PRUDENTIAL

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

Prudential With-Profits Pension Annuity 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.

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.

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

Contents

Aims of the guide

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

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

- when you get your yearly statements
- if you discuss your Plan with your Adviser

This guide applies to Prudential With-Profits Pension Annuity Plans. 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.

Applicable from November 2011

continued overleaf

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.

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 plan get different bonus rates. The bonus rates relevant to your Plan will be included in your yearly statement.

There are two types of bonus:

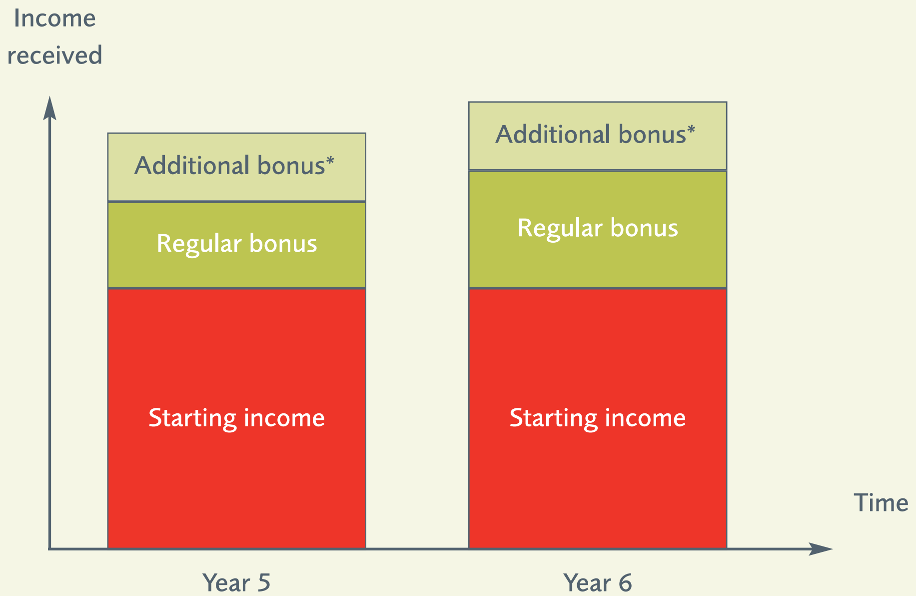
1) **Regular bonus**
   This is added during the term of your Plan. This bonus is added yearly. We don't guarantee that a regular bonus will be added each year, but once added to your Plan it cannot be removed.

2) **Additional bonus**
   This is a bonus we expect to add to your Plan each year. The value of this bonus changes each year and if the investment return has been low over the lifetime of your Plan, an additional bonus may not be paid. Additional bonuses may be reduced or removed and are not guaranteed until the time that the additional bonus comes into payment.

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 additional bonuses.

The following chart shows how we add bonuses to your Plan to reach your total income amount.



This chart is for illustrative purposes only. It is not representative of any particular time period or investment performance. Its sole aim is to explain how we add bonuses.

* The additional bonus is shown as being a similar value, but each year it could go down or up. Additional bonuses can be amended at any time, but any additional bonus that is being paid is guaranteed until the next plan anniversary.

Although the chart shows years 5 and 6, the same process would apply in any two consecutive years of the plan. The chart above does not allow for any Anticipated Bonus Rate selected. Further information is in section b on page 4.

Smoothing

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

- unsmoothed value is the value of the income secured by the investments underlying a plan, based upon our Fund's actual performance
- smoothed value is the income secured by the unsmoothed value, after smoothing the peaks and troughs of our Fund's performance.

How are additional bonuses worked out?

We set additional bonus rates after considering the unsmoothed values of annuity plans, the annuity rates then available, and how we expect investments to perform in the following months. We combine all similar 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
- how much has been paid out in the form of income
- our Fund's investment performance while your money was invested
- charges for guarantees
- other charges and costs
- taxation
- payments made to our **shareholders**, who normally get 10% of any profit, with the remaining 90% going to planholders through the bonuses allocated
- profits and losses from With-Profits Pension Annuity planholders dying sooner or living longer than expected
- 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.

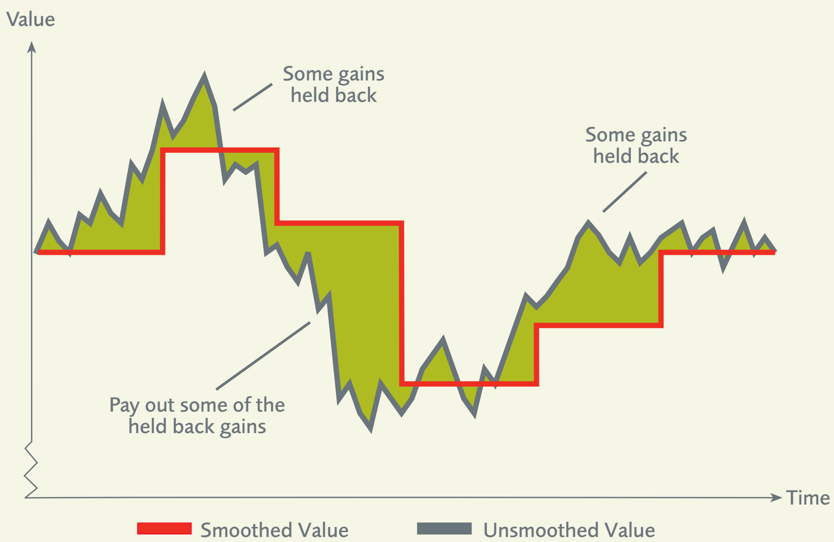
What's smoothing?

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 stock market conditions but it won't stop the income from your Plan going down if investment returns have been poor.

The red line in the chart below shows the amount we'll pay out i.e. the smoothed value. The amount will go up or down at each bonus declaration.

For each planholder, the value of the income payable (the smoothed value) 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 particular age or year of issue. Its sole aim is to explain how smoothing works.

Are there any minimum income guarantees?

We promise that your income will never fall below a minimum guaranteed amount – regardless of future bonuses. The amount we guarantee depends on your chosen Anticipated Bonus Rate (ABR). The higher the ABR you choose, the lower your minimum income guarantee will be.

If you change your ABR, your level of minimum income guarantee will change.

Please refer to the Key Features document for more information.

What affects the value of the income from your Plan?

We aim to be fair to all 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 income 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) Anticipated Bonus Rate (ABR)

You may have decided to anticipate a rate of future bonus addition. This will have the effect of increasing your immediate income but reducing the potential for future increases through the addition of bonuses. If you've selected a high level of ABR, there's a significant risk that your income may go down over the longer term, subject to any minimum income guarantee applicable to your Plan.

c) Smoothing

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

Over time, the value of the income payable from our With-Profits Pension Annuity Plans 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. If this causes a difference of more than 20% between the smoothed and unsmoothed values of a high number of plans, we'll consider changing the bonus rates for all plans.

d) 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.

e) 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.

f) Tax

We charge tax in a way that is fair across all 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.

This information is based on our understanding, as at November 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.

g) 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.

h) Mortality

The annuity rates used to determine the income payable from the unsmoothed value, described above, may also have a significant effect.

What if you decide to move out of our With-Profits Fund?

A With-Profits Pension Annuity Plan cannot be cashed in. However, With-Profits annuities written on or after 1 October 2001 can be converted to non-profit annuities at certain dates that will be described in the Key Features document you received when you started your With-Profits Pension Annuity Plan. The amount of the non-profit annuity will depend on the then current alteration basis. With-Profits annuities written before 15 May 2000 cannot be converted to non-profit annuities. With-Profits annuities written on or after 15 May 2000 but before 1 October 2001 can be converted to non-profit annuities at certain dates following the death of either the first life or the second life if the policies are joint-life policies.

If you are 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, 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 has 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 wide 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 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 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 won't have a complete picture. If you 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 on their website:

http://yourmoney.moneyadviceservice.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
- **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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