

Annual Report
and Accounts
1979

P00018737

Prudential Corporation Limited
Annual Report and Accounts 1979

Registered Office:
142 Holborn Bars London EC1

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Prudential Corporation Limited
Incorporated in England Regd. No. 1397169

Notice is hereby given that the Annual General Meeting of this Company will be held at the Registered Office of the Company, No. 142 Holborn Bars London EC1 on Thursday 29 May 1980 at 12.15 p.m. for the following purposes:

To receive the Directors' Report and Statement of Accounts for the year ended 31 December 1979

To re-elect and elect Directors

To appoint Auditors

To transact any other business proper to be transacted at the said Meeting not being Special Business

In connection with the re-election of Directors special notice has been given to the Company, pursuant to the Companies Act 1948, that separate resolutions will be moved proposing the re-election of Mr Harry Gordon Clarke FIA and Sir Peter Frank Dalrymple Tennant CMG OBE who retire by rotation and who will be aged 71 and 69 respectively at the date of the Meeting.

By order of the Board of Directors

R E Artus,
P E Moody,
Joint Secretaries.

142 Holborn Bars London EC1N 2NH
25 April 1980

Members' attention is drawn to the form of proxy accompanying this notice. A member entitled to attend and vote at the Meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him; a proxy need not be a member of the Company.

The Register of Directors' interests kept under the Companies Act 1967 will be open for inspection at the Meeting. The Directors have no service contracts.

Brian Corby, Group General Manager (left) on a visit to Montreal, with Ian Mair, President of the Prudential in Canada (right), and Mr A H MacKenzie, senior Vice-President, Royal Bank of Canada, with which we have substantial business connections.

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HEALTH &
FRUIT SALAD

Mill Farm
Fruit Salad



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2019-004

Directors and Group Management

Directors

Ronald Hugh Owen FIA
Chairman

The Rt Hon Lord Carr of Hadley PC
Deputy Chairman

The Rt Hon James Edward Ramsden
Deputy Chairman

John Anthony Tristram Barstow DSO TD DL

The Rt Hon Lord Caccia GCMG GCVO

Harry Gordon Clarke FIA

David Mitchell Cooke Donald WS

Edward Preston Hatchett FIA

Sir John Nicholson Hogg TD

The Rt Hon Lord Hunt of Tanworth GCB

Angus Fraser Murray CBE FIA

The Rt Hon Lord O'Brien of Lothbury GBE PC

Frank Mitchell Redington FIA

Desmond Arthur Reid

Sir Peter Frank Dalrymple Tennant CMG OBE

Group Management

F B Corby MA FIA
Group General Manager

R E Artus MA

D S Craigen BA

P E Moody FIA

J A S Neave CBE JP

F G Wood FIA ACII

J A Freeman BCom FCA ACMA

Group Chief Accountant

R W Paget FCCA

Group Taxation Manager

C F Whitehorn

Group Legal Adviser

Peter Moody, Joint Secretary and Group Chief Investment Manager (left), together with Barney Appleton, our Property Manager in Australia, in Sydney's famous Strand Arcade, owned by Prudential Assurance.

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Summary of Results

Abridged Group Profit and Loss Account year ended 31 December 1979

	1979 £m	1978 £m
Profits from:		
Ordinary life assurance	18.5	12.4
Industrial life assurance	5.7	4.8
General insurance	11.6	16.2
	35.8	33.4
Other net credits	9.8	7.8
Profit for year after taxation	45.6	41.2
Dividends paid and payable	28.3	24.1
Retained profit for year	17.3	17.1

Abridged Group Balance Sheet 31 December 1979

	1979 £m	1978 £m
Shareholders' funds	185.3	165.7
Ordinary life assurance funds	4,138.3	3,647.7
Industrial life assurance funds	1,235.6	1,112.8
General insurance funds	339.9	318.8
	5,899.1	5,245.0
Investments	5,752.6	5,164.8
Net current assets	140.9	70.3
	5,893.5	5,235.1
Less		
Other liabilities	23.1	18.8
	5,870.4	5,216.3
Goodwill	28.7	28.7
	5,899.1	5,245.0

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Chairman's Statement

Results and dividends

The Group's profit for the year at £45.6m is 10.7 per cent higher than in 1978. The Directors have declared dividends for the year totalling 9.5p per share, some 19 per cent higher than last year. This leaves £17.3m retained within the Group to support the growth of the business.

The individual and group pension business of Prudential Assurance in the United Kingdom developed most satisfactorily during the year. There was a strong flow of new business and the higher return from investments enabled substantial increases to be made in bonuses to policyholders and the amount transferred to Profit and loss account to be increased by 41 per cent to £24.2m.

In April 1979 a new method of providing tax relief on life assurance premiums was introduced. In the Industrial Branch the majority of policyholders continued to pay the same premiums and in return were given increases in sums assured. As part of the agreement with the relevant Government departments shareholders do not receive any profit in respect of these increases. As a result the transfer to Profit and loss account from the Industrial Branch represents a lower proportion of the total surplus of that Branch than in previous years.

The life business of Mercantile and General developed well and it is particularly satisfying to note the substantial increase in business which has been achieved in the United States.

The business of Prudential Pensions, the subsidiary of Prudential Assurance which administers unit-linked pension plans, continued to develop and showed a satisfactory increase in profit. 1979 also showed considerable growth in pension fund investments managed by Prudential Portfolio Managers.

Vanbrugh showed a welcome return to profitability in 1979.

The results of the General insurance business of Prudential Assurance were disappointing. Although United Kingdom domestic business shows an improving trend, the indexation of sums insured which began in 1979 will not be completed until the middle of this year and the account continued to be unprofitable. It is pleasing to record that a very high proportion of policyholders elected to accept the indexation of sums insured under their policies. However, it is clear that under-insurance is not the whole of the problem facing our domestic account: the level of premium for a given cover has also become inadequate as a result of the higher incidence of claims and accordingly we shall be increasing premium rates.

The United Kingdom motor account produced slightly higher losses than in 1978 due to a number

of factors including the increase in VAT. This has led to further increases in premiums in February of this year.

Review of our direct General insurance business overseas showed that in the Australian and South African markets the cost of providing a comprehensively available service needed a much higher level of business if an acceptable expense ratio was to be achieved. Both those markets are extremely competitive and the effect of any attempt to reduce the expense ratio by securing considerably more business would have been to invite a marked deterioration in underwriting experience. We therefore sought partners amongst other companies with a similar problem. In Australia a company has been formed to merge the General insurance operations of Prudential Assurance and the Cornhill Insurance Company Limited to be known as the Prudential Cornhill Insurance Company of Australia, in which we have the majority holding. In South Africa we are transferring our General short-term business into a company which will be known as the Phoenix Prudential Insurance Company of South Africa, in which the majority holding will be held by the Phoenix Assurance Company Limited. Our Canadian business is sufficiently large to develop satisfactorily without the need for similar associations. The underwriting results there continued to show surpluses although the underlying trend is adverse and a deterioration in 1980 must be expected.

The profit after tax for Mercantile and General showed a reduction as compared with 1978. In that year the tax charge was considerably lower than would normally be expected. In addition to a more normal level of taxation, 1979 also saw some deterioration of underwriting results caused by extreme competition and adverse experience in international reinsurance markets.

The first year of operating under the new corporate structure instituted at the end of 1978 has gone well. We are making progress in establishing a clearer cut distinction between the requirements of overall group management and those of the trading subsidiaries and this is leading to more effective management of the companies within the Group.

The economy

The state of the British economy is a matter for concern. In December 1979 the annual rate of inflation was more than double that of a year earlier. The increase in energy costs imposed on the industrial world by the oil producers' cartel has led to upward pressure on prices throughout the world economy, despite the general slow-down in the growth of economic activity. In Britain the effect is worsened by rates of wage and salary increases which greatly exceed the growth of output in real terms, and to a degree much greater than for our principal industrial

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CORPORATION

competitors. This process undermines our industrial strength and with it our ability to provide employment at the wages demanded. The pace at which this happens is slowed down if there is a compensating depreciation of the exchange rate, but since this adds further fuel to inflation, it is no long-term answer.

In the middle of 1979 a new Government took office. Its policy is based on containing the growth of the money supply to a level well below the rate of inflation and restraining public sector expenditure so that it comes gradually to represent a lower proportion of total domestic expenditure. Such a policy was adopted on the advice of the International Monetary Fund in 1976 by the previous Government, but it was accompanied on that occasion by an official incomes policy regulating the level of wage and salary increases. On that occasion these policies enjoyed substantial temporary success in reducing inflation. Towards the end of its term of office, however, the last Government relaxed the monetary and fiscal disciplines and the effectiveness of the incomes policy also broke down. The current upsurge in the inflation rate in Britain stems largely from these developments.

The present Government's determination to establish monetary and fiscal discipline and reduce the rate of inflation has been made very clear. It has broken new ground by outlining its intentions in the monetary and fiscal field for several years ahead. The extent to which, against this background, wage settlements take account of a probable fall in the rate of inflation will be crucially important. If a successful outcome can be achieved without recourse to direct intervention in the wage bargaining process, it will be doubly welcome. Reliance upon such intervention, though clearly capable of bringing about an abatement in the rate of inflation more quickly, suffers from the defect that all the many variants of incomes policy so far used have had the seeds of their own ultimate collapse within them, and that when this happens the problem can recur in as virulent a form as ever.

The view that an enterprising and creative small company sector must be encouraged is now widely shared across the political spectrum. The evidence is not clear cut that lack of funds for investment in small companies has been a significant constraint on their development. However, the existence of well-financed intermediaries, equipped and willing to give support to very small companies, must improve prospects in this sector, especially if a greater awareness of them can be brought about. We are very willing to commit funds to this area provided that we can do so in a manner which is consistent with our responsibilities to those whose funds we manage. This means that sympathy for the idea of providing finance to small companies must be accompanied by the use of sensible commercial criteria in the selection of recipients. It is probably best if the

investments are made through specialised institutions geared to the requirements for monitoring and after-care which are important to success. We have made a number of investments in such intermediaries already and are currently investigating other possibilities, some of which may carry the threshold size of investment even lower. In addition, in the field of property investment we are financing a number of industrial estates consisting of nursery units suitable for small new enterprises.

Life assurance premium relief

1979 saw a major revision in the method of granting tax relief on life assurance premiums. The reason for the change was to simplify the PAYE system for the Inland Revenue. It has therefore been particularly disquieting to hear recent suggestions that life assurance premium relief might be phased out, and we were glad to learn that the Government have affirmed that premium relief will continue. The reduction in the Budget restores the traditional position in which relief is given at half the standard rate of income tax.

The encouragement of regular long-term savings by this means has long been recognised as beneficial both in promoting thrift and self-reliance and in providing funds for long-term investment in the economy. It is therefore important that life offices should not discredit this arrangement by manipulating the rules to obtain premium relief on other than long-term contracts. We therefore welcome the provisions in the Finance Bill now before Parliament aimed at ending the abuse of life assurance premium relief by the issue of bonds for very short terms. These bonds, despite their short terms, depended upon life assurance premium relief to produce their high returns and exploited the current relief in a way which is entirely contrary to its objective.

Newman Industries

Shareholders will have seen reference in the press to the success of the High Court proceedings taken by Prudential Assurance in relation to the affairs of Newman Industries, a company in which we were one of the leading institutional shareholders when the cause of action arose in 1975. It is of course a rare event for our concern at the way in which a company's business is being conducted to lead to a lengthy and expensive court hearing. It is, fortunately, also rare for us to need to make representations to the boards of companies upon matters as grave as those involved in this case. The case shows that legal action in the courts may be a more effective process than that of an inquiry by Department of Trade Inspectors whose powers in relation to the discovery of documents and the taking of evidence upon oath are quite properly more restricted than those of the High Court. The judgement of Mr Justice Vinelott

may well prove to be a significant stage in the evolution of company law in this country, where development, particularly in the field of shareholders' rights, has lagged behind that in certain other common law jurisdictions.

The Newman case was also notable in that public attention was first drawn to the issues involved through criticism by a non-executive director on the board of the company. This is an excellent example of one of the valuable roles that non-executive directors can play in safeguarding the interests both of the company and of its shareholders.

Appointments and retirements

As already announced in the press, it is my intention to relinquish the post of Chairman after the Annual General Meeting, together with that of Chairman of our subsidiary company, Prudential Assurance. I shall, however, remain a Director of both companies. I would like to take this opportunity to express my appreciation of the support and help I have received from my Board colleagues and the management. The respective Boards have announced their intention of electing The Rt Hon Lord Carr of Hadley PC as Chairman, both of Prudential Corporation and of Prudential Assurance. Lord Carr has had a most distinguished career in public affairs, having been both Home Secretary and Secretary of State for Employment. He has, in addition, had substantial executive experience in business.

The respective Boards of Directors have also announced their intention, subject to his election at the Annual General Meeting, of appointing Mr Geoffrey Haslam a Deputy Chairman. Mr Haslam completed his executive career with the Prudential at the end of 1979. He was Chief General Manager of Prudential Assurance from 1974 to 1978 and in 1979 he became Chief Executive of Prudential Corporation. In addition, he was Chairman of the British Insurance Association from 1977 to 1978 and is also a past Chairman of the Industrial Life Offices Association.

Mr Ronald Skerman also retired at the end of the year from his executive posts within the Group. He was the Corporation's first Group Chief Actuary and held the post of Chief Actuary of Prudential Assurance

from 1968 to 1979. A past President of the Institute of Actuaries, Mr Skerman was a member of the Royal Commission on Civil Liability and Compensation for Personal Injury and is a past Chairman of the Life Offices Association. For some years now in his capacity of Chairman of the British Insurers' European Committee he has led the British insurance industry's team negotiating the basis of the harmonization of insurance regulations within the EEC and he continues in this office. The Directors have been pleased to invite him to stand for election to the Board of the Corporation.

Lord Hunt of Tanworth, formerly Secretary of the Cabinet, was appointed to the Board in February and has already begun to make a valuable contribution to our deliberations. He now offers himself for election.

Mr Brian Corby, as Group General Manager, has assumed Mr Haslam's responsibilities and has also been appointed Group Chief Actuary and Chief Actuary of Prudential Assurance.

Mr Julius Neave has been appointed Managing Director of Mercantile and General and Mr Peter Howell has been appointed General Manager.

Customers and staff

The Prudential Corporation is a major insurance group providing insurance and reinsurance services in the United Kingdom and in many countries overseas. Its success depends on the support of its customers, both individual and corporate, and of the ceding companies who place their reinsurance business with us. We shall work to ensure that this success continues. It also depends to a very high degree on the skill and integrity of all our staff at home and overseas and I would like to thank them for their hard work throughout the year.

R H Owen
Chairman

17 April 1980

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Main Features of the Year

Group Profits

Profits after tax increased to £45.6m (1978 £41.2m) and after providing for dividends of £28.3m (1978 £24.1m), profits retained within the Group amounted to £17.3m (1978 £17.1m).

Life Business

The premium income and surplus from life business increased very satisfactorily. Policyholders' bonuses were again increased and the improvement of £7.0m in the surplus for shareholders was contributed to by a return to profitability by Vanbrugh and a larger surplus from Mercantile and General Reinsurance. Total profits after tax were £24.2m (1978 £17.2m).

Prudential Assurance's new annual premiums were £170.0m (1978 £129.5m) and the total revenue premium income was £773.9m (1978 £652.1m). The profits after tax in the year were £15.0m for Ordinary business (1978 £12.5m) and £5.7m for Industrial business (1978 £4.8m).

Mercantile and General Reinsurance's new annual premiums were £14.8m (1978 £13.3m) and total revenue premium income was £67.5m (1978 £61.3m). Profits after tax were £3.1m (1978 £2.5m).

Vanbrugh's profits after tax were £0.3m (1978 loss £2.4m).

General Insurance

The underwriting results in the UK and overseas, both on the direct and the reinsurance accounts, were disappointing and there was a loss of £15.2m (1978 loss £4.2m). The fall in the net surplus for general business was restricted to £4.6m by a substantial increase in investment income to £32.5m (1978 £27.2m). Profits after tax were £11.6m (1978 £16.2m).

Prudential Assurance's profits after tax increased to £6.4m (1978 £5.3m) despite an underwriting loss of £9.3m (1978 £2.9m).

Mercantile and General Reinsurance's profits after tax fell to £4.2m (1978 £9.4m) following an underwriting loss of £4.1m (1978 profit £0.3m) and a return to a more normal level of tax charge.

Other Income

Investment income on shareholders' funds together with other income, less expenses and taxation, increased to £9.8m (1978 £7.8m).

Solvency Margin

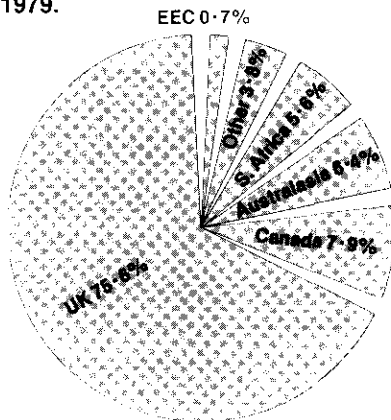
The total free assets of the insurance subsidiaries at the end of 1979 represented 55 per cent (1978 54 per cent) of their short-term general insurance premium income.

NOTE: For overseas business, comparisons between the figures for 1979 and 1978 are affected by the rise in the value of sterling in 1979. Note 1(f) on page 28 explains the treatment of exchange rates.

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Life Business Summary

Source of ordinary business revenue premiums of the Group in 1979.



Industrial life business is transacted only in the United Kingdom.

The world wide business of the Group was as follows:

	1979 £m	1978 £m	% increase
New Business:			
Annual premiums	187.3	144.8	29
Single premiums	100.5	91.0	10
Total revenue premium income	889.0	761.3	17
Business in force at the end of the year:			
Annual premium income	824.1	671.7	23
Sums assured, including bonus	40,192.3	35,601.2	13
Annuities per annum, including bonus and amounts to be purchased by future recurrent single premiums	807.5	669.5	21

The profits from life business, after providing for taxation, were as follows:

	1979 £m	1978 £m
Prudential Assurance:		
Ordinary branch individual life and group pensions business (UK and overseas)	14.0	11.6
Industrial business	5.7	4.8
Prudential Pensions	1.0	0.9
	<u>20.7</u>	<u>17.3</u>
Mercantile and General Reinsurance	3.1	2.5
Vanbrugh	0.3	(2.4)
L'Escaut	0.1	(0.2)
	<u>24.2</u>	<u>17.2</u>

Comments on the life business of Mercantile and General Reinsurance are included in the separate section headed "Specialist Reinsurance" on page 19. The comments relating to the remainder of the life business of the Group will be found in this section.

**Individual Life Business
United Kingdom**

Industrial Business (Prudential Assurance)	1979 £m	1978 £m	% increase
New business premiums	49.4	35.5	39
Total revenue premium income	213.5	166.5	28

The increase in new business premiums for 1979 was most satisfactory and it is clear that demand for Industrial business continues to be high among the large proportion of the community who do not have bank accounts. Premiums for each new policy continued to increase and now average more than £50 per annum.

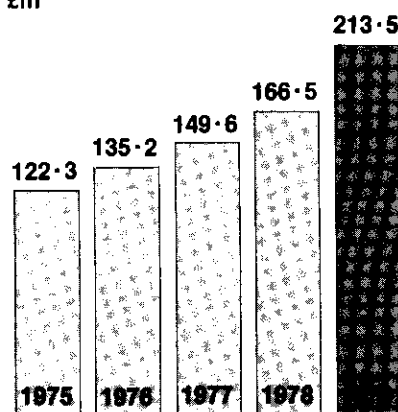
At the beginning of April 1979 there was a major change in the method of providing tax relief on life assurance premiums. Instead of receiving an allowance in determining their income tax liability, policyholders now pay their premiums net of relief and the life offices recover the balance direct from the Inland Revenue.

For a large proportion of Industrial policies in force in April 1979 special arrangements were made. Offices continued to collect the same premiums and took account of the relief received from the Inland Revenue by increasing the sum assured. As a result, the annual premium income for business in force in April 1979 was increased by £37.5m at that date. This increase is not included in the new business premiums shown above, but is reflected in the revenue premium income since then.

The Company is currently engaged in a major consultative exercise with its field staff and their union on plans for the future, including proposals for field staff reorganisation to meet changing circumstances. Competition from other companies and increasing pressures from consumer interests all serve to underline the importance of having well-trained and skilled staff to sell and service the Company's products.

There was a substantial increase in the return on investments during 1979, partly due to certain non-recurring special dividend payments on ordinary shares. The rate of reversionary bonus has been increased from £3.00 to £3.20 per £100 sum assured. The rates of terminal bonus have also been increased and the scale has been extended to include policies issued in 1978.

**Industrial business revenue premiums.
£m**

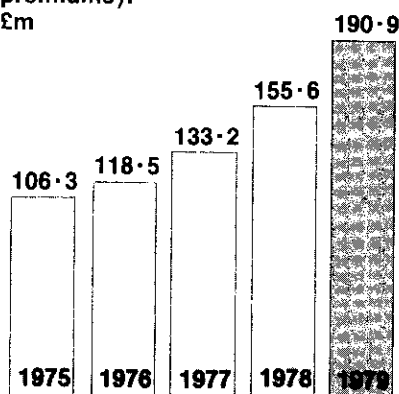


Ordinary Business (Prudential Assurance)	1979 £m	1978 £m	% increase
New business:			
Annual premiums	55.7	39.4	41
Single premiums	15.2	11.9	28
Total revenue premium income	206.4	167.9	23

The buoyancy of the United Kingdom annual premium market was maintained in 1979, although expansion was at a lower rate than for 1978. Against this background Prudential Assurance recorded excellent progress, with new annual premiums increasing by 41 per cent, well above the estimated market level of 29 per cent and almost the same percentage increase as in 1978.

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Ordinary business revenue premiums (other than single premiums).
£m



The Company's sales emphasis continued to be geared to conventional assurances, for which the increase in new annual premiums was 46 per cent against 29 per cent in 1978 and also to its competitive personal pension policy, for which an increase of 33 per cent was recorded following the very large rise of 96 per cent the year before. The Company's sales force is particularly well organised to service the self-employed and as a result there has been a broadening of its business base over recent years.

The move towards with-profits endowment policies that was seen in 1978 continued last year, accompanied by a continuing increase in average premiums per policy.

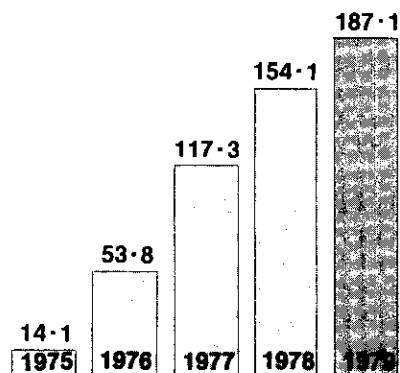
The new Multiflex package policy has proved very popular. Under this policy, temporary and income benefit assurance can be combined with endowment assurance in a flexible manner, achieving cost savings and a consequent competitive premium for the mixed benefits. It is pleasing to record that the total number of new policies increased in 1979, despite the introduction of such package policies.

Bonus rates have again been increased, reflecting the further substantial rise in the return on investments. For Ordinary branch assurances the rate of reversionary bonus has been increased from £4.60 to £4.90 per £100 sum assured; the rates of terminal bonus have also been increased and the scale extended to include policies issued in 1978. Bonuses for Personal Retirement Plan policies have also again been increased, which should ensure that the Company remains one of the market leaders for this type of contract.

Unit-linked Business (Vanbrugh)

	1979 £m	1978 £m	% increase/ (decrease)
New business:			
Annual premiums	2.0	1.6	20
Single premiums	33.5	36.0	(7)
Total revenue premium income	44.2	45.0	(2)

Vanbrugh – total funds under management.
£m



During 1979 there was even greater competition in the unit-linked market than in 1978 as an increasing number of well established life offices either entered or intensified their efforts in this field. It is therefore a matter for satisfaction that Vanbrugh maintained its share of unit-linked business transacted through insurance brokers.

One particularly successful marketing development during the year was the introduction of The Vanbrugh Investment Portfolio for investors with funds of at least £25,000. The popularity of the new service can be measured by the fact that "VIP" accounted for over £10m of Vanbrugh's single premium business.

Vanbrugh continued to make efforts to increase annual premium business and sales of its annual premium contract – The Maximum Investment Plan – increased by 70 per cent compared with 1978. A disappointing feature, however, was the poor sales record of contracts for the self-employed.

The year 1979 was a satisfactory one for Vanbrugh's administrative departments. New computer systems were introduced and these are leading to economies of operation and improvement in service to brokers and policyholders.

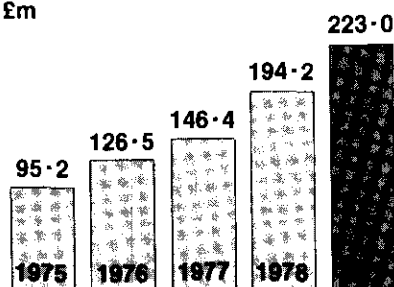
Vanbrugh returned to profitability in 1979 and profits after tax amounted to £0.3m.

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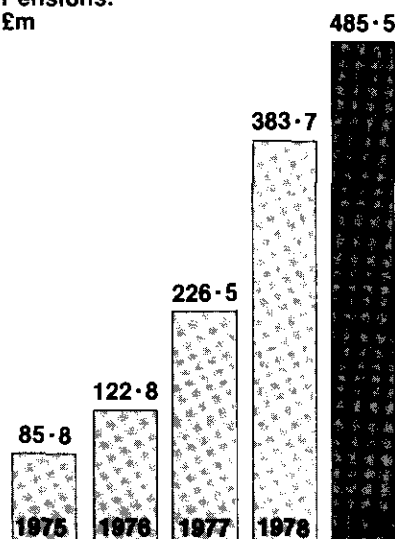
**Group Pensions Business -
United Kingdom**

(Prudential Assurance)

**Group pensions business
revenue premiums.
£m**



**Unit-linked funds of Prudential
Pensions.
£m**



	1979 £m	1978 £m	% increase/ (decrease)
New business:			
Annual premiums:			
Prudential Assurance – annuities and assurances	27.8	16.9	64
Prudential Pensions – unit-linked plans	16.6	18.9	(12)
	<u>44.4</u>	<u>35.8</u>	24
Single premiums:			
Prudential Assurance – annuities and assurances	16.7	16.0	4
Prudential Pensions – unit-linked plans	5.9	9.1	(35)
	<u>22.6</u>	<u>25.1</u>	(10)
Total revenue premium income:			
Prudential Assurance	139.4	123.4	13
Prudential Pensions (excluding amounts transferred from Prudential Assurance)	83.6	70.8	18
	<u>223.0</u>	<u>194.2</u>	15

The increase in new annual premiums for schemes written by Prudential Assurance arose in approximately equal proportions from three main sources: new with-profit schemes, including executive pension plans and additional voluntary contribution arrangements, new entrants to existing schemes and improvements in benefit scales under existing schemes. Much of the increase from the last two sources reflects changes arising from, or made subsequent to, decisions by companies to contract out of the earnings related component of the State scheme. In the case of unit-linked plans written by Prudential Pensions (mainly for larger companies) the effect of such changes had emerged more strongly in 1978.

Revenue premiums for group pensions business have been buoyant for many years, the average annual rate of increase being 25 per cent compound over the last five years. In 1979 nearly 80 per cent of the revenue premiums of Prudential Assurance arose under contracts providing for retirement benefits in the future, over 10 per cent of the premiums were for death-in-service benefits and another 10 per cent were for augmentation of pensions in course of payment.

Continued improvement in the return on investments has again enabled annual bonuses on with-profit policies to be increased. For example, under cash accumulation and executive pension contracts the rate of bonus interest on accumulated cash has been increased from £5.2% to £5.7%.

At the end of 1979 the unit-linked funds of Prudential Pensions amounted to £485.5m compared with £383.7m at the end of the previous year.

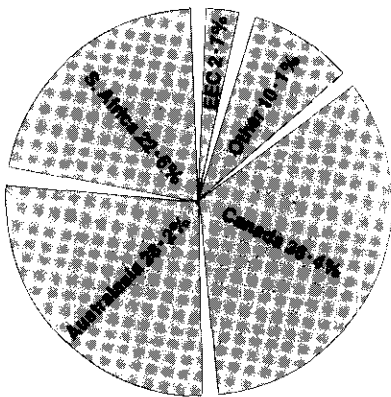
In addition to the business mentioned above, investments for certain large pension funds are managed by Prudential Portfolio Managers on a segregated fund basis. The funds under management for such business amounted to £151m at the end of 1979.

Life and Pensions Business - Overseas

(Prudential Assurance and L'Escaut)

	1979 £m	1978 £m	% increase
New business:			
Annual premiums	21.0	19.2	9
Single premiums	17.6	8.0	120
Total revenue premium income	134.4	126.4	6

Source of overseas life and pensions revenue premiums in 1979.



The overall increases recorded above have been adversely affected by the strengthening of sterling relative to the currencies in which most of the Group's overseas business is written. Assuming unchanged exchange rates, the increases would have been 18 per cent for new business annual premiums, 135 per cent for new business single premiums and 15 per cent for total revenue premium income. Percentage comparisons for individual countries given below are made in terms of local currencies.

In Australia, new business annual premiums of £4.2m were, in local currency, only a little higher than in 1978, but there was a substantial increase in single premiums. The new type of savings contract, to which reference was made last year, has proved to be a very useful addition to Prudential Assurance's range of products and a resumption of growth in the Company's new business in Australia is expected. New Zealand again produced satisfactory results, with an increase of 15 per cent in new business annual premiums. Revenue premiums in Australia and New Zealand increased by 4 per cent to £38.0m.

Total new business premiums in Canada increased by over 60 per cent. This was primarily due to the substantial volume of single premium deferred annuity and immediate annuity business amounting to £12.1m written during the year. New annual premiums at £6.0m were nearly 12 per cent higher than in the previous year, most of the growth coming from pensions business. Revenue premiums amounted to £48.9m, an increase of 19 per cent.

Very good increases in new annual premiums were also achieved in Singapore, Malaysia and Hong Kong. Prudential Assurance's new branch in Holland, which commenced operations in April 1979, is developing well.

Prudential South Africa followed up its excellent performance in 1978 with outstanding results in 1979. New annual premiums increased by 39 per cent to £6.6m and new single premiums increased substantially to £3.0m. Revenue premiums rose by 22 per cent to £30.3m.

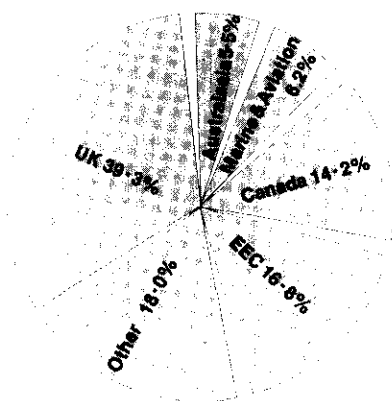
L'Escaut's life business continued to grow and revenue premiums increased by 23 per cent to £3.4m.

Bonus rates have been increased in Prudential Assurance's Australian, New Zealand, Canadian, Maltese and Hong Kong branches and by Prudential South Africa.

Progress Report General Insurance

General Insurance Summary

Source of general insurance premiums of the Group in 1979.



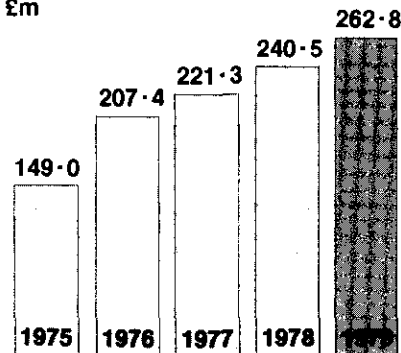
The following is a summary of the General insurance business of the Group:

	1979 £m	1978 £m	% increase
Premiums written	416.7	394.4	6
Underwriting result	(15.2)	(4.2)	
Investment income	32.5	27.2	
Trading profit before tax	17.3	23.0	
Taxation	5.7	6.8	
Profit after tax	11.6	16.2	

Detailed figures and comments in respect of the general insurance business of Mercantile and General Reinsurance are included in the separate section headed "Specialist Reinsurance" on page 19. The premiums and profits of the remainder of the Group are analysed in the following tables:

	1979 £m	1978 £m	% increase/ (decrease)
Premiums written:			
Fire and accident			
UK	137.9	111.9	23
EEC	44.1	45.1	(2)
Canada	44.3	42.5	4
Australia and New Zealand	8.6	9.6	(10)
Other	20.2	22.9	(12)
Marine and aviation	7.7	8.5	(9)
	<u>262.8</u>	<u>240.5</u>	9

Group premiums excluding specialist reinsurance.
£m



	1979 £m	1978 £m	% increase/ (decrease)
Underwriting results:			
Fire and accident			
UK	(7.8)	(4.3)	
EEC	(1.7)	(1.6)	
Canada	1.7	3.4	
Australia and New Zealand	(0.9)	(0.3)	
Other	(1.7)	(0.8)	
Marine and aviation	(0.7)	(0.9)	
	<u>(11.1)</u>	<u>(4.5)</u>	
Investment income	19.9	16.8	
Trading profit before tax	8.8	12.3	
Taxation	1.4	5.5	
Profit after tax	<u>7.4</u>	<u>6.8</u>	

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**United Kingdom – Fire and
Accident
(Prudential Assurance)**

	1979 £m	1978 £m	% increase
Premiums written	137.9	111.9	23
Underwriting result	(7.8)	(4.3)	

Whilst premium income developed satisfactorily, operating conditions remained difficult. Adverse weather conditions, severe competition and increased claims costs, exacerbated by the rise in the level of VAT, combined to produce underwriting losses. Particularly affected were the liability, domestic property and motor classes of the Company's business, the latter two major classes representing some 74 per cent of the total United Kingdom account.

Index-linking was introduced in the domestic property account in mid-1979 and minimum premiums were increased from 1 August. The initial benefits from these measures improved the account in the latter part of 1979 after a very poor start to the year which was due mainly to the severe weather conditions then prevailing. The eventual outcome was a reduced underwriting loss of £3.9m compared with a loss of £4.5m in 1978. The 1980 account will receive the greater part of the benefits of index-linking and increased minimum premiums and the Company has recently announced increases in premium rates and in minimum premiums from August this year.

Notwithstanding rate increases introduced in February and August last year, the motor account produced an underwriting loss of £2.7m compared with a loss of £2.1m in 1978. Claim frequency and the average cost of claims continued to rise and it was necessary to increase rates by an overall 9 per cent from 1 February this year. Adverse weather conditions undoubtedly played a part in the increase in claim frequency in 1979, and it is possible that less severe weather conditions in early 1980, combined with the ever-increasing cost of fuel, may have a stabilising effect on the claim frequency in 1980. However, in view of the Government's announced intention of recouping from insurers a larger proportion of National Health Service costs relating to road accidents, the increase in the VAT rate to 15 per cent and the continuing escalation in repair costs, further increases in rates appear inevitable in 1980. Despite sharply increased rates in Northern Ireland from July last year, underwriting results from the Province showed only a slight improvement over those for 1978.

After a number of very profitable years the commercial fire property account showed only a marginal profit, reflecting the intense competition prevailing in the market and the continually increasing cost of fire damage, particularly in the closing months. The associated loss of profits account produced an underwriting loss for the first time since 1974.

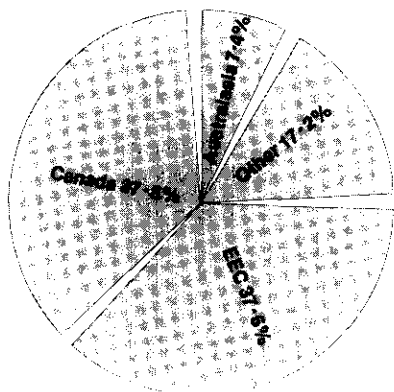
A substantial loss was recorded in the liability account with a number of large claims in the products liability and professional indemnity classes. An even more selective underwriting approach has now been adopted for this account together with substantial premium rate increases in the professional indemnity and employers' liability classes.

**Overseas – Fire and Accident
(Prudential Assurance and
L'Escaut)**

	1979 £m	1978 £m	% (decrease)
Premiums written	117.2	120.1	(2)
Underwriting result	(2.6)	0.7	

The stronger pound has continued to depress the apparent development of premium income overseas when expressed in sterling, whilst expenses incurred in the United Kingdom in administering the business increased through inflation. The underlying increase in premiums, assuming unchanged exchange rates, was 6 per cent.

Source of overseas fire and accident premiums in 1979.



In Canada, premiums written showed a small underlying increase, thus regaining some of the ground lost through the nationalisation of personal injury motor insurance in Quebec in 1978. The large property and motor accounts both continued to be profitable, though at a somewhat lower level than in 1978, but the liability account showed further deterioration. Long-term accident and health business, which is written both by Prudential Assurance's Canadian Branch and by the subsidiary, Constellation Assurance, produced a profit compared with a loss in the previous year. Overall an underwriting profit of £1.7m was achieved, but it is expected that competition will result in less favourable results in 1980.

Difficult trading conditions continued to apply in Australia resulting in a larger underwriting loss. Results in New Zealand also suffered a reverse.

In South Africa, premium income showed little change and an underwriting profit emerged. Good results were also achieved in Kenya where, with effect from 1 January 1980, the business has been undertaken by a newly formed local subsidiary of Prudential Assurance, The Prudential Assurance Company of Kenya.

The growth of L'Escaut's premiums of 4 per cent in terms of Belgian francs was cancelled out by the movement in exchange rates over the year, with resultant premium income of £33.8m compared with £35.1m in 1978. Competition for fire insurance business became even stronger in 1979 and L'Escaut showed underwriting losses on both the domestic and commercial accounts. Motor results showed an improvement over those of 1978, despite the Belgian government's policy of not allowing increases in premium rates fully to match the rate of inflation. The better results were influenced by the effect of petrol prices on total mileage and more severe measures taken by the authorities against bad driving.

Prudential Assurance's business on the continent of Europe was also marked by intense competition for fire insurance, particularly in France, where market stability was disturbed by abandonment of the tariff. In Holland, careful selection of business led to a fall in premium income but a break-even underwriting result was achieved.

In the Far East, Malaysia and Singapore business was profitable, whilst the Company's branch in Hong Kong, due to the heavy incidence of fire and workmen's compensation claims, returned an underwriting loss.

Overseas business written on the London market produced a small underwriting loss, contributed to by the damage caused by hurricanes David and Frederick in their path through the Caribbean in the early Autumn.

**Marine and Aviation
(Prudential Assurance)**

In the face of continuing over-capacity in the market, the Company's resistance to further reductions in premium rates led to some contraction in business. This, coupled with the effect of the relative strength of sterling, produced a fall in premium income from £8.5m to £7.7m. Claims experience was adverse and an underwriting loss of £0.7m was incurred.

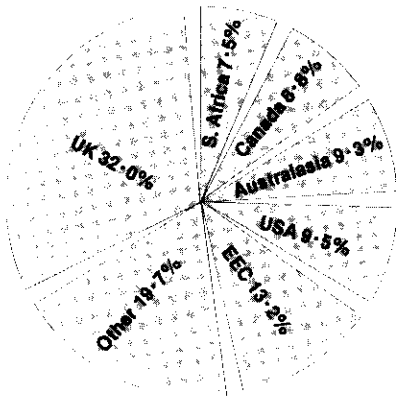
**Investment Income
(Prudential Assurance and
L'Escaut)**

Investment income from short-term business increased from £16.8m to £19.9m, a rise of 19 per cent. The underlying increase, assuming unchanged exchange rates, was over 25 per cent. An amount of £0.4m arose from non-recurring special dividends paid by certain UK companies following the ending of government controls on dividends.

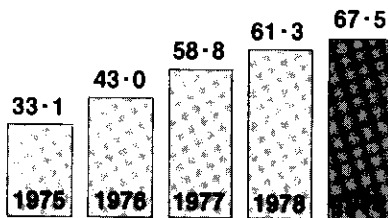
Progress Report Specialist Reinsurance

Mercantile and General Reinsurance

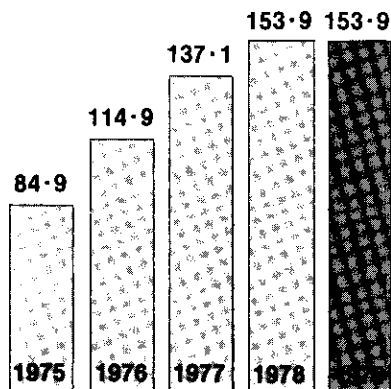
Source of life and general revenue premiums in 1979.



Life business revenue premiums. £m



General insurance premiums. £m



Mercantile and General Reinsurance's consolidated profits, after charges for expenses and taxation, were £9.2m in 1979 compared with £14.1m in 1978. Included in that amount is £1.9m (1978 £2.2m) representing net investment income on shareholders' funds.

Life Business

	1979 £m	1978 £m	% increase
New business:			
Annual premiums	14.8	13.3	11
Single premiums	11.6	10.0	16
Total revenue premium income	67.5	61.3	10
Profit after tax	3.1	2.5	

The United Kingdom continues to be the largest single life market for the Company, accounting for nearly half the total new business. Good growth was experienced here and in Canada and South Africa, but new business in Australia was static, reflecting the depressed state of the life assurance industry there. In the USA the development continued to be buoyant, with new business nearly double that for the previous year.

General Insurance

	1979 £m	1978 £m	% increase/ (decrease)
Premiums written:			
Fire, accident and miscellaneous	135.8	133.8	1
Marine and aviation	18.1	20.1	(10)
	<u>153.9</u>	<u>153.9</u>	—
Underwriting result	(4.1)	0.3	
Investment income	12.6	10.4	
	8.5	10.7	
Taxation	4.3	1.3	
Profit after tax	<u>4.2</u>	<u>9.4</u>	

The recession in world trade, together with competition from new and established reinsurers and the strength of sterling, have resulted in the premiums written remaining level when expressed in sterling terms. Underwriting results reported in the 1979 accounts reflect to a large extent the developing experience of reinsurance written in 1978 and earlier years. In the light of market trends and prospective claims arising out of hurricanes in the Americas and other adverse features elsewhere it has been necessary to strengthen the reserves of some of the underwriting accounts, and particularly the marine and aviation and proportional fire and miscellaneous accounts.

The continuing change in emphasis from equity to fixed interest investment contributed to an increase in investment income for life and non-life funds combined of 23 per cent.

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P00018755

Progress Report Investments

Investment Funds under Management

	Life £m	Non-life £m	Other funds £m
New money in 1979	585	61	92
Total market value at the end of 1979	6,940	570	530

Over recent years the number, diversity and size of the investment funds managed within the Group have expanded considerably. For the most part this reflects the expansion of our operations in the Life and General insurance markets within the United Kingdom and overseas. In addition, there are under management monies which do not feature in the life and non-life funds dealt with in these accounts; these include the staff pension funds of the Group and external funds managed on a fee-paying basis by Prudential Portfolio Managers. This group of funds appears in the third column of the tables in this section.

Net Investment in 1979

	Life £m	Non-life £m	Other funds £m
Funds arising in the United Kingdom			
British Government securities	313	(2)	50
Other fixed income securities (including mortgages on property)	8	8	(1)
Ordinary shares	39	3	22
Property	105	8	7
	<hr/>	<hr/>	<hr/>
	465	17	78
Decrease in foreign currency loans	34	11	3
	<hr/>	<hr/>	<hr/>
	499	28	81
Funds arising overseas			
Fixed income securities (including mortgages on property)	58	25	4
Ordinary shares	4	7	1
Property	8	1	—
	<hr/>	<hr/>	<hr/>
	70	33	5

Despite rising quite sharply at the time of the general election the United Kingdom equity market showed little change over the year as a whole, as the difficulties facing the corporate sector from the combined effects of the strength of sterling on exports and high inflation of wage costs in the face of an impending recession were increasingly recognised. This difficult background did not encourage us to depart from the policy pursued over recent years of channelling the major proportion of new money arising in the main life funds of Prudential Assurance in the United Kingdom into gilt-edged securities where attractive yields were again obtainable for much of the year. The overall balance of these portfolios, however, continues to give greater emphasis to both equities and property than to fixed interest stocks.

A significant part of the total new money managed within the Group that arises in the United Kingdom relates to unit-linked pension and individual life business, which is growing very quickly. For this business the class of asset in which investment is made is to some extent at the client's discretion.

The investment of funds arising overseas once again reflects the regulatory constraints which emphasise fixed interest investment.

P00018756

United Kingdom Equity Investments

The market value at the end of 1979 of the total United Kingdom ordinary share portfolio managed within the Group exceeded £2bn. Many responsibilities arise from managing such a portfolio and a well qualified and experienced investment department is maintained for this purpose.

The progress of the companies in which investments are held, some 600 in number, is monitored continuously. In this our own substantial research capacities are utilised, supplemented by those of stockbrokers, and aided by a growing programme of visits to the companies. Visits were made in 1979 to over half of the industrial companies in which investments were held. In addition to contacts with company managements for the purpose of improving our understanding of a company's affairs, a wider range of contact with industrial managements is steadily being established by our own senior investment executives so that a more constructive relationship may be developed. With an average holding of about 3.5 per cent of the equity the Group is frequently a company's largest shareholder, and our efforts to make contact are usually very welcome.

Although there are over 40 individual investments exceeding £10m in value, many of which are very large indeed and naturally receive very close attention, there is also a section in the investment department which takes a particular interest in the many small companies in which investments are held.

Takeover or merger propositions frequently arise and informed shareholder opinion on management ability and business prospects is essential in arriving at a responsible decision affecting the future of a company. Where a bid is not recommended by a board of a well-managed company, our inclination is to support a company's desire to maintain its independence.

United Kingdom Property Investments

Prudential Assurance has been investing in property for more than 115 years. Together with the other companies in the Group, some 5,000 properties are now managed with a market value at the end of 1979 well in excess of £2bn. Several individual properties have market values of more than £30m. With a continued firm market, the value of those properties that were held throughout 1979 increased by some 16 per cent.

Each of the separate property funds in the Group has a wide spread, not only geographically, but also as to type of user. In the main the properties consist of offices and shops, including 17 major shopping centres, together with factories and warehouses and some 90,000 acres of agricultural land of which about 5,000 are farmed in hand, the remainder being let.

Much of the investment over the last twenty years has taken the form of new developments and this, together with a very active policy of modernisation of older buildings, has resulted in a property portfolio able to provide accommodation up to the first class standards currently demanded.

Opportunities are constantly being sought to improve the quality of the portfolio by sales of older or less satisfactory investments, the proceeds being reinvested in properties which are likely to perform better in the future. Total sales in the last three years have exceeded £80m.

With the exception of farms, all purchasing, selling, management and much of the new development is carried out internally. For this a large property staff is maintained, including surveyors, architects and engineers. A land agency unit has recently been formed and it is expected that in time our own staff will also undertake much of the management of the agricultural investments.

Directors' Report

for the year ended 31 December 1979

Principal Activity Prudential Corporation Limited is the Group holding company and the principal activity of its subsidiaries is transacting insurance and reinsurance business of all classes in the United Kingdom and overseas. Particulars of the principal subsidiary companies are given in notes on the accounts on page 34.

Accounts The Consolidated Balance sheet on page 25 shows the state of affairs of the Group at 31 December 1979. The Company's Balance sheet appears on page 26 and the Consolidated Profit and loss account on page 24.

There is a five-year review of the Group on page 37.

Dividends The Directors have declared a final dividend for 1979 of 6.0p per share payable on 29 May 1980 to shareholders on the Register at close of business on 1 May 1980. The dividend for the year, including the interim dividend of 3.5p per share paid in November 1979 amounts to 9.5p per share compared with the 8.0p per share for 1978.

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

The Directors retiring by rotation are Harry Gordon Clarke FIA, Sir John Nicholson Hogg TD, The Rt Hon James Edward Ramsden and Sir Peter Frank Dalrymple Tennant CMG OBE. They offer themselves for re-election.

The Rt Hon Lord Hunt of Tanworth GCB, who was appointed a Director as from 7 February 1980, retires in accordance with the Articles of Association and offers himself for election.

The Directors recommend the election of William Geoffrey Haslam DFC and Ronald Sidney Skerman CBE FIA.

Mr Kenneth Ascough Usherwood CBE FIA retired on 24 May 1979.

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

	Shares of 25p each			
	On 31.12.79		†On 1.1.79	
	Beneficially held	Other interest	Beneficially held	Other interest
R H Owen	6,000		6,000	
Lord Carr of Hadley	2,000		2,000	
J E Ramsden	2,400		2,400	
J A T Barstow	15,000	32,133	15,000	41,824
Lord Caccia	2,400		2,400	
H G Clarke	4,824		4,824	
D M C Donald (elected 24.5.79)	3,600		3,600	
E P Hatchett	2,064		2,064	
Sir J N Hogg	4,392		4,392	
A F Murray	2,400	918	2,400	918
Lord O'Brien of Lothbury	2,400		2,400	
F M Redington	3,600		3,600	
D A Reid	152,256	412,393	152,256	412,393
Sir P F D Tennant	2,400		2,400	

†(or date of election if later)

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

There has been no change in Directors' shareholdings between 31 December 1979 and 3 April 1980, except that Lord Hunt of Tanworth, who became a Director on 7 February 1980, acquired 2,000 shares.

No Director has a contract or arrangement disclosable under Section 187 of the Companies Act 1967. P00018758

Substantial Shareholdings

As far as the Directors were aware at 3 April 1980 no person has a shareholding of 5 per cent or more of the share capital of the Company.

Employees

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1979 was 22,074 and the aggregate remuneration paid or payable in respect of these employees during 1979 amounted to £141,017,036.

Donations

During the year the Company and its subsidiaries gave £110,600 in the United Kingdom and £36,578 overseas for charitable purposes.

Auditors

In accordance with Section 14 of the Companies Act 1976, a resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the Company will be put to the Annual General Meeting.

Number of Shareholders

The number of shareholders on the register at the end of the year was:

	1979	1978
	32,600	33,900

Analysis of Shareholdings in the Company at 31 December 1979

	1979 %	1978 %
Banks (mainly nominee holdings)	38.7	37.7
Insurance companies	12.7	12.6
Pension funds	17.8	17.0
Investment trusts	2.4	2.5
Other corporations	6.6	7.3
Individuals	21.8	22.9
	100.0	100.0

R H Owen
Chairman
Holborn Bars
17 April 1980

Consolidated Profit and Loss Account

for the year ended 31 December 1979

	Note	1979 £m	1978 £m
Profits after taxation from:			
Ordinary life assurance	3	18.5	12.4
Industrial life assurance	3	5.7	4.8
General insurance	3	11.6	16.2
Investment and other income less expenses	1j & 6	15.1	13.0
		50.9	46.4
Less Taxation	4	5.3	5.2
Profit for the year after taxation	13	45.6	41.2
Dividends			
Interim		10.4	8.4
Final		17.9	15.7
		28.3	24.1
Retained profit for the year		17.3	17.1
Balance at beginning of year	13	8.8	5.5
		26.1	22.6
Transfer to/(from) reserves			
Investment reserve	1a & 13	(1.0)	5.7
General reserve	13	14.8	9.4
		13.8	15.1
Balance at end of year	13	12.3	7.5
Earnings per share			
		15.3p	13.8p
Based on earnings of £45.6m (£41.2m) and 298,388,254 shares			

P00018760

Consolidated Balance Sheet

31 December 1979

	Note	1979 £m	1978 £m
Shareholders' funds			
Share capital	7	74.6	74.6
Share premium account		46.4	46.4
General reserve		52.0	37.2
Profit and loss account		12.3	7.5
		185.3	165.7
Insurance funds			
Ordinary life		4,138.3	3,647.7
Industrial life		1,235.6	1,112.8
General business		339.9	318.8
		5,899.1	5,245.0
Investments			
	1d		
Ordinary stocks and shares		1,592.6	1,503.5
Properties		1,494.2	1,296.5
British Government securities		1,341.2	1,130.6
Other fixed income securities		880.1	829.6
Mortgages and loans		444.5	404.6
		5,752.6	5,164.8
<i>Market value</i>	1e	7,510.0	6,690.0
Current assets			
Tax recoverable		17.4	10.7
Debtors		300.3	262.6
Deposits, bank balances and cash		262.6	236.1
		6,332.9	5,674.2
<i>Less</i>			
Current liabilities			
Outstanding claims		191.9	175.6
Taxation		12.9	13.0
Other creditors		127.3	105.3
Unsecured loans in overseas currencies	5	61.7	116.1
Bank loans and overdrafts	5	27.7	13.4
Final dividend		17.9	15.7
		439.4	439.1
		5,893.5	5,235.1
<i>Less</i>			
Other Liabilities			
Loan stocks of a subsidiary	5	2.4	2.7
Deferred taxation	4	20.7	16.1
		23.1	18.8
		5,870.4	5,216.3
Goodwill	1c	28.7	28.7
		5,899.1	5,245.0

Balance Sheet of the Company

31 December 1979

	Note	1979 £m	1978 £m
Shareholders' funds			
Share capital	7	74.6	74.6
General reserve		6.0	4.0
Profit and loss account		1.4	0.8
		82.0	79.4
Investments			
British Government securities (Market value £4.4m)	1d 1e	4.8	—
Shares in subsidiaries		74.6	74.6
Current assets			
Debtors		0.1	—
Amounts due from subsidiaries		19.2	20.5
Deposits and bank balances		1.4	—
		100.1	95.1
<i>Less</i>			
Current liabilities			
Creditors		0.1	—
Final dividend		17.9	15.7
		82.1	79.4
<i>Less</i>			
Deferred taxation	4	0.1	—
		82.0	79.4

F B Corby *Group General Manager*

R H Owen *Chairman*

E P Hatchett *Director*

17 April 1980

P00018762

Source and Application of Funds

of the Group (excluding Life)
year ended 31 December 1979

	1979 £m	1978 £m
Source of funds:		
Profit after taxation	45.6	41.2
Adjustment for item not involving the movement of funds:		
Depreciation	2.0	1.1
	47.6	42.3
Increase in General insurance funds	40.9	38.8
	88.5	81.1
Application of funds:		
Dividends paid	26.1	20.9
Increases/(decreases) in investments:		
Ordinary stocks and shares	9.5	4.5
Properties	8.8	3.5
British Government securities	(2.2)	10.1
Other fixed income securities	28.0	26.0
Mortgages and loans	5.1	3.9
	49.2	48.0
Movement in other assets and liabilities:		
Debtors	28.1	16.3
Outstanding claims	(19.1)	(14.6)
Taxation	6.3	0.9
Other creditors	(14.5)	(8.2)
Unsecured loans in overseas currencies	11.1	—
Loan stocks of a subsidiary	0.1	—
Deposits, bank balances and cash	7.6	14.1
Bank loans and overdrafts	(6.4)	3.7
	13.2	12.2
	88.5	81.1

Notes on the Accounts

1. Group accounting policies

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

(a) Disclosure requirements

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

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

(b) Basis of consolidation

The group accounts incorporate the assets and liabilities of the Company and all its subsidiaries at 31 December and the results for the year ended on that date with the exception of the two Australian subsidiaries of The Mercantile and General Reinsurance Company Limited whose figures are not material and relate to the preceding 30 June.

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

(c) Goodwill

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

(d) Balance sheet values of investments and subsidiaries

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

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

Linked business investments are included at market value, any increase or decrease in their values for the year including realised profits or losses being dealt with in the Revenue accounts. In the Balance sheet of the Company shares in subsidiaries are stated at cost.

(e) Market values of investments

Market values are based on market quotations where available, except that for 1978 the investment currency premium was included. In all other cases values are estimated by the directors of the various companies.

(f) Exchange rates

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

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(g) Long-term business

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

(h) Short-term business

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

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

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

Fire and accident proportional reinsurance business is dealt with on a two year basis and non-proportional on a funded basis.

(i) Depreciation

The provisions of the UK accounting standard on depreciation have not been applied as investment properties are exempted for the current year.

However, depreciation on freehold and long leasehold properties is provided on the excess in any year of the total book values over the current site values. Leasehold properties are amortised over the last 50 years or less of the lease.

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

(j) Investment income

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

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

Group investment income is shown less amounts written off terminable and other securities and after interest payable.

(k) Taxation

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

2. Comparative figures

The comparative results for the year ended 31 December 1978 are those of The Prudential Assurance Company Limited and its subsidiaries, which were acquired by the Company on 29 December 1978 under a Scheme of Arrangement.

3. Insurance business

Life assurance
Revenue accounts

	Ordinary life assurance		Industrial life assurance	
	1979 £m	1978 £m	1979 £m	1978 £m
Premium income	675.5	594.8	213.5	166.5
Investment income	379.1	298.7	140.6	112.5
Other revenue *	56.6	51.5	21.2	23.7
	1,111.2	945.0	375.3	302.7
Less:				
Claims	374.7	307.3	142.7	126.9
Commission and expenses	128.5	109.8	87.5	72.7
Taxation	26.9	22.9	16.6	13.0
Increase in liability to policyholders	351.4	316.6	30.3	12.8
	881.5	756.6	277.1	225.4
Surplus for distribution	229.7	188.4	98.2	77.3
Policyholders' bonuses	211.2	176.0	92.5	72.5
Transfers to Profit and loss account	18.5	12.4	5.7	4.8

*Includes part of unrealised asset margin.

Life assurance
Balance sheets

Insurance funds	4,138.3	3,647.7	1,235.6	1,112.8
Investments				
Ordinary stocks and shares	1,095.0	1,025.3	358.8	356.9
Properties	1,121.8	974.0	344.8	304.3
British Government securities	870.7	688.8	386.7	339.0
Other fixed income securities	573.2	547.5	82.9	79.3
Mortgages and loans	341.3	302.1	72.6	75.6
	4,002.0	3,537.7	1,245.8	1,155.1
Market value	4,940.0	4,310.0	2,000.0	1,840.0
Current assets				
Tax recoverable	9.3	6.1	—	1.5
Debtors	147.5	122.2	33.3	20.7
Deposits, bank balances and cash	175.1	169.3	23.6	14.0
	4,333.9	3,835.3	1,302.7	1,191.3
Less:				
Current liabilities				
Outstanding claims	36.8	33.7	5.6	4.9
Taxation	8.7	7.4	1.1	0.1
Other creditors	74.5	53.5	31.1	22.0
Unsecured loans in overseas currencies	37.2	56.3	24.5	47.3
Bank loans and overdrafts	26.1	26.6	—	—
	183.3	177.5	62.3	74.3
	4,150.6	3,657.8	1,240.4	1,117.0
Less:				
Deferred taxation	12.3	10.1	4.8	4.2
	4,138.3	3,647.7	1,235.6	1,112.8

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Notes on the Accounts

General insurance Revenue account

	1979 £m	1978 £m
Premiums written	416.7	394.4
Less Increase in insurance fund	40.9	38.8
	375.8	355.6
Long-term business investment income	6.2	5.1
	382.0	360.7
Less:		
Claims	246.1	225.5
Commission and expenses	151.1	139.4
	397.2	364.9
Gross underwriting loss	(15.2)	(4.2)
Short-term business investment income	32.5	27.2
Gross surplus	17.3	23.0
Less Taxation	5.7	6.8
Transfer to Profit and loss account	11.6	16.2

Shareholders' and General insurance Balance sheets

	Shareholders'		General insurance	
	1979 £m	1978 £m	1979 £m	1978 £m
Shareholders' funds	185.3	165.7	—	—
Insurance funds	—	—	339.9	318.8
Investments				
Ordinary stocks and shares	43.9	33.8	94.9	87.5
Properties	7.3	4.6	20.3	13.6
British Government securities	46.7	59.5	37.1	43.3
Other fixed income securities	40.2	41.0	183.8	161.8
Mortgages and loans	1.3	1.3	29.3	25.6
	139.4	140.2	365.4	331.8
Market value	140.0	150.0	430.0	390.0
Current assets				
Tax recoverable	3.2	0.3	6.4	3.6
Debtors	40.5	25.6	132.2	121.2
Deposits, bank balances and cash	8.8	8.0	60.6	58.8
	191.9	174.1	564.6	515.4
Less:				
Current liabilities				
Outstanding claims	—	—	149.5	137.0
Taxation	0.3	1.2	4.3	5.1
Other creditors	6.9	2.0	68.0	54.9
Unsecured loans in overseas currencies	—	12.5	—	—
Bank loans and overdrafts	5.2	—	1.9	0.8
Final dividend	17.9	15.7	—	—
	30.3	31.4	223.7	197.8
	161.6	142.7	340.9	317.6
Less:				
Other liabilities				
Loan stocks of a subsidiary	2.4	2.7	—	—
Deferred taxation	2.6	3.0	1.0	(1.2)
	5.0	5.7	1.0	(1.2)
	156.6	137.0	339.9	318.8
Goodwill	28.7	28.7	—	—
	185.3	165.7	339.9	318.8

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**PRUDENTIAL
CORPORATION**

4. Taxation

Taxation has been charged in the Consolidated Profit and loss account (page 24) and in Revenue accounts (see note 3 pages 30 and 31) on all profits and income earned to date as follows:—

	Ordinary life assurance		Industrial life assurance	
	1979 £m	1978 £m	1979 £m	1978 £m
Corporation tax at 52% less reliefs	3.4	0.8	—	—
Double taxation relief	(0.3)	(0.2)	—	—
	3.1	0.6	—	—
Tax on franked investment income	15.1	12.7	15.8	12.4
Overseas taxation	8.7	8.4	0.5	0.5
	26.9	21.7	16.3	12.9
Adjustments re prior years	(1.8)	1.0	(0.3)	(0.2)
	25.1	22.7	16.0	12.7
Deferred taxation:				
Current year	1.9	1.1	0.6	0.4
Prior years	(0.1)	(0.9)	—	(0.1)
	26.9	22.9	16.6	13.0

	General insurance		Profit and loss	
	1979 £m	1978 £m	1979 £m	1978 £m
Corporation tax at 52% less reliefs	4.8	2.9	5.9	3.6
Double taxation relief	(4.2)	(2.6)	(0.8)	(0.6)
	0.6	0.3	5.1	3.0
Tax on franked investment income	0.7	1.7	1.4	1.4
Overseas taxation	4.1	5.2	0.3	0.4
	5.4	7.2	6.8	4.8
Adjustments re prior years	(1.3)	(1.2)	(1.4)	(0.1)
	4.1	6.0	5.4	4.7
Deferred taxation:				
Current year	1.6	0.6	0.1	0.5
Prior years	—	0.2	(0.2)	—
	5.7	6.8	5.3	5.2

No account has been taken of a potential tax charge for the year of £0.9m (£4.4m), which arises from differences between the accounting and taxation bases of calculating the general insurance business reserves of a subsidiary. In the opinion of the directors such differences are likely to continue.

The amounts provided as deferred taxation in the Balance sheets relate to:

	Company		Group	
	1979 £m	1978 £m	1979 £m	1978 £m
Short-term timing differences	0.1	—	16.5	14.1
Tax allowances	—	—	6.7	5.2
General insurance business reserves	—	—	(2.5)	(3.2)
	0.1	—	20.7	16.1

No provision has been made for £5.5m (£4.6m) which arises from differences between the accounting and taxation bases of calculating the general insurance business reserves of a subsidiary.

Tax on capital gains charged against Investment reserve accounts amounts to £1.7m (£3.0m).

After allowing for specific provisions, realised losses brought forward and other available reliefs, tax that would arise if the investments were realised at the market values shown is estimated in total to be not greater than £385m (£340m). No provision has been made in the accounts for this amount, which relates to the separate businesses as follows:—

	1979 £m	1978 £m
Ordinary life	140	125
Industrial life	220	189
General insurance	20	14
Profit and loss	5	12

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

5. Loans

The unsecured loans in overseas currencies fall due for settlement in 1980. Loan stocks of a subsidiary are repayable by the following dates:

	£m	
1985	1.2	at 3 $\frac{3}{4}$ %
1985	0.1	at 4 $\frac{1}{4}$ %
1988	1.1	at 5 $\frac{1}{2}$ %
	2.4	
1980	0.2	at 4 $\frac{1}{4}$ % (included in Other creditors)
	2.6	

Bank loans and overdrafts are repayable in one year or less, or on demand.

6. Investment and other income

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

	1979 £m	1978 £m
Repayable within 5 years	11.4	9.1
Others	0.1	0.1

7. Share capital

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

8. Subsidiary companies

Particulars of principal subsidiary companies, all wholly owned, are as follows:

Name	Class of share held	Country of incorporation and principal operation unless otherwise stated
Compagnie d'Assurance de l'Escaut SA	Shares n.p.v.	Belgium
The Mercantile and General Reinsurance Company Limited	Shares £1	Scotland (operating principally in UK)
The Prudential Assurance Company Limited	Shares 25p	England
The Prudential Assurance Company of South Africa Limited	Shares R1	South Africa
Prudential Pensions Limited	Shares £1	England
Prudential Portfolio Managers Limited	Shares £1	England
The Standard Trust Limited	Ordinary Shares 25p 3½% Cumulative Preference Stock (99.9%)	England
Vanbrugh Life Assurance Limited	Ordinary Shares £1	England

Of these, only The Prudential Assurance Company Limited is a direct subsidiary of the Company. The principal activity of these subsidiaries is insurance with the exception of Prudential Portfolio Managers Limited, an investment management company, and The Standard Trust Limited which is an investment trust.

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

9. Major shareholdings

The Group holds shares in 25 companies, other than subsidiaries, in which the holding of at least one class of equity shares amounts in nominal value to one fifth or more of the issued shares of that class. In view of the number involved and as their combined market values amount to less than 0.3 per cent of the market value of the Group's total assets, details relating to individual companies are not shown.

Of these, 14 come within the definition of associated companies but due to their insignificance and the fact that several are held wholly or partly as investments of the life funds, their effect on the shareholders' interests is not considered material. They are therefore not listed nor are their results included in the group accounts except to the extent of dividends received.

The Group also holds shares in a further 32 companies in which the holding exceeds one tenth. In view of the number involved and as their combined market values amount to less than 0.7 per cent of the market value of the Group's total assets, details relating to individual companies are not shown.

10. Balance sheet adjustments

Certain current assets and liabilities which in the past have been netted are now shown at their gross amounts. The comparative figures have been adjusted accordingly.

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11. Emoluments of Directors and senior employees

The aggregate amount of the emoluments of the Directors of the Company for the year was £194,716 (£143,236).

In addition, contributions made to pension schemes for Directors were £25,351 (£26,136).

The emoluments of the Chairman amounted to £33,000 (£26,500).

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

Emoluments £	Number of Directors		Number of employees	
	1979	1978	1979	1978
1 to 5,000	1	1		
5,001 to 10,000	8	9		
10,001 to 15,000	1	3		
15,001 to 20,000	4	—		
20,001 to 25,000	—	—	76	22
25,001 to 30,000	—	1	15	2
30,001 to 35,000	1	—	7	2
35,001 to 40,000	—	—	2	2
40,001 to 45,000	—	—	3	1
45,001 to 50,000	—	—	1	—
50,001 to 55,000	—	—	1	1
60,001 to 65,000	—	—	1	—

12. Auditors' remuneration

The remuneration of the auditors of the Company and its subsidiaries excluding VAT amounted to £483,000 (£412,000).

13. Profit and loss account

The Consolidated Profit and loss account on page 24 includes the following figures relating to the Company:

	1979	1978
	£m	£m
Profit for the year after taxation	31.0	20.5
Transfer to General reserve	2.0	4.0
Balance at end of year	1.4	0.8

The balance of the Consolidated Profit and loss account at the beginning of the year has been adjusted as follows:

	£m
Balance at end of previous year	7.5
Adjustment in bases of calculating the General insurance profits of certain subsidiaries	1.3
	8.8

The transfer from Investment reserve is in respect of reserves of certain subsidiary companies previously consolidated into Investment reserve and now dealt with as General reserve.

14. Commitments

The Group is committed to capital expenditure not provided of £7.8m (£2.4m) and expenditure authorised but not contracted of £2.4m (£1.1m).

Reports of the Auditors and Group Chief Actuary

**Report of the Auditors
to the members of
Prudential Corporation Limited**

We have examined the accounts on pages 24 to 35 which have been prepared on the basis of the accounting policies set out on pages 28 and 29.

In our opinion, the Balance sheet of the Company gives a true and fair view of the state of affairs of the Company at 31 December 1979 and complies with the Companies Acts 1948 and 1967, and the Consolidated accounts comply with the provisions of the Companies Acts 1948 and 1967 applicable to insurance companies.

Deloitte Haskins & Sells
Chartered Accountants

London
17 April 1980

Report of the Group Chief Actuary

In my opinion the aggregate amount of the liabilities of the insurance subsidiaries in relation to long-term business at 31 December 1979 did not exceed the aggregate amount of those liabilities as stated or included in the Consolidated Balance sheet.

The surplus for distribution was not materially affected by alterations in actuarial valuation bases.

F B Corby
Group Chief Actuary

17 April 1980

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Five Year Review of the Group

	1979 £m	1978 £m	1977 £m	1976 £m	1975 £m
Ordinary Life Assurance					
New annual premium income	137.9	109.3	83.4	92.4	69.4
Total premium income and considerations	675.5	594.8	532.8	477.7	362.4
Investment income	379.1	298.7	250.9	216.2	175.4
Policyholders' bonuses	211.2	176.0	156.7	140.6	122.3
Balance sheet value of investments	4,002.0	3,537.7	3,131.9	2,778.9	2,428.0
Market value of investments	4,940.0	4,310.0	3,750.0	2,850.0	2,470.0
Industrial Life Assurance					
New annual premium income	49.4	35.5	32.8	30.0	25.5
Total premium income	213.5	166.5	149.6	135.2	122.3
Investment income	140.6	112.5	96.4	83.3	75.3
Policyholders' bonuses	92.5	72.5	63.8	55.8	52.5
Balance sheet value of investments	1,245.8	1,155.1	1,043.9	985.2	938.5
Market value of investments	2,000.0	1,840.0	1,660.0	1,240.0	1,210.0
General Insurance					
Premiums written	416.7	394.4	358.4	321.9	233.9
Gross underwriting profit/(loss)	(15.2)	(4.2)	(9.5)	(10.3)	(8.3)
Investment income	32.5	27.2	23.4	21.5	15.7
Balance sheet value of investments	365.4	331.8	302.3	268.0	197.0
Market value of investments	430.0	390.0	360.0	290.0	210.0
Profit and Loss Account					
Surplus from Ordinary life	18.5	12.4	11.7	9.9	8.5
Surplus from Industrial life	5.7	4.8	4.2	3.7	3.5
Surplus from General insurance	11.6	16.2	10.4	6.3	3.3
Investment and other net income less tax	9.8	7.8	5.6	4.5	2.7
Profit after taxation	45.6	41.2	31.9	24.4	18.0
Retained profit for year	17.3	17.1	12.1	8.0	3.2
Dividend per share	9.5p	8.063p	6.648p	6.010p	5.412p
Earnings per share	15.3p	13.8p	10.7p	9.0p	6.6p

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

- (i) the more rapid growth of the Ordinary life funds over recent years
- (ii) certain overseas currency assets of the Ordinary life are held to cover overseas liabilities amounting to 23 per cent of the total liabilities of the branch. The Market value of these assets has not changed to the same extent as that of UK assets, particularly in countries where there are local investment restrictions.

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

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

Senior Officials

of the Prudential Group of Companies

The Prudential Assurance Company Limited

President

K A Usherwood CBE FIA

Directors

R H Owen FIA *Chairman*

The Rt Hon Lord Carr of Hadley PC
Deputy Chairman

The Rt Hon J E Ramsden
Deputy Chairman

J A T Barstow DSO TD DL

The Rt Hon Lord Caccia GCMG
GCVO

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GBE PC

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D A Reid

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Chief General Manager

D S Craigen BA

General Managers

D C Bourdon FIA

F G Wood FIA ACII

Assistant General Managers

A L Davis F Inst M MBIM

J Hasloch FCCA ACII

J R Powell FBCS AIB

N H Rogers FCII

F M Simpson ACII

R Worthy FCII MIPM

S C Young

Assistant General Manager & Actuary (Overseas)

J L Savage BSc FIA FPMI

Agency Managers

L D Cary

H J Hancock ACII

P R Meikle ACII

J M B Stein

Senior Fire & Accident Managers

W L Walker FCII

J R Wickison FCII

Joint Secretaries &

Chief Investment Managers

R E Artus MA

P E Moody FIA

Investment Managers

B Medhurst MA FIA

D Sirkett BSc FIA

Chief Surveyor

E E Chapman MBE FRICS

Deputy Secretary

J A Freeman B Com FCA ACMA

Deputy Chief Surveyors

P G Green BSc FRICS

M H Mallinson FRICS

Deputy Investment Managers

J W Findlay

M G Newmarch BSc

Assistant Secretary

D J Hunter FCCA

Taxation Manager

R W Paget FCCA

Deputy Manager – Management Services

L P Hawkes FCII MBCS

Manager – Personnel Services

D E Jackson LLB ACII

Chief Actuary

F B Corby MA FIA

Actuary (UK)

Miss M C Allanach FIA

Group Pensions Manager

D E Fellows FIA FPMI

Deputy Actuary (UK)

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Deputy Group Pensions Managers

R H Rawlinson FIA FPMI

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C F Whitehorn

Deputy Chief Legal Adviser

D F Roper

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The Prudential Assurance Company Limited—continued

Australia and New Zealand

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A J F Fergusson
H G James FIA
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F G Wood FIA ACII
E C Wrigley ACII

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‡J B Ellingham FIA
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Actuary
G D Clay MA FIA

Chief Investment Manager

L A Travis ARICS
Assistant General Manager
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Secretary & Chief
Accountant
G W Wheeler FCIS

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‡M G Newmarch BSc
Property Manager
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General Manager & Actuary

†T J L Richards MA FIA

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H G Clarke FIA
F B Corby MA FIA

Investment Manager

‡M G Newmarch BSc

†Also members of the Advisory Committee
‡Also Director

*Senior Officials
of the Prudential Group of Companies*

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Compagnie d'Assurance de l'Escaut S.A.

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M van Strydonck

Managing Director

E Diercxsens

Manager

G Callens

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Marketing Director

J K Stone FCII

Sales Director

G T N Fortescue

Actuary

D J Wells FIA

Investment Manager

‡M G Newmarch BSc

‡Also Director

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