

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

Unitised With-Profits Plans originally issued by Scottish Amicable Life Assurance Society (SALAS)

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

- combines your money with money from other **with-profits planholders**
- invests in the Prudential 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 the Fund.

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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 Unitised With-Profits Plans, originally issued by the Scottish Amicable Life Assurance Society (SALAS) and transferred in 1997 under a Scheme of arrangement to our Scottish Amicable Insurance Fund (SAIF). You may get similar guides if you have more than one type of With-Profits Plan.

SAIF is a distinct part of our With-Profits Fund that has its own assets, investment mix and inherited estate. It is closed to new business and is charged tax as if it were an independent mutual insurer.

SAIF pays an annual fee for capital support from Prudential's inherited estate. This support allows SAIF to hold a lower proportion of its assets in **fixed interest securities** than would otherwise be the case and, as a result, we expect to generate higher returns for planholders in the longer term. However, its asset mix has, in general, a slightly greater weighting to **fixed interest securities** than other Prudential With-Profits Funds.

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.

Lines are open between 8am and 6pm, Monday to Friday.

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

This is added during the term of your Plan. Some plans add bonus daily; others add bonus monthly or yearly. We don't guarantee that a regular bonus will be added each year, but once added to your Plan it acts to increase the guaranteed minimum payout. Please see "Is the payout guaranteed?" on page 4 for further information on what the guaranteed minimum payout is and when it applies.

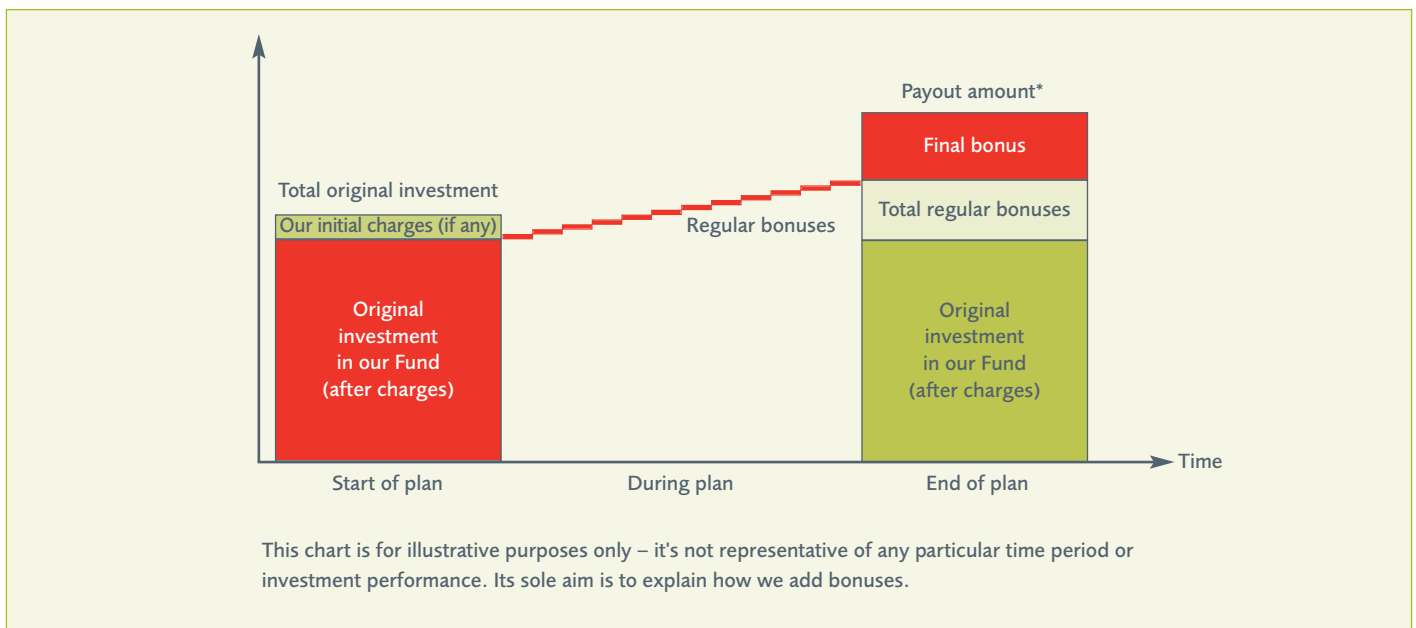
2) Final bonus

This is an additional bonus, which we expect to pay when you take money from your Plan. If the investment return has been low over the lifetime of your Plan, a final bonus may not be paid.

How are regular bonuses worked out?

When we decide any 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 your investment to reach your payout amount. It shows a single investment but the same principles apply to each **premium** paid for a regular **premium** plan.



* If you take your money from your Plan other than when a guarantee applies, you may get back less than the payout represented in the chart above. For more information on guarantees and the impact on bonuses please see "Is the payout guaranteed?" and "What affects the value of your Plan?" on page 4 and "What if you decide to move out of our With-Profits Fund?" on page 5.

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.
- › the smoothed value is the amount paid out, after smoothing the peaks and troughs of our Fund's performance.

How are final bonuses worked out?

We set final bonus rates after considering the unsmoothed values of plans and how we expect investments to perform in the following months. 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
- › SAIF's investment performance while your money was invested
- › SAIF's 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 SAIF from other business risks. See "Other business risks" on page 4 for more information.

* **Shareholders** don't get any of SAIF's profits.

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

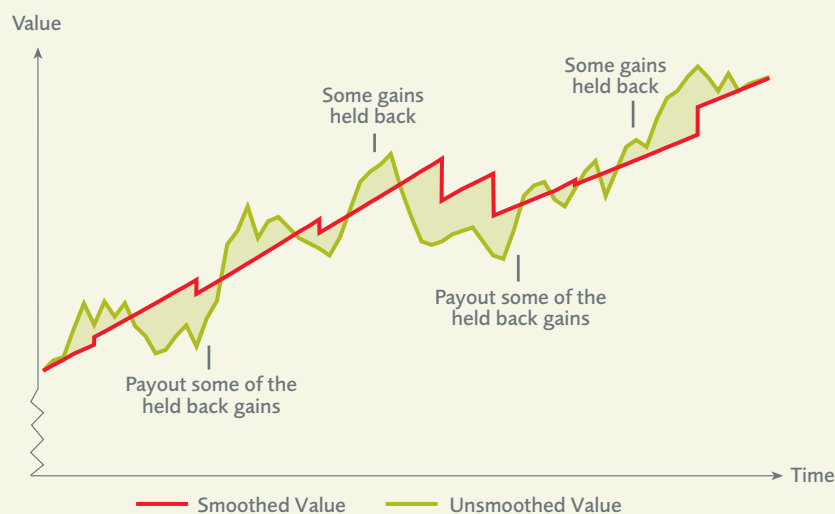
What's smoothing?

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 won't stop the value of your Plan going down if investment returns have been poor.

The red line in the chart below represents the amount paid out (the smoothed value). The amount will go up or down 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 chart is not representative of any of our funds, plan options or any specific 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 a minimum amount you'll get back from your With-Profits Plan 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 if you die.

The guaranteed minimum amount is the amount you have invested (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses we've added. We'd then add any final bonus to this amount. The total payout – minimum guaranteed amount plus any final bonus – is 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, these 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.

b) Smoothing

Smoothing, which is described on page 3, limits the immediate effect of ups and downs in investment markets on what you'll get back from your Plan.

Over time, payout values excluding the distribution of the SAIF inherited estate 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 change during a year, the value of our Fund is automatically affected. If this causes more than a 20% difference between the smoothed and unsmoothed values of a high number of plans, we will consider changing the bonus rates for all plans.

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 SAIF 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 SAIF which don't get bonuses, such as annuities
- operational risks on SAIF business, 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 move out of our With-Profits Fund?

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

- to retire early
- to switch to another one of our funds
- to transfer your investment to another company
- to cash in your Plan.

* Only some of these options will be appropriate for your particular plan. Please refer to your Key Features document.

In some cases if you move money out of our With-Profits Fund, a Market Value Reduction or surrender charge will apply.

1) Market Value Reduction

We may apply a Market Value Reduction (MVR) if you take money from your Plan at any date other than when a guarantee applies. Guarantees apply, for example, on your normal retirement date for a pension plan.

A MVR is applied if investment returns have been poor while your investment has been in our Fund. This is to protect people who remain in our With-Profits Fund from the effects of people leaving it.

If a MVR applies you may not get any final bonus, or the full value of your regular bonus. If investment returns have been very poor, you may get back less than you had invested. When we apply a MVR, the amount you get back from your Plan will not be less than the unsmoothed value. Unsmoothed value is described on page 3.

2) Surrender Charge

If you take money from some types of plan in the first few years of an investment, a Surrender Charge will apply whether or not a MVR has been applied. If a Surrender Charge could apply to your Plan, details are given in the Key Features document you got when you started the Plan.

If you're considering moving out of our With-Profits Fund you may wish to consult your adviser.

What's an inherited estate?

As a long established life assurance company, Prudential's 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 the Prudential's 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 the Prudential's With-Profits Fund to new business, but if it did close, the inherited estate would still be needed to support existing business.

However, SAIF's inherited estate is being distributed, under the terms of the Scheme arrangement, as an addition to the payouts to its planholders.

Where can you find out more?

If you want more information about your investment in our With-Profits Fund, please call us on 0800 000 000 or speak to your adviser.

This guide aims to provide a summary of how The Prudential's With-Profits 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 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
- › **with-profits planholder:** a person that holds a Prudential with-profits plan

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



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