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ON THE COVER—The new look of a familiar trademark. Through the years there have been only a few slight changes in Prudential's styled image of the Rock of Gibraltar. The Rock always retained its basic configuration and conveyed the symbol of strength. The newest version of one of the world's best-known trademarks maintains its high-recognition value in a more modern and simple design.

Credits

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and Brian Payne

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Public Affairs Department

The Prudential Insurance Company
of America

Prudential Plaza

Newark, New Jersey 07101

	1975	1976
In Millions		
Total life insurance sales	\$ 30,791	\$ 35,363
Life insurance in force	236,200	262,652
Total premium income	5,760	6,404
Net Investment income	2,222	2,500
Paid or credited to policyowners and beneficiaries	4,666	5,091
Benefits paid or credited on accident and health policies	1,286	1,436
Federal income taxes	255	279
Total assets	39,309	43,701
Yield on total portfolio	6.47%	6.69%
(after expenses but before Federal income taxes, excluding Separate Accounts)		

The Year at a Glance

Many Things to Many People

Despite somewhat erratic economic conditions, 1976 was a good year for Prudential, with our business continuing to grow in a sound, balanced fashion.

Our functions and responsibilities as a mutual insurance company—the country's largest insurer and one of its largest financial institutions—are unusually broad.

As insurer, we are a primary source of financial security for millions of policyowners and their beneficiaries. As investor, we are a major source of capital, pumping nearly \$20 million a day into the economies of the United States and Canada. As employer and corporate citizen, we are a significant part of the daily lives of tens of thousands of men and women and thousands of communities.

Each of these roles carries heavy responsibilities, and we must be as responsive as possible to all of our constituencies. In performing our basic role of providing services for our customers, we must be responsive to social as well as economic considerations. As corporate citizen, we have a heavy obligation to support efforts to solve the problems of the society in which we live and do business.

Our determination to meet our obligations as efficiently and responsibly as possible is demonstrated, we believe, by the manner in which we performed our multiple roles in 1976.

Insurance Operations

With most of our agents now handling their clients' multiple insurance needs, our sales of insurance-related products reached new highs.

The face amount of life insurance sold by Prudential in 1976 was \$35.4 billion, 15 percent above the previous year. Total life insurance in force at the end of the year was \$262.7 billion, up 11 percent. The Company's gross income was \$8.9 billion, up almost 12 percent over 1975.

This income included insurance premiums and annuity considerations amounting to \$6.4 billion and net investment income of \$2.5 billion. Total assets rose from \$39.3 billion in 1975 to \$43.7 billion. Payments to policyowners and beneficiaries, including dividends, rose to \$5.1 billion.

Individual life insurance sales increased by 16 percent. The increase in new business premiums, however, was much more modest, primarily because sales of individual retirement income policies were below the record levels of 1975, when the market was greatly expanded as a result of new pension legislation. New business premiums from individual annuities and from individual health insurance policies both were up significantly over 1975.

Group insurance sales set new records as the Company continued to acquire many new large group policyowners. For the first time, each of our nine regional home offices exceeded the billion-dollar level in the face amount of new group life insurance sold.

Group pensions sales were up 74 percent over last year. PRIVEST, a new separate account invested primarily in privately-placed debt securities, played an important part in our pension activities during 1976. By year end we had 32 contract holders participating in PRIVEST, and its assets had grown to \$149 million.

Investments

Earnings on the Company's investment portfolio, excluding Separate Accounts, increased to 6.69 percent before Federal income taxes, compared to 6.47 percent for 1975. Net investment income increased \$278 million, more than double the increase of the previous year, to a total of \$2.5 billion.

General and Separate Account funds generated for investment in 1976 totaled \$5.6 billion, an increase of more than \$1.3 billion from the year before, due mainly to the growth in group pension considerations.

The volume of bond authorizations and acquisitions broke all previous records by wide margins. New money authorizations totaled \$4 billion, compared with the previous record high of \$2.2 billion in 1973. Acquisitions of \$3.7 billion were more than double the previous high.

The stock market advanced in 1976 although most of the gain occurred in January. The Company's common stock portfolios closed the year with a market value of \$5.4 billion, up \$1 billion from 1975.

In the past year the longest real estate recession since World War II bottomed out and an unusually slow recovery got underway. Housing starts in 1976 were a third higher than in 1975, and total new private construction activity was up almost 20 percent. Total new mortgage and equity commitments by Prudential in 1976 amounted to \$1 billion, \$550 million over the preceding year.

The demand for good-quality existing properties intensified during 1976. As a result, yields on new purchases are being forced lower and we, along with most other buyers, have been unable to satisfy our purchase objectives. It is unlikely that this situation will change as greater portions of the inventory of commercial and industrial properties become institutionally owned. At year end the outlook was for significant improvement in the real estate market, with competition for new equity investments expected to become even keener.

During the year we continued to strengthen our relationship with Hambros, Ltd. of the United Kingdom, which began when we acquired an interest in Hambros in 1975. Our Bond and Commercial Loan Department has been working to familiarize us with the Hambros operation and to make both staffs more aware of areas of mutual interest.

Subsidiary Operations

Prudential now has 13 subsidiaries including two in Canada and one in Belgium. Two of these were added last year when two of the American companies acquired subsidiaries of their own. PruLease, Inc. acquired the Commonwealth Planning Corporation, changing its name to PruLease Management, Inc.; and Prudential Reinsurance Company (PruRe) established a foreign-based subsidiary with the incorporation in Belgium of Le Rocher, Compagnie de Réassurance S.A.

PruRe's operating ratio in 1976 was 98.4 percent, slightly better than the industry average. Premium volume for the year was \$182.4 million, up 55 percent over 1975.

PruLease earned \$7.3 million after income taxes in 1976, despite a \$912,000 increase in selling and administrative costs which had been anticipated due to the acquisition of PruLease Management, Inc. The 1976 year-end portfolio of \$425.4 million showed an increase over 1975, and all of the portfolio remained in good standing, with no defaults or losses.

Prudential Property and Casualty Insurance Company, in its sixth year of business, was operating in 47 states and the District of Columbia. For each year in succession, net written premiums for personal lines insurance more than doubled. The number of automobiles insured by the property and casualty company at year end increased by 66 percent during 1976, and the number of homes insured rose 47 percent. The personal lines combined ratio is 137 percent for 1976, a considerable improvement over the 150 percent combined ratio of 1975. Our plans anticipated unfavorable underwriting experience during the development stage of the company, and we are running close to those plans.

In June, Prudential entered into an association with Brazil's largest group of affiliated private insurance companies, the Atlântica-Boavista Group. Prudential acquired a substantial interest in a Brazilian casualty company, Prudential Atlântica Companhia Brasileira de Seguros, through the purchase of \$1.5 million of preferred shares of an Atlântica-Boavista holding company. Prudential-Atlantica is a property and casualty insurance company operating in Brazil through agents and brokers. Prudential's participation in Prudential-Atlantica is the responsibility of the International Department of PruRe.

Social Responsibilities

We continued to devote substantial time and effort to making certain that our business operations are socially responsive, and to lend support to a variety of programs aimed at solving the nation's social problems.

The Company formed a Social Responsiveness Committee during the year to provide guidance for our investment specialists on financing requests that involve significant social considerations. For a number of years Prudential has actively pursued a program of "social action investments" providing loans which would not be made if economic factors were the only considerations. Last year these loans granted totaled \$108 million.

As in past years, many units of the Company sponsored or supported community and social benefit programs, and hundreds of employees volunteered their services to charitable and civic organizations. Company cash contributions, which provide support for many social programs throughout the United States and Canada, amounted to nearly \$3.5 million.

Most of Prudential's affirmative action goals for 1976 were achieved or surpassed. Nearly 20 percent of the new employees hired during the year are members of minorities. The Company also conducted special career development workshops for women and minority group employees and made substantial progress in increasing the number of both in management.

Prudential continued to work for the enactment of a national health insurance program based on a partnership of private insurers and government. Such a program would use voluntary methods to meet the health needs of every citizen.

Our involvement in Health Maintenance Organizations (HMOs), which promote the use of cost-saving methods, reflects Prudential's continuing concern over escalating health care costs. In 1976 Prudential Health Care Plan, Inc., a new subsidiary, gained approval from state and federal agencies and became the first HMO to operate in Texas. It is the first insurance company-sponsored HMO to be qualified by the U.S. Department of Health, Education, and Welfare and the first HMO to become federally qualified without any funding assistance from the Federal Government. In Rhode Island, there was a significant increase in enrollment in a federally qualified HMO which Prudential manages under contract.

Outlook

We believe 1977 will be a good year for both the nation and Prudential. We expect the economy to continue to grow at a moderate rate with unemployment gradually declining. Prices, however, will rise about 6 percent, and inflation remains a source of considerable concern.

Developments in the final quarter of 1976 provided a solid base for quickening economic activity. This business resurgence was interrupted by the unusually severe winter weather, but mounting evidence now points to accelerated economic growth in the remainder of the year.



Donald S. MacNaughton,

Robert A. Beck, CLU

We're optimistic about the months ahead for Prudential, too. One reason is the high caliber of Prudential's management, employees, and sales force. It is the talents of the 65,000 Prudential men and women that are responsible for the Company's achievements. We are proud of the warm relationship that exists between them and the people we serve. The following pages provide a brief account of their activities during the past year in performing our multiple roles as insurer, investor, employer, and corporate citizen.

Donald S. MacNaughton

Chairman and Chief Executive Officer

Robert A. Beck

President



Prudential Security

In any business, growth is the watchword for determining marketing progress. At Prudential, growth is gauged not only by how much insurance has been sold, but by how well the Company has met the ever-growing financial needs of people throughout the United States and Canada. By both standards Prudential performed very well in 1976. The Company's product portfolio expanded into even greater areas of life, health, pension, and property loss protection with new highs in every category. Life insurance sales exceeded \$35 billion. Group life insurance hit an all time high of \$15 billion, while group pension sales soared 74 percent to a record \$262 million.

◀ Mrs. Janet Rosa's husband died in 1976, only a few months after buying Prudential life insurance. Some of the insurance benefits enabled the East Haven, Connecticut, widow to pay off debts against her husband's trucking firm and helped her take over the business. Pictured at home with Mrs. Rosa are her daughter, Cindy, and sons David and Donny. Her eldest son, Alan, not shown, is helping her run the family business.

Life, Health, Auto, Home -and Pensions, too

Today, more than 50 million people are protected by one or more Prudential plans. During the first 75 years of the Company's history, sales efforts were limited almost exclusively to life insurance. During the 1950's and 1960's Prudential's marketing scope was broadened in health insurance and individual pensions, and by the early 1970's it was further expanded to include personal lines property and casualty insurance.

Past marketing efforts have made Prudential the leading life insurer in the industry. Through substantial growth in health and pension sales the Company now ranks among the top insurers in each of these lines, and is moving towards achievement of similar results in the property and casualty fields.

The key to marketing performance over the years has been the strength of Prudential's distribution system. At the present time there is a full time sales staff of nearly 30,000 agents and management personnel located in every state and province throughout the United States and Canada. Sales operations also exist in Europe and the Far East, and steps have been taken to enter the Mid-East markets. This distribution system is supplemented by the Group Insurance and Group Pension organizations. The majority of Prudential's pension and health business is sold under group type plans.

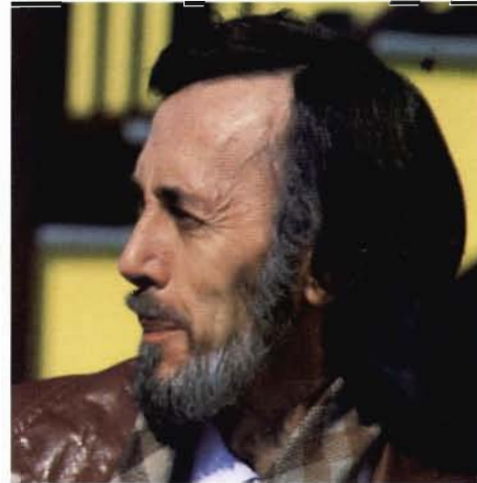
Members of the marketing organization have shown a remarkable ability to adapt rapidly to the demands of marketing new products and services. In the case of the Company's property and casualty operations, for example, Prudential was able to fully train and license its agency force in less than five years without causing any serious disruptions in the marketing of other products.

Another recent challenge came from the passage of the Pension Reform Act of 1974. Under the provisions of this law millions of employed individuals who had not previously been eligible to establish a tax sheltered pension plan became eligible in 1975. During the two years the law has been in effect, Prudential agents have assisted approximately 125,000 individuals to establish their own Individual Retirement Account pension plan.

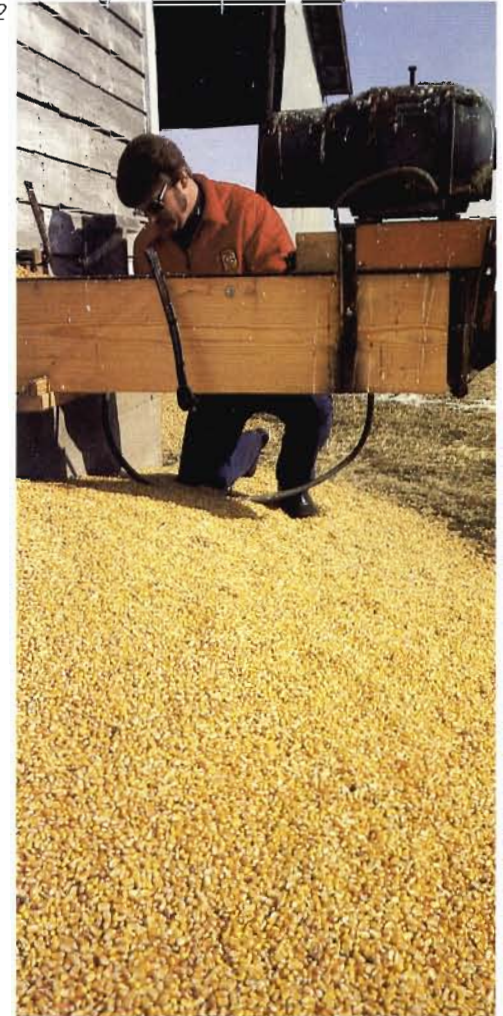
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3



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1 Duncan Macfarlan, CLU, Executive Vice President (Marketing).

3 Interior decorator Jacques Langlois, of Three Rivers, Quebec, relies on Prudential for insurance policies covering his business, individual life, and income endowment needs. About 35 percent of the Company's Canadian business comes from the Province of Quebec.

2 Successful grain farmer Stephen Lane, of Danville, Illinois, like millions of other young Americans, looks to Prudential for his insurance needs. In addition to a Keogh plan, health insurance, and policies on his wife and daughter, Stephen has over \$400,000 insurance on himself.



Prudential Security

The job of training a large field staff has always been a difficult challenge. In addition to training new staff, the Company must also meet the advanced learning needs of its established staff. With the bulk of such training administered in over 700 field office facilities, new ways are constantly sought to maintain the quality of this training. During 1976 Prudential completed a major training experiment involving the use of audio visual equipment in administering sales-skill training for new agents. The results of this experiment proved favorable from the standpoint of managerial time and agent sales success. There are plans to install this equipment (camera, recorder, monitor) in all field offices in 1977.

◀ Jules Damian and Jose Williams, partners in the D and B Sound Studios, Silver Spring, Maryland, obtained their Employee Benefit Program shortly after opening their recording studio six years ago. Prudential developed Employee Benefit Programs and Group Security Programs especially for small businesses like theirs.

Life, Health, Auto, Home -and Pensions, too

Company-administered training is supplemented by the active participation of a large segment of the field staff in industry-wide training programs offered by the American College and the Life Underwriter Training Council. Prudential has been a strong supporter of both of these self-study educational and training programs. Currently over 10,000 members of the field staff are graduates of one or both of these programs.

Since 1969, the Company has recognized outstanding civic leadership by its employees through its "Community Service Award" program. More than 1,000 members of the sales office staff have been presented with this award.

1976 Sales Results

Improvements in the economy during 1976 were reflected in Prudential's overall sales results. All major sales objectives were met or surpassed within very tight expense constraints. Following are statistical highlights of 1976 sales activity.

- Individual life insurance policy sales in 1976 represented about 61 percent of total life insurance sales. Face amount of sales rose substantially from \$17.6 billion to \$20.4 billion, an increase of 16 percent over 1975. New annual premiums rose by 2.9 percent in 1976 to \$293.6 million. Individual life insurance in force reached \$135.7 billion.

- Group life insurance new business of \$15.0 billion in face amount, was the highest ever, exceeding 1975 results of \$13.2 billion by almost 13 percent. New annual premiums were \$84.0 million, compared with \$68.7 million in 1975. Group life insurance in force reached \$126.9 billion.

- Health insurance sales totaled \$365.6 million in new annual premiums, an increase of 35 percent over 1975. There was a 28 percent increase in individual health insurance sales over 1975, from \$77.7 million to \$99.6 million in new annual premiums. Group health sales amounted to \$266.0 million in new annual premiums, compared with \$194.1 million in 1975.

- Individual annuities sales of \$54 million exceeded 1975 by 16 percent.

- Group pensions sales set a new record of \$262 million, up 74 percent over 1975.

- Individual personal lines property and casualty insurance new annual premiums more than doubled in 1976 over 1975 to \$162.9 million.

- Life insurance in force reached a record high of \$262.7 billion, up 11 percent over 1975.

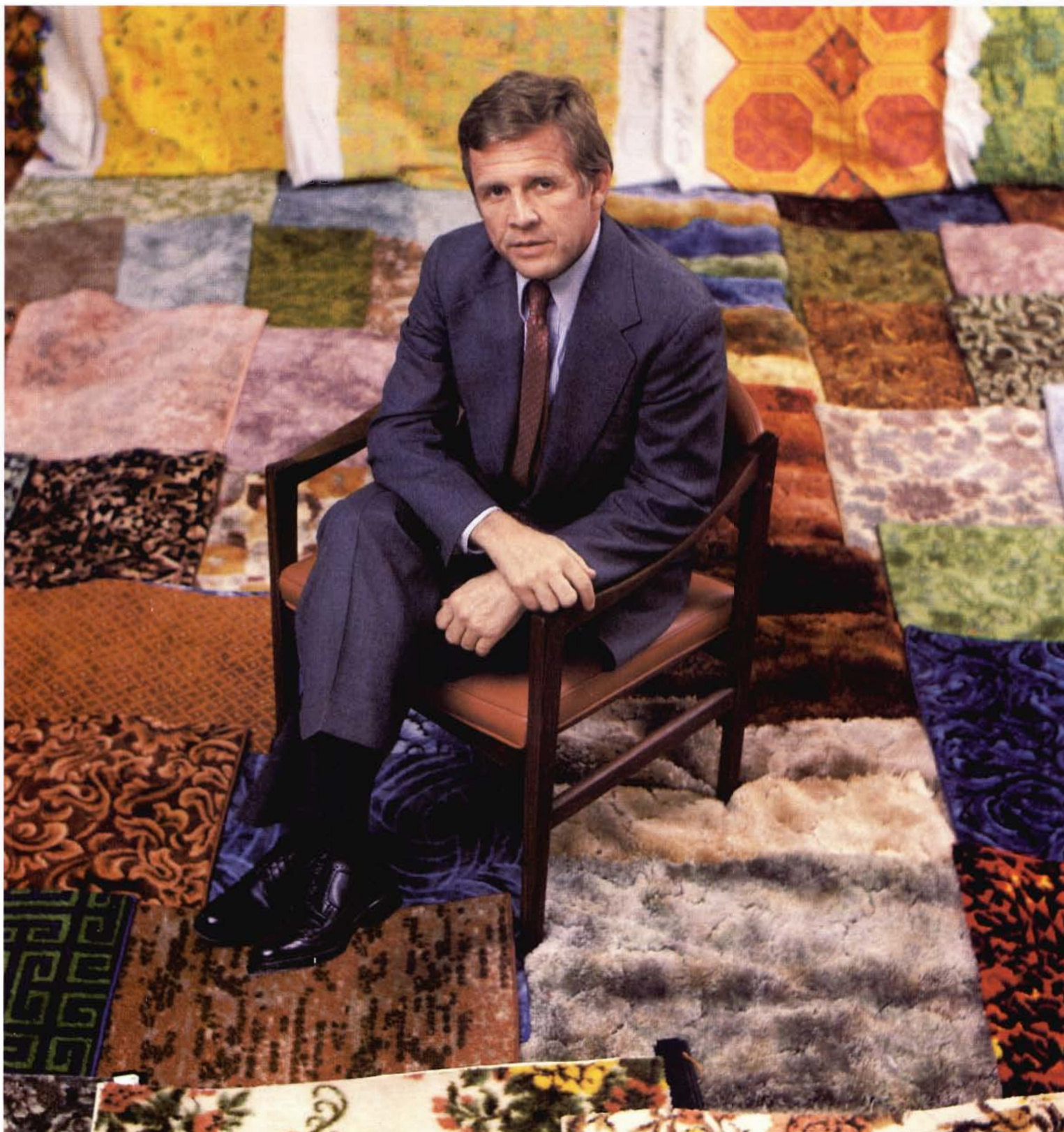
- The grand total for life, health, annuities, and property and casualty new annual premiums and considerations was \$1.2 billion, an increase of 35 percent over 1975.



1 Jack Dulworth, CLU (r.), of the Port Cities Agency, Houston, was the leading Ordinary Agencies sales representative in 1976. He produced \$13,551,399 in sales with \$585,784 in new annual premiums.

3 Travis Young, Jr., of the Coral Gables District Office in Florida, was the top District Agent for 1976 with \$7,699,215 in sales and \$157,610 in new annual premiums.

2 The Muntean brothers, Daniel, George, and Paul, who operate Muntean's-Hedman, Inc., a department store in St. Paul, Minnesota, turned to Prudential for their individual retirement policies. The Company sold over 46,000 individual retirement contracts in 1976.



The Mighty Pump

Some years ago, an article in *Fortune* magazine referred to Prudential as "That Mighty Pump," using the image to describe best the Company's operations. Over the years the image grew and the pump is mightier. It functions by drawing in premiums and other income, disbursing benefits, distributing dividends, and investing heavily in a wide range of enterprises. Here is the atmosphere, and some ways, in which the dollars moved and worked.

The Financial Environment in Brief

Financial markets continued to rebuild strength after the severe 1973-75 recession-inflation trauma but progress was uneven. Rapid economic growth during the first quarter was followed by a slow-down which persisted from spring until late in the year. Steady progress on the inflation front reflected improvement in the food and energy sectors, a slow-down in the rate of wage increases and favorable productivity gains during much of the year.

Moderate economic growth and diminishing inflation, along with Federal Reserve accommodation late in the year, helped reduce credit market pressures and contributed to a general decline in interest rates.

◀ In the home office of Shaw Industries, Inc., in Dalton, Ga., Robert E. Shaw, the company's president and chief executive officer, sits amid color samples of carpeting products. The firm manufactures carpeting, carpet yarns, and provides carpet finishing services to the carpet industry through various divisions and subsidiaries. Shaw Industries, Inc. is one of many corporations that deal with the Bond and Commercial Loan Department. Last year, the amount of Prudential's bond acquisitions broke all previous records by a wide margin.

Prudential Dollars at Work

Impact on Investment Activities

Improvement in financial and economic conditions brought a substantial increase in investable cash flow. General and Separate Account funds generated for investment during 1976 amounted to \$5.6 billion, an increase of \$1.3 billion over the previous year.

Throughout the year, the Company took advantage of its large investable funds position by maintaining a vigorous pace of commitment activity. Because of the slow and irregular recovery in the construction industry, however, most funds were channeled into direct placement loans by the Bond and Commercial Loan Department.

Bonds and Preferred Stocks

Prudential's General Account bond portfolio, mostly direct placement loans to some 1,300 industrial and public utility corporations, amounted to \$16.5 billion at year end, up sharply from \$13.8 billion a year earlier. Preferred stock holdings amounted to an additional \$1.2 billion.

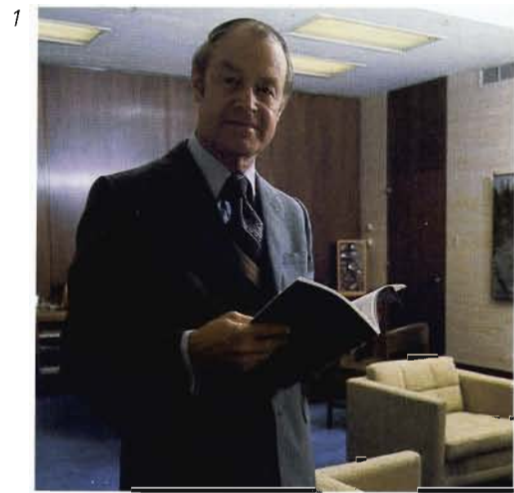
Activity by the Bond and Commercial Loan Department exceeded that of any previous year by a wide margin. Investment money authorizations were \$4 billion, as against a previous high of \$2.2 billion set in 1973. Acquisitions of \$3.7 billion more than doubled the previous high, also set in 1973. However, the general decline in interest rates was reflected in private placement yields; the average rate on authorizations was 9.73 percent compared with 10.76 percent in 1975 while the acquisition rate for the year averaged 9.93 percent, down from 10.25 percent.

Of the 222 loans acquired in 1976, aggregating \$3.7 billion, 9 of them were for \$75 million or more and an additional 10 were for amounts in the \$50-\$74 million range. Together they accounted for 48 percent of the year's acquisitions. Among the largest loans were two to a single borrower for a combined total of \$350 million, representing Prudential's share of the financing of the Trans-Alaska Pipeline. Other energy-related investments in this group included the financing of three Canadian hydroelectric projects, a natural gas pipeline, and an electric utility.

In addition to its activity in large loans, Prudential continued to operate at the other end of the spectrum in financing medium size and smaller companies. During 1976 it made 98 loans of under \$5 million, 36 between \$5 million and \$10 million, and 20 between \$10 million and \$15 million.

A major new Separate Account for pension funds, called the Prudential Private Placement Debt Investment Separate Account (PRIVEST), was formed as a commingled account to invest in privately-placed corporate debt issues on a sharing basis with the General Account. After less than a year, the account had 32 participating contracts, total assets of \$149 million, and a gain in unit value of 17.7 percent from the end of February.

The poor economic environment of the past several years created problems for some borrowers, but Prudential's realized losses were only \$12 million versus \$14 million in 1975.



1 Frank J. Hoenemeyer, Executive Vice President (Investments).

3 William T. Moore, Jr. runs his family-owned soy bean, rice, and cotton farm outside Greenwood, Miss. Prudential provided a substantial loan on the 3,350-acre farm in 1976. Last year, the Company committed over \$222 million in agricultural loans.

2 The 47-story Security Pacific Building, in San Francisco's Embarcadero Center, is part of a \$200 million project that Prudential is involved in. The Center includes an 840-room Hyatt Regency Hotel and three other office buildings.



The Mighty Pump

Common Stocks

The strong stock market recovery which began in 1975 continued into early 1976, but then lost most of its impetus and the market vacillated moderately for the balance of the year. Overall, market appreciation for 1976, as measured by the Standard & Poor's 500 Stock Index was 19 percent, as against an increase of 32 percent the previous year.

General Account common stocks, excluding investments in subsidiaries, closed the year with a market value of \$1,917 million, \$325 million above the 1975 year end value. In 1976, \$31 million of new money was invested, and market appreciation in the portfolio equaled the percentage gain in Standard & Poor's 500 Stock Index.

Prudential also managed 12 United States and three Canadian separate common stock accounts. The combined market value of these separate account common stock portfolios rose from \$2,757 million to \$3,454 million. New money, including the reinvestment of dividends, accounted for \$171 million of the total increase; the balance of \$526 million stemmed from market value appreciation of 19 percent.

◀ *On the Fort Mojave Indian Reservation in Needles, Calif., Chief Llewellyn Barrackman poses with one of the bulldozers that is reclaiming over 2,000 acres of unproductive desert land and developing it into a general-purpose irrigated farm. Prudential made the project possible through a 20-year \$2.3 million loan. The agreement was worked out in 1976 through the Company's social conscious financing program. Under this concept, customary standards are relaxed to permit participation in social-action projects.*

Prudential Dollars at Work

Real Estate and Mortgage Loans

Despite the uneven pace of the recovery in construction, total new mortgage loan and property purchase commitments were \$1 billion, low by historical standards, but well over double the previous year's volume of commitment activity.

General Account mortgage authorizations, reversing a two-year decline, rose to \$751 million with a yield of 10.03 percent. Farm mortgage activity showed the greatest improvement with authorizations three times greater than the previous year. Farm and city authorizations carried an average rate of 10.06 percent. Approximately 10 percent of mortgage authorizations were made in Canada where interest rates were almost two percentage points higher than in the U.S.

Our 1976 mortgage acquisitions were \$732 million at an average rate of 9.72 percent, the lowest dollar volume of acquisitions in the last 10 years. In addition, the relatively low volume of mortgages acquired in 1976 fell below the total of mortgages repaid during the year. This, combined with the volume of mortgages foreclosed, caused the mortgage loan portfolio to decline about 0.8 percent to \$12.3 billion, ending 30 years of uninterrupted growth.

The dollar volume of mortgage loans delinquent over 90 days or in process of foreclosure was \$357 million, or 2.90 percent of the portfolio, compared with 2.85 percent a year earlier. Major problem properties were apartment and office buildings which reflected the stickiness of rental income compared to increasing operating expenses.

Over most of the year, opportunities for new property developments were limited. However, 17 new development projects were authorized for a total investment of \$174 million, as against a 1975 total of nine properties totaling \$47 million.

Net property acquisitions of \$93 million brought the General Account investment portfolio to \$1.6 billion, up \$81 million from 1975. Prudential's Property Investment Separate Account (PRISA), established six years ago as a funding medium for group pension plans, was also pinched by the shortage of existing properties qualified for this portfolio. Thus, its 1976 acquisitions totaled only \$37 million as against \$146 million the previous year. The net assets in the PRISA portfolio increased during the year from \$666 million to \$694 million.

Highlights of the Year

Highlighting the Company's favorable 1976 investment results were:

- Net investment income increased by \$278 million to over \$2.5 billion.
- The yield on General Account invested assets was 6.69 percent excluding capital gains and before Federal income taxes, a new high for the Company.
- A record amount of over \$4.7 billion in bonds, mortgages, and real estate net lease investments was authorized at an average rate of 9.80 percent before expenses and taxes.
- Another record was set by the total of \$4.4 billion of bonds, mortgages, and real estate net lease acquisitions. The combined rate on these acquisitions was 9.91 percent.
- The market value of the Company's common stock portfolios appreciated over \$1 billion, reflecting the general advance in the stock market.



1 Discussing investments at a daily portfolio manager's meeting in the Common Stock Department are: George Moore, Maurice Richardson, Raymond Kurtz, Fred Ives, and Roger Ford. The market value of the company's common stock portfolios (excluding common stock investments in subsidiaries) exceeded \$5.4 billion in 1976, an increase of almost \$1 billion from 1975.



2 Some of the Company's largest loans in 1976 represented Prudential's share in the Trans-Alaska pipeline. Above, huge pieces of pipe await positioning.



A Lifetime of Service

Good service is good business. In this buyer-beware world of the problem product and expiring warranty, it's reassuring to find a company that continues to provide service for any product it sells. Prudential is such a company, offering service that endures as long as the policy is in effect and, under some circumstances, even beyond. While the

◀ *Thelma Berlin's face is familiar to the service staff at Prudential's Medicare office in Atlanta. Thelma is one of thousands of clients the Company deals with in its role as fiscal intermediary for Medicare Part B (doctors and noninstitutional) claims in three states. In 1976 Prudential paid \$286 million in Part B benefits, up 24 percent over 1975.*

As Long as You Own Prudential Insurance

Company constantly seeks new methods of lowering its operating costs and perfecting the quality of service to its policyowners and their beneficiaries, it also strives to find better ways to serve its employees and the general public as well. Here are some aspects of such service:

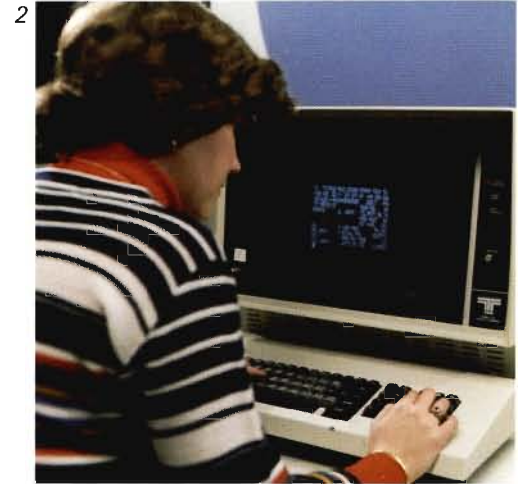
Policyowners and Beneficiaries

The Advanced Ordinary System, Prudential's computer system for servicing individual Regular Ordinary insurance policies, has made dramatic strides in the past few years in keeping down the cost of serving our policyowners and beneficiaries. The December, 1976 staff of 7,217 people for individual insurance administration compares with a staff of 10,049 which would have been required at previous productivity rates. Even considering increased data processing expenses from greater computerization, the reduced staff provides an annual dollar saving of \$31.5 million. Further productivity gains are expected from the system, and its use is being extended to additional types of individual policies.

The development of a system for on-line computer processing via terminals in individual insurance sales offices began in 1976. It should further lower the cost of doing business and speed up service to Prudential customers.

Although the number of large-scale computers has remained constant (at about 20) over the past four years, the overall capacity in terms of high speed memory has increased 250 percent. On-line direct access storage capacity has had exponential growth, to 70.6 billion positions at the end of 1976 (almost 2,900 times the data in the Manhattan Telephone Directory).

July 1, 1976 marked the tenth anniversary of the Federal Medicare Program and of Prudential's service as an administrator of governmental health programs. The Company serves as intermediary for Medicare Part B (doctors and noninstitutional) claims in New Jersey, North Carolina and Georgia, and as fiscal agent for a major part of New Jersey's Medicaid plan. In addition, Prudential processes Medicare Part A claims for half of New Jersey's health institutions. Prudential's service to Medicare/Medicaid beneficiaries has benefited both the beneficiaries and the nation. For example, while claim volume has increased 14 times over the decade, the Company's staff on this work has increased only about 6½ times. In 1976, total claims processed for all government programs increased 13 percent to 11.5 million.



1 Fredrick E. Rathgeber, CLU, FSA, Executive Vice President (Administration). Mr. Rathgeber retired February, 1977 and was succeeded by John K. Kittredge, CLU, FSA.

2 In the Merrillville, Indiana, office, Beverly J. Haan responds to a policyowner inquiry using a video terminal. The terminal also provides a modern, efficient way to input insurance transactions on over 18 million individual policies.

3 Wastepaper is sold to contractors for recycled paper processing. Pedro Cruz, Supply Division, Corporate Office, loads one of the scrap bins in Newark, N.J. where over 180 tons of wastepaper was sold in 1976.



A Lifetime of Service

Computer systems improvement increased productivity in Medicare Part B claims and reduced unit costs by five percent. Despite inflation, Prudential's processing cost per claim is expected to be lower in the current fiscal year than it was six years ago.

◀ *Brantley Brothers Moving Company, Newark, N.J., owned by Malachia Brantley (foreground), is one of 55 minority-owned firms Prudential dealt with in 1976 under its expanding Minority Purchasing Program. Brantley Brothers handled about 20 percent of employee transfer moves from the Corporate Office last year. On a nationwide basis, the Company doubled its purchases of goods and services from minority vendors since 1975.*

As Long as You Own Prudential Insurance

Prudential Employees

Job Design programs to provide more complete and challenging jobs have made Prudential a leader in the systematic implementation of this management strategy. A staff of Job Design Consultants, spread throughout the Company, has been given extensive training in the areas of consultation and organizational development.

By the end of 1976, all entry level jobs had been analyzed as to their major job duties. The resulting data will be used to aid selection interviews and performance appraisal discussions, and to identify career paths with common elements.

Thirty-three women from throughout the Company completed instruction in 1976, in directing career development workshops for women in management. The workshop objectives are to help women gain insights about themselves and their opportunities in business, to equip women with personal skills needed in management, and to encourage women to develop career plans. Similar programs for minority group members were also introduced last year.

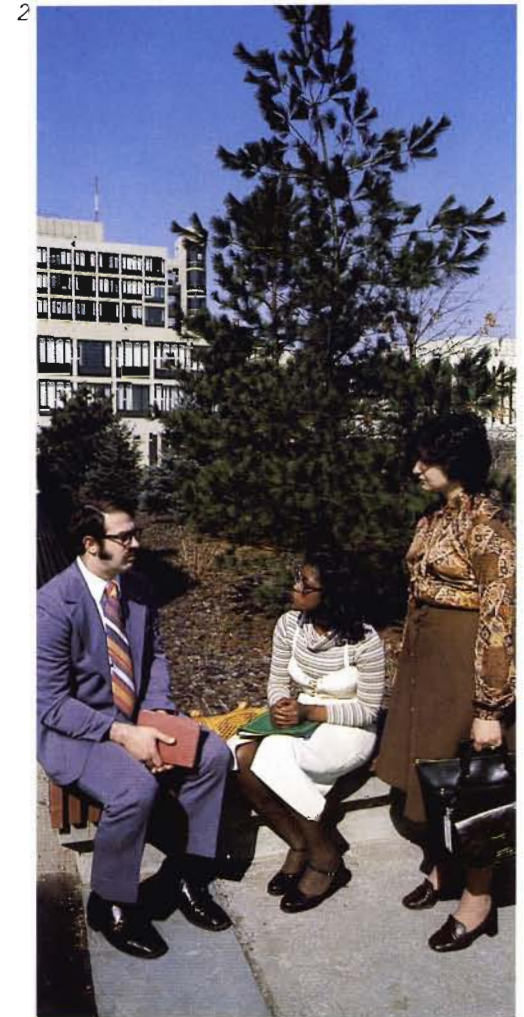
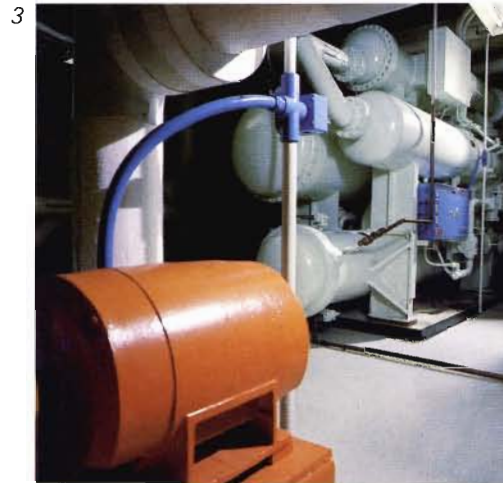
The Tax Reform Act of 1976 had major implications for present and potential policyowners. The Comptroller's and Law Departments assisted in the development of a technical manual for use by the Company's sales representatives. Thus, Prudential's agency force was well equipped to make recommendations for sound tax planning under the new provisions of the law.

Prudential's Tuition Refund Plan, which provides for reimbursement of most of the cost of tuition and student fees, for job-related programs, had another successful year. Over 1,860 employees participated in the program and received a total reimbursement of nearly half a million dollars.

The Community and Nation

The extensive personal service rendered to their communities and country by the Company's employees is matched by Prudential's own activities. The service-oriented departments participate in Prudential's program of corporate social responsibility in many ways, among them:

- Wastepaper and scrap metal are recycled, reducing pressure on natural resources.
- Conservation of scarce energy resources is aided by heat recovery equipment in many of our larger offices.
- Expansion of the Company's program for purchasing from minority vendors.



1 George Twill, Central Atlantic Home Office, speaks to fellow trainees at a Management Practices Workshop in Point Pleasant, N.J. Others are: (l. to r. background) Tony Grundy, North Central Home Office; Walter Cloven, Southwestern Home Office; Stanley Fleischman, Prudential Property and Casualty Insurance Company; and Curt Berrian, Forum Corporation, management consultants. Kay Tytler, also of Forum, is TV camera operator.

2 Charles Baker, Gail Crawford, and Catherine Randazzo, Corporate Office, attend Rutgers University under the Company's Tuition Refund Plan. Over 1,860 Prudential employees participated in the plan during 1976.

3 Newer Company buildings have heat recovery units similar to this one in Eastern Home Office's Woodbridge Building, which recycle heat generated by people, lights, and computers, thus reducing the fuel required to maintain office temperatures.



Corporate Citizenship

In addition to its primary social functions of providing quality insurance products and financial services at reasonable cost and managing its financial resources, Prudential believes that, as a large socio-economic institution, it should join with others in seeking solutions to social problems and in supporting worthwhile cultural activities.

The Company also believes in communicating openly and freely with its personnel, policyowners, and the public.

Here are some examples of how Prudential, during 1976, implemented these beliefs and fulfilled its responsibilities of corporate citizenship.

Contributions

In the area of contributions Prudential continues to emphasize the advantages of cooperation with others in the insurance industry and in the nation's major cities. The coordinated effect of united funds for the arts and urban affairs, community service committees, and industry efforts has been of substantial help in dealing with major problems. Cash contributions in fiscal 1976 increased approximately \$400,000 over 1975 to \$3.5 million. The greatest emphasis of the Company's cash contributions budgets for fiscal years 1976 and 1977 continues to be in the areas of health, education, and federated drives, such as the United Way. This combination represents about 65 percent of the total.

◀ *Kathleen Martino, of Cranston, Rhode Island (r.), one of the Company's 1976 Community Service Award winners in the Northeastern Home Office region, helps coordinate the local Big Sister program. Like hundreds of other Prudential people throughout the nation who volunteer their time and talent to worthwhile causes, Kathleen finds volunteerism a great source of personal satisfaction and sums it all up when she says "It makes me feel good to be able to help other people."*

In The Service of Others

Social Benefit Programs

Some specific commitments of Prudential's 1976 cash contributions in the health and education areas are as follows:

- \$500,000 to the College of Medicine and Dentistry of New Jersey (payable over five years) for consumer education information on a national scale.
- \$300,000 to the Duke Medical Center (payable over three years) to help fund a textbook project on computerized medical records that will provide doctors with a quick prognosis technique in coronary cases.
- \$200,000 to the Columbia-Presbyterian Medical Center (payable over five years) for scholarships in the schools of both registered and practical nursing.
- Four scholarships to social agency professionals at the Rutgers University Summer School on Alcohol enabling them to establish community information and treatment programs.
- \$8,500 for scholarships and development funds for three Black colleges in Florida—Bethune Cookman, Edward Waters College, and Florida A & M University.
- Two health-related grants in Houston, Texas: one to Hermann Hospital for the purchase of two cardiac resuscitation systems and one to the Baylor College of Medicine—High School for Health Professions in which graduates are provided entry level skills for jobs in medical fields as well as prerequisites for higher education.
- A grant to the Boston Day Care Center—Parent and Child Service, a combination day care and clinical facility which treats problems such as child abuse.

Arts/Cultural Participation

Along with substantial cash contributions, these are some other ways in which Prudential, its executives, and employees supported the arts and culture in 1976:

- Furnished office facilities, promotional services, and volunteer support for arts activities in the Jacksonville, Florida area. Employees formed an Arts Committee to build support for the Jacksonville Symphony and Theater Jacksonville. An informational telephone service, "Busy Signal," was created to provide cultural event information throughout the area.
- Subsidized ticket sales for the Guthrie Theater in Minneapolis, one of the nation's outstanding professional repertory theaters.
- Provided office facilities, clerical support, and administrative fund-raising leadership for the New Jersey Symphony Orchestra.
- Furnished key leadership and support services for the Los Angeles Ballet and formed a fund-raising Women's Guild to help build more public support.
- Donated costumes to Texas Opera Theater (based in Houston but performs statewide); furnished sets and costumes for the Houston Ballet, and supported a major fund drive for the Houston Symphony Orchestra.
- Supplied a showcase in the Prudential Center in Boston for a wide range of performing arts groups, including the Boston Ballet, the New England Conservatory, and a number of theater and folk music groups. Prudential's Bicentennial Pavilion, a multi-image quadrasonic portrait of Boston and its cultural traditions, continued to attract large audiences throughout America's Bicentennial year.

As the Company continues to support such activities in 1977, Prudential's Chairman and Chief Executive Officer, Donald S. MacNaughton, will lead a major fund-raising effort for the Kennedy Center for the Performing Arts in Washington, D.C., serving as chairman of its Corporate Fund.

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1 During the American Freedom Train's 150-city coast to coast tour, Prudential—one of four corporations sponsoring the train as a Bicentennial project—distributed 140,000 tickets to employees and their families.

2 In Jacksonville, Florida, the South-Central Home Office Arts Committee—first of its kind in the Company—promotes interest in culture and the arts. During the 1976 Arts Festival, Prudential paid for ads and supplied publicity for the Art in the Park program of the Children's

Museum. A huge mural, painted by children attracted 2,200 people on a Sunday afternoon.

3 In Minneapolis, employees of the North Central Home Office hold fund-raising rummage sales supporting the annual Special Olympics for handicapped children, which has become an annual community event.



Corporate Citizenship

Volunteerism

Continued emphasis is placed on the encouragement of employees to volunteer their services to civic and charitable organizations. In 1976 Prudential presented its Community Service Award to 155 employees who distinguished themselves in volunteer work. The award included a \$200 contribution to the charity of the recipient's choice. Since 1969, more than 1,500 Community Service Awards have been presented to employees for their efforts toward improving the quality of life in their communities.

Also on a national scale in 1976, Prudential Chairman Donald S. MacNaughton served as chairman of the National Urban League's fund drive and visited a number of cities to assist business groups in the organization of fund-raising committees.

Policyowner Service and Consumer Affairs

Most Prudential insurance policies are sold by an individual agent to an individual customer. Thus, the Company's 26,000 agents in 1,436 offices in the United States and Canada are the policyowner's first recourse for making such policy adjustments as beneficiary changes or for handling any policy-related problems. Over 10 million such transactions were performed by the Company's clerical staffs for Prudential's policyowners in 1976. Millions of others were handled directly by Prudential agents.

◀ *Rosemary Miles, soloist with the Houston Ballet, performs in one of the costumes provided through funds from the Company's Southwestern Home Office. Prudential also gives support to the Los Angeles and Boston Ballets, as well as to many other arts and cultural programs throughout North America.*

In The Service of Others

In addition to an emphasis on the service aspects of every Prudential job, there are special units whose sole concern is customer satisfaction. At the Corporate Office in Newark, New Jersey, there is a Vice President, Policyowner Service, who with his staff helps get prompt answers for those who write directly to the Corporate Office. They also propose policies, work out procedures, and develop explanatory material to prevent recurrences of particular types of complaints. In addition, each Regional Home Office has established a unit for dealing directly with customers who have a need to contact Prudential.

Consumer affairs and other personnel handled 3,470 complaints made directly to Prudential executives and 4,754 referred through state or provincial insurance departments.

Research

The Company continued its program of research activities designed to provide insight and information on the attitudes of its many publics on a variety of issues such as service, consumerism, the agency system, national health insurance, and other topics of more general concern. The results of this research are regularly disseminated to Prudential management personnel to assist them in planning the future direction of the Company.

Public Relations

Prudential continued its public service efforts in 1976 with several projects:

- Six one-minute public service TV spot announcements encouraging children to visit their local libraries began in October and are being distributed on a once-a-month basis to 300 TV stations. An estimated 30 to 40 million people are expected to see the series.
- Prudential-sponsored booklets covering a wide range of 17 health and educational topics continued their popular demand. Requests for the latest, "Facing Facts About Vocational Education For Your Career," numbered close to three million copies.

- Five sports films, produced in cooperation with the President's Council on Physical Fitness, had some 90,000 showings by community groups. An additional 1,000 telecasts brought them before large audiences throughout North America.

- In the fall of 1976, Prudential announced plans to support public broadcasting by funding the 22-episode BBC-TV production of "The Pallisers" based on the novels of Anthony Trollope. The series, beginning in January, 1977, is scheduled on 257 stations of the Public Broadcasting System.

As part of the 1976 Bicentennial celebration, Prudential and four other corporations, sponsored the American Freedom Train's 26,000 mile tour that covered 150 cities from coast to coast. More than 6.5 million people visited the 26-car train filled with memorabilia of the nation's 200-year history.

Advertising

Through its national advertising programs, Prudential continued to build awareness of and preference for the Company. Broad advertising exposure was attained in 1976 with a mix of highly-rated TV shows such as M*A*S*H, The Mary Tyler Moore Show, Kojak, and Prudential College Scoreboard. The television commercials projected Prudential as a provider of insurance for life, health, auto, and home.

Results of an Opinion Research Corporation survey showed that 48 percent of the American public recalled seeing Prudential advertising in a six-month period—an awareness level that was twice as high as that of the next four largest life insurance companies combined.

High levels of credibility and informativeness were indicated for Prudential television commercials in other survey findings, including property and casualty themes, which emphasized prompt telephone claim service and encouraged calls about the Company's other multi-lines products.



1 The award-winning TV commercial of the Prudential Property and Casualty Insurance Company features a homeowner caught in a chain of calamities.

2 One-minute TV announcements, produced as a public service, encourage children to use their local library. They will be seen by an estimated 30 to 40 million people.

3 In several Company offices, volunteers like Maxine James (l.) of the Corporate Office, tutor students who need help.

4 Prudential funds provide printed materials for public education on disease prevention and health maintenance in a nationwide program by the College of Medicine and Dentistry of New Jersey. Nancy Bryant is presently director of the project.



Subsidiaries

PRUCO, Inc.

Prudential's wholly owned holding company owns all of the outstanding stock of the following United States companies:

The Prudential Property and Casualty Insurance Company

During 1976, its sixth year of operations, Prudential Property and Casualty Insurance Company continued its record of more than doubling each year its premium income for automobile and homeowners insurance. The net written premium for these policies in 1976 was \$250 million, an increase of \$139 million over last year. Prudential agents wrote 420,000 new applications for automobile insurance and 340,000 for homeowners insurance. By the end of 1976, 873,000 cars and 591,000 homes were insured.

To keep pace with the rapid growth of business, the Company opened six new offices in 1976 to provide claims and other services for policyowners within their areas. Prudential is currently selling automobile and homeowners insurance in 47 states and the District of Columbia.

Prudential's underwriting results continued to show loss and expense ratios that are higher than the industry averages. This is due mainly to the rapid expansion of business, particularly in the automobile line. Typically, first year auto policies incur both higher expense and higher losses than other policies do. In 1976, 60 percent of Prudential's auto premiums were for first year policies. Traditionally, such policies make up approximately 20 percent of the auto premium income of established companies.

◀ *John Winter and John Luers process claims in Prudential Property and Casualty Insurance Company's mobile field office. The van began operations at two locations in the Philadelphia area in 1976 and averaged 200 appointments a month for clients with auto damage claims.*

In 1976, Prudential Property and Casualty Insurance Company's combined ratio for personal lines losses and expenses was 137 percent. This is a considerable improvement over the 150 percent combined ratio of 1975. But because of the doubling of the premium base, net underwriting loss was \$93 million in 1976 compared to \$55 million in 1975. The net loss after return on investments and other income was \$62 million in 1976.

PRUCARE

During 1976, Prudential Health Care Plan, Inc. (PRUCARE) was designated as a federally qualified Health Maintenance Organization (HMO) by the U.S. Department of Health, Education, and Welfare and was certified to operate as an HMO by the Texas State Board of Insurance. At year end PRUCARE was the only operational HMO in Texas.

The PRUCARE program is offered to Houston area employers who, in turn, offer it to their employees as an option to the employer's existing plan of medical insurance. At year end 43 employers were offering the PRUCARE program to their employees and PRUCARE's membership was approximately 3,500. PRUCARE has commitments from an additional 30 employers to offer the program in early 1977.

GIB Laboratories, Inc.

GIB Laboratories, Inc., in 1976 continued to broaden its base of business within the life insurance industry by adding many new outside clients to those utilizing the services of Prudential's clinical laboratory subsidiary. Additionally, GIB is now serving as the reference laboratory for a national research program on hypertension intervention, providing testing which aids in the monitoring of patient compliance with program guidelines.

PIC Realty Corporation

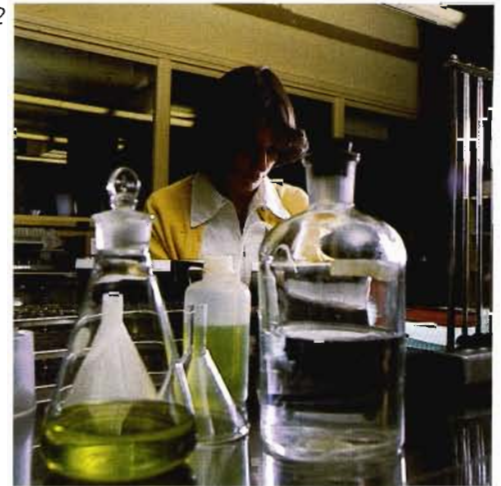
For PIC Realty Corporation, 1976 represented a year of stabilized activity. PIC, as a matter of policy, is no longer used as Prudential's sole investment arm for development projects. However, four new development projects, one wholly owned property and three partnerships totaling \$14 million, were authorized as new PIC investments during the year.

PIC Realty currently has a portfolio of 56 development projects. Of these projects, two are under development and the remainder are operational. The portfolio now represents a current investment of \$191 million which is further supported with \$328 million of Prudential mortgages. At year end, PIC Realty's total assets amounted to \$273 million compared with \$257 million in 1975. The net loss was \$12.7 million, compared to \$13.9 million in 1975. There was a positive cash flow of \$5.0 million during 1976 compared with negative cash flow of \$1.3 million in the preceding year, which further reflected an improvement in operations.

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1 Four-year-old Loren Lintner enjoys checkups with Dr. Sheldon Joseph, director of the MacGregor Medical Clinic and a member of the board of PRUCARE. The Lintners were among 3,500 Houston area people cared for by PRUCARE in 1976.

2 Lab technician Pat Vahey analyzes specimens in GIB Laboratories, Prudential's clinical laboratory subsidiary.

3 PIC Realty, last year, contracted to purchase 384 acres of the Geraldine Rockefeller Dodge Estate in Morris County, N.J., as an investment to develop office facilities primarily for other companies.



Subsidiaries

PruRe

Prudential Reinsurance Company had a good year with an operating ratio of 98.4 percent which was better than the industry average. At year end, PruRe's investable funds (cash, bonds, and short-term investments) totaled \$263.1 million, an increase of \$76.8 million from last year. Total assets reached \$340.9 million and stockholders equity reached \$97.8 million on a GAAP (generally accepted accounting principles) adjusted basis.

Total net income, GAAP adjusted and after taxes, was \$10.8 million for the year. Premium volume was \$182.4 million, up 55 percent from last year.

PruRe organized a reinsurance subsidiary, Le Rocher, Compagnie de Réassurance, S.A., in Brussels, in May, 1976. PruRe owns 9,994 shares of Le Rocher, and to meet Belgian requirements each of six other Prudential subsidiaries owns one share.

In June, 1976, Prudential acquired 49 percent of the share capital of a holding company in Brazil, Atlântica-Prudential Participações S.A., whose principal asset is ownership of about 94 percent of the share capital of a Brazilian insurance company—Prudential-Atlântica Companhia Brasileira de Seguros. The company is a primary property and casualty insurance company operating through Brazil's customary agents and brokers. Prudential's participation in the Brazilian company is the responsibility of PruRe.

During the five years that a full line of facultative and treaty reinsurance has been offered by subsidiaries of

◀ *On the scene in Brussels for Le Rocher, Compagnie de Réassurance, S.A., a subsidiary of Prudential Reinsurance Company, are Kurt E. Achenbach, Directeur, on the left, and Dewey P. Clark, Vice President, International, of Prudential Reinsurance Company. Le Rocher, now operated by two Americans and four Belgians, plans to develop to a staff of 14 members and will be entirely run by Europeans within a few years.*

Prudential, including the three and a half years that PruRe has been established as a separate corporation, progress has been substantial. The vast majority of PruRe business is the solid domestic base of treaty and facultative reinsurance it has developed. PruRe now ranks seventh in premium volume among the 40 principal reinsurers in the U.S.

PruLease, Inc.

PruLease, acquired by Prudential in 1974, offers lease and material supply programs as well as short and intermediate-term loans to higher credit American corporations. PruLease's primary objective is to maximize its contribution to the aggregate return on invested assets realized by Prudential policyowners. In 1976 PruLease's net income after taxes was \$7.3 million, equaling its record high 1975 after-tax earnings.

PruLease increased its outstanding portfolio from \$416.5 million at year end 1975 to \$425.4 million at year end 1976. It also executed a new high dollar volume of lease and loan programs in 1976 including its first secured debt transaction and what is believed to be the largest nuclear fuel leasing program ever undertaken by a single private investor.

PruLease receives administrative services on an ongoing basis from its wholly owned subsidiary, PruLease Management, Inc.

PruLease funds its programs principally through the direct sale of its commercial paper and enjoys the highest rating of both Moody's Investor's Service and Standard & Poor's on these obligations. PruLease adheres to accounting practices believed to be among the industry's most conservative and applies high credit standards to customer selection which have resulted in PruLease's not having had a default or credit loss in 1976 or in previous years.

At year end 1976 the outstanding amount of PruLease lease, loan, and supply programs which have been executed but not implemented totaled \$477 million, a growth of 150 percent over the preceding year. Much of this

amount relates to customer acquisitions projected to take place through the early 1980's.

Pruco Life Insurance Company

Pruco Life Insurance Company, a stock insurance company, was incorporated in Arizona in 1971 to sell life and disability insurance. It was activated in early 1976 with the issuance of two group health insurance policies. Pruco Life is presently licensed to do business in 22 states and the District of Columbia.

Pruco Securities Corporation

Pruco Securities Corporation was virtually inactive during 1976, as has been the case since the advent of fully competitive commission rates in May, 1975.

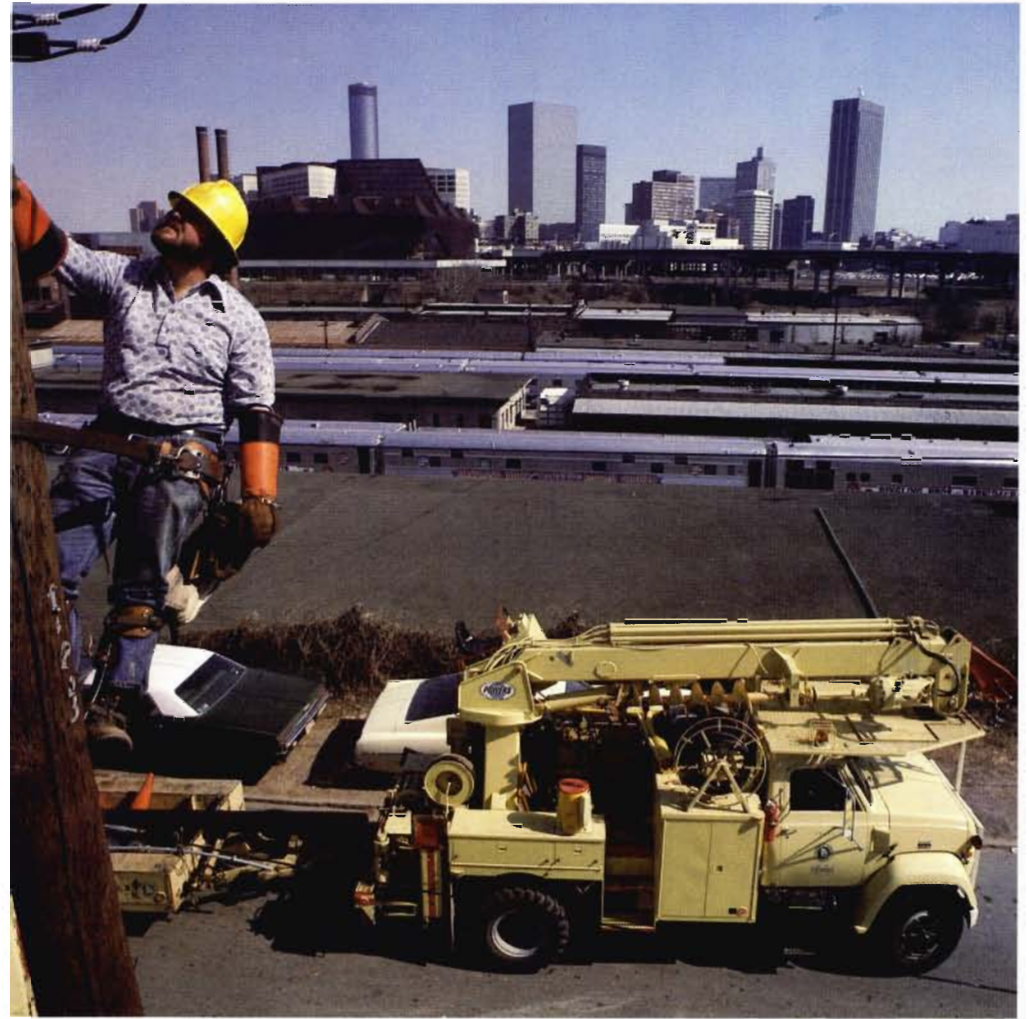
Canadian Subsidiaries Prudential Fund Management Canada Limited

This wholly owned subsidiary administers, under contract, the affairs of Prudential's two mutual funds in Canada.

Assets of the primarily bond and debenture based Prudential Income Fund of Canada grew from \$1.9 million to \$4.2 million. The Income Fund had a net realized yield of 8.9 percent on shares held at the beginning of the year, in addition to an increase of 8.2 percent over the year in the share value. The largely equity based Prudential Growth Fund's assets remained nearly unchanged at \$12.8 million.

PIC Realty Canada Limited

PICAN was formed in 1973 to own, develop and manage real estate in Canada. During the year, PICAN sold its share of one joint development project and purchased the partner's interest in a second. PICAN is now the sole owner of two projects and a mortgagor of a third property.



▲ Georgia Power Company lineman Donald Morrison stays on the line using one of nearly 4,000 vehicles supplied to his company through a \$30 million lease program with PruLease, Inc. Prudential's subsidiary leases about 25,000 units of equipment, mostly vehicles, throughout the nation.



Regional Activities

North Central Home Office (NCHO) Minneapolis, Minnesota

To meet the need for more space, the North Central Home Office has purchased a 70-acre site in Plymouth, a city just northwest of Minneapolis, where it will establish a major satellite facility accommodating up to 1,300 people. A key feature of the new complex will be a computer center. There is a strong possibility that a Prudential Property and Casualty Insurance Company regional service office will be developed at the same site to handle the rapid rise in property and casualty sales. This facility would house up to 400 people.

During the past few years North Central took on the computer, pension, and group operations for a number of states outside its territory. These added responsibilities have resulted in staff increases which have overtaxed the capacity of the Minneapolis headquarters building. As a temporary measure, nearly 500 employees of the 2,100-member home office staff are now located in rented facilities.

Central Atlantic Home Office (CAHO) Fort Washington, Pennsylvania

A pilot experiment in open-landscaping office design was introduced in the Liberty Island District in Philadelphia. Results so far are increased flexibility and economies in office space usage, plus favorable opinions from the district staff. The Company is considering the concept for other sales offices.

◀ *At the North Central Home Office in Minneapolis, Minnesota, Steven Schmidt and Shelly Compton, Electronic Operations Division, check a Debit Ordinary System (DOS), computer printout. In 1976 the North Central office began, and nearly completed by year end, the phase-in of DOS, as did most of the Company's other regional home offices. DOS is a modern computer system that maintains the Company's policy records for individual insurance and performs a wide range of policyowner services.*

Also in the Liberty Island District is a prototype program involving a computer terminal which allows direct access to Prudential Property and Casualty Insurance Company (PRUPAC) policy records. It is intended to bring quicker and more efficient service to policyowners.

Another experimental program is COMPAS—Comprehensive Pension Administration Services. Several CAHO agents are involved in a pilot system that offers separate service at a fee for pension administration work, payable by the client.

In December a three-day Women in Business Seminar was chaired by two CAHO women. Prior to the Seminar there was a capsule course for all in-house management. The regular course was attended by 12 professional-level women nominated by their managers. Six additional seminars are scheduled in 1977.

PRUPAC's first FSO (Field Service Office) to handle both claims and policyowner service, opened in the CAHO building in March. Later in the year it also became the first FSO to operate a drive-in claim service.

Western Home Office (WHO) Los Angeles, California

Completion of the Woodland Hills Office (in the city of Los Angeles) at the end of 1976 marked an important milestone in WHO history. All individual life, health, and small group insurance personnel are now together after working for a number of years at four different locations.

Beginning in February, 1977, the Western Real Estate Investment Service Office of the Real Estate Investment Department will move to the Woodland Hills Office, and preparations will begin for absorbing the functions now performed by the Eastern Real Estate Investment Service Office located in CAHO. The new organization, which will be known as the Mortgage Loan Service Office, will service all mortgage loans in the United States and should be in full operation by November, 1977.

A decision to relocate the present WHO Wilshire Boulevard office was made as a result of projected refurbishing costs and long-range operational needs. A new 42-acre site was chosen in the Westlake area of Thousand Oaks, California, on land already owned by Prudential. This site will house activities currently in the Wilshire Building except Data Processing, Systems and Office Services, which will be located in a second facility to be constructed on 15 acres adjacent to the Woodland Hills Office. Planning and construction will probably take three years.

Mid-America Home Office (MAHO) Chicago, Illinois

The average production for District agents exceeded the \$1 million mark . . . the first time this has ever been achieved by a regional home office. Mid-America's District Agencies sales organization led the Company in sales and service accomplishments for the 20th time in the past 21 years.

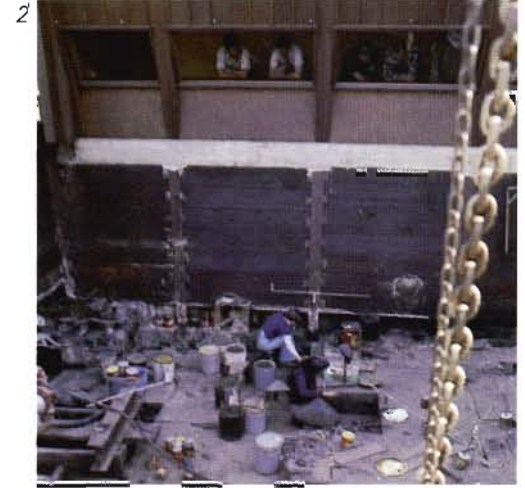
Group Life insurance written during 1976 exceeded \$1.1 billion—a Mid-America record.

Mid-America Home Office employees and supervisory and management staff are completing the successful establishment of our Regional Operations Office in Hobart and Merrillville, Indiana. By year end, each of these offices had about 450 employees. Those located in temporary quarters in Merrillville will be joined by a final contingent from our Chicago office in 1978 when the new Regional Operations Office is scheduled for completion.



1 At the October dedication of the 12-foot red aluminum sculpture in the courtyard of the Central Atlantic Home Office (l. to r.) Chairman Donald S. MacNaughton, New York sculptor James Rosati, and Senior Vice President Robert Winters.

2 A \$10,000 grant from the Western Home Office provided for construction of this viewing station at the Rancho La Brea tar pits in Los Angeles.



3 Construction of the Mid-America Regional Operations Office, Merrillville, Indiana, began last year and is scheduled for completion in the middle of 1978.



Regional Activities

Canadian Operations (CDNO) Toronto, Canada

Election of the Parti Québécois as the government of the Province of Quebec last November continues to have an unsettling effect on Canada's business and political environment. The main plank in the political platform of the Parti Québécois is the separation of Quebec from the rest of Canada. The new government has pledged, however, that such a move will not take place unless a majority of Quebec voters approve a referendum on the issue. Although Quebec presently accounts for about 35 percent of our total Canadian business, Prudential does not share the pessimism being expressed in certain financial quarters. Even if Quebec does separate from Canada, Prudential does not foresee being adversely affected in its future Quebec operations.

For CDNO in 1976, the consolidation of Group Operations in Canada was completed with the assumption of all administrative functions by Canadian staffs.

Group Life sales exceeded \$1 billion for the first time, a 10 percent increase over 1975's results.

Individual life sales reached a new high of \$835 million, with a modest increase in premium.

Planning for the establishment of an Ordinary Agencies operation in Canada was completed and approved. During 1977 branches are scheduled to open in Toronto and Montreal.

◀ During 1976 the Canadian Head Office completely revised its portfolio of policies. Much of the work was done by (l. to r.) Marcelle Eisen, primary translator of all contract material printed in both English and French; Mike Cutrara and Gord Rolfe, who produced the book on rates and values; and Ron Grove, who was responsible for printing of the English rate book and policy forms.

**Southwestern Home Office (SWHO)
Houston, Texas**

An employees' Community Service Award Committee was established to serve as a stimulus and vehicle for SWHO employee "good citizen activities." The Committee considers contributions of materials and people's time as well as dollars, by researching, reviewing, and responding to the welfare needs of the Greater Houston Community.

During the year, 92 business and industry leaders, educational leaders, and Prudential personnel were interviewed as part of a professional research project to determine pressing educational needs in the Greater Houston Area. A 100-page report of the survey was presented to community leaders at a day-long meeting sponsored by the National Alliance for Business.

Construction of the new five-story Southwestern Home Office Building continued, and plans were completed for the efficient, striking interior design. Occupancy is planned for late summer 1977.

**Northeastern Home Office (NEHO)
Boston, Massachusetts**

For the first time, NEHO surpassed the billion dollar mark in group insurance sales and exceeded the 1976 Company group increases in all production objective categories. The sale of the Commonwealth of Massachusetts Group Life Plan, producing \$512 million of new life volume on 86,000 lives, was the largest sale in NEHO's history and one of the Company's largest group sales for 1976.

More than 200 NEHO employees were recognized for their involvement in educational endeavors and community projects at an October luncheon hosted by Senior Vice President Julius Vogel.

NEHO has been chosen as a pilot RHO for the Field Office Terminal System, which will provide direct communication between Ordinary and District Agencies field offices and their respective regional computer centers. The program will be tested in five NEHO field offices, and tests are scheduled to begin this fall.

**South-Central Home Office (SCHO) 1
Jacksonville, Florida**

The South-Central District Agencies captured four President's Trophies awarded by the Company for top-ranking performance in 1976, including awards for top Agent, leading Staff, District and Region.

During 1976, it was decided to refurbish the interior of the 22-story South-Central building that was opened in 1955. Refurbishing will begin in March, 1977 and will take over three years to complete.

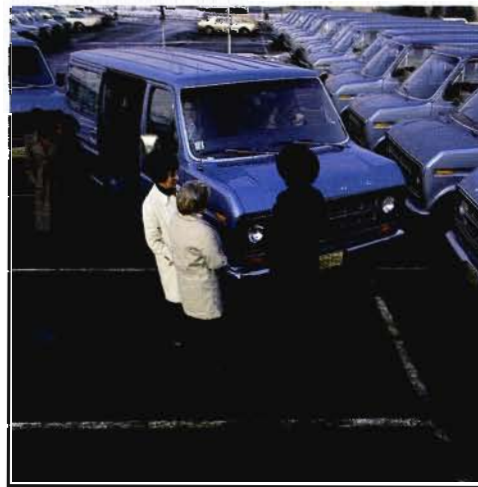
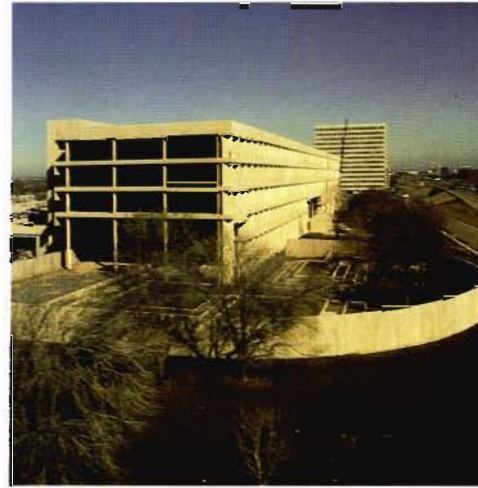
An Arts Committee selected from our employees was established to help the Company respond to the needs of Jacksonville's cultural community. The South-Central Home Office was honored in 1976 for its contribution to culture by receiving the Governor's Award and the Jacksonville Arts Assembly Award as the business that contributed most to the arts.

**Eastern Home Office (EHO)
South Plainfield, New Jersey**

The year 1976 culminated EHO's basic satellization plan. The District Agencies staff occupied the new Woodbridge building during February while Ordinary Agencies personnel, executives, and the Home Office Services staff moved into new headquarters in South Plainfield in late May. Also, with a 35 percent growth in our Group staff, supplementary quarters had to be rented in Parsippany to house several claim units.

The new South Plainfield Office was among New Jersey's 10 "New Good Neighbor" Award winners.

The Group Department became the first area in the Company to install the new Prutracs system. The successful use of on-line terminals to process employee health claims in early 1976 has expanded to include N.J. State and IBM Surgical Claims. Full conversion to Prutracs is expected by year-end 1977.



1 The new five-story Southwestern Home Office Building in Houston, Texas will be completed late this summer.

2 South-Central Home Office's Bicentennial parade float was a focal point of its Honor America Day in Jacksonville, Florida, last July.

3 Eastern Home Office's van pooling program—carrying over 600 people in 61 vans more than 3,500 miles a day—gained the Company nationwide publicity as an energy conservation leader.

4 "Where's Boston?", a 45-minute multi-image show in this pavilion, sponsored by the Northeastern Home Office as a Bicentennial contribution to that city, drew more than one-half million visitors last year. It was extended to run three years beyond its original 80-week commitment.

Financial Statements

Income Dollar

Statement of Financial Condition

Summary of Operations

Statement of Changes

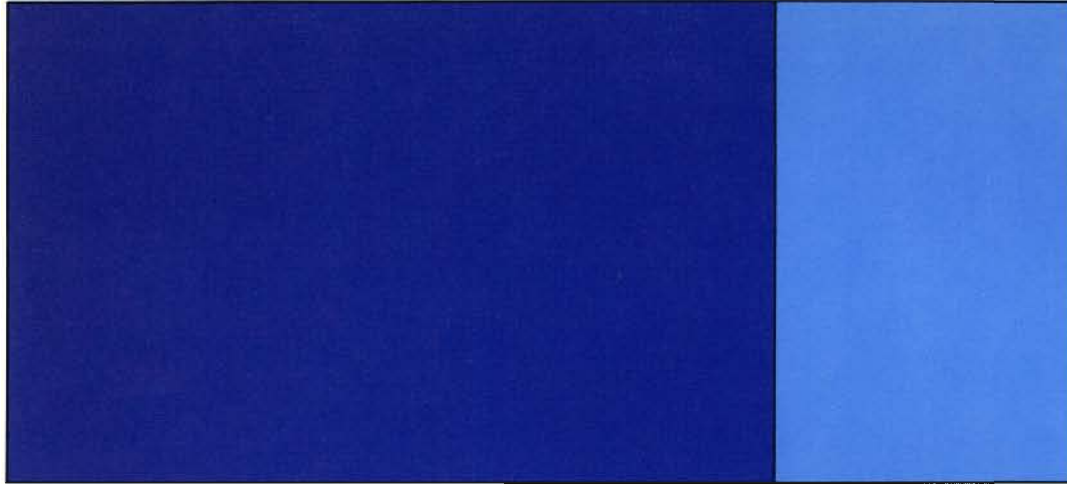
Investment Yields

Notes to Financial Statements

Accountants' Report

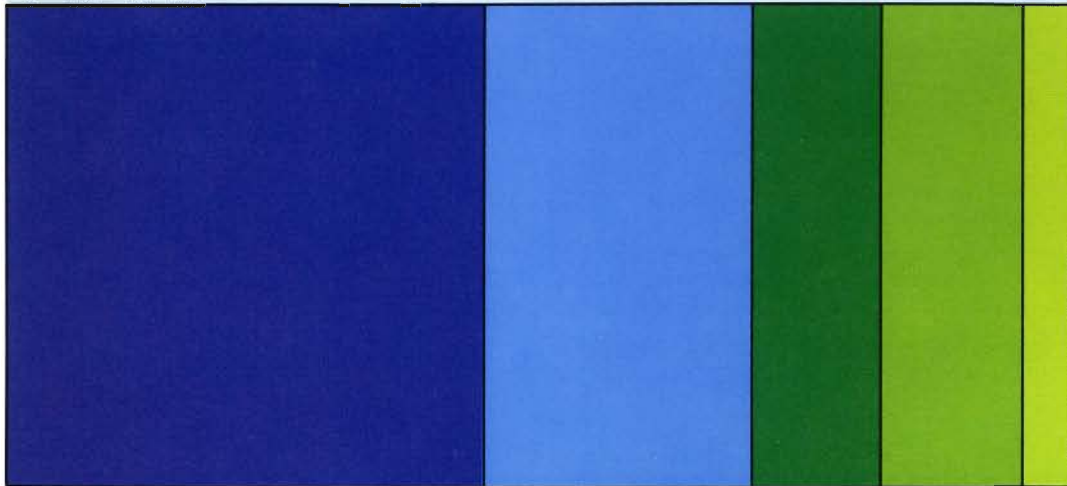
Income Dollar Sources and Applications

Income Dollar:



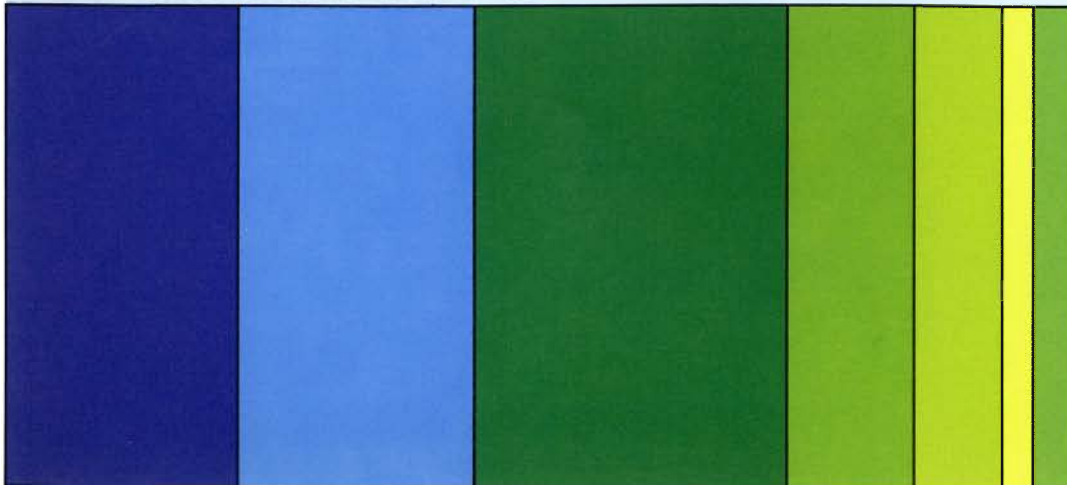
- Investment income (after investment expenses and taxes) .28¢
- Insurance premiums and annuity considerations .72¢

And How it Was Used:



- Insurance and income taxes .05¢
- Operating expenses .13¢
- Dividends to policyowners .12¢
- Added to reserves for protection of policyowners .25¢
- To policyowners and beneficiaries (excluding dividends) .45¢

Percentage Distribution of Benefits Paid:



- Interest and other .04
- Matured endowments .03
- Surrenders .08
- Annuity payments .12
- Health claims .29
- Dividends .22
- Death Claims .22

Summary of Operations and Margin for Protection of Policyowners

Year ended December 31,

Income

	1976	1975
	(In Millions)	
Insurance premiums and annuity considerations	\$6,404	\$5,760
Investment income (net of related expenses of \$341 million in 1976 and \$309 million in 1975)	2,500	2,222
Net realized and unrealized capital gains on Separate Accounts	554	702
	<u>\$9,458</u>	<u>\$8,684</u>

Application of Income

Paid or credited to policyowners and beneficiaries (including dividends of \$1,115 million in 1976 and \$1,003 million in 1975)	\$5,091	\$4,666
Increase in insurance and annuity reserves to provide for future payments to policyowners and beneficiaries	2,740	2,509
Addition to the margin for protection of policyowners	90	94
Total paid to or set aside for the protection of policyowners and beneficiaries	7,921	7,269
Insurance operating expenses	1,132	1,043
State premium and other insurance taxes	126	117
Income taxes (including foreign taxes of \$16 million in 1976 and \$25 million in 1975)	279	255
	<u>\$9,458</u>	<u>\$8,684</u>

Change in the Margin for Protection of Policyowners

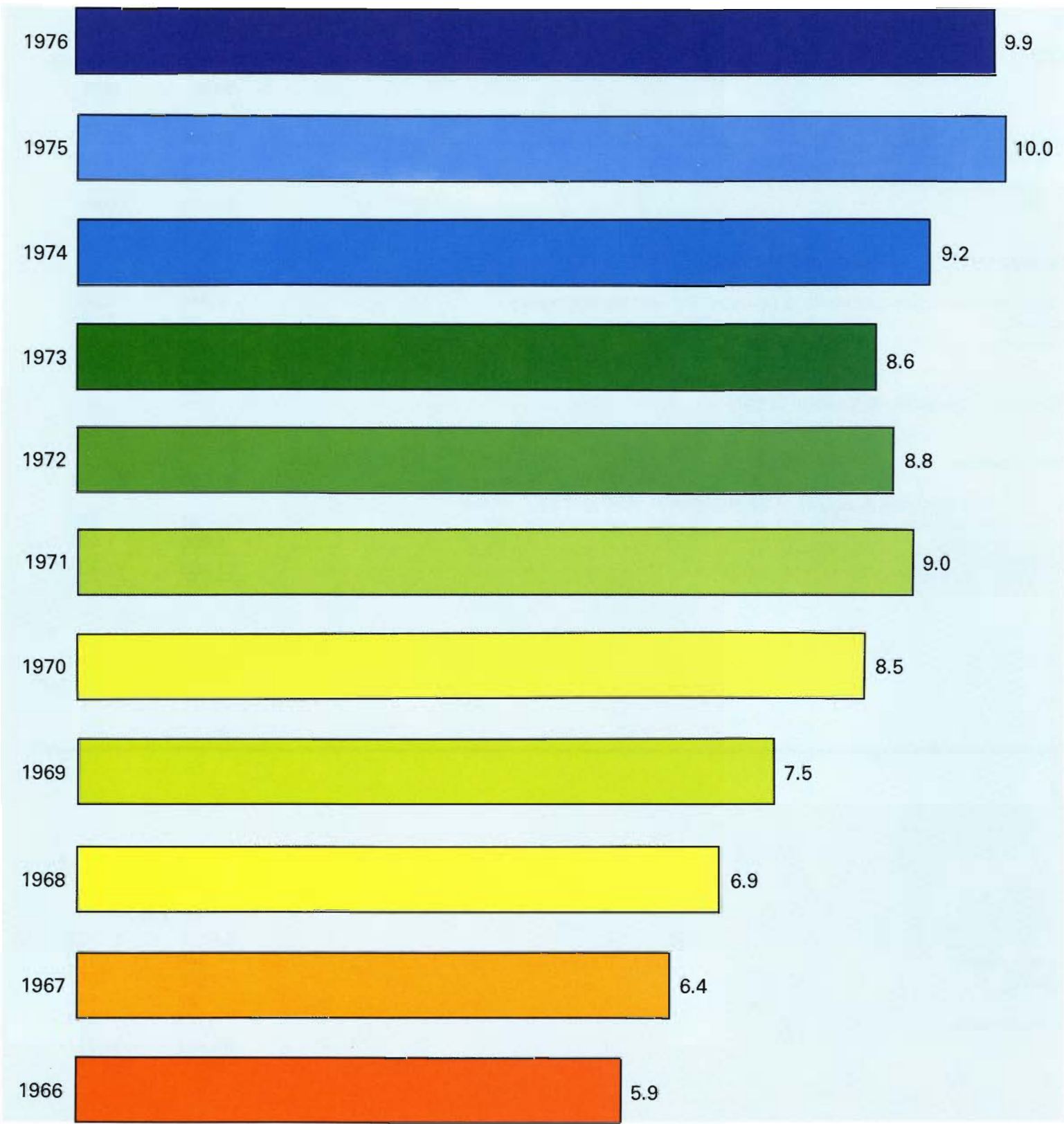
From application of income (see above)	\$ 90	\$ 94
Net realized and unrealized capital gains on other than Separate Accounts of \$239 million in 1976 and \$362 million in 1975 less increase in mandatory securities valuation reserve of \$320 million in 1976 and \$149 million in 1975	(81)	213
Margin for protection of policyowners, beginning of year	1,800	1,493
Margin for protection of policyowners, end of year	<u>\$1,809</u>	<u>\$1,800</u>

in Financial Position

Year ended December 31,

Application of Funds

	1976	1975
	(In Millions)	
Investments acquired { Bonds and stocks	\$4,114	\$2,073
{ Mortgage loans and real estate	948	1,123
{ Separate Account assets	568	587
Net increase in miscellaneous assets	69	115
Increase (decrease) in cash and temporary investments	(137)	324
	<u>\$5,562</u>	<u>\$4,222</u>



**Gross Yield
on
New Fixed Income
Acquisitions**

Notes to Financial Statements

Years Ended December 31, 1976 and 1975

1. The financial statements have been prepared in accordance with accounting practices prescribed or permitted by insurance regulatory authorities except as modified by the inclusion in application of income of certain items which have the net effect of increasing application of income by \$76 million in 1976 and \$23 million in 1975 and which otherwise would have been shown as changes in the margin for protection of policyowners. In 1976 and 1975, such items include an adjustment of policy and contract reserves due to changes in valuation bases of \$98 million and \$37 million and net other charges of \$22 million and \$14 million.

A. Asset values are stated principally as follows: bonds and mortgage loans at amortized cost; preferred stocks at cost; common stocks at market value; real estate at cost less accumulated straight-line depreciation (\$375 million in 1976 and \$343 million in 1975) and encumbrances (\$109 million in 1976 and \$86 million in 1975); investments in stock of subsidiaries at equity in net assets (the changes in net assets, excluding amounts invested, are included in net realized and unrealized capital gains); Separate Account assets at market value. Mortgage loans on real estate include \$890 million in 1976 and \$778 million in 1975 outstanding with joint ventures of a subsidiary and with partnerships in which the Company has invested.

B. A mandatory securities valuation reserve is provided out of the margin for protection of policyowners based upon statutory formula.

C. Reserves for life insurance policies and individual annuity contracts are maintained on the net level annual premium method except for certain individual life policies sold since 1974 which are on a modified reserve valuation method which reaches the net level premium reserve by the end of the tenth policy year. Reserves for group annuity contracts are maintained on the net single premium method.

D. Premiums are recognized as income over the premium paying period of the policy whereas expenses, including acquisition costs such as commissions in connection with acquiring new business, are charged to operations as incurred.

E. Federal income taxes, under provisions of the Internal Revenue Code relating to life insurance companies, are based upon taxable investment income (\$569 million in 1976 and \$544 million in 1975) consisting of investment income less related expenses, exclusions (primarily interest on policy and other contract liability requirements) and deductions. Investment tax credits are used as they occur to reduce Federal income taxes.

2. Assets in the amount of \$1,197 million at December 31, 1976 and \$1,100 million at December 31, 1975 were on deposit with governmental authorities or trustees as required by law.

3. The provision for a pension plan covering substantially all employees amounted to \$64 million in 1976 and \$62 million in 1975 and is included as part of the insurance and investment expenses. All accrued pension expense has been funded and the prior service cost is being amortized on a 20-year basis.

Accountants' Report

*To the Board of Directors of
The Prudential Insurance
Company of America*

We have examined the statement of financial condition of The Prudential Insurance Company of America as of December 31, 1976 and 1975, and the related summary of operations and margin for protection of policyowners and statement of changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial condition of The Prudential Insurance Company of America at December 31, 1976 and 1975, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

*Touche Ross & Co.
Certified Public Accountants
Newark, New Jersey
February 28, 1977*

Board of Directors

As of December 31, 1976

The business of the corporation is managed by a Board of Directors of 24 members, all of whom are policyowners. Six, called Public Directors, are appointed by the Chief Justice of the Supreme Court of New Jersey. Sixteen are elected by the policyowners. The Chairman of the Board and Chief Executive Officer and the President are ex-officio directors.

Orville E. Beal
Former President, The Prudential Insurance Company of America

Robert A. Beck, CLU
President, The Prudential Insurance Company of America

William T. Cahill
Counselor at Law—Partner, Cahill, McCarthy and Hicks

Charles Danzig
Counselor at Law—Partner, Riker, Danzig, Scherer & Debevoise

C. Malcolm Davis
Chairman of the Board, Fidelity Union Bancorporation

John E. Deitrick, M. D.
Former Dean, Cornell University Medical College

Fairleigh S. Dickinson, Jr.
Chairman of the Board, Becton, Dickinson & Company

Margery S. Foster
University Professor of Economics, Rutgers University

Paul A. Gorman
Former Chairman of the Board and President, International Paper Company

Robert R. Herring
Chairman of the Board and Chief Executive Officer, Houston Natural Gas Corporation

Frank J. Hoenemeyer
Executive Vice President, The Prudential Insurance Company of America

Donald S. MacNaughton
Chairman of the Board and Chief Executive Officer, The Prudential Insurance Company of America

James P. McFarland
Chairman of the Board, General Mills, Inc.

Roger H. McGlynn
Counselor at Law—Partner, Lum, Biunno & Tompkins

Robert B. Meyner
Counselor at Law—Senior Partner, Meyner, Landis & Verdon

Albert G. Mumma
Former Chairman of the Board, Worthington Corporation

Samuel R. Pierce, Jr.
Counselor at Law—Partner, Battle, Fowler, Lidstone, Jaffin, Pierce & Kheel

Donald E. Procknow
President and Chief Executive Officer, Western Electric Co.

Robert M. Schaeberle
Chairman of the Board and Chief Executive Officer, Nabisco, Inc.

Sydney G. Stevens
Former Chairman of the Board, New Jersey National Bank

Richard M. Thomson
President, The Toronto-Dominion Bank

E. Hornsby Wasson
Former Chairman of the Board and Chief Executive Officer, Pacific Telephone & Telegraph Co.

Lloyd B. Wescott
Former President, New Jersey State Board of Control, Department of Institutions and Agencies

David L. Yunich
Chairman, Metropolitan Transportation Authority—State of New York

Committees of the Board*

Executive Committee

Robert B. Meyner, Chairman
William T. Cahill
Charles Danzig
John E. Deitrick
Fairleigh S. Dickinson, Jr.
Roger H. McGlynn
Albert G. Mumma
Lloyd B. Wescott

Two other members of the Board rotate on this Committee. Chairman of the Finance Committee is a member ex-officio.

Finance Committee

Sydney G. Stevens, Chairman
Orville E. Beal
Charles Danzig
C. Malcolm Davis
Margery S. Foster
Paul A. Gorman
Samuel R. Pierce, Jr.
David L. Yunich

Two other members of the Board rotate on this Committee. Chairman of the Executive Committee is a member ex-officio.

Committee on Dividends

C. Malcolm Davis, Chairman
Charles Danzig
Margery S. Foster
Paul A. Gorman
Robert B. Meyner
Sydney G. Stevens
David L. Yunich

Committee on Nominations

E. Hornsby Wasson, Chairman
Orville E. Beal
C. Malcolm Davis
John E. Deitrick
James P. McFarland
Albert G. Mumma
Donald E. Procknow

Committee on Salaries

David L. Yunich, Chairman
Orville E. Beal
Fairleigh S. Dickinson, Jr.
James P. McFarland
Roger H. McGlynn
Samuel R. Pierce, Jr.
Robert M. Schaeberle
Richard M. Thomson
E. Hornsby Wasson
Lloyd B. Wescott

Auditing Committee

Albert G. Mumma, Chairman
John E. Deitrick
Paul A. Gorman
James P. McFarland
Robert B. Meyner
Robert M. Schaeberle
Sydney G. Stevens
Lloyd B. Wescott

*The Chairman of the Board and Chief Executive Officer is ex-officio a member of all standing committees except the Auditing Committee.

Senior Officers

As of December 31, 1976

Donald S. MacNaughton
Chairman and Chief Executive Officer

Robert A. Beck, CLU
President

Frank J. Hoenemeyer
Executive Vice President
(Investments)

Duncan Macfarlan, CLU
Executive Vice President (Marketing)

Fredrick E. Rathgeber, CLU, FSA
Executive Vice President
(Administration)

Floyd H. Bragg, CLU
Senior Vice President
(North Central Home Office)

John D. Buchanan, Jr., CLU
Senior Vice President
(South-Central Home Office)

Edgar F. Bunce, Jr.
Senior Vice President
(Common Stock)

Raymond A. Charles
Senior Vice President
(Bond and Commercial Loan)

E. Carroll Gerathy, CLU
Senior Vice President
(Corporate Services)

William Ingram
Senior Vice President
(Mid-America Home Office)

James B. Jacobson, CLU
Senior Vice President
(Western Home Office)

John K. Kittredge, CLU, FSA
Senior Vice President
(Group Insurance)

Donald R. Knab
Senior Vice President
(Real Estate Investment)

Jack T. Kvernland, FSA
Senior Vice President and Chief
Actuary

W. James D. Lewis, FSA
President
(Canadian Operations)

Alfred C. Linkletter
Senior Vice President
(Buildings)

William P. Lynch, CLU
Senior Vice President
(District Agencies)

John J. Marcus, CLU, FSA
Senior Vice President
(Marketing Services)

Meyer Melnikoff, FSA
Senior Vice President and Actuary
(Group Pension)

Joseph J. Melone, CLU
Senior Vice President
(Public Affairs)

Richard G. Merrill, CLU
Senior Vice President
(Southwestern Home Office)

A. Douglas Murch, CLU, FSA
Senior Vice President
(Computer Systems and Services)

E. William Nash, Jr., CLU
Senior Vice President
(Ordinary Agencies)

Kenneth C. Nichols, CLU
Senior Vice President
(Eastern Home Office)

Robert W. Smith, CLU
Senior Vice President
(Personnel)

John B. Stoddart, Jr.
Senior Vice President
and General Counsel

Julius Vogel, FSA
Senior Vice President
(Northeastern Home Office)

Clifford H. Whitcomb
Senior Vice President and
Comptroller

Robert C. Winters, FSA
Senior Vice President
(Central Atlantic Home Office)

Isabelle L. Kirchner
Vice President and Secretary

Bryan Wilson, CLU
Vice President and Treasurer

Notice of Election

The Prudential Insurance Company of America is a mutual life insurance company incorporated under the Laws of the State of New Jersey with its principal office in the City of Newark, New Jersey. By statute, Prudential has twenty-four directors, including two of its officers, six public directors appointed by the Chief Justice of the Supreme Court of New Jersey, and sixteen directors elected by Prudential policyholders for terms of four years. The policyholders elect four directors each year in an election held at the principal office at the address below on the first Tuesday in April from 10 a.m. to 2 p.m. A policyholder whose contract has been in force for one year and who, if an individual, is at least 18 years old, may vote either in person or by mail. Mail ballots may be obtained by writing to the Secretary, The Prudential Insurance Company of America, Prudential Plaza, Newark, New Jersey 07101 no later than 60 days prior to the date of the election. The law requires that the request for a ballot must contain the policyholder's name, address, contract number and, if an individual, the date of birth.

