Notes on the parent company financial statement

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 the UK, the US and Asia. The Group operates in the UK through its subsidiaries, primarily The Prudential Assurance Company Limited, Prudential Annuities Limited, Prudential Retirement Income Limited, M&G Group Limited and Egg Banking plc. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company. In Asia, the Group's main operations are in Hong Kong, Malaysia, Singapore and Taiwan.

The Company is responsible for the financing of each of its subsidiaries except Egg, which is responsible for its own financing.

2. Basis of preparation

The financial statements of the Company, which comprise the balance sheet and related notes, are prepared in accordance with Section 226 of, and Schedule 4 to, the Companies Act 1985, which apply to companies generally. The Company has taken advantage of the exemption under Section 230 of the Companies Act 1985 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 is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Group or investees of the Group.

In addition, the Company has taken advantage of the exemption within FRS 25, 'Financial Instruments: Disclosure and Presentation' from the disclosure requirements of this standard on the basis that the Company is included in the publicly available consolidated financial statements of the Group which include disclosures that comply with IAS 32, 'Financial Instruments: Disclosure and Presentation', which is equivalent to FRS 25.

3. Significant accounting policies

Changes in accounting policies
The Company has early adopted the amendment to FRS 17 issued in December 2006 in preparing the results for the year ended 31 December 2006. The main effect of this amendment is to replace the existing disclosure requirements of FRS 17 with those of IAS 19 'Employee Benefits'. The amended disclosures are shown in note 8. The measurement change from this amendment where pension assets should now be valued at current bid value rather than mid-market value, has an immaterial effect on the Company's results.

Significant accounting policies
Shares in subsidiary undertakings
Shares in subsidiary undertakings in the balance sheet of the Company are shown at the lower of cost and estimated realisable value.

Loans to subsidiary undertakings
Loans to subsidiary undertakings in the balance sheet of the Company are shown at cost, less provisions.

Derivatives
Derivative financial instruments are used to reduce or manage interest rate and currency exposures. The Company's policy is that amounts at risk through derivative transactions are covered by cash or by corresponding assets. 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 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 related issue costs) is amortised through the profit and loss account to the date of maturity.

Dividends
Dividends are recognised in the period in which they are declared. Dividends declared after the balance sheet date in respect of the prior reporting period are treated as a non-adjusting event.

Where scrip dividends are issued, the value of such shares, measured as the amount of the cash dividend alternative, is credited to reserves and the amount in excess of the nominal value of the shares issued is transferred from the share premium account to retained profit.

Notes on the parent company financial statement continued

3. Significant accounting policies continued

Share premium

The difference between the proceeds received on issue of shares, net of issue costs, 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. 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 largest pension scheme, the Prudential Staff Pension Scheme (PSPS). Further details are disclosed in note 8. The Company applies the requirements of FRS 17 (as amended in December 2006) to its portion of PSPS surplus or deficit.

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 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 cashflows are then discounted at a high quality corporate bond rate 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, less the expected investment return on the scheme assets at the start of the period, is recognised in the profit and loss account.

Actuarial gains and losses as a result of the changes in assumptions, the difference between actual and expected investment return on scheme assets or experience variances are recorded in the statement of total recognised gains and losses.

4. Investments of the Company

	Shares in subsidiary undertakings 2006 £m	Loans to subsidiary undertakings 2006 £m
At beginning of year	**5,175**	**2,697**
Impairment provision against investment in Egg	**(301)**	–
Other impairment provision	**(10)**	–
Additional investment in subsidiary undertakings*	**1,221**	–
Exchange rate movements	–	**(2)**
Net advance of loans	–	**197**
Provision against loans	–	**(51)**
At end of year	**6,085**	**2,841**

* This amount principally comprises increases in the carrying value of subsidiaries consequent to an internal corporate reorganisation and the purchase of the Egg minority interests.

5. Subsidiary undertakings

The principal subsidiary undertakings of the Company at 31 December 2006, all wholly owned except PCA Life Assurance Company Limited, 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*	Investment management	England and Wales
Egg Banking plc	Banking	England and Wales
Jackson National Life Insurance Company*	Insurance	US
Prudential Assurance Company Singapore (Pte) Limited*	Insurance	Singapore
PCA Life Assurance Company Limited* (99% owned)	Insurance	Taiwan

* 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.

Egg Banking plc was a subsidiary of Egg plc. At 31 December 2005, the ordinary shares of Egg plc were listed and there was only one class of shares of which 78 per cent was owned by the Company, one per cent owned by other companies within the Prudential Group and 21 per cent owned by shareholders external to the Prudential Group.

In December 2005, the Company announced its intention to acquire the minority interests in Egg and the whole of those interests were acquired in the first half of 2006. Under the terms of the offer, Egg shareholders received 0.2237 new ordinary shares in the Company for each Egg share resulting in the issue of 41.6 million new shares in the Company.

In January 2007, the Company announced that it had entered into a binding agreement to sell Egg Banking plc to Citi, as set out in note 14.

Notes on the parent company financial statement continued

6. Borrowings

	Long-term loans 2006 £m	Long-term loans 2005 £m	Other borrowings 2006 £m	Other borrowings 2005 £m	Total 2006 £m	Total 2005 £m
Core structural borrowings:						
£249m 5.5% Bonds 2009 (note i)	**248**	249	**–**	–	**248**	249
€500m 5.75% Subordinated Notes 2021 (note ii)	**335**	341	**–**	–	**335**	341
£300m 6.875% Bonds 2023	**300**	300	**–**	–	**300**	300
£250m 5.875% Bonds 2029	**249**	249	**–**	–	**249**	249
£435m 6.125% Subordinated Notes 2031	**427**	426	**–**	–	**427**	426
US$1,000m 6.5% Perpetual Subordinated Capital Securities (note iii)	**484**	554	**–**	–	**484**	554
US$250m 6.75% Perpetual Subordinated Capital Securities (note iv)	**125**	142	**–**	–	**125**	142
US$300m 6.5% Perpetual Subordinated Capital Securities (notes iv and v)	**149**	169	**–**	–	**149**	169
€20m Medium Term Subordinated Notes 2023 (note vi)	**13**	14	**–**	–	**13**	14
Total core structural borrowings	**2,330**	2,444	**–**	–	**2,330**	2,444
Other borrowings (note vii):						
Commercial paper	**–**	–	**2,017**	1,461	**2,017**	1,461
Floating Rate Notes 2007	**–**	–	**5**	–	**5**	–
Medium Term Notes 2010	**–**	–	**10**	11	**10**	11
Total borrowings	**2,330**	2,444	**2,032**	1,472	**4,362**	3,916

	Long-term loans 2006 £m	Long-term loans 2005 £m	Other borrowings 2006 £m	Other borrowings 2005 £m	Total 2006 £m	Total 2005 £m
Borrowings are repayable as follows:						
Within 1 year or on demand	**–**	–	**2,022**	1,461	**2,022**	1,461
Between 2 and 5 years	**248**	249	**10**	11	**258**	260
After 5 years	**2,082**	2,195	**–**	–	**2,082**	2,195
Total borrowings	**2,330**	2,444	**2,032**	1,472	**4,362**	3,916

	2006 £m	2005 £m
Recorded in the balance sheet as:		
Subordinated liabilities	**1,533**	1,646
Debenture loans	**797**	798
	2,330	2,444

Notes

(i) In February 2006, £1.3 million of the original bond issue of £250 million was redeemed.

(ii) The €500 million 5.75 per cent borrowings have been swapped into borrowings of £333 million with interest payable at six month £Libor plus 0.962 per cent.

(iii) Interest on the US$1,000 million 6.5 per cent borrowings has been swapped into floating rate payments at three month US$Libor plus 0.80 per cent.

(iv) These debts are exchangeable into preference shares at Prudential's option.

(v) Interest on the US$300 million 6.5 per cent borrowings has been swapped into floating rate payments at three month US$Libor plus 0.0225 per cent.

In 2006, the borrowings have been designated for hedge accounting at the Group consolidated level, but not at the Company level.

(vi) The €20 million Medium Term Subordinated Notes were issued at 20-year Euro Constant Maturity Swap (capped at 6.5 per cent). These have been swapped into borrowings of £14 million with interest payable at three month £Libor plus 1.2 per cent.

(vii) These borrowings support a short-term fixed income securities programme.

(viii) Under the terms of the Group's arrangements with its main UK banker, the bank has a right of set off between credit balances (other than those of long-term funds) and all overdrawn balances of those Group undertakings with similar arrangements.

(ix) 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.

7. Derivative financial instruments

The table below analyses the fair value of derivatives of the Company at 31 December:

	2006		2005	
	Fair value assets £m	**Fair value liabilities £m**	Fair value assets £m	Fair value liabilities £m
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	**12**	**27**	29	22
Cross-currency swaps	**5**	**2**	12	2
Inflation-linked swap	**–**	**67**	–	82
Forward foreign currency contracts	**–**	**4**	–	38
Total	**17**	**100**	41	144

The change in fair value of the derivative financial instruments of the Company was a gain before tax of £131 million (2005: a loss before tax of £85 million).

The Company has a US$1,000 million fair value hedge in place which hedges the interest exposure on the US$1,000 million 6.5 per cent perpetual subordinated capital securities. During 2006, the Company entered into a transaction to extend the term of the interest-rate swap of this hedging relationship from 30 years to 50 years.

The derivative financial instruments were 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.

8. 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 (PSPS). This scheme is primarily a defined benefit scheme but no employees with employment offers after 31 July 2003 are eligible for membership of the defined benefit section of the scheme. At 31 December 2006, on the FRS 17, 'Retirement Benefits' basis of valuation, PSPS accounts for 88 per cent (2005: 89 per cent) of the liabilities of the Group's defined benefit schemes.

For the purposes 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 apply UK GAAP. For 2006, this includes the early adoption of the amendment to FRS 17 issued in December 2006 which aligns the FRS 17 disclosures with IAS 19.

During 2005, the allocation of surpluses and deficits attaching to PSPS between the Company and the unallocated surplus of the Prudential Assurance Company's (PAC) with-profits funds was clarified. The surpluses or deficits of PSPS have been apportioned based on the weighted cumulative activity attaching to the contributions paid into the scheme in the past. Prior to 2005, 20 per cent of the deficit has been attributed to the Company and 80 per cent to the PAC with-profits fund. At 31 December 2005, the deficit of PSPS 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 has continued to be applied for 2006 to movements in the financial position that relate to opening assets and liabilities. However, the FRS 17 service charge and ongoing employer contributions, are allocated by reference to the cost allocation for current activity.

The projected unit method was used for the most recent full actuarial valuation. 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. PSPS was last actuarially valued as at 5 April 2005 and this valuation demonstrated the scheme to be 94 per cent funded, with a shortfall of actuarially determined assets to liabilities of six per cent, representing a deficit of £243 million.

The finalisation of the valuation as at 5 April 2005 was accompanied by changes to the basis of funding for the scheme. For 2006 and future years, deficit funding amounts designed to eliminate the actuarial deficit over a 10-year period have been and are being made. Total contributions to the scheme for deficit funding and employer contributions for ongoing service for current employees are expected to be of the order of £70 to 75 million per annum over a 10-year period. However, in 2006, total contributions for the year to 5 April 2006 were £137 million. This amount reflects the increased level of current contributions for ongoing service and deficit funding backdated to 6 April 2005. These amounts compared to total contributions in 2005 of £19 million.

Using external actuarial advice provided by the professionally qualified actuaries, Watson Wyatt Partners, for the valuation of PSPS, the most recent full valuations have been updated to 31 December 2006 applying the principles prescribed by FRS 17.

Notes on the parent company financial statement continued

8. Pension scheme financial position continued

The key assumptions adopted were:

	2006 %	2005 %
Price inflation	**3.0**	2.8
Rate of increase in salaries	**5.0**	4.8
Rate of increase in pension payments for inflation:		
Guaranteed (maximum 5%)	**3.0**	2.8
Guaranteed (maximum 2.5%)	**2.5**	2.5
Discretionary	**2.5**	2.5
Rate used to discount scheme liabilities	**5.2**	4.8

Long-term expected rate of return

	2006 %	2005 %
Equities	**7.5**	7.1
Bonds	**4.9**	4.5
Properties	**6.8**	6.4
Other assets	**5.0**	4.5
Weighted average long-term expected rate of return	**5.9**	6.1

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.

Further details on the PSPS scheme, including mortality assumptions, are shown in note I1 'Staff and Pension Plans' of the notes on the financial statements of the Group.

The assets and liabilities of PSPS were:

	31 Dec 2006		31 Dec 2005		31 Dec 2004	
	Value £m	%	Value £m	%	Value £m	%
Equities	**1,346**	**28.3**	2,293	52.1	2,366	62.1
Bonds	**2,077**	**43.8**	1,490	33.9	898	23.6
Properties	**580**	**12.2**	539	12.3	490	12.9
Other assets	**745**	**15.7**	75	1.7	56	1.4
Total value of assets	**4,748**	**100.0**	4,397	100.0	3,810	100.0
Present value of scheme liabilities	**4,607**		4,776		4,399	
Surplus (deficit) in the scheme	**141**		(379)		(589)	
Allocated as:						
Attributable to the PAC with-profits fund	**93**		(265)		(470)	
Attributable to the Company	**48**		(114)		(119)	
	141		(379)		(589)	
After deducting deferred tax, the amounts reflected in the balance sheet of the Company are:	**34**		(80)		(83)	

The change in the present value of the scheme liabilities and the change in the fair value of the assets is as follows:

	2006 £m	2005 £m
Present value of scheme liabilities, beginning of year	**4,776**	4,399
Service costs – current	**47**	44
Service costs – past	**–**	(115)
Interest	**226**	228
Employee contributions	**1**	0
Actuarial (gains) losses	**(249)**	405
Benefit payments	**(194)**	(185)
Present value of scheme liabilities, end of year	**4,607**	4,776

8. Pension scheme financial position continued

	2006 £m	2005 £m
Fair value of pension scheme assets, beginning of year	**4,397**	3,810
Expected return on pension scheme assets	**266**	253
Employee contributions	**1**	0
Employer contributions*	**137**	19
Actuarial and other gains	**141**	500
Benefit payments	**(194)**	(185)
Fair value of pension scheme assets, end of year	**4,748**	4,397

*The contributions include deficit funding and ongoing contributions.

Pension charge and actuarial gains (losses) of PSPS

	2006 £m	2005 £m
Pension charge		
Operating charge:		
Current service cost	**(47)**	(44)
Past service cost	**–**	115
Finance income (expense):		
Interest on pension scheme liabilities	**(226)**	(228)
Expected return on pension scheme assets	**266**	253
	40	25
Total pension (charge) credit	**(7)**	96
Less: amount attributable to the PAC with-profits fund	**(6)**	(67)
Pension (charge) credit attributable to the Company	**(13)**	29

	2006 £m	2005 £m	2004 £m
Actuarial gains (losses)			
Actual less expected return on scheme assets (3% (2005: 11%) (2004: 3%) of assets)	**141**	500	104
Experience gains (losses) on scheme liabilities (0% (2005: 0%) (2004: 1%) of liabilities)	**17**	–	(25)
Changes in assumptions underlying the present value of scheme liabilities*	**232**	(405)	(128)
Total actuarial gains (losses) (9% (2005: 2%) (2004: (1)%) of the present value of the scheme liabilities)	**390**	95	(49)
Less: amount attributable to PAC with-profits fund	**(272)**	(66)	39
	118	29	(10)
Less: additional losses on change of estimate of allocation of opening PSPS deficit between the Company and the PAC with-profits fund	**–**	(59)	–
Actuarial gains (losses) attributable to the Company	**118**	(30)	(10)

*In 2006, a £37 million actuarial loss was recognised relating to the measurement of the death-in-service benefits.

The total actual return on scheme assets for PSPS was £407 million (2005: £753 million).

The actuarial gains before tax of £118 million (2005: actuarial losses of £30 million) attributable to the Company are recorded in the statement of total recognised gains and losses. Cumulative actuarial gains as at 31 December 2006 amount to £143 million (2005: £25 million).

The additional loss of £59 million in 2005 reflects the changed estimate of allocation in the deficit of PSPS from a ratio of 20/80 between the Company and the PAC with-profits fund prior to 2005 to a ratio of 30/70 from 2005 onwards.

Total employer contributions expected to be paid into the PSPS defined benefit scheme for the year ended 31 December 2007 amount to £75 million.

Notes on the parent company financial statement continued

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9. Share capital and share premium

The authorised share capital of the Company is £220 million (2005: £170 million) (divided into 4,000,000,000 (2005: 3,000,000,000) ordinary shares of 5 pence each and 2,000,000,000 sterling preference shares of 1 pence each) and US$20 million (divided into 2,000,000,000 US dollar preference shares of 1 cent each) and €20 million (divided into 2,000,000,000 Euro preference shares of 1 cent each). None of the preference shares has been issued. A summary of the ordinary shares in issue is set out below:

Issued shares of 5 pence each fully paid	Number of shares	Share capital 2006 £m	Share premium 2006 £m
At beginning of year	2,386,784,266	119	1,564
Shares issued under share option schemes	2,953,552	–	15
Shares issued in lieu of cash dividends	12,940,993	1	75
Shares issued in respect of acquisition of Egg minority interests	41,633,614	2	243
Transfer to retained profit in respect of shares issued in lieu of cash dividends	–	–	(75)
At end of year	2,444,312,425	122	1,822

At 31 December 2006, there were options subsisting under share option schemes to subscribe for 10,722,274 (2005: 12,503,956) shares at prices ranging from 266 pence to 715 pence (2005: 266 pence to 715 pence) and exercisable by the year 2013 (2005: 2012). In addition, there were 4,113,481 (2005: 4,668,534) conditional options outstanding under the Restricted Share Plan exercisable at nil cost in the balance of a 10-year period. No further options will be issued under the Restricted Share Plan which has been replaced by the Group Performance Share Plan. There were 1,623,637 (2005: nil) conditional options outstanding under the Group Performance Share Plan exercisable at nil cost in the balance of a 10-year period. Further information on the Group's employee share options is given in note I2 'Share-based payments' of the notes on the financial statements of the Group.

10. Profit of the Company and reconciliation of movement in shareholders' funds

The profit after tax of the Company for the year was £834 million (2005: £118 million). After dividends of £398 million (2005: £378 million), actuarial gains net of tax in respect of the pension scheme of £83 million (2005: losses of £21 million) and a transfer from the share premium account of £75 million (2005: £51 million) in respect of shares issued in lieu of cash dividends, retained profit at 31 December 2006 amounted to £1,368 million (2005: £774 million). The Company employs no staff.

Fees payable to the Company's auditor for the audit of the Company's annual accounts were £0.1 million (2005: £0.1 million). In addition, the Company paid fees for other services of £0.6 million (2005: £0.6 million), which were wholly for services relating to corporate finance transactions.

A reconciliation of the movement in the shareholders' funds of the Company for the years ended 31 December 2006 and 2005 is given below:

	2006 £m	2005 £m
Profit for the year	**834**	118
Dividends	**(398)**	(378)
	436	(260)
Actuarial gains (losses) recognised in respect of the pension scheme net of related tax (note 8)	**83**	(21)
New share capital subscribed (note 9)	**336**	55
Net movement in shareholders' funds	**855**	(226)
Shareholders' funds at beginning of year	**2,457**	2,683
Shareholders' funds at end of year	**3,312**	2,457

11. Directors' remuneration

Information on directors' remuneration is given in the directors' remuneration report section within this Annual Report. Further information on the transactions of the directors with the Company and the Group is given in notes I3 'Key management remuneration' and I5 'Related party transactions' of the notes on the financial statements of the Group.

12. Dividends

A final dividend of 11.72 pence per share was proposed by the directors on 14 March 2007. Subject to shareholders' approval, the dividend will be paid on 22 May 2007 to shareholders on the register at the close of business on 13 April 2007. The dividend will absorb an estimated £287 million of shareholders' funds. A scrip dividend alternative will be offered to shareholders.

13. Guarantees

The Company provides a guarantee for the £150 million principal amount of the 9.375 per cent bonds due 2007, which have been issued by one of its finance subsidiaries. In certain instances the Company has also guaranteed that other subsidiaries will meet their obligations when they fall due for payment.

14. Post-balance sheet events

On 29 January 2007, the Company announced that it had entered into a binding agreement to sell Egg Banking plc, Prudential's UK banking business, to Citi. Under the terms of the agreement, the consideration payable to the Company by Citi is £575 million in cash, subject to adjustment to reflect any change in net asset value between 31 December 2006 and completion. As a consequence of this agreement, it is appropriate to impair the carrying value of the Company's investment by £301 million as shown in note 4.

The transaction is subject to regulatory approvals and is expected to complete by the end of April 2007.