

1977

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

P00000002

In the United Kingdom, the Prudential has a field staff of over 14,000 men and women, who maintain a regular and personal contact with policyholders in their own homes. Here an agent is seen visiting an existing policyholder in Central London.

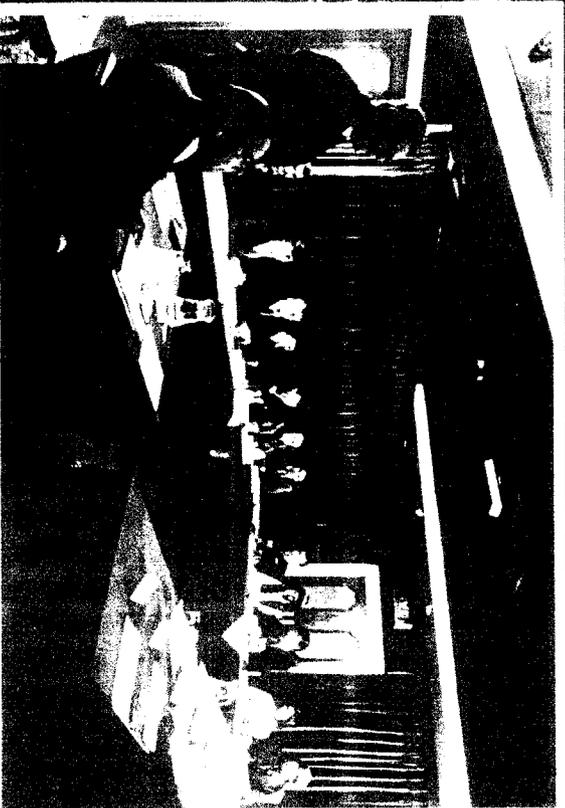
The Company must also ensure that the general public is aware of the services it provides and in the inset picture on the left a Divisional Manager discusses a proposed television advertising campaign with senior colleagues.

Another major activity of the Company is in the field of Company Pensions. In the inset picture on the right the Group Pensions Manager and an Assistant Manager are seen in discussion with the Personnel Director (second from left) and Pension Fund Manager of a major client—British Caledonian Airways.

Front Cover

The front cover, this year, shows the southern part of the main courtyard at the Chief Office building in Hol P00000003





P00000005

1858-004

Contents

4	Directors and Management
5	Summary of Results
6	Chairman's Statement
9	Progress Report
13	Supplementary Information relating to the Group
16	Notice of Meeting
17	Directors' Report
18	Dividends
20	Ordinary Life Assurance Accounts
22	Industrial Life Assurance Accounts
24	General Insurance Accounts
26	Profit and Loss Accounts
27	Balance Sheets of the Company and of the Group
28	Statement of Source and Application of Funds of the Group (excluding Life)
29	Notes on the Accounts
34	Report of the Auditors
36	Valuation Report on the Company's business
	Supplementary Information relating to the Company :
43	Sources of Investment Income
43	Claims and Surrenders—Life Assurance
44	Short-term Business Investment Portfolios
46	Ten Year Review of the Group

The Prudential is increasingly involved both in the United Kingdom and overseas in the insurance of general business risks. Specialist inspectors and surveyors undertake risk assessments, as shown here at a large building site in London.

In the inset picture on the left the local Divisional Manager is seen addressing a District meeting in the South East of England.

Throughout the country there are over 450 District Managers' Offices where, as depicted on the right, policyholders and other members of the public can seek advice on insurance matters.

The Prudential Assurance Company Limited

Directors

Ronald Hugh Owen FIA *Chairman*
 Harry Gordon Clarke FIA *Deputy Chairman*
 The Rt Hon James Edward Ramsden *Deputy Chairman*
 John Anthony Tristram Barstow DSO TD DL
 The Rt Hon Lord Caccia GCMG GCVO
 The Rt Hon Lord Carr of Hadley PC
 Sir John Nicholson Hogg TD
 Angus Fraser Murray CBE FIA

The Rt Hon Lord O'Brien of Lothbury GBE PC
 Frank Mitchell Redington FIA
 Desmond Arthur Reid
 Sir Peter Frank Dalrymple Tennant CMG OBE
 Kenneth Ascough Usherwood CBE FIA

Chief General Manager

W G Haslam DFC

General Managers

F B Corby MA FIA

D S Craigen BA

Deputy General Manager

D C Bourdon FIA

Assistant General Manager & Actuary (Overseas)

F G Wood FIA ACII

F M Simpson ACII

Assistant General Managers

A L Davis

R Worthy FCII

J Hasloch ACCA ACII

J R Powell FBCS AIB

S C Young

N H Rogers FCII

Agency Managers

L D Cary

P R Meikle ACII

H J Hancock ACII

Senior Fire & Accident Managers

W L Walker FCII

J R Wickison FCII

Deputy Manager—Management Services

L P Hawkes FCII MBCS

Marine Underwriter

D J Jay ACII

Aviation Underwriter

C R Jeffs

Joint Secretaries & Investment Managers

R E Artus MA

P E Moody FIA

Deputy Investment Managers

B Medhurst MA FIA

D Sirkett BSc FIA

Chief Surveyor

E E Chapman MBE FRICS

Deputy Chief Surveyors

P G Green BSc FRICS

M H Mallinson FRICS

Senior Assistant Investment Managers

J W Findlay

M G Newmarch BSc

D J Hunter ACCA

Assistant Secretary

J A Freeman B Com FCA

ACMA

Taxation Manager

E J Braybrook ACCA ACIS

Chief Actuary

R S Skerman CBE FIA

Actuary (UK)

Miss M C Allanach FIA

Group Pensions Manager

D E Fellows FIA

Deputy Actuary (UK)

C E Barton FIA

Deputy Group Pensions Managers

J L Savage BSc FIA

J V Swales ACIS

Chief Legal Adviser

C F Whitehorn

Deputy Chief Legal Adviser

D F Roper

General Manager for Australia & New Zealand President for Canada

W H Lambert FISM FAIM

I D Mair FCII

P00000007

Summary of Results

Abridged Group Profit and Loss Account year ended 31 December 1977

	1977 £m	1976 £m
Amounts credited in respect of insurance operations:		
Ordinary life assurance	11.7	9.9
Industrial life assurance	4.2	3.7
General insurance	10.4	6.3
	26.3	19.9
Other net credits	5.6	4.5
Profit available for distribution	31.9	24.4
Dividends paid and payable	19.8	16.4
Retained profits for year	12.1	8.0

Abridged Group Balance Sheet 31 December 1977

	1977 £m	1976 £m
Capital and reserves	153.3	114.4
Ordinary life assurance funds	3,231.7	2,851.5
Industrial life assurance funds	1,027.5	962.0
General insurance funds	277.8	251.1
	4,690.3	4,179.0
Investments	4,597.5	4,113.4
Net current assets	59.7	31.4
	4,657.2	4,144.8
Goodwill arising on consolidation	33.1	34.2
	4,690.3	4,179.0

Chairman's Statement

In 1977 the Group profit available for distribution at £31.9m shows a 30 per cent increase over last year's total of £24.4m. Your Directors have declared dividends for the year which after adding the attaching tax credit amount to 10.07p per share. This is an increase of 10 per cent over 1976.

The steady increase in profits from the main life business of The Prudential Assurance Company Limited continues to contribute to the progress of the Group. The satisfactory out-turn for 1977 was helped by an improvement in the profits of our reinsurance subsidiary, the Mercantile & General, and on a smaller scale in those of our Belgian subsidiary, L'Escaut. Prudential Pensions Limited, which operates in the unit-linked pensions field, has become a major insurance office in its own right. It has £224m of funds under management and is making a growing contribution to Group profits. Our short term general insurance business in the United Kingdom, however, did not show the improvement we had hoped for; this business includes a large element of house contents insurance and it will not be easy to achieve a return to profitability in this area until we can secure an increase in the level of cover to the true value of the goods insured. Overseas general business, of which our business in Canada accounts for about one half, gave rise to an underwriting profit again this year and would have shown a substantial increase were it not that we have had to provide for a refund to policyholders of a proportion of profits in Canada amounting to £3.2m under the arbitrary regulations imposed on us there by the Anti-Inflation Board.

In 1977 the Company bid successfully for The Standard Trust Limited, an authorised investment trust with a high quality portfolio. This bid resulted in the issue of 25,677,833 new shares in the Company, and raised the surplus of assets over the technical liabilities by some £30m. At the end of 1977 the total free assets of the Group amounted to some £180m. It is these free assets which support the growth of the non-life business, and the acquisition of The Standard Trust Limited has given us a better base for further growth, whilst giving additional protection to our solvency margins in the event of any setback in the market prices of our assets.

We have been allowed by the authorities, now that the balance of payments is stronger, to increase the extent to which we hold appropriate reserves in currencies against our overseas liabilities. It is to be hoped that Britain's present foreign payments position will encourage the authorities to allow us to take this process further. During the long period of tight exchange controls too great a proportion of insurance companies' free assets has come to be held in sterling rather than in the currencies in which liabilities will arise. It would be a sensible use of a very small part of Britain's expected foreign payments surpluses over the next few years if the companies were given the opportunity, without taking exchange risks, to increase their share of international insurance business against the day when our balance of payments will once again lean heavily on the success overseas of Britain's service industries.

The Wilson Committee

The Committee of Inquiry set up under the chairmanship of Sir Harold Wilson to examine the working of the financial system, especially as it relates to the provision of finance for industry, has been busy taking evidence. The Committee has not yet stated its conclusions, but it has published a summary of the evidence it has received on the provision of finance for industry, and the process of publishing the full evidence placed before it is well under way. We have participated fully in the insurance industry's preparation and presentation of its evidence. Although this process has been demanding of the time of senior personnel, as it has throughout the City, the conviction is growing that the effort will prove to have positive value beyond that of successfully refuting the charge that the financial system has failed to provide industry with the funds required for investment in plant and equipment. We hope that following the self-critical appraisal of their role as investors undertaken whilst preparing their evidence the process of gradual change in many institutions' attitudes to their role as shareholders in industry will now quicken. Institutional investors seem likely to develop closer contacts with industrial managements, and to do more to promote a better mutual understanding of the common long term interests of investors and the companies in which they invest. We also welcome the Confederation of British Industries' campaign to extend the use of non-executive directors.

The Wilson Committee's interim report showed how the gathering of facts and the application to them of objective analysis caused a whole line of criticism of the institutions to collapse. This first report indicates that in the course of its enquiries the Committee has become interested in several other lines of criticism of current financial practice. One such matter is of great interest to us, and that is the suggestion that it would be better to move from the practice of funding pension arrangements to that of paying pension benefits as they arise out of current revenues. We believe that subjecting this proposal to rigorous scrutiny will also result eventually in the exposure of its weakness. Apart from more specifically economic arguments, the process of building funds during the working life of producers from which eventually pensions will be paid has a number of important beneficial aspects. In particular it enables the generation currently producing to demonstrate its willingness to provide for its future pensions itself by foregoing some current consumption. In the absence of such a process the potential conflict of interest between current producers and retired producers could become acute as the proportion of the retired to the active population becomes greater.

A welcome reduction in the rate of inflation

The monetary and fiscal policies the Government adopted in late 1976 as part of the arrangements whereby funds were made available to Britain from the International Monetary Fund were largely maintained throughout 1977 and, accompanied as they have been by a measure of self-discipline and realism on the part of

Chairman's Statement continued

the working population in the field of incomes, a substantial reduction has been achieved in the rate of inflation. Our inflation rate is still greater than that of most of our major industrial competitors, but if the downward momentum can be maintained, an end to the process of systematically destroying the basis of our industry's competitiveness at stable exchange rates is in sight. Whilst 1977 was thus a year in which considerable progress was made in the fight against inflation, with beneficial effects upon the standing of sterling—which was further helped by the growing contribution from our North Sea oil—it has not been a good year for economic activity and employment. Although the current year should see some improvement in the level of economic activity, there is a worrying sluggishness in the world economy generally which suggests that we will not find it at all easy to generate sufficient growth to make substantial inroads into the high level of unemployment. In the short term there can seem to be a conflict between the policies needed to reduce inflation and those which will increase employment. Let us hope that the lesson has now been learnt that to risk a return to a higher rate of inflation in order to give a short term boost to employment may in the end only result in worse unemployment. If, in the long run, we are to combine higher levels of employment with an exchange rate which maintains sterling's purchasing power in terms of other leading currencies, and in the process enjoy more rapid economic growth, this happy conjunction will have to be based on much higher levels of productivity in British industry. The gap between British productivity levels and the best levels elsewhere, even where the technology used is similar, is such that the scope for us to improve our performance is very obvious. In order to do so we must accept that we need to revise our tax system so as to improve incentives, to change our attitudes to the efficient use of plant and machinery, and to accept a more flexible use of labour in order to obtain the best from that plant. The increase in confidence in our future and the better base from which we could then expect to compete, both in our home market and abroad, should enable us to create sufficient new jobs to more than compensate for the transitional loss of jobs during the process of raising productivity.

The burden of legislation

In common with other industries we face an increasing burden of legislation. The problem which this poses even to a large company such as ours, whilst considerable, must be much more serious in its impact on smaller companies and private businesses and the overall effect must be to act as a very damaging brake on the development of a more expansionist mood in the economy.

We have in this country a long history of insurance legislation designed primarily to protect the consumer. Initially this legislation was directed to ensure solvency, but over the years it has been extended to other aspects of consumer protection. This was so in the 1974 Insurance Companies Act and in the Regulations being

made thereunder. There is also the proposed legislation arising from the European Community, again largely with the object of protecting the consumer, although there are occasions when it appears that the search for harmonisation becomes an end in itself rather than a means to a more sensible and satisfactory end result.

Consideration and implementation of this legislation places a considerable burden on the management and staff of companies. In many instances it also leads to an increase in costs, which in the long run are borne by the consumer. Worthy as the objects of a particular piece of legislation may be when considered in isolation, it is essential to retain a proper sense of balance. Otherwise we shall find that legislation which had as its objective the protection of the consumer will have a cost to the consumer exceeding the value of the protection provided. I am pleased to say there are some signs that this is beginning to be recognised.

Occupational Pensions

Over the last twelve months our group pensions staff have been heavily engaged, with employers and their advisers, in discussing the implications of the contracting-out facility under the new State scheme and of the alternative courses available. In the event the majority of the larger companies decided to contract-out of the earnings-related component of the State scheme. One pleasing consequence is the inclusion in good occupational pension schemes of many more manual workers. Those responsible for administering schemes now have the task—and the opportunity—of showing that the contracted-out arrangements can be made to work successfully, notwithstanding the necessarily more complex administrative requirements. We expect that the Company's experience and long standing reputation for good service will stand us in good stead in this respect.

Although most of the schemes we administer for the smaller companies are not being contracted-out, the majority are being maintained with us to provide benefits additional to those under the State scheme. Many employees in small companies still have no occupational scheme cover; and so we introduced last autumn a new with-profit plan—the Prudential Company Retirement Scheme—for groups of five lives or more who are not to be contracted-out. The plan is designed to fill, in relatively simple form, the gaps left by the new State provisions. Following the removal of the restraints on improvements in occupational pension schemes, we have also up-dated our Executive Pension Plan; this gives employers maximum flexibility in tailoring individual benefits for key personnel. These new schemes, taken together with our established position for with-profit funding schemes, our association with the John Hancock Mutual Life Insurance Company of Boston and other insurers in the International Group Programme, and, in particular, our unit-linked plans through Prudential Pensions Limited, put us in a strong position to benefit from a more settled period for occupational pensions now that the new State arrangements are in operation.

Chairman's Statement continued

Inflation Accounting

In the autumn the Hyde Committee produced recommendations for adjusting operating results to reflect the effect of inflation. The recommendations, which we generally welcome, have received widespread support. It has been suggested that a prominent statement showing the inflation accounting adjustments recommended by the Hyde Committee should be included in the Reports and Accounts of companies for 1977.

The insurance industry, acting through its principal representative body, the British Insurance Association, has been considering the application of the Hyde guidelines to insurance companies. There is general agreement that inflation accounting adjustments are unnecessary for long term insurance business, mainly because the Actuary already takes inflation into account in his valuation. In the case of short-term business there are difficulties still to be overcome before a suitable inflation accounting adjustment can be devised and this has been explained to the Accounting Standards Committee and the Stock Exchange.

Until these difficulties have been resolved your Directors have decided that it would be inappropriate to publish an inflation adjusted statement of results.

Appointments and Retirements

Members of the Management who retired during the year were Mr A L Laws, Deputy Group Pensions Manager, and Mr C F M Lello, Assistant Secretary. Mr A L Martin and Mr H A Metcalf MBE, Assistant

General Managers, have retired since the year end. In aggregate they contributed 180 working years to the progress of the Company and their wide experience and companionship will be greatly missed. Promotions to the Management during the year were: Mr H J Hancock, Mr L P Hawkes, Mr D J Hunter, Mr D F Roper and Mr J V Swales. In addition, Mr T J L Richards was appointed as Manager and Actuary of Prudential Pensions Ltd, a post carrying Management status. Following the retirement of Mr Metcalf, Mr J Hasloch has taken over responsibility for personnel and staff matters, and Mr J R Powell has been promoted to Assistant General Manager with responsibility for management services. Mr R W Rankin resigned from our Canadian Branch Investment Committee owing to his increasing commitments outside Canada. He joined our Committee in 1969 and his counsel will be missed, especially in real estate matters, the area of his special expertise.

Staff

In every part of the Group, both at home and overseas, our success and reputation depend upon the skill, loyalty and hard work of our staff. We very much appreciate their efforts and I am sure shareholders would wish to join me in expressing our thanks to them.

R H Owen
Chairman
20 April 1978

Progress Report

With effect from 1 January 1977 the business of the Company's branch in South Africa was transferred to a locally registered wholly owned subsidiary. The business transacted in South Africa is therefore no longer included in the Company figures. In the Progress Report the 1976 Company figures have been adjusted to place them on a basis comparable with 1977.

For overseas business, comparisons between the figures for 1977 and 1976 are affected by the rise in the value of sterling in 1977. Note 1 (e) on page 30 explains the treatment of exchange rates.

Life Business Summary

The world wide business (Ordinary and Industrial) of the parent Company and Group, other than specialist reinsurance, was as follows :

	Company 1977 £m	1976 £m	Group 1977 £m	1976 £m
New business :				
Annual premium income	91.7	95.5	105.8	110.1
Single premiums and considerations	26.1	25.5	80.8	66.5
Business in force at end of year :				
Annual premium income	478.0	442.6	540.5	495.8
Sums assured, including bonus	23,536.2	20,501.2	24,549.1	21,462.1
Annuities per annum, including bonus and amounts to be purchased by future recurrent single premiums	520.0	484.7	606.1	561.1

Individual life business—United Kingdom

Industrial business

New business premium income in 1977 at £32.8m was 9 per cent higher than in 1976. At the end of the year the total annual premium income in force had risen by 11 per cent to £159.4m, with sums assured (including bonus) rising by 13 per cent to some £3,289m.

The ratio of expenses to premiums remains a matter of concern, but it is pleasing to record a small reduction in 1977. This is the first reduction for some years.

There was a continuing improvement in the return on our investments and the rate of reversionary bonus has been increased this year from £2.60 to £2.80 per £100 sum assured. The rates of terminal bonus have also been increased and the scale has been extended to include policies issued in 1976.

Ordinary business

In 1977 the parent Company's new annual premium income from individual assurances and annuities rose to £27.5m, an increase of over 14 per cent compared with 1976. This is an encouraging performance and is appreciably better than that of the industry as a whole. An increase in new premiums for the Prudential Personal Retirement Plan of 35 per cent to £5.9m made an important contribution to this result and demonstrates the particularly attractive nature of this contract.

The parent Company's total revenue premium income from individual assurances and annuities including single premiums was £142.9m as compared with £145.8m in 1976. Revenue annual premium income increased to £133.2m in 1977 from £118.5m in 1976.

The rates of bonus declared are set out in the report of the Chief Actuary on pages 36-42. For ordinary branch assurances the rate of reversionary bonus has been increased by 20p per £100 sum assured to £4.40. Increases have also been made in the rates of terminal bonus and the scale has been extended to include policies issued in 1976. The further increase in bonuses reflects the continued improvement in the return on our investments.

Vanbrugh Life

In the unit-linked market Vanbrugh Life, operating exclusively through brokers, made further excellent progress with new single premiums of £46.7m, an increase of £11.0m over 1976, and new annual premiums of £1.0m. This latter figure was well short of the performance of 1976 which was an exceptional year because of the large volume of business placed in anticipation of fiscal changes in that year. Total funds under management were £113m at the year-end, compared with £53m at the end of 1976.

Since the year end Vanbrugh Life has established a subsidiary company, Vanbrugh Pensions Limited, writing unit-linked pensions business for the self-employed.

Group pensions business—United Kingdom

New annual premiums for group pensions business, including unit-linked plans written by our subsidiary

Progress Report continued

Prudential Pensions Limited, were £24.8m as compared with £26.3m in 1976; new single premiums for such business increased to £16.5m from £12.3m. The development of occupational pension schemes was again inhibited by the pay limits. But an encouraging feature of the year was that, in addition to several new schemes coming under management of Prudential Pensions Limited, trustees of many existing schemes decided to rely more extensively on our services.

Total revenue premium income from group pensions business has now reached over £146m, an increase of 16 per cent as compared with 1976. The improved rates of bonus declared by the Company are set out in the report of the Chief Actuary on pages 36-42.

Life and Pensions business—overseas

In terms of local currencies, the parent Company's new annual premiums for individual assurances were unchanged from the previous year, a downturn in business in Australia and New Zealand being offset by good progress in Canada and other branches. Single premiums and annuity considerations for individual business increased by 62 per cent and new premium income for group pension and life assurance by 27 per cent, substantial increases in Canada being partially offset by reductions in some other branches. During the year the Company established a Life Branch in Hong Kong offering contracts in local currency and in US dollars as well as sterling.

Converted to sterling, overseas revenue premium income in 1977 was £102.9m compared with £102.4m in 1976, the increase being much smaller than in 1976 mainly due to the strengthening of sterling during the year. In most countries continued improvement in the return on our investments has enabled bonus rates to be increased.

In the first year of operation as a subsidiary, new annual premiums for individual business in South Africa increased by over 7 per cent but new premiums for group pensions and life assurance declined. Revenue premium income in 1977 in terms of sterling was £25.0m compared with £31.2m in 1976, the reduction arising partly from the receipt in 1976 of a substantial amount of single premium business and partly from the strengthening of sterling. The life business of our Belgian subsidiary, L'Escaut, continued to expand rapidly, new annual premiums being over 30 per cent higher than in the previous year. Although the life business being written should in due course give rise to profits for shareholders, it produces financial strains in its early years, which are reflected in L'Escaut's loss in its life business.

Profits from Life business

The profits after providing for taxation, of the life business, (excluding specialist reinsurance) were as follows:

	1977	1976
	£000	£000
Parent company:		
Ordinary branch (UK and overseas)	9,893	8,953
Industrial branch	4,207	3,722
South Africa	476	425
Prudential Pensions	433	285
Vanbrugh Life	353	(438)
Greville	(36)	(134)
L'Escaut	(274)	(235)
	<u>15,052</u>	<u>12,578</u>

General Insurance

General insurance premiums for the parent Company and Group, excluding specialist reinsurance, were as follows:

	1977	1976
	£m	£m
Company	187.9	176.9
Group	221.3	207.4

United Kingdom

The parent Company's fire and accident experience in the United Kingdom continued to be adverse and an underwriting loss of £3.1m was recorded compared with a loss of £2.9m in 1976. The domestic account was again the largest contributory factor to this result. New subsidence claims cost the Company an estimated £1.25m. These claims and the continuing effects of underinsurance and inflation combined to produce a substantial underwriting loss. Continuing efforts are being made to persuade householders to bring their cover up-to-date and to increase it in line with the rate of inflation.

Our commercial property and pecuniary loss accounts remained profitable despite the record level of fire losses in 1977.

The motor account closed with a small underwriting loss. Claim frequency was higher than in the previous year and average claim costs increased faster than the rate of inflation. Both of these factors indicate a continuing need to review premium rates regularly.

P00000013

Progress Report continued

The year 1978 has opened with the Company facing heavy claims following the East Coast floods in January. The cost is estimated at £1m and because the claims arose in a period largely covered by premiums written in 1977, provision has been made in the accounts for these claims to the extent that they were abnormal.

Overseas

There was a marginal deterioration in the parent Company's fire and accident experience overseas, which showed an underwriting profit of £0.1m as against £0.7m in 1976.

In Canada, which accounts for over half of the parent Company's General overseas business, there was a satisfactory improvement in underwriting results. In accordance with the requirements of the Anti-Inflation Board in Canada, refunds amounting to some £3.2m will be made to policyholders in 1978. Full provision for the refunds has been made in this year's accounts and underwriting profits have been reduced accordingly.

In Australia the improvement in profitability reported last year has continued. To some extent this was achieved by eliminating less profitable business in a highly competitive market. We are now seeking to increase the volume of our business again but without sacrificing the improved level of profitability.

In New Zealand the underwriting situation also remains intensely competitive with a resulting depressing effect on premium rates. The hoped-for recovery has yet to emerge.

A substantial increase in premium income was recorded in South Africa during 1977 but despite a significant improvement in the underwriting experience, the overall result was disappointing.

As at the beginning of 1977, our business in Italy was incorporated into a wholly owned subsidiary, 80 per cent of the shares of which were then sold to local interests. In Holland, the market remains very competitive and the underwriting experience has again been poor. In Belgium however the results of our subsidiary, L'Escaut, have improved considerably despite the continued restriction of motor rates in accordance with the anti-inflation regulations. In recent years our business in Germany has consisted of marine insurance only, but we are now also writing fire and accident business.

Progress has been made in establishing a framework for development in the Middle East.

Marine & Aviation

There has been no relaxation in the intense competition for marine and aviation business. Following the air crash on Tenerife in March 1977 it was felt that the rates obtainable for aviation insurance would return to more economic levels, but this has not happened. The 1975 underwriting year closed with a deficit and the outlook for the open years 1976 and 1977 remains doubtful. Transfers totalling £0.75m (1976 £1.0m) have been made from Profit and loss account to maintain the marine and aviation funds at appropriate levels.

General Insurance Profits

The profits from general insurance business (excluding specialist reinsurance) were as follows:

	1977 £000	1976 £000
Parent Company:		
Underwriting loss:		
—Fire and Accident	(2,990)	(2,199)
—Marine & Aviation	(750)	(1,000)
	(3,740)	(3,199)
Investment income	12,799	12,697
	9,059	9,498
South Africa	(26)	(997)
L'Escaut	1,579	563
Other	—	4
	10,612	9,468
Trading profit before tax	3,566	3,390
Taxation		
Profit after tax	7,046	6,078

Mercantile & General

The profit after tax of our specialist reinsurance subsidiary, Mercantile & General, including investment income, increased to £5.3m (including taxation provisions written back of some £1.5m) compared with £1.9m in 1976. The company's expansion of recent years has continued but the strengthening of sterling against the US dollar and some other currencies reduced the impact of the large volume of business written overseas in comparison with 1976.

The Life and Continuous Disability business new premium income in the United Kingdom and overseas increased by 72 per cent to £27m and revenue premium income increased by 29 per cent to £71m. General reinsurance premiums at £125m were 22 per cent higher than in 1976.

Progress Report continued

Group Profit and loss account

The Group profits and retentions were as follows :

	1977		1976
	£000		£000
Life business	15,052		17,578
General business	7,046		6,078
Specialist reinsurance	4,233		1,286
Investment income on shareholders' funds, other income, less expenses	9,143	8,652	
Less : Taxation thereon	3,588	4,151	
	5,555	---	4,501
Net profit after tax	31,886		24,443
Dividends	19,837		16,405
Retained profits	12,049		8,038

Retained profits, the acquisition of The Standard Trust and improved stock market prices raised the Group solvency margin to 53 per cent at the end of 1977 compared with 33 per cent at the end of 1976.

Investments

Following the strong recovery of sterling and rapidly falling inflation rates the greater confidence in the country's economic future has resulted in a significant improvement since the end of 1976 in the market values of the Group's investments. During 1977 interest rates fell and the prices of equities and long term fixed interest securities rose by some 40 per cent and 30 per cent respectively. Property values rose by 15 to 20 per cent during the year.

Towards the end of the year, however, investors became more concerned that despite the encouraging recovery of certain financial aspects of economic performance, little progress was being made in increasing the level of economic output. The doubts which still exist resulted in a steady drift downwards in stock market prices in the autumn and this has continued into 1978.

	Net Investment in 1977			
	Company		Group	
	Life £m	General £m	Life £m	General £m
Funds arising in the United Kingdom				
British Government securities	179	(3)	249	12
Other fixed income securities (including mortgages on property)	(21)	(2)	(2)	(1)
Ordinary shares	16	2	82	(6)
Property	34	—	76	1
	208	(3)	405	6
Funds arising overseas				
Fixed income securities (including mortgages on property)	50	24	72	42
Ordinary shares	2	1	7	—
Property	2	—	2	2
	54	25	81	44

In 1977 the demand for finance in the United Kingdom was predominantly from the Government, and we invested a major proportion of our funds in government securities, the yields on which continued to look favourable with the prospect of lower rates of inflation. Demand for new industrial finance was quite modest despite the strength of the equity market and the willingness of most institutions to commit funds to this sector. As usual we underwrote most of those issues which were made. Property investment in 1977 was again lower as developments commenced in earlier years approached completion.

The relative strength of sterling against the currencies in the majority of the countries in which we transact business has depressed the sterling value of new funds invested overseas. In terms of local currency the net purchases increased by some 20 per cent, and these were again this year concentrated in fixed income securities. The investments transferred to the South African subsidiary have been eliminated before calculating the net investment made by the Company.

As a result of the acquisition of The Standard Trust the Group's holdings of ordinary shares rose by about £30m divided broadly 60 per cent in the United Kingdom and 40 per cent overseas. These have not been included in the table above.

Trusteeships

The amount of debenture and loan stocks for which the Company acts as Trustee exceeded £1,582m (£1,580m) at the end of the year.

P00000015

Supplementary Information relating to the Group

Geographical distribution of the business of the Group based on premium income

Industrial life business is transacted only in the United Kingdom. Other business was located as follows :

	Ordinary life assurance %	General insurance %
United Kingdom	70.5	36.7
EEC countries (other than UK)	0.8	15.7
Australia and New Zealand	9.3	6.9
Canada	10.0	20.2
South Africa	5.8	3.8
United States of America	0.5	3.8
Other territories	3.1	12.9
	100.0	100.0

Analysis of Shareholdings in the Company 31 December 1977

	1977 %	1976 %
Banks (mainly nominee holdings)	38.1	36.7
Insurance companies	12.2	11.3
Pension funds	14.3	12.3
Investment trusts	2.5	2.1
Other corporations	9.1	12.1
Individuals	23.8	25.5
	100.0	100.0

	1977	1976
Number of Shareholders	34,700	33,800



P00000017

1858-016

Notice of Meeting

and

Directors' Report and Accounts for the year ended 31 December 1977

The Prudential aims to maintain the highest standard of service to its policyholders. The latest equipment is used to ensure that all transactions are handled quickly and efficiently. The modern data processing equipment shown here is part of the extensive installation in the administrative office at Reading which feeds data to the main computer centre at Holborn.

Equally important is a speedy postal service. The Postal Department at Holborn deals with over 250,000 items each day. The inset picture shows the section handling the special Post Office wallets used for inter-office mail.

The Prudential Assurance Company Limited

Incorporated in England Regd. No. 15454

Notice is Hereby Given

that the Annual General Meeting of this Company will be held at the Registered Office of the Company, No. 142 Holborn Bars London EC1N 2NH on Thursday 25 May 1978 at 12.15 p.m. for the following purposes :

To receive the Directors' Report and Statement of Accounts for the year ended 31 December 1977

To re-elect Directors

To appoint Auditors

To transact any other business proper to be transacted at the said Meeting

In connection with the re-election of Directors special notice has been given to the Company, pursuant to the Companies Act 1948, that separate resolutions will be moved proposing the re-election of Mr Ronald Hugh Owen FIA, Mr John Anthony Tristram Barstow DSO TD DL, The Rt Hon Lord Caccia GCMG GCVO and Mr Angus Fraser Murray CBE FIA who retire by rotation and who will be aged 67, 71, 72 and 69 respectively at the date of the Meeting.

By order of the Board of Directors

R E Artus,

P E Moody,

Joint Secretaries.

142 Holborn Bars London EC1N 2NH

28 April 1978

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

The attention of shareholders who are members of the Company's Field Staff is drawn to Section 33 (2) of the Industrial Assurance Act 1923, which provides that no collector or superintendent shall be present at any meeting of an Industrial Assurance Company.

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

Directors' Report for the year ended 31 December 1977

Principal Activity

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

Share issue

Pursuant to an offer dated 1 April 1977 to holders of 115,000,000 Ordinary shares 25p fully paid of The Standard Trust Limited the Company allotted 25,677,833 5p shares credited as fully paid.

All the shares allotted rank *pari passu* with the existing shares of the Company.

Accounts

Particulars of the principal subsidiary companies are given in note 4 on the accounts on page 32. Other information in respect of the Company accounts is given on pages 43 to 45 and a Ten year review of the Group on page 46.

This year for the first time the accounts of the minor subsidiaries have been consolidated with those of the rest of the Group. The figures for 1976 have been adjusted onto a comparable basis. Most of the subsidiaries involved are relatively small investment subsidiaries of the Ordinary and Industrial branches.

The Balance sheet total of the tangible assets is, Company £4,094,228,000 (£3,969,105,000) and Group £5,021,847,000 (£4,492,725,000). Income from all sources as shown in the Revenue and Profit and loss accounts, including part of unrealised margins of Investment over Balance sheet values in the two life accounts, amounted to, Company £1,089,134,000 (£1,050,075,000) and Group £1,549,170,000 (£1,318,529,000).

The Ordinary life Group Revenue account on page 20 shows that surplus for distribution was £168,463,000 (£150,519,000). £156,725,000 (£140,613,000) was allocated to policyholders for bonuses leaving £11,738,000 (£9,906,000) for transfer to Group Profit and loss account.

The Industrial life Revenue account on page 22 shows that surplus for distribution was £67,969,000 (£59,475,000) and that of this amount £63,762,000 (£55,753,000) was allocated to policyholders for bonuses, leaving £4,207,000 (£3,722,000) for transfer to Profit and loss account. Industrial life assurance business is carried on by the parent company only.

The General insurance Revenue account on page 24 shows a net surplus of Company Long-term £954,000 (£828,000), Company Short-term £4,514,000 (£4,684,000) and Group £10,386,000 (£6,314,000).

Profit and loss accounts

The accounts on page 26 combine transfers from the life and general accounts, other items of income and outgo not dealt with in those accounts, the balances brought forward from 1976, transfers to and from reserves, the Dividends declared and the balances carried forward.

Certificates

The Company is able to give, and its officers will sign and deposit with the Secretary of State, all those certificates which under the Insurance Companies (Accounts and Forms) Regulations 1968 (as amended) are required in relation to the Company for the year under review. The certificate of the Chief Actuary in accordance with the above Regulations is included in his Valuation Report on page 39.

Directors' Report continued

Dividends

The Directors have declared a final dividend for 1977 of 4.198p per share payable on 25 May 1978 to shareholders on the Register at close of business on 27 April 1978. This dividend will carry, for shareholders resident in the United Kingdom, the right to a tax credit of 34/66ths amounting to 2.163p per share. The total dividend for the year, including the interim dividend of 2.450p paid in November 1977 amounts to 6.648p per share. Adding the tax credit, the equivalent gross dividend is 10.073p per share which compares with 9.158p per share for 1976.

Directors

The Directors retiring by rotation are Ronald Hugh Owen FIA, John Anthony Tristram Barstow DSO TD DL, The Rt Hon Lord Caccia GCMG GCVO and Angus Fraser Murray CBE FIA. They offer themselves for re-election. Leslie Brown FIA retired on 23 June 1977.

Directors' Shareholdings

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

	Shares of 5p each			
	On 31.12.77		On 1.1.77	
	Beneficially held	Other Interest	Beneficially held	Other Interest
R H Owen	6,000		6,000	
H G Clarke	4,824		4,824	
J E Ramsden	2,400	302	2,400	7,886
J A T Barstow	15,000	44,128	15,000	45,307
Lord Caccia	2,400		2,400	
Lord Carr of Hadley	2,000		2,000	
Sir J N Hogg	4,392		4,392	
A F Murray	2,400	918	2,400	918
Lord O'Brien of Lothbury	2,400		2,400	
F M Redington	3,600		5,600	
D A Reid	152,256	415,708	152,256	417,207
Sir P F D Tennant	2,400		2,400	
K A Usherwood	4,800	21,360	4,800	360

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

Between 31 December 1977 and 3 April 1978 the shareholding under 'Other Interest' of the Rt Hon J E Ramsden has been reduced by 302 shares and that of Mr K A Usherwood by 21,360 shares.

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

Directors' Report continued

Other Shareholdings

As far as the Directors were aware at 31 March 1978 no person had a shareholding of 5 per cent or more of the share capital of the Company.

Employees

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1977 was 21,995 and the aggregate remuneration paid or payable in respect of these employees during 1977 amounted to £96,133,953.

Donations

During the year £91,388 was given by the Company and its subsidiaries for charitable purposes in the United Kingdom and £34,654 overseas.

Auditors

The auditors, Deloitte & Co, have informed us that they are changing their name to Deloitte Haskins & Sells on 1 May 1978. In accordance with Section 14 of the Companies Act 1976, a resolution proposing the re-appointment of Deloitte Haskins & Sells as auditors to the Company, will be put to the Annual General Meeting.

R H Owen,
Chairman
Holborn Bars
20 April 1978

Ordinary Life Assurance

Balance Sheets 31 December 1977

	<i>Company</i>		<i>Group</i>	
	1977	1976	1977	1976
	£000	£000	£000	£000
Funds				
Life assurance fund	2,520,406	2,498,571	3,217,675	2,837,532
Contingency fund	14,000	14,000	14,000	14,000
	2,534,406	2,512,571	3,231,675	2,851,532
Investments				
British Government and British Government guaranteed securities	443,719	306,428	550,326	371,980
Other fixed income securities	377,461	491,272	545,643	544,910
Ordinary stocks and shares	661,341	640,998	874,458	748,561
Prudential Unit Trust units	18,968	13,200	18,968	13,200
Freehold and leasehold properties, rent charges and ground rents	692,961	669,599	832,060	755,759
Mortgages on property	214,724	249,359	235,922	260,877
Loans on policies and other loans	67,620	82,731	74,435	83,630
Subsidiaries (see notes 1b and 4)				
Ordinary stocks and shares	7,325	7,020	—	—
Unsecured loans	27,488	17,497	—	—
	2,511,607	2,478,104	3,131,812	2,778,917
Current assets				
Deposits at interest at home and overseas	10,159	8,530	10,386	8,530
Commission paid in advance	18,346	17,908	18,445	17,908
Outstanding premiums	8,215	8,015	8,878	8,385
Outstanding and accrued interest, dividends, rents and fees	36,836	33,648	41,576	34,825
Amounts due on reinsurance account	—	—	15,795	13,016
Amounts due from subsidiaries	337	191	—	—
Tax recoverable	—	403	494	2,393
Other debtors	4,702	3,487	8,032	6,405
Bank balances and cash:				
Deposits	41,050	53,405	105,410	79,677
Current account and cash	4,528	4,488	10,297	8,492
	2,635,780	2,608,179	3,351,125	2,958,548
Market value of assets (see note 1c)	3,200,942	2,672,098	3,965,273	3,027,069
Less				
Current liabilities				
Outstanding claims and annuities	21,721	21,948	30,651	29,101
Outstanding commission and expenses	7,117	6,833	7,625	7,075
Premiums received in advance	2,603	3,013	2,727	3,016
Amounts due on reinsurance account	—	—	230	822
Amounts due to subsidiaries	7,312	7,166	—	—
Taxation	3,241	—	—	—
Mortgage on property (see note 3)	143	204	143	204
Unsecured loans in overseas currencies (see note 3)	31,434	34,921	37,786	34,921
Other creditors	18,038	14,965	29,754	24,404
Loan stock of a subsidiary (see note 3)	—	—	692	900
Bank overdraft	9,765	6,558	9,842	6,573
	101,374	95,608	119,450	107,016
	2,534,406	2,512,571	3,231,675	2,851,532

Industrial Life Assurance

Revenue Account year ended 31 December 1977

	Company	
	1977 £000	1976 £000
Income		
Premiums		
Investment income (see note 1 j and page 43)	149,553	135,226
Part of unrealised margin of Investment over Balance sheet values (see note 1c)	96,397	83,303
	21,900	20,100
	267,850	238,629
Outgo		
Claims and surrenders (see page 43)	123,309	116,595
Expenses	64,001	58,549
Taxation (see note 1m)	10,848	8,691
	198,158	183,835
Excess of Income over Outgo		
Provision for increase/(decrease) in liability to policyholders	69,692	54,794
	1,719	(4,631)
Surplus for year		
Surplus carried forward last year	67,973	59,425
this year	1,068	1,118
Change in surplus carried forward	1,072	1,068
	(4)	50
Surplus for distribution		
Provision for policyholders' bonuses	67,969	59,475
	63,762	55,753
Balance to Profit and loss account (page 26)	4,207	3,722

Fund Account year ended 31 December 1977

Amount of fund at beginning of year		
Transfer to Investment reserve account (see note 1d)	940,527	904,855
	—	(15,400)
Amount of fund at beginning of year after adjustment		
Change in surplus carried forward	940,527	889,455
Provision for increase/(decrease) in liability to policyholders	4	(50)
Provision for policyholders' bonuses	1,719	(4,631)
	63,762	55,753
Amount of fund at end of year	1,006,012	940,527

Industrial Life Assurance

Balance Sheet 31 December 1977

	<i>Company</i>	
	1977	1976
	£000	£000
Funds		
Life assurance fund	1,006,012	940,527
Contingency fund	21,500	21,500
	1,027,512	962,027
Investments		
British Government and British Government guaranteed securities	255,652	186,098
Other fixed income securities	91,591	129,451
Ordinary stocks and shares	333,956	332,770
Freehold and leasehold properties, rent charges and ground rents	272,546	247,696
Mortgages on property	78,763	77,298
Other loans	6,922	8,109
Subsidiaries (see notes 1b and 4)		
Ordinary stocks and shares	1,690	1,707
Unsecured loans	855	1,163
	1,041,975	984,298
Current assets		
Outstanding and accrued interest, dividends, rents and fees	11,452	9,032
Amounts due from subsidiaries	955	499
Tax recoverable	1,073	2,302
Other debtors	5,170	3,302
Bank balances and cash :		
Deposits	27,543	32,976
Current account and cash	2,375	2,333
	1,090,543	1,034,742
Market value of assets (see note 1c)	1,710,563	1,294,475
<i>Less</i>		
Current liabilities		
Outstanding claims	3,983	3,507
Outstanding commission and expenses	3,158	2,194
Premiums received in advance	2,232	1,701
Amounts due to subsidiaries	1,735	1,742
Unsecured loans in overseas currencies (see note 3)	39,772	51,425
Other creditors	12,008	9,083
Bank overdraft	143	3,063
	63,031	72,715
	1,027,512	962,027

General Insurance

Revenue Accounts year ended 31 December 1977

	<i>Company Long-term</i>		<i>Company Short-term</i>		<i>Group</i>	
	1977 £000	1976 £000	1977 £000	1976 £000	1977 £000	1976 £000
Income						
Premiums	6,872	6,759	180,993	173,368	358,400	321,915
Investment income (see note 1j and page 43)	853	892	—	—	2,952	2,748
	7,725	7,651	180,993	173,368	361,352	324,663
Outgo						
Claims	2,601	2,726	102,951	99,250	194,382	183,040
Commission	746	769	25,098	25,199	67,605	60,570
Expenses	1,709	1,688	42,617	37,852	57,323	49,776
Overseas taxes other than on profits	36	36	1,262	1,303	1,298	1,339
Refund under Canadian Anti-Inflation Regulations	—	—	3,170	—	3,170	—
	5,092	5,219	175,098	163,604	323,778	294,725
Excess of income over Outgo	2,633	2,432	5,895	9,764	37,574	29,938
Provision for increase in liability to policyholders	705	683	11,563	15,505	47,053	40,200
Gross underwriting profit/(loss)	1,928	1,749	(5,668)	(5,741)	(9,479)	(10,262)
Investment income (see note 1j and page 43)	—	—	12,799	12,893	23,413	21,533
Gross surplus	1,928	1,749	7,131	7,152	13,934	11,271
Taxation (see note 1m)	974	921	2,617	2,468	3,548	4,957
Net surplus for year transferred to Profit and loss account (page 26)	954	828	4,514	4,684	10,386	6,314

Fund Accounts year ended 31 December 1977

Amount of fund at beginning of year	5,918	4,809	87,251	67,161	251,080	189,882
Deduct adjustments (see note 1i)	239	—	2,412	—	994	—
	5,679	4,809	84,839	67,161	250,086	189,882
Exchange adjustment (see note 1e)	(490)	426	(5,969)	4,585	(19,297)	20,998
Amount of fund at beginning of year after adjustment	5,189	5,235	78,870	71,746	230,789	210,880
Provision for increase in liability to policyholders	705	683	11,563	15,505	47,053	40,200
Amount of fund at end of year	5,894	5,918	90,433	87,251	277,842	251,080

A detailed statement of the Company's Short-term business appears on pages 44 and 45.

P0000027

General Insurance

Balance Sheets 31 December 1977

	<i>Company Long-term</i>		<i>Company Short-term</i>		<i>Group</i>	
	1977 £000	1976 £000	1977 £000	1976 £000	1977 £000	1976 £000
Funds						
Insurance Funds	5,894	5,918	90,433	87,251	277,842	251,080
Investments						
British Government and British Government guaranteed securities	1,070	1,240	11,711	9,034	31,418	20,051
Other fixed income securities	4,731	4,436	77,285	63,418	152,111	127,701
Ordinary stocks and shares	1,958	2,073	30,453	31,618	85,460	87,418
Freehold property	—	—	2,528	2,559	12,644	10,378
Mortgages on property	—	—	8,659	8,996	19,583	17,454
Other loans	—	500	1,074	4,483	1,145	4,986
Subsidiaries						
Ordinary stocks and shares	—	—	—	328	—	—
	7,759	8,249	131,710	120,436	302,361	267,988
Current assets						
Deposits at interest at home and overseas	739	1,026	7,472	10,973	8,332	11,999
Agents' balances	—	—	5,682	6,093	12,669	11,734
Outstanding premiums	11	5	23,131	24,091	24,768	25,722
Outstanding and accrued interest, dividends, rents and fees	114	100	1,295	1,126	2,822	2,292
Amounts due on reinsurance account	—	3	9,903	10,860	58,047	55,385
Amounts due from subsidiaries	—	—	2,647	1,513	—	—
Tax recoverable	—	—	1,010	448	—	—
Other debtors	—	9	3,019	2,584	8,229	6,216
Bank balances and cash:						
Deposits	1,238	145	20,450	16,771	28,362	21,720
Current account and cash	897	461	4,312	7,552	8,616	11,737
	10,758	9,998	210,631	202,447	454,206	414,793
Market value of assets (see note 1c)	12,677	10,639	237,790	213,822	509,392	435,625
<i>Less</i>						
Current liabilities						
Outstanding claims	2,330	2,357	88,448	84,286	120,968	113,584
Outstanding commission and expenses	1	1	6,399	6,454	6,417	6,455
Premiums received in advance	—	—	726	322	1,235	775
Amounts due on reinsurance account	—	—	11,283	12,182	24,894	20,811
Amounts due to subsidiaries	—	—	108	245	—	—
Taxation	1,479	812	—	—	129	104
Unsecured loans in overseas currencies	—	—	—	2,136	—	2,136
Other creditors	954	861	11,096	7,840	19,220	18,394
Bank loan and overdraft	100	49	2,138	1,731	3,501	1,454
	4,864	4,080	120,198	115,196	176,364	163,713
	5,894	5,918	90,433	87,251	277,842	251,080

Profit and Loss Accounts

year ended 31 December 1977

	<i>Company</i>		<i>Group</i>	
	1977	1976	1977	1976
	£000	£000	£000	£000
Transfer from Ordinary life assurance revenue account	9,893	9,378	11,738	9,906
Industrial life assurance revenue account	4,207	3,722	4,207	3,722
General insurance revenue account—Long-term	954	828	10,386	6,314
Short-term	4,514	4,684		
Investment and other income (see note 1j)	9,338	8,815	9,634	8,724
Trustee and executor fees	186	194	186	194
	29,092	27,621	36,151	28,860
<i>Less</i>				
Expenses	406	329	529	348
Taxation (see note 1m)	3,558	4,224	3,588	4,151
Exchange difference	—	—	148	(82)
	3,964	4,553	4,265	4,417
Profit for the year	25,128	23,068	31,886	24,443
<i>Less</i>				
Transfers to/(from) Inner reserves of subsidiaries	—	—	1,250	(3,086)
Short-term business Investment reserve account	—	—	982	286
General reserve	5,000	6,500	7,740	10,048
	5,000	6,500	9,972	7,248
	20,128	16,568	21,914	17,195
<i>Add</i>				
Balance at beginning of year (see note 1k)	1,668	1,678	2,162	1,545
Over-provision of deferred final dividend (see note 1k)	173	—	173	—
Balance for appropriation	21,969	18,246	24,249	18,740
Interim dividend	7,311	6,000	7,311	6,000
Final dividend payable (see page 18 and note 1k)	12,526	10,578	12,526	10,578
Dividends for the year	19,837	16,578	19,837	16,578
Balance at end of year (see note 1k)	2,132	1,668	4,412	2,162

P00000029

Balance Sheets of the Company and of the Group

31 December 1977

	Company		Group	
	1977	1976	1977	1976
	£000	£000	£000	£000
Capital, Reserves and Funds				
Capital (see note 2)				
Issued and fully paid 298,388,254 (1976 272,710,421) shares of 5p each	14,919	13,636	14,919	13,636
Share premium account (see note 2)	106,108	78,471	106,108	78,471
General reserve	21,500	16,500	27,788	20,048
Profit and loss account	2,132	1,668	4,412	2,162
Ordinary life assurance funds	2,534,406	2,512,571	3,231,675	2,851,532
Industrial life assurance funds	1,027,512	962,027	1,027,512	962,027
General insurance funds —Long-term	5,894	5,918	277,842	251,080
Short-term	90,433	87,251		
	3,802,904	3,678,042	4,690,256	4,178,956
Investments				
British Government and British Government guaranteed securities	757,835	551,459	893,100	628,069
Other fixed income securities	565,121	702,063	815,466	821,327
Ordinary stocks and shares	1,027,708	1,007,465	1,328,138	1,177,684
Prudential Unit Trust units	18,968	13,200	18,968	13,200
Freehold and leasehold properties, rent charges and ground rents	970,188	921,639	1,124,207	1,020,270
Mortgages on property	302,146	335,653	335,091	356,171
Loans on policies and other loans	75,616	95,823	82,505	96,726
Subsidiaries (see notes 1b and 4)				
Fixed income securities	954	—	—	—
Ordinary stocks and shares	93,663	58,529	—	—
Unsecured loans	28,343	18,660	—	—
	3,840,542	3,704,491	4,597,475	4,113,447
Current assets				
Deposits at interest at home and overseas	19,460	20,529	19,808	20,529
Agents' balances	5,682	6,093	12,669	11,734
Commission paid in advance	18,346	17,908	18,445	17,908
Outstanding premiums	31,357	32,111	33,647	34,107
Outstanding and accrued interest, dividends, rents and fees	50,806	44,752	57,172	46,918
Amounts due on reinsurance account	9,903	10,863	73,849	68,364
Amounts due from subsidiaries	5,935	2,813	—	—
Tax recoverable	—	448	—	2,452
Other debtors	11,318	8,051	19,785	14,788
Bank balances and cash:				
Deposits	90,281	106,538	167,445	139,357
Current account and cash	10,598	14,508	21,552	23,121
	4,094,228	3,969,105	5,021,847	4,492,725
Market value of total tangible assets (see note 1c)	5,321,499	4,303,527	6,317,616	4,837,956
<i>Less</i>				
Current liabilities				
Outstanding claims and annuities	116,482	112,098	155,602	146,193
Outstanding commission and expenses	16,675	15,482	17,200	15,723
Premiums received in advance	5,561	5,036	6,194	5,492
Amounts due on reinsurance account	11,283	12,182	25,131	21,596
Amounts due to subsidiaries	8,475	8,991	—	—
Taxation	5,523	—	2,910	—
Mortgage on property (see note 3)	143	204	143	204
Unsecured loans in overseas currencies (see note 3)	83,092	100,768	92,002	103,094
Other creditors	21,140	12,830	36,938	31,213
Interest of outside shareholders in subsidiaries	—	—	57	60
Loan stocks of subsidiaries (see note 3)	—	—	3,442	900
Bank loan and overdraft	10,424	12,894	12,507	12,909
Final dividend	12,526	10,578	12,526	10,578
	291,324	291,063	364,652	347,962
	3,802,904	3,678,042	4,657,195	4,144,763
Goodwill arising on consolidation (see note 1b)	—	—	33,061	34,193
	3,802,904	3,678,042	4,690,256	4,178,956

an integral part of these accounts.

27

P00000030

1858-029

Statement of Source and Application of Funds of the Group (excluding Life)

year ended 31 December 1977

	1977	1976
	£m	£m
Source of funds:		
Profit after tax		
Increase in insurance funds (see footnote a)	31.9	24.4
Increase in:	47.1	40.2
Debtors (see footnote b)		
Creditors (see footnote c)	(22.4)	(16.6)
	26.0	31.6
Depreciation	82.6	79.5
	0.8	0.5
Total cash growth from operations		
Funds from other sources:	83.4	80.0
Shares issued in consideration of the acquisition of The Standard Trust Ltd. (see footnote d)	29.9	—
	113.3	80.0
Application of funds:		
Dividend paid to shareholders	17.7	15.3
Net funds available for investment	95.6	64.7
Changes in investments and net liquid funds:		
Increase/(decrease) in:		
British Government and British Government guaranteed securities	11.5	15.0
Other fixed interest stocks	40.7	46.9
Equities	(6.0)	8.5
Property	3.9	2.1
Mortgages on property	4.2	5.3
Other loans	(3.4)	3.9
Short term deposits	6.2	(16.0)
Cash in hand and on current account	1.1	0.8
Net assets of The Standard Trust Ltd. (see footnote d)	35.5	—
	93.7	66.5
Decrease/(increase) in:		
Bank overdrafts, loans and other short term borrowing	1.9	(1.8)
	95.6	64.7

Notes

- (a) After exchange adjustment of opening balance.
- (b) Includes—outstanding and accrued dividends, interest, rents and fees.
- (c) Includes—outstanding claims, commission and expenses, premiums received in advance and taxation.
- (d) The net assets of The Standard Trust Ltd. comprised in the main investments in equities and fixed interest stocks. The purchase price and associated expenses were discharged by the issue of ordinary shares to the value of £29.9m and by £5.6m in cash.

Notes on the Accounts

1 Accounting policies

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

(a) Disclosure requirements

Being an authorised insurance company, the Company does not disclose in the accounts certain information, including some relating to provisions and reserves from which it is exempt under the 8th Schedule to the Companies Act 1948 as amended by the Companies Act 1967.

Gains and losses on the realisation of investments, the relative taxes, and certain exchange adjustments have been excluded from the Company's reported revenue results and are dealt with in Investment reserve accounts—see note (d). Information as to the amount of earnings per share is not appropriate to life assurance business and has not been given.

(b) Basis of consolidation

(i) Subsidiaries

The Group accounts include this year, for the first time, figures for all the Company's subsidiaries and the comparative figures for 1976 have been adjusted accordingly. The figures of the subsidiaries previously excluded were not significant. The business of those subsidiaries which are insurance companies is included in the relevant Revenue accounts and Balance sheets, but the share holdings in such subsidiaries are not assets of one or other of the branches to which the business relates.

The figures for the Australian subsidiaries of The Mercantile and General Reinsurance Group relate to the year ended 30 June 1977.

There are no Group accounts for the Industrial branch as Industrial business is only carried on by the Company, and the amounts for the subsidiaries held by this branch are not significant.

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

The parent Company's business in South Africa was transferred to the South African subsidiary at the beginning of 1977. No adjustment has been made to the 1976 Company figures in these accounts.

In the Balance sheet of the Company shares in subsidiaries are stated at cost less amounts written off—see note (c). A list of the principal subsidiaries appears on page 32.

(ii) Investments in other companies

The Group has investments in companies in which the holdings of at least one class of equity share amount in nominal value to one fifth or more of the nominal value of the issued shares of that class. Five of these are regarded as being within the definition of Associated Companies. In the opinion of the Directors the results of these companies attributable to the shareholders' interest therein are not of sufficient significance to be included in the Group Accounts except to the extent of dividends received.

(c) Investment values

The Balance sheet values of investments, with the exception of those related to linked business are in the main at cost, increased in the life branches by unrealised margins transferred to the Revenue accounts and adjusted in all branches by the application of the balances of the Investment reserve accounts referred to in note (d). Depreciation on property is provided upon the excess amount in any year by which the total book values exceed site values, but additionally leasehold properties are amortised over the last 50 years or less of the lease. The values of investments related to linked business are included at market value and the amount shown in the Revenue account on page 20 relates to the appreciation or depreciation for the year of the values of the linked business assets.

The market values of the assets shown in the Balance sheets have been determined, in the case of the Company and certain United Kingdom subsidiaries, having regard to the requirements of the Insurance Companies (Valuation of Assets) Regulations 1976, except that 100 per cent (1976 75 per cent) of the investment currency premium has been allowed where appropriate. In all other cases market values are based on market quotations where available and, for the other assets, on values estimated by the directors of the various companies allowing 100 per cent (1976 75 per cent) of the investment currency premium where appropriate. After allowing for specific provisions, realised losses brought forward and other available reliefs, tax that would arise if the assets were realised at the values shown is estimated in total to be not greater than Company £270m, Group £300m, of which the following applies to the separate businesses.

	Ordinary Life	Industrial Life	Long-term General	Other
	£m	£m	£m	£m
Company	85	170	1	14
Group	98	170	2	30

(d) Investment reserve accounts

In the Company's accounts and with minor exceptions in the Group accounts, profits and losses on realisation of assets and exchange differences, other than exchange differences on marine, aviation and transport insurance business, less any relative taxes, have been carried to Investment reserve accounts. Transfers may be made from time to time from or to the respective Revenue accounts or Profit and loss account. For 1976 due to changes in the actuarial valuation bases transfers of reserves were made to the Company's life Investment reserve accounts from the respective fund accounts. A similar transfer was made from the Investment reserve account of a subsidiary in 1977. The balances of Investment reserve accounts have been applied in arriving at the Balance sheet values of the assets.

Notes on the Accounts continued

(e) Exchange rates

Life, fire and accident business transactions in overseas currencies have been included in the accounts at the rates of exchange ruling on 31 December 1977 and the funds brought forward at the beginning of the year in the Ordinary life and General insurance accounts on pages 20 and 24 respectively, have been adjusted for the difference in the rates of exchange at the beginning and end of the year. Currency liabilities overseas including loans from overseas bankers 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 translated at rates of exchange ruling on 31 December 1977. The book values of certain investments in overseas currency held at Chief Office either on Chief Office investment account or as cover for overseas liabilities have been based on the rates of exchange ruling on the dates of acquisition. Overseas interest received or paid by the Company's Chief Office and overseas currency transactions included in the marine, aviation and transport account have been brought in at rates of exchange based on those ruling on the dates of the respective transactions. The profit on exchange in the marine, aviation and transport account noted in the analysis of Short-term business on pages 44 and 45 arises from the revaluation of currency net assets at the rates of exchange ruling on 31 December 1977. In the Group accounts such items in respect of the subsidiaries have, with minor exceptions, been dealt with on a similar basis.

(f) Long-term business

Long-term insurance profits are allocated from the surplus determined as the result of the annual actuarial valuation. The amount of the long-term business surplus allocated to shareholders is determined by the Directors in accordance with the Articles of Association of the respective companies.

(g) Fire and accident short-term business

For direct fire and accident insurances reserves in respect of unearned premiums set aside to provide for periods of risk extending beyond the end of the financial year are calculated on a proportional basis having regard to the premiums written each month, with a deduction of 20 per cent for acquisition costs. In addition unexpired risk reserves are held to cover any estimated excess of liabilities over the unearned premium reserves. Outstanding fire and accident claims include provisions for claims incurred up to the date of the Balance sheet but not reported. Proportional fire and accident treaty reinsurance accepted business is dealt with on an open year, closed year basis and non-proportional on a funded basis. The group results have, with minor exceptions, been prepared on the same basis.

(h) Marine, aviation and transport business

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

(i) General insurance Revenue accounts

The reduction in the amount of the fund at the beginning of the year is made up as follows:

	Long-term £000	Short-term £000	Group £000
Fund transferred to The Prudential Assurance Company of South Africa Ltd.	239	1,418	—
Fund transferred to Prudential Compagnia Italo-Britannica di Assicurazioni s.p.a. *	—	1,387	1,387
Increase in the fund following change in method of calculating UK outstanding premiums	—	(393)	(393)
	<u>239</u>	<u>2,412</u>	<u>994</u>

*formerly in a subsidiary now in an Associated Company

(j) Investment income

Dividends on ordinary shares other than subsidiaries are included on the basis of the date on which payment is due. Rents, preference dividends, interest on fixed interest stocks and dividends from subsidiaries are included on an accruals basis. In the past years dividends from subsidiary companies have been included on a cash basis; the adjustment arising from the change is shown in note 1 (k). If the income for the year is significantly affected by purchases or sales of securities an adjustment is made to equate the income with the period for which the security has been held.

Notes on the Accounts continued

Group investment income is shown less amounts written off terminable and other securities and is after payment of interest including interest on bank loans and unsecured loans in the accounts of Ordinary life £2,157,000 (£2,706,000), Industrial life £2,745,000 (£3,828,000) Short-term business £17,000 (£476,000) and Profit and loss £1,155,000 (£1,020,000) also on debentures in the Ordinary life £45,000 (£55,000), Profit and loss £86,000 (Nil) and on a mortgage in the Ordinary life £13,000 (Nil)

UK dividends received under the imputation tax system have been grossed up for attributable tax as appropriate as referred to in note (m).

(k) Profit and loss account

The Profit and loss account balances shown in the 1976 accounts have been adjusted as follows:—

	Company		Group	
	31.12.76	1.1.76	31.12.76	1.1.76
	£000	£000	£000	£000
Balances in 1976 accounts	728	866	2,163	1,550
Dividends from subsidiaries (see note 1(j))	940	812	(37)	(29)
Profit and loss account balances of subsidiary companies not previously consolidated	—	—	36	24
	1,668	1,678	2,162	1,545

In 1976 provision was made for a deferred final dividend on the assumption that the tax credit would be 33/67ths. The actual rate of tax credit was 34/66ths resulting in an overprovision of £173,000.

(l) Expenses

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

(m) Taxation

Taxation has been charged on all profits and income earned to date, less reliefs (corporation tax 52 per cent or tax credit on UK dividends received, first quarter 35 per cent, remainder 34 per cent, less reliefs). The Long-term General, Short-term and Profit and loss account are combined for the purpose of assessment to tax and accordingly should be read together.

	Ordinary Life		Industrial Life		Long-term General		Short-term		Profit and loss	
	1977	1976	1977	1976	1977	1976	1977	1976	1977	1976
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Company	1,788	1,573	623	216	849	794	1,482	1,547	2,577	2,258
Corporation tax on income	7,812	6,415	9,915	8,081	117	77	1,482	1,399	1,145	709
Taxation re UK dividends	9,600	7,988	10,538	8,297	966	871	2,964	2,946	3,722	3,967
Less Double taxation relief	—	—	—	—	112	107	1,812	350	243	217
Overseas tax	9,600	7,988	10,538	8,297	854	764	1,152	2,596	3,479	3,750
Adjustments re prior years	5,818	5,990	376	383	113	122	1,936	354	101	55
	(166)	280	(66)	11	7	35	(471)	(482)	(22)	413
	15,252	14,258	10,848	8,691	974	921	2,617	2,468	3,558	4,224
							General insurance			
							1977	1976		
Group							2,998	3,289	3,160	3,520
Corporation tax on income	1,364	842	623	216			1,946	1,793	876	448
Taxation re UK dividends	8,833	6,906	9,915	8,081						
	10,197	7,748	10,538	8,297			4,944	5,082	4,036	3,968
Less Double taxation relief	13	1	—	—			2,295	834	346	280
Overseas tax	10,184	7,747	10,538	8,297			2,649	4,248	3,690	3,688
Adjustments re prior years	7,107	5,978	376	383			2,549	1,099	195	66
	(132)	(355)	(66)	11			(1,650)	(390)	(297)	297
	17,159	13,370	10,848	8,691			3,548	4,957	3,588	4,151

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

Notes on the Accounts continued

2 The Company's authorised Share Capital is £17,500,000 in 350,000,000 shares of 5p each. During the year 25,677,833 5p shares credited as fully paid were issued as detailed in the Directors' Report on page 17 bringing the total of the shares issued to 298,388,254. The Share premium account has been increased by the excess of the value of the shares issued over the nominal value less the relevant expenses.

3 The mortgage on property shown under current liabilities in the Balance sheets is a loan at $7\frac{7}{8}$ per cent repayable in 1983. The unsecured loans in overseas currencies fall due for settlement by 1982. The loan stocks of subsidiaries are repayable by the following dates:
£250,000 at $4\frac{1}{4}$ per cent—1980, £1,250,000 at $3\frac{3}{4}$ per cent—1985, £150,000 at $4\frac{1}{4}$ per cent—1985, £1,100,000 at $5\frac{1}{2}$ per cent—1988, £692,000 at 6 per cent—1998.

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

Name	Class of Share held	Principal Activity	Country of incorporation and Principal Operation unless otherwise stated
Barnard Enterprises Limited	Shares £1	Finance for oil exploration	England
Beaver Securities Limited	Ordinary Shares £1	Farming	England
The Beaver Trust Limited	Ordinary Shares 25p	Dormant	England
Compagnie d'Assurance de l'Escaut S.A.	Shares n.p.v.	Insurance	Belgium
Edger Investments Limited	Ordinary Shares 25p	Property development and investment	England
Greville Insurance Limited	Shares £1	Life assurance	England
The Mercantile and General Reinsurance Company Limited	Shares £1	Reinsurance	Scotland (Operating principally in UK)
Mercantile and General Reinsurance (Holdings) Limited	Shares £1	Dormant	England
Paramet Corporation Limited	Common Shares n.p.v.	Dormant	Canada
Pru Limited	Ordinary Shares 5p	Dormant	England
The Prudential Assurance Company of South Africa Limited	Shares R1	Insurance	South Africa
Prudential Australian Superannuation Limited	Ordinary Shares A\$2	Pension fund trustee	Australia
Prudential New Zealand Superannuation Limited	Ordinary Shares NZ\$1	Pension fund trustee	New Zealand
Prudential Nominees Limited	Shares £1	Pension fund trustee	England
Prudential Pensions Limited	Shares £1	Pension annuities	England
Prudential Portfolio Managers Limited (formerly Prudential Unit Trust Managers Limited)	Shares £1	Portfolio management	England
Prupac Limited	Ordinary Shares 10p	Dormant	England
Riccarton Mall Limited	Ordinary Shares NZ\$1	Property management	New Zealand
Rue de Treves Estates SA	Shares n.p.v.	Property development	Belgium
The Standard Trust Limited	Ordinary Shares 25p 3½% Cumulative Preference Stock (99.5%)	Investment Trust	England
Stocklund Property Limited	Shares £1	Dormant	England
Tibart Limited	Ordinary Shares 25p	Dormant	Scotland
Vanbrugh Life Assurance Limited	Ordinary Shares £1	Life assurance	England

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

5 In the investment portfolios of its separate businesses the Group holds shares in 27 companies, other than subsidiaries, in which the holding of at least one class of equity shares amounts in nominal value to one fifth or more of the nominal value of the issued shares of that class. The results of these companies attributable to the Shareholders' interest therein are not of sufficient significance to be included in the Group accounts except to the extent of dividends received. In view of the number involved and as their combined market values amount to less than $\frac{1}{2}$ per cent of the Group's total market value details relating to all the individual companies are not shown.

Notes on the Accounts continued

The following companies are regarded as Associated Companies:

Cadedge Investments Limited	Ordinary Shares £1	49%	England
Chedger Investments Limited	Ordinary Shares £1	49%	England
Prudential Compagnia Italo-Britannica di Assicurazioni s.p.a.	Shares L10,000	20%	Italy
Reinsurance Group Managers Limited	Ordinary Shares £1	25%	England
Union Insurance Company Limited	Shares UAE Dirham 25	24%	United Arab Emirates

The Group also holds shares in a further 35 companies in which the holding exceeds one tenth. In view of the number involved and as their combined market values amount to less than 1 per cent of the market value of the Group's total assets, details relating to individual companies are not shown.

6 The aggregate amount of the Company's Directors' emoluments for the year was Company £128,606 (£135,094), Group £135,856 (£142,344). In addition contributions made to pension schemes for Directors were Company £25,000 (£25,000), Group £25,866 (£26,001).

The emoluments of the Chairman in the financial year amounted to £25,000 (£25,000).

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

	Over £	Up to £	Number of Directors	
			1977	1976
	2,500	5,000	1	1
	5,000	7,500	9	9
	10,000	12,500	1	3
	12,500	15,000	2	1
	22,500	25,000	1	1

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

Over £	Up to £	Number of Employees			
		Managerial and Administrative		Commission earning	
		1977	1976	1977	1976
10,000	12,500	130	67	220	145
12,500	15,000	28	17	34	17
15,000	17,500	11	11	6	1
17,500	20,000	8	2	1	—
20,000	22,500	4	1	—	—
22,500	25,000	1	—	—	—
25,000	27,500	1	1	—	—
27,500	30,000	—	1	—	—
30,000	32,500	1	1	—	—
32,500	35,000	2	—	—	—
37,500	40,000	—	1	—	—
42,500	45,000	1	—	—	—

8 The remuneration of the auditors of the Company and its subsidiaries excluding V.A.T. amounted to £386,415 (£358,630) of which the remuneration in respect of the Company excluding overseas branches amounted to £97,500 (£93,000).

9 The Group is committed to capital contracts for settlement after 31 December 1977 of £21,566,000 (£33,694,000) and expenditure authorised but not contracted for of £3,650,000 (£314,000). The Company has guaranteed contingent liabilities of a subsidiary up to £1.4m. Certain guarantees have been given in respect of retirement benefits for the Staff and benefits for their relatives and dependants, and in respect of a letter of credit for US\$577,778.

Signatures to the Accounts

W G Haslam *Chief General Manager*

R H Owen *Chairman*

Carr of Hadley *Director*

20 April 1978

Report of the Auditors

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

In our opinion the accounts set out on pages 20 to 33 comply with the provisions of the Companies Acts 1948 and 1967 applicable to insurance companies.

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

Deloitte & Co.,
Chartered Accountants

London
20 April 1978

High standards of training are essential in all aspects of the Prudential's activities. The picture shows some of the Company's Training Instructors discussing the use of audio-visual teaching techniques.

The inset picture on the left is a frame taken from a recruitment film which contrasted the old and modern Prudential styles. The film, the cast of which consisted entirely of members of staff, recently won a Silver Award at the International Film and Television Festival in New York.

The inset picture on the right shows the Prudential's training centre at Ilkley; one of several such centres throughout the country where field staff training is carried out. P00000037



P00000038

1858-037

Valuation Report on the Company's business

To the Directors of The Prudential Assurance Company Limited.

I submit my report on the valuation as at 31 December 1977 of the life assurances and annuities and other insurance contracts of the Company.

Ordinary Branch

The number of contracts in force was 3,259,703 producing an annual premium income of £318,591,083. The maximum sums assured with bonuses amounted to £20,246,774,641. Deferred and contingent annuities with bonuses amounted to £475,549,872 per annum including amounts of annuity to be purchased by future recurrent single premiums. Annuities in course of payment amounted to £44,449,721.

In 1977 a gross rate of interest of £8.98 per cent was earned 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, Channel Islands and Isle of Man

The net premium method valuing net premiums calculated on the valuation basis.

Business issued in other countries

The modified net premium method valuing net premiums calculated on the valuation basis with an addition to allow for part of the initial expenses.

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

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

For investment-linked assurances the net liability was based on the value at 31 December 1977 of the units allocated. Assurance benefits included in investment-linked contracts were valued as temporary benefits.

The tables of mortality used for assurances were:

Table of mortality

Business issued in:
United Kingdom, Channel Islands and Isle of Man
Australia, New Zealand and Hong Kong
Canada: Without-profits issued after 31 December 1960
Other

A1967/70 Ult
A1949/52 Ult
A1949/52 Ult
A1924/29 Ult
SA 56/62 Ult
A1924/29 Ult

Rhodesia
Other countries

Rate of interest

The net rates of interest used for assurances were:

Business issued in:
United Kingdom, Channel Islands and Isle of Man:
With-profits
Without-profits

3 $\frac{1}{4}$ %
3 $\frac{3}{4}$ %
3 $\frac{1}{2}$ %

Australia

3 $\frac{1}{2}$ %

New Zealand and Hong Kong:

With-profits
Without-profits

4%
4 $\frac{1}{2}$ %

Canada:

Without-profits issued after 31 December 1960
Other

3 $\frac{1}{2}$ %
3%

Rhodesia:

With-profits: Second Series: Retirement Fund
Other

4 $\frac{1}{2}$ %
4%

Kenya, Tanzania and Uganda:

With-profits: Retirement Fund
Other

4 $\frac{1}{4}$ %
3 $\frac{1}{2}$ %

Without-profits

3 $\frac{3}{4}$ %

Other countries

3 $\frac{1}{2}$ %

The methods of valuation used for deferred annuities during the period of deferment other than group pension cash accumulation, Prudential company retirement scheme and executive pension plan policies and investment-linked business were:

Individual deferred annuities and pension-unit schemes secured by annual premiums

The net premium method valuing net premiums calculated on the valuation basis.

Group with-profits deferred annuities, United Kingdom group without-profits deferred annuities (associated with with-profits schemes) and Prudential company pension schemes

The net liability is the value of the annuity purchased by the premiums paid to date.

Other group without-profits deferred annuities secured by annual premiums

The gross premium method valuing premiums equal to 95 per cent of the office premiums.

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

For group pension cash accumulation, Prudential company retirement scheme and executive pension plan policies the net liability was the accumulated fund at 31 December 1977.

For group pension investment-linked business the net liability was based on the value at 31 December 1977 of the units allocated.

P00000039

Valuation Report continued

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

	Tables of mortality		Additions to the values of annuities as provision for expenses of payment and mortality improvement	
	In deferment	In possession		
Business issued in :				
United Kingdom, the Channel Islands and Isle of Man :				
Individual	A1967/70 Ult rated down one year	a(55) Ult	3½%	
Group	A1949/52 Ult rated down one year	a(55) Ult	3½%	
Canada :				
Deferred annuities :				
Individual—With-profits	} No allowance for mortality	} a(55) Ult	} 3%	
—Without-profits with surrender values				
—Other				
Group	1971 GAM	1971 IAM 1971 GAM	1% 1%	
Immediate annuities :			} For expenses only	
Individual	—	1971 IAM		1%
Group	—	1971 GAM		1%
Other countries	A1949/52 Ult rated down one year	a(55) Ult		3%

The rates of interest used for annuities were :

	Business issued in :				
	United Kingdom, Channel Islands & Isle of Man (except as stated below)	Australia & New Zealand	Canada (except as stated below)	Rhodesia	Other countries (except as stated below)
Deferred annuities :					
With-profits :					
Individual	5½%	—	3%	—	—
Group	—	—	—	—	—
Deferred annuity schemes	3%	—	3¾%	3¼%	3%
Pension-unit schemes	5½%	—	—	—	—
Prudential company pension schemes	4¾%	—	—	—	—
Without-profits :					
Pension business	6½%	—	—	—	—
General business	6%	3½%	7½% to 31 December 1989 & 4% thereafter	4%	4%
Immediate annuities :					
With-profits	4¾%	—	—	—	—
Without-profits	9½%	3½%	7½% to 31 December 1989 & 4% thereafter	5%	7%
Annuities certain	3¾%	—	—	—	—

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

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

For business issued in Kenya, Tanzania and Uganda the rates of interest used were 3¾% for deferred annuities without-profits and 5% for immediate annuities.

In order to make allowance for the possibility of reductions in interest rates in the future, the rates used in the valuation provide appropriate margins as compared with those implicit in the valuation of the assets having regard to the relative lengths of the term of assets and liabilities of the business in each country.

The equivalents in sterling of liabilities in other currencies have been calculated at the rates of exchange ruling on 31 December 1977.

Valuation Report continued

The business in South Africa was transferred as at 1 January 1977 to the Prudential Assurance Company of South Africa Limited. This resulted in a reduction in the net liabilities of £164,232,698 which includes a reduction of £6,500,000 in the Additional reserve to £23,700,000. The excess of the amount transferred to the South African subsidiary over the reduction in the net liability was met by a transfer from part of the unrealised margin of investment over balance sheet values.

I consider that the Additional reserve which is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses should be increased to £31,100,000 as at 31 December 1977.

The result of the valuation is as follows :

Ordinary Branch fund subject to transfers out of surplus on 31 December 1977		£2,530,298,663
Net liability under assurance policies	£1,307,718,937	
Net liability under annuity contracts	1,041,328,054	
Additional reserve	31,100,000	
Total net liability		2,380,146,991
Surplus emerging at 31 December 1977		150,151,672
Add cost of bonuses allocated during 1977 in anticipation of surplus for that year		11,027,602
Total surplus, including £1,300,646 brought forward from last year		<u>£161,179,274</u>

I recommend that the bonuses described in the Appendix hereto should be declared on with-profits policies. I also recommend that the cost of the terminal and final bonuses for annuity and pension policies be met in anticipation out of surplus for the year 1978 ; an allocation of £149,923,640 to policyholders will be necessary to meet the cost of the other bonuses and of those declared in anticipation out of the surplus for 1977.

Industrial Branch

The number of policies in force, including 5,234,318 free or paid-up policies, was 18,327,234 producing an annual premium income of £159,426,116. The maximum sums assured with bonuses amounted to £3,289,421,336. In 1977 a gross rate of interest of 10.36 per cent was earned on the Industrial Branch fund.

The net premium method of valuation has been used valuing net premiums calculated on the valuation basis, and every policy has been treated as a liability.

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

The table of mortality used for the valuation of all assurances was the English Life Table No. 12 Males. The net rate of interest used in the valuation was 3¼ per cent.

The relative lengths of term of the assets and liabilities is such that only a small margin in the rate of interest is necessary to allow for the possibility of reductions in interest rates in the future.

I consider that the Additional reserve which is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses should be increased from £13,800,000 to £14,900,000 as at 31 December 1977.

The result of the valuation is as follows :

Industrial Branch fund subject to transfers out of surplus on 31 December 1977		£1,010,219,222
Net liability under assurance policies	£926,278,205	
Additional reserve	14,900,000	
Total net liability		941,178,205
Surplus, including £1,067,493 brought forward from last year		<u>£69,041,017</u>

I recommend that the bonuses described in the Appendix hereto should be declared. An allocation of £63,761,758 to policyholders will be necessary to provide the cost of the recommended bonuses.

General Branch—Long-term business

In 1977 a gross rate of interest of 10.37 per cent was earned on the long-term General Branch fund.

Individual long-term sickness contracts issued in the United Kingdom, some of which are attached to life policies, have been valued by a gross premium method using, for male lives in non-hazardous occupations, 70 per cent of the

P00000041

Valuation Report continued

Manchester Unity 1893/97 (AHJ) sickness experience and the A1949/52 Ult. table of mortality with interest at 4 per cent and taking credit for 60 per cent of the future office premiums. The reserves are increased by from 30 per cent to 60 per cent for other occupational classes depending on the degree of hazard and by 50 per cent for female lives. In addition, a reserve of £15,000 is held for contingencies.

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

Long-term accidental death benefits attached to life policies issued in Canada have been valued using the 1959 Accidental Death Benefits table and the Commissioners 1958 Standard Ordinary table of mortality with interest at 3½ per cent. The reserves are increased by 25 per cent or, if combined with dismemberment benefits, by 75 per cent.

For other long-term accident or sickness benefits the reserve was based on the premiums paid and has been calculated to take account of the liability arising from the right of renewal. In the aggregate the provision so calculated is 59.0 per cent of the premium income for the year.

The sinking fund policies in force provide for the payment of capital sums amounting to £136,150 at the end of fixed terms of years and produce an annual premium income of £678. They have been valued by a gross premium method using interest at 3 per cent or the rate of interest employed in the calculation of the premiums, if less, and taking credit for 98 per cent of the future office premiums.

The equivalents in sterling of liabilities in other currencies have been calculated at the rates of exchange ruling on 31 December 1977.

The result of the valuation is as follows :

General Branch long-term fund subject to transfers out of surplus on 31 December 1977		£6,848,673
Net liability for sickness and accident insurances	£5,810,762	
Net liability for sinking fund insurances	83,558	
Total net liability		<u>5,894,320</u>
Surplus from long-term business		<u>£954,353</u>

Certificate as to all Long-term business liabilities

In my opinion the aggregate amount of the liabilities in relation to long-term business at 31 December 1977 did not exceed the aggregate amount of those liabilities as shown in the Balance sheet.

General Insurance—Short-term business

In respect of fire and accident direct contracts the unearned premium reserve has been calculated on a proportionate basis having regard to the premiums written each month with a deduction of 20 per cent for acquisition costs. In addition, unexpired risk reserves totalling £1,400,000 are held at 31 December 1977. Proportional fire and accident treaty reinsurance business accepted has been dealt with on a two year basis. Treaty years ended on or before 31 March 1977 have been closed, unearned premium reserves being calculated at 40 per cent of the premiums. Accounts received in respect of subsequent treaty years have been included in the open account the balance of which has been carried forward as a fund. Non-proportional business has been dealt with on a funded basis.

The non-proportional treaty reinsurance accepted fund of £2,516,900 and the marine and aviation fund of £9,265,146 are, in my opinion, sufficient provision for the liabilities.

The equivalents in sterling of provisions and reserves in other currencies have been calculated at the rates of exchange ruling on 31 December 1977.

The result of the valuation is as follows :

General insurance short term fund subject to transfers out of surplus on 31 December 1977		£94,946,888
Provision and reserve for fire and accident direct insurances	£64,870,125	
Provision and reserve for treaty reinsurance business accepted	16,297,568	
Provision and reserve for marine and aviation insurances	9,265,146	
Total short-term provisions and reserves		<u>90,432,839</u>
Surplus from short-term business		<u>£4,514,049</u>

R. S. SKERMAN
Chief Actuary

30 March 1978

Valuation Report continued

Appendix

The bonuses recommended are :

Ordinary Branch

(A) For assurance policies reversionary bonuses at the following rates :

			per cent of sum assured	per cent of existing bonuses	
For policies issued in :					
(1)	United Kingdom, Channel Islands, Isle of Man and Malta		4.40	—	
(2)	Australia :	First Series : Superannuation	3.80	—	
		Other	2.55	—	
	Second Series :	Superannuation	2.75	2.75	
		Other	1.75	1.75	
	Third Series :	Superannuation	2.20	2.20	
		First Series	2.55	—	
(3)	New Zealand :	Second Series	1.70	1.70	
(4)	Canada :	First Series : Registered	2.375	5.00	
		Other	2.20	5.00	
		77 Series	2.60	4.50	
(5)	Rhodesia :	First Series	2.75	—	
		Second Series :	Retirement Fund	2.425	3.30
			Other	2.125	3.00
(6)	Malaysia and Singapore :	First Series	3.00	1.75	
		Second Series	2.25	2.65	
(7)	Hong Kong		4.00	4.00	
(8)	Sri Lanka		16.20	—	

(In respect of the years 1966 to 1977 inclusive)

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

(B) For assurance policies which become claims by death or maturity between 1 April 1978 and 31 March 1979 inclusive terminal bonuses as follows :

(1) For policies issued in the United Kingdom, Channel Islands, Isle of Man, Malta, Australia, New Zealand and Cyprus (a closed class) at rates per cent of sum assured of which the following are examples :

Year of Issue	United Kingdom, Channel Islands, Isle of Man & Malta	Australia							New Zealand	Cyprus
		First Series		Second Series		Third Series	First Series	Second Series		
		Super-annuation	Other	Super-annuation	Other	Super-annuation				
1973	3.70	0.40	0.30	0.40	0.30	0.30	0.30	0.30	—	
1968	15.30	1.80	1.10	1.80	1.10		0.80	0.80	2.50	
1963	31.00	3.30	2.00	3.30	2.00		2.10	2.10	10.50	
1958	47.00	4.80	2.90				3.60		23.40	
1948	83.60	11.50	11.50				10.30		47.30	
1938	118.60	19.40	19.40				18.20			
	140.00	25.00	25.00	4.20	2.50	0.70	23.80	3.00	52.40	
	if issued in 1928 or earlier	if issued in 1932 or earlier		if issued in 1960 or earlier		if issued in 1971 or earlier	if issued in 1932 or earlier	if issued in 1960 or earlier	if issued in 1945	

(2) For policies issued in Malaysia and Singapore at the following rates per cent of the reversionary bonus existing at the date of claim

Whole Life Assurances	Endowment Assurances
1.00	1.50
for each complete year in excess of fifteen for which the policy has been in force.	

P00000043

Valuation Report continued

Appendix continued

(C) For annuity and pension policies, reversionary bonuses or interest or additional units on benefits not yet commenced at the following rates :

	per cent of benefit being purchased	per cent of benefit secured
(1) Individual retirement annuities issued in : United Kingdom & Isle of Man	6.80 simple	—
Canada	2.70 simple plus 5.00 on existing bonuses	—
(2) Pension-unit scheme policies issued in United Kingdom	4.70 simple	—
(3) Group pension annuity policies issued in : United Kingdom, Channel Islands & Isle of Man	—	7.00 compound
Canada	—	3.80 compound
Rhodesia, Kenya, Tanzania & Uganda	—	3.25 compound
(4) Prudential company pension scheme and Prudential company retirement scheme policies issued in United Kingdom & Isle of Man	—	4.90 compound
(5) Group pension cash accumulation and executive pension plan policies issued in : United Kingdom, Channel Islands & Isle of Man	—	4.90 compound
Malta	—	2.75 compound
Hong Kong	—	4.50 compound
(6) Group unit-linked policies issued in : Australia E units	—	6.643 compound
F units	—	10.993 compound

(D) For Prudential company pension scheme and Prudential company retirement scheme policies issued in the United Kingdom and Isle of Man
A bonus on pensions in course of payment at the following rate per cent of pension payable

6.00 compound

(E) For annuity and pension policies, terminal and final bonuses at the following rates per cent compound :

	Terminal	Final	Applicable to
(1) Individual retirement annuities issued in : United Kingdom & Isle of Man	2.00 for each year in force	60	Annuities commencing between 1 April 1978 & 31 March 1979 inclusive Annuities commencing between 1 July 1978 & 30 June 1979 inclusive
Canada	—	48 at age 55 reducing to 30 at age 70	
(2) Pension-unit scheme policies issued in United Kingdom	—	60	Pensions secured for members who reach normal retiring age between 1 April 1978 & 31 March 1979 inclusive
(3) Group pension annuity policies issued in : United Kingdom, Channel Islands & Isle of Man	110 final (subject to variation as may be appropriate) including 50 terminal		
Canada	—	48 at age 55 reducing to 30 at age 70	
Rhodesia, Kenya, Tanzania & Uganda	—	32	

Valuation Report continued

Appendix continued

	Terminal	Final	Applicable to
(4) Prudential company pension scheme and Prudential company retirement scheme policies issued in United Kingdom & Isle of Man	—	1·00 for each premium year since the member commenced payment	Pensions commencing and amounts withdrawn to secure retirement benefits between 6 April 1978 & 5 April 1979 inclusive
(5) Group pension cash accumulation & executive pension plan policies issued in : United Kingdom, Channel Islands & Isle of Man : Premiums allocated to members	—	1·00 for each premium year since the member commenced payment	Amounts withdrawn to secure retirement benefits commencing between 15 March 1978 & 14 March 1979 inclusive
Premiums unallocated	—	2·00 for each premium year since the amounts were paid	Amounts withdrawn to secure retirement benefits in the premium year ending between 15 March 1978 & 14 March 1979 inclusive
Malta	—	1·00	

Industrial Branch

(A) A reversionary bonus at the rate of 2·80 per cent of the sum assured.

(B) A terminal bonus on policies which become claims by death or maturity between 1 April 1978 and 31 March 1979 inclusive of which the following are examples :

Year of issue	Rate per cent of sum assured
1973	2·70
1968	14·10
1963	28·40
1958	43·00
1948	73·90
1938	104·90
1928 or earlier	126·00

Supplementary Information relating to the Company

Sources of Investment Income received during the year	1977 £000	1976 £000
Ordinary Life Assurance		
British Government and British Government guaranteed securities	47,843	33,355
Other fixed income securities, including subsidiaries	34,588	41,664
Ordinary stocks and shares, including subsidiaries	45,567	43,979
Freehold and leasehold properties, rent charges and ground rents	44,913	40,514
Mortgages on property	21,863	21,630
Other sources	10,783	12,965
Total revenue account income	205,557	194,107

Industrial Life Assurance		
British Government and British Government guaranteed securities	23,633	18,618
Other fixed income securities	10,693	9,861
Ordinary stocks and shares, including subsidiaries	34,217	30,390
Freehold and leasehold properties, rent charges and ground rents	21,503	19,680
Mortgages on property	3,878	3,446
Other sources	2,473	1,308
Total revenue account income	96,397	83,303

General Insurance	Long-term		Short-term	
	1977 £000	1976 £000	1977 £000	1976 £000
British Government and British Government guaranteed securities	121	97	908	1,173
Other fixed income securities	524	443	6,699	6,472
Ordinary stocks and shares, including subsidiaries	136	106	2,487	2,209
Freehold and leasehold properties, rent charges and ground rents	—	—	116	118
Mortgages on property	—	—	870	755
Other sources	72	246	1,719	2,166
Total revenue account income	853	892	12,799	12,893

Claims and Surrenders—Life Assurance	Ordinary		Industrial	
	1977 £000	1976 £000	1977 £000	1976 £000
Claims :				
By death	42,223	45,319	34,497	33,892
By maturity	55,823	67,998	53,782	51,270
Surrenders	98,046	113,317	88,279	85,162
Bonuses surrendered for cash	43,148	38,848	35,030	31,433
Bonuses surrendered for cash	6,109	6,711	—	—
Payments under occupational pension schemes :				
Transfers to Prudential Pensions Ltd.	17,539	10,845	—	—
Other transfers and payments on withdrawal (including amounts re-applied as further premiums)	32,297	37,666	—	—
Total revenue account claims and surrenders	197,139	207,387	123,309	116,595

Supplementary Information relating to the Company continued

Analysis of the Short-term Business of the Company

year ended 31 December 1977

Comparative figures for 1976 in colour

Income	Property		Motor Vehicle		Sickness and Accident		Pecuniary Loss		Liability	
	£000		£000		£000		£000		£000	
Amount of fund at beginning of year:										
Unearned premiums †	25,186	19,441	26,945	20,930	1,521	1,633	1,110	421	5,683	4,808
Provisions †	*650	*600	*175	*450	*75	*125	—	—	*75	*75
Exchange adjustment	(1,642)	1,143	(2,761)	1,659	(96)	51	(66)	64	(464)	294
	24,194	21,184	24,359	23,039	1,500	1,809	1,044	1,005	5,294	4,928
Premiums	66,867	62,411	70,689	67,572	3,703	4,455	2,985	3,056	14,872	15,595
	91,061	83,595	95,048	90,611	5,203	6,264	4,029	4,061	20,166	20,523
Amount of fund at end of year:										
Unearned premiums	27,178	25,590	28,154	27,659	1,296	1,879	1,181	1,137	5,661	5,846
Provisions	*1,050	*800	*100	*275	*75	*100	—	—	*175	*75
Total (A)	62,833	57,205	66,794	62,677	3,832	4,285	2,848	2,924	14,330	14,602
Outgo										
Claims	36,159	35,225	40,863	38,444	2,135	2,415	1,239	1,411	9,016	8,808
Commission	9,103	8,902	7,936	8,028	648	1,005	117	236	2,306	2,361
Expenses including taxation other than on profits	21,903	19,654	14,752	13,295	1,233	1,240	926	814	3,584	3,295
Refund under Canadian Anti-Inflation Regulations	953	—	2,217	—	—	—	—	—	—	—
Total (B)	68,118	63,981	65,768	59,767	4,016	4,660	2,282	2,561	14,906	14,524
Gross underwriting (loss)/profit (A—B)	(5,285)	(6,776)	1,026	2,910	(184)	(381)	566	363	(576)	1,078

*Unexpired risk reserve.

†After adding £454,000 loss on exchange (deducting £449,000 profit on exchange).

†See note 1(i) on page 30.

Investment Portfolios

The distribution of the investment portfolios, on a market value percentage basis, held for United Kingdom business in respect of Life assurance and General insurance was as follows:

	Ordinary life		Industrial life		Long-term General		Short-term	
	1977	1976	1977	1976	1977	1976	1977	1976
Fixed income investments	33	31	29	26	64	68	47	50
Ordinary stocks and shares	38	37	43	44	36	32	50	40
Property investments	29	32	28	30	—	—	3	4

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

Marine, Aviation and Transport (MAT)

Treaty Reinsurance Accepted £000	Total excl MAT £000	Current Year £000	Last Preceding Year £000	Previous Years £000	Total MAT £000	Total £000
—	—	—	—	—	—	—
15,245	11,878	76,665	60,632	—	—	84,839
(940)	1,374	(5,969)	4,585	—	—	(5,969)
14,305	13,252	70,696	65,217	—	—	78,870
14,369	13,377	173,485	166,466	5,354	5,010	180,993
28,674	26,629	244,181	231,683	5,354	5,010	259,863
—	—	—	—	—	—	—
16,298	15,245	81,168	78,606	3,673	3,663	90,433
12,376	11,384	163,013	153,077	1,681	1,327	169,430
7,497	7,355	96,909	93,658	1,324	1,225	102,951
4,988	4,667	25,098	25,199	—	—	25,098
356	267	42,754	38,961	857	402	43,879
—	—	3,170	—	—	—	3,170
12,841	12,309	167,931	157,818	2,181	1,627	175,098
(465)	(925)	(4,918)	(4,741)	(500)	(300)	(5,668)

The Company's 20 largest ordinary shareholdings in terms of market value are in the following:

Allied Breweries Ltd.	Imperial Chemical Industries Ltd.
B.A.T. Industries Ltd.	Imperial Group Ltd.
Barclays Bank Ltd.	Land Securities Investment Trust Ltd.
Bass Charrington Ltd.	Marks and Spencer Ltd.
Beecham Group Ltd.	National Westminster Bank Ltd.
Boots Co. Ltd.	Rio Tinto-Zinc Corporation Ltd.
British Petroleum Co. Ltd.	Shell Transport & Trading Co. Ltd.
Distillers Co. Ltd.	Thorn Electrical Industries Ltd.
General Electric Co. Ltd.	Unilever Ltd.
Glaxo Holdings Ltd.	United Dominions Trust Ltd.

Ten Year Review of the Group

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
	£m									
Ordinary Life Assurance										
New annual premium income	83.8	92.4	69.4	60.9	45.8	39.1	31.1	26.3	24.4	22.0
Total premium income and considerations	532.8	477.7	362.4	306.9	298.9	230.5	203.0	177.2	163.5	154.8
Investment income	260.1	218.1	175.8	144.3	132.9	114.7	100.9	93.8	86.5	78.5
Surplus to policyholders	156.7	140.6	122.3	81.9	94.8	83.4	71.9	64.1	57.8	51.6
Balance sheet value of assets	3,351.1	2,958.5	2,584.2	1,943.5	2,163.3	1,878.9	1,646.2	1,502.3	1,373.0	1,263.8
Market value of assets	3,965.3	3,027.1	2,625.1	1,947.1	2,476.2	2,463.5	2,047.1	1,647.1	1,568.6	1,615.5
Industrial Life Assurance										
New annual premium income	32.8	30.0	25.5	22.1	18.1	17.8	15.0	14.8	13.8	12.7
Total premium income	149.6	135.2	122.3	111.8	104.4	97.7	92.2	88.2	84.4	81.2
Investment income	96.4	83.3	75.3	64.9	62.7	60.4	56.8	55.4	53.8	51.4
Surplus to policyholders	63.8	55.8	52.5	45.9	51.3	48.2	44.2	41.7	40.0	36.9
Balance sheet value of assets	1,090.5	1,034.7	983.4	863.3	922.5	871.0	811.9	772.1	754.7	730.0
Market value of assets	1,710.6	1,294.5	1,254.3	900.8	1,324.7	1,483.1	1,308.0	1,017.2	1,028.9	1,137.5
General Insurance										
Premium income	358.4	321.9	233.9	190.8	167.6	139.6	91.2	77.8	63.9	59.1
Gross underwriting profit	(9.5)	(10.3)	(8.3)	(5.0)	5.3	3.1	0.5	(1.6)	0.2	(1.6)
Investment income	23.4	21.5	15.7	11.8	9.3	6.3	4.2	3.7	2.8	2.9
Balance sheet value of assets	454.2	414.8	320.6	247.9	216.7	176.6	109.9	94.1	80.4	74.4
Market value of assets	509.4	435.6	336.9	239.3	221.6	208.2	123.7	96.2	85.3	87.4
Profit and Loss Account										
Surplus from Ordinary life	11.7	9.9	8.5	4.8	7.7	5.4	6.4	4.7	4.5	4.2
Surplus from Industrial life	4.2	3.7	3.5	3.2	3.3	3.1	2.9	3.1	3.0	2.6
Surplus from General insurance	10.4	6.3	3.3	5.2	7.9	6.1	2.1	0.5	1.3	2.1
Investment and other income	9.8	8.9	4.6	3.1	1.3	2.8	2.7	2.2	0.7	1.1
Total profits	31.9	24.4	18.0	16.1	19.9	17.6	15.3	7.4	6.4	6.6
Retained profits	12.1	8.0	3.2	4.6	9.5	7.0	3.3	0.9	0.4	1.5
†Dividend on shares of 5p	10.07p	9.16p	8.33p	7.71p	6.73p	6.24p	5.88p	5.31p	5.00p	4.24p

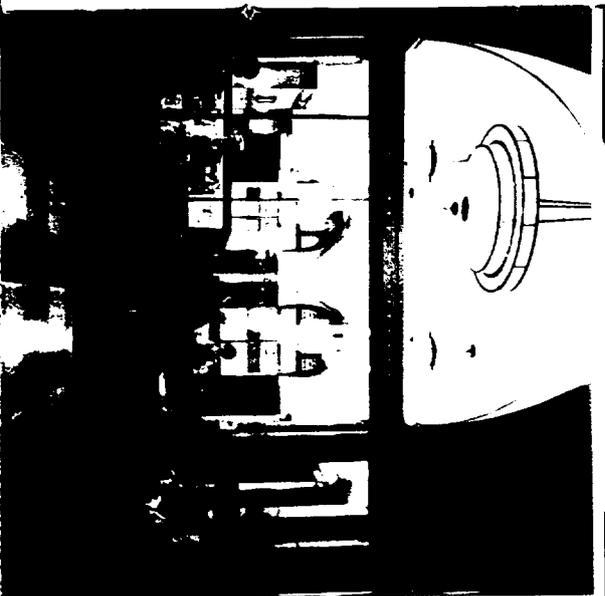
†Gross equivalent of dividend declarations including imputed tax for 1972 final and subsequently. Declarations on the A and B share capital for 1968 and 1969 have been combined and adjusted for scrip issues where appropriate so as to be directly comparable with those for subsequent years. The figure for 1970 excludes the special distributions made in that year.

- 1 Market values of assets up to 1974 were based on market quotations where available (allowing 75 per cent of the investment currency premium where appropriate) and in all other cases on values estimated by the Directors. For 1975, 1976 and 1977 refer to note 1c page 29, except that for 1975 and 1976 75 per cent only of the investment currency premium was allowed where appropriate.
- 2 No allowance has been made for any tax on capital gains that would arise if the assets were realised at the values shown.
- 3 The margin between Market values and Balance sheet values is proportionately greater for Industrial life than for Ordinary life mainly for two reasons:
 - (i) the more rapid growth of the Ordinary life funds over recent years.
 - (ii) overseas currency assets of the Ordinary life are held to cover overseas currency liabilities, now about 33 per cent of the total liabilities of the branch. The Market value of these assets has not changed to the same extent as that of U.K. assets, particularly in countries 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.

The Prudential's Investment Department is responsible for investing funds amounting to over £5,000 million. The main picture shows the part of the department dealing with gilt-edged securities.

The inset pictures show other aspects of Chief Office at Holborn. On the left is the main enquiry office and on the right the recently modernised Cashier's Office.

P00000049



P00000050

1858-049



The Prudential provides excellent facilities for its staff. At Chiswick and contains pitches, all weather and small bore rifle ranges which is traditionally the annual boat-race.

At Holborn there is a series of meetings and social events. The Dramatic and Opera production of "Hello Dolly" is held at Holborn.

The left hand inset picture shows a production at Holborn.

P0000051



The Prudential provides a wide range of social and sporting facilities for its staff. The Company's main sportsground is at Chiswick and contains eight football and cricket pitches, hockey pitches, all weather and grass tennis courts, squash courts and a small bore rifle range, together with a boat-house on the river which is traditionally used by the Cambridge crew at the end of the annual boat-race against Oxford.

At Holborn there is a 750-seat theatre which is used for staff meetings and social activities. In the right hand picture the Dramatic and Operatic Society is seen rehearsing for its recent production of "Hello, Dolly".

The left hand inset picture shows a section of the staff restaurant at Holborn.

P0000052

1858-051