. Under the proposed Guarantee Scheme policyholders of these insurers would be called upon to support policyholders of other insurers whose contracts were different in nature because the benefits provided were largely guaranteed and therefore involved a greater risk of financial difficulty for the insurer. One aspect of the Government's proposals which is particularly objectionable is the intention to provide in legislation for the Guarantee Scheme to assist companies without any reduction of benefits where this was deemed preferable as a means of protecting policyholders. Such a possibility would undermine the discipline of the market. It would encourage irresponsible competition because it would foster the belief that the security provided by all insurers was the same. It would mean that the consequences of the mismanagement of an insurer would be met by the policyholders of well managed insurers. This is not to say that a rescue operation without reduction of benefits can never be appropriate but that it should be left to insurers, as it is now, to arrive at the best method of protecting policyholders in a particular case.

Occupational pensions

Over many years successive Governments have tabled plans for pensions reform. A common feature of the various proposals is that they have all recognised the valuable contribution made to the national economy by occupational schemes and have sought to devise arrangements under which the responsibility for retirement provision could be shared between the State and occupational schemes on a viable basis.

Recently the Social Security Pensions Bill has been published. In the light of discussions with the pensions industry following the publication of the White Paper "Better Pensions", the Government has included in the Bill certain welcome changes resulting in less stringent requirements for contracting-out. Although many of the details remain to be settled, it is clear that much careful discussion and consideration of the contracting-out provisions will need to be given in the period ahead by employers and their advisers and by those responsible for administering, and investing the funds of, occupational schemes so that the implications of the alternative courses of action available are fully understood. In this connection, although most pension funds have long-term liabilities and can absorb the effect of high rates of salary increase in the short term, the need to curb inflation and to enable investors to obtain a real rate of return on investments is becoming increasingly important. It is also to be hoped that, bearing in mind all the upheaval that has taken place on the pensions scene, a large measure of agreement between the political parties will now be achieved so that employers and the pensions industry can plan ahead without the risk of having soon to face another major change of course as a result of a future Government's action.

Profit & Loss Account and Dividends

You may recall that we wrote to you at the time of the interim dividend announcement in September pointing out that although market conditions were producing lower asset values the amount of the liabilities if revalued at an appropriately higher rate of interest would also show a reduction. Since the year ended with asset values at very depressed levels, and interest rates very high, it was proper to increase the rates of interest used in valuing the Company's assurance and annuity liabilities in the United Kingdom and to a lesser extent overseas. We are satisfied that the rates used are prudent by comparison with the rates implicit in the market values of our investments at the end of the year. The values of our liabilities have been reduced by £380m in the Ordinary Branch and £82m in the Industrial Branch and the amounts thus released have been transferred to the Investment reserve accounts and used to reduce the Balance Sheet values of our assets. Notwithstanding the good growth in our life business over the year and the minor improvements made in our bonus rates, the effect of this has been to reduce the total of our assets in our Balance Sheet and to reduce the amount required to provide policyholders' bonuses. We have not thought it appropriate this year to make a material change in the relationship between the profits allocated to policyholders and those allocated to shareholders and this is the reason for the reduction in the transfer to Profit and Loss Account from life business.

The consequences for the Company's non-life or short term business were different in as much as the rise in interest rates while reducing the market values of the assets did not reduce the liabilities. Our non life surplus assets at the end of the year were reduced to 37% of our non-life premium income for the year compared with 76% at the end of 1973. We covered the fall in the value of our General Branch investments by drawing on our central reserves to a substantial extent. We have used the special contingency fund and part of the general reserve for this purpose. The special features of this contingency fund have for many years been of little value and we are proposing a change in our Articles to remove this small reserve permanently.

The fact that it has been possible to maintain the continuity of our dividend and bonus declarations while presenting accounts based on the much depreciated market value of assets prevailing at the end of 1974 is an indication of the inherent strength of the Company.

Appointments and retirements

I have to record with regret the death on 21 April last year of Sir Frank Morgan, who after a long and distinguished career including twelve years as Chairman, was appointed President of the Company for a period which ended in 1970. I would like to acknowledge his most valuable contribution to the Company, and I would like to add my personal tribute to him as a friend for over fifty years.

Mr R E Montgomery retires this year by rotation and does not seek re-election. As one who had served both on the clerical and field staffs, he brought to the Board long experience of the Company's organisation, and we shall miss him.

In Australia Sir Kenneth Coles retired from our Branch Investment Committee to which he had given valuable service since its inception in 1964. We were fortunate to obtain the services as a new member of the Committee of Sir William Pettingell, CBE, BSc, a Director of the Reserve Bank of Australia. In South Africa, Mr A S Aiken, Senior Partner of Alex Aiken & Carter, Chartered Accountants, retired from membership of the Branch Investment Committee of which he had been a valued member since 1959.

You will already be aware from the Press announcement in April last, that I intend to relinquish the office of Chairman after the Annual General Meeting, although I shall be remaining a Director. I would like on this occasion to express my appreciation of the support and help I have enjoyed both from my colleagues, the Directors, and from the Management.

As announced, the Board intends to elect Mr R H Owen to succeed me in the Chair. Mr Owen has been with the Company since 1929; he served both in the United Kingdom and overseas, joining the Management in 1949, and becoming our chief executive in 1968—a post from which he retired in 1973. We have every confidence in his leadership and I am sure you will join with me in wishing him success in these difficult days.

Sir John Hogg and Mr H G Clarke continue as Deputy Chairmen.

Members of Management who retired during the year were Mr J H J Day, Assistant General Manager, Mr R J Males and Mr C M Stray, Assistant Secretaries, Mr M H Hill, Deputy Group Pensions Manager, and Doctor E H Hudson, Senior Medical Officer. Management appointments made during the year were Mr F M Simpson, Assistant General Manager, Mr C F M Lello, Assistant Secretary, Mr J R Powell, Deputy Manager, Management Services, Mr S C Young, Deputy Group Pensions Manager, and Mr J R Wickison, Senior Fire and Accident Manager. In South Africa our General Manager, Mr H G James retired; he had served our Branch there for forty years having been General Manager for the last seven years. We are pleased that his advice will continue to be available to the Branch Investment Committee. Mr J B Ellingham, who has had experience in the United Kingdom, Australia and New Zealand as well as in South Africa, has been appointed General Manager and Actuary for Southern Africa.

Staff

The year 1974 was a particularly difficult one and all members of staff, at home and overseas, are to be congratulated on maintaining the Company's high standard of service to its policyholders and on the new business results which were achieved.

Report to shareholders

The report to shareholders has been rearranged this year to show on the next two pages an abridged statement of the Group Profit and Loss Account and Balance Sheet followed by a Report by the executive on the progress of our business. The Directors' Report and Accounts is contained in the buff pages following that Report.

K A Usherwood

Chairman

24 April 1975.

Summary of Results

Abridged Group Profit and Loss Account for year ended 31 December 1974

	1974 £m	1973 £m
Amounts credited in respect of insurance operations:		
Ordinary life assurance	5·9	6·0
Industrial life assurance	3·2	3·3
General insurance	4·6	7·3
	13·7	16·6
Other net credits	2·4	1·0
Profit available for distribution	16·1	17·6
Dividends paid and payable	11·5	10·4
Retained profits for year	4·6	7·2

Abridged Group Balance Sheet at 31 December 1974

	1974 £m	1973 £m
Capital and reserves	51·7	72·0
Ordinary life assurance funds	1,854·3	2,054·4
Industrial life assurance funds	812·8	861·1
General insurance funds	136·0	116·5
	2,854·8	3,104·0
Investments	2,813·0	3,141·0
add net current assets	9·7	67·7
	2,822·7	3,073·3
Goodwill arising on consolidation	32·1	30·7
	2,854·8	3,104·0

Summary of Results continued

Geographical distribution of the business of the Group based on premium income
Industrial life business is transacted only in the United Kingdom. Other business was located as follows:

	Ordinary life business %	General business %
United Kingdom	67·1	40·3
EEC countries (other than UK)	0·5	17·3
Australia and New Zealand	12·5	7·8
Canada	10·5	16·4
South Africa	6·2	3·4
United States of America	0·1	1·5
Other territories	3·1	13·3
	100·0	100·0

Analysis of Shareholdings in the Company at 31 December 1974

	1974 %	1973 %
Banks (mainly nominee holdings)	30·7	29·4
Insurance companies	11·5	10·9
Pension funds	10·2	10·0
Investment trusts	2·5	2·7
Other corporations	13·8	14·0
Individuals	31·3	33·0
	100·0	100·0

Progress Report

Ordinary Life Assurance

The following is a summary of the world wide business of the Company and Group.

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
New business for the year:				
Annual premium income	48,069	39,006	60,202	44,490
Single premiums and considerations	20,966	44,004	24,202	46,022
Business in force at the end of the year:				
Annual premium income	232,552	209,515	270,417	232,234
Sums assured, including bonus	11,866,450	10,422,936	15,143,660	12,934,005
Annuities per annum, including bonus and amounts to be purchased by future recurrent single premiums	371,164	329,942	395,016	350,285

United Kingdom

The Company's new annual premium income of £17·3m from individual assurances and annuities represented an increase of 14 per cent over our record results of 1973. Considerations for immediate annuities and single premiums totalled £12·5m compared with £35·5m in 1973; this decrease reflects changes made in the Budget of March 1974 which made Income Bonds less attractive. The Prudential Personal Retirement Plan, for the self-employed and those not covered by recognised pension schemes, continued to be popular and attracted new annual premium income approaching £3·7m, an increase of 34 per cent over 1973.

There has been further substantial progress in our group pension business. Notwithstanding the uncertainties resulting from the abandonment last May of the State Reserve Scheme, we have written a considerable number of new schemes, some of them very large. After allowing also for benefit improvements made by employers under existing schemes, and for new entrants and increments to those schemes, new annual premium income for group business in this country increased by 91 per cent to £22m in 1974; this figure includes new unit-linked pension business written by our wholly-owned subsidiary, Prudential Pensions Ltd.

Total premium income for group pension schemes is now running at about £70m per annum, an increase of some 25 per cent over the 1973 level. This is further evidence of the confidence placed in our administration and investment services by thousands of employers throughout this country and, through our links with the John Hancock Mutual Life Insurance Company of Boston and other insurers in the International Group Programme, an increasing number of multi-national companies.

Overseas

One-third of the Company's Ordinary life business is transacted through our Overseas Branches, the main areas of operation being Australia and New Zealand, Canada and Southern Africa.

In 1974, new annual premiums for individual assurances increased by 19 per cent in terms of local currencies and all the branches made a significant contribution to this excellent achievement. New premium income for Group life and pensions business overseas increased by 10 per cent with particularly good progress being made in Australia and Canada.

Subsidiary Companies

In September we began writing new business through Vanbrugh Life Assurance Ltd. This company had been acquired by us earlier in the year as Vavasseur Life Assurance Ltd. Our intention is to use this company as a vehicle to sell business through the medium of insurance brokers; this sales medium will thus complement our established full-time agency staff. The Company shows every sign of establishing itself successfully in its sector of the market.

The life branch of the Mercantile & General expanded substantially in 1973; the premium income increased from £19·5m in 1972 to £25m.

The life premium income of our Belgian subsidiary, L'Escaut, continued to increase satisfactorily.

Industrial Life Assurance (all United Kingdom)

	Company 1974 £000	1973 £000
New business annual premium income	22,084	18,106
Business in force at the end of the year:		
Annual premium income	118,113	108,774
Sums assured, including bonus	2,456,095	2,291,392

The increase of 22 per cent over 1973 new premium income in this Branch was very gratifying. This outcome was due in a large measure to the determination of our field force—including a new grade of specialist Industrial Branch salesmen—to achieve the objectives which were established at the end of 1973 notwithstanding the difficulties in the economic situation. It was also particularly pleasing that despite these difficulties the rate of discontinuance by surrender was not much higher than in 1973.

Bonus Declarations

The rates of bonus declared on the Company's policies have already been reported in the press, and are set out in the accompanying report of the Chief Actuary on pages 36-42.

In the United Kingdom the rates of terminal bonus in both the Ordinary and Industrial branches have been maintained at the level established in 1974 for the appropriate year of issue in line with the hope we have expressed for many years regarding these bonuses. The level of terminal bonuses must depend on the investment situation and outlook at the time, and recent experience has shown that it may not always be possible to fulfill this hope while reflecting the changing investment situation. Our terminal bonus levels are not primarily determined by the changes in the market values of our investments as is clear from the fact that we have not made substantial cuts in terminal bonuses this year as some offices have done. Our general approach to the determination of terminal bonuses, i.e. that they should be mainly in relation to income from equities and property, remains unchanged and enables us to avoid wide fluctuations from year to year.

An increased rate of annual reversionary bonus has been declared for United Kingdom Ordinary Branch assurances. In the Industrial Branch the rapid rate of inflation has adversely affected the level of expenses involved, particularly in providing the service of collecting premiums in the home, and no increase in the rate of annual reversionary bonus was possible.

As regards our overseas assurance business there have been increases in the rates of bonus for some classes of business. In Australia, however, there has been a further change in the basis on which our non-superannuation business is taxed and it has therefore again been necessary to reduce the reversionary bonus rates for this type of business.

Surrender Values

The subject of surrender values has aroused a certain amount of comment in the press in recent months since most companies have made reductions in their scales of surrender values. In our case reductions which were relatively modest were made last December in our scales of surrender values for United Kingdom Ordinary Branch and Industrial Branch assurances.

General Insurance

Company Results

The Company's premium income amounted to £109m, an increase of £10m or 10 per cent over 1973. There was a gross underwriting loss of £4·7m compared with a profit of £4·1m in 1973. Gross investment income was £6·3m compared with £5·3m. The net surplus for the year transferred to Profit and Loss Account was £1·4m compared with £5·1m. A detailed statement of the Company's General Insurance business appears on pages 44 and 45.

United Kingdom

The continuing high level of fire wastage combined with a record rate of inflation inevitably had an adverse effect on this class of business which, overall, nevertheless produced a modest underwriting profit. Our property and pecuniary loss accounts were affected by an unusual number of large claims in the commercial sector of which the disaster at Flixborough was the most costly. In our domestic property account claims costs increased substantially in line with inflation but sums insured and consequently premium income have not kept pace with the result that our profit margin in the domestic account has been reduced. Our motor account, which is perhaps most susceptible to the effects of inflation, produced a marginal profit. It has been necessary to increase our motor premium rates substantially from the 1 March 1975; in the absence of such an increase in rates a large underwriting loss for 1975 would be inevitable.

Overseas

The year 1974 saw a slowing down in the growth of premium income due mainly to a disinclination to write business at unduly depressed rate levels and to the loss of business to government offices in certain territories. The outstanding feature, however, was a severe deterioration in overall underwriting experience. This was particularly marked in Canada and Australia where our branches suffered the largest underwriting losses in their history. This reflected the general experience in those markets.

In Canada the property and motor accounts were seriously affected by inflation and unbridled competition for business. The same factors affected both property and motor accounts in Australia but the most damaging events were the flood losses in Queensland following Cyclone Wanda and the unparallelled devastation of Darwin on Christmas Day by Cyclone Tracy which is the largest single catastrophe ever suffered by the Australian market. This event also contributed materially to the loss incurred on our inwards treaty reinsurance account. The total loss attributable to Cyclone Tracy is estimated to be one of the largest ever borne by the London market.

Progress Report continued

Experience in Europe as a whole was disappointing although a good underwriting profit was achieved in Holland. In the remaining overseas territories a satisfactory underwriting profit was achieved.

Marine and Aviation

Experience under the marine and aviation account for the closed year 1972 was less favourable than in the preceding year and the outlook for the open years 1973 and 1974 is not promising. It has been decided to transfer £750,000 from Profit and Loss Account to increase the fund to an appropriate level.

Subsidiary Companies

The General insurance premiums written by the Mercantile & General in 1973 increased by 18 per cent to nearly £58m. The underwriting result of the fire and miscellaneous account was improved and a profit of over £1·5m was achieved compared with a small loss the previous year. A transfer of £750,000 was made from the marine and aviation account. It is expected that, in common with the rest of the insurance industry, the results for 1974 will be less satisfactory.

L'Escaut again achieved a very satisfactory growth in premium income to £14·6m in 1974 compared with £10·7m in 1973. Underwriting experience on accident business was less favourable but was offset by improvement in the fire and workmen's compensation classes.

Group Results

The total premium income for the Group was £181m, an increase of £23m or 14 per cent over 1973. The gross underwriting loss for the Group was £3·1m compared with a profit of £4m in 1973. Gross investment income was £10·5m compared with £8·6m. The net general insurance surplus for the Group transferred to Profit and Loss Account was £4·6m compared with £7·3m for the previous year.

Investments

For the long term investment of our funds we have a choice of investment in fixed interest securities, ordinary shares, or real property. Investment values showed sharp falls in all three areas in 1974. Over the year the price of $2\frac{1}{2}$ per cent Consols fell by 29 per cent and the FT/Actuaries All-share index by 55 per cent. It is more difficult to indicate the change in values in the property market, but many first class properties might have been expected by the year end to sell for at least 30 per cent less than their likely sale price at the beginning of the year. The weakness of prices in the fixed interest market resulted from concern at the rapidly falling purchasing power of money, the upward pressure on interest rates as the Authorities strove to exercise a more stringent control of growth in the money supply, and concern at the vulnerability of sterling to our large overseas payments deficits. The causes of the extreme weakness of ordinary share prices are referred to in the Chairman's Statement. The weakness of the property market was the outcome of continuing uncertainty as to Government attitude towards future rental increases, uncertainty as to the tax treatment of profits from property development, and a fear that a vast amount of property was in weak hands and might come on the market at depressed prices as a result of the need to repay the bank loans which had been so readily extended to finance many property transactions during 1972 and 1973. With only minor interruptions values in all these three fields were tending to decline throughout the year. It is encouraging that in the early months of 1975 a better atmosphere has developed in each of these markets.

The Company's investment transactions in respect of its United Kingdom insurance funds last year are summarised in the following table:—

	Purchases	Sales or Redemptions	Net Investment 1974	Net Investment 1973
	£m	£m	£m	£m
British Government Securities	25	25	—	49
Other fixed interest securities, including mortgages on property	40	38	2	−1
Ordinary stocks and shares	38	51	−13	49
Property investment	68	1	67	55
Total	171	115	56	152

The most striking feature of these figures is the much smaller total of net investment in 1974 compared with 1973. There were three principal reasons for this. Most important was the decision to allow a substantial increase in the total of uninvested cash. Secondly, there was a fall of £23m between the two years in the cash available from new single premium business, and lastly we made a net repayment of some £21m worth of foreign currency loans which we had been using to finance overseas equity investment.

In the British equity market we were net purchasers to the extent of about £8m, the overall net disinvestment being the result of sales of overseas shares. Our property purchases were divided about equally between the acquisition of existing buildings and payments on account of our commitments to finance properties under development. Some £35m of investments and £10m of our cash balances represented, in part, a measure of assistance to companies with whom we have close relations. Recent developments have been favourable and we do not expect to suffer any losses as a result of our actions.

New Investments of the insurance funds of our overseas branches were as follows :—

	1974	1973
	£m	£m
Public Sector Debt	12	15
Debentures	9	10
Mortgages	16	10
Ordinary shares	8	16
Property	10	8
	55	59

In terms of local currency the sums available for new investment in 1974 were slightly greater than in 1973. Their sterling value was reduced by about £3m as a result of changing currency values, particularly the devaluation of the Australian dollar. There was also some increase in the uninvested cash balances.

Trusteeships

The amount of debenture and loan stocks for which the Company acts as trustee exceeded £1,613,000,000 (*£1,609,000,000*) at the end of the year.


BERNARDS Furnishers

Directors' Report and Accounts for the year ended 31 December 1974

and

Notice of Meeting

The Prudential Personal Retirement Plan is one of the most competitive contracts on the market for the self employed and those in non-pensionable employment. Mr L T Phillips, managing director of Bernards, a furnishing store in Lewisham, has already taken advantage of the benefits provided by this policy. In addition, to complete his "PLAN FOR LIFE" Mr Phillips has taken out two whole life policies, one with profits and one without profits.

The Prudential Assurance Company Limited

Incorporated in England Regd. No. 15454

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 EC1N 2NH
on Thursday 29 May 1975 at 12.15 p.m. for the following purposes:

Ordinary business

To receive the Directors' Report and Statement of Accounts for the year ended 31 December 1974

To re-elect Directors

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, pass the Resolutions set out in the separate Notice sent herewith, the first and second of which will be proposed as Special Resolutions.

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 John Anthony Tristram Barstow DSO TD DL and The Rt Hon Lord Caccia GCMG GCVO who retire by rotation and who will be aged 68 and 69 respectively at the date of the Meeting.

By order of the Board of Directors
E P Hatchett,
P E Moody,
Joint Secretaries.

142 Holborn Bars London EC1N 2NH
6 May 1975

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 vote instead of him; a proxy need not be a member of the Company.
The attention of shareholders who are members of the Company's Field Staff is drawn to Section 33 (2) of the Industrial Assurance Act 1923, which provides that no collector or superintendent shall be present at any meeting of an Industrial Assurance 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.

Directors' Report for the year ended 31 December 1974

Principal Activity

The principal activity of the Company and its subsidiaries is transacting insurance and reinsurance business of all classes in the United Kingdom and overseas.

Acquisition

During the year the share capital of Vavasseur Life Assurance Ltd was acquired for a nominal consideration. The name of this company was subsequently changed to Vanbrugh Life Assurance Ltd and its capital was increased by £1·7m. Additional information on this company is given in the Progress report on page 10.

Accounts

Particulars of the subsidiary companies whose figures are included in the Group accounts are given in note 3 on the accounts on page 31. The accounts included for The Mercantile and General Reinsurance Company Limited relate to the year ended 31 December 1973. Other information in respect of the company accounts is given on pages 43 to 46.

The Balance sheet total of the tangible assets is, Company £2,818,895,000 (*£3,130,213,000*) and Group £3,070,592,000 (*£3,318,324,000*). Income from all sources as shown in the Revenue and Profit and loss accounts for 1974, including part of unrealised margins of Investment over Balance sheet values in the two life accounts, amounted to, Company £719,863,000 (*£687,816,000*) and Group £848,885,000 (*£794,706,000*).

The Ordinary life Group Revenue account on page 20 shows that surplus for distribution was £87,737,000 (*£100,852,000*) and that of this amount £81,864,000 (*£94,834,000*) was allocated to policyholders for bonuses leaving £5,873,000 (*£6,018,000*) for transfer to Group Profit and loss account.

The Industrial life Revenue account on page 22 shows that surplus for distribution was £49,108,000 (*£54,587,000*) and that of this amount £45,937,000 (*£51,334,000*) was allocated to policyholders for bonuses, leaving £3,171,000 (*£3,253,000*) for transfer to Profit and loss account. Industrial life assurance business is not carried on by any of the subsidiary companies included in the Group account.

Profit and loss accounts

The accounts on page 26 combine transfers from the life and general businesses and other items of income and outgo not dealt with in the life and general accounts with the balances brought forward from 1973.

Investment income relating to the Company for the year was £4,129,000 (*£3,344,000*) against which interest has been charged amounting to £1,296,000 (*£2,096,000*).

After making transfers from General reserve of £15,000,000 (*—£3,350,000*), from Special contingency fund of £4,858,000 (*nil*), transfers to General insurance Investment reserve account of £21,000,000 (*£2,300,000*) and to the Inner reserve of a subsidiary of £3,250,000 (*£1,000,000*) there remains £12,059,000 (*£11,484,000*). Dividends declared by the Company for the year total £11,526,000 (*£10,426,000*) and a balance of £533,000 (*£1,058,000*) is carried forward.

As the Company is exempt from certain disclosures under Part III of Schedule 2, Companies Act, 1967, earnings per share have not been given since such information is not appropriate for life assurance business.

Directors' Report continued

Dividends

The Directors have declared a final dividend for 1974 of 3·072p per share payable on 29 May 1975 to shareholders on the Register at close of business on 1 May 1975. This dividend will carry, for shareholders resident in the United Kingdom, the right to a tax credit of 35/65ths amounting to 1·654p per share. The total dividend for the year, including the interim dividend of 2·00p paid in November 1974 amounts to 5·072p per share; at the date of declaration this represented the maximum permitted increase. Adding the tax credit, the equivalent gross dividend is 7·711p per share which compares with 6·729p per share for 1973.

Directors

The Directors retiring by rotation are John Anthony Tristram Barstow DSO TD DL, The Rt Hon Lord Caccia GCMG GCVO, Desmond Arthur Reid and The Rt Hon Lord Strathalmond CMG OBE TD. They offer themselves for re-election.

Reginald Edgar Montgomery also retires by rotation but does not offer himself for re-election.

Directors' Shareholdings

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

	Shares of 5p each			
	On 1.1.74 or subsequent appointment		On 31.12.74	
	Beneficially Held	Other Interest	Beneficially Held	Other Interest
K A Usherwood	4,000	2,448	4,000	2,448
H G Clarke	4,020		4,020	
Sir J N Hogg	3,660	6,336	3,660	6,336
J A T Barstow	15,000	45,394	15,000	45,394
L Brown	5,280		5,280	
Lord Caccia	5,036		2,000	
R E Montgomery	3,480		3,480	
A F Murray	2,000	810	2,000	810
Lord O'Brien of Lothbury	2,000		2,000	
R H Owen (elected 16.5.74)	3,000		3,000	
J E Ramsden	2,000	8,676	2,000	8,676
F M Redington	4,000		8,000	
D A Reid	161,562	452,015	151,562	441,242
Lord Strathalmond	2,000		2,000	
Sir P F D Tennant	2,000		2,000	

None of the Directors has an interest in the shares of any subsidiary.

There has been no change in the Directors' shareholdings between 31 December 1974 and 7 April 1975.

No Director has a contract or arrangement disclosable under Section 16(1) (*c*) of the Companies Act 1967.

Directors' Report continued

Other Shareholdings

As far as the Directors were aware at 7 April 1975 no person had a shareholding of 10 per cent or more of the share capital of the Company.

Employees

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1974 was 22,346 and the aggregate remuneration paid or payable in respect of these employees during 1974 amounted to £63,021,377.

Donations

During the year £70,046 has been given by the Company and its subsidiaries for charitable purposes in the United Kingdom and £22,607 overseas.

Auditors

Deloitte & Co., the present Auditors of the Company, will continue in office under Section 159 (2) of the Companies Act 1948.

K A Usherwood,
Chairman.
Holborn Bars
24 April 1975

Ordinary Life Assurance Business

Revenue Accounts
for the year ended 31 December 1974

	Company 1974 £000	1973 £000	*Group* 1974 £000	1973 £000
Income				
Premiums (other than single premiums)	228,476	208,806	263,018	230,627
Single premiums and considerations	30,954	49,074	40,474	62,395
Investment income (see note 1*i* and page 43)	133,876	123,196	142,238	131,299
Part of unrealised margin of Investment over Balance sheet values (see note 1*c*)	20,300	19,900	20,300	19,900
	413,606	400,976	466,030	444,221
Outgo				
Claims and surrenders (see page 43)	140,788	132,854	156,010	144,574
Annuities	31,235	26,096	33,995	27,219
Commission	17,456	16,480	22,170	19,444
Expenses	35,122	29,664	38,518	31,767
Taxation (see note 1*k*)	9,093	6,657	9,546	6,845
Decrease in value of investments related to linked business (see note 1*c*)	7,700	4,537	13,748	5,750
Transfer to Investment reserve account (see note 1*d*)	—	1,282	1,367	1,282
Consolidation adjustment (see note 1*b*)	—	—	64	96
	241,394	217,570	275,418	236,977
Excess of Income over Outgo	172,212	183,406	190,612	207,244
Provision for increase in liability to policyholders	84,786	82,637	102,904	106,433
Surplus for year	87,426	100,769	87,708	100,811
Surplus carried forward last year	1,236	1,277	1,236	1,277
this year	1,207	1,236	1,207	1,236
Change in surplus carried forward	29	41	29	41
Surplus for distribution	87,455	100,810	87,737	100,852
Provision for policyholders' bonuses	81,807	94,803	81,864	94,834
Balance to Profit and loss account (page 26)	5,648	6,007	5,873	6,018

Fund Accounts
for the year ended 31 December 1974

Amount of fund at beginning of year	1,918,705	1,688,408	2,040,379	1,783,420
Exchange adjustment (see note 1*e*)	−31,640	52,898	−26,938	55,733
Transfer to Investment reserve (see note 1*d*)	−380,000	—	−380,000	—
Amount of fund at beginning of year after adjustments	1,507,065	1,741,306	1,633,441	1,839,153
Fund acquired on purchase of a subsidiary (see page 17)	—	—	22,114	—
Change in surplus carried forward	−29	−41	−29	−41
Provision for increase in liability to policyholders	84,786	82,637	102,904	106,433
Provision for policyholders' bonuses	81,807	94,803	81,864	94,834
Amount of fund at end of year	1,673,629	1,918,705	1,840,294	2,040,379

Ordinary Life Assurance Business

Balance Sheets
31 December 1974

	Company 1974 £000	1973 £000	*Group* 1974 £000	1973 £000
Funds				
Life assurance fund	1,673,629	1,918,705	1,840,294	2,040,379
Contingency fund	14,000	14,000	14,000	14,000
	1,687,629	1,932,705	1,854,294	2,054,379
Investments				
British Government and British Government guaranteed securities	127,895	211,556	142,377	221,343
Other fixed income securities	315,556	396,896	351,080	429,829
Ordinary stocks and shares	422,107	606,178	471,624	650,267
Prudential Unit Trust units	5,683	8,675	5,683	8,675
Freehold and leasehold properties, rent charges and ground rents	513,213	447,152	557,294	479,883
Mortgages on property	177,663	189,365	199,320	197,842
Loans on policies and other loans	68,046	63,944	70,043	64,080
Subsidiaries (see notes 1*b* and 3)				
Fixed income securities	3,267	3,479	3,267	3,479
Ordinary stocks and shares	16,925	22,107	10,775	12,617
Unsecured loans	5,020	—	—	—
	1,655,375	1,949,352	1,811,463	2,068,015
Current assets				
Deposits at interest at home and overseas	855	2,449	855	2,449
Commission paid in advance	11,965	10,115	11,965	10,115
Outstanding premiums	7,954	6,221	8,113	6,346
Outstanding and accrued interest, dividends, rents and fees	23,557	23,127	23,972	23,367
Amounts due on reassurance account	—	—	6,334	4,379
Amounts due from subsidiaries	204	11	31	3
Tax recoverable	8,745	7,087	7,836	6,228
Other debtors	3,247	1,807	6,222	3,815
Bank balances and cash:				
Deposits	40,579	16,067	53,347	22,458
Current account and cash	5,115	3,334	6,243	3,892
(Market value of assets, Company £1,780,840,000 —*1973 £2,308,717,000*, Group £1,977,482,000—*1973 £2,481,467,000*) (see note 1*c*)	1,757,596	2,019,570	1,936,381	2,151,067
Less:				
Current liabilities				
Outstanding claims and annuities	15,464	15,487	19,279	18,728
Outstanding commission and expenses	4,553	3,658	4,559	3,658
Premiums received in advance	2,189	2,371	2,189	2,371
Amounts due on reassurance account	—	—	105	201
Amounts due to subsidiaries	3,996	3,831	3,699	3,710
Promissory notes in overseas currencies (see note 6)	6,390	6,456	6,390	6,456
Unsecured loans in overseas currencies (see note 6)	27,277	41,257	27,277	41,257
Other creditors	7,381	11,300	12,823	14,613
Loan stock of a subsidiary (see note 6)	—	—	1,109	1,127
Bank loan and overdraft	2,717	2,505	4,657	4,567
	69,967	86,865	82,087	96,688
	1,687,629	1,932,705	1,854,294	2,054,379

Industrial Life Assurance Business

Revenue Account
for the year ended 31 December 1974

	Company 1974 £000	1973 £000
Income		
Premiums	111,808	104,406
Investment income (see note 1*i* and page 43)	65,006	62,656
Part of unrealised margin of Investment over Balance sheet values (see note 1*c*)	10,600	13,500
	187,414	180,562
Outgo		
Claims and surrenders (see page 43)	101,728	93,474
Expenses	41,622	36,614
Taxation (see note 1*k*)	7,172	7,988
	150,522	138,076
Excess of Income over Outgo	36,892	42,486
Provision released on reduction in liability to policyholders	11,944	11,984
Surplus for year	48,836	54,470
Surplus carried forward last year	1,563	1,680
this year	1,291	1,563
Change in surplus carried forward	272	117
Surplus for distribution	49,108	54,587
Provision for policyholders' bonuses	45,937	51,334
Balance to Profit and loss account (page 26)	3,171	3,253

Fund Account
for the year ended 31 December 1974

	1974	1973
Amount of fund at beginning of year	839,585	800,352
Transfer to Investment reserve account (see note 1*d*)	82,000	—
Amount of fund at beginning of year after adjustment	757,585	800,352
Change in surplus carried forward	—272	−117
Provision released on reduction in liability to policyholders	—11,944	−11,984
Provision for policyholders' bonuses	45,937	51,334
Amount of fund at end of year	791,306	839,585

Industrial Life Assurance Business

Balance Sheet
31 December 1974

	Company 1974 £000	1973 £000
Funds		
Life assurance fund	791,306	839,585
Contingency fund	21,500	21,500
	812,806	861,085
Investments		
British Government and British Government guaranteed securities	117,630	164,626
Other fixed income securities	121,719	127,415
Ordinary stocks and shares	290,526	344,440
Freehold and leasehold properties, rent charges and ground rents	220,981	190,684
Mortgages on property	62,092	56,861
Other loans	4,172	3,526
Subsidiaries (see note 3)		
Ordinary stocks and shares	1,611	670
Unsecured loans	997	—
	819,728	888,222
Current assets		
Outstanding and accrued interest, dividends, rents and fees	6,547	8,534
Amounts due from subsidiaries	42	505
Tax recoverable	6,726	5,322
Other debtors	5,269	686
Bank balances and cash:		
Deposits	23,456	17,210
Current account and cash	3,035	2,704
(Market value of assets £902,736,000—*1973 £1,325,396,000*) (see note 1*c*)	864,803	923,183
Less:		
Current liabilities		
Outstanding claims	2,990	2,690
Outstanding commission and expenses	1,658	1,414
Premiums received in advance	1,886	386
Amounts due to subsidiaries	1,737	807
Unsecured loans in overseas currencies (see note 6)	39,680	48,957
Other creditors	3,462	5,563
Bank overdraft	584	2,281
	51,997	62,098
	812,806	861,085

General Insurance Business

Revenue Accounts
for the year ended 31 December 1974

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
Income				
Premiums	109,110	99,192	181,442	158,901
Investment income allocated to long term funds (see page 43)	372	322	752	565
	109,482	99,514	182,194	159,466
Outgo				
Claims	68,907	55,373	107,386	87,005
Commission	15,307	14,016	32,770	28,117
Expenses	23,482	19,937	28,754	23,795
Overseas taxes other than on profits	554	535	554	535
	108,250	89,861	169,464	139,452
Excess of Income over Outgo	1,232	9,653	12,730	20,014
Provision for increase in liability to policyholders	5,909	5,533	15,864	16,000
Gross Underwriting Result	(Loss) 4,677	(Profit) 4,120	(Loss) 3,134	(Profit) 4,014
Investment income (other than allocated to long term funds) (see note 1*i* and page 43)	6,336	5,338	10,501	8,557
Gross surplus	1,659	9,458	7,367	12,571
Taxation (see note 1*k*)	256	4,367	2,777	5,251
Net surplus for year transferred to profit and loss account (page 26)	1,403	5,091	4,590	7,320

Fund Accounts
for the year ended 31 December 1974

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
Amount of fund at beginning of year	45,898	39,563	116,527	96,225
Exchange adjustment (see note 1*e*)	−508	802	3,641	4,302
Amount of fund at beginning of year after adjustment	45,390	40,365	120,168	100,527
Provision for increase in liability to policyholders	5,909	5,533	15,864	16,000
Amount of fund at end of year	51,299	45,898	136,032	116,527

A detailed statement of the Company's General Insurance business appears on pages 44 and 45.

General Insurance Business

Balance Sheets
31 December 1974

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
Funds				
Insurance funds	51,299	45,898	136,032	116,527
Investments				
British Government and British Government guaranteed securities	8,647	11,534	16,737	20,013
Other fixed income securities	37,874	35,462	63,235	54,699
Ordinary stocks and shares	21,565	25,512	60,475	60,232
Freehold property	487	241	2,127	1,370
Mortgages on property	2,946	3,038	7,064	5,631
Other loans	252	49	252	49
	71,771	75,836	149,890	141,994
Current assets				
Deposits at interest at home and overseas	5,059	1,672	5,059	1,672
Agents' balances	3,345	3,427	6,006	5,257
Outstanding premiums	14,220	14,135	15,071	14,779
Outstanding and accrued interest, dividends, rents and fees	782	836	1,241	1,190
Amounts due on reinsurance account	5,676	4,774	26,324	20,688
Amounts due from subsidiaries	905	558	—	—
Tax recoverable	917	—	—	—
Other debtors	1,379	1,172	4,781	3,212
Bank balances and cash:				
Deposits	21,795	9,311	24,313	10,607
Current account and cash	3,280	1,119	3,950	2,785
(Market value of assets, Company £129,368,000 —*1973 £112,940,000*, Group £240,905,000—*1973 £222,452,000*) (see note 1*c*)	129,129	112,840	236,635	202,184
Less:				
Current liabilities				
Outstanding claims	60,000	47,318	71,475	56,234
Outstanding commission and expenses	3,648	3,576	3,648	3,589
Premiums received in advance	272	255	519	547
Amounts due on reinsurance account	7,097	4,405	14,114	10,433
Amounts due to subsidiaries	157	107	109	92
Taxation	—	4,886	1,199	5,892
Unsecured loans in overseas currencies (see note 6)	1,854	2,258	1,854	2,258
Other creditors	2,993	4,137	5,876	6,612
Bank overdraft	1,809	—	1,809	—
	77,830	66,942	100,603	85,657
	51,299	45,898	136,032	116,527

Profit and Loss Accounts
for the year ended 31 December 1974

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
Transfer from Ordinary life assurance revenue account	5,648	6,007	5,873	6,018
Industrial life assurance revenue account	3,171	3,253	3,171	3,253
General insurance revenue account	1,403	5,091	4,590	7,320
Investment and other income (see note 1*i*)	2,833	1,248	2,554	1,722
Trustee and executor fees	192	178	192	178
	13,247	15,777	16,380	18,491
Less:				
Expenses	268	217	282	219
Taxation (see note 1*k*)	836	−663	1,142	−493
Consolidation adjustment (see note 1*b*)	—	—	−1,179	1,150
	1,104	−446	245	876
	12,143	16,223	16,135	17,615
Transfer from (—to) General Reserve	15,000	−3,350	15,000	−3,350
Special Contingency Fund	4,858	—	4,858	—
	32,001	12,873	35,993	14,265
Transfer to General Insurance Investment reserve account	21,000	2,300	21,742	2,692
Inner reserve of a subsidiary	—	—	3,250	1,000
	11,001	10,573	11,001	10,573
Balance at beginning of year	1,058	911	1,058	911
Balance for appropriation	12,059	11,484	12,059	11,484
Interim dividend	4,545	4,204	4,545	4,204
Final dividend payable (see page 18)	6,981	6,222	6,981	6,222
Dividends for the year	11,526	10,426	11,526	10,426
Balance at end of year	533	1,058	533	1,058

The certificates and notes on pages 28 to

Balance Sheets of the Company and of the Group 31 December 1974

	Company 1974 £000	1973 £000	Group 1974 £000	1973 £000
Capital, Reserves and Funds				
Capital (see note 2)				
Issued and fully paid 227,258,684 shares of 5p each	11,363	11,363	11,363	11,363
Share premium account	34,744	34,744	34,744	34,744
General reserve	5,000	20,000	5,000	20,000
Profit and loss account	533	1,058	533	1,058
Special contingency fund	—	4,853	—	4,858
Ordinary life assurance funds	1,687,629	1,932,705	1,854,294	2,054,379
Industrial life assurance funds	812,806	861,085	812,806	861,085
General insurance funds	51,299	45,898	136,032	116,527
	2,603,374	2,911,711	2,854,772	3,104,014
Investments				
British Government and British Government guaranteed securities	254,172	387,716	277,991	406,902
Other fixed income securities	481,745	573,243	545,826	627,903
Ordinary stocks and shares	744,957	991,550	840,904	1,078,060
Prudential Unit Trust units	5,683	8,675	5,683	8,675
Freehold and leasehold properties, rent charges and ground rents	736,668	639,421	782,627	673,439
Mortgages on property	242,701	249,264	268,823	260,516
Loans on policies and other loans	72,470	68,519	74,468	68,655
Subsidiaries (see notes 1*b* and 3)				
Fixed income securities	3,267	3,479	3,267	3,479
Ordinary stocks and shares	63,704	65,167	12,436	13,337
Unsecured Loans	6,017	—	997	—
	2,611,384	2,987,034	2,813,022	3,140,966
Current assets				
Deposits at interest at home and overseas	5,914	4,121	5,914	4,121
Agents' balances	3,345	3,427	6,006	5,257
Commission paid in advance	11,965	10,115	11,965	10,115
Outstanding premiums	22,174	20,356	23,184	21,125
Outstanding and accrued interest, dividends, rents and fees	30,826	32,635	31,711	33,229
Amounts due on reinsurance account	5,676	4,774	32,714	25,156
Amounts due from subsidiaries	1,134	1,074	31	61
Tax recoverable	15,494	6,930	12,569	5,105
Other debtors	9,896	5,513	14,646	8,923
Bank balances and cash:				
Deposits	85,838	47,088	101,757	54,950
Current account and cash	15,249	7,146	17,073	9,316
(Market value of total tangible assets, Company £2,868,267,000 —*1973 £3,820,028,000*, Group £3,139,310,000—*1973 £4,078,661,000*)	2,818,895	3,130,213	3,070,592	3,318,324
Less: (see note 1*c*)				
Current liabilities				
Outstanding claims and annuities	78,454	65,495	93,743	77,652
Outstanding commission and expenses	9,871	8,656	9,889	8,670
Premiums received in advance	4,347	3,012	4,594	3,304
Amounts due on reinsurance account	7,097	4,405	14,275	10,723
Amounts due to subsidiaries	6,128	5,000	5,545	4,654
Promissory notes in overseas currencies (see note 6)	6,390	6,456	6,390	6,456
Unsecured loans in overseas currencies (see note 6)	79,431	101,197	79,431	101,197
Other creditors	11,712	9,069	18,676	13,877
Interest of outside shareholders in subsidiaries	—	—	39	34
Loan stock of a subsidiary (see note 6)	—	—	1,109	1,127
Bank loan and overdraft	5,110	4,786	7,249	6,848
Final dividend (*1973 includes interim*)	6,981	10,426	6,981	10,426
	215,521	218,502	247,921	244,968
	2,603,374	2,911,711	2,822,671	3,073,356
Goodwill arising on consolidation (see note 1*b*)	—	—	32,101	30,658
	2,603,374	2,911,711	2,854,772	3,104,014

33 form an integral part of these accounts.

Certificates to the Accounts of the Company

I certify that in my opinion the aggregate amount of the liabilities in relation to long term business at 31 December 1974 did not exceed the aggregate amount of those liabilities as shown in the Balance sheet.

R S Skerman, *Chief Actuary.*

We certify that:

1 in our opinion the value of the assets at 31 December 1974 was in the aggregate at least equal to the aggregate of the amounts thereof shown in the Balance sheet. For the purposes of this certificate values of the quoted Stock Exchange securities have been taken at middle market prices as at that date and the values of other assets have been estimated by the Directors,

2 in our opinion the aggregate of the market values at 31 December 1974 of the realisable domestic assets, all free from mortgage or charge, was at least equal to the aggregate of the values at that time of the domestic liabilities as defined in Section 31 (5) of the Insurance Companies Act 1974,

3 the aggregate amount of the premiums relating to general business included in the Revenue accounts is £104,191,000 (this figure excludes premiums relating to long term business),

4 the amount of the minimum solvency margin applicable in the period immediately following the end of the financial year 1974 was £10,670,000,

5 in our opinion the aggregate of the amounts of the assets as stated in the Balance sheet exceeded the liabilities at 31 December 1974 after taking into account all prospective and contingent liabilities but not liabilities in respect of share capital by £38,096,000,

6 in our opinion the fund at the end of the year in relation to marine, aviation and transport business transacted in the current year was sufficient to meet all the liabilities outstanding at 31 December 1974 in relation to that business (including those in respect of risks to be borne after 31 December 1974 in relation to that business),

7 in our opinion the funds at the end of the year in relation to marine, aviation and transport business transacted in the last preceding year and in previous years were each sufficient to meet all the liabilities outstanding at 31 December 1974 in relation to the relevant business,

8 in our opinion no part of the Ordinary life assurance fund, the Industrial life assurance fund, the Long term sickness and accident insurance fund or the Sinking fund insurance fund has been used directly or indirectly for any purpose for which it should not have been used having regard to the provisions of Section 24 of the Insurance Companies Act 1974 and to the Articles of Association of the Company.

Signatures to the Certificates and Accounts

W G Haslam, *Chief General Manager.*

R S Skerman, *Chief Actuary.*

E P Hatchett
P E Moody] *Joint Secretaries.*

K A Usherwood, *Chairman*

H G Clarke, *Director.*

O'Brien of Lothbury, *Director.*

24 April 1975.

Notes on the Accounts

1 Accounting policies

The principal accounting policies followed by the Group in determining the profit for the year and in stating its financial position are set out below.

(*a*) Disclosure Requirements
The Company avails itself of certain of the exemptions from the disclosure requirements of the Companies Acts that are applicable to insurance companies under Part III of the Second Schedule to the Companies Act 1967, including those relating to provisions and reserves. The Company's reported revenue results exclude gains and losses on the realisation of investments, less taxation thereon, and certain exchange adjustments (see note (*d*)).

(*b*) Basis of Consolidation

(i) Subsidiaries
The Group accounts include the whole of the relevant business of the subsidiaries referred to in the first part of note 3, but the share capital of such subsidiaries is not in every case an asset of one or other of the branches to which the business relates.
Goodwill shown in the Balance sheet on page 27 arising on consolidation of certain subsidiaries represents the difference between the Balance sheet values of the investments in such subsidiaries and their net asset values at their dates of acquisition adjusted by their undistributed post-acquisition profits or losses which are shown as consolidation adjustments in the Ordinary life revenue and Profit and loss accounts.
In the Balance sheet of the Company shares in subsidiaries are stated at cost less amounts written off (see note (*c*)).
To avoid undue delay in the publication of the Company's accounts the figures of The Mercantile and General Reinsurance Group relate to the year ended 31 December 1973 except that for the Australian subsidiaries of that Group they relate to the year ended 30 June 1973.
Certain subsidiaries' accounts have been omitted from the Group Accounts as the Directors are of the opinion that their inclusion is of no real significance to the amount of profit of the Group or the amount of its assets.
A list of the subsidiaries not consolidated appears on page 31 together with a note of their profits.

(ii) Investments in other companies
A list of the investments in companies in which the shareholdings of the Group of at least one class of equity share amounts in nominal value to one fifth or more of the nominal value of the issued shares of that class appears on page 32. In the opinion of the Directors the results of these companies attributable to the shareholders' interests therein are not of sufficient significance to be included in the Group Accounts except to the extent of dividends received.

(*c*) Investment Values
The Balance sheet values of the investments, with the exception of those related to linked business, are in the main at cost increased by, in the life branches, unrealised margins transferred to the Revenue accounts and adjusted in all branches by the application of the balances of the Investment reserve accounts referred to in note (*d*). Depreciation on property is provided upon the excess amount in any year that the total book values exceed site values but additionally leasehold properties are amortised over the last 50 years or less of the lease. The values of investments related to linked business are included at market value and the amount shown in the Revenue account on page 20 corresponds to the movement for the year in the values of the linked business assets. The market values of the assets shown on the Balance sheets are based on market quotations where available (allowing 75 per cent. of the investment currency premium where appropriate) and in all other cases on values estimated by the Directors of the respective companies of the Group. If the assets were realised at the value shown it is estimated that no liability for tax on capital gains would arise.

(*d*) Investment Reserve Accounts
In the Company's accounts and with minor exceptions in the Group accounts, profits and losses on realisation of assets and exchange differences, other than exchange differences on marine, aviation and transport insurance business, less any relative taxes, have been carried to Investment reserve accounts. Transfers may be made from time to time from or to the respective revenue accounts or Profit and loss account. For 1974 due to changes in the actuarial valuation bases transfers of reserves have been made to the Company's life Investment reserve accounts from the respective fund accounts. The balances of Investment reserve accounts have been applied in arriving at the Balance sheet values of the assets.

(*e*) Exchange rates
Life, fire and accident business transactions in overseas currencies have been included in the accounts at the rates of exchange ruling on 31 December 1974 and the funds brought forward at the beginning of the year in the Ordinary life and General business accounts on pages 20 and 24 respectively, have been adjusted for the difference in the rates of exchange at the beginning and end of the year.
Currency liabilities overseas including loans from overseas bankers, promissory notes and unsecured loans in overseas currencies are with minor exceptions, covered by corresponding currency assets and these liabilities and assets (other than those subsequently mentioned) have been converted at rates of exchange ruling on 31 December 1974. The book values of certain investments in overseas currency held at Chief Office either on Chief Office investment account or as cover for overseas liabilities have been based on the rates of exchange ruling on the dates of acquisition (other than the shareholding in the Belgian subsidiary referred to in note 3 which is included at currency cost converted to sterling at the rate of exchange ruling on 31 December 1974).
Overseas interest received or paid by the Company's Chief Office and overseas currency transactions included in the marine, aviation and transport account have been brought in at rates of exchange based on those ruling on the dates of the respective transactions. The profit on exchange in the marine, aviation and transport account noted in the analysis of General insurance business on pages 44 and 45 arises from the revaluation of currency net assets at the rates of exchange ruling on 31 December 1974.
In the Group accounts such items in respect of the subsidiaries have, with minor exceptions, been dealt with on a similar basis.

(*f*) Long-term business
Long term Insurance profits are allocated from the surplus determined as the result of the annual actuarial valuation (which also determines the liabilities of the life and long term sickness and accident business). The amount of the long term business surplus allocated to shareholders is determined by the Directors in accordance with the Articles of Association of the Company.

Notes on the Accounts continued

(*g*) Fire and accident business

For fire and accident insurances (other than long term sickness and accident contracts) reserves in respect of unearned premiums set aside to provide for periods of risk extending beyond the end of the financial year are calculated on a proportional basis having regard to the premiums written each month, with a deduction of 20 per cent. for acquisition costs. In addition unexpired risk reserves are held to cover the estimated excess of liabilities over the unearned premium reserves. For the last treaty year the fire and accident proportional reinsurance account of one subsidiary is dealt with on an open year basis.

Outstanding Fire and Accident claims include provisions for claims incurred up to the date of the Balance sheet but not reported.

(*h*) Marine, aviation and transport business

The profits 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 the estimated cost of all outstanding claims, including those still to be reported. Premiums less claims payments and expenses relating to the two open years of account are carried forward and increased if necessary so that the funds in respect of the business transacted in each of the two open years and in previous years are sufficient to meet the estimated cost of all outstanding claims whether notified or not and the future claims expected on unexpired risks. In respect of both Marine and Aviation business credit is taken in the Taxation account for the tax which will be recoverable on the settlement of outstanding claims in the closed year of the accounts.

(*i*) Investment income

Investment income, which comprises interest, dividends and rents due and receivable in the year, adjusted in respect of United Kingdom dividends deferred for tax reasons, is shown less amounts written off terminable and other securities and after payment of interest £5,035,000 (*£3,103,000*), £5,935,000 (*£3,544,000*), £235,000 (*£169,000*) and £1,296,000 (*£631,000*) in the Ordinary life, Industrial life, General business and Profit and loss accounts respectively, on bank loans, promissory notes and unsecured loans and also on debentures in the Ordinary life account of £66,000 (*£21,000*). Amounts of £2,447,000 (*nil*) and £1,875,000 (*nil*) representing accrued interest in respect of investment transactions have been included in the Ordinary life and Industrial life accounts respectively. UK dividends received under the imputation tax system have been grossed up for attributable tax as appropriate as referred to in note (*k*).

(*j*) Expenses

Expenditure on the acquisition of motor vehicles (other than in Canada), furniture and office equipment is charged against the revenue of the year in which it is incurred but major capital expenditure on computer equipment is amortised by equal annual instalments over its estimated useful life.

(*k*) Taxation

Taxation has been charged on all profits and income earned to date, less reliefs (corporation tax 52 per cent less reliefs or tax credit on UK dividends received first quarter 30 per cent remainder 33 per cent). The General business and Profit and loss account are combined for the purpose of assessment to tax and accordingly should be read together. Included in adjustments re prior years in General business is a credit of £596,000 relating to a change in basis of providing for taxation on outstanding claims on Marine and Aviation business.

	Ordinary life		Industrial life		General business		Profit and loss	
	1974	1973	1974	1973	1974	1973	1974	1973
Company	£000	£000	£000	£000	£000	£000	£000	£000
Corporation tax on income	538	204	−52	740	154	4,012	−66	−1,036
Taxation attributable to UK dividends	3,997	2,836	6,989	7,560	709	298	955	1,089
	4,535	3,040	6,937	8,300	863	4,310	889	53
Less Double taxation relief	—	—	—	245	—	416	—	103
	4,535	3,040	6,937	8,055	863	3,894	889	−50
Overseas Tax	4,301	4,129	324	284	366	478	37	48
Adjustments re prior years	257	−512	−89	−351	−973	−5	−90	−661
	9,093	6,657	7,172	7,988	256	4,367	836	−663
Group								
Corporation tax on income	651	236	−52	740	1,838	4,959	326	−874
Taxation attributable to UK dividends	4,196	2,836	6,989	7,560	853	425	739	1,124
	4,847	3,072	6,937	8,300	2,691	5,384	1,065	250
Less Double taxation relief	1	1	—	245	324	784	76	166
	4,846	3,071	6,937	8,055	2,367	4,600	989	84
Overseas Tax	4,469	4,286	324	284	707	656	84	84
Adjustments re prior years	231	−512	−89	−351	−297	−5	69	−661
	9,546	6,845	7,172	7,988	2,777	5,251	1,142	−493

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

Notes on the Accounts continued

2 The Company's authorised Share Capital is £12,500,000 in 250,000,000 shares of 5p each.

3 Particulars of subsidiary companies are as follows:

Name	Class of Share held	Proportion held	Country of Incorporation and Principal Operation unless otherwise stated
Included in group accounts			
Compagnie d'Assurance de l'Escaut S.A.	Shares n.p.v.	100%	Belgium
Edger Investments Limited	Ordinary Shares 25p	100%	England
The Mercantile and General Reinsurance Company Limited	Shares £1	100%	Scotland (Operating principally in UK)
Mercantile and General Reinsurance (Holdings) Limited	Shares £1	100%	England
Prudential Pensions Limited	Shares £1	100%	England
Vanbrugh Life Assurance Limited (formerly Vavasseur Life Assurance Limited)	Ordinary Shares £1	100%	England
Not included in group accounts			
A.W.G. (Holborn) Limited	Ordinary Shares 25p	100%	England
	Deferred Shares 25p	100%	
Barnard Enterprises Limited	Shares £1	100%	England
Beaver Securities Limited	Ordinary Shares £1	100%	England
The Beaver Trust Limited	Ordinary Shares 25p	100%	England
Murray & Co. Limited	Common Shares n.p.v.	100%	Canada
Paramet Corporation Limited	Common Shares n.p.v.	100%	Canada
Pru Limited	Ordinary Shares 5p	100%	England
Prudential Australian Superannuation Limited	Shares $2	100%	Australia
Prudential Nominees Limited	Shares £1	100%	England
Prudential Unit Trust Managers Limited	Shares £1	100%	England
Prupac Limited	Ordinary Shares 10p	100%	England
Riccarton Mall Limited	Ordinary Shares $1	100%	New Zealand
Rue de Treves Estates SA	Shares n.p.v.	100%	Belgium
Societa Italo-Britannica di Assicurazioni s.r.l.	Shares	100%	Italy
Stocklund Property Limited	Shares £1	100%	England
Tibart Limited (formerly R. Wylie Hill & Co. Ltd.)	Ordinary Shares 25p	100%	Scotland

The accounts of the subsidiaries not consolidated in group accounts have been omitted as the amounts involved are not significant; some of these subsidiaries are investments of the life funds. Based on the rates of exchange ruling on 31 December 1974 the net aggregate amounts of profit of these subsidiaries are

For 1974	For previous years	
£	£	
313,817	262,270	(not included in the Company's accounts)
–12,566	43,441	(included in the Company's accounts)

The businesses carried on by subsidiaries of the companies listed do not principally affect the amount of profit of the Group or the amount of its assets and in view of the number of subsidiaries involved details relating to individual companies are not shown.

4 The Group, in the investment portfolios of its separate businesses, holds shares in the following 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 nominal value of the issued shares of that class.

Notes on the Accounts continued

Name	Issued capital and total reserves	Proportion held %	Country of Incorporation and Principal Operation unless otherwise stated
Agencia de Seguros Anglo Portuguesa Limitada	Esc. 100,000 Shares	50·0	Portugal
Broadstone Investment Trust Limited	£3,100,000 Ordinary Shares 20p	24·7	England
	£600,000 5% Cumulative Preference Stock	45·0	
	£500,000 5½% Cumulative 2nd Preference Stock	12·1	
	£750,000 4% Debenture Stock 1974/79	36·8	
	£970,000 5½% Debenture Stock 1979/84	5·3	
	£447,100 6½% Debenture Stock 1982/87	—	
	£2,500,000 4½% Convertible Unsecured Loan Stock 1988/93	—	
	£5,376,401 Reserves		
Cadedge Development Limited	100 Shares £1	49·0	England
	£6,594 Reserves		
Cadedge Investments Limited	50,000 Shares £1	49·0	England
	£24,452 Reserves		
	£904,297 Secured Loans	—	
Chedger Development Limited	100 Shares £1	49·0	England
	£25,417 Reserves		
Chedger Investments Limited	10,000 Shares £1	49·0	England
	£1,020 Reserves		
	£200,000 Secured Loans	—	
Cleveland Offshore Fund NV	US$114,900 Shares US$100	43·5	Netherlands Antilles (operating principally in USA)
Coast Underwriters Limited	1,500 Common Shares C$1	30·0	Canada
	C$70,651 Reserves		
Columbus Insurance Company Limited	50,000 Shares £1	35·0	Bermuda
	£50,765 Reserves		
Commonwealth (Cayman) Insurance Company Limited	110,000 Shares US$1	45·5	Cayman Islands
M & G Computer Systems Limited	600 Shares C$1	20·0	Canada
Newcastle & Gateshead Water Company	£249,635 4·2% Maximum Ordinary Stock	28·0	England
P. W. Nominees Limited	100 Shares £1	50·0	England
Reinsurance Group Managers Limited	4,000 Shares £1	25·0	England
Richard Costain Properties Limited	250,000 Ordinary Shares £1	25·0	England
	£4,923,180 6⅜% 1st Mortgage Debenture Stock 2002	100·0	
	£22,732 Reserves		
Thames House Estates Limited	1,000,000 Shares £1	25·0	England
	£198,880 3½% 1st Mortgage Debenture Stock 1983	54·1	
	£1,352,938 Reserves		
Triton Petroleum Limited	99,996 Ordinary Shares £1	23·5	England
	£29,717 Interest free unsecured loans	—	
United Dominions Trust Limited	£27,380,000 Ordinary Stock	26·6	England
	£500,000 4½ % Cumulative Preference Stock	6·3	
	£1,000,000 4½% 2nd Cumulative Preference Stock	6·5	
	£1,000,000 4½% 3rd Cumulative Preference Stock	4·5	
	£10,500,000 8¾% Capital Bonds (US$) 1988	—	
	£6,200,000 9⅜% notes (US$) 1977/88	—	
	£7,000,000 8% notes (Sw Fcs) 1979	—	
	£15,000,000 16% Convertible Subordinated Unsecured Loan Stock 1979/81	74·4	
	£15,000,000 partly paid 17% Convertible Subordinated Unrecorded Loan Stock 1979/81	75·0	
	£68,000,000 Reserves		
Western Properties SA	945,000 Common Stock Shares US$1	22·2	Panama (operating principally in USA)
	US$6,070,396 Loans	—	
	US$8,316,888 Reserves		
Westpool Investment Trust Limited	£1,905,000 Shares 25p	31·9	England
	£132,500 1st 4% Debenture Stock 1975/80	22·6	
	£400,000 1st 5% Debenture Stock 1985/90	18·8	
	£430,000 1st 5¾% Debenture Stock 1983/88	10·4	
	£1,524,000 5% Convertible Unsecured Loan Stock 1989/94	—	
	£4,238,243 Reserves		
William Irvine (Holdings) Limited	169,070 Ordinary Shares £1	—	England
	100,000 25% Convertible Preferred Ordinary Shares £1	25·0	
	£856,058 Reserves		

Notes on the Accounts continued

The results of the foregoing companies attributable to the Shareholders' interest therein are not of sufficient significance to be included in the Group accounts except to the extent of dividends receivable.

The Group also holds shares in a further 41 companies in which the holding exceeds one tenth. In view of the number involved details relating to individual companies are not shown.

5 During the year the Company joined a consortium which by an agreement dated 29 April 1974 provided reinsurance arrangements for the whole of the general annuity business of Investment Annuity Life Assurance Co. Ltd. The Company's proportion of the revenue items of Investment Annuity Life Assurance Co. Ltd., for the period from 29 April to the 31 December 1974 and the balance sheet items as at 31 December 1974 have been included in the Ordinary Branch accounts. The Company's proportion of the actuarially assessed liability to the policyholders under these reinsurance arrangements has been included within the amount of the Ordinary life fund as at 31 December 1974.

6 The promissory notes and unsecured loans in overseas currencies shown under current liabilities in the Balance sheets fall due for settlement by 1975 and 1979 respectively. The loan stock of a subsidiary is a 6 per cent. 1st Mortgage Debenture Stock 1993/98.

7 A transfer of £21m has been made out of Company reserves to the General Insurance Fund. The market value of the remaining assets representing Shareholders' Funds was £12m less than book value and in addition, the Company has undertaken to acquire certain investments of a subsidiary at values, which at 31 December 1974, were £1·5m in excess of the relevant market values. Owing to the increase in the market value of investments quoted on The Stock Exchange and the reduction in interest rates subsequent to 31 December 1974, the market values of total Shareholders' Funds are now in excess of book values.

The market value of the total tangible assets of the Company was in excess of the Balance Sheet value at 31 December 1974 and the Directors did not consider it necessary to make provision against the above mentioned deficit.

8 The aggregate amount of the Company's Directors' emoluments for the year was Company £110,533 (*£109,715*), Group £118,747 (*£117,748*). In addition contributions made to the pension scheme for Directors were Company £25,000 (*£25,000*), Group £25,650 (*£25,650*).

The emoluments of the Chairman in the financial year amounted to £20,000 (*£20,000*).

The emoluments of all Directors including emoluments from subsidiaries were as follows:

Over	Up to	Number of Directors	
£	£	1974	1973
—	2,500	2	1
2,500	5,000	2	1
5,000	7,500	8	9
7,500	10,000	3	2
10,000	12,500	1	2
17,500	20,000	1	1

9 Employees of the Company in the United Kingdom whose emoluments exceeded £10,000 in the financial year were as follows:

Over	Up to	Number of Employees	
£	£	1974	1973
10,000	12,500	25	17
12,500	15,000	13	3
15,000	17,500	3	2
17,500	20,000	1	1
20,000	22,500	1	1
22,500	25,000	1	2
25,000	27,500	1	—
27,500	30,000	1	—
30,000	32,500	1	—
32,500	35,000	—	1

10 The remuneration of the auditors of the Company and its subsidiaries excluding V.A.T. amounted to £195,510 (*£150,045*) of which the remuneration in respect of the Company excluding overseas branches amounted to £46,500 (*£41,500*).

11 The Group is committed to capital contracts for settlement after 31 December 1974 of £4,780,000 (*£2,120,000*) and there is no expenditure authorised but not contracted for (*Nil*). Also, certain guarantees have been given in respect of retirement benefits for the Staff and benefits for their relatives and dependants, and in respect of a letter of credit for US$577,778.

Report of the Auditors

**Report of the Auditors
to the members of
The Prudential Assurance Company Limited**

In our opinion, based on our examination and on the reports of the auditors of certain subsidiaries not audited by us, the accounts set out on pages 20 to 33 comply with the provisions of the Companies Acts 1948 and 1967 applicable to insurance companies.

No part of any fund of the Company has been applied, directly or indirectly, for any purpose other than the class of business to which the fund is applicable. We have examined the methods of apportioning the expenses of management and in our opinion the apportionment of these expenses between the Industrial and other businesses of the Company has been made on a fair and equitable basis.

Deloitte & Co.,
Chartered Accountants.

London
24 April 1975

This attractive photograph kindly supplied by Snowdon Mountain Railways shows the view from Clogwyn station. The two trains are made up of one carriage each propelled by a steam locomotive of Swiss manufacture. The railway, first opened in 1896, uses the ABT system, as in Switzerland, and runs from the base of Llanberis to the summit. In the interests of safety, trains are limited to 5 mph, enabling travellers to obtain full benefit of the ever-changing mountain scenery. The Prudential is very pleased to carry all the General Branch insurances of the railway relating to fire, theft, all risks, money, equipment, inspections, machinery breakdown, public and products liability, employers' liability and motor vehicle.


6

Valuation Report on the Company's business

To the Directors of The Prudential Assurance Company Limited.

I have the honour to submit my report on the valuation as at 31 December 1974 of the life assurances and annuities and other insurance contracts of the Company.

Ordinary Branch

The number of contracts in force was 2,983,619 producing an annual premium income of £232,551,597. Sums assured with bonuses amounted to £11,866,449,886. Deferred and contingent annuities with bonuses amounted to £338,382,657 per annum including amounts of annuity to be purchased by future recurrent single premiums. Annuities in course of payment amounted to £32,781,507.

The interest earned in 1974 represents a gross rate of £8·76 per cent on the Ordinary Branch fund.

The method of valuation used for the main classes of assurance business other than investment-linked business was the modified net premium method valuing net premiums calculated on the valuation basis with an addition to allow for part of the initial expenses. The whole of the difference between the value of the future office premiums and of the premiums valued has been reserved for future expenses and profits.

For income and other temporary benefits the net liability was based on the premiums paid.

For investment-linked assurances the net liability was based on the value at 31 December 1974 of the units allocated. Assurance benefits included in investment-linked contracts were valued as temporary benefits.

The tables of mortality used for assurances were:

Business issued in:	Table of mortality
United Kingdom, the Channel Islands, the Isle of Man, Australia and New Zealand	A1949/52 Ult
South Africa & Rhodesia	SA 56/62 Ult
Canada: With-profits	A1924/29 Ult
Without profits	A1949/52 Ult
Other territories	A1924/29 Ult

The net rates of interest assumed for assurances were:—

Business issued in:	Rate of interest
United Kingdom, the Channel Islands and the Isle of Man:	
With-profits	4½%
Without profits	5%
Australia:	
With-profits: Superannuation	4½%
Other	4%
Without profits	4½%
New Zealand:	
With-profits	4%
Without profits	4½%
Canada:	3½%
South Africa and Rhodesia:	
With-profits: First Series	4%
Second Series: Retirement Fund	4½%
Other	4%
Without profits	4%
Kenya, Tanzania and Uganda:	
With-profits: Retirement Fund	4¼%
Other	3½%
Without profits	3¾%
Other territories	3½%

The methods of valuation used for deferred annuities secured by annual or recurrent single premiums during the period of deferment other than cash accumulation and investment-linked business were:

United Kingdom with-profit individual deferred annuities	The modified net premium method valuing net premiums calculated on the valuation basis with an addition to allow for part of the initial expenses.

Other individual deferred annuities and pension-unit schemes	The net premium method valuing net premiums calculated on the valuation basis.
Group with-profit deferred annuities and United Kingdom without profit group deferred annuities (associated with with-profit schemes)	The net liability is the value of the annuity purchased by the premiums paid to date.
Other group deferred annuities	The gross premium method valuing premiums equal to 95 per cent of the office premiums.

The whole of the difference between the value of the future office premiums and of the premiums valued has been reserved for future expenses and profits.

For group cash accumulation annuity business the net liability was the accumulated fund at 31 December 1974.

For investment-linked annuity business the net liability was based on the value at 31 December 1974 of the units allocated.

The tables of mortality used for annuities and additions to the values of annuities were:

	Tables of mortality		Additions to the values of annuities as provision for expenses of payment and mortality improvement
	In deferment	In possession	
Business issued in:—			
United Kingdom, the Channel Islands and the Isle of Man	A1949/52 Ult rated down one year	a(55) Ult	3½%
Canada			
Deferred annuities:—			
Individual—With-profits	No allowance for mortality	a(55) Ult	3%
—Without profits with surrender values	No allowance for mortality	a(55) Ult	3%
—Other	No allowance for mortality	1971 IAM	1% For expenses only
Group	1971 GAM	1971 GAM	1% For expenses only
Immediate annuities:—			
Individual	—	1971 IAM	1% For expenses only
Group	—	1971 GAM	1% For expenses only
Other territories	A1949/52 Ult rated down one year	a(55) Ult	3%

The rates of interest assumed for annuities were:

	United Kingdom, Channel Islands & Isle of Man (except as stated below)	Australia & New Zealand	Canada (except as stated below)	S. Africa & Rhodesia	Other territories (except as stated below)
Deferred annuities:—					
With-profits:					
Individual	6½%	—	3%	—	—
Group	5½%	—	4½%	3½%	3%
Pension-unit schemes	6½%	—	—	—	—
Without profits:					
Pension business	7¼%	—	—	—	—
General business	6½%	3½%	7½% to 31 December 1989 & 4% thereafter	4%	3¾%
Immediate annuities	9½%	3½%	7½% to 31 December 1989 & 4% thereafter	5%	4%
Annuities certain	6½%	—	7½% to 31 December 1989 & 4% thereafter	—	—

For without profits individual deferred annuity bonds issued in the United Kingdom, the cash option was valued using 9½% interest during deferment.

For without profits individual deferred annuities with surrender values issued in Canada the rate of interest assumed was 3¼%.

For immediate annuities issued in Kenya, Tanzania and Uganda the rate of interest assumed was 5%.

The equivalents in sterling of liabilities in other currencies have been calculated at the rates of exchange ruling on 31 December 1974.

The foregoing bases of valuation incorporate major changes. Assets have been shown in the Balance Sheet at 31 December 1974 at not more than market values in aggregate notwithstanding the substantial depreciation which occurred during the year. This valuation of the assets implies higher rates of interest than were implicit in the valuation as at 31 December 1973. It is, therefore, appropriate that higher rates of interest should be assumed in the valuation of the liabilities as at 31 December 1974 and, with a few minor exceptions, the rates of interest assumed have been increased. In order to make allowance for the possibility of reductions in interest rates in the future, the rates of interest assumed provide appropriate margins as compared with those implied in the valuation of the assets having regard to the relative lengths of term of the assets and liabilities of the business in each country. For assurances and certain deferred annuities issued in the United Kingdom modified net premiums have been valued which allow for part of the initial expenses whereas net premiums were valued in the preceding valuation. The Additional reserve of £27,800,000 which is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses on the various classes of policies was reduced by £18,000,000 to £9,800,000. These changes were made as at 1 January 1974 and resulted in a reduction in the net liabilities of £380,000,000 which was transferred to the Investment reserve account to reduce the book value of investments.

I consider that the Additional reserve should be increased to £29,000,000 at 31 December 1974.

The result of the valuation is as follows:

Ordinary branch fund subject to transfers out of surplus on 31 December 1974		£1,679,277,083
Net liability under assurance policies	£941,798,580	
Net liability under annuity contracts	626,188,829	
Additional reserve	29,000,000	
Total net liability		1,596,987,409
Surplus emerging at 31 December 1974		82,289,674
Add Cost of bonuses allocated during 1974 in anticipation of surplus for that year		6,372,004
Total surplus, including £1,235,571 brought forward from last year		£88,661,678

I consider that for participating assurances issued in the United Kingdom, the Channel Islands and the Isle of Man, part of the surplus should be distributed by way of terminal bonuses varying with the duration of the policies at the same rates and in respect of the same years of issue as those which applied last year.

I also consider that terminal bonuses should be declared for participating assurances issued in Australia, New Zealand, South Africa, Cyprus and Malta and for certain participating annuity and cash accumulation contracts issued in the United Kingdom and South Africa.

I recommend that the following bonuses should be declared on participating policies:

(A) For assurance policies which become claims by death or maturity between 1 April 1975 and 31 March 1976 inclusive terminal bonuses of which the following are examples:

(1) Policies issued in 1972 or earlier in the United Kingdom, the Channel Islands, the Isle of Man and Malta

Year of issue:	1972	1963	1953	1943	1933	1923 or earlier
Rate per cent of sum assured:	0·40	18·40	49·50	74·90	95·10	108·00

(2) Policies issued in 1972 or earlier in Australia:

Year of issue:		1972	1963	1953	1943	1932 or earlier
Rate per cent of sum assured:						
First Series:	Superannuation	0·10	1·60	5·50	9·20	14·90
	Other	0·06	0·96	5·50	9·20	14·90
Second Series:	Superannuation	0·10	1·60	—	—	—
	Other	0·06	0·96	—	—	—

(3) Policies issued in 1972 or earlier in New Zealand

Year of issue:	1972	1963	1953	1943	1932 or earlier
Rate per cent of sum assured:					
First Series	0·10	1·20	8·20	13·80	22·50
Second Series	0·10	1·20	—	—	—

(4) Policies issued in South Africa

Whole Life assurances:	1·10 per cent of the reversionary bonus existing at the date of claim for each complete year which the policy has been in force with a maximum of 33·00 per cent.
Endowment assurances:	1·70 per cent of the reversionary bonus existing at the date of claim for each complete year which the policy has been in force with a maximum of 51·00 per cent.

(5) Policies issued in 1971 or earlier in Cyprus (a closed class)

Year of issue	1971	1963	1953	1945
Rate per cent of sum assured	0·20	9·10	33·90	49·20

(B) For assurance policies, except those issued in Sri Lanka, reversionary bonuses at the following rates:

For policies issued in:				per cent of sum assured	per cent of existing bonuses
(1)	the United Kingdom the Channel Islands, the Isle of Man and Malta			3·50	—
(2)	Australia:	First Series:	Superannuation	3·40	—
			Other	2·10	—
		Second Series:	Superannuation	2·40	2·40
			Other	1·45	1·45
		Third Series:	Superannuation	1·90	1·90
(3)	New Zealand:	First Series		2·45	—
		Second Series		1·60	1·60
(4)	Canada:	Registered		2·40	3·75
		Other		2·20	3·25
(5)	South Africa:	First Series		3·00	1·60
		Second Series:	Retirement Fund	2·90	4·80
			Other	2·25	4·00
(6)	Rhodesia:	First Series		2·75	—
		Second Series:	Retirement Fund	2·425	3·30
			Other	2·125	3·00
(7)	Kenya:	Kenya Class:	Retirement Fund	3·30	1·75
			Other	2·30	—
		Other		2·30	—
(8)	Malaysia and Singapore	First Series		3·00	1·75
		Second Series		2·25	2·65

Bonuses at the same rates as last year are recommended for closed classes in Tanzania, Uganda and Cyprus.

(C) For assurance policies issued in Sri Lanka (a closed class) a bonus on policies which become claims by death or maturity between the 1 April 1975 and 31 March 1976 inclusive at the rate of 1·40 per cent of the sum assured for each of the years 1966, 1967 and 1968 and 1·20 per cent of the sum assured for each subsequent year.

(D) For individual retirement annuity policies, reversionary bonuses on annuities not yet commenced at the following rates per cent of the annuity being purchased for policies issued in:

(1) United Kingdom	5·40 simple
(2) Canada	2·30 compound

(E) For group pension annuity policies, reversionary bonuses on pensions not yet commenced, at the following rates per cent of the pension secured, for policies issued in:

(1) United Kingdom: Pension business	5·50 compound
General annuity business	5·20 compound
(2) Channel Islands and the Isle of Man	5·20 compound
(3) Canada	3·10 compound
(4) South Africa	4·90 compound
(5) Rhodesia, Kenya, Tanzania and Uganda	3·25 compound

(F) For pension-unit scheme policies issued in the United Kingdom a reversionary bonus on pensions for members who have not reached normal pension age at the following rate per cent of the pension being purchased — 3·70 simple

(G) For Prudential Company Pension Scheme policies issued in the United Kingdom:

a reversionary bonus on pensions not yet commenced (or bonus interest for alternative lump sum benefits) at the following rate per cent of pension secured	3·45 compound
a bonus addition to pensions in course of payment at the following rate per cent of pension payable	4·75 compound

(H) For group pension cash accumulation policies, bonus interest at the following rates per cent for policies issued in:

(1) United Kingdom	3·45 compound
(2) South Africa	2·05 compound

(I) For group unit-linked policies issued in Australia, bonus units at the following rates per cent:

E units	7·172 compound
F units	9·845 compound

An allocation of £81,806,754 to policyholders will be necessary to provide the cost of the recommended bonuses and of those declared in anticipation out of the surplus for 1974.

I also recommend that bonuses at the following rates be granted in anticipation out of surplus for the year 1975:

Terminal and final bonuses per cent of the annuity or pension

(A) For individual retirement annuity policies issued in:

(1) United Kingdom, on annuities commencing between 1 April 1975 and 31 March 1976 inclusive	Terminal: 1·00 for each year in force compound Final: 46 compound
(2) Canada, on annuities commencing between 1 July 1975 and 30 June 1976 inclusive	35 compound final at age 55 reducing to 20 compound at age 70

(B) For group pension annuity policies on pensions commencing between 15 March 1975 and 14 March 1976 inclusive issued in:

(1) United Kingdom, the Channel Islands and the Isle of Man	110 compound final (subject to variation as may be appropriate) including 40 terminal
(2) Canada	35 compound final at age 55 reducing to 20 compound at age 70
(3) South Africa	54 compound final including 10 terminal
(4) Rhodesia, Kenya, Tanzania and Uganda	32 compound final

(C) For pension-unit scheme policies issued in the United Kingdom on pensions secured for members who reach normal pension age between 1 April 1975 and 31 March 1976 inclusive — 46 compound final

(D) For Prudential Company Pension Scheme policies issued in the United Kingdom on pensions commencing between 6 April 1975 and 5 April 1976 inclusive (or on alternative lump sum benefits payable) — 0·80 terminal for each premium year since the member commenced payment compound

For group pension cash accumulation policies, on amounts withdrawn in the premium year commencing between 15 March 1975 and 14 March 1976 inclusive to secure benefits on retirement, terminal bonuses per cent of the cash

(1) on amounts arising from premiums not allocated to individual members for policies issued in:

United Kingdom	1·60	for each premium year since the amounts were paid compound
South Africa	1·50	
(2) on amounts arising from individually allocated premiums for policies issued in the United Kingdom	0·80	for each premium year since the member commenced payment compound

Industrial Branch

The number of policies in force, including 5,376,888 free or paid-up policies, was 20,043,265 producing an annual premium income of £118,113,426. The maximum sums assured with bonuses amounted to £2,456,094,755.

The interest earned in 1974 represents a gross rate of £8·72 per cent on the Industrial branch fund.

The table of mortality used for the valuation of all assurances was the English Life Table No. 12 Males. The net rate of interest assumed in the valuation was $4\frac{1}{4}$ per cent. Net premiums have been valued, calculated on the valuation basis, and every policy has been treated as a liability. The whole of the difference between the value of the future office premiums and the value of the future net premiums has been reserved for future expenses and profits.

The foregoing bases incorporate a major change in the rate of interest. As in the Ordinary branch, assets have been shown in the Balance Sheet at 31 December 1974 at not more than market value and it is appropriate to assume a higher rate of interest in the valuation of the liabilities as at 31 December 1974. The relative lengths of term of the assets and liabilities is such that only a small margin in the rate of interest is necessary to allow for the possibility of a reduction in interest rates in the future. The change was made as at 1 January 1974 and resulted in a reduction in the net liabilities of £82,000,000 which was transferred to the Investment reserve account to reduce the book value of investments.

I consider that the Additional reserve should be reduced from £23,000,000 to £20,000,000 as at 31 December 1974. This reserve is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses.

The result of the valuation is as follows:

Industrial branch fund subject to transfers out of surplus on 31 December 1974		£794,477,588
Net liability under Industrial assurance policies	£724,077,883	
Additional reserve	20,000,000	
Total net liability		744,077,883
Surplus, including £1,562,583 brought forward from last year		£50,399,705

As in the case of the Ordinary branch, I consider that part of the surplus should be distributed by way of terminal bonuses varying with the duration of the policies at the same rates and in respect of the same years of issue as those which applied last year.

I recommend that the following bonuses should be declared:

(A) A terminal bonus on policies issued in 1972 or earlier which become claims by death or maturity between 1 April 1975 and 31 March 1976 inclusive at the same rates as those for Ordinary branch policies issued in the United Kingdom examples of which are shown on page 38.

(B) A reversionary bonus at the rate of 2·60 per cent of the sum assured.

An allocation of £45,937,037 to policyholders will be necessary to provide the cost of the recommended bonuses.

General Branch

In respect of fire and accident contracts (other than long term sickness and accident contracts) the unearned premium reserve has been calculated on a proportionate basis having regard to the premiums written each month with a deduction of 20 per cent for acquisition costs. In addition, the unexpired risk reserves for property and motor contracts have been increased to £500,000 and £450,000 respectively and unexpired risk reserves of £75,000 and £50,000 have been set up for pecuniary loss and liability contracts.

The interest earned in 1974 represents a gross rate of £6·75 per cent on the General branch fund.

Valuation Report continued

Individual long term sickness contracts issued in the United Kingdom some of which are attached to life policies have been valued by a gross premium method assuming, for male lives in non-hazardous occupations, 70 per cent of the Manchester Unity 1893/97 (AHJ) sickness experience and the A1949/52 Ult. table of mortality with interest at 4 per cent and taking credit for 60 per cent of the future office premiums. The reserves are increased by from 30 per cent to 60 per cent for other occupational classes depending on the degree of hazard and by 50 per cent for female lives. In addition, a reserve of £15,000 is held for contingencies.

Individual long term sickness contracts issued in Canada, some of which are attached to life policies, have been valued by a net premium method, using the 1964 Commissioners Disability table and the Commissioners 1958 Standard Ordinary table of mortality with interest at 3 per cent. The reserves are increased by 5 per cent for waiver of premium benefits and by 10 per cent or more, depending on occupation class, for monthly income benefits.

Long term accidental death benefits attached to life policies issued in Canada have been valued using the 1959 Accidental Death Benefits table and the Commissioners 1958 Standard Ordinary table of mortality, with interest at $3\frac{1}{2}$ per cent. The reserves are increased by 25 per cent or, if combined with dismemberment benefits, by 75 per cent.

For other long term accident or sickness benefits the reserve was based on the premiums paid and has been calculated to take account of the liability arising from the right of renewal. In the aggregate the provision so calculated is 57·5 per cent of the premium income for the year.

The marine and aviation fund of £5,594,097 is, in my opinion, a sufficient provision for the liabilities.

The sinking fund policies in force provide for the payment of capital sums amounting to £136,400 at the end of fixed terms of years, and produce an annual premium income of £682. They have been valued by a gross premium method assuming interest at 3 per cent or the rate of interest employed in the calculation of the premiums, if less, and taking credit for 98 per cent of the future office premiums.

The equivalents in sterling of provisions in other currencies have been calculated at the rates of exchange ruling on 31 December 1974.

The result of the valuation is as follows:

General branch fund, subject to transfers out of surplus, on 31 December 1974		£52,702,525
Provision and reserve for fire and accident insurances	£41,751,220	
Provision and reserve for long term sickness and accident insurances	3,879,429	
Provision and reserve for marine and aviation insurance	5,594,097	
Provision and reserve for sinking fund insurance	74,683	
Total provisions and reserves		51,299,429
Surplus		£1,403,096

R S Skerman,
Chief Actuary.

26 March, 1975.

Supplementary Information relating to the Company

Sources of Investment Income received during the year	1974	1973
Ordinary Life	£000	£000
British Government and British Government guaranteed securities	19,225	14,956
Other fixed income securities, including subsidiaries	31,277	30,187
Ordinary stocks and shares, including subsidiaries	33,359	31,833
Freehold and leasehold properties, rent charges and ground rents	27,965	26,341
Mortgages on property	16,048	15,121
Other sources	6,002	4,758
Total revenue account income	133,876	123,196
Industrial Life		
British Government and British Government guaranteed securities	12,201	10,441
Other fixed income securities	11,264	11,189
Ordinary stocks and shares, including subsidiaries	24,564	24,763
Freehold and leasehold properties, rent charges and ground rents	16,172	14,944
Mortgages on property	2,884	2,694
Other sources	−2,079	−1,375
Total revenue account income	65,006	62,656

General Business		1974		1973
British Government and British Government guaranteed securities		1,005		1,048
Other fixed income securities		3,161		2,597
Ordinary stocks and shares, including subsidiaries		1,321		1,153
Freehold and leasehold properties, rent charges and ground rents		27		—
Mortgages on property		291		271
Other sources		903		591
Total revenue account income—long term business	372		322	
other business	6,336	6,708	5,338	5,660

Claims and Surrenders—Life Assurance	Ordinary		Industrial	
	1974	1973	1974	1973
	£000	£000	£000	£000
Claims under policies paid and outstanding:				
By death	32,305	29,991	31,479	29,650
By maturity	48,677	46,287	41,159	38,458
	80,982	76,278	72,638	68,108
Surrenders	32,395	26,171	29,090	25,366
Bonuses surrendered for cash	4,351	3,699		
Payments under occupational pension schemes				
Transfers to Prudential Pensions Ltd.	11,833	12,142		
Other transfers and payments on withdrawal (including amounts re-applied as further premiums)	11,227	14,564		
Total revenue account claims and surrenders	140,788	132,854	101,728	93,474

Investment Portfolios

The distribution of the investment portfolios, on a market value percentage basis, held on Chief Office account in respect of Life and General business was as follows:

	Ordinary Life		Industrial Life		General Business	
	1974	1973	1974	1973	1974	1973
Fixed interest investments	39	33	27	23	70	61
Ordinary stocks and shares	24	35	29	41	29	39
Property investments	37	32	44	36	1	—

Ordinary life and General business is also transacted overseas where in many territories investment policy is restricted by legislation, with the result that overseas portfolios are concentrated more in fixed interest investments.

Supplementary Information relating to the Company continued

Analysis of the General Insurance Business of the Company for the year ended 31 December 1974
Comparative figures for 1973 in colour

Income	Property £000		Motor Vehicle £000		Sickness and Accident £000		Pecuniary Loss £000		Liability £000	
Amount of fund at beginning of year:										
Unearned premiums	14,147	12,375	15,285	13,478	1,216	981	806	726	3,039	2,479
Provisions	‡300	‡300	‡200	—	•3,469	•3,000	—	—	—	—
Exchange adjustment	−169	267	−205	180	−76	107	−5	19	−99	103
	14,278	12,942	15,280	13,658	4,609	4,088	801	745	2,940	2,582
Premiums	35,173	32,124	40,519	38,371	8,007	7,353	2,470	1,935	8,250	7,525
	49,451	45,066	55,799	52,029	12,616	11,441	3,271	2,680	11,190	10,107
Amount of fund at end of year:										
Unearned premiums	14,970	14,147	16,114	15,285	1,320	1,216	985	806	3,406	3,039
Provisions	‡500	‡300	‡450	‡200	•3,879	•3,469	‡75	—	‡50	—
	33,981	30,619	39,235	36,544	7,417	6,756	2,211	1,874	7,734	7,068
Investment income allocated to long term funds	—	—	—	—	367	309	—	—	—	—
Total (A)	33,981	30,619	39,235	36,544	7,784	7,065	2,211	1,874	7,734	7,068
Outgo										
Claims	19,838	14,690	28,207	24,735	3,284	3,020	2,046	930	4,234	4,645
Commission	4,626	4,419	4,672	4,525	1,132	1,037	85	52	1,174	1,060
Expenses including taxation other than on profits	10,620	8,761	8,181	7,330	1,992	1,785	719	543	2,039	1,668
Total (B)	35,084	27,870	41,060	36,590	6,408	5,842	2,850	1,525	7,447	7,373
Gross underwriting profit (A—B)	−1,103	2,749	−1,825	−46	1,376	1,223	−639	349	287	−305

Note
The above statement analyses the General insurance business figures in the Department of Trade classification except that the figures for Sickness and Accident business include long term business and the Transport business written in the Accident department has been included in the Property account.

‡Unexpired risk reserve.
•For long term business.
†After deducting £14,000 (*£89,000*) profit on exchange.

Treaty Reinsurance Accepted £000		Marine, Aviation and Transport: Current Year £000		Last Preceding Year £000		Previous Years £000		Total £000		Sinking Fund £000		Total £000	
3,090	2,319	—	—	—	—	—	—	—	—	—	—	45,898	39,563
—	—	—	—	1,846	1,605	2,428	1,983	4,274	3,588	72	317		
46	126	—	—	—	—	—	—	—	—	—	—	−508	802
3,136	2,445	—	—	1,846	1,605	2,428	1,983	4,274	3,588	72	317	45,390	40,365
10,498	8,570	3,689	2,716	510	461	−7	136	4,192	3,313	1	1	109,110	99,192
13,634	11,015	3,689	2,716	2,356	2,066	2,421	2,119	8,466	6,901	73	318	154,500	139,557
3,881	3,090	—	—	—	—	—	—	—	—	—	—	51,299	45,898
—	—	2,528	1,846	1,233	1,035	1,833	1,393	5,594	4,274	75	72		
9,753	7,925	1,161	870	1,123	1,031	588	726	2,872	2,627	−2	246	103,201	93,659
—	—	—	—	—	—	—	—	—	—	5	13	372	322
9,753	7,925	1,161	870	1,123	1,031	588	726	2,872	2,627	3	259	103,573	93,981
7,982	4,705	1,108	657	1,516	1,088	692	653	3,316	2,398	—	250	68,907	55,373
3,618	2,923	—	—	—	—	—	—	—	—	—	—	15,307	14,016
179	155	303	213	7	43	−4	−27	†306	†229	—	1	24,036	20,472
11,779	7,783	1,411	870	1,523	1,131	688	626	3,622	2,627	—	251	108,250	89,861
−2,026	142	−250	—	−400	−100	−100	100	−750	—	3	8	−4,677	4,120

Ten Year Review of the Company

	1965 £m.	1966 £m.	1967 £m.	1968 £m.	1969 £m.	1970 £m.	1971 £m.	1972 £m.	1973 £m.	**1974 £m.**
Ordinary Life										
New annual premium income	15·6	17·8	19·6	20·9	22·9	24·3	28·7	33·9	39·0	**48·1**
Total premium income and considerations	111·1	122·3	138·1	147·1	155·1	166·5	189·7	203·6	257·9	**259·4**
Investment income	56·9	62·0	69·7	76·2	83·7	90·3	97·4	108·5	123·2	**133·9**
Surplus to policyholders	36·5	39·5	45·0	51·6	57·8	64·1	71·9	83·4	94·8	**81·8**
Balance sheet value of assets	899·7	985·2	1,116·9	1,228·1	1,332·2	1,456·7	1,585·5	1,769·2	2,019·6	**1,757·6**
Market value of assets	1,045·5	1,079·8	1,303·1	1,580·9	1,533·5	1,604·6	1,985·3	2,327·8	2,308·7	**1,780·8**
Industrial Life										
New annual premium income	10·6	11·4	12·3	12·7	13·8	14·8	15·0	17·8	18·1	**22·1**
Total premium income	70·7	74·2	77·5	81·2	84·4	88·2	92·2	97·7	104·4	**111·8**
Investment income	46·0	47·4	49·3	51·4	53·8	55·4	56·8	60·4	62·7	**65·0**
Surplus to policyholders	29·3	29·9	32·3	36·9	40·0	41·7	44·2	48·2	51·3	**45·9**
Balance sheet value of assets	648·2	672·1	698·6	730·2	754·9	772·8	812·6	871·7	923·2	**864·8**
Market value of assets	852·3	827·9	951·0	1,137·7	1,029·1	1,017·9	1,308·7	1,483·8	1,325·4	**902·7**
• **General Business**										
Premium income	29·1	31·7	37·3	41·5	47·0	54·4	65·3	83·2	99·2	**109·1**
Gross underwriting profit	0·2	0·5	1·0	0·2	0·6	−0·3	1·5	3·5	4·1	**−4·7**
Investment income	1·2	1·3	1·6	1·8	2·1	2·3	2·6	3·2	5·3	**6·3**
Balance sheet value of assets	29·6	32·4	37·7	43·2	49·2	56·6	68·5	89·8	112·8	**129·1**
Market value of assets	32·1	33·8	41·6	50·8	53·2	59·1	79·3	102·1	112·9	**129·4**
• **Profit and Loss Account**										
Surplus from Ordinary life	2·8	3·2	3·5	3·7	4·6	4·8	5·5	5·4	6·0	**5·6**
Surplus from Industrial life	2·2	2·4	2·5	2·6	3·0	3·1	2·9	3·1	3·3	**3·2**
Surplus from General business	0·7	0·9	1·6	1·3	1·0	0·3	2·1	4·3	5·1	**1·4**
Investment income	0·5	0·6	0·7	0·9	1·0	2·0	2·4	2·3	1·4	**3·0**
Retained profits	0·4	0·6	1·3	1·0	0·7	0·7	2·4	5·6	5·8	**0·6**
† Dividend on shares of 5p	3·96p	3·96p	4·10p	4·24p	5·00p	5·31p	5·88p	6·24p	6·73p	**7·71p**

• These statements follow, for the years 1965 to 1972 inclusive, the form of presentation of the accounts for subsequent years and consequently retentions previously shown under General business are now included in the Profit and loss statement. Investment income in the two statements and the values of assets in the General business statement have been correspondingly adjusted.

† Gross equivalent of dividend declarations including imputed tax for 1972 final and subsequently. Declarations on the A and B share capital for 1969 and previous years have been combined and adjusted for scrip issues where appropriate so as to be directly comparable with those for subsequent years. The figure for 1970 excludes the special distributions made in that year.

1 Market values of assets are based on market quotations where available (allowing 75 per cent. of $ premium where appropriate) and in all other cases on values estimated by the Directors.

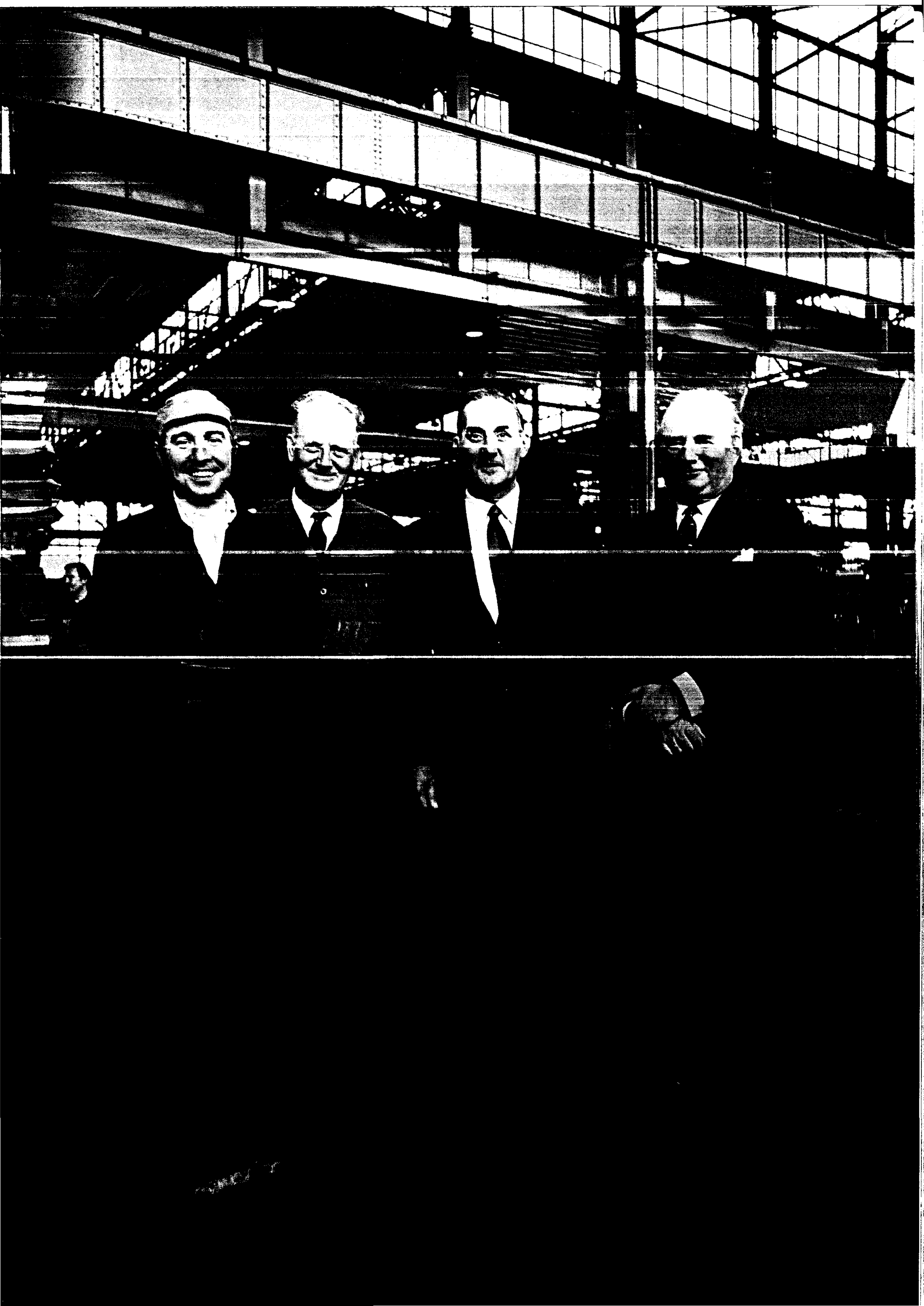
2 No allowance has been made for any tax on capital gains that would arise if the assets were realised at the values shown.

3 The margin between Market values and Balance sheet values is proportionately greater for Industrial life than for Ordinary life mainly for two reasons:

(i) the more rapid growth of the Ordinary life funds over recent years.

(ii) overseas currency assets of the Ordinary life business are held to cover overseas currency liabilities, now about 32 per cent of the total liabilities of the branch. The Market value of these assets has not changed to the same extent as that of U.K. assets, particularly in territories where there are local investment restrictions.

4 The margins between Market values and Balance sheet values of assets are not in themselves a guide to the strength of a life assurance fund.



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GKN is one of the largest engineering groups in the world and the Prudential has looked after pension arrangements for its employees since 1936. Our photograph was taken in one of the press shops of GKN Sankey at Telford where automotive pressings are made; from left to right are four members of the pension schemes, J E Turner, press operator, H Woodvine, foreman, C F Hamps, Avenue press shop manager and G R Grocock, director of administration (personnel).

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The Prudential offers ordinary and group life, and general branch services in many parts of the world where local legislation permits. Substantial branches have been established in Australia, New Zealand, Canada and South Africa. The photograph shows a view of the Science buildings at the Australian National University, Canberra, A.C.T. The Australian National University was established in 1946 primarily as a post-graduate University to encourage research both generally and of national importance to Australia. The Company undertakes superannuation provisions for the University staff.

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