

Your With-Profits investments – a guide to how we manage the Fund

International Prudence Bond – The PruFund Range of Funds

This document contains information which is relevant to you as an investor in the PruFund Range of Funds offered by Prudential International Assurance (PIA). Prudential Assurance Company Limited (PAC) accepts reinsurance business from PIA in respect of investments in PIA's PruFund Range of Funds. The premiums received are placed in the Defined Charge Participating Sub-Fund of PAC. This is referred to in this guide as the With-Profits Fund or the Fund.

References to "we", "our" and "us" means The Prudential Assurance Company Limited.

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Your investment in one of the PruFund Range of Funds through International Prudence Bond is a medium to long-term investment that:

- > combines your money with money from other bondholders,
- > invests in the With-Profits Fund and
- > gives you the advantages of a well-balanced mix of investments with some smoothing of investment returns.

It aims to give you the highest possible return over the time you have your bond, while maintaining an acceptable level of risk to the Fund.

Aims of the guide

This guide explains briefly how the With-Profits Fund works and our current approach to managing it.

You may find it useful:

- > when you receive your yearly statements,
- > if you receive an illustration of what you might get back from your bond,
- > if you discuss your bond with a Financial Adviser,

so please keep it in a safe place with your other bond documents.

This guide applies to investors in the Fund via Prudential International's PruFund Range of Funds held within International Prudence Bond.

More detailed and technical information about how we manage the Fund can be found in our Principles and Practices of Financial Management (PPFM) document, which is available on our website www.pru.co.uk. Printed versions are available on request. We will send you a revised copy of this guide if we make any significant changes to our principles or practices of financial management.

What is a With-Profits investment?

- › It is an investment that shares in the profits of the With-Profits Fund.
- › It aims to grow the money invested in your bond over the medium to long term. This should normally be considered as at least ten years.

How does the With-Profits Fund work?

Money from all bondholders is combined and invested in the With-Profits Fund, which has a broad mix of investment types, generally referred to as assets.

Investment performance has the biggest effect on the value of your investment.

What are the Expected Growth Rates and how are they decided?

The Expected Growth Rates, which are published on our website at www.pru.co.uk every quarter, are set by the Prudential Directors having regard to the expected long term investment returns on the assets of the funds.

Your investment will normally benefit from the relevant growth rate on a daily basis, through an increase in the price of the units you hold (known as the unit price).

Like most stockmarket based investments, the value of the underlying funds changes daily, sometimes increasing and sometimes decreasing. We aim to reduce the impact of these movements over the short term by using a smoothing process.

What is smoothing?

To describe the smoothing process we use the terms "unsmoothed" and "smoothed" when referring to prices:

- › unsmoothed price is the value of the underlying 'fund' divided by the total number of units;
- › smoothed price is the same as the unit price. It increases by the Expected Growth Rate as described above.

Every day the smoothing process checks the gap between the smoothed price, which is published, and the unsmoothed price which is not. If at any time the gap is 10% or more, the smoothed price will be adjusted immediately to reduce the gap to 2.5%.

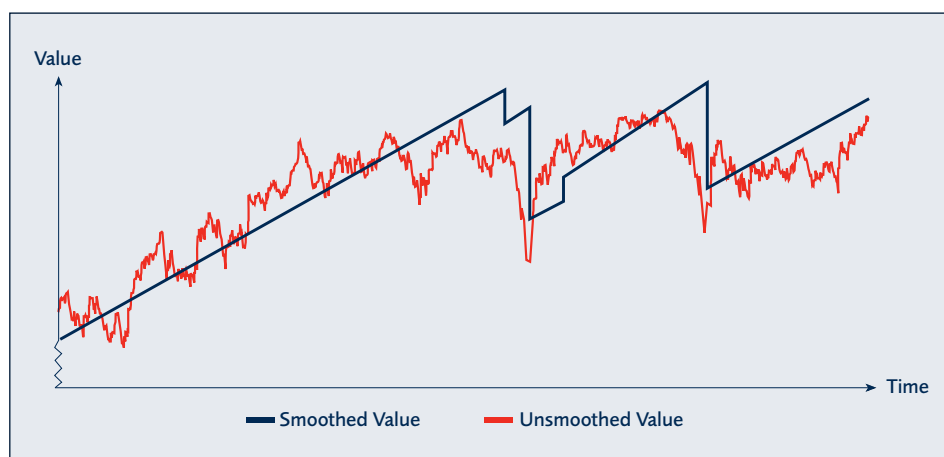
When the Expected Growth Rate is set at the start of each quarter, there is a further smoothing process and if there would be a gap of more than 5%, the smoothed price is adjusted to reduce the gap by half.

Adjustments to the smoothed price can be down or up, depending on whether it is above or below the unsmoothed price. The smoothed price after any adjustment will increase at the Expected Growth Rate for the quarter.

The unsmoothed price is not published. This avoids speculation over possible smoothed price adjustments (as described above) and so protects investors in these funds.

If unusually large volumes of money enter or leave the "fund", we may suspend the smoothing process. When this happens your investment will rise or fall in line with the unsmoothed price until the smoothing process is reinstated.

For more information, please refer to your Contract Conditions.



This graph is for demonstration purposes only and does not represent actual performance or any particular time period. Its sole aim is to explain the smoothing concept.

What may affect the value of your bond?

We aim to be fair to all bondholders by balancing the interests of:

- › holders of different types of bond
- › customers investing at different times
- › bondholders remaining in the Fund and those leaving the Fund.

There are many factors that will affect the amount you get back from your bond. Some of the main ones are:

a) Investment performance

This usually has the biggest impact on the payout from your investment.

It depends on several things, including how much of the Fund we invest in the different types of asset.

The main asset types are:

- › company shares
- › property
- › fixed interest securities
- › deposits

We invest in a wide mix of these assets.

Over time, the relative performance of different types of asset varies a lot. So our expert fund managers may change the asset mix with a view to:

- › improving long-term performance or
- › reducing the risk level of the Fund.

Overall, our investment approach aims to give you the highest possible return while maintaining an acceptable level of risk to the Fund.

b) Smoothing

Smoothing, which is described on page 2, limits the immediate effect of stockmarket ups and downs on what you will get back from your bond.

c) PIA charges

The Key Features document for the International Prudence Bond gives information about the charges.

d) Tax

Currently, there is no tax payable by the Fund on assets backing PIA business other than any unavoidable withholding tax on some dividend income.

What if you decide to move out of these funds?

You may decide to take money from your fund for one of the following reasons:

- › to switch to another type of Prudential International fund
- › to cash in your bond.

If you take money out of your bond in the first few years of any investment, an Early Cash-In Charge will apply. The Key Features document provides details of this charge.

What is the inherited estate?

As a long-established life assurance company, PAC's With-Profits Fund contains an amount of money in excess of the amount they expect to pay out to existing planholders. This is known as the inherited estate. It has built up over many years from a number of sources and it provides working capital, to support current and future business.

There are no plans to distribute the inherited estate to planholders or Prudential shareholders, other than as required as part of the normal smoothing process or to meet guarantees. They have no current intention of closing the With-Profits Fund to new business, but if it did close, the inherited estate would still be needed to support existing business.

Where can you find out more?

For further explanation of the concepts described above and more detail of how they affect investment in Prudential International's PruFund Range of Funds please see "Your guide to investing in the PruFund Range of Funds".

If you want more information about your investment in with-profits, please seek advice from a Financial Adviser.

This guide aims to provide a summary of how the Fund works. However, because we have kept it as short as possible we have given you only the most important information.

We need to warn you that in the absence of all details you will not have a complete picture. If you do need a detailed technical guide to how we manage Prudential's With-Profits business, please refer to our Principles and Practices of Financial Management (PPFM), which is available in English only on our website www.pru.co.uk. Printed versions are available on request.

In the event of any conflict between the two documents, the PPFM will take precedence.

The Money Advice Service gives general information about with-profits policies on its website:

<http://yourmoney.moneyadvice.service.org.uk/products/with-profits/with-profits.html>



www.pru.co.uk/international

The registered office of Prudential International is in Ireland at Montague House, Adelaide Road, Dublin 2. Prudential International is a marketing name of Prudential International Assurance plc. Registration No. 209956. Telephone number +353 1 476 5000. If the Company should become unable to meet its liabilities, the Financial Services Compensation Scheme will protect eligible policyholders habitually resident in the UK when their contract starts, with effect from 1 December 2001. This protection does not extend to externally-linked investments. Prudential International Assurance plc is authorised by the Central Bank of Ireland and is subject to limited regulation by the Financial Services Authority for UK business. Details on the extent of our regulation by the Financial Services Authority are available from us on request.