

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

Prudential Conventional With-Profits Plans

Your With-Profits Plan is a medium to long-term investment that:

- combines your money with money from other **with-profits planholders**
- invests in our With-Profits Fund
- gives you the advantages of a well balanced mix of investments with some smoothing of investment returns.

Words in **bold** are defined in the glossary on page 6.

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

Contents

- Page 2** ➤ What's a with-profits plan?
- How does our With-Profits Fund work?
 - What are bonuses?
 - How are regular bonuses worked out?
- Page 3** ➤ How are final bonuses worked out?
- What's smoothing?
- Page 4** ➤ Is the payout guaranteed?
- What affects the value of your Plan?
- Page 5** ➤ What if you decide to stop paying **premiums** on your assurance Plan?
- What if you decide to vary your pension Plan?
 - What's an inherited estate?
 - Where can you find out more?

Aims of the guide

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

Please keep it in a safe place with your other Plan documents, as you may find it useful:

- when you get your yearly statements
- if you get an illustration of what you might get back from your Plan
- if you discuss your Plan with your adviser

This guide applies to Prudential Conventional With-Profits Plans, which include endowment assurance plans, whole-of-life assurance plans and those pension plans where the benefit is expressed in the form of yearly income. You may get similar guides if you have more than one type of with-profits plan.

There's more detailed information about how we manage our Fund in our Principles and Practices of Financial Management (PPFM) document. This is available on our website: www.pru.co.uk/ppfm

If you'd like a printed version, please call us on 0800 000 000.

We'll send you a revised copy of this guide if we make any significant changes to our principles or practices of financial management.

What's a with-profits plan?

It's a plan that shares in the profits of a with-profits fund, by adding bonuses. See "What are bonuses?" for more information.

We aim to grow your money invested in our With-Profits Fund over the medium to long term. This should normally be considered as at least 10 years.

How does our With-Profits Fund work?

Money from all planholders is combined and invested in our With-Profits Fund, which has a wide range of investment types, generally referred to as assets.

Investment performance usually has the biggest effect on the value of your Plan. But our Fund also takes on other business risks and planholders share in the profits and losses from these. A fuller explanation of how these may affect the value of your Plan is given on page 4.

What are bonuses?

Bonuses are the way you get your share of the profits of our Fund. Different types of plans get different bonus rates. The bonus rates relevant to your Plan will be included in your yearly statement.

There are two types of bonus:

1) Regular bonus

We expect to add this every year during the term of your Plan. It is not guaranteed that a regular bonus will be added each year, but once it is added to your Plan, it cannot be removed. For further information please see, 'Is the payout guaranteed?' on page 4.

2) Final bonus

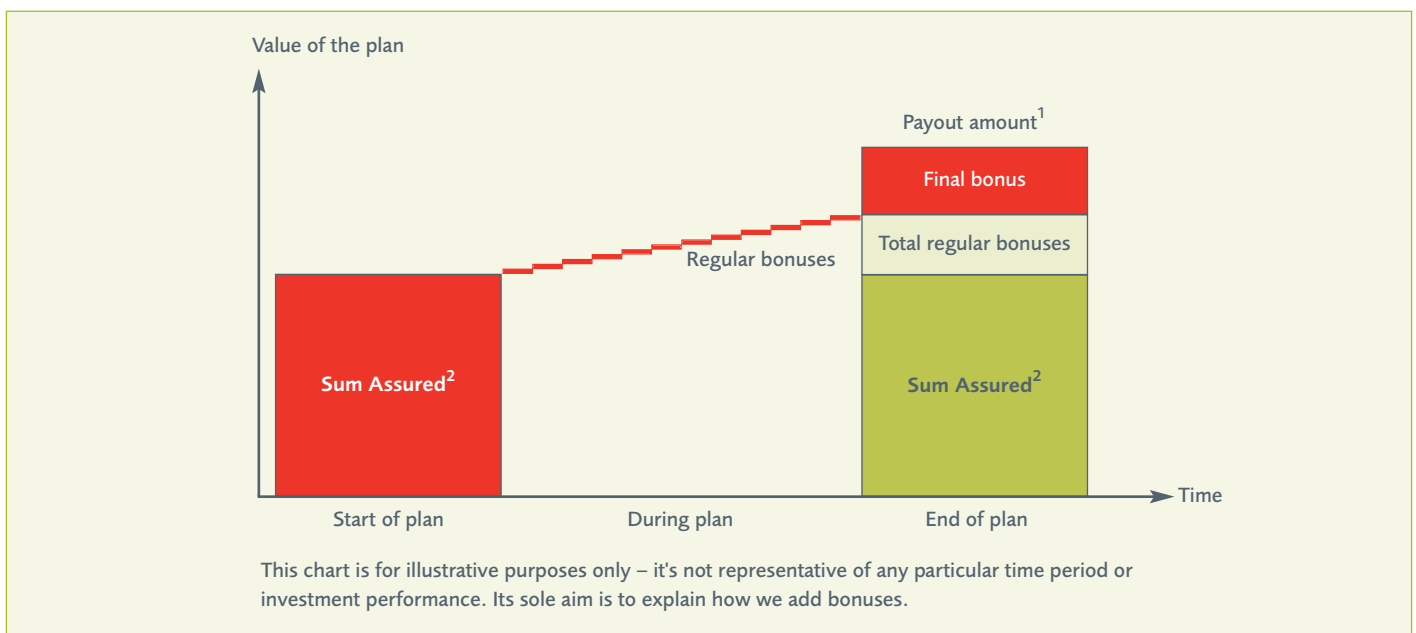
This is an additional bonus we expect to pay at the time of death or maturity for assurance plans, or on retirement at specified normal retirement date for pension plans. If the investment return has been low over the lifetime of your Plan, a final bonus may not be paid.

An additional final bonus may be payable under pension plans at retirement in respect of any profits that we then anticipate will arise after retirement.

How are regular bonuses worked out?

When we decide regular bonus rates, the main thing we consider is the return we expect our investments to earn in the future. We hold back some of this return, with the aim of paying a proportion of the proceeds as final bonuses.

The following chart shows how we add bonuses to plans to determine the amount payable on death, at maturity of an assurance plan or on retirement at specified normal retirement date for a pension plan.



- 1 If you stop paying **premiums** to your Plan, or retire earlier than at your specified normal retirement date for a pension plan, you will receive less than the payout amount shown, for more information see page 5.
- 2 For pension plans, this will be the basic annuity payable from the specified normal retirement date.

Smoothing

In describing the smoothing process and how we work out final bonuses, we use the terms "unsmoothed" and "smoothed" when referring to plan values:

- › the unsmoothed value is the value of the investments underlying a plan, based upon our Fund's actual performance
- › smoothed value is the amount paid out, after smoothing the peaks and troughs of our Fund's performance.

How are final bonuses worked out?

Final bonus rates at maturity for endowment assurance plans, or at the specified normal retirement date for pension plans, are set after considering the unsmoothed values of plans and how we expect investments to perform in the following months. In addition, for pension plans, final bonus rates at retirement take account of the annuity rates available at that time. We combine all plans issued in a year, which have the same bonus rate into a single plan which

is typical of all the included plans. We then work out the unsmoothed value for this plan, rather than for each individual plan.

The unsmoothed value depends on:

- › how much has been invested
- › how long it's been invested
- › our Fund's investment performance while your money was invested
- › our charges and costs
- › taxation
- › guarantees
- › payments made to our **shareholders**, who normally get 10% of any profit with the remaining 90% going to planholders through the bonuses allocated
- › any profits and losses arising in our Fund from other business risks. (See "Other business risks" on page 4 for more information)

Instead of simply sharing out what our Fund makes – or loses – each year, we use a process known as smoothing.

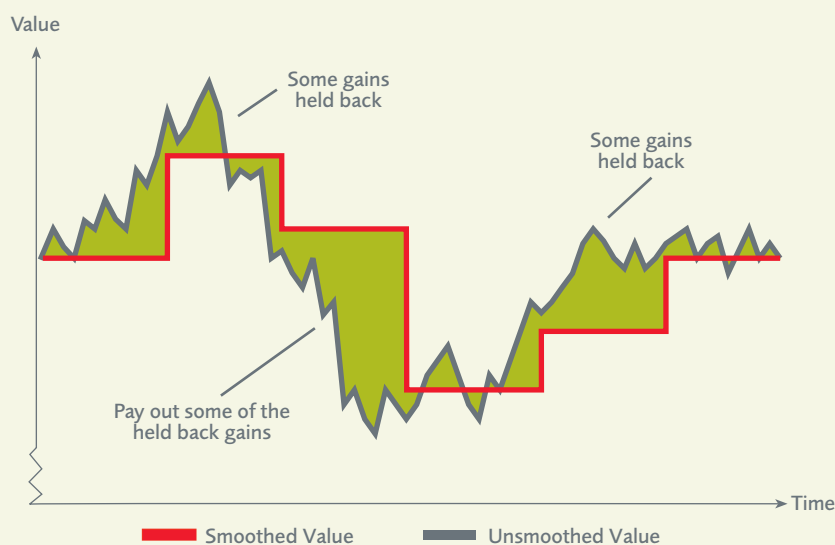
What's smoothing?

We hold back some of the investment returns in good years with the aim of using this to boost bonus rates in the years where the investment return has not been so good. It offers some protection against bad stockmarket conditions but it will not stop the value of your Plan going down if investment returns have been poor.

The payout amount on maturity for endowment assurance plans, or at the specified normal retirement date for pension plans, is represented by the horizontal red lines in the chart below. These lines show, for plans of the same duration, how the payout amounts change at each bonus declaration.

For each planholder, the payout amount will also differ from the unsmoothed value for two main reasons:

- › the unsmoothed value changes each day, as the value of our Fund's assets change
- › as noted earlier, we use a typical plan rather than individual plans when setting the bonus rates for plans issued in the same year.



This graph is not representative of any particular plan, original term or time period. Its sole aim is to explain how smoothing works.

Is the payout guaranteed?

There's no fixed payout on a with-profits plan. We guarantee you'll get back the **sum assured** for your Plan, together with any attaching bonuses but the guarantee applies only if you move out of our With-Profits Fund at particular times – for instance on normal retirement date for pensions, or maturity for endowment assurance plans, or if you die.

On the occurrence of one of these events, we'd then add any final bonus to this amount. The total payout on the occurrence of one of these events – which is made up of the **sum assured** for your Plan, together with any attaching bonuses plus any final bonus – is called the smoothed value of the plan.

What affects the value of your Plan?

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

- holders of different types of plan
- customers starting plans at different times
- planholders remaining in our Fund and those leaving our Fund
- our **shareholders**.

There are many factors that affect our bonus rates each year, which affect the amount you get back from your Plan. These include:

a) Investment performance

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

It depends on several things, including how much of our 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, both in the UK and abroad.

Over time, the 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 our Fund.

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

For pension plans, the annuity rates available at retirement may also have a significant effect.

b) Smoothing

Smoothing, which is described on page 3, limits the immediate effect of ups and downs in investment markets on what you will get back from your Plan on death or at maturity for assurance plans, or retirement from pension plans. In normal circumstances we don't expect most payout values to change by more than 10%, up or down, from one year to the next for plans of the same duration.

Over time, payout values on maturity or retirement at the specified normal retirement date will average 100% of the unsmoothed value. We intend that the difference between the smoothed and unsmoothed values of a plan will rarely be more than 20%.

As market values of assets change during a year, the value of our Fund is automatically affected. Even if this results in a difference of more than 20%, we would not change bonus rates until the next bonus declaration.

Final bonus rates on death for assurance plans will be the same as the final bonus for maturing endowment assurance plans issued in the same year. The death benefit for pension plans depends on the plan conditions and is generally related to the transfer value at the time of death (see 'What if you decide to stop paying **premiums** on your assurance Plan?' on page 5).

c) Our charges and costs

We aim to keep the costs of running the business as low as possible and to allocate the costs fairly across all planholders. If, however, our costs are higher than we expected, this may affect your bonuses.

d) Cost of guarantees and smoothing

Our charges include an amount to pay for the guarantees and smoothing you get. If the eventual cost of these is more than we expected, it may affect bonus rates on all plans and, in extreme circumstances, also the mix of assets in our Fund.

e) Tax

We charge tax in a way that is fair across all of our funds. Any tax we have to pay on our With-Profits Fund will reduce what you get back from your Plan by allowing for it in the bonus rates we pay.

Currently, there's no UK tax payable by our Fund on assets backing pensions business, although this may change in the future.

Your Key Features document will give more information on taxation.

This information is based on our understanding, as at August 2011, 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.

f) Other business risks

Other risks that may affect the value of your Plan include:

- profits and losses from plans in our With-Profits Fund which don't get bonuses, such as conventional annuities
- operational risks such as changes in regulatory requirements or taxation

Risk levels are reviewed regularly to ensure they're acceptable to our Fund.

What if you decide to stop paying premiums on your assurance Plan?

You may decide to stop paying **premiums** and, subject to certain conditions:

- have a paid-up plan where you will be entitled to an amended guaranteed **sum assured**, payable on death or maturity, which will not be entitled to any further bonus additions or
- take a surrender value.*

If you stop paying **premiums**, you may get back less than you have invested in your Plan. This is particularly likely if you stop many years early.

What if you decide to vary your pension Plan?

You may vary your Plan by:

- stopping **premium** payments where you'll become entitled to a reduced guaranteed benefit payable from your specified normal retirement date, to which bonuses will continue to be added
- retiring earlier than your specified normal retirement date, with an appropriately reduced benefit or
- taking a transfer value from your Plan to another pension product.*

If you stop paying **premiums** you may get back less than you have invested in your Plan. This is particularly likely if you stop many years early.

- * We intend that amounts payable on surrender of an assurance, or transfer of a pension plan, will average 95% of the unsmoothed value rising to 100% over the last few years to maturity or normal retirement. The 5% margin enables us to protect continuing planholders while avoiding frequent changes in calculation bases.

What's an inherited estate?

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

This capital allows you to benefit from smoothing and guarantees and allows us greater flexibility to invest in a wider range of assets.

We're also required by regulation to hold a substantial amount of capital in our long-term fund. This allows us to demonstrate, at all times, that our Fund is solvent and able to meet its obligations to all planholders. The inherited estate provides most of this **solvency capital**.

There are no plans to distribute our With-Profits Fund's inherited estate to planholders or Prudential **shareholders**, other than as required as part of the normal smoothing process or to meet guarantees. We have no current intention of closing our 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?

If you want more information about your investment in with-profits, please call us on 0800 000 000 or speak to your adviser.

This guide aims to provide a summary of how our With-Profits Fund works. However, because we've kept it as short as possible, we've 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 our With-Profits business, please refer to our Principles and Practices of Financial Management (PPFM). You may also find our Asset mix and Investment returns document useful. These documents are available on our website: www.pru.co.uk/ppfm
Printed versions are available on request.

In the event of any conflict between this guide and the PPFM, the PPFM will take precedence.

The Money Advice Service give general information about with-profits funds in the Consumer section on their website: <http://yourmoney.moneyadvice.service.org.uk/products/with-profits/with-profits.html>

Glossary*

- › **company shares:** an investment that represents part ownership of a company. Shares are also known as equities
- › **deposits:** cash and other short-term investments, typically low risk loans
- › **fixed interest securities:** loans to governments and companies that pay a predetermined rate of interest
- › **premium:** the amount paid or to be paid by the planholder for the plan
- › **property:** an investment in commercial property such as offices, shops, and industrial premises
- › **shareholder:** a person or group that owns one or more shares in Prudential companies. The owner of a share owns a small part of Prudential
- › **solvency capital:** funds that allow Prudential to demonstrate that our With-Profits Fund is solvent and able to meet its obligations to planholders even if it were to suffer significant losses
- › **sum assured:** This is normally the amount paid out on a plan if you die within the term. It is also the guaranteed amount to be paid out at maturity of an endowment assurance plan, or at the normal retirement date for pensions plans
- › **with-profits planholder:** a person that holds a Prudential with-profits plan

* glossary definitions are to be used in the context of this document.