Your Guide

Prudential Investment Bond

Retirement has more potential with PRUDENTIAL

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Congratulations on starting a Prudential Investment Bond. Prudential has already earned the trust of 7 million* customers in the UK, so you can relax in the knowledge that we work as hard as we can to make the most of your money. At Prudential, the customer always comes first.

We've designed this booklet for you to keep as a guide to your Prudential Investment Bond. It should cover a lot of the questions that might arise as time goes by, but if you have any queries or problems – now or in the future – that you can't find the answers to, don't hesitate to contact us. Our contact details are on page 11.

* Source: Prudential, December 2008

Documentation at a glance

The documentation accompanying this booklet is made up as follows:

› **Acceptance Notice**

Confirmation that your application has been accepted.

› **Personal Quotation**

A quotation specifically related to your individual Bond.

Policy Document

› **Schedule**

This sets out the details of your contract as proposed on the application form.

› **Provisions**

These set out the general terms of the contract.

Right to Cancel Forms

These explain your right to withdraw from the contract within 30 days of receiving the cancellation notice if you so wish. Any money you have paid to Prudential would be returned in full. If you do not change your mind, no action is necessary on your part.

Alternatively, if you pay only monthly premiums and you decide within the first 3 months of the commencement date of your Bond that you do not want to continue paying premiums, you can cancel your Bond and receive a full refund of the premiums paid (without interest). This additional right to cancel your Bond does not apply if you pay a lump sum or increase your monthly payments within the first 3 months of taking out your Bond.

To cancel your Bond, you must inform us that you have changed your mind and claim your refund within 2 months of the date of the last monthly premium paid. Otherwise, you will not be eligible to receive a refund.

About your policy

If you are making both regular savings and a lump sum investment you will receive documentation for each of these. References in this booklet to your Bond are to your regular savings and lump sum investment(s) combined.

When you make your first lump sum investment, it will be divided between ten identical policies (covered by one policy document). This is done to help reduce the potential tax liability if you withdraw part of your investment at any time. Any further lump sum investments will be divided equally between the lump sum policies remaining in force at the time.

Prudential Investment Bond is a unitised with-profits whole of life assurance contract catering for both lump sums and regular savings.

Unitised

When you invest money in the Bond we use it to buy units at the offer (buying) price in Prudential's With-Profits Fund. The price of these units is calculated daily. When you make a withdrawal or close your Bond you are effectively 'cashing in' these units at their bid (selling) price which is 94% (subject to rounding) of the offer price. An additional (final) bonus may be added, a Withdrawal Charge and/or Early Cash-in Charge may be deducted, and a Market Value Reduction may be applied; these are explained in this document. Final Bonus may vary and is not guaranteed.

With-Profits

Prudential Investment Bond is a with-profits contract. This means that your savings (less charges) will be increased by a share of the profits of the With-Profits Fund. These profits are passed on to you in the form of bonuses.

What is the With-Profits Fund?

The With-Profits Fund is managed by Prudential investment teams who invest your money along with that of millions of other customers. They invest in a wide range of investments, including company shares, property, government bonds, company bonds and deposits.

The With-Profits Fund aims to give returns which take account of the earnings of the underlying investments while, through the bonus system, smoothing the peaks and troughs of investment returns.

The value of an investment may fluctuate and is therefore not guaranteed. You may not get back the full amount of your investment. For investments in the With-Profits Funds, the value of the Policy depends on how much profit the Fund makes and how we decide to distribute it.

If you invest money in the With-Profits Fund and you make a withdrawal at any time, except for a death or terminal illness claim or currently certain regular withdrawals, we may reduce the amount paid or reduce the remaining value of the Bond to reflect the market value, at that time, of the underlying assets. This is known as a Market Value Reduction.

Please see page 6 for more information.

How much will it cost me?

› **Initial Charge**

For lump sum and regular savings, a charge of up to £6 (subject to rounding) is deducted from every £100 you save,this being the difference between the offer and bid prices of units. This charge is made after applying any adjustment for the allocation rate (see table on page 5).

› **Withdrawal Charge – applicable to regular savings**

If, when you cash in your Bond, or at the end of 10 years if earlier, you have saved less than £3,000, your Bond will be subject to a withdrawal charge. This will be £180 (the maximum charge) less 6% of the amount you have saved so far. For a Child's Bond or if your Bond was started by continuing savings from a maturing Prudential policy, the maximum charge is £90 and a withdrawal charge will apply if you have saved less than £1,500.

So, if you have only saved £2,000 when you cash in your Bond (or at the end of 10 years), and your maximum charge is £180, the withdrawal charge will be £180 less £120 (6% of £2,000) = £60.

The charge will be deducted from your Bond by cancelling units. Allowance will be made for any final bonus and a Market Value Reduction may be applied (which would increase the number of units cancelled if the charge is deducted at the end of 10 years).

Once you have saved £3,000 (£1,500 if your maximum charge is £90), whether by regular savings or lump sums, or both, there will be no withdrawal charge.

- **Early Cash-in Charge – applicable to lump sum investments.** If you withdraw money within the first five years from your initial investment or subsequent top-up an Early Cash-In Charge will apply (except on regular withdrawals).

  The level of Early Cash-in Charges applicable is as follows:

Number of years since a lump sum investment	% deduction of the value of units cashed in
Less than 1 year	5
At least 1 but less than 2 years	4
At least 2 but less than 3 years	3
At least 3 but less than 4 years	2
At least 4 but less than 5 years	1
5 years and over	Nil

  Each lump sum is treated as a separate payment when applying the Early Cash-in Charge.

- **Annual Charge** – An annual charge will be deducted from your Bond each year. For the With-Profits Fund, we deduct a charge through the bonus mechanism so you will not see it on any annual statement. Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. For example, if over time investment returns are higher then we would expect to increase the charge, and if investment returns are lower we would expect to reduce the charge.
- **Allocation Rates** – The allocation rate is the percentage of your money that is allocated to your Bond. The larger the allocation rate, the more money we invest on your behalf. The initial charge of 6% is effectively reduced, therefore, as the amount you have saved or invested increases. At the moment, the rates are as follows, but they (and the levels at which they apply) can change over time:

Total invested	Allocation rate
Up to £5,999	100%
£6,000 – £9,999	101%
£10,000 – £19,999	102%
£20,000 – £49,999	103%
£50,000 and over	104%

For regular savings, the allocation rate depends on the total amount you have saved including the payment due. For example, if your monthly saving is £50 and total savings (regular and lump sum) are £9,998 then your next monthly payment would take your total savings past £10,000. The allocation rate for that next payment would be 102% (assuming the current scale for regular payments still applies). This allocation rate would continue to apply until you reach the next threshold or we adjust the scale. It would not be reduced if you make a withdrawal.

For regular savings there is a minimum allocation rate (currently 100%) which is guaranteed while you carry on saving on a regular basis. The guarantee will be assessed separately for any top-ups, so there may be different guarantees within your Bond.

For lump sums, the amount of the lump sum will be added to the total paid and the appropriate allocation rate will apply to the full lump sum and any regular savings payable until the next threshold is reached. There are no guaranteed allocation rates for future lump sums.

How do bonuses work?

The value of your Bond is the amount you have paid in, less charges, plus any bonuses which have been added. There could be a deduction from the value of your Bond when money is withdrawn, to protect the remaining investors (see Market Value Reduction). Two forms of bonus may be added to your Bond.

- **regular bonus**, which is added throughout each year. We can change the rate of regular bonus at any time without prior notice.

  The annual rate of bonus applied to your Bond will depend on the value of your Bond.

- **final bonus**, which may be paid when you take money out of your bond. Final bonus may vary and is not guaranteed.

Further information on Bonuses is contained in our brochure "Your With-Profits Plan – A guide to how we manage the fund". A copy is available on request from our Customer Services Office.

Market Value Reduction

If you take money out of the With-Profits Fund, we may make an adjustment to your bond value if the value of the underlying assets is less than the value of your bond including all bonuses. This adjustment is known as a Market Value Reduction (MVR). It is designed to protect investors who are not taking their money out and its application means that you get a return based on the earnings of the With-Profits Fund over the period your payments have been invested. We apply the MVR to your bond value including regular and final bonuses. If investment returns have been very poor, you may get back less than you have invested in your bond. We do not apply an MVR on any claims due to death or terminal illness.

Our current practice of applying an MVR is as follows:

We may apply an MVR, to full or partial withdrawals, on all investments that have been running for less than five years. For investments that have been running for longer periods, we would consider the application of an MVR on any particular withdrawal where that withdrawal results in the total amount paid out, including any other payments in the previous 12 months, exceeding £25,000. We would only apply the MVR to the withdrawal amount in excess of £25,000 in these circumstances. The impact of an MVR will be to reduce the amount payable on a full withdrawal, or to reduce the remaining value of your bond after a partial withdrawal. We may also apply the MVR to regular automatic withdrawals over a certain limit. Currently this limit is 5% of your Bond value including regular, but not final, bonuses. If regular automatic withdrawals exceed this limit then the whole withdrawal is treated as a partial withdrawal as described above.

We reserve the right to change our practice at any time in particular in the light of a significant move in the investment market or in the event of a significant increase in the level of withdrawals taken by our policyholders.

Any change we make to our practice would be applied without prior notice and would apply to existing bonds as well as to any new bonds or top-ups. However, if we were to reduce the regular automatic withdrawal limit, the new limit would apply only to regular withdrawals starting after the date the change was made or to existing withdrawals when the amount or frequency is altered.

How Flexible are my Savings?

Regular Savings

Regular savings are made monthly by direct debit from your bank or building society.

Increasing the amount you save

You can increase your regular savings or start regular savings (if previously you had invested only lump sums) at any time, provided that you (at least one of you if you have a joint life Bond) are under age 80. The minimum monthly amounts are currently £20* for increasing savings and £50* for starting regular savings. Our contact address is on page 11.

* This amount may change in the future.

Decreasing the amount you save

If unforeseen circumstances mean that you are finding it difficult to continue saving, you can decrease your regular savings, as long as they don't fall below a certain level – this is currently £50* a month. If you do reduce your regular savings we will write to you after six months to remind you to review the level of your savings. If you need to decrease your savings for a while, a contact address is on page 11.

Savings breaks

If you can't save at all for a temporary period, because of redundancy perhaps, you can take a break in saving until you are in a position to start again. You can start saving again at any time. If you take a savings break we will write to you after six months to see if your circumstances have improved and give you the opportunity to start saving again. If you take a break for more than twelve months, our minimum savings requirements at the time you start saving again will apply. If you think you need a savings break, a contact address is on page 11.

Lump sums

You can add a lump sum to your Bond with a personal cheque at any time. However, we do not recommend this if you (both of you, if you have a joint life Bond) are aged 80 or more. If you have a sum you want to invest, a contact address is on page 11. The minimum top-up amount is currently £300*.

The total of your lump sum investments must not exceed a certain amount, which is currently £500,000* (£250,000* for the Child's Bond) per owner.

Child's Bond

The donor pays any regular savings and/or makes any lump sum investments into the Bond until the child reaches at least the age of 16. The child may take over payments at any time after reaching age 16. No age limit applies to the donor when topping-up the Bond.

How can I access my money?

You are free to access your savings at any time†. However, other than for regular withdrawals, Prudential Investment Bond is designed:

- for lump sum investments to be held for at least 5 years before making any withdrawals, although non taxpayers should avoid making any withdrawals for at least 10 years.
- for regular payments to be made for at least 5 years, and the bond to be held for at least 10 years before taking any withdrawals.

Note: Full or one-off withdrawals from any lump sum investment within five years of its payment will be subject to an Early Cash-in Charge.

Please see page 5 for further details. Please also remember that a Market Value Reduction might be applied when you withdraw money from your Bond (see page 6).

If the income or withdrawals are more than any overall growth achieved the value of your Bond will reduce below the level of original capital invested.

Withdrawing money from your Bond (one-off withdrawals)

As far as possible, a one-off withdrawal will be taken from any lump sum policies in force at the time. Generally, the amount will be taken by cashing in fully one policy at a time until the balance is less than the value of any remaining lump sum policy. The balance is then taken from all remaining lump sum policies equally. If these policies include top-ups, this will be done in such a way as to minimise any Market Value Reduction, potential tax liability and Early Cash-in Charges. When all lump sum policies have been fully exhausted, the balance will be taken from the regular savings policy.

It is not possible to select withdrawals from particular lump sum policies or, if present, a regular savings policy.

The minimum that you can withdraw is £200* and the remaining value of the Bond must be at least £1,000*.

If you want to take some money out, a contact address is on page 11.

† For a Child's Bond, this will be for the sole benefit of the child.

* This amount may change in the future.

Automatic regular withdrawals

Provided you have invested at least £6,500* into your Bond (after deducting any one-off withdrawals), you can choose to take regular withdrawals. However, to ensure your investment has a chance to grow and offset the initial charge, there are certain times you must wait (deferment periods) before you take withdrawals. These are shown below.

Allocation rate	Frequency of withdrawals	Deferment period for basic rate and higher rate taxpayers^
%		Months
100 to 102	Monthly	24
	Quarterly/half yearly	30
	Yearly	36
103 and 104	Monthly	18
	Quarterly/half yearly	24
	Yearly	30
105 and 106 (maturity reinvestments only)	Monthly	6
	Quarterly/half yearly	12
	Yearly	18

^ These periods may change in the future.

* This amount may change in the future.

For non-taxpayers the deferment periods for all allocation rates are:

- Monthly withdrawals 24 months
- Quarterly/half yearly withdrawals 30 months
- Yearly withdrawals 36 months

You should be aware that the more you take as regular withdrawals, the more likely you are to erode the amount originally invested.

The deferment periods shown in the table depend on the allocation rate you have received on your investment. The deferment period is the length of time you must wait, after having invested the above total amount, before taking regular withdrawals. In our opinion, any withdrawals should stop and the deferment period start again if you pay a lump sum top-up into your Bond.

The minimum amount of each withdrawal is £50* and the annual amount must not exceed 7.5%* of the amount invested in your Bond, after deducting any one-off withdrawals. However, in our opinion you should not take more than 5% each year.

If the value of your Bond falls below £1,000* automatic withdrawals must stop.

You cannot take regular withdrawals and make regular savings at the same time.

Automatic withdrawal payments are made on the first day of the month.

Automatic withdrawals will be taken equally from any lump sum policies in force. Only after any lump sum policies have been exhausted will the regular savings policy be used.

If you want to arrange automatic withdrawals, a contact address is on page 11.

If you become unable to maintain premium payments on a Prudence Family Cover or Prudence Critical Illness Cover policy, it may be possible to fund them by automatic withdrawals from your Prudential Investment Bond. Please contact us for details, a contact address is given on page 11.

Full withdrawal of the Bond

You can cash in the Bond at any time but in the early years the cash in value of the Bond may not compare favourably with the amount paid in (please see the sections on Charges and Market Value Reduction). If you want to cash in your Bond, a contact address is on page 11.

Compulsory withdrawal

If you started the Bond by saving regularly and at the end of 10 years the value of the Bond is less than £1,000* and you are not making regular savings, we can close your Bond and pay you its value less any Withdrawal Charge, Early Cash-In Charges and any Market Value Reduction.

Child's Bond

While the child is under the age of 16 all payments will be made to the donor (or his or her executors or administrators) and must be used for the absolute benefit of the child. Ownership of the Bond passes to the child at age 16, and from then onwards he or she has the right to surrender the Bond or take withdrawals and all payments will be made to him or her.

What if the worst happens?

Death benefit

On death, your Bond will close and the benefit will be paid to your estate or the trustees if your Bond is held in trust. The death benefit is the full amount you have saved, less any money you have withdrawn, for those policies still in force within the Bond at the date of death, or the value of your Bond plus 1% (whichever is greater). If your Bond is in joint names, on the first death the survivor will own the whole Bond and the benefit will be paid when the second person dies.

Terminal Illness Benefit

If you become terminally ill and diagnosis predicts death within twelve months and is accepted by Prudential we will pay the above death benefit immediately on request so that you can sort out your financial affairs while you are still alive. It may be necessary to undergo a medical examination at your expense by an examiner specified by the Company. The Bond will then be closed. For a Bond in joint names, this applies if one of you has died already, and it is the surviving person whose death is expected within twelve months.

Child's Bond

The benefit on death or terminal illness is as described above and will be paid as follows:

- to the donor (or his or her executors or administrators) if the child is under the age of 16. The proceeds must be used for the absolute benefit of the child or his or her estate.
- to the child (or his or her executors or administrators) if he or she has reached the age of 16.

How will my savings be taxed?

Prudential pays tax on income and capital gains earned within the Fund. The HM Revenue and Customs views this as equivalent to you having paid Capital Gains Tax and Basic Rate Income Tax on the benefits from your Bond. You cannot reclaim any tax if you are a non-taxpayer. Any additional tax liability you may have when a benefit is taken from the Bond will be at a rate up to the difference between the prevailing higher rate of income tax and the basic rate of income tax.

The taxation of benefits when they are paid to you is as follows:

- You do not pay basic rate income tax or Capital Gains Tax on a profit from a policy, but any profit is treated as income for the year in which the profit arises when determining any entitlement to Higher Personal Allowance (previously known as Age Allowance) or certain tax credits (Children's Tax Credit, Working Families Tax Credit, Disabled Persons Tax Credit). Higher rate taxpayers will be liable for income tax on any profit for the year in which the profit arises. If you don't pay tax at the higher rate but adding any profit to your income brings the total over the threshold for higher rate tax, you may be liable for income tax on that part of the profit that falls into the higher rate tax band.
- One-off and regular withdrawals, of up to 5% of the amount saved in a policy year for each year since payment (subject to such withdrawals not exceeding the amount paid in) do not create any immediate tax liability. For example, if £1,000 is held in any particular policy then withdrawals of £50 a year could be made from this policy for 20 years without any immediate tax liability. Any unused part of the 5% allowance can be carried forward to future years. The excess of any one-off and regular withdrawals over the 5% limit is treated as a profit and may cause a liability to higher rate (but not basic rate) tax or reduce any entitlement to Higher Personal Allowance (previously known as Age Allowance) or certain tax credits (Children Tax Credit, Working Families Tax Credit, Disabled Persons Tax Credit).
- On final withdrawal, the profit is any excess of the total amount received from a policy (including any previous withdrawals) over the total amount you have paid. Any parts of one-off and regular withdrawals which have previously been assessed for tax are ignored in the profit calculation. On death, the profit is calculated as if the policy had been cashed in at the date of death.

- The profit is divided by the number of complete years since the start of a policy (or for one-off and regular withdrawals since the last previous taxable excess) and is then added to your taxable income to form a notional 'top slice', ranked as investment income. The rate of tax applicable to this notional 'top slice' is determined, and the excess of this rate over the basic rate of tax is applied to the whole profit. 'Top slicing' is not applied where Higher Personal Allowance (previously known as Age Allowance) or certain tax credits (Children Tax Credit, Working Families Tax Credit, Disabled Persons Tax Credit) are affected.
- For a Bond in joint names any profit is normally divided equally between each of you while you are both alive. If your Bond is in joint names, and you are not husband and wife when the first death occurs, there could then be an Inheritance Tax liability.
- There is no personal liability for tax if a claim is paid due to terminal illness.

Child's Bond

- The tax position for the Child's Bond is similar to that for the adult Bond. The only difference is that the liability for tax depends on the tax status of either the person saving or the child, depending on the circumstances.
- If the child has reached the age of 16 (age 18 or earlier date of marriage if the donor is a parent of the child) when a benefit is paid, any tax is likely to be assessed on the child's income. In other circumstances, the donor's income will determine the amount of tax payable and the donor can keep an amount of the payment from the Bond to meet the tax liability.
- If the donor is being assessed, any profit from the Bond will be treated as income when determining any entitlement to Higher Personal Allowance (previously known as Age Allowance) or certain tax credits (Children's Tax Credit, Working Families Tax Credit, Disabled Persons Tax Credit). Again, the donor may keep an amount of the payment from the Bond to meet the tax liability.

If you are in any doubt about the tax implications of Prudential Investment Bond or the Child's Bond, details are available in the booklet "Taxation of Bonds". Please contact our Customer Services Office if you would like a copy.

The above information is based on our understanding, at May 2009 of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.

Keeping in touch

Every year you will receive an annual statement showing any monthly savings, lump sum investments and withdrawals made over the previous twelve months, together with the current value of the Bond. Simply contact our Customer Services Office if you have any questions.

Full terms and conditions of Prudential Investment Bond are available from our Customer Services Office at

Prudential Investment Bond,
Stirling FK9 4UE.

› How to contact us

If you have any questions or want to make changes to your Bond,

- Call us on: **0845 640 2000**
- Or visit our website: **www.pru.co.uk**
- Or please write to us at: **Prudential Investment Bond, Stirling FK9 4UE.**

Calls may be monitored or recorded for quality and security purposes.

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