

Notes on the parent company financial statements

1 Nature of operations

Prudential plc (the Company) is a parent holding company. The Company together with its subsidiaries (collectively, the Group) is an international financial services group with its principal operations in Asia, the US and the UK. In Asia, the Group has operations in Hong Kong, Malaysia, Singapore, Indonesia and other Asian countries. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company (Jackson). In the UK, the Group operates through its subsidiaries, primarily The Prudential Assurance Company Limited (PAC), Prudential Annuities Limited (PAL), Prudential Retirement Income Limited (PRIL) and M&G Investment Management Limited. The Company is responsible for the financing of each of its subsidiaries.

2 Basis of preparation

The financial statements of the Company, which comprise the balance sheet and related notes, are prepared in accordance with Part 15 of the Companies Act 2006, which applies to companies generally. The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

The financial statements are prepared in accordance with applicable accounting standards under UK Generally Accepted Accounting Practice (UK GAAP), including Financial Reporting Standards (FRS) and Statements of Standard Accounting Practice (SSAP).

The Company has not prepared a cash flow statement on the basis that its cash flow is included within the cash flow statement in the consolidated financial statements. The Company has also taken advantage of the exemption within FRS 29, 'Financial Instruments: Disclosures', from the requirements of this standard on the basis that the Company's results are included in the publicly available consolidated financial statements of the Group that include disclosures that comply with IFRS 7, 'Financial Instruments: Disclosures', which is equivalent to FRS 29.

The Company adopted the 'Improvements to Financial Reporting Standards 2010' in 2011 which included minor changes to FRS 29 'Financial Instruments: Disclosures' and FRS 8 'Related Party Disclosures'. These changes closely reflect the requirements of International Financial Reporting Standards (IFRS) and form part of the continuing convergence of UK GAAP to IFRS requirements in the UK. Their adoption did not have an impact on the financial statements of the Company.

3 Significant accounting policies

Shares in subsidiary undertakings

Shares in subsidiary undertakings are shown at the lower of cost and estimated realisable value.

Loans to subsidiary undertakings

Loans to subsidiary undertakings are shown at cost, less provisions.

Derivatives

Derivative financial instruments are held to manage interest rate and currency profiles. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Under FRS 26, 'Financial Instruments: Recognition and Measurement', hedge accounting is permissible only if certain criteria are met regarding the establishment of documentation and continued measurement of hedge effectiveness. For derivative financial instruments designated as fair value hedges, the movements in the fair value are recorded in the profit and loss account with the accompanying change in fair value of the hedged item attributable to the hedged risk.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently accounted for on an amortised cost basis using the effective interest method. Under the effective interest method, the difference between the redemption value of the borrowing and the initial proceeds, net of transaction costs, is amortised through the profit and loss account to the date of maturity, or, for hybrid debt, over the expected life of the instrument.

Dividends

Interim dividends are recorded in the period in which they are paid. Final dividends are recorded in the period in which they are approved by shareholders.

Share premium

The difference between the proceeds received on issue of shares and the nominal value of the shares issued is credited to the share premium account.

Foreign currency translation

Foreign currency borrowings that have been used to finance or provide a hedge against Group equity investments in overseas subsidiaries are translated at year-end exchange rates. The impact of these currency translations is recorded within the profit and loss account for the year.

Other assets and liabilities denominated in foreign currencies are also converted at year end exchange rates with the related foreign currency exchange gains or losses reflected in the profit and loss account for the year.

Tax

Current tax expense is charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. To the extent that losses of an individual UK company are not offset in any one year, they can be carried back for one year or carried forward indefinitely to be offset against profits arising from the same company.

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS 19, 'Deferred Tax'. The Company has chosen not to apply the option available of recognising such assets and liabilities on a discounted basis to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

The Group's UK subsidiaries each file separate tax returns. In accordance with UK tax legislation, where one domestic UK company is a 75 per cent owned subsidiary of another UK company or both are 75 per cent owned subsidiaries of a common parent, the companies are considered to be within the same UK tax group. For companies within the same tax group, trading profits and losses arising in the same accounting period may be offset for the purposes of determining current and deferred taxes.

Pensions

The Company assumes a portion of the pension surplus or deficit of the Group's main pension scheme, the Prudential Staff Pension Scheme (PSPS) and applied the requirements of FRS 17, 'Retirement Benefits' (as amended in December 2006) to its interest in the PSPS surplus or deficit. Further details are disclosed in note 9.

A pension surplus or deficit is recorded as the difference between the present value of the scheme liabilities and the fair value of the scheme assets. The Company's share of pension surplus is recognised to the extent that the Company is able to recover a surplus either through reduced contributions in the future or through refunds from the scheme.

The assets and liabilities of the defined benefit pension schemes of the Prudential Group are subject to a full triennial actuarial valuation using the projected unit method. Estimated future cash flows are then discounted at a high quality corporate bond rate, adjusted to allow for the difference in duration between the bond index and the pension liabilities where appropriate, to determine its present value. These calculations are performed by independent actuaries.

The aggregate of the actuarially determined service costs of the currently employed personnel and the unwind of the discount on liabilities at the start of the period, gains and losses on settlements and curtailments, less the expected investment return on the scheme assets at the start of the period, is recognised in the profit and loss account. To the extent that part or all of the Company's interest in the pension surplus is not recognised as an asset, the unrecognised surplus is initially applied to extinguish any past service costs, losses on settlements or curtailments that would otherwise be included in the profit and loss account. Next, the expected investment return on the scheme's assets is restricted so that it does not exceed the total of the current service cost, interest cost and any increase in the recoverable surplus. Any further adjustment for the unrecognised surplus is treated as an actuarial gain or loss.

Actuarial gains and losses as a result of the changes in assumptions, the difference between actual and expected investment return on scheme assets and experience variances are recorded in the statement of total recognised gains and losses. Actuarial gains and losses also include adjustment for unrecognised pension surplus as described above.

Share-based payments

The Group offers share award and option plans for certain key employees and a SAYE plan for all UK and certain overseas employees. The share-based payment plans operated by the Group are mainly equity-settled plans with a few cash-settled plans.

Under FRS 20, where the Company, as the parent company, has the obligation to settle the options or awards of its equity instruments to employees of its subsidiary undertakings, and such share-based payments are accounted for as equity-settled in the Group financial statements, the Company records an increase in the investment in the subsidiary undertakings for the value of the share options and awards granted with a corresponding credit entry recognised directly in equity. The value of the share options and awards granted is based upon the fair value of the options and awards at the grant date, the vesting period and the vesting conditions.

Notes on the parent company financial statements continued

4 Reconciliation from UK GAAP to IFRS

The Company financial statements are prepared in accordance with UK GAAP and the consolidated financial statements are prepared in accordance with IFRS as issued by the IASB and endorsed by the EU. The tables below provide a reconciliation between UK GAAP and IFRS.

	2011 £m	2010 £m
Profit after tax		
Profit for the financial year of the Company in accordance with UK GAAP	3,720	881
IFRS adjustment	(5)	(8)
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with IFRS	3,715	873
Share in the IFRS result of the Group, net of distributions to the Company	(2,225)	558
Profit after tax of the Group attributable to shareholders in accordance with IFRS	1,490	1,431
	2011 £m	2010 £m
Net equity		
Shareholders' equity of the company in accordance with UK GAAP	7,357	4,267
IFRS adjustment	(44)	(51)
Shareholders' equity of the Company in accordance with IFRS	7,313	4,216
Share in the IFRS net equity of the Group	1,804	3,815
Shareholders' equity of the Group in accordance with IFRS	9,117	8,031

The profit for the financial year of the Company in accordance with UK GAAP and IFRS includes dividends declared in the year from subsidiary undertakings of £4,002 million, and £1,318 million for the years ended 31 December 2011 and 2010, respectively.

The 'IFRS adjustment' lines in the above tables represent the difference in the accounting treatment for pension schemes between UK GAAP and IFRS. Under UK GAAP, the parent company's interest in the surplus of the Group's main pension scheme recognised on the balance sheet represents the element which is recoverable through reduced future contributions. Under IFRS, as the terms of the relevant trust deed restrict shareholders' access to any underlying surplus, not only is the underlying IAS 19 basis surplus not recognised, but the Company's share of the obligation for deficit funding has also to be recognised on the balance sheet.

The shares in the IFRS result and net equity of the Group represent the Company's equity in the earnings and net assets of its subsidiaries and associates.

As stated in note 1, under UK GAAP, the Company accounts for its investments in subsidiary undertakings at the lower of cost and estimated realisable value. For the purpose of this reconciliation, no adjustment is made to the Company in respect of any valuation adjustments to shares in subsidiary undertakings which would be eliminated on consolidation.

5 Investments of the Company

	2011 £m	
	Shares in subsidiary undertakings	Loans to subsidiary undertakings
At 1 January	9,410	849
Transfer of investment in subsidiary undertaking	(115)	–
Additional investment in subsidiary undertakings	1,607	–
Loan advance	–	339
Foreign exchange movement	–	12
At 31 December	10,902	1,200

The transfer of investment in subsidiary undertaking relates to the sale of shares in a central subsidiary to another such company.

The additional investment in subsidiary undertakings consists of £1,600 million in respect of a new central subsidiary, created as part of an internal restructuring, and £7 million in respect of share-based payments reflecting the value of payments settled by the Company for employees of its subsidiary undertakings in 2011.

The principal subsidiary undertakings of the Company at 31 December 2011, all wholly-owned, were:

	Main activity	Country of incorporation
The Prudential Assurance Company Limited	Insurance	England and Wales
Prudential Annuities Limited*	Insurance	England and Wales
Prudential Retirement Income Limited (PRIL)*	Insurance	Scotland
M&G Investment Management Limited*	Asset management	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore

*Owned by a subsidiary undertaking of the Company.

Each subsidiary has one class of ordinary shares and operates mainly in its country of incorporation, except for PRIL which operates mainly in England and Wales.

Details of all Prudential subsidiaries, joint ventures and associates will be annexed to the Company's next Annual Returns filed with the UK Registrar of Companies and the Registrar of Companies in Hong Kong.

6 Deferred tax asset

	2011 £m	2010 £m
Short-term timing differences	6	10
Unused deferred tax losses	358	335
Total	364	345

For each category of deferred tax asset recognised, its recoverability against forecast taxable profits is not significantly impacted by expected changes to accounting standards.

The UK government's tax rate change to 25 per cent has had the effect of reducing the Company's net deferred tax balance at 31 December 2011 by £29 million. The change to 25 per cent is effective from 1 April 2012 but is substantively enacted as at 31 December 2011. The subsequent proposed rate change to 23 per cent by 1 April 2014 is not expected to have a material effect on the deferred tax balance recognised at 31 December 2011.

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7 Borrowings

	Core structural borrowings		Other borrowings		Total	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Core structural borrowings:						
€500m 5.75% Subordinated Notes 2021 ^{note(i)}	–	428	–	–	–	428
£300m 6.875% Bonds 2023	300	300	–	–	300	300
€20m Medium-Term Subordinated Notes 2023 ^{note(ii)}	17	17	–	–	17	17
£250m 5.875% Bonds 2029	249	249	–	–	249	249
£435m 6.125% Subordinated Notes 2031	428	428	–	–	428	428
£400m 11.375% Subordinated Notes 2039	384	382	–	–	384	382
US\$1,000m 6.5% Perpetual Subordinated Capital Securities	644	639	–	–	644	639
US\$250m 6.75% Perpetual Subordinated Capital Securities ^{note(iii)}	161	160	–	–	161	160
US\$300m 6.5% Perpetual Subordinated Capital Securities ^{note(iii)}	193	192	–	–	193	192
US\$750m 11.75% Perpetual Subordinated Capital Securities	477	472	–	–	477	472
US\$550m 7.75% Perpetual Subordinated Capital Securities ^{note(iii)}	348	–	–	–	348	–
Total core structural borrowings	3,201	3,267	–	–	3,201	3,267
Other borrowings:						
Commercial paper ^{note(iv)}	–	–	2,706	2,311	2,706	2,311
Floating Rate Notes 2012 ^{note(v)}	–	–	200	200	200	200
Medium-Term Notes 2013 ^{note(iv)}	–	–	250	249	250	249
Total borrowings	3,201	3,267	3,156	2,760	6,357	6,027
Borrowings are repayable as follows:						
Within 1 year or on demand	–	–	2,906	2,511	2,906	2,511
Between 1 and 5 years	–	–	250	249	250	249
After 5 years	3,201	3,267	–	–	3,201	3,267
	3,201	3,267	3,156	2,760	6,357	6,027
Recorded in the balance sheet as:						
Subordinated liabilities ^{note(vi)}	2,652	2,718				
Debenture loans	549	549				
	3,201	3,267				

Notes

- (i) The €500 million 5.75 per cent borrowings were swapped into borrowings of £333 million with interest payable at six month £LIBOR plus 0.962 per cent. The borrowings were repaid in December 2011.
- (ii) The €20 million borrowings were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These borrowings have been swapped into borrowings of £14 million with interest payable at three month £LIBOR plus 1.2 per cent.
- (iii) The US\$250 million 6.75 per cent borrowings, the US\$300 million 6.5 per cent borrowings and the US\$550 million 7.75 per cent borrowings can be converted, in whole or in part, at the Company's option and subject to certain conditions, on any interest payment date into one or more series of Prudential preference shares.
- (iv) These borrowings support a short-term fixed income securities programme.
- (v) The Company issued £200 million Floating Rate Notes in 2011 which mature in April 2012. All Notes have been subscribed to by a Group subsidiary and accordingly have been eliminated on consolidation in the Group financial statements. These Notes were originally issued in October 2008 and have been reissued upon their maturity.
- (vi) The interests of the holders of the Subordinated Notes and the Subordinated Capital Securities are subordinate to the entitlements of other creditors of the Company.

8 Derivative financial instruments

	2011 £m		2010 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Interest rate swaps	–	–	13	–
Cross-currency swaps	3	–	99	–
Inflation-linked swap	–	207	–	146
Total	3	207	112	146

Derivative financial instruments are held to manage interest rate and currency profiles. The change in fair value of the derivative financial instruments of the Company was a loss before tax of £75 million (2010: loss before tax of £33 million).

The Company's derivative which swapped the interest rate and the currency profile of the €500 million subordinated notes settled in December 2011.

The derivative financial instruments are valued internally using standard market practices. In accordance with the Company's risk management framework, all internally generated valuations are subject to independent assessment against external counterparties' valuations.

9 Pension scheme financial position

The majority of UK Prudential staff are members of the Group's pension schemes. The largest scheme is the Prudential Staff Pension Scheme (the 'Scheme') which is primarily a closed defined benefit scheme. At 31 December 2011, on the FRS 17, 'Retirement Benefits' basis of valuation, the underlying pension liabilities of the Scheme accounted for 86 per cent (2010: 86 per cent) of the liabilities of the Group's defined benefit schemes.

For the purpose of preparing consolidated financial statements, the Group applies IFRS basis accounting including IAS 19, 'Employee Benefits'. However, the individual accounts of the Company continue to follow UK GAAP including FRS 17. The FRS 17 disclosures are aligned with IAS 19. Under IFRS, the Group applies IFRIC 14, interpretation guidance to IAS 19 with the effect of derecognising the Group's interest in the Scheme's surplus and recognising an additional liability for the deficit funding obligation for the Scheme in the Group financial statements. Further details are described in note 13 'Staff and pension plans' of the Group financial statements.

At 31 December 2005, the allocation of surpluses and deficits attaching to the Scheme between the Company and the unallocated surplus of the PAC with-profits funds was apportioned in the ratio 30/70 between the Company and the PAC with-profits fund following detailed consideration of the sourcing of previous contributions. This ratio was applied to the base deficit position at 1 January 2006 and for the purpose of determining the allocation of the movements in that position up to 31 December 2011. The FRS 17 service charge and ongoing employer contributions are allocated by reference to the cost allocation for current activity.

Defined benefit schemes are generally required to be subject to full actuarial valuation every three years to assess the appropriate level of funding for schemes having regard to their commitments. These valuations include assessments of the likely rate of return on the assets held within the separate trustee administered funds. The last completed actuarial valuation of the Scheme was as at 5 April 2008. This valuation demonstrated the Scheme to be 106 per cent funded by reference to the Scheme Solvency Target that forms the basis of the Scheme's statutory funding objective. Accordingly, no formal deficit plan was required. However, in recognition of the fall in value of the Scheme's investments between 5 April 2008 and the completion of the actuarial valuation in 2009, an additional funding akin to deficit funding was agreed by the Trustees. The total contributions currently being made by the Group into the Scheme, representing the annual accrual cost and deficit funding, are £50 million per annum. The current contributions will continue to be made until the next valuation as at 5 April 2011 is finalised later in 2012.

In 2011, total employer contributions for the year, including expenses and augmentations, were £54 million (2010: £55 million).

Using external actuarial advice provided by the professionally qualified actuaries, Towers Watson, for the valuation of the Scheme, the most recent full valuations have been updated to 31 December 2011 applying the principles prescribed by FRS 17.

Notes on the parent company financial statements continued

9 Pension scheme financial position continued

The key assumptions adopted were:

	2011 %	2010 %
Rate of inflation:		
Retail price index (RPI)	2.9	3.55
Consumer price index (CPI)	1.9	n/a
Rate of increase in salaries	2.9	5.55
Rate of increase in pension payments for inflation:		
Guaranteed (maximum 5%)	2.5	3.55
Guaranteed (maximum 2.5%)	2.5	2.5
Discretionary	2.5	2.5
Rate used to discount Scheme liabilities	4.7	5.45

Long-term expected rate of return:

	Prospectively for 2012 %	2011 %	2010 %
Equities	6.8	8.2	8.5
Bonds	3.0	4.6	5.3
Properties	5.55	6.9	6.75
Other assets	2.0	4.75	4.75
Weighted average long-term expected rate of return	3.1	5.1	5.9

The long-term expected rates of return have been determined after applying due consideration to the requirements of paragraph 54 of FRS 17, in particular, taking account of the values of the assets.

In July 2010, the UK government announced plans to use the CPI in place of the RPI in its determination of the statutory minimum pension increases for private sector occupational pension schemes. In December 2010, the government published the statutory revaluation order for 2011 which confirms the change to use CPI. Further, in December 2010, the government consulted on the impact of the switch from RPI to CPI on the private sector occupational pension schemes. In its response following the consultation published in June 2011, the government confirmed that it would not introduce legislation to override scheme rules which provide for pension increases/revaluation on a basis that is higher than the statutory minimum.

Only those tranches of the Scheme which are subject to statutory increases in accordance with the Scheme rules were affected by the government's decision to change the indexation from RPI to CPI. Other tranches of the Scheme were unaffected.

During 2011, the Scheme communicated to its members the changes in basis from RPI to CPI in light of the government announcement. The change has the impact of reducing the Scheme liabilities by £216 million, of which £65 million is attributable to the Company. However, as the Company is only able to recognise a restricted FRS 17 surplus for the Scheme, this reduction in the Scheme liabilities has no effect on the profit or shareholders' funds of the Company.

Further details of the Scheme, including mortality assumptions, are shown in note I3 'Staff and pension plans' of the Group financial statements.

The assets and liabilities of the Scheme were:

	31 Dec 2011		31 Dec 2010		31 Dec 2009		31 Dec 2008		31 Dec 2007	
	£m	%	£m	%	£m	%	£m	%	£m	%
Equities	210	3.3	548	10.3	830	16.8	823	17.1	1,278	26.1
Bonds	5,547	86.2	3,864	72.2	3,406	68.8	2,430	50.6	1,134	23.2
Properties	297	4.6	199	3.7	272	5.5	283	5.9	545	11.2
Cash-like investments	378	5.9	740	13.8	441	8.9	1,267	26.4	1,932	39.5
Total value of assets	6,432	100.0	5,351	100.0	4,949	100.0	4,803	100.0	4,889	100.0
Present value of Scheme liabilities	(4,844)		(4,866)		(4,436)		(4,075)		(4,361)	
Underlying surplus in the Scheme	1,588		485		513		728		528	
Surplus in the Scheme recognised by the Company	52		56		52		50		163	
Amounts reflected in the balance sheet of the Company, net of deferred tax	39		41		37		36		117	

The surplus in the Scheme recognised in the balance sheet of the Company represents the element of the amount which is recoverable through reduced future contributions and is net of the apportionment to the PAC with-profits fund.

Underlying Scheme liabilities and assets

The change in the present value of the underlying Scheme liabilities and the change in the fair value of the underlying Scheme assets are as follows:

	2011 £m	2010 £m
Present value of Scheme liabilities, at 1 January	4,866	4,436
Current service costs	22	25
Negative past service cost – RPI to CPI inflation measure change	(216)	–
Interest costs	254	251
Employee contributions	1	1
Actuarial losses	131	369
Benefit payments	(214)	(216)
Present value of Scheme liabilities, at 31 December	4,844	4,866
	2011 £m	2010 £m
Fair value of Scheme assets, at 1 January	5,351	4,949
Expected return on Scheme assets	267	287
Employee contributions	1	1
Employer contributions*	54	55
Actuarial gains	973	275
Benefit payments	(214)	(216)
Fair value of Scheme assets, at 31 December	6,432	5,351

* The contributions include deficit funding, ongoing service contributions, expenses and augmentations.

Notes on the parent company financial statements continued

9 Pension scheme financial position continued

Pension credit (charge) and actuarial (losses) gains of the Scheme

The pension credit (charge) recognised in the Company's profit and loss account is as follows:

Pension credit (charge):	2011 £m	2010 £m
Operating charge:		
Current service costs	(22)	(25)
Negative past service cost – RPI to CPI inflation measure change	216	–
Finance income (expense):		
Interest on Scheme liabilities	(254)	(251)
Expected return on Scheme assets	267	287
	13	36
Total pension credit of the Scheme	207	11
Pension charge attributable to the Company	(10)	(6)

The pension charge attributable to the Company is net of the apportionment to the PAC with-profits fund and is related to the surplus recognised on the balance sheet of the Company. In 2011, an amount of £65 million was applied to extinguish the negative past service cost attributable to the Company from the unrecognised portion of the pension surplus at 31 December 2011.

Actuarial gains (losses):	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Actual less expected return on Scheme assets (15% (2010: 5%) (2009: 2%) (2008: 5%) (2007: 0%) of assets)	973	275	85	(259)	(12)
Experience gains (losses) on Scheme liabilities (6% (2010: 0%) (2009: 1%) (2008: 3%) (2007: 0%) of liabilities)	295	1	59	127	(10)
Changes in assumptions underlying the present value of Scheme liabilities	(426)	(370)	(374)	200	324
Total actuarial gains (losses) (17% (2010: 2%) (2009: 5%) (2008: 2%) (2007: 7%) of the present value of Scheme liabilities)	842	(94)	(230)	68	302
Actuarial (losses) gains attributable to the Company before tax	(16)	(14)	(3)	(143)	91

The total actual return on Scheme assets was a gain of £1,240 million (2010: £562 million).

The experience gains on Scheme liabilities in 2011 of £295 million related mainly to the 'true-up' reflecting improvements in data consequent upon the ongoing 2011 triennial valuation of the Scheme. Similarly, the experience gains of £127 million in 2008 were related mainly to the improvements in the data consequent to the 2008 triennial valuation.

The actuarial gains (losses) attributable to the Company are net of the apportionment to the PAC with-profits fund and are related to the surplus recognised in the balance sheet of the Company. In 2011, the actuarial losses attributable to the Company included an amount charged of £268 million (2010: amount credited of £14 million) for the adjustment to the unrecognised portion of surplus which has not been deducted from the pension charge.

The actuarial losses before tax of £16 million (2010: £14 million) attributable to the Company are recorded in the statement of total recognised gains and losses. Cumulative actuarial gains as at 31 December 2011 amount to £58 million (2010: £74 million).

Total employer contributions expected to be paid into the Scheme for the year ending 31 December 2012 amount to £54 million, reflecting the annual accrual cost and deficit funding, and expenses. However, this is subject to a reassessment when the valuation as at 5 April 2011 is completed later in 2012.

10 Share capital and share premium

A summary of the ordinary shares in issue is set out below:

	2011		
	Number of ordinary shares	Share capital £m	Share premium £m
Issued shares of 5 pence each fully paid			
At 1 January	2,545,594,506	127	1,856
Shares issued under share option schemes	2,444,824	–	17
At 31 December	2,548,039,330	127	1,873

At 31 December 2011, there were options to subscribe for 13,329,709 (2010: 12,802,482) shares at prices ranging from 288 pence to 572 pence (2010: 288 pence to 572 pence) and exercisable by the year 2017 (2010: 2016). Further information on the Group's employee share options is given in note 14 'Share-based payments' of the Group financial statements.

11 Profit of the Company and reconciliation of the movement in shareholders' funds

The profit after tax of the Company for the year was £3,720 million (2010: £881 million). After dividends of £642 million (2010: £511 million), actuarial losses net of tax in respect of the pension scheme of £12 million (2010: £10 million), share-based payment credits of £7 million (2010: £6 million) and scrip dividends of £nil (2010: £62 million), retained profit at 31 December 2011 amounted to £5,357 million (2010: £2,284 million). During the year, the Company received dividends from its subsidiary undertakings of £4,002 million. Included within this amount was £2,734 million relating to gains made by an intermediate holding company following the transfer at fair value of certain of its subsidiaries to other parts of the Group as part of an internal restructuring exercise. Because the gains relate to intragroup transactions, the amount of £2,734 million is not able to be regarded as part of the distributable reserves of the parent company. Under English company law, Prudential may pay dividends only if sufficient distributable reserves of the Company are available for the purpose and if the amount of its net assets is greater than the aggregate of its called up share capital and undistributable reserves (such as for example the share premium account) and the payment of the dividend does not reduce the amount of its net assets to less than that aggregate. At 31 December 2011, the UK GAAP retained earnings of the holding company from which distributable reserves may be derived were £5,357 million.

A reconciliation of the movement in shareholders' funds of the Company for the years ended 31 December 2011 and 2010 is given below:

	2011 £m	2010 £m
Profit for the year ^{note 4}	3,720	881
Dividends	(642)	(511)
	3,078	370
Actuarial losses recognised in respect of the pension scheme net of related tax ^{note 9}	(12)	(10)
Share-based payments ^{note 5}	7	6
New share capital subscribed ^{note 10}	17	75
Net increase in shareholders' funds	3,090	441
Shareholders' funds at beginning of year	4,267	3,826
Shareholders' funds at end of year ^{note 4}	7,357	4,267

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12 Other information

- a Information on directors' remuneration is given in the directors' remuneration report section of this Annual Report and note I5 'Key management remuneration' of the Group financial statements.
- b Information on transactions of the directors with the Group is given in note I7 'Related party transactions' of the Group financial statements.
- c The Company employs no staff.
- d Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2010: £0.1 million). The Company paid no fees for other services (2010: £6.0 million).
- e In certain instances the Company has guaranteed that its subsidiaries will meet their obligations when they fall due for payment.

13 Post balance sheet events

In January 2012, as part of an internal restructuring, the Company transferred at fair value interests of £3,889 million in shares in a central subsidiary and £2,007 million in loans to a second such subsidiary to another central subsidiary in exchange for shares issued by that subsidiary. No profit or loss arose on the transfers.

Subject to shareholders' approval, a final dividend for 2011 of 17.24 pence per ordinary share will be paid on 24 May 2012 in sterling to shareholders on the principal and Irish branch registers at 6.00pm BST on Friday, 30 March 2012 (the 'Record Date'), and in Hong Kong dollars to shareholders on the Hong Kong branch register at 4.30pm Hong Kong time on the Record Date ('HK Shareholders').

Holders of US American Depositary Receipts will be paid their dividend in US dollars on or about five days after the payment date of the dividend to shareholders on the principal register. The dividend will be paid on or about 31 May 2012 in Singapore dollars to shareholders with shares standing to the credit of their securities accounts with The Central Depository (Pte) Limited (CDP) at 5.00pm Singapore time on the Record Date ('SG Shareholders').

The dividend payable to the HK Shareholders will be translated at the exchange rate ruling at the close of business on 12 March 2012. The exchange rate at which the dividend payable to the SG Shareholders will be translated will be determined by the CDP.

The dividend will distribute an estimated £439 million of shareholders' funds. In line with 2010, shareholders on the principal register and Irish branch register will be able to participate in a Dividend Reinvestment Plan.