THE PRUDENTIAL ASSURANCE COMPANY LIMITED

One Hundred and Twenty-first Annual Report and Statement of Accounts

YEAR ENDED 31 DECEMBER 1969

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

President:
Sir Frank William Morgan, M.C.

Directors:
Sir John Serocold Paget Mellor, Bt., Chairman
Desmond Arthur Reid, Deputy Chairman
Kenneth Ascough Usherwood, C.B.E., F.I.A., 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.
Walter Frank Gardner, C.B.E., F.I.A.
Sir John Nicholson Hogg, T.D.
Reginald Edgar Montgomery
Maurice Petherick
Charles William Allan Ray
Frank Mitchell Redington, F.I.A.

Chief 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.
C. M. Stray, F.C.I.S.

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

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

General Managers:
D. S. Craigen, B.A.
W. G. Haslam, D.F.C.
J. L. Maxted, LL.M.

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.

Agency Managers:
A. L. Davis
A. L. Martin

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

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

Deputy Actuaries:
A. S. Clarke, 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:
D. E. Fellows, F.I.A.
M. H. Hill
F. A. Lewis, F.I.A.

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

Life Manager: Ordinary Branch:
S. A. Ryder

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

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

Senior Solicitor:
M. A. R. George

Marine Underwriter:
C. E. R. Taylor

Chief Controller:
H. A. Metcalf, M.B.E., E.R.D., A.C.I.I.

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

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

General Mana for Southern Africa:
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 21st May, 1970, so soon after 12.15 p.m. as the proceedings of
the separate General Meetings of the holders of the A and of the B shares of the Company
previously to be held at that office on such day shall have been concluded,
for the following purposes:

ORDINARY BUSINESS

To receive the Report of the Directors and Statements of Accounts
for the year ended 31st December, 1969

To re-elect Directors

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

SPECIAL BUSINESS

To consider, and if thought fit pass, the six Resolutions set out in the
separate Notice of Special Business sent herewith, the 2nd, 3rd, 4th and 5th
of which Resolutions will be proposed as Special Resolutions.

In connection with the re-election of Directors special notice has been given to the Company pursuant to the Companies Act, 1948, that a separate resolution will be moved proposing the re-election of Mr. Walter Frank Gardner, C.B.E., F.I.A., who retires by rotation and will be aged 69 at the date of the Meeting.

By order of the Board of Directors,

H. G. CLARKE,
A. F. MURRAY,

Joint Secretaries.

142, Holborn Bars, London, E.C.1.
28*th April*, 1970.

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

In 1965 the shareholders appointed Sir Frank Morgan as President of the Company for a period of five years and this period will expire at our Annual General Meeting in May this year. We owe Sir Frank deep gratitude for his outstanding services to the Company in the 67 years since he joined the Prudential during which he was General Manager for over 8 years and Chairman for 12 years. We all wish him continued good health.

I am glad to report that the Company's business has continued to grow satisfactorily during 1969. A year ago I referred to the introduction of our own Unit Trust and assurance schemes linked to those units. In a few weeks' time we shall be introducing special 10 year Savings plans with prospects of very favourable yields in both the Ordinary and Industrial Branches. Our plan in the Industrial Branch is unique in its field and its attractive terms will demonstrate the efficiency with which we provide home service for the large numbers who require it. In all Branches our aim is to continue to provide service second to none. We are constantly examining methods of increasing our efficiency and have taken great strides in improving our organisation and methods including of course the extensive use of electronic data processing.

ORDINARY BRANCH

Progress continued in the Ordinary Branch both at home and overseas. In the United Kingdom new annual premium income amounted to £15¼ millions compared with £13½ millions in 1968. The improvement of £1¾ millions resulted very largely from group pension business. Consideration for immediate annuities and single premiums fell to £7 millions, from the particularly high figure of £11 millions in the previous year.

New annual premiums in the United Kingdom reflect the first full year's experience of Prutrust assurances which are linked to the Prudential Unit Trust. These contracts produced £900,000 in annual premiums in 1969, providing sums assured of £14 millions. Last October we introduced the Prutrust Life Bond which is a single premium assurance policy. This policy is particularly appropriate for the investment of lump sums in the Prudential Unit Trust by those who are not seeking an immediate income from their investment and has the added advantage of a guaranteed minimum sum payable on death.

In our overseas branches new premium income increased by £½ million to £9¼ millions. Progress was especially good in Australia and New Zealand and there was a satisfactory increase in Canada. A substantial increase in new premiums for pension scheme business was recorded in South Africa. It is interesting to note that in recent years the overseas branches have contributed about one third of the new annual premium income in the Ordinary Branch.

PENSION SCHEME BUSINESS

When I reported last year, the Government had only recently published its White Paper on "National Superannuation and Social Insurance". In commenting on the Government's acceptance of a system of partial contracting out by means of abatement of contributions and benefits, I indicated that a final verdict on the Government's proposals must await their decision on the extent to which contracting out would be permitted and on the relationship between abated contributions and abated benefits (or the "abatement terms" as they are usually called).

The Government's proposals were made known in a White Paper issued last November and the abatement terms were immediately criticised as inadequate by spokesmen for a variety of pension interests including the Life Offices' Association. The criticism is that the terms are so finely drawn as not to encourage medium sized and smaller firms to develop occupational schemes. As I said last year 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.

If a new State scheme is to be introduced on the lines proposed by the Government and if at the same time the expansion of savings through occupational schemes is to continue, the proposed State scheme should be put on a sounder basis either by increasing initial contributions or by providing lower pensions, so that abatement terms may be offered which encourage and do not deter contracting out.

In January the Government published its "National Superannuation and Social Insurance" Bill which would implement virtually all the proposals in the earlier White Papers.

At the end of February a further Government publication in this field became available in the form of the Inland Revenue's proposals for changes in the tax treatment of occupational pension schemes. The proposals are aimed at the simplification of taxation procedure by a single comprehensive code of approval for superannuation arrangements, including death benefits. It is intended that the necessary legislation will be introduced in the Finance Bill this year but that the new code will not become mandatory until the appointed day for the National Superannuation Scheme, the target for which is April, 1972. In the long view many of the Government tax proposals are to be welcomed.

In the short term, however, very considerable misgivings must arise as regards adapting existing schemes to the proposed taxation arrangements and at the same time to the proposed National Superannuation Scheme. Almost every scheme will need to be changed in some respects and the vastness and complexity of the task will impose a heavy burden on our staff concerned with group pension arrangements. We therefore support the representations made to the Government by the Life Offices' Association that the earliest practicable target date for introducing the proposed changes is April, 1973.

INDUSTRIAL BRANCH

Annual premiums from new business in 1969 amounted to £13.8 millions—an increase of over 8 per cent. on the previous year. The average premium per new policy now amounts to 18 shillings a month. The progress we achieve each year in this Branch shows clearly that there is a continuing need for the home service we provide, without which many people would not save systematically. We are proud of the fact that our agents are welcomed in some 6 million homes in the course of their duties.

Each year since Selective Employment Tax was introduced I have referred to the cost to us which bears particularly heavily on the Industrial Branch due to the home service provided. The rate of this tax was again increased from July, 1969 and the total charge to the Company in a full year will be some £2.6 millions of which £1.6 millions will relate to the Industrial Branch. To impose an increasing burden of taxation on savings through life assurance is surely repugnant to the national interest especially at a time when savings are so important to the economy.

BONUS DECLARATIONS

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

In the United Kingdom the rate of reversionary bonus in the Ordinary Branch has been increased by 1s. per cent. to 65s. per cent. and in the Industrial Branch has been maintained at 52s. per cent. In both Branches we have again *declared a scale of terminal bonuses, payable at substantially increased rates, on claims arising during the next twelve* months and have extended the scale to include policies issued in 1968. 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. *Part of the cost of the 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 £5.8 millions in the Ordinary Branch (part of which has been used to improve bonuses on group pension policies) and £8.2 millions in the Industrial Branch.

In order to illustrate the effect of these bonuses some examples are given below of the final outcome of participating Ordinary Branch endowment assurances issued in the United Kingdom for a sum assured of £1,000 and maturing this year at age 60.

Year of Issue	Sum assured	Reversionary bonuses	Terminal bonus	Total payment on maturity	Total premiums paid*
	£	£	£	£	£
1935	1,000	707	545	2,252	947
1945	1,000	562	428	1,990	1,039
1955	1,000	422	238	1,660	1,094

*The net cost to the policyholder will have been the total premiums paid less life assurance relief of income tax.

The further substantial increase in terminal bonuses this year reaffirms 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 fluctuations in either direction are met by Prutrust assurances.

Increases have also been made in the reversionary bonus rates for some overseas territories. In both Australia and South Africa we have been able to declare additional bonuses out of the margins in the value of our investments in those territories. In Australia the additional bonus takes the form of a terminal bonus similar to that declared in the United Kingdom. In South Africa it takes the form of a reversionary bonus related to existing bonuses.

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GENERAL BRANCH

The General Branch accounts for 1969 are presented in a slightly different form from that adopted in earlier years as a result of the revised Board of Trade requirements. A combined Fire and Accident account is shewn on page 18 and is analysed in the new Board of Trade classifications on page 38.

Premium income expanded during 1969 by more than 13 per cent. and there was an overall underwriting profit of £464,000 compared with £154,000 last year.

There was intense competition in the United Kingdom for motor business during the year, particularly in the private car sector. The continuing rise in the cost of accidental damage claims, higher awards in respect of third party claims, and the need arising from the Administration of Justice Act 1969 to make provision for interest on damages, all contributed to a substantial deficit in this account. In consequence, we have been forced to revise on a selective basis our terms for motor business and it is hoped that this will result in an improvement in the account this year.

In other United Kingdom accounts very satisfactory increases in premium income and profit were achieved. The Property account, covering in the main fire (including storm and flood risks) and burglary business, has in particular benefited from the absence of exceptional weather damage.

In Canada there was a substantial 24 per cent. increase in our premium income whilst the improved underwriting result in that country which was evident at the time of our last half-yearly statement was maintained for the remainder of the year, producing a record underwriting profit.

At the half-year mention was also made of improved figures in Southern Africa. In September our results were affected by the earthquake in Cape Province, in consequence of which there was an overall underwriting loss in South Africa at the year-end.

Further heavy fire losses in Australia offset profits in other classes but in New Zealand a very good growth and a profitable result were obtained.

Elsewhere in the world, generally better underwriting figures were evident.

Our marine and aviation account continues to be unprofitable and the 1967 account has closed with a loss. It has been decided to transfer £50,000 into the account.

Gross investment income other than that allocated to long term contracts increased from £2,528,000 to £2,967,000 which, together with the underwriting profit of £464,000 and trustee and executor fees less expenses, provided a net surplus of £1,548,000 after taxation (which includes a non-recurrent tax charge of some £300,000). This compares with £1,660,000 in 1968.

Last year, as was announced in the Press, we made an arrangement with the Skandia of Stockholm whereby they took over the bulk of the reinsurance operations of our United States subsidiary, The Prudential Insurance Co. of Great Britain, which had previously operated jointly on an equal basis with the Skandia. Our subsidiary's reinsurance business will now be limited to a small retrocession of the reinsurance premium income of the Skandia's United States Branch. The Prudential Insurance Company of Great Britain will still bear some liabilities, contingent upon the cost of settling outstanding claims under the business it has passed to the Skandia and these contingent liabilities could extend over several years.

The dividend from this subsidiary in respect of 1968, included in our 1969 accounts, was maintained at its previous level. As the new arrangements will largely eliminate the underwriting losses experienced in recent years, we expect that larger remittances by way of dividend will become possible.

DIVIDENDS

I am pleased that after a year of dividend freeze and two years of dividend restraint, the directors are able this year to increase dividends to an extent which better reflects the growth in the allocations to shareholders' accounts.

A final dividend of 8d. has been declared on the A shares and this with the interim dividend of 5d. paid in November, 1969 makes a total of 13d. per share compared with 11.03d. for the previous year. The total allocation to A shareholders for 1969 was 14.02d. per share compared with 13.06d. for the previous year. All these amounts are net of income tax. The growth in the distributable surpluses in the life branches has again made it possible to increase both the proportion of these surpluses allocated to policyholders and the amount allocated to A shareholders. The policyholders' allocation in the life branches for 1969 is 94.55 per cent. of the distributable surplus compared with 94.38 per cent. for 1968.

A final dividend of 4.5d. has been declared on the B shares and this, with the interim dividend of 2.5d. paid in November, 1969, makes a total of 7d. per share compared with 5.88d. for the previous year, net of tax in each case.

CAPITAL RE-ORGANISATION

Proposals are being submitted to shareholders at separate class meetings and at the Annual General Meeting on

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the 21st May next under which the two classes of A and B shares will be merged into one single class of shares participating *pari passu* in the profitability of the Company as a whole. At the same time it will be proposed to create additional capital in order to enable the capitalisation proposals under the scheme to be put into effect and also to provide the Company with a reasonable measure of unissued capital. These proposals, which were first intimated to shareholders in a letter dated the 25th March last, are set out very fully in the further letter which accompanies this Report and Accounts. The directors are convinced that the implementation of these proposals would be in the best interests of the Company and strongly recommend shareholders to give their support to the proposals and to send in proxies if they are unable to be present at the meetings.

It is the directors' intention, subject to the approval of these proposals, to pay an interim dividend next November of 3d. per share net of income tax on the revised share capital.

INVESTMENTS

The major influence on Stock Exchange prices during 1969 was the United Kingdom balance of payments position. During the first half of the year the measures taken by the Government in 1968 exerted increasing pressures on the economy and, together with a restrictive credit policy, led to further falls in the gilt edged market and a rapid decline in Ordinary share prices from their peak levels at the beginning of the year. Towards the end of the year, when the balance of payments situation showed clear signs of improvement, attitudes changed and both gilt edged and equities ended the year well above their lowest levels.

Under these conditions we have experienced a fall in the market value of our investments with the exception of our holdings in property which have shown an appreciation over the year. We have for many years regarded property investment as very suitable for our funds, providing both a measure of stability and long term growth, and it will be seen from our Balance sheet that over the last few years we have built up our property portfolio quite substantially. In addition to the new investments reported for 1969 we negotiated the purchase for over £25 millions of four adjoining freehold office blocks between Mincing Lane and Mark Lane in the City of London. This transaction is not included in the figures now presented as it was not completed until early this year.

The Chairman's statement that accompanied the report for the year ended 31st December, 1964 referred to a loan of US $20 millions which we had raised for the purpose of investing in US Common stocks. This loan was repaid on the 1st December, 1969 and after allowing for the amount by which the dividend income fell short of the interest payable, showed a profit of $5 millions, or just over £2 millions. In 1968 and 1969 we were able to negotiate additional loans to the amount of $37½ millions, partly as straight borrowing and partly in the form of, so-called, back-to-back loans by which we made sterling available in this country in exchange for dollars which were made available to us. Loans of either type do not have any adverse effect on the United Kingdom's balance of payments, but any profit or loss derived from them, like the profit on our matured loan, affects the total of this country's foreign currency resources.

New investments of our United Kingdom funds totalled £122 millions in 1969, including the reinvestment of the proceeds of sales and redemptions, but leaving out of account the self balancing switching operations which we carry out from time to time in gilt-edged securities. Some £18 millions was invested in debentures and loan stocks including Convertible stocks, £17 millions in mortgages, £3 millions in Preference stocks, £41 millions in Ordinary shares and £43 millions in property. Sales made during the year included £16 millions of debentures and loan stocks, £4 millions of Preference stocks and £28 millions of Ordinary shares. In addition £3 millions of Preference stocks were converted into loan stocks as the result of schemes of arrangement. We continued to take up new debenture issues when these have been made on satisfactory terms, and have taken opportunities as they arose to make reductions in our holdings when stocks have appeared to be overvalued.

Our overseas branches invested a total of £36 millions, including £8 millions in Government, provincial and municipal securities, £5 millions in debentures, £8 millions in mortgages, £9 millions in property and £6 millions in Ordinary shares. The property investment largely relates to our Australian branch where we have purchased a number of commercial properties in the larger centres and are also carrying out a comprehensive redevelopment and extension of our Head Office in Sydney. We continued to benefit from the counsel of local advisers on the committees which carry out the investment operations of our main overseas branches. In South Africa we were pleased to welcome as an additional adviser Mr. H. A. Williams who, amongst his various interests, is Deputy Chairman of Union Acceptances Ltd.

Owing to the Government's restrictions on dividend increases the income from our holdings of Ordinary shares rose by only a small proportion in 1969, as it did in 1968. In spite of low initial dividend returns from our new purchases of Ordinary shares, the yields on our funds have increased from £7 16s. 4d. per cent. to £7 17s. 1d. per cent. in the Industrial Branch and from £6 19s. 4d. per cent. to £7 0s. 3d. per cent. in the Ordinary Branch.

DISCLOSURE OF MARKET VALUES OF ASSETS

We have for the first time included with our Accounts a statement of the main features of the Compan P00022150 ment over the last ten years and have shown in that statement figures for the value of our assets in each Branches based on market quotations or, where these do not exist, on estimated market values. As a major investor we believe in disclosure to the fullest practicable extent. In the case of a life assurance company especially, however, there is a danger that disclosure can be misleading rather than informative, and, now that market values are being shown, it is desirable that I should explain the dangers of drawing wrong conclusions from them.

A life office differs from most other businesses owing to the long term nature of its contracts. It is misleading to regard the excess of the market value over the book value of the assets of a life office as being in the nature of a reserve fund and therefore to regard a change in the asset margin as indicating a change of the same amount or even in the same direction in the financial strength of the office. The financial strength of a life office cannot be assessed unless the value of its assets and of its liabilities are determined on bases which are consistent with each other. This means the discounting on consistent bases of future receipts from assets and both future receipts from, and payments under, the contracts representing its liabilities, making due allowance for future contingencies.

The bases published by a life office for valuing its liabilities and its assets must be chosen so that no doubt can arise as to the solvency of the office, and at the same time they must ensure the proper emergence of profits. Valuation bases do not determine the profits earned by an office in the long run, but they determine how profits emerge from year to year. In order to ensure the proper emergence of profits it is necessary not only that the valuation bases for the assets and the liabilities should be consistent with each other but also that they should be relatively stable. Consistency and stability in the valuation of assets and liabilities can be achieved by the use of book values of assets in conjunction with a valuation of the liabilities based on a rate of interest appropriate by comparison with the rate of interest implicit in those book values. The value of the assets based on market quotations, which are determined by the changing balance between buyers and sellers in the market on a particular date, cannot be compared with a valuation of the liabilities on a stable basis, and the margin between the market and book values of the assets is not therefore likely to provide a measure of the financial strength of the office at any given point of time. Moreover, the changing market quotations are not a measure of the amount which could be realised by the sale of the assets. Any attempt to sell the whole, or even a significant part, of the assets of a large life office would materially affect those quotations.

Changes in the asset margin arise from three main causes:—

(*a*) a change in the market rate of interest. This has little or no effect on the return from investments already made. If the value of the assets is reduced because of an increase in the rate of interest, the value of the liabilities will also be reduced, and the effect on the financial strength of the office can be judged only by comparing the new value of the assets with the new value of the liabilities. Any reduction in the asset margin caused by an increase in the market rate of interest, such as occurred in 1969, is entirely misleading if it is regarded as a change in the financial position of an office, because an increase in the market rate of interest means a better return on new investments and is beneficial to the office.

(*b*) a change in market expectations. Market quotations reflect an assessment of the future prospects for Ordinary shares or properties and expectations may change. The value of the assets to be taken into account in assessing the financial strength of the office depends, however, on the investment return which they will in fact produce in the future, and this will not necessarily be in accordance with the market's prediction at any particular time.

(*c*) a change in the income from Ordinary shares or properties. Such a change does imply a change in the realities of the situation, and the extent to which it is likely to be permanent should be reflected in the valuation of the assets when assessing the financial strength of the office.

It is clear, therefore, that changes in the asset margin alone cannot be taken as reflecting changes in the financial strength of a life office, and this fact is illustrated by a comparison of our asset margins at the end of 1968 and 1969. Even though during 1969 there was a small improvement in the income from Ordinary shares and properties which suggests some improvement in the real value of the assets, the combined effect of the factors mentioned above was a reduction in the asset margin in the life branches from over £750 millions at the end of 1968 to under £500 millions at the end of 1969.

It is because of the risk of misunderstanding that we have not hitherto published the market value of our assets, but despite this risk two factors have led us to change our practice. In the first place, the climate of opinion is quite understandably and rightly moving in favour of the fullest practicable disclosure to shareholders of the affairs of their companies. In the second place, the fact that we have drawn on our asset margins in the life branches in order to provide part of our terminal bonuses makes it desirable that we should give an indication of the total amount of the asset margins from which these drawings are being made. The drawings made each year have been related to the cost of paying the terminal bonuses on claims arising in the ensuing year. The amount drawn each year has, however, been small in relation to the amount required to maintain the terminal bonuses on the current scale for the range of policies concerned. Although we give no guarantee, we expect to maintain these bonuses and the discounted value of the cost of so doing as stated in the Report of the Chief Actuary is £67 millions in the Ordinary Branch and £115 millions in the Industrial Branch.

DATA PROCESSING

We first started to use computers in a modest way more than ten years ago and over the years a number of systems have been put on to computers including, shareholders may be interested to know, the maintenance of shareholders' records and the payment of their dividends. Now more than twenty separate projects are running on a production basis and these include major integrated projects to cover 1¾ million policies in the Ordinary Branch and 24 million policies in the Industrial Branch. By the end of 1970 we shall have six large machines installed and in use.

One development which we particularly welcomed was the arrangement reached in September, 1968 whereby the Prudential initiates money transfers by instructions to the Clearing Banks on magnetic tape. By the end of this year over 600,000 transactions a month will be processed in this way. This marks a significant advance from the previous use of large quantities of paper and opens the way to appreciable economies on both sides.

Having regard to the situation in the clerical labour market we are satisfied that our present considerable investment in computers is fully justified. Indeed, it seems no exaggeration to say that the conversion to decimal currency of our millions of policy and other records would be well nigh impossible without the large scale computerisation of recent years.

MANAGEMENT

During the past year changes were made in the structure of the senior management. Mr. R. H. Owen now carries the title of Chief General Manager, and Mr. D. S. Craigen and Mr. W. G. Haslam that of General Manager. Mr. J. L. Maxted was appointed an additional General Manager and this has enabled Mr. Haslam to assume responsibility for research, planning and development.

The following have also been promoted to management status during the past year: Mr. A. L. Davis as an Agency Manager, Mr. D. E. Fellows as a Deputy Group Pensions Manager, Mr. H. A. Metcalf as Chief Controller, and Mr. C. M. Stray as an Assistant Secretary.

Mr. S. C. Canfield, our General Manager for Australia and New Zealand, will be retiring in the middle of 1970. Mr. Canfield has served the Company overseas since 1934 and his wide experience has been of particular value in his present position, to which he was appointed in 1948. I am pleased that his services are not being lost to the Company, as he will remain a member of the Investment Committee of our Australian and New Zealand Branch. Mr. R. B. Levey has been appointed to succeed him as General Manager for Australia and New Zealand.

Mr. S. S. Townsend, a Deputy Actuary, retired in May, 1969, after 45 years' service with the Company. His knowledge and experience of industrial assurance matters have been of great value. Mr. R. Armstrong, an Agency Manager, and Mr. W. R. Marshall, an Assistant Secretary, also retired at the end of 1969. Mr. Armstrong was appointed Agency Manager in 1963 after having served for 30 years as a member of the Field Staff. Mr. Marshall was for many years responsible for the Company's mortgage business. Each in his own sphere has contributed much to the management of the Company.

As you will already be aware from the announcement made to the Press in February last, it is my intention to relinquish the office of Chairman after the Annual General Meeting, although I shall remain as a director. May I say how much I have appreciated the unfailing support and advice I have received during the past five years from my colleagues on the Board and from the members of the Management.

It is the intention of the Board to elect Mr. K. A. Usherwood as my successor and I am sure you will join with me in wishing him every success in facing the many challenges of the seventies. Mr. Usherwood joined the Prudential in 1925 and after serving overseas in the 'thirties in various capacities was a member of the Management from 1946 until 1968, the last seven years as General Manager. He was President of the Institute of Actuaries from 1962 to 1964.

To fill the vacancy caused by Mr. Usherwood's election as Chairman the directors intend to elect Mr. Leslie Brown as a Deputy Chairman to serve together with Mr. D. A. Reid. Mr. Brown was for many years Chief Investment Manager of the Company prior to his retirement in December, 1964 and subsequent election to the Board. Since August, 1968 he has been Chairman of Prudential Unit Trust Managers Limited.

It is with considerable regret that I have to inform you that Mr. C. W. A. Ray will not be seeking re-election as a director. Mr. Ray has now completed sixty years' unbroken service with the Company, including fifteen years as Joint Secretary, and he will be remembered not only for his expertise in the field of investment but also for his genial and kindly disposition.

On the occasion of the last statement which I shall make as Chairman, I wish to pay a tribute with especial warmth to all the Staff, at home and overseas, in the offices and in the field for the efforts which have assured our continued progress. I am sure that shareholders will join me in paying this tribute.

JOHN S. P. MELLOR

15th April, 1970.

DIRECTORS' REPORT

Year ended 31st December 1969

The Directors submit their Report and the Accounts for 1969.

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 £2,162,918,156 as compared with £2,018,810,584 at 31st December, 1968.

The Income of the Company from all sources during 1969 was £442,166,224 as compared with £413,173,373 in 1968.

The Tables which follow summarise the operations of the Life and General branches of the Company during 1969 but do not include figures relating to the Company's subsidiaries.

BUSINESS IN FORCE 31st DECEMBER 1969

1968			1969	
UNITED KINGDOM	*OVERSEAS*	**ORDINARY BRANCH**	UNITED KINGDOM	OVERSEAS
£	*£*	LIFE ASSURANCE BUSINESS	£	£
3,704,819,533	*1,903,240,692*	Sums Assured, including bonus	4,073,583,330	2,067,426,738
63,734,140	*37,456,876*	Annual Premium Income	67,031,627	40,031,960
		DEFERRED AND CONTINGENT ANNUITIES		
147,394,170	*27,734,210*	Amount of Annuities per annum (including bonus and amounts to be purchased by future recurrent single premiums)	161,060,045	31,512,208
28,333,060	*5,498,935*	Annual Premium Income	30,022,519	6,172,089
		IMMEDIATE ANNUITIES		
12,657,217	*1,091,338*	Amount of Annuities per annum	14,474,331	1,284,878
		INDUSTRIAL BRANCH		
1,831,778,209	—	Sums Assured, including bonus	1,912,760,164	—
83,538,235	—	Annual Premium Income	87,257,651	—
		GENERAL BRANCH		
25,122,965	*16,367,528*	Premium Income	26,963,878	20,007,313

The geographical distribution of the Company's business for 1969 based on premium income is as follows:—

	Ordinary Branch %	Industrial Branch %	General Branch %
United Kingdom	69·2	100·0	57·4
Australia and New Zealand	10·0	—	6·8
Canada	10·1	—	20·1
South Africa	7·1	—	2·2
Other territories	3·6	—	13·5
	100·0	100·0	100·0

SUMMARY OF INCOME AND OUTGO

LIFE BRANCHES

1968 Ordinary Branch £	1968 Industrial Branch £		1969 Ordinary Branch £	1969 Industrial Branch £
		INCOME		
137,410,858	*81,180,715*	Premiums ...	149,599,691	84,418,082
9,734,134	—	Consideration for immediate annuities ...	5,455,997	—
76,153,825	*51,428,517*	Investment income ...	83,711,767	53,826,216
134,943	—	Increase in book value of investments related to linked business ...	—	—
4,600,000	*7,500,000*	Transfer from investment reserve account ...	5,800,000	8,200,000
228,033,760	***140,109,232***		**244,567,455**	**146,444,298**
		OUTGO		
74,740,874	*72,403,999*	Claims and Surrenders ...	85,737,576	78,554,678
12,567,848	—	Annuities ...	14,772,924	—
25,932,865	*25,644,959*	Expenses including Commission ...	27,216,649	25,722,429
7,325,243	*10,790,432*	Taxation ...	9,761,386	12,231,711
—	—	Decrease in book value of investments related to linked business...	228,357	—
120,566,830	***108,839,390***		**137,716,892**	**116,508,818**
107,466,930	***31,269,842***	**EXCESS OF INCOME OVER OUTGO** ...	**106,850,563**	**29,935,480**
		Deduct		
52,871,505	*− 7,858,543*	Provision for increase in liabilities to policyholders ...	45,706,385	−12,442,521
54,595,425	***39,128,385***	**SURPLUS FOR THE YEAR** ...	**61,144,178**	**42,378,001**
		Add		
1,163,604	*1,997,233*	Surplus brought forward from previous year	1,125,039	1,986,050
55,759,029	*41,125,618*		62,269,217	44,364,051
		Deduct		
1,125,039	*1,986,050*	Surplus carried forward ...	1,142,781	2,025,096
£54,633,990	***£39,139,568***	**SURPLUS FOR DISTRIBUTION** ...	**£61,126,436**	**£42,338,955**
		Appropriated as follows:		
51,563,560	***36,939,924***	To Policyholders' bonuses 94·55% (*94·38% in 1968*) in each branch ...	**57,795,045**	**40,031,482**
3,070,430	*2,199,644*	To Profit and loss account for Shareholders 5·45% (*5·62%* in *1968*) in each branch ...	3,331,391	2,307,473
£5,270,074			**£5,638,864**	

GENERAL BRANCH

1968 £		1969 £
	UNDERWRITING INCOME AND OUTGO	
	INCOME	
41,487,963	Premiums ...	46,971,191
122,889	Investment income allocated to long term business ...	124,197
41,610,852		**47,095,388**
	OUTGO	
23,905,099	Claims ...	26,890,482
15,263,286	Expenses including Commission ...	16,781,768
390,835	Taxation charged to revenue accounts ...	519,486
39,559,220		**44,191,736**
2,051,632	**EXCESS OF INCOME OVER OUTGO** ...	**2,903,652**
	Deduct	
1,897,306	Provision for increase in liabilities to policyholders ...	2,439,432
154,326	**GROSS UNDERWRITING PROFIT** ...	**464,220**
	INVESTMENT INCOME AND FEES	
2,528,278	Investment income (other than that allocated to long term business) ...	**2,967,177**
65,725	Trustee fees less expenses ...	**74,935**
2,748,329	**GROSS SURPLUS** ...	**3,506,332**
	Deduct	
1,088,000	Taxation charged to Profit and loss account ...	1,958,000
1,660,329	**NET SURPLUS FOR THE YEAR** ...	**1,548,332**
	Add	
140,698	Surplus brought forward from previous year ...	126,027
1,801,027		1,674,359
	Deduct	
1,000,000	Transfer to Additional reserve fund ...	750,000
126,027	Surplus carried forward ...	124,359
675,000	**SURPLUS TRANSFERRED TO SHAREHOLDERS' ACCOUNT (GENERAL BRANCH)** ...	**800,000**
	Add	
468,865	Surplus brought forward from previous year in Shareholders' account (General branch) ...	480,532
1,143,865		1,280,532
	Deduct	
480,532	Surplus carried forward in Shareholders' account (General branch) ...	492,755
£663,333	**SURPLUS FOR DISTRIBUTION** ...	**£787,777**
	Appropriated as follows:	
£173,333	To Shareholders' account (A shares) ...	**£204,444**
£490,000	To Dividend on B shares ...	**£583,333**

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BONUS DECLARATIONS

The Directors have declared the following bonuses on participating assurance policies issued in the United Kingdom, the Channel Islands and the Isle of Man:

(1) Reversionary bonuses at the following rates per £100 sum assured:

Ordinary Branch	65s.
Industrial Branch	52s.

(2) Terminal bonuses on Ordinary and Industrial Branch policies issued in 1968 or earlier which become claims by death or maturity of endowment between 1st April, 1970 and 31st March, 1971 inclusive at rates varying from 6s. per £100 sum assured for policies issued in 1968 to £66 per £100 sum assured for policies issued in 1923 and earlier.

These bonuses follow the recommendations of the Chief Actuary whose Valuation Report appears on pages 32 to 37 and contains full details including the bonuses for assurance policies of overseas classes, retirement annuity policies, group pension business and pension-unit scheme policies.

DIVIDENDS

The Directors have declared, in respect of the year 1969, final dividends of 8d. per A share and 4·5d. per B share, net of income tax, both payable on 21st May, 1970, to shareholders on the respective Registers at close of business on 23rd April, 1970.

Summary of dividends (net of income tax) in respect of the year 1969

	Interim dividend paid 20.11.69	Final dividend payable 21.5.70	Total dividend for 1969	*Total dividend for 1968*
A shares	5d.	8d.	13d.	*11·03d.*
B shares	2·5d.	4·5d.	7d.	*5·88d.*

The A share dividend for the year is derived as to ·49d. from the General branch and the balance from the Life branches. The B share dividend is wholly derived from the General branch.

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The gross equivalents, calculated on an income tax rate of 41·25%, of the total divide[illegible] the A and B shares are 22·13d. and 11·91d. respectively.

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1969 was 24,868, and the aggregate remuneration paid or payable in respect of these employees during 1969 amounted to £36,394,386.

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* 1.1.69				*On* 31.12.69			
	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. D. A. Reid ...	71,798	5,000	331,583	500	71,798	5,000	296,631	
Mr. K. A. Usherwood...	1,600	500	1,360		1,600	500	1,360	
Mr. J. A. T. Barstow ...	7,000	4,000	27,740		7,000	4,000	27,690	
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		
Mr. W. F. Gardner ...	3,200	2,000	800		3,200	2,000	800	
Sir J. N. Hogg	1,600	500	4,420		1,000	200	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 ...	1,600	500			1,600	500		

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 £35,737 has been given by the Company and its subsidiaries for charitable purposes in the United Kingdom.

The Directors retiring by rotation are Mr. Desmond Arthur Reid, Mr. Walter Frank Gardner, C.B.E., F.I.A., and Sir John Nicholson Hogg, T.D., who offer themselves for re-election. Mr. Charles William Allan Ray also retires by rotation but does not offer himself for re-election.

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

Holborn Bars,
15*th April*, 1970.

JOHN S. P. MELLOR,
Chairman.

LIFE ASSURANCE REVENUE ACCOUNTS

for the year ended 31st December 1969

ORDINARY BRANCH

1968 £		£
1,073,961,303	Amount of Ordinary life assurance fund at the beginning of the year	1,179,754,190
+1,396,387	*Deduct* adjustment in exchange ...	680,299
1,075,357,690		1,179,073,891
137,410,858	Premiums	149,599,691
9,734,134	Consideration for immediate annuities	5,455,997
76,153,825	Interest, dividends and net rents—less amount written off terminable securities and £1,595,456 (*1968 £647,271*) bank, promissory note and unsecured loan interest	83,711,767
134,943	Increase in book value of investments related to linked business	—
4,600,000	Transfer from Investment reserve account ... ... (see note 8, page 28)	5,800,000
£1,303,391,450		£1,423,641,346

1968 £			£
	Claims under policies paid and outstanding—		
18,515,554	By death		20,092,128
31,640,415	By maturity		33,725,928
50,155,969			53,818,056
22,466,948	Surrenders		29,167,063
2,117,957	Bonuses surrendered for cash ...		2,752,457
12,567,848	Annuities		14,772,924
8,994,792	Commission		9,123,984
16,938,073	Expenses of management		18,092,665
422,274	Selective employment tax		606,819
	Taxation on profits and income—(see note 7, page 28)		
1,726,409	Overseas taxes ...	2,144,338	
1,155,904	Corporation tax...	1,379,081	
4,020,656	Income tax ...	5,631,148	
6,902,969			9,154,567
—	Decrease in book value of investments related to linked business		228,357
3,070,430	Transfer to Profit and loss account		3,331,391
1,179,754,190	Amount of Ordinary life assurance fund at the end of the year ...		1,282,593,063
£1,303,391,450			£1,423,641,346

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	186,481	880,125,209	—	373,449	9,222,606
Annuities	4,962	—	36,511,988	6,564,695	6,007,501
Business outside the United Kingdom					
Assurances	66,893	347,492,178	—	206,159	5,852,460
Annuities	220	—	10,134,865	1,438,909	1,790,292
TOTAL ...	258,556	1,227,617,387	46,646,853	8,583,212	22,872,859

INDUSTRIAL BRANCH

1968 £		£
664,089,233	Amount of Industrial life assurance fund at the beginning of the year	693,159,431
81,180,715	Premiums	84,418,082
51,428,517	Interest, dividends and net rents—less amount written off terminable securities and £2,466 (*1968 nil*) bank interest	53,826,216
7,500,000	Transfer from Investment reserve account ... ... (see note 8 on page 28)	8,200,000
£804,198,465		£839,603,729

1968 £			£
	Claims under policies paid and outstanding—		
22,516,686	By death		23,902,446
26,953,194	By maturity		28,719,087
49,469,880			52,621,533
22,934,119	Surrenders		25,933,145
25,644,959	Expenses of management... ...		25,722,429
991,825	Selective employment tax... ...		1,368,302
	Taxation on profits and income—(see note 7, page 28)		
203,110	Overseas taxes ...	239,756	
2,301,573	Corporation tax...	2,628,462	
7,293,924	Income tax ...	7,995,191	
9,798,607			10,863,409
2,199,644	Transfer to Profit and loss account		2,307,473
693,159,431	Amount of Industrial life assurance fund at the end of the year		720,787,438
£804,198,465			£839,603,729

NEW BUSINESS DURING THE YEAR

Number of policies	1,197,991
Sums assured	£253,036,250
Annual premium income	£13,783,274

GENERAL BRANCH REVENUE ACCOUNTS

for the year ended 31st December 1969

FIRE AND ACCIDENT INSURANCE BUSINESS

1968 £		£
	Amount of Fire and accident insurance fund at the beginning of the year—	
	Provision for unexpired risks—	
1,602,134	Long term sickness and accident	1,841,598
14,280,183	Other	16,029,166
15,882,317		17,870,764
+ 53,076	*Deduct* adjustment in exchange	45,263
15,935,393		17,825,501
40,406,782	Premiums	45,693,014
41,701	Interest allocated to long term sickness and accident fund... ...	48,829
£56,383,876		£63,567,344

1968 £			£
22,726,700	Claims paid and outstanding ...		25,876,227
5,671,499	Commission		6,565,625
9,517,316	Expenses of management		10,133,712
211,240	Selective employment tax		298,198
179,595	Overseas taxes other than on profits		221,288
206,762	Transfer to Profit and loss account		474,270
	Amount of Fire and accident insurance fund at the end of the year—		
	Provision for unexpired risks—		
1,841,598	Long term sickness and accident ...	£2,055,315	
16,029,166	Other (see note 12, page 29) ...	17,942,709	
17,870,764			19,998,024
£56,383,876			£63,567,344

An analysis of the above account is given on pages 38 and 39 of this report.

SINKING FUND INSURANCE BUSINESS

1968 £		£
1,437,801	Amount of sinking fund insurance fund at the beginning of the year	1,189,748
10,815	Premiums	10,775
81,188	Interest and dividends	75,368
£1,529,804		£1,275,891

1968 £		£
4,500	Claims paid	—
262,742	Surrenders	2,490
—	Commission	—
250	Expenses of management	250
72,564	Transfer to Profit and loss account	39,950
1,189,748	Amount of sinking fund insurance fund at the end of the year ...	1,233,201
£1,529,804		£1,275,891

MARINE AND AVIATION INSURANCE BUSINESS

Total 1968 £		Current Year. £	Last Preceding Year. £	Previous Years. £	Total. £
1,236,304	Amount of marine and aviation insurance fund at the beginning of the year	—	630,574	814,701	1,445,275
1,070,366	Premiums (less brokerage, discount, commission, returns and reinsurances) ...	1,169,280	92,705	5,417	1,267,402
125,000	Transfer from Profit and loss account ...	—	—	50,000	50,000
£2,431,670					£2,762,677

Total 1968 £		Current Year. £	Last Preceding Year. £	Previous Years. £	Total. £
911,157	Claims paid (less salvages, refunds and reinsurance recoveries)	345,776	432,119	233,870	1,011,765
74,221	Expenses	77,835	2,357	1,989	82,181
1,017	Loss on exchange ...	451	714	154	1,319
1,445,275	Amount of marine and aviation insurance fund at the end of the year	745,218	288,089	634,105	1,667,412
£2,431,670					£2,762,677

LIFE ASSURANCE
PROFIT AND LOSS ACCOUNTS

for the year ended 31st December 1969

PROFIT AND LOSS ACCOUNT

1968 £		£	1968 £		£
	Transfers from Revenue accounts—				
3,070,430	Ordinary branch	3,331,391	*5,270,074*	Transfer to Shareholders' account (A shares)...	5,638,864
2,199,644	Industrial branch	2,307,473			
£5,270,074		£5,638,864	*£5,270,074*		£5,638,864

SHAREHOLDERS' ACCOUNT (A SHARES)

1968 £		£	1968 £		£
2,145,144	Amount of Shareholders' account (A shares) at the beginning of the year ...	3,129,541		Taxation—	
			101,130	Corporation tax	162,321
237,954	Interest	350,753	*1,666,667*	Interim dividend to holders of A shares in respect of 1969 ... ... (equivalent gross £3,546,099 —*1968 £2,836,880*)	2,083,333
5,270,074	Transfer from Profit and loss account	5,638,864	*2,929,167*	Provision for final dividend to holders of A shares in respect of 1969 ... (equivalent gross £5,673,759 —*1968 £4,985,816*)	3,333,333
173,333	Transfer from Shareholders' account (General branch)	204,444	*3,129,541*	Balance carried to Shareholders' account (A shares) Balance sheet ...	3,744,615
£7,826,505		£9,323,602	*£7,826,505*		£9,323,602

SHAREHOLDERS' ACCOUNT (A SHARES) BALANCE SHEET

31st December 1969

LIABILITIES 1968 £		£	ASSETS 1968 £		£
3,129,541	Shareholders' account (A shares) ...	3,744,615		Investment—	
	Current liabilities and provisions—		*50,000*	Subsidiary—Prudential Unit Trust Managers Ltd. Ordinary shares ... (see note 9, page 28)	50,000
159,853	Corporation tax	263,451		Current assets—	
6,822	Other creditors	9,217	*6,019,392*	Deposit with Life and General branches	7,057,775
2,929,167	Final dividend—A shares ... ... (equivalent gross £5,673,759 —*1968 £4,985,816*)	3,333,333	*155,991*	Income tax recoverable	242,841
£6,225,383		£7,350,616	*£6,225,383*		£7,350,616

GENERAL BRANCH
PROFIT AND LOSS ACCOUNTS

for the year ended 31st December 1969

PROFIT AND LOSS ACCOUNT

1968 £		£	1968 £		£
	Transfers from Revenue accounts—				
206,762	Fire and accident	474,270	*125,000*	Transfer to Marine and aviation revenue account	50,000
72,564	Sinking fund	39,950		Taxation on profits and income— (see note 7, page 28)	
2,528,278	Interest and dividends not carried to other accounts	2,967,177	*100,000*	Overseas taxes not charged to other accounts ... £465,000	
117,828	Trustee and executor fees £132,435		*554,000*	Corporation tax ... 909,000	
52,103	*less* expenses 57,500		*434,000*	Income tax 584,000	
65,725		74,935	*1,088,000*		1,958,000
			1,660,329	Balance being net profit for the year carried down	1,548,332
£2,873,329		£3,556,332	*£2,873,329*		£3,556,332
140,698	Balance of General branch Profit and loss account at the beginning of the year	126,027	*1,000,000*	Transfer to Additional reserve fund ...	750,000
1,660,329	Balance from above	1,548,332	*675,000*	Transfer to Shareholders' account (General branch)	800,000
			126,027	Balance carried to General branch Balance sheet	124,359
£1,801,027		£1,674,359	*£1,801,027*		£1,674,359

The amount of debenture and loan stocks for which the Company acts as trustee exceeded £1,105,000,000 at the end of the year.
Trustee fees less expenses are shown this year in the General branch profit and loss account whereas previously they were included in the miscellaneous insurance business revenue account.

SHAREHOLDERS' ACCOUNT (GENERAL BRANCH)

1968 £		£	1968 £		£
468,865	Amount of Shareholders' account (General branch) at the beginning of the year	480,532	*208,333*	Interim dividend to holders of B shares in respect of 1969 ... ... (equivalent gross £354,609 —*1968 £354,609*)	208,333
675,000	Transfer from Profit and loss account...	800,000	*281,667*	Provision for final dividend to holders of B shares in respect of 1969 ... (equivalent gross £638,298 —*1968 £479,433*)	375,000
			173,333	Transfer to Shareholders' account (A shares)	204,444
			480,532	Balance carried to General branch Balance sheet	492,755
£1,143,865		£1,280,532	*£1,143,865*		£1,280,532

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SPECIAL CONTINGENCY FUND

Account for the year ended 31st December 1969

1968 £		£	1968 £		£
8,543,767	Amount of Special contingency fund at the beginning of the year	8,884,148		Taxation—	
587,572	Interest and dividends	666,219	177,616	Corporation tax	176,309
			69,575	Income tax	120,431
			—	Transfer to Investment reserve account	350,000
			8,884,148	Amount of Special contingency fund at the end of the year	8,903,627
£9,131,339		£9,550,367	£9,131,339		£9,550,367

BALANCE SHEET

31st December 1969

LIABILITIES			ASSETS		
1968 £		£	1968 £		£
8,884,148	Special contingency fund	8,903,627		Investments—	
	Current liabilities and provisions—		3,894,624	British Government securities ...	2,875,572
39,821	Sundry brokers for investments purchased	267,237	14,835	Debenture and debenture stocks home	255,403
211,490	Corporation tax	161,808	1,483,532	Preference and guaranteed stocks and shares	2,062,277
			3,328,816	Ordinary stocks and shares	3,479,124
				Current assets—	
			3,068	Outstanding interest	5,022
			67,041	Sundry brokers for investments sold	—
			287,699	Estimated income tax recoverable ...	319,911
			—	Other debtors...	255,748
				Balance at Bankers—	
			55,844	On current account in the United Kingdom	79,615
£9,135,459		£9,332,672	£9,135,459		£9,332,672

BALANCE SHEET

31st DECEMBER 1969

Ordinary Branch 1968.	Industrial Branch 1968.	General Branch 1968.	Total 1968.	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
—	—	480,532	480,532	**Balance of Shareholders' account (General branch)**	—	—	492,755	492,755
—	—	126,027	126,027	**Profit and loss account**—balance carried forward	—	—	124,359	124,359
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
1,179,754,190	693,159,431	—	1,872,913,621	**Life assurance funds**	1,282,593,063	720,787,438	—	2,003,380,501
				***General branch insurance funds*—**				
				Fire and accident—				
—	—	1,841,598		Long term sickness and accident ...	—	—	2,055,315	
—	—	16,029,166		Other	—	—	17,942,709	
—	—	1,189,748	27,655,787	Sinking fund	—	—	1,233,201	30,798,637
—	—	1,445,275		*Marine and aviation*	—	—	1,667,412	
—	—	7,150,000		Additional reserve	—	—	7,900,000	
				Current liabilities and provisions—				
9,387,926	1,624,578	16,447,409	27,459,913	Claims admitted or intimated, but not paid, less amounts recoverable under reinsurances	9,992,791	1,802,947	19,704,480	31,500,218
14,276	—	—	14,276	Annuities due and unpaid	15,741	—	—	15,741
2,016,583	706,302	1,318,463	4,041,348	*Outstanding commission and expenses* ...	1,998,338	658,800	1,344,986	4,002,124
1,060,195	—	183,956	1,244,151	Premiums received in advance	1,203,309	—	197,789	1,401,098
—	—	1,165,942	1,165,942	Amounts due on reinsurance account ...	—	—	1,285,840	1,285,840
416,031	172,467	144,139	732,637	Amounts due to subsidiaries	485,534	192,575	31,220	709,329
1,053,913	760,246	281,272	2,095,431	Other creditors	1,247,952	803,334	253,986	2,305,272
8,387,942	—	—	8,387,942	*Loans from overseas bankers*	—	—	—	—
4,193,971	—	—	4,193,971	Promissory notes in overseas currencies ... (see note 11)	4,165,582	—	—	4,165,582
—	—	—	—	Unsecured loans in overseas currencies ... (see note 11)	11,497,006	—	—	11,497,006
1,747,958	675,463	214,219	2,637,640	Sundry brokers for investments purchased	905,152	1,278,358	9,003	2,192,513
1,409,485	29,377	236,986	1,675,848	Overseas taxes	1,834,405	23,335	595,994	2,453,734
1,161,000	4,117,000	771,000	6,049,000	Corporation tax	1,185,000	4,926,000	1,217,000	7,328,000
3,447,927	2,477,576	93,889	6,019,392	Amount due to Shareholders' account (A shares)	4,079,557	2,853,218	125,000	7,057,775
—	—	281,667	281,667	Final dividend—B shares ... ... (equivalent gross £638,298 —*1968 £479,433*)	—	—	375,000	375,000
£1,228,051,397	730,222,440	51,401,288	2,009,675,125		£1,335,203,430	759,826,005	58,556,049	2,153,585,484
			9,135,459	**Special contingency fund** (per separate Balance sheet)				9,332,672
			£2,018,810,584					£2,162,918,156

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 1968.	Industrial Branch 1968.	General Branch 1968.	Total 1968.	ASSETS.	Ordinary Branch.	Industrial Branch.	General Branch.	Total.
£	£	£	£		£	£	£	£
				Mortgages—				
106,610,775	38,655,584	64,033	145,330,392	On property within the United Kingdom ...	111,590,092	40,665,524	46,274	152,301,890
60,177,901	1	612,498	60,790,400	On property out of the United Kingdom ...	63,378,062	—	1,178,166	64,556,228
				Loans—				
2,584,178	2,631,007	—	5,215,185	On parochial and other public rates ...	2,577,087	2,871,966	—	5,449,053
36,365,962	—	9,500	36,375,462	On Company's policies within their surrender values	41,712,580	—	9,500	41,722,080
1,523,820	432,995	286,022	2,242,837	Without specific security	15,008,782	398,907	295,286	15,702,975
				Investments—				
123,470,823	162,834,884	7,341,738	293,647,445	British *Government securities*	126,431,334	162,741,320	7,348,841	296,521,495
1,974,909	9,183,187	6,804	11,164,900	British Government guaranteed securities...	1,971,224	8,311,645	6,803	10,289,672
491,352	895,338	—	1,386,690	Securities guaranteed under Trade Facilities and other acts	186,128	549,383	—	735,511
2,956,919	2,800,589	372,475	6,129,983	Municipal and county securities, United Kingdom	2,912,751	1,349,576	372,475	4,634,802
863,394	1,480,009	171,636	2,515,039	Public Board securities, United Kingdom ...	863,392	1,291,666	171,635	2,326,693
53,867,944	3,141,255	1,716,069	58,725,268	Other Commonwealth Government securities	57,739,277	2,527,419	1,812,470	62,079,166
20,264,683	—	2,528,110	22,792,793	Other Commonwealth provincial securities	20,398,622	—	2,870,757	23,269,379
5,382,204	—	990,301	6,372,505	Other Commonwealth municipal securities	5,244,695	—	945,085	6,189,780
779,060	—	—	779,060	Other Commonwealth Public Board securities	779,060	—	—	779,060
8,529,088	2,334	837,259	9,368,681	*Foreign Government securities*	9,807,766	2,099	869,687	10,679,552
2	3	—	5	Foreign provincial securities	2	3	—	5
6,666,152	5	225,195	6,891,352	Foreign municipal securities	6,714,817	5	225,195	6,940,017
4,335,003	—	65,521	4,400,524	Foreign Public Board securities	5,528,424	—	65,519	5,593,943
183,510,669	118,424,820	5,088,670	307,024,159	Debentures and debenture stocks and gold and sterling bonds—home and foreign ...	192,812,582	122,083,338	6,023,773	320,919,693
24,134,459	23,827,833	7,084,617	55,046,909	Preference and guaranteed stocks and shares	22,101,276	18,921,797	7,975,804	48,998,877
316,929,089	221,136,343	9,754,097	547,819,529	Ordinary stocks and shares	331,264,048	232,813,724	10,100,438	574,178,210
970,454	—	—	970,454	Prudential Unit Trust units	1,381,495	—	—	1,381,495
				Subsidiaries (see note 9)—				
1,025,932	—	—	1,025,932	Mortgages, loans and debentures ...	1,254,756	—	—	1,254,756
7,173,621	172,467	2,000,465	9,346,553	Ordinary shares	7,821,261	181,147	2,000,465	10,002,873
40,000	30,170	—	70,170	*Rent charges*	40,000	30,170	—	70,170
14,273,241	6,837,191	—	21,110,432	Freehold ground rents and feu duties ...	14,427,720	6,878,656	—	21,306,376
75,908	65,000	—	140,908	Leasehold ground rents	75,908	65,000	—	140,908
				Freehold and leasehold property (including office premises)—				
179,366,280	121,278,644	—	300,644,924	In the United Kingdom	207,469,334	135,101,063	—	342,570,397
24,420,639	—	29,788	24,450,427	Out of the United Kingdom	33,734,358	—	33,431	33,767,789
				Current assets—				
627,213	—	1,612,413	2,239,626	Deposits at interest at home and abroad ...	80,185	—	1,562,070	1,642,255
—	—	1,197,110	1,197,110	Agents' balances	—	—	1,447,052	1,447,052
4,884,305	—	—	4,884,305	Commission paid in advance	5,169,717	—	—	5,169,717
4,781,903	703,133	4,591,800	10,076,836	Outstanding premiums	4,180,775	426,272	5,641,768	10,248,815
5,416,530	2,189,337	32,260	7,638,127	*Outstanding interest, dividends, rents and* fees	6,263,731	2,382,676	53,254	8,699,661
7,269,535	3,872,748	284,965	11,427,248	Interest, dividends, rents and fees accrued ...	7,663,250	3,842,941	355,734	11,861,925
—	—	1,722,719	1,722,719	Amounts due on reinsurance account ...	—	—	2,230,463	2,230,463
—	32,494	437,945	470,439	Amounts due from subsidiaries	9,666	673	427,973	438,312
70,317	298,931	—	369,248	Sundry brokers for *investments* sold ...	2,464,742	922,683	—	3,387,425
9,423,000	8,365,000	432,000	18,220,000	Estimated income tax recoverable	8,756,000	8,512,000	422,000	17,690,000
509,122	281,557	428,430	1,219,109	Other debtors	904,611	556,710	426,626	1,887,947
				Balances at Bankers and Cash in hand—				
				On deposit—				
—	—	—	—	In the United Kingdom	4,660,000	5,116,000	1,440,000	11,216,000
4,114,924	122,672	505,253	4,742,849	Out of the United Kingdom	7,308,813	719,752	1,366,352	9,394,917
				In hand and on current account—				
320,895	172,557	153,874	647,326	*In the United Kingdom*	179,007	171,336	55,779	406,122
1,869,192	354,352	817,721	3,041,265	Out of the United Kingdom	2,336,100	390,554	775,374	3,502,028
£1,228,051,397	730,222,440	51,401,288	2,009,675,125		£1,335,203,430	759,826,005	58,556,049	2,153,585,484
			9,135,459	**Special contingency fund** (per separate Balance sheet)				9,332,672
			£2,018,810,584					£2,162,918,156

CERTIFICATES TO THE ACCOUNTS

CERTIFICATES TO THE BALANCE SHEET:

I certify that in my opinion the aggregate amount of the liabilities of the Company in relation to its long term business as at 31st December, 1969 did not exceed the aggregate amount of those liabilities as shown in the Balance sheet.

R. S. SKERMAN, *Chief Actuary.*

We certify that in our opinion the value of the Company's assets at 31st December, 1969 was in the aggregate at least equal to the aggregate of the amounts thereof shown in the Balance sheet. For the purpose of this certificate values of the quoted Stock Exchange securities have been taken at middle market prices as at that date and the values of other assets have been estimated by the Directors.

We certify that in our opinion the aggregate of the market values at 31st December, 1969 of the Company's realisable domestic assets, all free from mortgage or charge, was at least equal to the aggregate of the values at that time of the Company's domestic liabilities as defined in Section 65(9) of the Companies Act, 1967.

We certify that:

(1) the aggregate amount of the premiums relating to general business included in the Revenue accounts is £44,050,153 (this figure excludes premiums relating to long term business),

(2) the amount of the minimum solvency margin applicable to the Company in the period immediately following the end of the financial year 1969 is £4,655,015,

(3) in our opinion the aggregate of the amounts of the Company's assets as stated in the Balance Sheet exceeded the Company's liabilities at 31st December, 1969 after taking into account all prospective and contingent liabilities but not liabilities in respect of share capital by £23,277,986.

CERTIFICATE TO MARINE AND AVIATION REVENUE ACCOUNT:

We certify in relation to the above account that in our opinion:

(1) the fund at the end of the year in relation to business transacted in the current year is sufficient to meet all the liabilities outstanding at 31st December, 1969 in relation to that business (including those in respect of risks to be borne by the Company after 31st December, 1969 in relation to that business).

(2) the funds at the end of the year in relation to business transacted in the last preceding year and in previous years are each sufficient to meet all the liabilities outstanding at 31st December, 1969 in relation to the relevant business.

CERTIFICATE TO ORDINARY BRANCH, INDUSTRIAL BRANCH, FIRE AND ACCIDENT AND SINKING FUND REVENUE ACCOUNTS:

We certify that in our opinion no part of the Ordinary life assurance fund, the Industrial life assurance fund, the Long Term Sickness and Accident fund or the Sinking fund insurance fund has been used directly or indirectly for any purpose for which it should not have been used having regard to the provisions of Section 3 of the Insurance Companies Acts 1958 to 1967 and to the Articles of Association of the Company.

R. H. OWEN, *Chief General Manager.*

R. S. SKERMAN, *Chief Actuary.*

H. G. CLARKE, }
A. F. MURRAY, } *Joint Secretaries.*

JOHN S. P. MELLOR, *Chairman.*

D. A. REID, *Director.*

F. M. REDINGTON, *Director.*

15th April, 1970.

NOTES TO THE ACCOUNTS

1. The Company has the following capital commitments,

1968		1969
£		£
4,695,000	Capital commitments contracted for settlement after 31st December ...	5,710,000
95,000	Capital expenditure authorised but not contracted for	60,000

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

2. 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.

3. The aggregate amount of the Directors' emoluments for the year, including emoluments from Prudential Unit Trust Managers Ltd., was £78,500 (*1968 £72,507*). Following a change in the arrangements for augmenting pensions payable to Directors and past Directors and their dependants no such additional sums were paid by the Company in 1969 (*1968 £2,932*).

The emoluments of the Chairman in the financial year amounted to £15,000 (*1968 £15,000*).

The other Directors' emoluments were as follows:

Over	*Up to*	*Number of Directors*	
£	£	1969	*1968*
—	2,500	—	*1*
2,500	5,000	7	*6*
5,000	7,500	4	*5*
7,500	10,000	1	—

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

Over	*Up to*	*Number of Employees*	
£	£	1969	*1968*
10,000	12,500	2	*1*
12,500	15,000	1	—
15,000	17,500	—	*3*
17,500	20,000	3	*1*
20,000	22,500	—	—
22,500	25,000	1	—

5. The remuneration of the auditors for the year was £69,155 (*1968 £62,565*) of which £41,655 (*1968 £42,565*) related to that payable to local auditors overseas.

6. Life, fire and accident business transactions in overseas currencies have been included in the accounts at the rates of exchange ruling on 31st December, 1969, 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 a deduction in the Ordinary branch revenue account of £680,299 (*1968 + £1,396,387*) and a deduction in the Fire and accident revenue account of £45,263 (*1968 + £53,076*). The effect of the adjustment in the Fire and accident revenue account on the various classes of business transacted is shown in the statements on pages 38 and 39.

Currency liabilities overseas, including loans from overseas bankers, promissory notes and unsecured loans in overseas currencies, are with minor exceptions, covered by corresponding currency assets and these liabilities and assets (other than those subsequently mentioned) have been converted at rates of exchange ruling on 31st December, 1969. 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 9, which is included at dollar cost converted to sterling at the rate of $2·40 to the £, 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 and aviation 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 and aviation revenue account arises from the revaluation of currency assets at the rates of exchange ruling on 31st December, 1969.

7. Provision has been made 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 45 per cent. and income tax at 41·25 per cent. less appropriate reliefs. Overseas taxes charged to the Ordinary and General branches include additional charges of £230,000 and £290,000 respectively on account of business in Canada where new taxation arrangements became effective during 1969. Corporation tax charged to the General branch includes an amount of £294,000 for prior years following the acceptance that, for tax purposes, the allowance for provisions for unexpired risks is limited to 40 per cent. Double taxation relief in respect of overseas income has reduced the charge for corporation tax in the Ordinary, Industrial and General branches by £135,638, £224,197 and £464,786 respectively (*1968 £125,140*, *£201,574* and *£52,421*).

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

8. Profits and losses on realisation of assets together with adjustments to book values and exchange differences, other than exchange differences on marine and aviation insurance business, less any relative taxes, have been carried to Investment reserve accounts out of which transfers have been made to revenue accounts. The balances of the Investment reserve accounts have been applied to reduce the Balance sheet values of assets.

9. Particulars of Subsidiary Companies are:—

Name	*Class of Share held*	*Proportion held*	*Country of Incorporation*
Prudential Unit Trust Managers Ltd. ...	Ordinary Shares £1	100%	England

The first accounts of this subsidiary, which manages the Prudential Unit Trust, are annexed. They cover the period from incorporation in August 1968 to 31st December, 1969. The investment in this company appears on page 21 as an asset of the Shareholders' account (A shares).

Name	*Class of Share held*	*Proportion held*	*Country of Incorporation*
Murray & Co. Ltd.	Common Shares n.p.v.	100%	Canada
Prudential Australian Superannuation Ltd....	Ordinary Shares $2	100%	Australia
The Prudential Insurance Co. of Great Britain (located in New York)	Shares $100	100%	U.S.A.
Societa Italo-Britannica di Assicurazioni s.r.l.	Shares	100%	Italy

The accounts of these subsidiaries have not been included in the group accounts as the amounts involved are insignificant. The inclusion of The Prudential Insurance Company of Great Britain (located in New York) in this category instead of annexing the accounts as in recent past years follows the ceding from 1st January, 1969 of the bulk of its reinsurance business. Based on the rates of exchange ruling on 31st December, 1969, the particulars to be given for these subsidiaries are:

	Profits of Subsidiary Companies	
	For 1969	*For previous years*
Net aggregate amount of profits:—	£	£
not included in the Company's accounts ...	*57,533	1,734,210
included in the Company's accounts	53,334	48,702

* The amount included in this figure for The Prudential Insurance Company of Great Britain (located in New York) is after a transfer of £500,000 from investment reserve.

With the approval of the Board of Trade the group accounts do not include the accounts of the undermentioned 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.

Name	*Class of Share held*	*Proportion held*	*Country of Incorporation*
The Mercantile and General Reinsurance Company Ltd.	Shares £1 "A" Shares £1	77·4% 44·3%	Scotland
Paramet Corporation Ltd.	Common Shares n.p.v.	100%	Canada
Partin Investments Ltd.	Ordinary Shares 2s.	100%	England
Prudential Nominees Ltd.	Shares £1	100%	England
Riccarton Mall Ltd.	Ordinary Shares NZ$1	100%	New Zealand
R.P.D. Investments Ltd.	Ordinary Shares 1s.	100%	England

The Company's holding in The Mercantile and General Reinsurance Company Ltd. is, except for direct holdings of 2·2% Shares £1 and 2·6% "A" Shares £1, through Mercantile and General Reinsurance (Holdings) Ltd. (Incorporated in England). The whole of that company's share capital, consisting of Ordinary Shares £1 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 of subsidiaries 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.

10. The Company, in its investment portfolio, holds shares in 45 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.

11. The Promissory notes and Unsecured loans in overseas currencies shewn under Current liabilities in the Balance sheet fall due for settlement in 1973 and 1974 respectively.

12. In the Fire and accident revenue account for 1969 the provision carried forward in respect of unexpired risks on contracts covering periods of not more than one year has been calculated by the twenty-fourths method and is thus based on premiums written during each month of the year. The provision on the 31st December, 1969 calculated on this basis was £159,000 more than that which would have resulted from the 40% method previously used.

ACCOUNTS OF SUBSIDIARY COMPANY

PRUDENTIAL UNIT TRUST MANAGERS LIMITED

PROFIT AND LOSS ACCOUNT

for the period 5th August 1968 to 31st December 1969

	£		£
erest	7,418	Loss arising from the management of the Prudential Unit Trust	17,356
lance carried to Balance sheet	10,188	Auditors' remuneration in respect of the company	250
	£17,606		£17,606

BALANCE SHEET

as at 31st December 1969

LIABILITIES	£	ASSETS	£
Authorised and Issued capital—		Preliminary expenses not written off	2,289
50,000 Ordinary shares of £1 each, fully paid	50,000		
Less Balance of Profit and loss account	10,188	Current assets—	
	39,812	Stock of units at cost	17,903
		Amount due from Parent company	40,382
		Other debtors...	3,538
Current Liabilities—		Balance at Bankers	32,138
Amount due to Midland Bank Executor and Trustee Co. Ltd. for creation of units	48,258		
Other creditors	8,180		
	£96,250		£96,250

This Company is a wholly owned subsidiary of The Prudential Assurance Company Limited.
Sales of new and repurchased units during the period realised the sum of £2,901,858.
The operating loss for the period of £17,356 is arrived at after charging preliminary expenses of £5,871.

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 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.*

15*th April,* 1970.

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, 1969, of the life assurances and annuities and other insurance contracts of the Company.

ORDINARY BRANCH

The number of contracts in force was **2,495,538** producing an annual premium income of **£143,258,195.** Sums assured with bonuses amounted to **£6,141,010,068,** deferred and contingent annuities with bonuses amounted to **£192,572,253** per annum including amounts of annuity to be purchased by future recurrent single premiums. Annuities in course of payment amounted to **£15,759,209** per annum.

The interest earned in 1969 represents a gross rate of **£7 0s. 3d.** 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 ...	A1949/52 Ultimate table of mortality
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	2¾%
Without-profits...	3%
Australia and New Zealand:	
Second Series	3%
Other	3¼%
Canada:	
Without-profits, issued after 31st December, 1960...	3½%
Other	3%
South Africa, Rhodesia and Zambia:	
Second Series	3¼%
Other	3½%
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.

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.

ORDINARY BRANCH (CONTINUED)

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	3¾%	—	3%
Group	2¾%	—	3%
Pension-unit schemes	4½%	—	—
Without-profits:			
Pension annuity business:			
Individual	4¼%	—	—
Group	4½%	—	—
General annuity business:			
Individual and group:			
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 per cent. during deferment and 4 per cent. after deferment. For immediate annuities purchased, or vesting from with-profit group business, after 31st December, 1966, in Canada the rate was 5½ per cent.

For individual deferred annuities and for pension-unit schemes the net premiums valued were calculated on the valuation bases. 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 net liability was based on the value at the 31st December, 1969, 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, 1969.

The foregoing bases of valuation incorporate a change for without-profits pension annuity group business issued in the United Kingdom in that the rate of interest used in the valuation has been increased from 4¼ per cent. to 4½ per cent.

This change would have reduced the liabilities on the 1st January, 1969, by **£3,500,000** and I consider that the Additional reserve should be increased from **£24,300,000** to **£25,000,000**. 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.

The result of the valuation is as follows:—

Ordinary branch fund subject to transfers out of surplus, on 31st December, 1969 ...		**£1,285,924,454**
Net liability under assurance policies	**£737,538,543**	
Net liability under annuity contracts	**£463,588,080**	
Additional reserve	**£25,000,000**	
Total net liability		**£1,226,126,623**
Surplus emerging at 31st December, 1969		**£59,797,831**
Add cost of bonuses allocated during 1969 in anticipation out of surplus for that year		**£2,471,386**
TOTAL SURPLUS, including **£1,125,039** brought forward from last year		**£62,269,217**

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ORDINARY BRANCH (CONTINUED)

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 year 1968. 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 1969. The discounted cost of maintaining these bonuses calculated on the bases used in the valuation is **£67,000,000.**

I also consider that terminal bonuses should be declared for participating assurances issued in Australia, Cyprus and Malta.

I recommend that the following bonuses should be declared:—

(A) For assurance policies which become claims by death or maturity between 1st April, 1970 and 31st March, 1971 inclusive as follows:—

(1) Policies issued in 1968 or earlier in the United Kingdom, the Channel Islands, the Isle of Man, Cyprus and Malta at the following rates:—

Year of Issue	Rate per cent	Year of Issue	Rate per cent	Year of Issue	Rate per cent	Year of Issue	Rate per cent
1968	0·3	1956	21·4	1944	44·1	1932	57·5
1967	0·8	1955	23·8	1943	45·4	1931	58·5
1966	1·7	1954	26·1	1942	46·6	1930	59·5
1965	2·8	1953	28·3	1941	47·8	1929	60·5
1964	4·2	1952	30·5	1940	49·0	1928	61·5
1963	5·8	1951	32·6	1939	50·1	1927	62·4
1962	7·7	1950	34·6	1938	51·2	1926	63·3
1961	9·8	1949	36·5	1937	52·3	1925	64·2
1960	12·0	1948	38·3	1936	53·4	1924	65·1
1959	14·3	1947	39·9	1935	54·5	1923 or earlier	66·0
1958	16·6	1946	41·4	1934	55·5		
1957	19·0	1945	42·8	1933	56·5		

(2) Policies issued in 1967 or earlier in Australia at the following rates:—

Non-Superannuation Business				Superannuation Business			
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	0·06	1957	1·08	1967	0·10	1957	1·80
1966	0·12	1956	1·20	1966	0·20	1956	2·00
1965	0·18	1955	1·32	1965	0·30	1955	2·20
1964	0·24	1954	1·44	1964	0·40	1954	2·40
1963	0·36	1953	1·56	1963	0·60	1953	2·60
1962	0·48	1952	1·68	1962	0·80	1952	2·80
1961	0·60	1951 or earlier	1·80	1961	1·00	1951 or earlier	3·00
1960	0·72			1960	1·20		
1959	0·84			1959	1·40		
1958	0·96			1958	1·60		

(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 ... ... **3.25** simple

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		**2.25** simple
Second Series		**1.45** compound
(*c*) Canada:		
Registered		**2.2** simple plus **2.5** on existing bonuses
Other		**2.1** simple plus **2.4** on existing bonuses
(*d*) South Africa:		
First Series		**2.9** simple plus **1.4** on existing bonuses
Second Series:	Retirement Fund	**2.425** simple plus **4.3** on existing bonuses
	Other	**2.125** simple plus **4.0** on 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 plus **0.75** on existing bonuses
(*i*) Cyprus		**2.8** simple
(*j*) Malta		**3.25** 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, 1970 and 31st March, 1971 inclusive at the rate of 1·4 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 the 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	**3.5** simple
(*b*) Canada	**2.0** compound

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	...	**4.5** compound
General annuity business	...	**4.25** compound
(*b*) Channel Islands and the Isle of Man	...	**4.25** compound
(*c*) Canada	...	**2.6** compound
(*d*) South Africa...	...	**3.7** 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... ... **2.4** simple

An allocation of **£57,795,045** to policyholders will be necessary to provide the cost of the recommended bonuses and of those declared in anticipation out of the surplus for 1969.

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 1970:—

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

(*a*) United Kingdom, on annuities commencing between 15th March, 1970 and 14th March, 1971 inclusive ...	**30.0** compound
(*b*) Canada, on annuities commencing between 1st July, 1970 and 30th June, 1971 inclusive ...	**24.0** compound

(B) For group pension policies, on pensions commencing between 15th March, 1970 and 14th March, 1971 inclusive issued in:—

(*a*) United Kingdom, the Channel Islands and the Isle of Man ...	**38.0** compound
(*b*) Canada ...	**24.0** compound
(*c*) South Africa... ...	**30.0** compound
(*d*) 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, 1970 and 14th March, 1971 inclusive ... **18.0** compound

INDUSTRIAL BRANCH

The number of policies in force, including **5,621,693** free or paid-up policies, was **23,781,102** producing an annual premium income of **£87,257,651**. The maximum sums assured with bonuses amounted to **£1,912,760,164**.

The interest earned in 1969 represents a gross rate of **£7 17s. 1d.** 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 2¾ 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 reduced from **£33,600,000** to **£33,400,000**. 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.

The result of the valuation is as follows:—

Industrial branch fund, subject to transfers out of surplus on 31st December, 1969 ...		**£723,094,911**
Net liability under Industrial assurance policies... ...	**£645,330,860**	
Additional reserve ...	**33,400,000**	
Total net liability ...		**678,730,860**
Surplus, including **£1,986,050** brought forward from last year ...		**£44,364,051**

INDUSTRIAL BRANCH (CONTINUED)

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 year 1968. 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 1969. The discounted cost of maintaining these bonuses on the basis used in the valuation is **£115,000,000.**

I recommend that the following bonuses should be declared:—

(A) A terminal bonus on policies issued in 1968 or earlier which become claims by death or maturity between 1st April, 1970 and 31st March, 1971 inclusive at the same rates as those for Ordinary Branch policies issued in the United Kingdom as shown on page 34.

(B) A reversionary bonus at the rate of **2.6** per cent. of the sum assured.
An allocation of **£40,031,482** to policyholders will be necessary to provide the cost of the recommended bonuses.

GENERAL BRANCH

In respect of fire and accident contracts covering periods of not more than one year the provision for unexpired risks has been calculated by the twenty-fourths method with a deduction of 20 per cent. for acquisition costs. In respect of fire and accident contracts (other than long term sickness and accident contracts) covering periods of more than one year, the provision for unexpired risks is 80 per cent. of the unearned premiums.

Long term sickness contracts 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. Long term sickness contracts 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 2½ per cent. For long term sickness contracts 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 long term additional benefits payable in the event of accident or sickness, the liability for which is borne by the General branch. For these and other long term contracts the provision has been calculated to take account of the liability arising from the right of renewal. In the aggregate the provision so calculated is 54·1 per cent. of the premium income for the year.

The marine and aviation fund of **£1,667,412** is, in my opinion, a sufficient provision for the liabilities pending under the accounts.

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 **£1,368,900** at the end of fixed terms of years, and produce an annual premium income of **£10,775.**

The equivalents in sterling of provisions in other currencies have been calculated at the rates of exchange ruling on 31st December, 1969.

The result of the valuation is as follows:—

General branch fund, subject to transfers out of surplus, on 31st December, 1969		**£31,722,996**
Provision for fire and accident insurances	**£17,942,709**	
Provision for long term sickness and accident insurances	**2,055,315**	
Provision for marine and aviation insurance	**1,667,412**	
Provision for sinking fund insurance	**1,233,201**	
Additional reserve fund	**7,150,000**	
		30,048,637
Surplus, including **£126,027** brought forward from last year		**£1,674,359**

I recommend that **£750,000** be transferred to the General branch Additional reserve fund.

R. S. SKERMAN,
Chief Actuary.

25th March, 1970.

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FIRE AND ACCIDENT REVENUE STATEMENT

for the year ended 31st December 1969

	Property	Motor Vehicle	Sickness and Accident	Pecuniary Loss	Liability	Treaty Reinsurance Accepted	Total
	£000	£000	£000	£000	£000	£000	£000
Income							
Provision for unexpired risks brought forward	6,154	6,711	*2,492	296	1,097	1,121	17,871
deduct adjustment in exchange	15	11	5	1	2	11	45
	6,139	6,700	2,487	295	1,095	1,110	17,826
Premiums	15,782	17,475	4,623	881	3,314	3,618	45,693
	21,921	24,175	7,110	1,176	4,409	4,728	63,519
Provision for unexpired risks carried forward	7,189	6,927	†2,781	370	1,324	1,407	19,998
	14,732	17,248	4,329	806	3,085	3,321	43,521
Interest allocated to long term sickness and accident fund	—	—	49	—	—	—	49
Total Income	**14,732**	**17,248**	**4,378**	**806**	**3,085**	**3,321**	**43,570**
Outgo							
Claims	7,348	12,692	2,001	443	1,476	1,916	25,876
Commission	2,115	2,018	623	24	451	1,335	6,566
Expenses including taxation other than on profits	4,431	3,829	1,205	310	818	61	10,654
Total Outgo	**13,894**	**18,539**	**3,829**	**777**	**2,745**	**3,312**	**43,096**
Transfer to Profit and loss account	**838**	**—1,291**	**549**	**29**	**340**	**9**	**474**

*Includes £1,842,000 for long term business.

†Includes £2,055,000 for long term business.

Note.—The above statement analyses the Fire and Accident figures for 1969 in the new Board of Trade classifications, except that the figures relating to Sickness and Accident business include long term business and the Transport business written in the Accident department has been included in the Property account.

FIRE AND ACCIDENT REVENUE STATEMENT

for the year ended 31st December 1968

	Fire	Motor Vehicle	Sickness and Accident	Miscellaneous	Total
	£000	£000	£000	£000	£000
Income					
Provision for unexpired risks brought forward	4,278	6,201	* 2,259	3,144	15,882
add adjustment in exchange	9	19	10	15	53
	4,287	6,220	2,269	3,159	15,935
Premiums	11,231	16,787	4,122	8,267	40,407
	15,518	23,007	6,391	11,426	56,342
Provision for unexpired risks carried forward	4,873	6,715	† 2,534	3,749	17,871
	10,645	16,292	3,857	7,677	38,471
Interest allocated to long term sickness and accident fund	—	—	42	—	42
Total Income	**10,645**	**16,292**	**3,899**	**7,677**	**38,513**
Outgo					
Claims	5,616	10,945	1,739	4,427	22,727
Commission	1,904	1,878	525	1,364	5,671
Expenses including taxation other than on profits	2,962	3,580	1,112	2,254	9,908
Total Outgo	**10,482**	**16,403**	**3,376**	**8,045**	**38,306**
Transfer to Profit and loss account	**163**	**−111**	**523**	**−368**	**207**

*Includes £1,602,000 for long term business.

†Includes £1,842,000 for long term business.

Note.—The above statement analyses the Fire and Accident figures for 1968 in the Board of Trade classifications applicable to that year.

TEN YEAR REVIEW

	1960 £m.	1961 £m.	1962 £m.	1963 £m.	1964 £m.	1965 £m.	1966 £m.	1967 £m.	1968 £m.	**1969 £m.**
ORDINARY BRANCH										
New annual premium income	10·0	11·6	11·6	12·3	14·2	15·6	17·8	19·6	20·9	**22·9**
Total premium income and considerations	71·6	78·9	87·2	92·4	101·0	111·1	122·3	138·1	147·1	**155·1**
Investment income	31·6	35·3	39·1	43·3	49·6	56·9	62·0	69·7	76·2	**83·7**
Balance sheet value of assets	548·3	605·5	661·6	729·7	814·4	899·7	985·2	1,116·9	1,228·1	**1,335·2**
Market value of assets	642·0	700·7	784·5	909·9	954·1	1,045·5	1,079·8	1,303·1	1,580·9	**1,536·5**
INDUSTRIAL BRANCH										
New annual premium income	7·6	8·4	9·2	8·8	9·3	10·6	11·4	12·3	12·7	**13·8**
Total premium income	58·2	60·5	66·4	65·1	67·8	70·7	74·2	77·5	81·2	**84·4**
Investment income	31·8	34·1	35·1	37·4	41·2	46·0	47·4	49·3	51·4	**53·8**
Balance sheet value of assets	525·5	542·2	560·8	585·5	615·6	648·2	672·1	698·6	730·2	**759·8**
Market value of assets	657·2	676·2	734·4	822·9	801·9	852·3	827·9	951·0	1,137·7	**1,034·0**
Surplus to O.B. and I.B. policyholders ...	37·1	41·6	45·3	52·8	58·0	65·8	69·4	77·3	88·5	**97·8**
Surplus to shareholders	2·5	2·8	3·0	3·5	3·8	4·3	4·4	4·8	5·3	**5·6**
*Dividend on A shares 1s.	10·19d.	11·32d.	12·38d.	14·31d.	15·91d.	17·53d.	17·53d.	18·14d.	18·77d.	**22·13d.**
GENERAL BRANCH										
Premium income	18·8	20·1	20·9	22·5	25·7	29·1	31·7	37·3	41·5	**47·0**
Gross Underwriting profit	0·7	0·5	0·1	−0·5	0·3	0·2	0·5	1·0	0·2	**0·5**
Investment income	1·1	1·2	1·2	1·2	1·4	1·7	1·8	2·2	2·5	**3·0**
Trading profit net of tax	1·0	0·9	0·6	0·4	0·8	1·0	1·2	2·0	1·7	**1·5**
Retentions	0·5	0·4	0·1	−0·1	—	0·4	0·6	1·3	1·0	**0·7**
Balance sheet value of assets	27·2	28·5	28·4	28·6	31·7	35·0	38·3	44·9	51·4	**58·6**
Market value of assets	29·1	30·2	31·1	33·0	34·6	38·0	40·0	49·6	60·4	**63·2**
*Dividend on B shares 1s.	7·20d.	7·20d.	7·80d.	7·80d.	8·85d.	9·36d.	9·36d.	9·69d.	10·01d.	**11·91d.**

*Gross equivalent of declarations adjusted for years 1960–1964 in respect of subdivisions of shares and bonus issue where appropriate.

1. Market values of assets are based on market quotations where available (allowing 75% of $ premium where appropriate) and in all other cases on values estimated by the Directors.
2. No allowance has been made for any tax on capital gains that would arise if the assets were realised at the values shown.
3. The margin between market values and Balance sheet values is proportionately greater in the Industrial Branch than in the Ordinary Branch mainly for two reasons:
   (i) the more rapid growth of the Ordinary Branch funds over recent years
   (ii) overseas currency assets in the Ordinary Branch are held to cover overseas currency liabilities, now about 25% of the total liabilities of the Branch. The market value of these assets has not increased to the same extent as that of U.K. assets, particularly in territories where there are local investment restrictions.
4. The margins between market values and Balance sheet values of assets are not in themselves a guide to the strength of a life assurance fund. (See Chairman's statement pages 8 and 9.)

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THE PRUDENTIAL ASSURANCE COMPANY LIMITED

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