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 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 and M&G Investment Management Limited. In the US, the Group's principal subsidiary is Jackson National Life Insurance Company. The Group also has operations in Hong Kong, Malaysia, Singapore, Indonesia and other Asian countries. 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 amendments to FRS 20 'Group cash settled share-based payment transactions' which expanded FRS 2 to bring into scope group cash-settled share-based payment transactions became effective for the Company in 2010. These amendments incorporated the guidance in UITF 41, 'Scope of FRS 20' and UITF 44, 'Group and Treasury Share Transactions' which were withdrawn as a result. In particular, the amendments specify that the entity which has the obligation to settle the share-based payment arrangement shall recognise it as an 'equity-settled transaction' if it is settled in its own equity instruments and as 'cash-settled transaction' otherwise, no matter which entity in the Group receives the goods or service in the arrangement. The Company's share-based payment accounting treatment prior to 2010 was consistent with these amendments and accordingly, there was no impact on the Company's results and financial position upon the adoption of these amendments.

In addition, following the UK Government's announcement in July 2010 of the use of the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) in its determination of the statutory minimum pension increases for private sector occupational pension schemes, in December 2010, the ASB's Urgent Issues Task Force (UITF) published its abstract UITF 48 providing guidance on the accounting implications of the change. See note 9 for further details.

Further, in 2010, the Company adopted the Improvements to Financial Reporting Standards 2009, the Amendment to FRS 25 'Financial Instruments: Presentation' – Puttable Financial Instruments and Obligations Arising On Liquidation. Their adoption had no material 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 used to reduce or manage interest rate and currency exposures. Derivative financial instruments are carried at fair value with changes in fair value included in the profit and loss account.

Under FRS 26, 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. 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) and applied the requirements of FRS 17 (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.

	2010 £m	2009 £m
PROFIT AFTER TAX		
Profit for the financial year of the Company in accordance with UK GAAP	881	913
IFRS adjustment	(8)	(5)
Profit for the financial year of the Company (including dividends from subsidiaries) in accordance with IFRS	873	908
Share in the IFRS profit (loss) of the Group, net of distributions to the Company	558	(232)
PROFIT AFTER TAX OF THE GROUP ATTRIBUTABLE TO SHAREHOLDERS IN ACCORDANCE WITH IFRS	1,431	676

	2010 £m	2009 £m
NET EQUITY		
Shareholders' equity of the Company in accordance with UK GAAP	4,267	3,826
IFRS adjustment	(51)	(53)
Shareholders' equity of the Company in accordance with IFRS	4,216	3,773
Share in the IFRS net equity of the Group	3,815	2,498
SHAREHOLDERS' EQUITY OF THE GROUP IN ACCORDANCE WITH IFRS	8,031	6,271

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 £1,318 million and £1,039 million for the years ended 31 December 2010 and 2009, 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 one of the pension schemes 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 profit 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 3, 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

	2010 £m	
	Shares in subsidiary undertakings	Loans to subsidiary undertakings
At 1 January	10,071	899
Transfer of investment in subsidiary undertaking	(667)	–
Additional investment in subsidiary undertakings	6	–
Foreign exchange movement	–	16
Loan repayment	–	(66)
At 31 December	9,410	849

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

The additional investment in subsidiary undertakings relates to share-based payments reflecting the value of payments settled by the Company for the employees of its subsidiary undertakings in 2010.

6: SUBSIDIARY UNDERTAKINGS

The principal subsidiary undertakings of the Company at 31 December 2010, 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.

NOTES ON THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

7: BORROWINGS

	Core structural borrowings		Other borrowings		Total	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m
Core structural borrowings:						
€500m 5.75% Subordinated Notes 2021[note i]	428	443	–	–	428	443
£300m 6.875% Bonds 2023	300	300	–	–	300	300
€20m Medium-Term Subordinated Notes 2023[note ii]	17	18	–	–	17	18
£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	382	380	–	–	382	380
US$1,000m 6.5% Perpetual Subordinated Capital Securities	639	619	–	–	639	619
US$250m 6.75% Perpetual Subordinated Capital Securities[note iii]	160	155	–	–	160	155
US$300m 6.5% Perpetual Subordinated Capital Securities[notes iii, iv]	192	188	–	–	192	188
US$750m 11.75% Perpetual Subordinated Capital Securities	472	456	–	–	472	456
Total core structural borrowings	3,267	3,236	–	–	3,267	3,236
Other borrowings:						
Commercial paper[note v]	–	–	2,311	2,031	2,311	2,031
Medium-Term Notes 2010	–	–	–	7	–	7
Floating Rate Notes 2011[note vi]	–	–	200	200	200	200
Medium-Term Notes 2013[note v]	–	–	249	–	249	–
Total borrowings	3,267	3,236	2,760	2,238	6,027	5,474
Borrowings are repayable as follows:						
Within 1 year or on demand	–	–	2,511	2,238	2,511	2,238
Between 1 and 5 years	–	–	249	–	249	–
After 5 years	3,267	3,236	–	–	3,267	3,236
	3,267	3,236	2,760	2,238	6,027	5,474
Recorded in the balance sheet as:						
Subordinated liabilities[note vii]	2,718	2,687				
Debenture loans	549	549				
	3,267	3,236				

Notes

i 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.

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 and the US$300 million 6.5 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 falling on or after 23 March 2010 and 23 March 2011, respectively into one or more series of Prudential preference shares.

iv Interest on the US$300 million 6.5 per cent borrowings was swapped into floating rate payments but, in 2008, swapped back into fixed rate payments of 6.5 per cent until September 2010. Upon the maturity of the floating to fixed swap in September 2010, the fixed to floating swap was also cancelled. Hedge accounting was applied at both the Group consolidated level and Company level until the cancellation of the fixed to floating interest rate of swap of the US$300 million 6.5 per cent borrowings in September 2010. Due to different dates of commencement of this accounting treatment, the hedge values differed between these two levels.

v These borrowings support a short-term fixed income securities programme.

vi The Company issued £200 million Floating Rate Notes in 2010 which mature in April 2011. 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.

vii 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

	2010 £m		2009 £m	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Derivative financial instruments held to manage interest rate and currency profile:				
Interest rate swaps	13	–	33	8
Cross-currency swaps	99	–	118	–
Inflation-linked swap	–	146	–	128
Total	112	146	151	136

The change in fair value of the derivative financial instruments of the Company was a loss before tax of £33 million (2009: gain before tax of £83 million).

The Company had a US$300 million fair value hedge in place which hedged the interest rate exposure on the US$300 million 6.5 per cent perpetual subordinated capital securities until the hedge was cancelled in September 2010.

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 2010, on the FRS 17, 'Retirement Benefits' basis of valuation, the underlying pension liabilities of the Scheme accounted for 86 per cent (2009: 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 I3 'Staff and pension plans' of the notes on the financial statements of the Group.

At 31 December 2005, the allocation of surpluses and deficits attaching to the Scheme between the Company and the unallocated surplus of the Prudential Assurance Company's (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 2010. 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 Scheme was last actuarially valued as at 5 April 2008 using the projected unit method. The next triennial valuation of the Scheme is scheduled to take place as at 5 April 2011.

The 2008 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, the total contributions to be made by the Group to the Scheme, representing the annual accrual cost and deficit funding, were reduced from the previous arrangement of £70-£75 million per annum to £50 million per annum effective from 1 July 2009. As the Scheme was in a surplus position at the valuation date, no formal recovery plan was required. However, recognising that there had been a significant deterioration in the value of the Scheme's assets from 5 April 2008 to the date of the finalisation of the valuation, an additional funding akin to deficit funding was agreed with the Scheme Trustees subject to a reassessment when the next valuation is completed.

In 2010, total contributions for the year, including expenses and augmentations, were £55 million (2009: £67 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 2010 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:

	2010 %	2009 %
Rate of inflation	3.55	3.7
Rate of increase in salaries	5.55	5.7
Rate of increase in pension payments for inflation:		
Guaranteed (maximum 5%)	3.55	3.7
Guaranteed (maximum 2.5%)	2.5	2.5
Discretionary	2.5	2.5
Rate used to discount Scheme liabilities	5.45	5.8

Long-term expected rate of return:

	Prospectively for 2011 %	2010 %	2009 %
Equities	8.2	8.5	6.8
Bonds	4.6	5.3	4.8
Properties	6.9	6.75	6.1
Other assets	4.75	4.75	2.0
Weighted average long-term expected rate of return	5.1	5.9	4.5

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 Consumer Price Index (CPI) in place of the Retail Price Index (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. In addition, the Government has also published in December 2010 a consultation paper which sets out the Government's views on the impact that the switch from RPI to CPI will have on the private sector occupational pension schemes. The consultation period closed on 2 March 2011.

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

In line with the guidance of UITF 48, the above has no impact on the results for the year ended 31 December 2010. For the Government's announcement to have had an effect on the 2010 results, it would have been necessary for communication of the altered arrangement to have been made to the members of the schemes for which benefits are paid by reference to RPI, as a constructive obligation. No such communication has been completed. Accordingly, the Company has not recognised this change for the year ended 31 December 2010. The impact of the change, if and when made, will be recognised in a future period. However, as the Company is only able to recognise a restricted FRS 17 surplus for the Scheme, any reduction in the underlying 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 notes on the financial statements of the Group.

The assets and liabilities of the Scheme were:

	31 Dec 2010		31 Dec 2009		31 Dec 2008		31 Dec 2007		31 Dec 2006	
	£m	%	£m	%	£m	%	£m	%	£m	%
Equities	548	10.3	830	16.8	823	17.1	1,278	26.1	1,346	28.3
Bonds	3,864	72.2	3,406	68.8	2,430	50.6	1,134	23.2	2,077	43.8
Properties	199	3.7	272	5.5	283	5.9	545	11.2	580	12.2
Cash-like investments	740	13.8	441	8.9	1,267	26.4	1,932	39.5	745	15.7
Total value of assets	5,351	100.0	4,949	100.0	4,803	100.0	4,889	100.0	4,748	100.0
Present value of Scheme liabilities	4,866		4,436		4,075		4,361		4,607	
Underlying surplus in the Scheme	485		513		728		528		141	
Surplus in the Scheme recognised by the Company	56		52		50		163		48	
Amount reflected in the balance sheet of the Company, net of deferred tax	41		37		36		117		34	

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:

	2010 £m	2009 £m
Present value of Scheme liabilities, at 1 January	4,436	4,075
Service costs	25	23
Interest costs	251	242
Employee contributions	1	2
Actuarial losses	369	315
Benefit payments	(216)	(221)
Present value of Scheme liabilities, at 31 December	4,866	4,436

	2010 £m	2009 £m
Fair value of Scheme assets, at 1 January	4,949	4,803
Expected return on Scheme assets	287	213
Employee contributions	1	2
Employer contributions*	55	67
Actuarial gains	275	85
Benefit payments	(216)	(221)
Fair value of Scheme assets, at 31 December	5,351	4,949

* 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):	2010 £m	2009 £m
Operating charge:		
Service costs	(25)	(23)
Finance income (expense):		
Interest on Scheme liabilities	(251)	(242)
Expected return on Scheme assets	287	213
	36	(29)
Total pension credit (charge) of the Scheme	11	(52)
Pension charge attributable to the Company	(6)	(25)

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.

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Actuarial gains (losses):					
Actual less expected return on Scheme assets (5% (2009: 2%) (2008: 5%) (2007: 0%) (2006: 3%) of assets)	275	85	(259)	(12)	141
Experience gains (losses) on Scheme liabilities (0% (2009: 1%) (2008: 3%) (2007: 0%) (2006: 0%) of liabilities)	1	59	127	(10)	17
Changes in assumptions underlying the present value of Scheme liabilities	(370)	(374)	200	324	232
Total actuarial (losses) gains (2% (2009: 5%) (2008: 2%) (2007: 7%) (2006: 8%) of Scheme liabilities)	(94)	(230)	68	302	390
Actuarial (losses) gains attributable to the Company	(14)	(3)	(143)	91	118

The total actual return on Scheme assets was a gain of £562 million (2009: £298 million).

The experience gains on Scheme liabilities in 2008 of £127 million related mainly to the 'true-up' reflecting improvements in data consequent upon 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 2010, the actuarial losses attributable to the Company included an amount credited of £14 million (2009: £66 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 £14 million (2009: £3 million) attributable to the Company are recorded in the statement of total recognised gains and losses. Cumulative actuarial gains as at 31 December 2010 amount to £74 million (2009: £88 million).

Total employer contributions expected to be paid into the Scheme for the year ending 31 December 2011 amount to £54 million, reflecting the annual accrual cost and deficit funding, and expenses.

10: SHARE CAPITAL AND SHARE PREMIUM

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

	2010		
Issued shares of 5 pence each fully paid	**Number of ordinary shares**	**Share capital £m**	**Share premium £m**
At 1 January	2,532,227,471	127	1,843
Shares issued under share option schemes	2,455,227	–	13
Shares issued in lieu of cash dividends	10,911,808	–	62
Reserve movements in respect of shares issued in lieu of cash dividends	–	–	(62)
At 31 December	2,545,594,506	127	1,856

At 31 December 2010, there were options to subscribe for 12,802,482 (2009: 12,230,833) shares at prices ranging from 288 pence to 572 pence (2009: 266 pence to 572 pence) and exercisable by the year 2016 (2009: 2016). Further information on the Group's employee share options is given in note I4 'Share-based payments' of the notes on the financial statements of the Group.

11: PROFIT OF THE COMPANY AND RECONCILIATION OF THE MOVEMENT IN SHAREHOLDERS' FUNDS

The profit after tax of the Company for the year was £881 million (2009: £913 million). After dividends of £511 million (2009: £481 million), actuarial losses net of tax in respect of the pension scheme of £10 million (2009: £2 million), share-based payment credits of £6 million (2009: £10 million) and scrip dividends of £62 million (2009: £136 million), retained profit at 31 December 2010 amounted to £2,284 million (2009: £1,856 million).

A reconciliation of the movement in shareholders' funds of the Company for the years ended 31 December 2010 and 2009 is given below:

	2010 £m	**2009** £m
Profit for the year[note4]	881	913
Dividends	(511)	(481)
	370	432
Actuarial losses recognised in respect of the pension scheme net of related tax[note9]	(10)	(2)
Share-based payments[note5]	6	10
New share capital subscribed[note10]	75	141
Net increase in shareholders' funds	441	581
Shareholders' funds at beginning of year	3,826	3,245
Shareholders' funds at end of year	4,267	3,826

NOTES ON THE PARENT COMPANY FINANCIAL STATEMENTS CONTINUED

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 notes on the financial statements of the Group.
b Information on transactions of the directors with the Group is given in note I7 'Related party transactions' of the notes on the financial statements of the Group.
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 (2009: £0.1 million). In addition, the Company paid fees for other services of £6.0 million (2009: £0.2 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 2011, the Company issued US$550 million 7.75% Tier 1 subordinated debt, primarily to retail investors. The proceeds, net of costs, were US$539 million and are intended to finance the repayment of the €500m Tier 2 subordinated debt in December 2011.

Following the Board's decision to rebase the dividend upwards and subject to shareholders' approval, a final dividend for 2010 of 17.24 pence per ordinary share will be paid on 26 May 2011 in sterling to shareholders on the principal and Irish branch registers at 6.00pm BST on Friday, 1 April 2011 (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 2 June 2011 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 8 March 2011. 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. The scrip dividend alternative is not being offered in respect of this dividend. In its place, shareholders will be offered a Dividend Reinvestment Plan (DRIP).