The Prudential Assurance Company Limited

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

Year ended 31st December 1972

The Prudential Assurance Company Limited

Incorporated in England Regd. No. 15454

142 Holborn Bars London EC1N 2NH

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

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The Prudential Assurance Company Limited

President
Sir John Serocold Paget Mellor BT

Directors
Kenneth Ascough Usherwood CBE FIA *Chairman*
Leslie Brown FIA *Deputy Chairman*
Sir John Nicholson Hogg TD *Deputy Chairman*
John Anthony Tristram Barstow DSO TD DL
The Rt Hon Lord Caccia GCMG GCVO
The Rt Hon Lord Coleraine PC
Bruce Wilfred Goodman CBE FCA
Reginald Edgar Montgomery
Angus Fraser Murray CBE FIA
The Rt Hon James Edward Ramsden MP
Frank Mitchell Redington FIA
Desmond Arthur Reid
The Rt Hon Lord Strathalmond CMG OBE TD
Sir Peter Frank Dalrymple Tennant CMG OBE

Chief General Manager
R H Owen FIA

Joint Secretaries and Investment Managers
E P Hatchett FIA
P E Moody FIA

Deputy Investment Managers
R E Artus MA
G J Titford FIA

Assistant Secretaries
R J Males ACCA
C M Stray FCIS

Senior Assistant Investment Managers
B Medhurst MA FIA
D Sirkett BSc FIA

Taxation Manager
E J Braybrook ACCA ACIS

Chief Surveyor
M R Dunnett FRICS

Deputy Chief Surveyor
E E Chapman MBE FRICS

Senior Medical Officer
E H Hudson MA MB BCh FRCP

General Manager for Australia and New Zealand
R B Levey FIA

General Managers
D S Craigen BA
W G Haslam DFC
J L Maxted LLM

Assistant General Managers
F B Corby MA FIA
E W Cunnah
J H J Day FCII
J E G Inglish FCII

Agency Managers
L D Cary
A L Davis
A L Martin
S A Ryder

Life Administration Manager
J W Whittle DSC VRD

Chief Controller
H A Metcalf MBE ERD ACII

Chief Legal Adviser
C F Whitehorn

President for Canada
A P Bodiley MBE FCII

Chief Actuary
R S Skerman FIA

Deputy Actuaries
Miss M C Allanach FIA
F G Wood FIA ACII
K N Yeldham FIA

Group Pensions Manager
D E Fellows FIA

Deputy Group Pensions Managers
M H Hill
F A Lewis FIA

Data Processing Manager
D C Bourdon FIA

Senior Fire and Accident Manager
A W McOwan FCII

Marine Underwriter
C E R Taylor

Aviation Underwriter
C R Jeffs

General Manager for Southern Africa
H G James FIA

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 17th May 1973 at 12.15 p.m. for the following purposes:

To receive the Directors' Report and Statement of Accounts for the year ended 31st December 1972

To re-elect and elect Directors

To transact any other business proper to the Annual General Meeting

By order of the Board of Directors

E P HATCHETT,
P E MOODY,
Joint Secretaries.

142 Holborn Bars London EC1N 2NH
24th April 1973

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

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

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

Chairman's Statement

Since the last General Meeting the directors have appointed Lord Strathalmond and Sir Peter Tennant to be directors of the Company. They now retire in accordance with the Articles of Association and offer themselves for election. They have both distinguished themselves in many spheres of activity and we commend them to shareholders in the certainty that they will make valuable contributions to the Company's affairs.

Mr. Gordon Clarke retired at the end of last year. He was Joint Secretary and Investment Manager during his last eight years and his wise guidance of the Company's overall investment policy has been of inestimable value. We are recommending shareholders to elect him to the Board.

Mr. Graham Haslam, Group Pensions Manager for the past thirteen years, also retired at the end of 1972. He played an important part in the adaptation of our with-profit scheme to meet changing needs and in the introduction of our investment linked arrangements through Prudential Pensions Ltd.

The following management appointments have been made during the last year:—

Mr. P. E. Moody—Joint Secretary and Investment Manager.

Mr. R. E. Artus—Deputy Investment Manager.

Mr. D. E. Fellows—Group Pensions Manager.

Mr. L. D. Cary—Agency Manager.

Mr. E. J. Braybrook—Taxation Manager.

The erosion of the domestic purchasing power of the currency in Britain averaged just over 4% per annum during the 1950's, and just under that figure between 1960 and 1968. In the period 1969-1972 it rose to an average of 7½% per annum and has threatened to go even higher. This situation is having damaging effects in terms of economic and social disruption, and has given rise to longer-term doubts about the prospects for material welfare and social cohesiveness. Those whose duty it is to be concerned with the economic and social interests of society as a whole should be in no doubt that the highest priority ought now to be given to reversing these trends. The Government has produced a policy aimed at achieving this end. Debate continues among representatives of sectional interests covering the whole spectrum of our economic life as to the fairness of the incidence of particular parts of the Government's programme. Yet if there is temporary unfairness in the incidence of its immediate effects, this is small in relation to the injustices arising from continuing inflation at the recent rate.

Inflation affects the business of the Prudential in many ways. One effect is that it has contributed to the rapid growth of our new business in both the life and general insurance fields. Yet it is doubtful whether, against an inflationary background, much real progress is being made in increasing the degree of insurance cover the population enjoys. The long-term value of our life assurance policies depends upon our ability to keep our costs under control and to achieve good investment returns. High rates of inflation mean that the benefits which flow from measures taken to increase productivity including changes in work methods both in the offices and in the field and the introduction of electronic data processing, may serve only to contain the rises in cost ratios rather than to achieve reductions. Although our policies are expressed in money terms, those participating in profits, which include Industrial Branch policies, should enjoy substantial long-term protection from the effects of inflation, because the investment freedom traditional to the insurance industry in Britain has enabled us to shift the weight of our investments over the years into equities and property which might be expected to show some long-term resilience to the ravages of inflation. Thus, if we have to operate against an inflationary background, we would expect substantial success in looking after the interests of our policyholders and shareholders who will both share in that success. We are certain, however, that far greater benefits in real terms and a far healthier savings industry generally would result from a return to more stable price conditions.

The Company Affairs Committee of the Confederation of British Industry under the chairmanship of Lord Watkinson has recently issued an interim report entitled " A new look at the responsibilities of the British public company ". As a basis for discussion we welcome the production of this wide-ranging document made necessary as the report says " by the depth and pace of change in the modern world and the need for business to respond to it, by continually re-examining and re-shaping its policies, its rights and its obligations, its forms and procedures."

The intentions of the Government as regards a further measure of insurance control legislation have been made clear in the Insurance Companies Bill which has been before the House of Lords. This legislation would give extensive powers to the authorities to intervene in the activities of an insurer where this is considered necessary in the interests of policyholders. These powers of intervention are therefore operative on a selective basis and should not be used where an insurer's business is being properly run. We welcome this approach because we consider it to be preferable to that prevalent in many other countries which imposes restrictions on all insurers alike irrespective of how their business is conducted. If, as we hope, legislation along the lines of this approach comes into operation it will place responsibilities on both insurers and the authorities—on the insurers to ensure that their business is so conducted that the powers do not need to be used and on the authorities to be sensitive in discerning when the powers should be used and then to use them firmly and decisively. We also support in principle those provisions of the Bill which aim to afford greater protection to life policyholders.

Consolidation of Accounts

You will see from the Report and Accounts that we have this year produced group accounts in respect of the Company and those subsidiaries whose activities are in the field of insurance: L'Escaut S.A., Mercantile & General Reinsurance Co. Ltd., the Prudential Insurance Company of Great Britain located in New York, and Prudential Pensions Ltd. The Belgian company came under our ownership with effect from the beginning of 1972. We acquired a majority interest in Mercantile & General in 1968, and towards the end of 1972 made an offer for the outstanding share capital: this has been accepted and the company becomes a wholly owned subsidiary of the Prudential. The group accounts include the results of the Mercantile & General one year in arrear, since 1971 was the most recent year for which their accounts had been published at the time of drawing up our group accounts.

Ordinary Life Assurance

In the United Kingdom the Company's new annual premium income of £14½ million from individual policies represented an increase of almost 18 per cent. over our record results of 1971.

The range of services offered was extended once again last year. Following the Finance Act 1971 we introduced our Personal Retirement Plan under which we are able to offer a wider range of benefits to those responsible for making their own pension arrangements. This Plan has been especially well received. Two further innovations were the Prudential Health Insurance Supplement, which can be added to a life policy to provide a regular income in the event of a long period of incapacity for work because of injury or sickness, and the Prudential Economic Endowment Plan, which is an attractive means of repaying building society mortgages by means of with profit policies.

Considerations for immediate annuities and single premiums totalled £12 million, of which over £4 million resulted from the High Income Bond which we introduced in November.

There has been continued progress in our group pension business in the United Kingdom. In addition to the most important role we play in the provision of individual assurances and annuities, we have also long been one of the leading offices in the field of group pension schemes. Premiums in respect of such schemes in the United Kingdom are now some £50 million per annum.

The provisions of the Social Security Bill, published last November, mainly accord with the proposals previously outlined in the White Paper "Strategy for Pensions" but the Bill does introduce alternatives to the standard pension test which occupational schemes must satisfy if members are to be treated as in " recognised " pensionable employment and not liable for inclusion in the proposed State reserve pension scheme. Much of the detail remains to be settled. I sincerely hope that the Occupational Pensions Board will be prepared to take a broad view and accept simplification of the requirements for recognition, wherever possible, in what is already a complex field of operation and I welcome the promise that, although this Board and the Superannuation Funds Office of the Inland Revenue are to retain their separate identities, their operations will be concerted as closely as possible. For our part we shall have available pension contracts, suitable for recognition purposes, for schemes of all sizes—whether there are just a handful of employees or tens of thousands. It is important that employers should take the opportunity at an early stage to improve and extend existing schemes, or to introduce new plans wherever necessary in order to secure recognition.

Our wholly owned subsidiary, Prudential Pensions Ltd., which was formed to transact group pension business linked to unit values of equity, property and fixed-interest funds, has now been operating for two years and has made good progress; investment performance to date has been especially encouraging.

Our association with the John Hancock Mutual Life Insurance Company of Boston and other insurers in the International Group Programme, to which I referred last year, is also proving a valuable means of meeting the world-wide group insurance and pension needs of international corporations.

In our overseas branches new annual premiums for individual business increased by 13 per cent. in terms of local currencies, the results for Australia and New Zealand again being very good. New annual and single premiums for group business were, however, somewhat less than the high levels achieved in 1971.

In Pakistan, under the terms of the Life Insurance Nationalisation Order 1972, all our Pakistan rupee liabilities and assets are now vested in the State Life Insurance Corporation. These liabilities, which after adjustment for movements in exchange amounted to over £4 million, have therefore been deducted from the fund. Negotiations are still proceeding regarding the payment to us of compensation and other outstanding amounts.

The Life branch of the Mercantile and General made considerable progress during 1971. New life sums assured were £610 million against £537 million for the previous year. Life premium income was over £15½ million as against £14 million. Business written through its overseas branches and subsidiary companies again accounted for approximately 40 per cent. of total production.

Industrial Assurance

New business in 1972 in this Branch in terms of annual premium income was 18 per cent. greater than for 1971, but it will be remembered that production in that year was adversely affected by a pay dispute. The average rate of increase over the two years however is rather higher than had been achieved in recent years. I regret the continuing tendency to regard the business in this Branch as different in kind from other life assurance business. In fact it is fundamentally the same as the bulk of the life assurance taken out by individuals in the Ordinary Branch, in that it provides a similar mix of life cover and savings by means of whole life and endowment assurances. The Industrial Branch however caters for a smaller minimum premium and provides the service of frequent collection at the policyholder's home where that is required. I am convinced that there is a continuing need for this collection service, without which a large section of the population would not be able to protect their families and make any regular savings.

We have already taken steps aimed at combining the administration of the two life Branches in the interests of efficiency, but we are precluded from proceeding as far as we would like in that direction by the existence of a number of outdated distinctions perpetuated by Industrial Assurance legislation, mostly passed 50 years ago. I hope that the authorities will soon find an opportunity to modernise this legislation.

Bonus Declarations

The rates of bonus have already been reported in the Press. They will be found in the accompanying Valuation Report of the Chief Actuary.

In the United Kingdom an increase has been made in the rate of reversionary bonus for assurances in the Ordinary Branch and a substantial increase has been made in the scale of terminal bonuses for assurances in both the Ordinary and Industrial Branches. It is our aim through our bonus declarations to enable participating policyholders to share in the benefits obtained from the investment of a high proportion of our funds in ordinary shares and property. The market value of these investments increased during 1972 although there has been an appreciable fall since the end of the year. But of more relevance there has been a considerable rise in the income received during the year from these assets. The increased rates of terminal bonus declared have taken these factors into account and it is our object that the benefits payable under our participating policies should include as large a share in profits as practicable without the same degree of fluctuation as would arise if they were directly linked to market values. Neither the future reversionary nor terminal bonus rates are guaranteed but we expect to be able to maintain our terminal bonuses at the rates now declared for the appropriate year of issue.

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

Year of Issue	Sum assured	Reversionary bonuses	Terminal bonus	Total payment on maturity	Total premiums paid*
	£	£	£	£	£
1938	1,000	747	731	2,478	992
1948	1,000	632	571	2,203	1,109
1958	1,000	458	298	1,756	1,094

*The cost to the policyholders will have been reduced by the life assurance relief of income tax.

The cost of the terminal bonuses mentioned above, as well as part of the bonuses on individual and group pension and certain overseas policies, has been met out of appreciation in the value of our investments. Transfers have been made to revenue from the Investment reserve accounts of £16 million in the Ordinary Branch and £13½ million in the Industrial Branch.

General Insurance

The Company's premium income in respect of General insurance business, rose in 1972 by £18 million to £83 million, an increase of 28 per cent., a good rate of expansion being achieved both at home and overseas. The total premium income for the Group amounted to £129 million, an increase of £28 million over the previous year. The inclusion for the first time of figures relating to our new Belgian subsidiary, L'Escaut, accounted for £7 million of this increase.

The underwriting profit of the Company from General insurance business increased from £1,478,000 in 1971 to £3,532,000 in 1972. The overall group underwriting profit was £2,000,000 compared with a loss of £387,000 in the preceding year.

A detailed statement of the Company's General insurance business appears on pages 38 and 39.

In the United Kingdom the Company has been able to show a profit in the motor account for the first time for some years. In other accounts results continue to be very satisfactory overall notably in the property account in which our portfolio of domestic business plays an important part. The absence of heavy claims from adverse weather conditions contributed to this result.

Overseas the Company's operations for the year led to a considerable growth in premium income. Underwriting results were however adverse overall, particularly in the property account which suffered from heavy fire wastage in Canada and Australia. In these territories there was in addition a deterioration in motor experience. Our business in South Africa was also unprofitable. In Europe satisfactory profits in Denmark, Holland and Belgium were offset by losses in Italy and France. Overseas business written in the London market continued to be profitable.

In certain overseas territories it is evident that premium rates in the property class are at too low a level and we are, of course, taking what action we can to rectify this situation. In the circumstances we have thought it desirable to increase the unearned premium reserve in the property account by a special provision of £300,000.

Improved results in our marine and aviation account produced an underwriting profit of £225,000 after strengthening reserves.

Gross investment income for the Group other than that allocated to long-term contracts increased by £1,309,000 to £6,911,000 which together with the underwriting profit of £2,000,000 provided a surplus of £8,911,000. Taxation absorbed £3,831,000 leaving a net surplus for the Group of £5,080,000 compared with £2,603,000 for the preceding year. General insurance additional reserves were increased by £3,500,000.

The General insurance premiums written by Mercantile & General expanded by over 9 per cent. to £38,726,000 during the year under review. There were again substantial underwriting losses in excess of £1½ million in the fire and miscellaneous accounts but the marine and aviation results justified a transfer of £½ million to Profit and loss. These losses were more than covered by net investment income and overall a trend in the past few years of drawing on inner reserves has been reversed.

Investments

In the wake of strongly expansionary fiscal and monetary policies, the United Kingdom economy became much more buoyant in 1972, with a beneficial impact upon corporate profits. Against this background of renewed economic expansion accompanied by acute awareness of the possibility of a high rate of inflation, to which I have referred earlier, the British equity market rose by about 13 per cent. The increase in prices, of investment properties, which many people came to regard as the surest safeguard against inflation, was even more pronounced, but the prices of long-term fixed interest stocks fell by about 10 per cent.

The pattern of investment of the Company's United Kingdom insurance funds in 1972

	£m			
	Purchases	*Sales or redemptions*	*Net investment*	*1971*
British Government securities	36	24	12	61
Other fixed interest securities including mortgages on property	33	42	—9	—14
Ordinary stocks and shares	165	46	119	82
Property investments	33	8	25	16
	267	120	147	145

Over the year we made net new investments of £147 million on behalf of our United Kingdom insurance funds. The similarity in the size of this net investment with the previous year's disguises a different mix of underlying increase in the funds, use of borrowed money for overseas investment, changes in cash balances, and exceptional items. We invested rather over four-fifths in ordinary shares and rather under one-fifth in property. With the outlook for fixed interest securities threatened by the inflationary conditions and prices in the property market reflecting a somewhat indiscriminate dash for protection from inflation, we took advantage of certain opportunities to make substantial investments, which were larger in relation to the size of the companies involved than had been our policy up to then. Of the £119 million we invested in ordinary shares, some £50 million was accounted for by our taking important stakes in the United Dominions Trust Ltd. and Keyser Ullmann Holdings Ltd. and the enlargement of our already substantial interest in Dawnay Day Ltd. In the case of Keyser Ullmann Holdings Ltd. and Dawnay Day Ltd. we provided substantial new equity funds which enabled those companies to increase the scope of their operations. Later in the year we purchased most of Barclays Bank's large holding in the United Dominions Trust Ltd. We now hold 27 per cent. of the United Dominions Trust Ltd., 12 per cent. of Keyser Ullmann Holdings Ltd. and just under 20 per cent. of Dawnay Day Ltd.

We did not feel it appropriate to buy many large investment properties at the prices ruling during most of 1972. Of our £33 million of property purchased last year £26 million represented money for new developments which we had accepted commitments to finance in earlier years. The £7 million we spent on purchasing existing properties was more than offset by our sales of nearly £8 million worth of property which did not seem to us to have adequate prospects to justify our retaining them. Last year we invested £2.1 million in the purchase of agricultural properties and at the year end had contracted to invest a further £2.2 million. This is a new avenue of investment for us which we decided was attractive having regard to the relative efficiency of large-scale British agriculture within the context of the European Economic Community, together with the long-term pressures within our crowded island for efficient land utilisation. Agricultural land, however, proved to be a popular investment in 1972 and prices rose markedly. The further expansion of our interests owned is not likely in these circumstances to be very rapid and care will be taken to acquire good land only when it is possible to do so at reasonable prices. More generally, it should not be concluded that the relatively low level of our purchasing of properties in the last two years reflects any diminution of our confidence in such assets as amongst the most suitable and attractive vehicles available to us for long-term investment. We have some very substantial commitments outstanding to finance future new property developments and hope to find that, when the property market settles down from the present uncertainties, investment properties will again be available for purchase on attractive terms.

Investments made relating to our overseas branches totalled £48 million, much the same as in 1971. Of this new investment £15 million went into public sector debt, £4 million into debentures, £10 million into mortgages, £13 million into ordinary shares, and £6 million into property.

Mr. I. M. Macnab resigned from our South African Branch Investment Committee in June 1972. He had given valuable service on this committee ever since he retired as General Manager of the branch in 1961.

A large number of individual shareholdings, including many in very small companies, does not accord well with efficient and effective modern investment management arrangements. It is important that adequate finance should be available for the smaller companies, and our own experience of the financial returns from long-term investment in such companies has been good, but we feel that it would be better that we should do much of this by way of intermediary institutions. We made a start last year on reducing the number of our holdings in this way by exchanging some fifty holdings worth about £4½ million for shares in the Throgmorton Trust which under Keyser Ullmann's management has specialised in this area.

The discussions initiated by the Governor of the Bank of England to establish a means of collective action on the part of a wide range of institutional investors in those industrial and commercial situations which cause shareholder concern did not immediately produce a generally acceptable basis for action. Discussions have continued and now seem likely to have more positive results. The investment trusts, unit trusts and the pension funds have established joint arrangements and we welcome the willingness of the British Insurance Association to participate. We think that the trend towards institutional shareholders accepting greater responsibilities in this field must go on and we would expect to continue to give our full support in this process.

Profit and Loss Account and Dividends

A final dividend of 2.62p per share has been declared payable on the 17th May next. This complies with the Orders made under the Counter Inflation (Temporary Provisions) Act 1972.

The dividends to shareholders for 1972 reflect the change in corporate taxation effective from the 1st April 1973. Following the change in Articles of Association the interim dividend of 2.50p per share was declared gross and paid under deduction of income tax at 38.75 per cent. The final dividend of 2.62p per share together with the three-sevenths imputed credit is equivalent to 3.74p gross which with the interim dividend is equivalent to a gross dividend of 6.24p per share.

The transfers to Profit and loss account from the life assurance accounts were much the same as for 1971, adjusted to accord with the 1972 basis by including £2.1 million for Schedule F and other shareholders' taxes. For 1972 the Schedule F tax liability, which arose only in respect of the interim dividend, was fully relieved by franked investment income. The transfer from General insurance account was up by £0.5 million. After providing for the maximum dividend permitted, the surplus was £2.1 million. This would substantially increase the balance at the end of the year, and we have decided to start a General reserve with an initial contribution of £2.5 million.

I welcome this opportunity of thanking all members of the staff in the United Kingdom and overseas for their work during the last year, and for their ready acceptance of changes which are necessary for the continued progress of the Company. A special word of commendation is due to our staff in Northern Ireland who have continued to serve our policyholders in an exemplary manner in spite of exceptional difficulties and dangers. I am sure that shareholders will wish to join in this tribute.

K. A. USHERWOOD,
Chairman.

12th April 1973.

Directors' Report for the year ended 31st December 1972

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 1st December 1972 to the holders of 64,017 Ordinary shares of £1 each fully paid and 148,058 "A" shares of £1 each fully paid of The Mercantile and General Reinsurance Company Limited the Company allotted on 28th December 1972 4,185,660 5p shares credited as fully paid and ranking *pari passu* with the existing shares of the Company. At 31st December 1972 a further 55,840 shares remained to be finally allotted and on such allotment The Mercantile and General Reinsurance Company Limited will become a wholly owned subsidiary.

Accounts

The presentation of the accounts on pages 16 to 23 has been revised to include Group accounts consisting of a consolidation of the accounts of the Company and its insurance and reinsurance subsidiaries. The accounts included for The Mercantile and General Reinsurance Company Limited relate to the year ended 31st December 1971. Particulars of the subsidiary companies whose figures are included in the Group accounts are given in Note 2 on the accounts on page 25. Comparative figures for 1971 include such companies other than Compagnie d'Assurance de L'Escaut S.A., which became a subsidiary in 1972. Other information in respect of the accounts is given on pages 25 to 28 and 37 to 40. Following the changes in the Articles of Association approved at the last Annual General Meeting additional taxation attributable to shareholders has been dealt with in the Profit and loss accounts. In 1971 this taxation was dealt with in the life and general revenue accounts and the figures for 1971 have been adjusted to reflect the change in practice.

The Balance sheet total of the tangible assets is, Company £2,775,119,000 (*£2,490,134,000*) and Group £2,935,930,000 (*£2,629,488,000*). Income from all sources as shown in the Revenue and Profit and loss accounts for 1972, including transfers from Investment reserve account in the two life accounts, amounted to, Company £592,228,000 (*£528,904,000*) and Group £671,993,000 (*£588,640,000*).

Ordinary Life Assurance business

	Company		*Group*	
	1972	*1971*	1972	*1971*
	£000	*£000*	£000	*£000*
New business for the year was				
Annual premium income	33,936	*28,682*	38,095	*31,737*
Single premiums and considerations	17,842	*26,917*	20,392	*28,397*
Business in force at the end of the year was				
Annual premium income	184,505	*164,370*	203,420	*179,327*
Sums assured, including bonus	8,971,751	*7,699,123*	10,950,239	*9,374,377*
Annuities per annum (including bonus and amounts to be purchased by future recurrent single premiums)	279,909	*264,300*	295,387	*267,182*

The Group Revenue account on page 16 shows that surplus for distribution was £90,245,000 (*£77,225,000*) and that of this amount £83,393,000 (*£71,910,000*) was allocated to policyholders for bonuses leaving £6,852,000 (*£5,315,000*) for transfer to Group Profit and loss account.

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

A reversionary bonus at the rate of £3·40 per £100 sum assured.

A terminal bonus on policies issued in 1971 or earlier, which become claims by death or maturity of endowment between 1st April 1973 and 31st March 1974 inclusive, at rates varying from £0·40 per £100 sum assured for policies issued in 1971 to £92 per £100 sum assured for policies issued in 1923 and earlier.

Further details of these bonuses and those on all other Prudential participating policies are shown in the Chief Actuary's Valuation report which appears on pages 30 to 36.

Industrial Life Assurance business

New business for the year was

	Company	
	1972	*1971*
	£000	*£000*
Annual premium income	17,778	*15,016*

Business in force at the end of the year was

	1972	*1971*
Annual premium income	102,030	*95,719*
Sums assured, including bonus	2,173,817	*2,066,364*

The Revenue account on page 18 shows that surplus for distribution was £51,337,000 (*£47,108,000*) and that of this amount £48,231,000 (*£44,186,000*) was allocated to policyholders for bonuses, leaving £3,106,000 (*£2,922,000*) for transfer to Profit and loss account. Industrial life assurance business is not carried on by any of the subsidiary companies included in the Group accounts.

The Directors have declared the following bonuses on participating policies:

A reversionary bonus at the rate of £2·60 per £100 sum assured.

A terminal bonus on policies issued in 1971 or earlier which become claims by death or maturity of endowment between 1st April 1973 and 31st March 1974 inclusive, at rates varying from £0·40 per £100 sum assured for policies issued in 1971 to £92 per £100 sum assured for policies issued in 1923 and earlier.

Further details of these bonuses are shown in the Chief Actuary's Valuation report which appears on pages 30 to 36.

General Insurance business

Premium income, net of outward reinsurances was

	Company		*Group*	
	1972	*1971*	1972	*1971*
	£000	*£000*	£000	*£000*
	83,225	*65,284*	129,267	*100,789*

The Group Revenue account on page 20 shows that the net surplus amounted to £5,080,000 (*£3,103,000* after transfer from reserves of *£500,000*). Of this amount £3,500,000 (*£1,750,000*) was used to augment the Additional reserve fund leaving £1,580,000 (*£1,353,000*) for transfer to Group Profit and loss account.

Geographical Distribution

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

	Company		*Group*	
	Ordinary life business	General business	Ordinary life business	General business
	%	%	%	%
United Kingdom	68·5	54·4	67·9	44·3
Europe (other than UK)	0·4	5·7	1·1	16·5
Australia and New Zealand	12·4	6·6	12·3	7·9
Canada	10·6	25·2	10·2	19·3
South Africa	5·8	1·9	5·9	2·6
United States of America	—	1·5	0·2	2·4
Other territories	2·3	4·7	2·4	7·0
	100·0	100·0	100·0	100·0

Trusteeships

The amount of debenture and loan stocks for which the Company acts as trustee exceeded £1,505,000,000 (*£1,318,000,000*) at the end of the year.

Profit and loss accounts

The accounts on page 22 combine transfers from the life and general businesses and other items of income and outgo not dealt with in the life and general accounts with the balances brought forward from 1971. As a consequence of the changes referred to in the paragraph headed Accounts on page 11 the amounts of dividends for 1971 and the interim dividend for 1972 are shown gross. The income tax withheld from these payments amounted to £4,646,000 for 1971 and £1,976,000 (interim only) for 1972. The figure for 1971 was covered by income tax of £2,406,000 on franked investment income and Schedule F tax of £2,240,000. The 1972 interim was all covered by franked investment income. The final dividend for 1972 is shown as the amount on which shareholders resident in the United Kingdom will be entitled to a tax credit of three sevenths under the reformed tax law.

Dividends declared by the Company for the year total £10,556,000 (*£11,990,000*). After making transfers to General reserve of £2,500,000 (*nil*) and to the Inner reserve of a subsidiary of £539,000 (*nil*) this leaves a balance of £911,000 (*£1,342,000*) to be carried forward.

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

Dividends

The Directors have declared a final dividend for 1972 of 2·62p per share payable on 17th May 1973 to shareholders on the Register at close of business on 17th April 1973. This dividend will be paid under the reformed tax law and will carry, for shareholders resident in the United Kingdom, the right to a tax credit of three sevenths amounting to 1·12p per share. The total of the dividend payment and the tax credit is equivalent to a gross dividend under the previous tax law of 3·74p. The total dividend for the year, including the interim dividend of 2·50p gross paid in January 1973, is thus equivalent to 6·24p gross per share compared with 5·88p for 1971.

Directors

The Directors retiring by rotation are John Anthony Tristram Barstow DSO TD DL, Frank Mitchell Redington FIA, Desmond Arthur Reid and Sir John Nicholson Hogg TD. They offer themselves for re-election.

The Rt. Hon Lord Strathalmond CMG OBE TD and Sir Peter Frank Dalrymple Tennant CMG OBE who were appointed Directors as from 17th January 1973 retire in accordance with the Articles of Association and offer themselves for election.

The Directors recommend the election of Harry Gordon Clarke BSc FIA.

Sir John Mellor retired on 18th May 1972.

Directors' Shareholdings

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

	Shares of 5p each			
	On 1.1.72 or subsequent appointment		On 31.12.72	
	Beneficially Held	Other Interest	Beneficially Held	Other Interest
K A Usherwood	4,000	2,448	4,000	2,448
L Brown	5,280		5,280	
Sir J N Hogg	2,040	7,956	2,040	7,956
J A T Barstow	15,000	46,962	15,000	47,122
Lord Caccia	5,036		5,036	
Lord Coleraine	3,480		3,480	
B W Goodman	2,000		3,000	
R E Montgomery	3,480		3,480	
A F Murray (elected 18.5.72)	2,000	810	2,000	810
Rt Hon J E Ramsden (elected 18.5.72)		9,528	2,000	9,528
F M Redington	3,480		3,480	
D A Reid	115,237	508,404	115,237	485,761

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

Between 31st December 1972 and 26th March 1973 the shareholdings under "Other Interest" of Rt Hon J E Ramsden and Mr D A Reid have been reduced by 852 and 48,307 shares respectively.

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

Other Shareholdings

As far as the Directors were aware at 26th March 1973 no person had a shareholding of 10 per cent or more of the share capital of the Company.

Employees

The average number of persons employed by the Company and its subsidiaries in the United Kingdom in each week of 1972 was 23,536 and the aggregate remuneration paid or payable in respect of these employees during 1972 amounted to £50,061,548.

Donations

During the year £45,918 has been given by the Company and its subsidiaries for charitable purposes in the United Kingdom and £15,506 overseas.

Auditors

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

K A USHERWOOD,

Chairman.

Holborn Bars
12th April 1973.

Ordinary Life Assurance Business

Revenue Accounts
for the year ended 31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Income				
Premiums (other than single premiums)	181,058	162,793	228,305	206,721
Single premiums and considerations	22,575	26,872		
Investment income (see note 11 and page 37)	108,484	97,442	113,931	102,040
Increase in book value of investments related to linked business	3,491	2,247	4,028	2,378
Transfer from Investment reserve account (see note 8)	16,000	10,800	16,079	10,849
	331,608	300,154	362,343	321,988
Outgo				
Claims and surrenders (see page 37)	112,674	101,607	122,553	110,230
Annuities	21,955	18,945	22,938	19,849
Commission	13,391	10,868	15,866	13,895
Expenses	25,208	22,685	26,948	24,106
Selective employment tax	341	529	351	541
Taxation (see note 12)	8,021	8,062	8,467	8,412
	181,590	162,696	197,123	177,033
Excess of Income over Outgo	150,018	137,458	165,220	144,955
Provision for increase in liability to policyholders	61,247	60,148	74,940	67,778
Surplus for year	88,771	77,310	90,280	77,177
Surplus carried forward last year	1,242	1,290	1,242	1,290
this year	1,277	1,242	1,277	1,242
increase in surplus carried forward	35	−48	35	−48
Surplus for distribution	88,736	77,358	90,245	77,225
Provision for policyholders' bonuses	83,367	71,910	83,393	71,910
Balance to Profit and loss account (page 22)	5,369	5,448	6,852	5,315

Fund Accounts
for the year ended 31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Amount of fund at beginning of year	1,508,709	1,398,580	1,590,767	1,470,356
Exchange adjustment (see note 10)	39,095	−19,693	38,335	−19,556
	1,547,804	1,378,887	1,629,102	1,450,800
deduct in respect of Pakistan class business (see note 4) *(1971 Sudanese and Zambian business)*	4,045	2,188	4,045	2,188
	1,543,759	1,376,699	1,625,057	1,448,612
increase in surplus carried forward	35	−48	35	−48
	1,543,794	1,376,651	1,625,092	1,448,564
Increase in fund for year:				
Provision for increase in liability to policyholders	61,247	60,148	74,940	67,778
Provision for policyholders' bonuses	83,367	71,910	83,393	71,910
Amount of fund at end of year	1,688,408	1,508,709	1,783,425	1,588,252

Balance Sheets
31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Funds				
Life assurance fund	1,688,408	1,508,709	1,783,425	1,588,252
Contingency fund	14,000	14,000	14,000	14,000
	1,702,408	1,522,709	1,797,425	1,602,252
Investments				
British Government and British Government guaranteed securities	170,968	156,810	177,624	162,178
Other fixed income securities	354,582	331,692	385,832	362,744
Ordinary stocks and shares	557,603	461,755	593,292	490,271
Prudential Unit Trust units	10,261	6,923	10,261	6,923
Freehold and leasehold properties, rent charges and ground rents	373,192	335,511	388,699	343,453
Mortgages on property	182,092	171,736	190,504	178,848
Loans on policies and other loans	58,890	69,625	59,060	69,896
Subsidiaries (see notes 2 and 6)				
Fixed income securities	2,337	767	2,337	767
Ordinary stocks and shares	4,654	4,050	1,407	1,378
	1,714,579	1,538,869	1,809,016	1,616,458
Current assets				
Deposits at interest at home and overseas	2,357	46	2,357	46
Commission paid in advance	8,778	7,311	8,778	7,311
Outstanding premiums	5,219	4,565	5,227	4,565
Outstanding and accrued interest, dividends, rents and fees	20,534	15,573	20,624	15,577
Amounts due on reassurance account	—	—	3,674	3,828
Amounts due from subsidiaries	78	32	75	31
Tax recoverable	6,825	5,506	6,873	5,485
Other debtors	2,833	2,855	3,772	3,203
Bank balances and cash:				
Deposits	6,539	9,306	7,873	10,064
Current account and cash	1,413	1,484	1,845	1,899
(Market value of assets, Company £2,327,765,000 —*1971 £1,985,303,000*, Group £2,437,596,000—*1971 £2,058,008,000*) (see note 7)	1,769,155	1,585,547	1,870,114	1,668,467
Less: **Current liabilities**				
Outstanding claims	13,808	12,360	16,177	14,567
Annuities due and unpaid	15	22	15	22
Outstanding commission and expenses	3,150	2,652	3,150	2,652
Premiums received in advance	2,276	1,586	2,276	1,586
Amounts due on reassurance account	—	—	58	169
Amounts due to subsidiaries	1,290	1,307	1,281	1,307
Promissory notes in overseas currencies (see note 5)	10,650	9,595	10,650	9,595
Unsecured loans in overseas currencies (see note 5)	26,652	25,943	26,652	25,943
Other creditors	8,906	9,373	12,430	10,374
	66,747	62,838	72,689	66,215
	1,702,408	1,522,709	1,797,425	1,602,252

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Revenue Account
for the year ended 31st December 1972

	Company 1972 £000	1971 £000
Income		
Premiums	97,678	*92,241*
Investment income (see note 11 and page 37)	60,419	*56,814*
Transfer from Investment reserve account (see note 8)	13,500	*9,200*
	171,597	*158,255*
Outgo		
Claims and surrenders (see page 37)	93,935	*87,347*
Expenses	33,889	*32,054*
Selective employment tax	703	*1,102*
Taxation (see note 12)	9,531	*8,576*
	138,058	*129,079*
Excess of Income over Outgo	33,539	*29,176*
Provision released on reduction in liability to policyholders	17,690	*17,922*
Surplus for year	51,229	*47,098*
Surplus carried forward last year	1,788	*1,798*
this year	1,680	*1,788*
decrease in surplus carried forward	108	*10*
Surplus for distribution	51,337	*47,108*
Provision for policyholders' bonuses	48,231	*44,186*
Balance to Profit and loss account (page 22)	3,106	*2,922*

Fund Account
for the year ended 31st December 1972

	1972	1971
Amount of fund at beginning of year	769,919	*743,665*
decrease in surplus carried forward	108	*10*
	769,811	*743,655*
Increase in fund for year:		
Provision released on reduction in liability to policyholders	—17,690	*—17,922*
Provision for policyholders' bonuses	48,231	*44,186*
Amount of fund at end of year	800,352	*769,919*

Balance Sheet
31st December 1972

	Company 1972 £000	1971 £000
Funds		
Life assurance fund	800,352	*769,919*
Contingency fund	21,500	*21,500*
	821,852	*791,419*
Investments		
British Government and British Government guaranteed securities	158,251	*162,733*
Other fixed income securities	133,881	*136,046*
Ordinary stocks and shares	338,678	*280,382*
Freehold and leasehold properties, rent charges and ground rents	164,029	*160,498*
Mortgages on property	52,030	*50,955*
Other loans	3,595	*3,794*
Subsidiaries (see note 2)		
Ordinary stocks and shares	670	*670*
	851,134	*795,078*
Current assets		
Outstanding premiums	114	*170*
Outstanding and accrued interest, dividends, rents and fees	8,580	*6,029*
Amounts due from subsidiaries	165	*30*
Tax recoverable	4,753	*4,013*
Other debtors	3,347	*3,432*
Bank balances and cash:		
Deposits	3,225	*2,015*
Current account and cash	430	*1,845*
(Market value of assets £1,483,806,000—*1971 £1,308,693,000* (see note 7)	871,748	*812,612*
Less: **Current liabilities**		
Outstanding claims	2,430	*2,096*
Outstanding commission and expenses	910	*813*
Amounts due to subsidiaries	809	*807*
Unsecured loans in overseas currencies (see note 5)	40,260	*11,513*
Other creditors	5,487	*5,964*
	49,896	*21,193*
	821,852	*791,419*

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General Insurance Business

Revenue Accounts
for the year ended 31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Income				
Premiums	83,225	*65,284*	129,267	*100,789*
Investment income allocated to long term funds (see page 37)	262	*237*	426	*359*
	83,487	*65,521*	129,693	*101,148*
Outgo				
Claims	44,532	*34,521*	71,988	*56,984*
Commission	11,615	*8,705*	22,075	*17,176*
Expenses	16,679	*14,405*	19,894	*15,920*
Selective employment tax	163	*247*	186	*272*
Overseas taxes other than on profits	446	*347*	446	*347*
	73,435	*58,225*	114,589	*90,699*
Excess of Income over Outgo	10,052	*7,296*	15,104	*10,449*
Provision for increase in liability to policyholders	6,520	*5,818*	13,104	*10,836*
Gross Underwriting Profit	3,532	*1,478*	2,000	*−387*
Investment income (other than allocated to long term funds) (see page 37)	4,460	*3,577*	6,911	*5,602*
Gross surplus	7,992	*5,055*	8,911	*5,215*
Taxation (see note 12)	3,005	*2,279*	3,831	*2,612*
Net surplus for the year	4,987	*2,776*	5,080	*2,603*
Transfer from reserves	—	—	—	*500*
	4,987	*2,776*	5,080	*3,103*
Transfer to Additional reserve fund	3,500	*1,750*	3,500	*1,750*
Balance to Profit and loss account (page 22)	1,487	*1,026*	1,580	*1,353*

Fund Accounts
for the year ended 31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Amount of fund at beginning of year	31,808	*26,497*	82,925	*69,803*
Exchange adjustment (see note 10)	1,235	*−507*	201	*−294*
	33,043	*25,990*	83,126	*69,509*
Increase in fund for year:				
Provision for increase in liability to policyholders	6,520	*5,818*	13,104	*10,836*
Amount of fund at end of year	39,563	*31,808*	96,230	*80,345*

A detailed statement of the Company's General Insurance business appears on pages 38 and 39.

Balance Sheets
31st December 1972

	Company 1972 £000	Company 1971 £000	Group 1972 £000	Group 1971 £000
Funds and Reserves				
Insurance funds	39,563	*31,808*	96,230	*80,345*
Additional reserve fund	13,150	*9,650*	13,150	*9,650*
Contingency fund	1,000	*1,000*	1,000	*1,000*
	53,713	*42,458*	110,380	*90,995*
Reserve retained in a subsidiary	—	—	1,638	*1,410*
	53,713	*42,458*	112,018	*92,405*
Investments				
British Government and British Government guaranteed securities	14,231	*12,131*	21,205	*17,031*
Other fixed income securities	32,340	*24,771*	48,262	*36,231*
Ordinary stocks and shares	27,028	*16,264*	55,257	*39,080*
Freehold property	237	*223*	1,369	*836*
Mortgages on property	2,420	*1,845*	4,070	*3,102*
Other loans	189	*34*	191	*38*
Subsidiaries (see notes 2 and 6)				
Ordinary stocks and shares	2,028	*1,902*	—	—
	78,473	*57,170*	130,354	*96,318*
Current assets				
Deposits at interest at home and overseas	2,279	*1,379*	2,279	*1,379*
Agents' balances	2,206	*1,663*	3,551	*1,666*
Outstanding premiums	12,269	*9,893*	12,861	*9,893*
Outstanding and accrued interest, dividends, rents and fees	788	*522*	1,070	*574*
Amounts due on reinsurance account	3,261	*2,755*	17,981	*16,431*
Amounts due from subsidiaries	323	*183*	33	—
Other debtors	903	*544*	4,438	*1,656*
Bank balances and cash:				
Deposits	2,269	*2,515*	3,113	*3,240*
Current account and cash	1,207	*2,616*	2,681	*3,618*
(Market value of assets, Company £118,247,000 —*1971 £91,667,000*, Group £201,129,000—*1971 £147,089,000*) (see note 7)	103,978	*79,240*	178,361	*134,775*
Less:				
Current liabilities				
Outstanding claims	36,695	*27,073*	43,548	*27,476*
Outstanding commission and expenses	3,266	*2,435*	3,266	*2,435*
Premiums received in advance	242	*243*	477	*243*
Amounts due on reinsurance account	2,922	*3,237*	9,160	*6,325*
Amounts due to subsidiaries	46	*15*	46	*15*
Taxation	3,764	*1,945*	4,268	*2,090*
Unsecured loans in overseas currencies (see note 5)	852	—	852	—
Other creditors	2,478	*1,834*	4,726	*3,786*
	50,265	*36,782*	66,343	*42,370*
	53,713	*42,458*	112,018	*92,405*

Profit and Loss Accounts
for the year ended 31st December 1972

	Company 1972 £000	Company *1971* *£000*	Group 1972 £000	Group *1971* *£000*
Transfer from Ordinary life assurance revenue account	5,369	*5,448*	6,852	*5,315*
Industrial life assurance revenue account	3,106	*2,922*	3,106	*2,922*
General insurance revenue account	1,487	*1,026*	1,580	*1,353*
Investment income and interest on deposits (see note 11)	914	*1,243*	1,287	*1,493*
Trustee and executor fees	162	*154*	162	*154*
Taxation (see note 12)	1,745	*2,019*	1,552	*1,990*
	12,783	*12,812*	14,539	*13,227*
Less.				
Expenses	158	*139*	161	*141*
Profits of subsidiaries applicable to outside shareholders	—	—	48	*148*
Consolidation adjustment (see note 6)	—	—	1,166	*265*
	158	*139*	1,375	*554*
	12,625	*12,673*	13,164	*12,673*
Balance at beginning of year	1,342	*659*	1,342	*659*
Balance for appropriation	13,967	*13,332*	14,506	*13,332*
Interim dividend (gross)	5,100	*4,330*	5,100	*4,330*
Final dividend payable—(*1971 gross*) (see page 14)	5,456	*7,660*	5,456	*7,660*
Dividends for the year (see note 1)	10,556	*11,990*	10,556	*11,990*
	3,411	*1,342*	3,950	*1,342*
Transfer to General reserve	2,500	—	2,500	—
Inner reserve of a subsidiary	—	—	539	—
Balance at end of year	911	*1,342*	911	*1,342*

The certificates and notes on pages 24 to 28 form an in

Balance Sheets of the Company and of the Group
31st December 1972

	Company 1972 £000	Company *1971* *£000*	Group 1972 £000	Group *1971* *£000*
Capital, Reserves and Funds				
Capital (see note 1)				
Authorised 250,000,000 Shares of 5p each	12,500	*12,500*	12,500	*12,500*
Issued and fully paid 208,185,660 (*1971 204,000,000*) Shares of 5p each	10,409	*10,200*	10,409	*10,200*
Share premium account (see note 1)	8,080	—	8,080	—
General reserve	2,500	—	2,500	—
Reserve retained in a subsidiary	—	—	1,638	*1,410*
Profit and loss account	911	*1,342*	911	*1,342*
Special contingency fund	4,858	*4,858*	4,858	*4,858*
Ordinary life assurance funds	1,702,408	*1,522,709*	1,797,425	*1,602,252*
Industrial life assurance funds	821,852	*791,419*	821,852	*791,419*
General insurance funds	53,713	*42,458*	110,380	*90,995*
	2,604,731	*2,372,986*	2,758,053	*2,502,476*
Investments				
British Government and British Government guaranteed securities	343,450	*331,674*	357,382	*342,129*
Other fixed income securities	529,794	*500,496*	578,466	*543,498*
Ordinary stocks and shares	930,922	*765,500*	996,526	*817,647*
Prudential Unit Trust units	*10,261*	*6,923*	*10,261*	*6,923*
Freehold and leasehold properties, rent charges and ground rents	537,458	*496,232*	554,203	*505,228*
Mortgages on property	236,542	*224,536*	246,666	*232,954*
Loans on policies and other loans	62,674	*73,453*	62,846	*73,729*
Subsidiaries (see notes 2 and 6)				
Fixed income securities	2,337	*767*	2,337	*767*
Ordinary stocks and shares	23,050	*6,772*	2,127	*2,082*
	2,676,488	*2,406,353*	2,810,814	*2,524,957*
Current assets				
Deposits at interest at home and overseas	4,636	*1,425*	4,636	*1,425*
Agents' balances	2,206	*1,663*	3,551	*1,666*
Commission paid in advance	8,778	*7,311*	8,778	*7,311*
Outstanding premiums	17,602	*14,628*	18,202	*14,628*
Outstanding and accrued interest, dividends, rents and fees	30,038	*22,281*	30,409	*22,339*
Amounts due on reinsurance account	3,261	*2,755*	21,709	*20,259*
Amounts due from subsidiaries	566	*245*	76	*56*
Tax recoverable	9,618	*8,551*	9,122	*8,384*
Other debtors	6,441	*6,933*	9,018	*7,894*
Bank balances and cash:				
Deposits	12,333	*13,836*	14,549	*15,319*
Current account and cash	3,152	*4,153*	5,066	*5,250*
(Market value of total tangible assets, Company £3,963,506,000 —*1971 £3,402,215,000* Group £4,142,025,000 —*1971 £3,531,311,000*) (see note 7)	2,775,119	*2,490,134*	2,935,930	*2,629,488*
Less:				
Current liabilities				
Outstanding claims	52,933	*41,529*	62,155	*44,139*
Annuities due and unpaid	15	*22*	15	*22*
Outstanding commission and expenses	7,332	*5,902*	7,332	*5,902*
Premiums received in advance	2,518	*1,829*	2,753	*1,829*
Amounts due on reinsurance account	2,922	*3,237*	9,238	*6,494*
Amounts due to subsidiaries	2,145	*2,129*	2,134	*2,129*
Promissory notes in overseas currencies (see note 5)	10,650	*9,595*	10,650	*9,595*
Unsecured loans in overseas currencies (see note 5)	74,996	*37,456*	74,996	*37,456*
Other creditors	6,321	*7,789*	10,069	*10,244*
Interest of outside shareholders in subsidiaries	—	—	95	*1,542*
Dividends (*1971—Final*)	10,556	*7,660*	10,556	*7,660*
	170,388	*117,148*	189,993	*127,012*
	2,604,731	*2,372,986*	2,745,937	*2,502,476*
Goodwill arising on consolidation (see note 6)	—	—	12,116	—
	2,604,731	*2,372,986*	2,758,053	*2,502,476*

pages 24 to 28 form an integral part of these accounts.

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1628-021

Certificates to the Accounts of the Company

I certify that in my opinion the aggregate amount of the liabilities in relation to long term business at 31st December 1972 did not exceed the aggregate amount of those liabilities as shown in the Balance sheet.

R S SKERMAN, *Chief Actuary.*

We certify that:

(1) in our opinion the value of the assets at 31st December 1972 was in the aggregate at least equal to the aggregate of the amounts thereof shown in the Balance sheet. For the purposes of this certificate values of the quoted Stock Exchange securities have been taken at middle market prices as at that date and the values of other assets have been estimated by the Directors,

(2) in our opinion the aggregate of the market values at 31st December 1972 of the realisable domestic assets, all free from mortgage or charge, was at least equal to the aggregate of the values at that time of the domestic liabilities as defined in Section 65(9) of the Companies Act 1967,

(3) the aggregate amount of the premiums relating to general business included in the Revenue accounts is £79,172,000 (this figure excludes premiums relating to long term business),

(4) the amount of the minimum solvency margin applicable in the period immediately following the end of the financial year 1972 was £8,168,000,

(5) in our opinion the aggregate of the amounts of the assets as stated in the Balance sheet exceeded the liabilities at 31st December 1972 after taking into account all prospective and contingent liabilities but not liabilities in respect of share capital by £40,908,000,

(6) in our opinion the fund at the end of the year in relation to marine, aviation and transport business transacted in the current year was sufficient to meet all the liabilities outstanding at 31st December 1972 in relation to that business (including those in respect of risks to be borne after 31st December 1972 in relation to that business),

(7) in our opinion the funds at the end of the year in relation to marine, aviation and transport business transacted in the last preceding year and in previous years were each sufficient to meet all the liabilities outstanding at 31st December 1972 in relation to the relevant business,

(8) in our opinion no part of the Ordinary life assurance fund, the Industrial life assurance fund, the Long term sickness and accident insurance fund or the Sinking fund insurance fund has been used directly or indirectly for any purpose for which it should not have been used having regard to the provisions of Section 3 of the Insurance Companies Acts 1958 to 1967 and to the Articles of Association of the Company.

Signatures to the Certificates and Accounts

R H OWEN, *Chief General Manager.*

K A USHERWOOD, *Chairman.*

R S SKERMAN, *Chief Actuary.*

L BROWN, *Director.*

E P HATCHETT, } *Joint Secretaries.*
P E MOODY, }

A F MURRAY, *Director.*

12th April 1973.

Notes on the Accounts

1 The capital of the Company is liable in respect of contracts in all branches of the Company's business. During the year 4,185,660 5p shares credited as fully paid were issued in respect of the acquisition of shares of The Mercantile and General Reinsurance Company Limited in accordance with the terms of the offer dated 1st December 1972. The Share Premium account represents the excess of the offer value of the shares issued over their nominal value less the relevant expenses. At 31st December 1972, a further 55,840 shares remained to be issued under the offer.

The accounts for the Ordinary life assurance business and the General insurance business (on pages 16, 17, and 20, 21) show under the heading 'Company' the business of the Ordinary and General branches of the Prudential alone. The Group accounts include the whole of the relevant business of the subsidiaries referred to in the first part of Note 2 below, but the share capital of such subsidiaries is not in every case an asset of one or other of these branches. Comparative figures for 1971 include such companies other than Compagnie d'Assurance de l'Escaut S.A. which became a subsidiary on 3rd January 1972.

Following upon the changes in the Articles of Association at the last Annual General Meeting dividends are not now declared net of income tax and the charge for taxation has been re-allocated between the Revenue accounts and Profit and loss account. Comparative figures for 1971 have been adjusted accordingly.

The principal accounting policies followed are indicated in notes 6 to 12.

2 Particulars of subsidiary companies are as follows:

Name	*Class of Share held*	*Proportion held*	*Country of Incorporation and Principal Operation unless otherwise stated*
Included in group accounts			
Compagnie d'Assurance de l'Escaut S.A.	Shares n.p.v.	100%	Belgium
The Mercantile and General Reinsurance Company Limited	Shares £1 "A" Shares £1	99·6% 99·5%	Scotland (Operating principally in UK)
The Prudential Insurance Co. of Great Britain (located in New York)	Shares $100	100%	USA
Prudential Pensions Limited	Shares £1	100%	England

The Company's holding in The Mercantile and General Reinsurance Company Limited consists of direct holdings of 24·5% of the Shares £1 and 57·8% of the "A" Shares £1 and the remainder through a wholly owned subsidiary Mercantile and General Reinsurance (Holdings) Limited a company incorporated in England. To avoid undue delay in the publication of the Company's accounts the figures of The Mercantile and General Reinsurance Group included in the Group accounts relate to the year ended 31st December 1971 and for the Australian subsidiaries of that Group to the year ended 30th June 1971.

Not included in group accounts			
Barnard Enterprises Limited	Shares £1	100%	England
Murray & Co. Limited	Common Shares n.p.v.	100%	Canada
Paramet Corporation Limited	Common Shares n.p.v.	100%	Canada
Partin Investments Limited	Ordinary Shares 10p	100%	England
Prudential Australian Superannuation Limited	Shares $2	100%	Australia
Prudential Nominees Limited	Shares £1	100%	England
Prudential Unit Trust Managers Limited	Shares £1	100%	England
Riccarton Mall Limited	Ordinary Shares $1	100%	New Zealand
R.P.D. Investments Limited	Ordinary Shares 5p	100%	England
Societa Italo-Britannica di Assicurazioni s.r.l.	Shares	100%	Italy
Stocklund Property Limited	Shares £1	100%	England

The accounts of the subsidiaries not included in group accounts have been omitted as the amounts involved are not significant. Based on the rates of exchange ruling on 31st December 1972 the net aggregate amount of profits of these subsidiaries are

For 1972	For previous years	
£	£	
95,398	115,339	(not included in the Company's accounts)
—12,089	59,001	(included in the Company's accounts)

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

3 The Group, in the investment portfolios of its separate businesses, holds shares in the following companies, other than subsidiaries, in which the holding of at least one class of equity shares amounts in nominal value to one fifth or more of the nominal value of the issued shares of that class.

Name	*Issued capital and total reserves*	*Proportion held* %	*Country of Incorporation and Principal Operation unless otherwise stated*
Agencia de Seguros Anglo Portuguesa Limitada	Esc. 100,000 Shs	50·0	Portugal
Broadstone Investment Trust Ltd.	£2,400,000 Ord. Shs. 20p	24·8	England
	£600,000 5% Cum. Pref. Stk.	45·0	
	£500,000 5½% Cum. 2nd Pref. Stk.	12·1	
	£750,000 4% Deb. Stk. 1974/79	36·7	
	£1,000,000 5½% Deb. Stk. 1979/84	5·0	
	£500,000 6½% Deb. Stk. 1982/87	—	
	£2,500,000 4½% Convert. Unsec'd. Loan Stk. 1988/93	—	
	£14,566,988 Reserves		
Cleveland Offshore Fund N.V.	1,283 Shs. US$100	37·9	Netherlands Antilles (Operating principally in USA)
European Securities Ltd.	£3,944 Shs. £1	25·3	England
M. & G. Computer Systems Ltd.	600 Shs. C$1	20·0	Canada
P. W. Nominees Ltd.	£100 Shs. £1	50·0	England
Reinsurance Group Managers Ltd.	£4,000 Shs. £1	25·0	England
Richard Costain Properties Ltd.	£250,000 Ord. Shs. £1	25·0	England
	£4,978,500 6⅜% 1st Mtge. Deb. Stk. 2002	100·0	
	£337 Reserves		
Richard Costain Properties (No. 2) Ltd.	£100 Ord. Shs. £1	25·0	England
	£13,693 Reserves		
Thames House Estate Ltd.	£1,000,000 Shs. £1	25·0	England
	£364,522 3½% 1st. Mtge. Deb. Stk. 1983	69·4	
	£1,063,921 Reserves		
United Dominions Trust Ltd.	£13,567,000 Ord. Stk.	26·7	England
	£500,000 4½% Cum. Pref. Stk.	6·3	
	£1,000,000 4½% 2nd. Cum. Pref. Stk.	6·5	
	£1,000,000 4½% 3rd Cum. Pref. Stk.	4·5	
	£56,368,000 Reserves		
Western Properties S.A.	450,000 Common Stk. Shs. US$1	22·2	Panama (Operating principally in USA)
Westpool Investment Trust Ltd.	£1,905,000 Shs. 25p	31·9	England
	£150,000 4% Deb. Stk. 1975/80	20·0	
	£400,000 5% Deb. Stk. 1985/90	18·8	
	£500,000 5¾% Deb. Stk. 1983/88	10·0	
	£1,524,000 5% Convert. Unsec'd. Loan Stk. 1989/94	—	
	£7,660,481 Reserves		

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

The Group also holds shares in a further 32 companies in which the holding exceeds one tenth. In view of the number involved details relating to individual companies are not shown.

4 The Life Insurance Nationalisation Order, 1972 of Pakistan provides for the nationalisation of the whole of the Company's Pakistan class rupee life business and the liabilities in respect of this business and the Pakistan rupee assets which cover these liabilities have been excluded from the Company's accounts. Terms of settlement including a claim for compensation are still being negotiated with the relevant Pakistan authorities and credit has been taken only for certain amounts due in respect of previous years; no credit has been taken for any compensation which may be payable to the Company.

5 The promissory notes and unsecured loans in overseas currencies shown under current liabilities in the Balance sheets fall due for settlement by 1975 and 1977 respectively.

6 The Balance sheet value of an investment in a subsidiary held as an asset of the Company's Ordinary life assurance business has been reduced this year by application of £5m. from investment reserve account. The comparative figures for 1971 have been similarly adjusted and the Balance sheet value of investments in Ordinary stocks and shares has been increased by a corresponding amount.

Goodwill arising on consolidation shown in the Balance sheet on page 23 represents the difference between the Balance sheet values of the investments in the subsidiaries consolidated and the net asset values at the dates of acquisition as adjusted by the undistributed post-acquisition profits which for 1972 and 1971 are shown as consolidation adjustments in the Group Profit and loss account. Adjustments corresponding to the relevant interests in these subsidiaries have been made in the respective Balance sheets of the Ordinary life and General business on pages 17 and 21.

7 The market values of the assets shown on the Balance sheets are based on market quotations where available (allowing 75% of dollar premium where appropriate) and in all other cases on values estimated by the Directors of the respective companies of the Group. Tax on capital gains that would arise if the assets were realised at the value shown is estimated in total to be not greater than Company £235m., Group £250m. of which the following applies to the separate businesses.

	Ordinary life	Industrial life	General business
	£m.	£m.	£m.
Company	100	130	5
Group	110	130	10

8 In the Company's accounts profits and losses on realisation of assets together with adjustments to book values 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 out of which transfers have been made to revenue accounts. The balances of the Investment reserve accounts have been applied in arriving at the Balance sheet values of assets.

In the Group accounts such items in respect of the subsidiaries have, with minor exceptions, been dealt with on a similar basis.

9 The liabilities of the life and long term sickness and accident business are determined annually by actuarial methods except for one subsidiary included in the group accounts which values triennially.

For the Company's fire and accident insurances (other than long term sickness and accident contracts) reserves in respect of unearned premiums are calculated on a proportional basis having regard to the premiums written each month, with a deduction of 20 per cent for expenses. In addition an unexpired risk reserve is held for fire insurance to cover the estimated excess of liabilities over the unearned premium reserve. Funds are maintained at a level considered sufficient to meet the liabilities of the Group under marine, aviation, transport and reinsurance business. For the last treaty year the fire and accident proportional reinsurance account of one subsidiary is dealt with on an open year basis.

10 Life, fire and accident business transactions in overseas currencies have been included in the accounts at the rates of exchange ruling on 31st December 1972 and the funds brought forward at the beginning of the year in the Ordinary life and General business accounts on pages 16 and 20 respectively, have been adjusted for the difference in the rates of exchange at the beginning and end of the year.

Currency liabilities overseas including loans from overseas bankers, promissory notes and unsecured loans in overseas currencies are, with minor exceptions, covered by corresponding currency assets and these liabilities and assets (other than those subsequently mentioned) have been converted at rates of exchange ruling on 31st December 1972. The book values of certain investments in overseas currency held at Chief Office partly on Chief Office investment account and partly as cover for overseas liabilities (other than the shareholdings in the American and Belgian subsidiaries referred to in note 2 which are included at currency cost converted to sterling at the rates of exchange ruling on 31st December 1972) 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 General insurance business on pages 38 and 39, arises from the revaluation of currency net assets at the rates of exchange ruling on 31st December 1972.

In the Group accounts such items in respect of the subsidiaries have, with minor exceptions, been dealt with on a similar basis.

11 Investment income, which has been adjusted to include United Kingdom dividends normally receivable in 1972 but deferred for tax reasons to 1973, is shown less amounts written off terminable and other securities

and after payment of interest £2,722,000 (*£2,468,000*), £1,736,000 (*£130,000*) £6,000 (*nil*) and £449,000 (*£5,000*) in the Ordinary life, Industrial life, General business and Profit and loss accounts respectively, on bank loans, promissory notes and unsecured loans.

12 Taxation as detailed below has been charged on all profits and income earned to date at the appropriate rates (corporation tax 40%, income tax 38·75%) less reliefs. The following analysis reflects the change in accounting practice referred to in Note 1.

	Ordinary life		Industrial life		General business		Profit and loss	
	1972	*1971*	1972	*1971*	1972	*1971*	1972	*1971*
Company	£000	*£000*	£000	*£000*	£000	*£000*	£000	*£000*
Corporation tax	177	*1,263*	1,227	*947*	2,603	*1,694*	−89	*74*
Less Double taxation relief	—	—	230	*150*	144	*343*	—	—
	177	*1,263*	997	*797*	2,459	*1,351*	−89	*74*
Income tax—On investment income	5,947	*4,698*	8,391	*7,685*	654	*531*	520	*503*
—Withheld from dividend payments	—	—	—	—	—	—	−1,976	*−4,646*
—Schedule F payable	—	—	—	—	—	—	—	*2,240*
Overseas tax	2,694	*2,489*	230	*161*	10	*375*	—	—
Adjustment for prior years	−797	*−388*	−87	*−67*	−118	*22*	−200	*−190*
	8,021	*8,062*	9,531	*8,576*	3,005	*2,279*	−1,745	*−2,019*
Group								
Corporation tax	197	*1,278*	1,227	*947*	3,255	*1,735*	31	*79*
Less Double taxation relief	3	*1*	230	*150*	250	*344*	17	—
	194	*1,277*	997	*797*	3,005	*1,391*	14	*79*
Income tax—On investment income	6,297	*4,998*	8,391	*7,685*	784	*663*	563	*526*
—Withheld from dividend payments	—	—	—	—	—	—	−1,976	*−4,646*
—Schedule F payable	—	—	—	—	—	—	—	*2,240*
Overseas tax	2,775	*2,525*	230	*161*	161	*536*	47	*1*
Adjustment for prior years	−799	*−388*	−87	*−67*	−119	*22*	−200	*−190*
	8,467	*8,412*	9,531	*8,576*	3,831	*2,612*	−1,552	*−1,990*

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

13 The aggregate amount of the Company's Directors' emoluments for the year was Company £91,725 (*£94,824*), Group £97,967 (*£99,564*). In addition contributions made to the pension scheme for Directors were Company £25,000 (*£25,000*), Group £25,650 (*£25,500*).

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

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

Over	Up to	Number of Directors	
£	£	1972	*1971*
—	2,500	1	*1*
2,500	5,000	2	*1*
5,000	7,500	6	*8*
7,500	10,000	2	—
10,000	12,500	1	*2*
17,500	20,000	1	*1*

14 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	
£	£	1972	*1971*
10,000	12,500	10	*12*
12,500	15,000	4	*1*
15,000	17,500	1	*2*
17,500	20,000	2	—
20,000	22,500	1	*1*
22,500	25,000	2	*3*
32,500	35,000	1	*1*

15 The remuneration of the auditors of the Company and its subsidiaries amounted to £114,710 (*£111,867*).

16 The Group is committed to capital contracts for settlement after 31st December 1972 of £2,950,000 (*£2,850,000*) and expenditure authorised but not contracted for of £20,000 (*£60,000*). Also, certain guarantees have been given in respect of retirement benefits for the Staff and benefits for their relatives and dependants, and in respect of a bank loan of U.S. $5,000,000 to the Prudential Staff Pension Scheme.

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

In our opinion, based on our examination and on the reports of the auditors of certain subsidiaries not audited by us, the accounts set out on pages 16 to 28 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 othre 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

12th April 1973

Valuation Report on the Company's business

To the Directors of The Prudential Assurance Company Limited.

I have the honour to submit my report on the valuation as at 31st December 1972 of the life assurances and annuities and other insurance contracts of the Company.

Ordinary Branch

The number of contracts in force was 2,759,012 producing an annual premium income of £184,505,187. Sums assured with bonuses amounted to £8,971,751,100. Deferred and contingent annuities with bonuses amounted to £256,389,327 per annum including amounts of annuity to be purchased by future recurrent single premiums. Annuities in course of payment amounted to £23,519,373.

The interest earned in 1972 represents a gross rate of £6·93 per cent on the Ordinary branch fund.

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

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

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

The tables of mortality used for assurances were:

Business issued in:	Table of Mortality
United Kingdom, the Channel Islands, the Isle of Man, Australia, New Zealand and Canada without-profits issued after 31st December 1960	A1949/52 Ult
South Africa and Rhodesia	SA56/62 Ult
Kenya, Tanzania, Uganda and Zambia; Canada: Without-profits issued before 1st January 1961 and with-profits	A1924/29 Ult
Other territories	A1924/29 Ult with a rating up of 3 years

The net rates of interest assumed for assurances were:

Business issued in:	Rate of interest
United Kingdom, the Channel Islands and the Isle of Man:	
With-profits	2¾%
Without-profits	3¼%
Australia:	
Second Series	3%
Other	3¼%
New Zealand:	3½%
Canada:	
Without-profits issued after 31st December 1960	3½%
Other	3%

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Ordinary Branch *continued*

Business issued in (*continued*)	Rate of Interest
South Africa, Rhodesia and Zambia:	
With-profits: First Series	3½%
Second Series: Retirement Fund	3¾%
Other	3¼%
Without-profits	4%
Kenya, Tanzania and Uganda:	
With-profits: Retirement Fund	4¼%
Other	3½%
Without-profits	3¾%
Other territories	3%

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

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

The rates of interest assumed for annuities were:

	United Kingdom, Channel Islands and Isle of Man	Australia and New Zealand	South Africa, Rhodesia, Zambia, Kenya, Tanzania and Uganda	Other territories (except as stated below for certain business issued in Canada)
Deferred annuities:				
With-profits:				
Individual	3¾%	—	—	3%
Group	2¾%	—	3%	3%
Pension-unit schemes	4½%	—	—	—
Without-profits:				
Pension business:				
Individual	4¼%	—	—	—
Group	4½%	—	—	—
General business:				
Individual (except UK deferred annuity bonds) and group:				
During deferment	3¼%	3½%	3¼%	3¼%
After deferment	4%			
Immediate annuities	6½%	3½%	5%	3½%
Annuities certain	3½%	—	—	—

For United Kingdom individual deferred annuity bonds the cash option was valued at 6½ per cent during deferment.

For certain business issued in Canada the rates of interest assumed were:

	Issued or vested in: 1966 or earlier years	1967 and 1968	1969 and subsequent years
Deferred annuities without-profits secured by single premium:			
Individual without surrender values and group:			
During deferment	3¼%	5½%	6¼%
After deferment	3¼%	4%	4%

Ordinary Branch *continued*

	Issued or vested in:		
Immediate annuities:	1966 or earlier years	1967 and 1968	1969 and subsequent years
Vested from with-profit group business and purchased	4%	5½%	6¼%
Vested from other business	4%	4%	4%

For individual deferred annuities and for pension-unit schemes the net premiums valued were calculated on the valuation bases. For group deferred annuities secured by recurrent single premiums and for United Kingdom non-profit group deferred annuities (associated with with-profit schemes) secured by annual premiums, the benefit valued was the amount of annuity purchased by premiums paid to date. For other group deferred annuities secured by annual premiums the net premiums valued were 95 per cent of the office premiums.

For investment-linked benefits the net liability was based on the value at 31st December 1972 of the units allocated. Assurance benefits included in investment-linked contracts were valued as temporary benefits.

The equivalents in sterling of liabilities in other currencies have been calculated at the rates of exchange ruling on 31st December 1972.

The foregoing bases of valuation incorporate certain changes. For business issued in the United Kingdom, the Channel Islands and the Isle of Man the rate of interest used was changed for non-profit assurances from 3 per cent to 3½ per cent and for immediate annuities and deferred annuity bonds from 6 per cent to 6½ per cent. For assurances issued in New Zealand the rate of interest was changed for Second Series from 3 per cent to 3½ per cent and for other business from 3¼ per cent to 3½ per cent. There was also a change in the rate of interest used for certain vested annuities in Canada from 3½ per cent to 4 per cent.

The effect of these changes was to increase the surplus by £7,600,000. I consider that the Additional reserve should be decreased from £21,500,000 to £21,200,000. This reserve is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses on the various classes of policies.

The result of the valuation is as follows:

Ordinary branch fund subject to transfers out of surplus, on 31st December 1972		£1,693,776,720
Net liability under assurance policies	£940,035,930	
Net liability under annuity contracts	646,828,569	
Additional reserve	21,200,000	
Total net liability		1,608,064,499
Surplus emerging at 31st December 1972		85,712,221
Add cost of bonuses allocated during 1972 in anticipation out of surplus for that year		4,300,613
Total surplus, including £1,241,927 brought forward from last year		£90,012,834

I consider that for participating assurances issued in the United Kingdom, the Channel Islands and the Isle of Man, part of the surplus should again be distributed by way of terminal bonuses varying with the duration of the policies, that the rates of terminal bonus should be increased and that the years of issue to which they apply should be extended to include the year 1971. Although these terminal bonuses relate only to policies which become claims in the ensuing year, I am of the opinion that, other than in exceptional circumstances, terminal bonuses at these increased rates can be maintained on claims arising in later years on such policies issued prior to 1972. The discounted cost of maintaining these bonuses calculated on the bases used in the valuation is £100,000,000.

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

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

(A) For assurance policies which become claims by death or maturity between 1st April 1973 and 31st March 1974 inclusive terminal bonuses of which the following are examples:

Ordinary Branch *continued*

(1) Policies issued in 1971 or earlier in the United Kingdom, the Channel Islands, the Isle of Man and Malta

Year of Issue:	1971	1963	1953	1943	1933	1923 or earlier
Rate per cent of sum assured:	0·40	14·60	44·70	65·90	80·00	92·00

(2) Policies issued in 1970 or earlier in Australia

Year of Issue:	1970	1963	1953	1943	1932 or earlier
Rate per cent of sum assured:					
First Series:					
Superannuation	0·10	1·20	5·20	8·80	14·30
Other	0·06	0·72	5·20	8·80	14·30
Second Series:					
Superannuation	0·10	1·20	—	—	—
Other	0·06	0·72	—	—	—

(3) Policies issued in 1970 or earlier in New Zealand

Year of Issue:	1970	1963	1953	1943	1932 or earlier
Rate per cent of sum assured:					
First Series	0·05	0·60	5·20	8·80	14·30
Second Series	0·05	0·60	—	—	—

(4) Policies issued in South Africa

Whole life assurances: 1·00 per cent of the reversionary bonus existing at the date of claim for each complete year which the policy has been in force with a maximum of 30·00 per cent.

Endowment assurances: 1·50 per cent of the reversionary bonus existing at the date of claim for each complete year which the policy has been in force with a maximum of 45·00 per cent.

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

Year of Issue:	1971	1963	1953	1945
Rate per cent of sum assured:	0·10	8·20	32·40	47·70

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

For policies issued in:				per cent of sum assured	per cent of existing bonuses
(*a*)	the United Kingdom, the Channel Islands, the Isle of Man and Malta:			3·40	—
(*b*)	Australia:	First series:	Superannuation	3·30	—
			Other	2·75	—
		Second series:	Superannuation	2·30	2·30
			Other	1·95	1·95
		Third series:	Superannuation	1·80	1·80
(*c*)	New Zealand:	First series		2·40	—
		Second series		1·55	1·55
(*d*)	Canada:	Registered		2·30	3·25
		Other		2·10	2·75
(*e*)	South Africa:	First series		3·00	1·40
		Second series:	Retirement Fund	2·50	5·00
			Other	2·125	4·20

Ordinary Branch *continued*

				per cent of sum assured	per cent of existing bonuses
(*f*)	Rhodesia:	First series		2·75	—
		Second series:	Retirement Fund	2·425	3·05
			Other	2·125	2·75
(*g*)	Kenya:	Kenya class:	Retirement Fund	3·30	1·75
			Other	2·30	1·50
		Other classes		2·30	—
(*h*)	Malaysia and Singapore:				
		Second series		2·15	2·15
		Other		3·00	1·25

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

(C) For assurance policies issued in Sri Lanka (a closed class) a bonus on policies which become claims by death or maturity between the 1st April 1973 and 31st March 1974 inclusive at the rate of 1·4 per cent of the sum assured for each of the years 1966, 1967 and 1968 and 1·2 per cent of the sum assured for each subsequent year.

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

(*a*)	United Kingdom	5·20 simple
(*b*)	Canada	2·20 compound

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

(*a*)	United Kingdom: Pension business	5·30 compound
	General annuity business	5·00 compound
(*b*)	Channel Islands and the Isle of Man	5·00 compound
(*c*)	Canada	2·90 compound
(*d*)	South Africa	4·80 compound
(*e*)	Rhodesia, Kenya, Tanzania and Uganda	3·15 compound

(F) For pension-unit scheme policies issued in the United Kingdom, a reversionary bonus on pensions for members who have not reached normal pension age at the following rate per cent of the pension being purchased: 3·50 simple

An allocation of £83,367,352 to policyholders will be necessary to provide the cost of the recommended bonuses and of those declared in anticipation out of the surplus for 1972.

I also recommend that final bonuses at the following rates, per cent of the annuity or pension, be granted in anticipation out of surplus for the year 1973:

(A) For individual retirement annuity policies issued in :

(*a*)	United Kingdom, on annuities commencing between 1st April 1973 and 31st March 1974 inclusive	42 compound
(*b*)	Canada, on annuities commencing between 1st July 1973 and 30th June 1974 inclusive	24 compound

(B) For group pension policies on pensions commencing between 15th March 1973 and 14th March 1974 inclusive issued in:

(*a*)	United Kingdom, the Channel Islands and the Isle of Man	70 compound of which 20 compound would be taken into account when determining cash payments made in lieu of pensions.

Ordinary Branch *continued*

(*b*) Canada	25 compound
(*c*) South Africa	36 compound
(*d*) Rhodesia, Kenya, Tanzania and Uganda	28 compound

(C) For pension-unit scheme policies issued in the United Kingdom on pensions secured for members who reach *normal pension age between 1st April 1973 and 31st March 1974 inclusive:*

28 compound

Industrial Branch

The number of policies in force, including 5,511,427 free or paid-up policies, was 21,373,960 producing an annual premium income of £102,029,737. The maximum sums assured with bonuses amounted to £2,173,816,537.

The interest earned in 1972 represents a gross rate of £7·95 per cent on the Industrial branch fund.

The table of mortality used for the valuation of all assurances was the English Life Table No. 12, Males. The net rate of interest assumed in the valuation was 2¾ per cent. Net premiums have been valued, calculated on the valuation basis, and every policy has been treated as a liability. The whole of the difference between the value of the future office premiums and the value of the future net premiums has been reserved for future expenses and profits.

I consider that the Additional reserve should be reduced from £28,200,000 to £25,800,000. This reserve is held in respect of revivals, options and general contingencies for which provision is not otherwise made and as a stabilising fund to facilitate the declaration of equitable bonuses.

The result of the valuation is as follows:

Industrial branch fund, subject to transfers out of surplus on 31st December 1972		£803,458,210
Net liability under Industrial assurance policies	£724,641,484	
Additional reserve	25,800,000	
Total net liability		750,441,484
Surplus, including £1,788,166 brought forward from last year		£53,016,726

As in the case of the Ordinary branch, I consider that part of the surplus should again be distributed by way of terminal bonuses varying with the duration of the policies, that the rates of terminal bonus should be increased and that the years of issue to which they apply should be extended to include the year 1971. Although these terminal bonuses relate only to policies which become claims in the ensuing year, I am of the opinion that, *other than in exceptional circumstances, terminal bonuses at these increased rates can be maintained on claims* arising in later years on such policies issued prior to 1972. The discounted cost of maintaining these bonuses on the bases used in the valuation is £161,000,000.

I recommend that the following bonuses should be declared:

(A) A terminal bonus on policies issued in 1971 or earlier which become claims by death or maturity between 1st April 1973 and 31st March 1974 inclusive at the same rates as those for Ordinary branch policies issued in the United Kingdom examples of which are shown on page 33.

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

An allocation of £48,230,678 to policyholders will be necessary to provide the cost of the recommended bonuses.

General Branch

In respect of fire and accident contracts (other than long term sickness and accident contracts) the unearned premium reserve has been calculated on a proportionate basis having regard to the premiums written each month with a deduction of 20 per cent for acquisition costs. In addition, an unexpired risk reserve of £300,000 has been set up for property contracts.

General Branch *continued*

The interest earned in 1972 represents a gross rate of £6·08 per cent on the 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 assuming, for male lives in non-hazardous occupations, 70 per cent of the Manchester Unity 1893/97 (AHJ) sickness experience and the A1949/52 Ult table of mortality with interest at 4 per cent and taking credit for 60 per cent of the future office premiums. The reserves are increased by from 30 per cent to 60 per cent for other occupational classes depending on the degree of hazard and by 50 per cent for female lives. In addition, a reserve of £15,000 is held for contingencies.

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

Long term accidental death benefits attached to life policies issued in Canada have been valued using the 1959 Accidental Death Benefits table and the Commissioners 1958 Standard Ordinary table of mortality, with interest at 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 is 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 56·2 per cent of the premium income for the year.

The marine and aviation fund of £3,588,443 is, in my opinion, a sufficient provision for the liabilities.

The sinking fund policies in force provide for the payment of capital sums amounting to £386,700 at the end of fixed terms of years, and produce an annual premium income of £682. They have been valued by a gross premium method assuming interest at 3 per cent or the rate of interest employed in the calculation of the premiums, if less, and taking credit for 98 per cent of the future office premiums.

The equivalents in sterling of provisions in other currencies have been calculated at the rates of exchange ruling on 31st December 1972.

The results of the valuation is as follows:

General branch fund, subject to transfers out of surplus, on 31st December 1972		£54,200,978
Provision for fire and accident insurances	£32,658,110	
Provision for long term sickness and accident insurances	3,000,110	
Provision for marine and aviation insurance	3,588,443	
Provision for sinking fund insurance	316,949	
Additional reserve fund	9,650,000	
Total provisions and reserves		49,213,612
Surplus		£4,987,366

I recommend that £3,500,000 be transferred to the General branch Additional reserve fund.

R. S. SKERMAN,
Chief Actuary.

22nd March 1973.

Supplementary Information relating to the Company

Sources of Investment Income received during the year

	1972	*1971*
	£000	*£000*
Ordinary Life		
British Government and British Government guaranteed securities	14,284	*11,334*
Other fixed income securities, including subsidiaries	26,750	*24,671*
Ordinary stocks and shares, including subsidiaries	27,613	*23,399*
Freehold and leasehold properties, rent charges and ground rents	23,284	*20,908*
Mortgages on property	14,324	*13,602*
Other sources	2,229	*3,528*
Total revenue account income	108,484	*97,442*
Industrial Life		
British Government and British Government guaranteed securities	11,804	*9,668*
Other fixed income securities	11,094	*11,083*
Ordinary stocks and shares, including subsidiaries	22,748	*20,528*
Freehold and leasehold properties, rent charges and ground rents	12,840	*12,049*
Mortgages on property	2,614	*2,655*
Other sources	– 681	*831*
Total revenue account income	60,419	*56,814*
General Business		
British Government and British Government guaranteed securities	918	*777*
Other fixed income securities	2,333	*1,849*
Ordinary stocks and shares, including subsidiaries	1,136	*853*
Mortgages on property	177	*139*
Other sources	158	*196*
Total revenue account income	4,722	*3,814*

Claims and Surrenders—Life Assurance

	Ordinary		Industrial	
	1972	*1971*	1972	*1971*
	£000	*£000*	£000	*£000*
Claims under policies paid and outstanding:				
By death	26,994	*23,569*	28,122	*25,929*
By maturity	42,315	*41,207*	38,455	*34,105*
	69,309	*64,776*	66,577	*60,034*
Surrenders	21,904	*20,861*	27,358	*27,313*
Bonuses surrendered for cash	3,482	*3,039*		
Payments under occupational pension schemes				
Transfers to Prudential Pensions Ltd.	3,938	*753*		
Other transfers and payments on withdrawal (including amounts re-applied as further premiums)	14,041	*12,178*		
Total revenue account claims and surrenders	112,674	*101,607*	93,935	*87,347*

Investment Portfolios

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

	Ordinary Life		Industrial Life		General Business	
	1972	*1971*	1972	*1971*	1972	*1971*
Fixed interest investments	26	*31*	24	*29*	42	*49*
Ordinary stocks and shares	48	*46*	52	*50*	58	*51*
Property investments	26	*23*	24	*21*	—	—

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

Analysis of the General Insurance Business of the Company for the year ended 31st December 1972 (comparative figures for 1971 in italics)

Income	Property		Motor Vehicle		Sickness and Accident		Pecuniary Loss		Liability	
	£000		£000		£000		£000		£000	
Amount of fund at beginning of year: Unearned premiums	9,635	*8,271*	10,893	*8,371*	843	*786*	560	*502*	1,832	*1,550*
Provisions	—	—	‡200	*‡500*	*2,561	**2,346*	—	—	—	—
Exchange adjustment	390	*−152*	447	*−197*	155	*−70*	16	*−6*	127	*−51*
	10,025	*8,119*	11,540	*8,674*	3,559	*3,062*	576	*496*	1,959	*1,499*
Premiums	27,302	*20,878*	33,278	*26,625*	6,361	*5,531*	1,698	*1,293*	6,081	*4,352*
	37,327	*28,997*	44,818	*35,299*	9,920	*8,593*	2,274	*1,789*	8,040	*5,851*
Amount of fund at end of year: Unearned premiums	12,375	*9,635*	13,478	*10,893*	981	*843*	726	*560*	2,479	*1,832*
Provisions	‡300	—	—	*‡200*	*3,000	**2,561*	—	—	—	—
	24,652	*19,362*	31,340	*24,206*	5,939	*5,189*	1,548	*1,229*	5,561	*4,019*
Investment income allocated to long term funds	—	—	—	—	242	*215*	—	—	—	—
Total (A)	24,652	*19,362*	31,340	*24,206*	6,181	*5,404*	1,548	*1,229*	5,561	*4,019*
Outgo										
Claims	12,260	*8,667*	20,151	*16,738*	2,904	*2,517*	676	*452*	3,341	*2,483*
Commission	3,859	*2,715*	3,937	*3,097*	852	*715*	91	*43*	844	*603*
Expenses including taxation other than on profits	7,107	*5,871*	6,531	*5,963*	1,579	*1,404*	476	*426*	1,388	*1,035*
Total (B)	23,226	*17,253*	30,619	*25,798*	5,335	*4,636*	1,243	*921*	5,573	*4,121*
Gross underwriting profit (A—B)	1,426	*2,109*	721	*− 1,592*	846	*768*	305	*308*	− 12	*− 102*

Income	Treaty Reinsurance Accepted		Marine, Aviation and Transport: Current Year		Last Preceding Year		Previous Years		Total		Sinking Fund		Total	
	£000		£000		£000		£000		£000		£000		£000	
Amount of fund at beginning of year: Unearned premiums	1,736	*1,602*	—	—	—	—	—	—	—	—	—	—	31,808	*26,497*
Provisions	—	—	—	—	1,479	*1,052*	1,722	*1,142*	3,201	*2,194*	347	*375*		
Exchange adjustment	100	*−31*	—	—	—	—	—	—	—	—	—	—	1,235	*−507*
	1,836	*1,571*	—	—	1,479	*1,052*	1,722	*1,142*	3,201	*2,194*	347	*375*	33,043	*25,990*
Premiums	5,924	*4,218*	2,220	*2,017*	322	*284*	38	*85*	2,580	*2,386*	1	*1*	83,225	*65,284*
	7,760	*5,789*	2,220	*2,017*	1,801	*1,336*	1,760	*1,227*	5,781	*4,580*	348	*376*	116,268	*91,274*
Amount of fund at end of year: Unearned premiums	2,319	*1,736*	—	—	—	—	—	—	—	—	—	—	39,563	*31,808*
Provisions	—	—	1,605	*1,479*	847	*674*	1,136	*1,048*	3,588	*3,201*	317	*347*		
	5,441	*4,053*	615	*538*	954	*662*	624	*179*	2,193	*1,379*	31	*29*	76,705	*59,466*
Investment income allocated to long term funds	—	—	—	—	—	—	—	—	—	—	20	*22*	262	*237*
Total (A)	5,441	*4,053*	615	*538*	954	*662*	624	*179*	2,193	*1,379*	51	*51*	76,967	*59,703*
Outgo														
Claims	3,295	*2,342*	514	*361*	939	*636*	412	*287*	1,865	*1,284*	40	*38*	44,532	*34,521*
Commission	2,032	*1,532*	—	—	—	—	—	—	—	—	—	—	11,615	*8,705*
Expenses including taxation other than on profits	103	*80*	101	*177*	15	*26*	−13	*17*	†103	*†220*	1	—	17,288	*14,999*
Total (B)	5,430	*3,954*	615	*538*	954	*662*	399	*304*	1,968	*1,504*	41	*38*	73,435	*58,225*
Gross underwriting profit (A—B)	11	*99*	—	—	—	—	225	*−125*	225	*−125*	10	*13*	3,532	*1,478*

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

‡Unexpired risk reserve.
*For long term business.
†After deducting £90,000 profit on exchange (*adding £51,000 loss on exchange*).

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Ten Year Review of the Company

	1963 £m.	1964 £m.	1965 £m.	1966 £m.	1967 £m.	1968 £m.	1969 £m.	1970 £m.	1971 £m.	**1972 £m.**
Ordinary Life										
New annual premium income	12·3	14·2	15·6	17·8	19·6	20·9	22·9	24·3	28·7	**33·9**
Total premium income and considerations	92·4	101·0	111·1	122·3	138·1	147·1	155·1	166·5	189·7	**203·6**
Investment income	43·3	49·6	56·9	62·0	69·7	76·2	83·7	90·3	97·4	**108·5**
Surplus to policyholders	28·3	32·0	36·5	39·5	45·0	51·6	57·8	64·1	71·9	**83·4**
Balance sheet value of assets	729·7	814·4	899·7	985·2	1,116·9	1,228·1	1,332·2	1,456·7	1,585·5	**1,769·2**
Market value of assets	909·9	954·1	1,045·5	1,079·8	1,303·1	1,580·9	1,533·5	1,604·6	1,985·3	**2,327·8**
Industrial Life										
New annual premium income	8·8	9·3	10·6	11·4	12·3	12·7	13·8	14·8	15·0	**17·8**
Total premium income	65·1	67·8	70·7	74·2	77·5	81·2	84·4	88·2	92·2	**97·7**
Investment income	37·4	41·2	46·0	47·4	49·3	51·4	53·8	55·4	56·8	**60·4**
Surplus to policyholders	24·5	26·0	29·3	29·9	32·3	36·9	40·0	41·7	44·2	**48·2**
Balance sheet value of assets	585·5	615·6	648·2	672·1	698·6	730·2	754·9	772·8	812·6	**871·7**
Market value of assets	822·9	801·9	852·3	827·9	951·0	1,137·7	1,029·1	1,017·9	1,308·7	**1,483·8**
General Business										
Premium income	22·5	25·7	29·1	31·7	37·3	41·5	47·0	54·4	65·3	**83·2**
Gross Underwriting profit	−0·5	0·3	0·2	0·5	1·0	0·2	0·6	−0·3	1·5	**3·5**
Investment income	1·2	1·4	1·7	1·8	2·2	2·5	2·8	3·2	3·6	**4·5**
Trading profit net of tax	0·4	0·8	1·0	1·2	2·0	1·7	1·5	0·8	2·7	**5·0**
Retentions	−0·1	—	0·4	0·6	1·3	1·0	0·7	—	1·7	**3·5**
Balance sheet value of assets	28·6	31·7	35·0	38·3	44·9	51·4	58·1	65·5	79·2	**104·0**
Market value of assets	33·0	34·6	38·0	40·0	49·6	60·4	62·8	68·4	91·7	**118·2**
***Profit and Loss Account**										
Surplus from Ordinary life	2·2	2·4	2·8	3·2	3·5	3·7	4·6	4·8	5·5	**5·4**
Surplus from Industrial life	1·8	1·9	2·2	2·4	2·5	2·6	3·0	3·1	2·9	**3·1**
Surplus from General business	0·5	0·8	0·6	0·6	0·7	0·7	0·8	0·8	1·0	**1·5**
Retentions in Profit and loss account								0·7	0·6	**2·1**
†Dividend on shares 5p	3·24p	3·61p	3·96p	3·96p	4·10p	4·24p	5·00p	5·31p	5·88p	**6·24p**

*This statement follows, for the years 1963 to 1971 inclusive, the form of presentation of the accounts for 1972. Following the reorganisation of the capital structure in 1970 a Profit and loss account has been maintained and retentions in that account are now included in this statement.

†Gross equivalent of dividend declarations including imputed tax for 1972 final (see page 14). Declarations on the A and B share capital for 1969 and previous years have been combined and adjusted for scrip issues where appropriate so as to be directly comparable with those for subsequent years. The figure for 1970 excludes the special distributions made in that year.

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

2. No allowance has been made for any tax on capital gains that would arise if the assets were realised at the values shown (see note 7 on page 27).

3. The margin between Market values and Balance sheet values is proportionately greater for Industrial life than for Ordinary life mainly for two reasons:
   (i) the more rapid growth of the Ordinary life funds over recent years
   (ii) overseas currency assets of the Ordinary life business are held to cover overseas currency liabilities, now about 26 per cent of the total liabilities of the branch. The Market value of these assets has not increased to the same extent as that of U.K. assets, particularly in territories where there are local investment restrictions.

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

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