THE PRUDENTIAL ASSURANCE COMPANY LIMITED

One Hundred and Twentieth Annual Report and Statement of Accounts

YEAR ENDED 31 DECEMBER 1968

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

President:
Sir Frank William Morgan, M.C.

Directors:
Sir John Serocold Paget Mellor, Bt., Chairman
Walter Frank Gardner, C.B.E., F.I.A., Deputy Chairman
Desmond Arthur Reid, Deputy Chairman
John Anthony Tristram Barstow, D.S.O., T.D., D.L.
Leslie Brown, F.I.A.
The Rt. Hon. Lord Caccia, G.C.M.G., G.C.V.O.
The Rt. Hon. Lord Coleraine, P.C.
Sir John Nicholson Hogg, T.D.
Reginald Edgar Montgomery
Maurice Petherick
Charles William Allan Ray
Frank Mitchell Redington, F.I.A.
Kenneth Ascough Usherwood, C.B.E., F.I.A.

General Manager:
R. H. Owen, F.I.A.

Joint Secretaries and Investment Managers:
H. G. Clarke, B.Sc., F.I.A.
A. F. Murray, M.A., F.I.A.

Deputy Investment Managers:
E. P. Hatchett, F.I.A.
P. E. Moody, F.I.A.
L. C. Polke, A.I.A.

Assistant Secretaries:
R. J. Males, A.A.C.C.A.
W. R. Marshall

Senior Assistant Investment Manager:
G. J. Titford, F.I.A.

Chief Surveyor:
M. R. Dunnett, F.R.I.C.S.

Deputy Chief Surveyor:
E. E. Chapman, M.B.E., F.R.I.C.S.

Senior Medical Officer:
E. H. Hudson, M.A., M.B., B.Ch., F.R.C.P.

General Manager for Australia and New Zealand:
S. C. Canfield, F.C.I.I.

Deputy General Managers:
D. S. Craigen, B.A.
W. G. Haslam, D.F.C.

Assistant General Managers:
F. B. Corby, M.A., F.I.A.
E. W. Cunnah
G. W. Eley, F.C.I.I.
L. Gordon, F.C.I.I.
J. L. Maxted, LL.M.

Agency Managers:
R. Armstrong
A. L. Martin

Industrial Branch Administration Manager:
J. W. Whittle, D.S.C., V.R.D.

Life Manager—Ordinary Branch:
S. A. Ryder

Senior Solicitor:
M. A. R. George

General Manager for Canada:
A. P. Bodiley, M.B.E., F.C.I.I.

Chief Actuary:
R. S. Skerman, F.I.A.

Deputy Actuaries:
A. S. Clarke, F.I.A.
S. S. Townsend, F.I.A.
F. G. Wood, F.I.A., A.C.I.I.
K. N. Yeldham, F.I.A.

Group Pensions Manager:
J. G. Haslam, F.I.A.

Deputy Group Pensions Managers:
M. H. Hill
F. A. Lewis, F.I.A.

Data Processing Manager:
G. A. Brown, T.D., F.I.A.

Marine Underwriter:
C. E. R. Taylor

General Man P00020369
for Southern A
H. G. James, F.I.A.

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

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, E.C.1 on THURSDAY, the 22nd May, 1969, at 12.15 p.m. for the following purposes:

1

To receive and adopt the Directors' Report and Statement of Accounts for the year ended 31st December, 1968

2

To re-elect and elect Directors

3

To authorise the Directors to fix the remuneration of the Auditors

4

To transact any other business proper to be transacted at such Meeting

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NOTICE OF MEETING (CONTINUED)

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 the following Directors who retire by rotation and whose respective ages at the date of the Meeting will be as shown in brackets after their names:—

Sir John Mellor, Bt. (75)

Mr. R. E. Montgomery (68)

By order of the Board of Directors,

H. G. CLARKE,

A. F. MURRAY,

Joint Secretaries.

142, Holborn Bars, London, E.C.1.
29th April, 1969.

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.

A member entitled to attend and vote at the above mentioned 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.

Members' attention is drawn to the form of proxy accompanying this notice: it is a requirement of the Stock Exchange that proxy forms shall be sent out in respect of all resolutions intended to be proposed except resolutions relating to the procedure of the meeting or to the remuneration of the auditors.

The attention of those 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.

CHAIRMAN'S STATEMENT

Mr. W. F. Gardner will retire from the office of Deputy Chairman at the end of the Annual General Meeting. He will retain his seat on the Board. The Directors wish to place on record their warm appreciation of Mr. Gardner's eminent services as a Deputy Chairman. The Directors intend to elect Mr. K. A. Usherwood to succeed Mr. Gardner as a Deputy Chairman.

In last year's Report the Directors recommended the election to the Board of Mr. F. M. Redington who was retiring from the office of Chief Actuary, but owing to temporary illness we did not ask shareholders to elect him at the Annual General Meeting. I am delighted to say that he made an excellent recovery and he was appointed a Director last September. Shareholders will be pleased to know that last May he was awarded the rare honour of the Gold Medal of the Institute of Actuaries for actuarial work of pre-eminent importance. He now retires in accordance with the Articles of Association and offers himself for election.

In September last we suffered a great loss by the sudden death of Mr. F. Pearson, one of our Assistant General Managers. Most of his service had been as a member of the field staff and his wide knowledge of their work and problems was of great value to the Company.

Mr. H. H. New, an Assistant General Manager, retired at the end of 1968. He was associated with the General branch throughout his career and with his wide experience gave very valuable service to the Company.

Mr. H. D. McNairn, our General Manager for Canada, also retired at the end of 1968. Before joining the Company in 1944 Mr. McNairn had been Superintendent of Insurance for the Province of Ontario and his extensive knowledge of insurance in Canada was of great value to the Company over his period of office. His services are not being lost to the Company as he remains a member of the investment committee of our Canadian branch. Mr. A. P. Bodiley has been appointed to succeed him as General Manager for Canada.

The following appointments have also been made during the past year: Mr. E. W. Cunnah and Mr. L. Gordon to be Assistant General Managers, Mr. F. G. Wood to be a Deputy Actuary and Mr. A. L. Martin to be an Agency Manager.

In an eventful year during which business continued to expand, our most important new development was the introduction in the United Kingdom last September of life assurances with benefits linked to the value of units in the newly formed Prudential Unit Trust. Since these assurances were first offered the response has been good, and I shall refer to this later. Units in the Prudential Unit Trust are also available to the public by direct purchase, and prices are published daily in the Press.

It will be seen that our balance sheet now shows total assets of more than two thousand million pounds—a further landmark in Prudential progress. It is a measure of the rapid expansion of our business in recent years that this total has more than doubled since 1959. The funds of the two life branches, which account for well over 90 per cent. of the total assets of the Company, represent the accumulation of sums entrusted to us by millions of policyholders and it is a cause for satisfaction that Prudential policies are the medium for such a substantial volume of personal savings.

ORDINARY BRANCH

There was a further increase in the new business in this Branch both in the United Kingdom and overseas. In the United Kingdom new business, including group business, produced annual premium income of £13½ millions and single premiums together with annuity considerations amounted to £11 millions. In the overseas branches, new premium income amounted to £8¾ millions, the increase of £½ million over the 1967 figure arising from good progress in Australia and Southern Africa and, particularly, in Canada.

The figures for the United Kingdom include business from the new equity-linked life assurances, known as Prutrust assurances. These assurances were available for the last four months of the year, and during this period nearly 7,000 policies were issued producing annual premium income of £700,000. When these assurances were introduced, we emphasised that they were designed primarily for people who had made adequate provision for themselves and their families by normal life assurance, but who were seeking an outlet for further savings which offered an opportunity of sharing directly in the benefits to be derived from investment in a spread of ordinary shares. It is of course for each individual to decide whether he wishes to accept the investment fluctuations involved in a linked policy, or prefers the greater stability of a conventional policy.

In the United Kingdom new retirement annuity policies for the self-employed showed a further substantial growth in both numbers and annual premiums above the high level reached in 1967. This is due largely to our attracti P00020372 rates for this class of business and has resulted in a welcome extension of our connection with the self-em

South Africa the introduction of retirement annuities providing unit-linked benefits, to which I referred last year, met with a good response.

The Finance Act 1968 introduced a number of changes which were designed to reduce or remove the advantages of certain arrangements involving life assurances and annuities made with the object of mitigating liability to estate duty, income tax or surtax. The new legislation has had no appreciable effect on our new business, but we regard some of the new provisions as being unnecessarily complex and restrictive. Not only has a great deal of time been spent in attempting to interpret the new provisions—one relevant schedule to the Act covers 16 pages—but there will be a continuing burden on our staff in giving advice on the tax implications of effecting new policies and of altering the terms of existing policies, and in meeting the duty imposed on us to supply certificates to policyholders and returns to the revenue authorities.

In Canada radical changes are being made to the basis of taxation of life assurance business for 1969 and subsequent years. A number of points have still to be clarified, but, notwithstanding the strong representations that have been made by the life offices operating in Canada, we must face a higher tax charge on our Canadian business.

PENSION SCHEME BUSINESS

The Government has recently published its intentions regarding National Pensions in a White Paper entitled "National Superannuation and Social Insurance". It is proposed that the State scheme should continue to be financed broadly on a "pay-as-you-go" basis. Both pensions and contributions will be related to earnings.

The White Paper emphasises the great importance to the national economy of continuing co-operation between the State and private sectors in making provision for old age. It includes as one of the basic objectives of the proposals that "the State will work in partnership with occupational schemes", and it records the Government's acknowledgment of the important role occupational schemes have played in the past and are expected to play in the future.

Accordingly, the Government have accepted in principle the desirability of a system of partial contracting-out from the proposed State pension scheme by means of abatement of contributions and benefits. Contracting-out will not enable occupational schemes to make an adequate contribution to savings, unless it is permitted to an extent and upon terms that employers regard as worthwhile.

We believe that savings are so important to the national economy that contracting-out should be permitted to the maximum possible extent and, in particular, that it should not be limited by short-term considerations of its effect on the finances of the State scheme in its early years. The main inherent defect in a "pay-as-you-go" scheme, such as that proposed by the Government under which benefits mature over a period, is that it inevitably leads to substantially increasing costs as the years go by. In the memorandum of the Government Actuary appended to the White Paper it is estimated on the assumptions stated that, if there is no contracting-out, the rate of contribution needed from employees and employers jointly to finance the proposed State pensions on a "pay-as-you-go" basis would increase from 7.7 per cent. of earnings in 1972/73 to 11.4 per cent. in 2002/03. The extent of this increase must be a matter of concern on economic and, indeed, on ethical grounds, because the present generation are being promised higher pensions than they are being called upon to provide for present pensioners.

Contracting-out has the great merit that it moderates this rise in costs, because it reduces the pensions paid out by the State scheme in future years. Since the contracted-out employees and their employers pay less in contributions to the State scheme, higher rates of contribution may be necessary in the early years than those proposed in the White Paper if the State scheme is to operate on a "pay-as-you-go" basis. This would have the advantage that lower contribution rates than are envisaged in the White Paper would be needed later. Thus, contracting-out would mean that more than 7.7 per cent. of earnings would be needed by way of contributions in 1972/73 but less than 11.4 per cent. in 2002/03. This would place the finances of national pensions on a sounder basis.

As an alternative to charging higher initial contributions under the State scheme, its finances could be put on a sounder basis by promising lower pensions. We believe that higher rates of contribution to the State scheme in the early years or lower pensions are much to be preferred to restraint on contracting-out, especially if that restraint were designed to preserve the initial rates of contribution chosen by the Government for the State scheme.

The administrative complications involved in contracting-out will be another factor that will influence employers in deciding whether or not to contract-out, and it is to be hoped that they will not be so great as to be a deterrent. The changes envisaged will inevitably impose a very heavy burden on employers and others responsible for administering occupational schemes. Even with a satisfactory system of contracting-out, amendments to many existing schemes are likely to be necessary. Nevertheless, if the contracting-out arrangements are realistic, we are confident that we shall be able to advise employers on the application of these arrangements to their schemes in the best interests of all concerned and that our pension business will continue to develop.

As to our progress in 1968 in the Group Pensions field I am pleased to tell you that our arrangements for the provision of occupational pensions continue to be well received. We insured over 100 new schemes in the United Kingdom during the year with a total premium income of more than £1½ million. New premium income has also arisen from improvements made by employers in the benefits and conditions under many existing schemes.

INDUSTRIAL BRANCH

Last year's new business premiums in this Branch were slightly above those for 1967, which was itself a record year. The average premium per new policy continues to increase and now exceeds 16 shillings a month.

It will be seen from the Revenue Account for this Branch that Selective Employment Tax bears particularly heavily on industrial assurance business, accounting for close on £1 million. After allowing for the 50 per cent increase in the rate which came into operation last September and the further increase proposed by the Chancellor of the Exchequer in his recent Budget Speech, the cost in a full year at the new rates in this Branch will rise to about £1,600,000 (for the Company as a whole the cost will be about £2,600,000). As I said last year, the imposition of this tax penalises a business which encourages thrift, thus contradicting the Government's exhortations to the public to save. To increase the rate of tax in successive years and at a time when savings are vital to the economy makes this contradiction even more unintelligible and deplorable.

We first introduced profit-sharing for policyholders in this Branch sixty years ago with a first allocation of £140,000. The policyholders' allocation of nearly £37 millions for 1968 brings the total allocations to policyholders to over £400 millions.

BONUS DECLARATIONS

Announcements of our bonus declarations have already appeared in the Press, and fuller details are set out in the Directors' Report and in the Valuation Report of the Chief Actuary.

In the United Kingdom the rate of reversionary bonus for Ordinary branch assurances has been increased by 2s. per cent., and increases have been made in the rates of bonus for group pensions business and individual retirement annuity policies. Increases have also been made in rates for some overseas territories.

In both Life branches we have again provided for terminal bonuses to be paid on participating assurance policies issued in the United Kingdom which become claims by death or maturity in the next twelve months. The scale is substantially greater than that declared last year and has been extended to include more recent years of issue. Part of these terminal bonuses has again been met by drawing on the margins in the value of our investments. This has been effected by transferring to revenue from the Investment reserve accounts sums of £4,600,000 in the Ordinary branch (part of which was used to improve bonuses on group pension policies) and £7,500,000 in the Industrial branch.

Although we give no guarantee, we expect to be able to maintain terminal bonuses on the new scale for the range of policies concerned for claims arising in future years. The substantial increase in terminal bonuses this year demonstrates our intention that participating policyholders should share in profits, including appreciation of asset values, to the fullest extent without being exposed to the consequences of short term fluctuations in market values. The needs of those who prefer their benefits to be directly linked to equity values and are prepared to accept the consequences of fluctuations in either direction are met by Prutrust assurances.

The effect of bonus additions on Prudential policies is shown in the following table which gives specimen figures for Ordinary branch participating endowment assurances issued in the United Kingdom for a sum assured of £1,000 and maturing this year at age 60. We believe that illustrations of the proceeds actually paid on policies now maturing are of greater significance than statements of benefits which would be paid on new policies on assumptions as to the rate of future bonuses.

Year of Issue	Sum Assured	Reversionary Bonuses	Terminal Bonus	Total payment on maturity	Total Premiums paid*
	£	£	£	£	£
1934	1,000	695	462	2,157	947
1944	1,000	540	367	1,907	1,039
1954	1,000	410	215	1,625	1,094

* The net cost to the policyholder will have been the total premiums paid less any life assurance relief o P00020374 which has been obtained.

GENERAL BRANCH

The premium income in this Branch continues to expand, the increase last year being more than 11 per cent., but adverse factors have affected our underwriting results. The overall underwriting profit of £220,000 compares with £1,103,000 for 1967. In commenting last year on the results for 1967 I referred to the wide fluctuations which can take place in this Branch. The experience in 1968 bears out my remarks.

The main feature affecting the profit in the United Kingdom was the exceptional weather damage experienced in many parts of the country. Storms in Scotland in January were followed by storms and floods in the West of England in July, and in September South East England in particular also suffered extensive flooding. Insuring as we do millions of small households we are particularly subject to the effect of weather damage, and the consequence of last year's incidents was a heavy strain on both the fire and miscellaneous accounts which contain a large number of policies covering storms, flood and tempest. However, the satisfaction expressed by so many of our policyholders for the prompt and efficient settlement of their claims testifies to the value of the service which we give.

Although there was a further disturbing rise in national fire wastage in the United Kingdom in 1968, the experience during the second half of the year showed some improvement.

Our motor business in the United Kingdom showed a marginal underwriting profit after suffering losses in each of the three preceding years. Considerable publicity was given last autumn to the discontinuance as a rating body of the Accident Offices Association, of which we are members. We have taken the opportunity to review the terms upon which we underwrite motor business and we introduced a number of changes, including a new Top Drivers policy, at the beginning of March. Our aim is to attract the mature motorist with a first-class driving record and also to provide proper cover for all motorists at premium rates which are fair both to the policyholder and the Company.

Overseas, our results for the year showed an underwriting loss, having been affected in particular by increased fire wastage in Australia and Scandinavia and by exceptionally heavy flood claims in South Africa as a result of a rainstorm of unprecedented severity at Port Elizabeth in September.

Our Australian branch has again achieved a profit for the year in spite of the poor fire results. Following a record profit in 1967, our Southern Africa branch had a poor year, due largely to the flood damage already mentioned.

Our Canadian business again produced a profit, though the level was lower than in 1967, largely because the profitability of that year's fire account was not maintained. The motor account showed a modest profit, and excellent results in other accident classes were achieved. Canada is but one of many areas where motor insurance has become the subject of intense political interest, an unfortunate by-product of which is that rate changes to meet increasing claims costs are delayed for reasons beyond our control.

For the first time since 1962 our reinsurance subsidiary in the United States achieved an underwriting profit, although small.

Our marine and aviation account still reflects the poor results of recent years, but it is hoped that the hardening in rates which has been taking place will lead to better underwriting figures. There remains a substantial surplus in the account from earlier years, but we have again thought it prudent to transfer into the account our tax recoveries which last year amounted to £125,000.

Gross investment income other than that allocated to long term contracts increased from £2,228,000 to £2,528,000, and this, with the underwriting profit of £220,000, produced a net surplus of £1,660,000 after taxation. This compares with £1,982,000 in 1967.

DIVIDENDS

This year the large increases in the distributable surpluses in the Life branches have enabled the Directors to make a marked improvement in the proportion of these surpluses allocated to the policyholders and at the same time to increase by over 9 per cent. the total sums allocated to A shareholders. The policyholders' allocation in each of the Life branches is now 94.38 per cent. of the distributable surplus, compared with 94.13 per cent. for 1967, and the total allocation to the A shareholders' account for 1968 is 13.06d. per share compared with 11.98d. per share for 1967.

When the Articles of Association were changed in 1951 so as to introduce flexibility into the division of the surplus in the Life branches, the Directors were given discretion to vary the policyholders' proportion in either direction subject to a minimum of 90 per cent. The Directors then expressed the hope that, as the business expanded, it would be possible to increase the allocation to shareholders and at the same time to increase the proportion of the surplus allocated to policyholders. This has been our policy since 1951 and remains our policy today. The improvements which we have been able to make over the years in the policyholders' proportion have been beneficial to shareholders, because they have strengthened our competitive position.

We greatly value the advantages of control by shareholders because it encourages enterprise and efficiency, and it is our firm intention to continue to operate as a proprietary Company.

The increase in the total dividend for the year declared by the Directors, both for the A and the B shares, was again restricted to 3½ per cent. of the dividend for the preceding account year in accordance with the Government's demand for dividend restraint.

For the A shares a final dividend of 7.03d. per share has been declared and, with the interim dividend of 4d., this represents a total dividend for the year of 11.03d. per share. For the B shares a final dividend of 3.38d. per share has been declared and, with the interim dividend of 2.5d., this represents a total dividend for the year of 5.88d. per share. These declarations show increases of 0.37d. for the A shares and 0.19d. for the B shares over those for 1967. All these amounts are net of income tax.

It is the Directors' intention to increase the interim dividend payable next November on the A shares to 5d. per share, net of income tax, in order to bring it into a more appropriate relationship with the current total dividend, and to maintain the interim dividend on the B shares at 2.5d. per share net of income tax. These interim dividends are paid out of the shareholders' accounts in accordance with the Articles of Association.

INVESTMENTS

The most marked characteristics of the investment scene in the United Kingdom during 1968 were the continued decline in the value of fixed interest stocks and the further appreciation in ordinary share and property values. The lack of confidence in the value of money that this demonstrates is unhealthy and encourages speculation rather than investment. It makes it difficult for industry to raise fixed interest capital and to plan with any confidence the increased investment in capital equipment which is essential for the country's future prosperity. Increased company taxation and other pressures on corporate liquidity all reduce industry's ability to finance this capital investment.

In these conditions of high interest rates it is not surprising to find that the amount of capital raised on fixed interest terms was exceptionally small last year. On the other hand, in contrast to 1967, the proportion raised by the issue of ordinary shares trebled and there was a large increase in issues of convertible debentures and loan stocks.

In 1968 the new investments of our United Kingdom funds amounted to £140 millions, including the reinvestment of the proceeds of sales and redemptions. The main areas in which we invested this sum were £11 millions in British Government securities, £20 millions in debentures, £29 millions in mortgages, £22 millions in property and £53 millions in ordinary shares, including units acquired in the Prudential Unit Trust. In addition, as announced at the time, we acquired a majority holding in the Mercantile & General Reinsurance Company Limited.

During 1968 institutional investors, and particularly the pension funds, became increasingly attracted to property investment, with the result that the level of prices has risen appreciably, and suitable propositions have been more difficult to find. Despite this we have once again added quite substantially to our property portfolio, largely through transactions with property development companies. In this connection we particularly value our association, now of many years' standing, with Town & City Properties Limited.

Our overseas branches invested a total of £29 millions, comprising £10 millions in Government, provincial and municipal securities, £3 millions in debentures, £9 millions in mortgages, £2 millions in property and £5 millions in ordinary shares. It must be realised that in respect of most of the overseas territories where we transact business, there are statutory provisions affecting the investment of funds. This involves a heavier emphasis on investment in Government and other public authority securities. As part of our property development programme overseas we are rebuilding our Head Office in Sydney and during 1968 we completed a new office building in Canberra. I had the pleasure of attending the official opening of this building by the Governor General, Lord Casey.

The rise in share values during the year was accompanied by only a small rise in dividends received. This was due to the U.K. Government's demand that increases in dividends should not exceed 3½ per cent. Dividends received by our overseas branches and from our U.S. investments showed larger increases, and, together with the higher interest rates obtained on fixed interest stocks, we broadly maintained the yields on our funds. In the Industrial branch the yield obtained rose from £7 16s. 0d. per cent. to £7 16s. 4d. per cent., while in the Ordinary branch it fell from £7 0s. 6d. per cent. to £6 19s. 4d. per cent.

We do not feel it necessary to make yearly adjustments to the Balance sheet figures in the light of fluctuati P00020376
market value of our assets and it is ten years since we last did so. During this period long term rates of int

continued to rise, with the result that there has been a further reduction in the values of our fixed interest investments. On the other hand our holdings of ordinary shares and properties have shown further substantial appreciation. These movements have been particularly marked in the last year and it is now felt desirable that the Balance sheet figures should again be adjusted. The Balance sheet values of ordinary stocks and shares have been increased by £130 millions and this amount has been applied to reduce the Balance sheet values of other groups of assets to bring these groups broadly into line with current values. The revised Balance sheet values of ordinary stocks and shares are still well below their current values.

STAFF

During the year the service given by the staff to our policyholders and to the Company was maintained at its traditionally high level. The impressive results which are seen in the accompanying Report bear fitting testimony to the " Man from the Prudential " who is so firmly established as a symbol of good will and efficient service.

I am confident that shareholders will wish to join me in conveying to all members of the staff wherever they are serving, at home or overseas, our warm appreciation of their success in upholding the good name of the Company.

JOHN S. P. MELLOR,

Chairman.

17th April, 1969.

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DIRECTORS' REPORT

Year ended 31st December 1968

The Directors submit their Report and the Accounts for 1968.

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

The Balance sheet total of the Company's Assets is £2,018,810,584 as compared with £1,869,064,288 at 31st December, 1967.

The Income of the Company from all sources during 1968 was £413,228,006 as compared with £381,092,150 in 1967.

The Tables which follow summarise the operations of the Life and General branches of the Company during 1968 but do not include figures relating to the Company's subsidiaries.

BUSINESS IN FORCE 31st DECEMBER 1968

1967 UNITED KINGDOM	*1967* OVERSEAS	ORDINARY BRANCH	1968 UNITED KINGDOM	1968 OVERSEAS
£	£	LIFE ASSURANCE BUSINESS	£	£
3,252,899,589	*1,696,275,615*	Sums Assured, including bonus	3,704,819,533	1,903,240,692
59,318,029	*33,946,921*	Annual Premium Income	63,734,140	37,456,876
		DEFERRED AND CONTINGENT ANNUITIES		
138,988,242	*25,186,172*	Amount of Annuities per annum (including bonus and amounts to be purchased by future recurrent single premiums)	147,394,170	27,734,210
26,524,407	*5,027,336*	Annual Premium Income...	28,333,060	5,498,935
		IMMEDIATE ANNUITIES		
10,323,931	*909,178*	Amount of Annuities per annum	12,657,217	1,091,338
		INDUSTRIAL BRANCH		
1,749,167,718	—	Sums Assured, including bonus	1,831,778,209	—
79,956,736	—	Annual Premium Income	83,538,235	—
		GENERAL BRANCH		
23,601,899	*13,710,485*	Premium Income	25,122,965	16,367,528

The geographical distribution of the Company's business for 1968 based on premium income is as follows:—

	Ordinary Branch %	Industrial Branch %	General Branch %
United Kingdom	70·4	100·0	60·6
Australia and New Zealand	9·5	—	6·8
Canada	9·5	—	18·2
South Africa	6·9	—	2·2
Other territories	3·7	—	12·2
	100·0	100·0	

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SUMMARY OF INCOME AND OUTGO

LIFE BRANCHES

1967 Ordinary Branch £	1967 Industrial Branch £		1968 Ordinary Branch £	1968 Industrial Branch £
		INCOME		
127,840,896	*77,490,935*	Premiums	137,410,858	81,180,715
10,266,680	—	Consideration for immediate annuities	9,734,134	—
69,716,850	*49,301,247*	Investment income	76,153,825	51,428,517
—	—	Increase in book value of investments related to linked business	134,943	—
2,400,000	*3,700,000*	Transfer from Investment reserve account	4,600,000	7,500,000
210,224,426	***130,492,182***		**228,033,760**	**140,109,232**
		OUTGO		
68,878,514	*69,187,557*	Claims and Surrenders	74,740,874	72,403,999
10,146,324	—	Annuities	12,567,848	—
23,503,447	*24,583,190*	Expenses including Commission	25,932,865	25,644,959
5,838,808	*10,441,196*	Taxation	7,325,243	10,790,432
108,367,093	***104,211,943***		**120,566,830**	**108,839,390**
101,857,333	***26,280,239***	**EXCESS OF INCOME OVER OUTGO**	**107,466,930**	**31,269,842**
54,103,384	*—8,045,909*	*Deduct* Provision for increase in liabilities to policyholders ...	52,871,505	—7,858,543
47,753,949	***34,326,148***	**SURPLUS FOR THE YEAR**	**54,595,425**	**39,128,385**
1,214,505	*2,024,993*	*Add* Surplus brought forward from previous year	1,163,604	1,997,233
48,968,454	*36,351,141*		55,759,029	41,125,618
1,163,604	*1,997,233*	*Deduct* Surplus carried forward	1,125,039	1,986,050
£47,804,850	***£34,353,908***	**SURPLUS FOR DISTRIBUTION**	**£54,633,990**	**£39,139,568**
		Appropriated as follows:		
44,998,705	***32,337,334***	To Policyholders' bonuses 94·38% (*94·13% in 1967*) in each branch	**51,563,560**	**36,939,924**
2,806,145	*2,016,574*	To Profit and loss account for Shareholders 5·62% (*5·87% in 1967*) in each branch	3,070,430	2,199,644
£4,822,719			**£5,270,074**	

GENERAL BRANCH

1967 £		1968 £
	UNDERWRITING INCOME AND OUTGO	
	INCOME	
37,423,083	Premiums and fees	41,608,32
124,073	Investment income allocated to long term contracts	122,88
37,547,156		**41,731,21**
	OUTGO	
19,887,948	Claims	23,662,05
150,819	Contributions to fire brigades and fire prevention...	164,35
14,107,925	Expenses including Commission	15,316,71
340,642	Taxation charged to revenue accounts	392,04
34,487,334		**39,535,16**
3,059,822	**EXCESS OF INCOME OVER OUTGO**	**2,196,04**
1,956,756	*Deduct* Provision for increase in liabilities to policyholders	1,975,99
1,103,066	**GROSS UNDERWRITING PROFIT**	**220,05**
	INVESTMENT INCOME	
2,227,629	Investment income other than that allocated to long term contracts...	**2,528,27**
3,330,695	**GROSS SURPLUS**	**2,748,32**
1,349,000	*Deduct* Taxation charged to Profit and loss account	1,088,00
1,981,695	**NET SURPLUS FOR THE YEAR**	**1,660,32**
59,003	*Add* Surplus brought forward from previous year	140,69
2,040,698		1,801,02
1,250,000	*Deduct* Transfer to Additional reserve fund	1,000,00
140,698	Surplus carried forward	126,02
650,000	**SURPLUS TRANSFERRED TO SHAREHOLDERS' ACCOUNT (GENERAL BRANCH)**	**675,00**
461,088	*Add* Surplus brought forward from previous year in Shareholders' account (General branch)	468,86
1,111,088		1,143,86
468,865	*Deduct* Surplus carried forward in Shareholders' account (General branch) ...	480,53
£642,223	**SURPLUS FOR DISTRIBUTION**	**£663,33**
	Appropriated as follows:	
£168,056	To Shareholders' account (A shares)	**£173,33**
£474,167	To Dividend on B shares	**£490,00**

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1479-013

BONUS DECLARATIONS

The Directors have declared the following bonuses on participating policies:

ORDINARY BRANCH

Assurance policies of classes issued in the United Kingdom, the Channel Islands a[nd] the Isle of Man.

A reversionary bonus at the rate of 64s. per £100 sum assured.

A terminal bonus on policies issued in 1967 or earlier which become claims by death or maturity of endowment between 1st April, 1969, and 31st March, 1970, inclusive, at rates varying from 6s. per £100 sum assured for policies issued in 1967 to £55 per £100 sum assured for policies issued in 1923 and earlier.

INDUSTRIAL BRANCH

A reversionary bonus at the rate of 52s. per £100 sum assured.

This bonus is added as on 26th March, 1969, or on completion of payment of one year's premiums, whichever is the later.

A terminal bonus on policies issued in 1967 or earlier which become claims by death or maturity of endowment between 1st April, 1969, and 31st March, 1970, inclusive, at rates varying from 6s. per £100 sum assured for policies issued in 1967 to £55 per £100 sum assured for policies issued in 1923 and earlier.

These bonuses follow the recommendations of the Chief Actuary, whose Valuation Repor[t] appears on pages 32 to 38 and contains full details, including the bonuses for assurance policie[s] of overseas classes, retirement annuity policies, group pension business and pension-unit schem[e] policies.

DIVIDENDS

The Directors have declared, in respect of the year 1968, final dividends of 7·03d. pe[r] A share and 3·38d. per B share, net of income tax, both payable on 22nd May, 1969 t[o] shareholders on the respective Registers on 25th April, 1969.

Summary of dividends (net of income tax) in respect of the year 1968

	Interim dividend paid 14.11.68	*Final dividend payable* 22.5.69	*Total dividend for* 1968
A shares	4d.	7·03d.	11·03d.
B shares	2·5d.	3·38d.	5·88d.

The A share dividend for the year is derived as to ·42d. from the General branch and the balance fro[m] the Life branches. The B share dividend is wholly derived from the General branch.

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1479-014

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1968 was 25,302, and the aggregate remuneration paid or payable in respect of these employees during 1968 amounted to £35,581,149.

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

1.	*On* 1.1.68 *or subsequent appointment*				*On* 31.12.68			
	Beneficially Held		*Other Interest*		*Beneficially Held*		*Other Interest*	
Name of Director	*A Shares* 1*s.*	*B Shares* 1*s.*	*A Shares* 1*s.*	*B Shares* 1*s.*	*A Shares* 1*s.*	*B Shares* 1*s.*	*A Shares* 1*s.*	*B Shares* 1*s.*
Sir J. S. P. Mellor ...	30,640	10,000			30,640	10,000		
Mr. W. F. Gardner ...	3,200	2,000	800		3,200	2,000	800	
Mr. D. A. Reid ...	71,798	5,000	338,132		71,798	5,000	331,583	500
Mr. J. A. T. Barstow ...	7,000	4,000	27,790		7,000	4,000	27,740	
Mr. L. Brown	1,600	2,000			1,600	2,000		
Lord Caccia	3,520	500			3,520	500		
Lord Coleraine... ...	1,600	500			1,600	500		
Sir J. N. Hogg	1,600	500	4,420		1,600	500	4,420	
Mr. R. E. Montgomery	1,600	500			1,600	500		
Mr. M. Petherick ...	8,000	7,500			8,000	7,500		
Mr. C. W. A. Ray ...	3,500	1,000		5,000	3,500	1,000		5,000
Mr. F. M. Redington ... (Appointed 19.9.68)	1,600	500			1,600	500		
Mr. K. A. Usherwood... (Elected 16.5.68)	1,200	500	1,360		1,600	500	1,360	

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

3. The total of the interests of the Directors and their families does not exceed 5 per cent. of the share capital of or voting control of the Company.

During the year £31,704 has been given by the Company and its subsidiaries for charitable purposes in the United Kingdom.

The Directors retiring by rotation are Sir John Serocold Paget Mellor, Bt., Mr. John Anthony Tristram Barstow, D.S.O., T.D., D.L., The Rt. Hon. Lord Caccia, G.C.M.G., G.C.V.O., and Mr. Reginald Edgar Montgomery, who offer themselves for re-election and Mr. Frank Mitchell Redington, F.I.A., who was appointed a Director as from 19th September, 1968, retires in accordance with the Articles of Association and offers himself for election.

Messrs. Deloitte, Plender, Griffiths and Co., the present Auditors of the Company, have signified their willingness to continue in office.

Holborn Bars,
17*th April*, 1969.

JOHN S. P. MELLOR,
Chairman.

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1479-015

LIFE ASSURANCE REVENUE ACCOUNTS

for the year ended 31st December 1968

ORDINARY BRANCH

1967 £			£
945,372,285	Amount of Ordinary life assurance fund at the beginning of the year		1,073,961,303
29,537,830	*Add* adjustment in exchange		1,396,387
974,910,115			1,075,357,690
127,840,896	Premiums		137,410,858
10,266,680	Consideration for immediate annuities ...		9,734,134
69,716,850	Interest, dividends and net rents—less amount written off terminable securities and £647,271 (*1967 £566,642*) bank and promissory note interest ...		76,153,825
—	Increase in book value of investments related to linked business		134,943
2,400,000	Transfer from Investment reserve account (see note 9, page 28)		4,600,000
£1,185,134,541			£1,303,391,450

1967 £			£
	Claims under policies paid and outstanding—		
17,163,031	By death		18,515,554
31,206,237	By maturity		31,640,415
48,369,268			50,155,969
18,753,891	Surrenders		22,466,948
1,755,355	Bonuses surrendered for cash		2,117,957
10,146,324	Annuities		12,567,848
7,765,501	Commission		8,994,792
15,737,946	Expenses of management...		16,938,073
354,237	Selective employment tax		422,274
	Taxation on profits and income— (see note 8, page 28)		
1,207,761	Overseas taxes	£1,726,409	
832,490	Corporation tax ...	1,155,904	
3,444,320	Income tax	4,020,656	
5,484,571			6,902,969
2,806,145	Transfer to Profit and loss account ...		3,070,430
1,073,961,303	Amount of Ordinary life assurance fund at the end of the year		1,179,754,190
£1,185,134,541			£1,303,391,450

NEW BUSINESS DURING THE YEAR

	Number of policies or contracts	Sums Assured	Annuities per annum	Single Premiums and Considerations	Annual Premium Income
		£	£	£	£
Business within the United Kingdom					
Assurances	187,584	799,829,532	—	506,310	9,058,272
Annuities	6,264	—	27,228,999	10,553,373	4,617,755
Business outside the United Kingdom					
Assurances	66,476	332,270,569	—	173,960	5,885,228
Annuities	281	—	7,859,206	1,361,376	1,364,771
TOTAL	260,605	1,132,100,101	35,088,205	12,595,019	20,926,026

INDUSTRIAL BRANCH

1967 £		£
639,825,568	Amount of Industrial life assurance fund at the beginning of the year	664,089,233
77,490,935	Premiums	81,180,715
49,301,247	Interest, dividends and net rents—less amount written off terminable securities and £Nil (*1967 £640*) bank interest ...	51,428,517
3,700,000	Transfer from Investment reserve account (see note 9 on page 28)	7,500,000
£770,317,750		£804,198,465

1967 £			£
	Claims under policies paid and outstanding—		
20,258,116	By death		22,516,686
26,813,542	By maturity		26,953,194
47,071,658			49,469,880
22,115,899	Surrenders		22,934,119
24,583,190	Expenses of management		25,644,959
836,372	Selective employment tax		991,825
	Taxation on profits and income— (see note 8, page 28)		
192,343	Overseas taxes	£203,110	
1,812,485	Corporation tax	2,301,573	
7,599,996	Income tax	7,293,924	
9,604,824			9,798,607
2,016,574	Transfer to Profit and loss account ...		2,199,644
664,089,233	Amount of Industrial life assurance fund at the end of the year		693,159,431
£770,317,750			£804,198,465

NEW BUSINESS DURING THE YEAR

Number of policies	1,196,210
Sums assured	£234,728,216
Annual premium income	£12,717,158

GENERAL BRANCH REVENUE ACCOUNTS

for the year ended 31st December 1968

FIRE INSURANCE BUSINESS

1967 £		£	1967 £		£
	Amount of fire insurance fund at the beginning of the year—		4,314,286	Claims under policies paid and outstanding	5,451,292
3,762,039	Provision for unexpired risks	4,278,003	1,648,433	Commission	1,903,558
189,784	*Add* adjustment in exchange	8,871	2,578,033	Expenses of management	2,856,804
3,951,823		4,286,874	48,214	Selective employment tax	59,279
9,750,722	Premiums	11,231,000	49,786	Overseas taxes other than on profits ...	46,312
			150,819	Contributions to fire brigades and fire prevention	164,357
			634,971	Transfer to Profit and loss account ...	162,893
				Amount of fire insurance fund at the end of the year—	
			4,278,003	Provision for unexpired risks, which amounts to 43·4 per cent. (*43·9 per cent. for 1967*) of the premium income for the current year	4,873,379
£13,702,545		£15,517,874	£13,702,545		£15,517,874

MOTOR VEHICLE INSURANCE BUSINESS

1967 £		£	1967 £		£
	Amount of motor vehicle insurance fund at the beginning of the year—		9,868,434	Claims under policies paid and outstanding	10,945,570
5,249,508	Provision for unexpired risks	6,201,196	1,702,771	Commission	1,878,131
194,532	*Add* adjustment in exchange	19,502	3,378,155	Expenses of management	3,419,837
5,444,040		6,220,698	73,495	Selective employment tax	80,439
15,502,990	Premiums	16,786,446	69,423	Overseas taxes other than on profits ...	79,398
346,444	Transfer from Profit and loss account ...	110,809		Amount of motor vehicle insurance fund at the end of the year—	
			6,201,196	Provision for unexpired risks, which amounts to 40 per cent. (*same for 1967*) of the premium income for the current year	6,714,578
£21,293,474		£23,117,953	£21,293,474		£23,117,953

SICKNESS AND ACCIDENT INSURANCE BUSINESS

1967 £			£	1967 £			£
	Amount of sickness and accident insurance fund at the beginning of the year—			1,571,866	Payments under policies, including medical and legal expenses in connection therewith		1,659,650
367,628	Provision for permanent sickness risks	£501,151		602,652	Commission		525,375
926,838	Provision for non-cancellable accident and disability risks	1,100,983		987,168	Expenses of management		1,073,477
597,359	Provision for other unexpired sickness, accident and disability risks ...	656,637		20,945	Selective employment tax		25,477
574,792	Total estimated liability in respect of outstanding claims	672,496		12,207	Overseas taxes other than on profits ...		12,850
2,466,617		2,931,267		483,492	Transfer to Profit and loss account ...		523,328
153,094	*Add* adjustment in exchange	12,557			Amount of sickness and accident insurance fund at the end of the year—		
2,619,711			2,943,824	501,151	Provision for permanent sickness risks	£598,000	
	Premiums—			1,100,983	Provision for non-cancellable accident and disability risks	1,243,598	
263,040	Permanent sickness ...	286,114		656,637	Provision for other unexpired sickness, accident and disability risks, which amounts to 42·7 per cent. (*40·0 per cent. for 1967*) of the premium income for the current year	692,180	
2,049,636	Non-cancellable accident and disability	2,213,465		672,496	Total estimated liability in respect of outstanding claims	753,794	
1,641,593	Other sickness, accident and disability	1,622,625		2,931,267			3,287,572
3,954,269			4,122,204				
35,617	Interest on permanent sickness fund...		41,701				
£6,609,597			£7,107,729	£6,609,597			£7,107,729

MISCELLANEOUS INSURANCE BUSINESS

1967 £		£	1967 £		£
	Amount of miscellaneous insurance fund at the beginning of the year—		3,408,348	Claims under policies paid and outstanding	4,427,145
2,550,481	Provision for unexpired risks	3,144,347	1,194,810	Commission	1,364,435
147,357	*Add* adjustment in exchange	14,758	1,940,083	Expenses of management	2,218,096
2,697,838		3,159,105	36,753	Selective employment tax	47,250
7,318,011	Premiums	8,267,132	29,819	Overseas taxes other than on profits ...	41,035
110,699	Trustee and executor fees	117,828	372,388	Transfer to Profit and loss account ...	—
—	Transfer from Profit and loss account ...	302,925		Amount of miscellaneous insurance fund at the end of the year—	
			3,144,347	Provision for unexpired risks, which amounts to 45·3 per cent. (*43·0 per cent. for 1967*) of the premium income for the current year	3,749,029
£10,126,548		£11,846,990	£10,126,548		£11,846,990

The amount of debenture and loan stocks for which the Company acts as trustee exceeded £907,000,000 at the end of the year.

SINKING FUND INSURANCE BUSINESS

1967 £		£
1,460,837	Amount of sinking fund insurance fund at the beginning of the year	1,437,801
11,192	Premiums	10,815
88,456	Interest, dividends and net rents	81,188
£1,560,485		£1,529,804

1967 £		£
51,000	Claims under policies paid and outstanding	4,500
22,775	Surrenders	262,742
—	Commission	—
250	Expenses of management	250
48,659	Transfer to Profit and loss account ...	72,564
1,437,801	Amount of sinking fund insurance fund at the end of the year	1,189,748
£1,560,485		£1,529,804

MARINE, AVIATION AND TRANSIT INSURANCE BUSINESS

Total 1967 £		Current Year. £	Last Preceding Year. £	Previous Years. £	Total. £
1,067,095	Amount of marine, aviation and transit insurance fund at the beginning of the year	—	488,415	747,889	1,236,304
	Premiums (less brokerage, discount, commission, returns and reinsurances):—				
775,200	Risks other than aviation hull risks	894,071	44,512	4,089	1,072,896
	Aviation hull risks ...	102,749	24,714	2,761	
30,818	Profit on exchange ...	—	—	—	—
90,000	Transfer from Profit and loss account ...	—	—	125,000	125,000
£1,963,113					£2,434,200

Total 1967 £		Current Year. £	Last Preceding Year. £	Previous Years. £	Total. £
	Claims paid (less salvages, refunds and reinsurance recoveries):—				
651,239	Risks other than aviation hull risks	252,834	353,784	228,520	911,157
	Aviation hull risks ...	41,887	28,349	5,783	
36,878	Expenses of management	39,737	−624	−44	39,069
29,995	Agency expenses ...	30,262	2,515	—	32,777
8,697	Agents' and other profit commissions... ...	—	317	4,588	4,905
—	Loss on exchange ...	1,526	−472	−37	1,017
1,236,304	Amount of marine, aviation and transit insurance fund at the end of the year ...	630,574	173,772	640,929	1,445,275
£1,963,113					£2,434,200

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1479-018

LIFE ASSURANCE
PROFIT AND LOSS ACCOUNTS

for the year ended 31st December 1968

PROFIT AND LOSS ACCOUNT

1967 £		£	1967 £		£
	Transfers from Revenue accounts—		*4,822,719*	Transfer to Shareholders' account (A shares)	5,270,074
2,806,145	Ordinary branch	3,070,430			
2,016,574	Industrial branch	2,199,644			
£4,822,719		£5,270,074	*£4,822,719*		£5,270,074

SHAREHOLDERS' ACCOUNT (A SHARES)

1967 £		£	1967 £		£
1,514,554	Amount of Shareholders' account (A shares) at the beginning of the year	2,145,144	*58,723*	Taxation— Corporation tax	101,130
140,205	Interest	237,954	*1,666,667*	Interim dividend to holders of A shares in respect of 1968 ... ... (equivalent gross £2,836,880 —*1967 £2,836,880*)	1,666,667
4,822,719	Transfer from Profit and loss account ...	5,270,074	*2,775,000*	Provision for final dividend to holders of A shares in respect of 1968 ... ... (equivalent gross £4,985,816 —*1967 £4,723,404*)	2,929,167
168,056	Transfer from Shareholders' account (General branch)	173,333	*2,145,144*	Balance carried to Shareholders' account (A shares) Balance sheet	3,129,541
£6,645,534		£7,826,505	*£6,645,534*		£7,826,505

SHAREHOLDERS' ACCOUNT (A SHARES) BALANCE SHEET

31st December 1968

LIABILITIES			ASSETS		
1967 £		£	1967 £		£
2,145,144	Shareholders' account (A shares)	3,129,541		Investment—	
	Current liabilities and provisions—		—	Subsidiary—Prudential Unit Trust Managers Ltd. Ordinary shares ... (see note 10, page 28)	50,000
109,994	Corporation tax	159,853		Current assets—	
3,739	Other creditors	6,822	*4,923,169*	Deposit with Life and General branches	6,019,392
2,775,000	Final dividend—A shares ... ... (equivalent gross £4,985,816 —*1967 £4,723,404*)	2,929,167	*110,708*	Estimated income tax recoverable ...	155,991
£5,033,877		£6,225,383	*£5,033,877*		

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1479-019

GENERAL BRANCH
PROFIT AND LOSS ACCOUNTS

for the year ended 31st December 1968

PROFIT AND LOSS ACCOUNT

1967 £		£
	Transfers from Revenue accounts—	
634,971	Fire	162,893
483,492	Sickness and accident	523,328
372,388	Miscellaneous	—
48,659	Sinking fund	72,564
2,227,629	Interest, dividends and net rents not carried to other accounts	2,528,278
3,000	Profits tax recoverable	—
£3,770,139		**£3,287,063**
59,003	Balance of General branch Profit and loss account at the beginning of the year ...	140,698
1,981,695	Balance from above	1,660,329
£2,040,698		**£1,801,027**

1967 £			£
	Transfers to Revenue accounts—		
346,444	Motor vehicle		110,809
—	Miscellaneous		302,925
90,000	Marine, aviation and transit		125,000
	Taxation on profits and income— (see note 8, page 28)		
125,000	Overseas taxes not charged to other accounts ...	£100,000	
768,000	Corporation tax	554,000	
459,000	Income tax	434,000	
1,352,000			1,088,000
1,981,695	Balance being net profit for the year carried down		1,660,329
£3,770,139			**£3,287,063**
1,250,000	Transfer to Additional reserve fund ...		1,000,000
650,000	Transfer to Shareholders' account (General branch)		675,000
140,698	Balance carried to General branch Balance sheet		126,027
£2,040,698			**£1,801,027**

SHAREHOLDERS' ACCOUNT (GENERAL BRANCH)

1967 £		£
461,088	Amount of Shareholders' account (General branch) at the beginning of the year ...	468,865
650,000	Transfer from Profit and loss account ...	675,000
£1,111,088		**£1,143,865**

1967 £		£
208,333	Interim dividend to holders of B shares in respect of 1968 ... ... (equivalent gross £354,609 —*1967 £354,609*)	208,333
265,834	Provision for final dividend to holders of B shares in respect of 1968 ... ... (equivalent gross £479,433 —*1967 £452,483*)	281,667
168,056	Transfer to Shareholders' account (A shares)	173,333
468,865	Balance carried to General branch Balance sheet	480,532
£1,111,088		[illegible]

SPECIAL CONTINGENCY FUND

Account for the year ended 31st December 1968

1967 £		£
8,275,491	Amount of Special contingency fund at the beginning of the year	8,543,767
460,552	Interest and dividends	587,572
£8,736,043		£9,131,339

1967 £		£
	Taxation—	
124,676	Corporation tax	177,616
67,600	Income tax	69,575
8,543,767	Amount of Special contingency fund at the end of the year	8,884,148
£8,736,043		£9,131,339

BALANCE SHEET

31st December 1968

LIABILITIES

1967 £		£
8,543,767	Special contingency fund	8,884,148
	Current liabilities and provisions—	
—	Sundry brokers for investments purchased	39,821
157,616	Corporation tax	211,490
£8,701,383		£9,135,459

ASSETS

1967 £		£
	Investments—	
7,916,638	British Government securities	3,894,624
—	Debenture and debenture stocks home...	14,835
—	Preference and guaranteed stocks and shares	1,483,532
—	Ordinary stocks and shares	3,328,816
	Current assets—	
502	Outstanding interest	3,068
—	Sundry brokers for investments sold ...	67,041
219,119	Estimated income tax recoverable ...	287,699
	Balance at Bankers—	
550,000	On deposit in the United Kingdom ...	—
15,124	On current account in the United Kingdom	55,844
£8,701,383		[illegible]

BALANCE SHEET

31st DECEMBER 1968

Ordinary Branch 1967.	Industrial Branch 1967.	General Branch 1967.	Total 1967.	LIABILITIES.	Ordinary Branch.	Industrial Branch.	General Branch.	Total.
£	£	£	£		£	£	£	£
				Authorised and Issued Capital—				
—	5,000,000	—	5,000,000	100,000,000 A shares of 1s. each, fully paid	—	5,000,000	—	5,000,000
—	—	1,000,000	1,000,000	20,000,000 B shares of 1s. each, fully paid	—	—	1,000,000	1,000,000
—	—	468,865	468,865	**Balance of Shareholders' account (General branch)** ...	—	—	480,532	480,532
—	—	140,698	140,698	**Profit and loss account**—balance carried forward	—	—	126,027	126,027
14,000,000	21,500,000	1,000,000	36,500,000	**Branch contingency funds** ...	14,000,000	21,500,000	1,000,000	36,500,000
				Life assurance funds—				
1,073,961,303	—	—	1,073,961,303	Ordinary branch ...	1,179,754,190	—	—	1,179,754,190
—	664,089,233	—	664,089,233	Industrial branch ...	—	693,159,431	—	693,159,431
				General branch insurance funds—				
—	—	4,278,003		Fire ...	—	—	4,873,379	
—	—	2,931,267		Sickness and accident ...	—	—	3,287,572	
—	—	6,201,196		Motor vehicle ...	—	—	6,714,578	
—	—	3,144,347	25,378,918	Miscellaneous ...	—	—	3,749,029	28,409,581
—	—	1,437,801		Sinking fund ...	—	—	1,189,748	
—	—	1,236,304		Marine ...	—	—	1,445,275	
—	—	6,150,000		Additional reserve ...	—	—	7,150,000	
				Current liabilities and provisions—				
				Claims admitted or intimated, but not paid, less amounts recoverable under reinsurances—				
8,505,790	1,481,422	—	9,987,212	Life ...	9,387,926	1,624,578	—	11,012,504
—	—	2,216,815		Fire ...	—	—	2,948,285	
—	—	7,766,138	12,742,393	Motor vehicle ...	—	—	8,992,750	15,693,615
—	—	2,759,440		Miscellaneous ...	—	—	3,752,580	
12,107	—	—	12,107	Annuities due and unpaid ...	14,276	—	—	14,276
1,908,783	618,755	1,327,780	3,855,318	Outstanding commission and expenses ...	2,016,583	706,302	1,318,463	4,041,348
912,048	—	164,760	1,076,808	Premiums received in advance ...	1,060,195	—	183,956	1,244,151
				Amounts due on reinsurance account—				
—	—	486,889		Fire ...	—	—	622,508	
—	—	7,712		Sickness and accident ...	—	—	3,706	
—	—	21,143	694,358	Motor vehicle ...	—	—	26,058	1,165,942
—	—	103,590		Miscellaneous ...	—	—	428,115	
—	—	75,024		Marine ...	—	—	85,555	
171,574	125,000	56,200	352,774	Amounts due to subsidiaries ...	416,031	172,467	144,139	732,637
1,333,235	686,341	235,243	2,254,819	Other creditors ...	1,049,752	744,809	281,272	2,075,833
8,309,530	—	—	8,309,530	Loans from overseas bankers ...	8,387,942	—	—	8,387,942
—	—	—	—	Promissory notes in overseas currencies ...	4,193,971	—	—	4,193,971
2,229,516	649,604	126,309	3,005,429	Sundry brokers for investments purchased ...	1,747,958	675,463	214,219	2,637,640
1,110,066	21,281	318,192	1,449,539	Overseas taxes ...	1,409,485	29,377	236,986	1,675,848
1,589,000	2,395,000	891,000	4,875,000	Corporation tax ...	1,161,000	4,117,000	771,000	6,049,000
4,161	15,437	—	19,598	Profits tax ...	4,161	15,437	—	19,598
2,813,033	2,021,524	88,612	4,923,169	Amount due to, Shareholders' account (A shares) ...	3,447,927	2,477,576	93,889	6,019,392
—	—	265,834	265,834	Final dividend—B shares ... (equivalent gross £479,433 —*1967 £452,483*)	—	—	281,667	281,667
£1,116,860,146	698,603,597	44,899,162	1,860,362,905		£1,228,051,397	730,222,440	51,401,288	2,009,675,125
			8,701,383	**Special contingency fund** (per separate Balance sheet) ...				9,135,459
			£1,869,064,288					£2,018,810,584

The certificates and notes on pages 26 to 29 together with the Shareholders' account (A shares) Balance sheet on page 21, form an integral part of these accounts.

Ordinary Branch 1967.	Industrial Branch 1967.	General Branch 1967.	Total 1967.	ASSETS.	Ordinary Branch.	Industrial Branch.	General Branch.	Total
£	£	£	£		£	£	£	£
				Mortgages—				
99,972,843	37,942,200	74,032	137,989,075	On property within the United Kingdom ...	106,610,775	38,655,584	64,033	145,330
60,569,481	1	485,616	61,055,098	On property out of the United Kingdom ...	60,177,901	1	612,498	60,790,
				Loans—				
3,198,895	2,973,820	—	6,172,715	On parochial and other public rates ...	2,584,178	2,631,007	—	5,215,
32,675,588	—	14,500	32,690,088	On Company's policies within their surrender values ...	36,365,962	—	9,500	36,375,
690,882	517,791	284,203	1,492,876	Without specific security ...	1,523,820	432,995	286,022	2,242,
				Investments—				
151,648,580	183,657,458	7,565,384	342,871,422	British Government securities ...	123,470,823	162,834,884	7,341,738	293,647,
2,570,159	10,655,457	10,804	13,236,420	British Government guaranteed securities ...	1,974,909	9,183,187	6,804	11,164,
625,493	947,612	—	1,573,105	Securities guaranteed under Trade Facilities and other acts ...	491,352	895,338	—	1,386,
2,273,346	2,827,611	382,476	5,483,433	Municipal and county securities, United Kingdom ...	2,956,919	2,800,589	372,475	6,129,
1,077,394	1,625,009	181,636	2,884,039	Public Board securities, United Kingdom ...	863,394	1,480,009	171,636	2,515,
49,025,440	3,354,340	1,660,352	54,040,132	Other Commonwealth Government securities	53,867,944	3,141,255	1,716,069	58,725,
20,567,036	—	2,214,457	22,781,493	Other Commonwealth provincial securities ...	20,264,683	—	2,528,110	22,792,
6,253,571	—	1,062,047	7,315,618	Other Commonwealth municipal securities ...	5,382,204	—	990,301	6,372,
688,390	—	—	688,390	Other Commonwealth Public Board securities	779,060	—	—	779,
6,941,373	6,756	713,644	7,661,773	Foreign Government securities ...	8,529,088	2,334	837,259	9,368,
2	3	—	5	Foreign provincial securities ...	2	3	—	
5,866,347	5	253,178	6,119,530	Foreign municipal securities ...	6,666,152	5	225,195	6,891,
3,869,632	—	—	3,869,632	Foreign Public Board securities ...	4,335,003	—	65,521	4,400,
197,937,950	126,530,998	4,091,865	328,560,813	Debentures and debenture stocks and gold and sterling bonds—home and foreign ...	183,510,669	118,424,820	5,088,670	307,024,
25,706,123	25,445,665	7,102,240	58,254,028	Preference and guaranteed stocks and shares	24,134,459	23,827,833	7,084,617	55,046,
205,886,044	162,687,845	7,309,722	375,883,611	Ordinary stocks and shares ...	316,929,089	221,136,343	9,754,097	547,819,
—	—	—	—	Prudential Unit Trust units ...	970,454	—	—	970,
				Subsidiaries not dealt with in group accounts—				
823,243	—	—	823,243	Debentures ...	1,025,932	—	—	1,025,
192,333	125,000	17,534	334,867	Ordinary shares ...	7,173,621	172,467	750,465	8,096,
				Subsidiary dealt with in accounts annexed—				
—	—	1,250,000	1,250,000	Ordinary shares ...	—	—	1,250,000	1,250,
40,000	32,774	—	72,774	Rent charges ...	40,000	30,170	—	70,
14,376,358	6,829,876	—	21,206,234	Freehold ground rents and feu duties ...	14,273,241	6,837,191	—	21,110,
—	81,000	—	81,000	Leasehold ground rents ...	75,908	65,000	—	140,
				Freehold and leasehold property (including office premises)—				
165,810,751	115,550,516	—	281,361,267	In the United Kingdom ...	179,366,280	121,278,644	—	300,644,
21,917,894	—	29,892	21,947,786	Out of the United Kingdom ...	24,420,639	—	29,788	24,450,
				Current assets—				
442,487	12,500	866,140	1,321,127	Deposits at interest at home and abroad ...	627,213	—	1,612,413	2,239,
—	—	1,017,920	1,017,920	Agents' balances ...	—	—	1,197,110	1,197,
4,478,980	—	—	4,478,980	Commission paid in advance ...	4,884,305	—	—	4,884,
3,832,250	1,019,344	4,226,546	9,078,140	Outstanding premiums ...	4,781,903	703,133	4,591,800	10,076,
5,101,059	1,852,971	57,804	7,011,834	Outstanding interest, dividends, rents and fees	5,416,530	2,189,337	32,260	7,638,
6,395,722	3,763,688	256,153	10,415,563	Interest, dividends, rents and fees accrued ...	7,269,535	3,872,748	284,965	11,427,
—	—	1,122,956	1,122,956	Amounts due on reinsurance account ...	—	—	1,722,719	1,722,
—	—	4,299	4,299	Amounts due from subsidiaries ...	—	32,494	437,945	470,
271,517	322,395	—	593,912	Sundry brokers for investments sold ...	70,317	298,931	—	369,
—	—	32,085	32,085	Estimated profits tax recoverable ...	—	—	940	
9,193,000	6,884,000	272,000	16,349,000	Estimated income tax recoverable ...	9,423,000	8,365,000	432,000	18,220,
270,638	310,699	309,619	890,956	Other debtors ...	509,122	281,557	427,490	1,218,
				Balances at Bankers and Cash in hand—				
				On deposit—				
1,250,000	1,300,000	400,000	2,950,000	In the United Kingdom ...	—	—	—	—
2,521,994	325,436	890,596	3,738,026	Out of the United Kingdom ...	4,114,924	122,672	505,253	4,742,
				In hand and on current account—				
396,044	503,189	128,354	1,027,587	In the United Kingdom ...	320,895	172,557	153,874	647,
1,501,307	517,638	611,108	2,630,053	Out of the United Kingdom ...	1,869,192	354,352	817,721	3,041,
£1,116,860,146	698,603,597	44,899,162	1,860,362,905		£1,228,051,397	730,222,440	51,401,288	2,009,675,
			8,701,383	**Special contingency fund** (per separate Balance sheet) ...				9,135,
			£1,869,064,288					£2,018,810,

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CERTIFICATES TO THE ACCOUNTS

I certify that in my belief the liabilities in respect of long term business do not exceed the amounts of the respective funds and all other liabilities in respect of long term business as shown in the Balance sheet.

R. S. SKERMAN, *Chief Actuary.*

We certify that in our belief the value of the assets exceeds the amount of the liabilities computed in accordance with the provisions of sub-section (2) of Section 13 of the Insurance Companies Act, 1958, by the amount required by sub-section (1) of that Section as amended by sub-section (1) of Section 79 of the Companies Act, 1967. The liabilities in respect of long term business have been taken at the amounts of the respective funds and all other liabilities in respect of long term business as shown in the Balance sheet.

No part of any fund has been applied directly or indirectly for any purposes other than those of the class of business to which the fund is applicable.

The amounts at which the Stock Exchange securities and other assets are stated in the Balance sheet are determined under the Articles of Association of the Company by the Directors and we certify that in our belief the value at 31st December, 1968, of the assets set forth in the Balance sheet is in the aggregate in excess of the amount stated therein. For the purpose of this certificate the 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.

R. H. OWEN, *General Manager.* — JOHN S. P. MELLOR, *Chairman.*

R. S. SKERMAN, *Chief Actuary.* — W. F. GARDNER, *Director.*

H. G. CLARKE, *Joint Secretary.* — J. A. T. BARSTOW, *Director.*

17th April, 1969.

NOTES TO THE ACCOUNTS

1. The Company has the following forward commitments and contingent liabilities:

1967		1968
£		£
96,735,000	Investment commitments for settlement after 31st December	80,735,000
	Capital commitments contracted for settlement after 31st December ...	4,695,000
	Capital expenditure authorised but not contracted for	95,000
370,000	Contingent investment commitments	725,000
2,605,000	Uncalled capital on investments held	2,440,000

In addition certain guarantees have been given by the Company in respect of retirement benefits for the Staff and benefits for their relatives and dependants.

2. Part of the assets (investments and cash) of the General branch has been deposited under local laws in places out of the United Kingdom on account of fire, casualty and marine insurance business. Specific deposits of life assurance assets of the Ordinary branch, as set out below, have been made under local laws as security to holders of policies issued. Investments (at or under market value, if quoted), property and cash amount to:

1967		1968
£		£
42,000	Australia ...	43,000
27,500	Burma ...	28,500
74,300,500	Canada ...	80,843,500
10,000	Ireland ...	9,000
6,000	Israel ...	7,000
39,000	Malaysia ...	39,000
46,000	New Zealand ...	46,000
6,164,500	Pakistan ...	6,573,000
35,500	Singapore ...	36,000

NOTES TO THE ACCOUNTS (CONTINUED)

3. A shares—This capital is liable in respect of contracts in all branches of the Company's business, but is included in the Industrial branch accounts pursuant to Section 3 of The Prudential Assurance Company Act, 1875.

4. The aggregate amount of the Directors' emoluments for the year, including emoluments from Prudential Unit Trust Managers Ltd., was £72,507 (*1967 £67,040*). In addition sums totalling £2,932 (*1967 £3,346*) were paid by the Company to Directors and past Directors and their dependants under arrangements for augmenting pensions payable to ex-employees from the staff pension funds.

The emoluments of the Chairman in the financial year amounted to £15,000 (*1967 £15,000*).

The other Directors' emoluments were as follows:

Over	*Up to*	*Number of Directors* *1967*	1968
—	£2,500	—	1
£2,500	£5,000	*8*	6
£5,000	£7,500	*2*	5

5. Employees in the United Kingdom whose emoluments exceeded £10,000 in the financial year were as follows:

Over £	*Up to* £	*Number of Employees* *1967*	1968
10,000	12,500	*1*	1
12,500	15,000	*3*	—
15,000	17,500	*2*	3
17,500	20,000	—	1
20,000	22,500	—	—
22,500	25,000	*1*	—

6. The remuneration of the auditors for the year was £62,565 (*1967 £57,299*) of which £42,565 (*1967 £37,299*) related to that payable to local auditors overseas.

7. Life, fire and casualty business transactions in overseas currencies have been included in the accounts at the rates of exchange ruling on 31st December, 1968 and the funds brought forward at the beginning of the year have been adjusted for the difference in the rates of exchange at the beginning and end of the year resulting in an adjustment in the Ordinary branch revenue account and an aggregate adjustment in the General branch revenue accounts of £1,396,387 and £55,688, respectively.

Currency liabilities overseas, including loans from overseas bankers and promissory notes in overseas currencies, are with minor exceptions, covered by corresponding currency assets and in this respect both liabilities and assets (other than those subsequently mentioned) have been converted at rates of exchange ruling on 31st December, 1968. The book values of certain investments in overseas currency held at Chief Office other than the shareholding in the American subsidiary, referred to in note 10, have been based on the rates of exchange ruling on the dates of acquisition.

Overseas interest received or paid by the Company's Chief Office and overseas currency transactions included in the marine, aviation and transit revenue account have been brought in at rates of exchange based on those current on the dates of the respective transactions. The loss on exchange in the marine, aviation and transit revenue account arises from the revaluation of currency assets at the rates of exchange on 31st December, 1968. P00020390

8. Provision has been made in the accounts for taxation on all profits and income earned to date, including Schedule F tax on dividends paid and declared, for which purpose corporation tax has been charged at 42·5 per cent. and income tax at 8s. 3d. in the £, less appropriate reliefs. Double taxation relief in respect of overseas income has reduced the charge for corporation tax in the Ordinary branch and Industrial branch revenue accounts and the General branch profit and loss account by £125,140, £201,574, and £52,421, respectively (*1967 £115,000, £180,000* and *£57,484*).

The amount charged for taxation in the Ordinary branch has been reduced by approximately £850,000 (*1967 £1,300,000*) following agreement concerning certain past years' assessments.

The close company provisions of the Finance Act, 1965 do not apply to the Company.

9. Profits and losses on realisation of assets together with adjustments to book values and exchange differences, other than exchange differences on marine, aviation and transit insurance business, less any relative taxes, have been carried to Investment reserve accounts out of which transfers have been made to revenue accounts. A readjustment of Balance sheet values as at 31st December, 1968 has been carried out. Ordinary stocks and shares have been increased by amounts totalling £130,000,000 subdivided as follows: Ordinary branch £80,000,000, Industrial branch £48,000,000, General branch £2,000,000. These amounts have augmented the balances of the investment reserve accounts which have been applied to reduce the Balance sheet values of certain other groups of assets to values broadly in line with current values. The increased Balance sheet values of ordinary stocks and shares are substantially below current values.

10. Particulars of Subsidiary Companies are:—

Name	*Class of Share held*	*Proportion held*	*Country of Incorporation if other than England*
The Prudential Insurance Co. of Great Britain (located in New York)	Shares $100	100%	U.S.A.

The accounts of this subsidiary, which transacts General branch business in the United States of America, have been approved by the Directors and are annexed. In the Company's main Balance sheet its investment in this subsidiary appears as an asset of the General branch under the heading " Subsidiary dealt with in accounts annexed—Ordinary shares " and is shown at dollar cost converted to sterling at the rate of $2·40 to the £. The Company's main accounts do not include the business transacted by its subsidiary except that the dividend received in 1968 is included with General branch interest and dividends.

Prudential Unit Trust Managers Ltd. ...	Ordinary Shares £1	100%	—

The investment in this subsidiary is shown on page 21 as an asset of the Shareholders' account (A shares). This company commenced business in September 1968. The first accounts will be published for the period ending 31st December, 1969 and annexed in next year's Report and Statement of Accounts.

Murray & Co. Ltd....	Common Shares n.p.v.	100%	Canada
Prudential Australian Superannuation Ltd.	Ordinary Shares $2	100%	Australia
Societa Italo-Britannica Di Assicurazioni...	Shares	100%	Italy

The accounts of these three subsidiaries have not been included in the group accounts as the amounts involved are insignificant. Based on the rates of exchange ruling on 31st December, 1968, the particulars to be given for these three subsidiaries are:

Net aggregate amount of profits:—

	For 1968 £	*For previous years* £
not included in the Company's accounts...	48,702	—
included in the Company's accounts ...	–5,143	30,70

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Name	*Class of Share held*	*Proportion held*	*Country of Incorporation if other than England*
The Mercantile and General Reinsurance Company Ltd.	Shares £1 "A" Shares £1	75·1% 41·7%	Scotland
Paramet Corporation Ltd.	Common Shares n.p.v.	80%	Canada
Partin Investments Ltd.	Ordinary Shares 2s.	100%	—
Prudential Nominees Ltd.	Shares £1	100%	—

The Company's holding in The Mercantile and General Reinsurance Company Ltd. is almost entirely through Mercantile and General Reinsurance (Holdings) Ltd. The whole of that company's share capital, consisting of Ordinary Shares £1, was acquired during this year. This asset has been written down from its original cost to £7,500,000 by transfer from Investment reserve account and is held partly in the Ordinary branch and partly in the General branch. The business carried on by the subsidiaries of The Mercantile and General Reinsurance Company Ltd. does not principally affect the amount of profit of The Prudential Assurance Company Ltd. or the amount of its assets and in view of the number involved, details relating to individual companies are not shown. The Mercantile and General Reinsurance Company Ltd. was a member of The Prudential Assurance Company Ltd. at the time of becoming its subsidiary and is registered as holding 162,400 A Shares and 20,000 B Shares.

With the approval of the Board of Trade the group accounts do not include the accounts of these subsidiaries and the particulars of such subsidiaries otherwise required to be given in accordance with paragraphs 15(4) and (6) of the Eighth Schedule to the Companies Act, 1948 are omitted.

11. The Company, in its investment portfolio, holds shares in 57 companies, other than subsidiaries, in which the holding of at least one class of equity shares exceeds in nominal value one tenth of the nominal value of the issued shares of that class. The businesses carried on by these companies do not principally affect the amount of the profit of the Company or the amount of its assets and in view of the number involved details relating to individual companies are not shown.

ACCOUNTS OF AMERICAN SUBSIDIARY COMPANY

THE PRUDENTIAL INSURANCE COMPANY OF GREAT BRITAIN

located in New York

REVENUE ACCOUNT

for the year ended 31st December 1968

1967 £		£
	Amount of insurance fund at the beginning of the year—	
2,664,347	Provision for unexpired risks	2,363,692
4,557,247	Premiums	3,926,613
462,796	Transfer from Profit and loss account ...	—
£7,684,390		£6,290,305

1967 £		£
3,516,722	Claims under policies paid and outstanding	2,651,662
1,698,709	Commission	1,375,910
105,267	Expenses of management	147,464
—	Transfer to Profit and loss account ...	19,907
	Amount of insurance fund at the end of the year—	
2,363,692	Provision for unexpired risks	2,095,362
£7,684,390		£6,290,305

The whole of the business transacted is fire and casualty risks reinsurance business.

PROFIT AND LOSS ACCOUNT

for the year ended 31st December 1968

1967 £		£
	Balance (earned surplus) brought forward	
1,787,192	from previous year	1,411,998
377,831	Interest and dividends	387,828
8,779	Profit on sale of securities	310
—	Transfer from Revenue account	19,907
£2,173,802		£1,820,043

1967 £		£
7,177	Taxes	3,413
19,197	Investment expenses	18,775
1,801	Amounts written off securities	1,145
	Gross dividend to The Prudential Assurance	
62,500	Co. Ltd.	62,500
	Scrip issue to The Prudential Assurance Co.	
208,333	Ltd.	—
462,796	Transfer to Revenue account	—
1,411,998	Balance (earned surplus) as per Balance sheet	1,734,21
£2,173,802		£1,820,04

BALANCE SHEET

31st December 1968

LIABILITIES

1967 £		£
	Authorised and Issued capital—	
833,333	20,000 shares of $100 each, fully paid ...	833,333
625,000	Capital reserve (surplus paid in)	625,000
	Profit and loss account balance (earned	
1,411,998	surplus)	1,734,210
2,363,692	Insurance fund	2,095,362
	Current liabilities—	
3,212,889	Outstanding claims	3,038,686
124,187	Outstanding commission and expenses ...	56,108
4,311	Amount due to Parent company ...	34,267
41,667	Other creditors	81,359
985	Taxation	851
749,662	Amounts due on reinsurance account ...	518,132
£9,367,724		£9,017,308

ASSETS

1967 £		£
	Investments (at or under cost)—	
2,127,598	United States Government securities ...	1,949,5
4,008,559	Debentures and bonds	4,071,4
378,998	Preference stocks and shares	378,9
1,592,756	Ordinary stocks and shares	1,626,0
	Current assets—	
71,013	Interest and dividends accrued	82,2
779,288	Amounts due on reinsurance account ...	592,4
44,754	Amount due from Parent company ...	30,8
364,758	Balances at Bankers and Cash in hand ...	285,7
£9,367,724		£9,017,

All items have been converted at the rate of $2.40 to the £. This Company is a wholly owned subsidiary of The Prud P00020393 Limited.

The remuneration of the Auditors for the year was £1,198 (*1967 £1,042*).

1479-027

REPORT OF THE AUDITORS

TO THE MEMBERS OF

THE PRUDENTIAL ASSURANCE COMPANY LIMITED

In our opinion the accounts set out on pages 16 to 30 comply with the provisions of the Companies Acts 1948 and 1967 applicable to insurance companies.

The accounts of certain subsidiaries, including the American subsidiary, have been audited by other auditors.

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

DELOITTE, PLENDER, GRIFFITHS & CO.,
Chartered Accountants,

128, *Queen Victoria Street, London, E.C.*4.

17*th April*, 1969.

P00020394

1479-028

VALUATION REPORT

To the Directors of The Prudential Assurance Company Limited.

I have the honour to submit my report on the valuation as at 31st December, 1968 of the life assurances and annuities and other insurance contracts of the Company.

ORDINARY BRANCH

The number of contracts in force was **2,439,150** producing an annual premium income of **£135,023,011**. Sums assured with bonuses amounted to **£5,608,060,225;** deferred and contingent annuities with bonuses amounted to **£175,128,380** per annum including amounts of annuity to be purchased by future recurrent single premiums. Annuities in course of payment amounted to **£13,748,555** per annum.

The interest earned in 1968 represents a gross rate of **£6 19s. 4d.** *per cent on the Ordinary branch fund.*

The methods of valuation used for the main classes of assurance business other than investment linked business were:—

Business issued in the United Kingdom, the Channel Islands and the Isle of Man ...	The net premium method valuing net premiums calculated on the valuation basis
Business issued in other territories	The modified net premium method valuing net premiums calculated on the valuation basis with an addition to allow for part of the initial expenses

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

Assurances have been valued by the A1924/29 Ultimate table of mortality with the following exceptions:—

Assurances issued in Australia and New Zealand Without-profits assurances issued after 31st December, 1960 in Canada	A1949/52 *Ultimate table of mortality*
Assurances issued at non-European rates of premium ...	A1924/29 Ultimate table of mortality with a rating up of 3 years

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 policies	2¾%
Without-profits policies	3%
Australia and New Zealand:	
Other than Second Series policies	3¼%
Second Series policies	3%
Canada:	
Other than without-profits policies issued after 31st December, 1960	3%
Without-profits policies issued after 31st December, 1960	3½%
South Africa, Rhodesia and Zambia:	
Other than Second Series policies	3½%
Second Series policies	3¼%
Kenya, Tanzania and Uganda	3¼%
Other territories	3%

For assurances the whole of the difference between the value of the future office premiums and the value of the future net or modified net premiums has been reserved for future expenses and profits. P00020395

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ORDINARY BRANCH (CONTINUED)

Deferred annuities have been valued for the period of deferment by the A1949/52 Ultimate table of mortality with a rating down of one year in the age. Deferred annuities for the period after deferment and immediate annuities have been valued by the a(55) Ultimate tables of mortality with additions to the values of the annuities of 3½ per cent for those issued in the United Kingdom, the Channel Islands and the Isle of Man and of 3 per cent for those issued in other territories as provision for future expenses of paying annuities and for the increasing longevity of annuitants.

The rates of interest assumed for annuities were:—

	United Kingdom, the Channel Islands and the Isle of Man	Australia and New Zealand	Other territories (with the exceptions stated below for certain business issued in Canada)
Deferred annuities:—			
With-profits:			
Individual business	3¾%	—	3%
Group pension business	2¾%	—	3%
Pension-unit schemes	4½%	—	—
Without-profits individual and group:			
Pension annuity business	4¼%	—	—
General annuity business:			
During deferment	3¼% }	3½%	3¼%
After deferment	4% }		
Immediate annuities	5½%	3½%	3½%
Annuities certain	3½%	—	—

For without-profits group deferred annuities secured by single premiums after 31st December, 1966 in Canada the rate was 5½% during deferment and 4% after deferment. For immediate annuities purchased, or vesting from with-profit group business, after 31st December, 1966 in Canada the rate was 5½%.

For individual deferred annuities and pension-unit scheme policies the net premiums valued were calculated on the valuation basis. For group deferred annuities secured by annual premiums the net premiums are 95 per cent of the office premiums. For group deferred annuities secured by recurrent single premiums the benefit valued was the amount of annuity purchased by premiums paid to date.

For investment linked benefits the liability was based on the value at the 31st December, 1968 of the units allocated. Assurance benefits included in investment linked contracts were valued as temporary benefits.

The equivalents in sterling of liabilities in other currencies have been calculated at the rates of exchange ruling on 31st December, 1968.

The foregoing bases of valuation incorporate certain major changes for business issued in the United Kingdom, the Channel Islands and the Isle of Man. The rate of interest used in the valuation has been increased for without-profit assurances from 2¾ per cent to 3 per cent and for immediate annuities from 5 per cent to 5½ per cent. There is in addition a minor change in the valuation bases for certain annuity business in Canada.

These changes would have reduced the liabilities on the 1st January, 1968 by **£4,700,000** and I consider that the Additional reserve should be increased from **£22,000,000** to **£24,300,000.** 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 on the various classes of policies.

ORDINARY BRANCH (CONTINUED)

The result of the valuation is as follows:—

Ordinary branch fund, subject to transfers out of surplus, on 31st December, 1968 ...		**£1,182,824,620**
Net liability under assurance policies	**£685,343,744**	
Net liability under annuity contracts	**£419,415,607**	
Additional reserve	**£24,300,000**	
Total net liability		**£1,129,059,351**
Surplus emerging at 31st December, 1968		**£53,765,269**
Add cost of bonuses allocated during 1968 in anticipation out of surplus for that year...		**£1,993,760**
TOTAL SURPLUS, including **£1,163,604** brought forward from last year		**£55,759,029**

I recommend that, including the amounts already allocated in anticipation out of the surplus for 1968, **£51,563,560** be allocated to participating policies.

I consider that on participating assurances issued in the United Kingdom, the Channel Islands and the Isle of Man, part of the surplus should again be distributed by way of terminal bonuses varying with the duration of the policies, that the rates of terminal bonus should be increased and that the years of issue to which they apply should be extended to include the years 1966 and 1967. Although these terminal bonuses relate only to policies which become claims in the ensuing year, I am of the opinion that, other than in exceptional circumstances, terminal bonuses at these increased rates can be maintained on claims arising in later years on such policies issued prior to 1968. I recommend that the following bonuses should be declared:—

(A) For assurance policies issued in the United Kingdom, the Channel Islands and the Isle of Man a terminal bonus on policies issued in 1967 or earlier which become claims by death or maturity between 1st April, 1969 and 31st March, 1970 inclusive at the following rates per cent of the sum assured:—

Year of Issue	Rate per cent	Year of Issue	Rate per cent	Year of Issue	Rate per cent	Year of Issue	Rate per cent
1967	0.3	1956	17.3	1945	35.6	1933	47.0
1966	0.7	1955	19.4	1944	36.7	1932	47.8
1965	1.5	1954	21.5	1943	37.7	1931	48.6
1964	2.6	1953	23.5	1942	38.7	1930	49.4
1963	3.9	1952	25.4	1941	39.7	1929	50.2
1962	5.4	1951	27.2	1940	40.7	1928	51.0
1961	7.1	1950	28.9	1939	41.7	1927	51.8
1960	9.0	1949	30.5	1938	42.6	1926	52.6
1959	11.0	1948	32.0	1937	43.5	1925	53.4
1958	13.1	1947	33.3	1936	44.4	1924	54.2
1957	15.2	1946	34.5	1935	45.3	1923 or earlier	55.0
				1934	46.2		

(B) For assurance policies, except those of Ceylon class, reversionary bonuses, per cent of the sum assured, at the following rates:—

(1) Policies of classes issued in the United Kingdom, the Channel Islands and the Isle of Man ... ... **3.2** simple

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ORDINARY BRANCH (CONTINUED)

(2) Policies of the undermentioned overseas classes:—

(*a*) Australia:

First Series:	Superannuation	**3.15** simple
	Other	**2.65** simple
Second Series:	Superannuation	**2.2** compound
	Other	**1.9** compound

(*b*) New Zealand:

First Series	**2.2** simple
Second Series	**1.4** compound

(*c*) Canada ... **2.1** simple plus **2.4** per cent of existing bonuses

(*d*) South Africa:

First Series		**2.9** simple
Second Series:	Retirement Fund	**2.425** simple plus **2.9** per cent of existing bonuses
	Other	**2.125** simple plus **2.6** per cent of existing bonuses

(*e*) Rhodesia and Zambia:

First Series		**2.75** simple
Second Series:	Retirement Fund	**2.425** compound
	Other	**2.125** compound

(*f*) Kenya, Tanganyika (a closed class) and Uganda	**2.3** simple
(*g*) Pakistan	**2.0** simple
(*h*) Malaysia and Singapore	**3.0** simple
(*i*) Cyprus	**2.8** simple
(*j*) Malta	**3.2** simple
(*k*) Sudan and Palestine (closed classes)	**2.0** simple
(*l*) Burma (a closed class)	**1.0** simple
(*m*) India (a closed class comprising a few policies on the United Kingdom register)	**1.4** simple

(C) For assurance policies of Ceylon class (a closed class), a bonus on policies which become claims by death or maturity between the 1st April, 1969 and 31st March, 1970 inclusive at the rate of 1.5 per cent of the sum assured for each 31st December on which the policy was in force subsequent to the 31st December, 1965. This recommendation is made pending a satisfactory outcome of our negotiations regarding Ceylon taxation.

(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:—

(*a*) United Kingdom	**3.2** simple
(*b*) Canada	**1.8**

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ORDINARY BRANCH (CONTINUED)

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

(a)	United Kingdom: Pension annuity business	**4.25** compound
	General annuity business	**4.0** *compound*
(b)	Channel Islands and the Isle of Man	**4.0** compound
(c)	Canada	**2.5** compound
(d)	South Africa	**3.1** compound
(e)	Rhodesia, Zambia, Kenya, Tanzania and Uganda	**2.9** 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 ... ... **2.0** simple

I also recommend that final bonuses at the following rates, per cent of the annuity or pension, be granted in anticipation out of surplus for the year 1969:—

(A) For individual retirement annuity policies issued in:—

(a)	United Kingdom, on annuities commencing between 15th March, 1969 and 14th March, 1970 inclusive	**24.0** compound
(b)	Canada, on annuities commencing between 1st July, 1969 and 30th June, 1970 inclusive	**22.0** compound

(B) For group pension policies, on pensions commencing between 15th March, 1969 and 14th March, 1970 *inclusive issued in*:—

(a)	United Kingdom, the Channel Islands and the Isle of Man	**36.0** compound
(b)	Canada	**22.0** compound
(c)	South Africa, Rhodesia, Zambia, Kenya, Tanzania and Uganda	**20.0** compound

(C) For pension-unit scheme policies issued in the United Kingdom, on pensions secured for members who reach normal pension age between 15th March, 1969 and 14th March, 1970 inclusive: ... ... **15.0** compound

INDUSTRIAL BRANCH

The number of policies in force, including **5,646,301** free or paid-up policies, was **24,535,476** producing an annual premium income of **£83,538,235.** The maximum sums assured with bonuses amounted to **£1,831,778,209.**

The interest earned in 1968 represents a gross rate of **£7 16s. 4d.** *per cent on the Industrial branch fund.*

The English Life Table No. 11, Males, has been used for the valuation of all assurances. The net rate of interest assumed in the valuation was $2\frac{3}{4}$ 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.

I consider that the Additional reserve should be increased from **£33,000,000** to **£33,600,000.** 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.

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INDUSTRIAL BRANCH (CONTINUED)

The result of the valuation is as follows:—

Industrial branch fund, subject to transfers out of surplus on 31st December, 1968 ...		**£695,359,075**
Net liability under Industrial assurance policies...	**£620,633,457**	
Additional reserve	**33,600,000**	
Total net liability		**654,233,457**
Surplus, including **£1,997,233** brought forward from last year		**£41,125,618**

I recommend that **£36,939,924** be allocated to participating policies. As in the case of the Ordinary branch, I consider that part of the surplus should again be distributed by way of terminal bonuses varying with the duration of the policies, that the rates of terminal bonus should be increased and that the years of issue to which they apply should be extended to include the years 1966 and 1967. Although these terminal bonuses relate only to policies which become claims in the ensuing year, I am of the opinion that, other than in exceptional circumstances, terminal bonuses at these increased rates can be maintained on claims arising in later years on such policies issued prior to 1968. I recommend that the following bonuses should be declared:—

(A) A terminal bonus on policies issued in 1967 or earlier which become claims by death or maturity between 1st April, 1969 and 31st March, 1970 inclusive at the same rates as those for the Ordinary branch shown on page 34.

(B) A reversionary bonus at the rate of **2.6** per cent of the sum assured.

GENERAL BRANCH

In respect of fire, sickness, accident, motor vehicle and miscellaneous contracts (excluding permanent sickness and other long term contracts), the provision for unexpired risks is not less than 40 per cent of the premium income for the year.

Permanent sickness contracts with the right of renewal issued in the United Kingdom have been valued by a gross premium method assuming 70 per cent of the Manchester Unity 1893/97 (A.H.J.) sickness experience and the A1949/52 Ultimate table of mortality with interest at 4 per cent and taking credit for 60 per cent of the future gross premiums. In addition, a reserve of **£15,000** is held for contingencies. Permanent sickness contracts with the right of renewal issued in Canada, some of which are attached to life policies, have been valued by a net premium method, assuming the Canadian 1952 Inter-Company (period 2 benefit 5) sickness experience increased by 25 per cent for waiver of premium only benefits and by 75 per cent for monthly income benefits combined with waiver of premium benefits and the Commissioners 1941 Standard Ordinary table of mortality with interest at $2\frac{1}{2}$ per cent. For permanent sickness contracts with the right of renewal issued in South Africa, Malaysia and Singapore, the reserve held is based on the premiums paid.

To many of the policies issued in the life branches there are attached additional benefits payable in the event of accident or disability, the liability for which is borne by the General branch. For these and other contracts which carry the right of renewal the provision has been calculated to take account of the liability arising from that right. In the aggregate the provision so calculated is 56.2 per cent of the premium income for the year.

In respect of long term fire and miscellaneous contracts, the provision for unexpired risks is 80 per cent of the unearned premiums.

The marine and aviation fund of **£1,445,275** is, in my opinion, a sufficient provision for the liabilities pending under the accounts.

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GENERAL BRANCH (CONTINUED)

The sinking fund policies have been valued by a gross premium method taking credit for 98 per cent of the future gross premiums. The rate of interest assumed was 3 per cent or the rate of interest employed in the calculation of the premiums, if less than 3 per cent. The policies in force provide for the payment of capital sums amounting to **£1,378,900** at the end of fixed terms of years, and produce an annual premium income of **£10,815.**

The equivalents in sterling of provisions in other currencies have been calculated at the rates of exchange ruling on 31st December, 1968.

The result of the valuation is as follows:—

General branch fund, subject to transfers out of surplus, on 31st December, 1968 ...		**£29,210,608**
Provision for fire, sickness and accident, motor vehicle and miscellaneous insurances	**£18,624,558**	
Provision for marine and aviation insurance	**1,445,275**	
Provision for sinking fund insurance	**1,189,748**	
Additional reserve fund	**6,150,000**	
		27,409,581
Surplus, including **£140,698** brought forward from last year		**£1,801,027**

I recommend that **£1,000,000** be transferred to the General branch Additional reserve fund.

R. S. SKERMAN,

Chief Actuary.

26th March, 1969.

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

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