

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

International Prudence Bond – The PAC With-Profits Funds

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

References to 'we', 'our' and 'us' mean The Prudential Assurance Company Limited.

Your investment in a PAC With-Profits Fund through International Prudence Bond is a 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, or
- › 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 PAC With-Profits 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/ppfm. 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, by the addition of bonuses. You can find out more in the 'What are bonuses and how are they decided?' section.
- 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. The value of your investment can also be affected by a number of other items. A fuller explanation of how these affect the value of your investment is given on page 3.

What are bonuses and how are they decided?

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

There are two types of bonus:

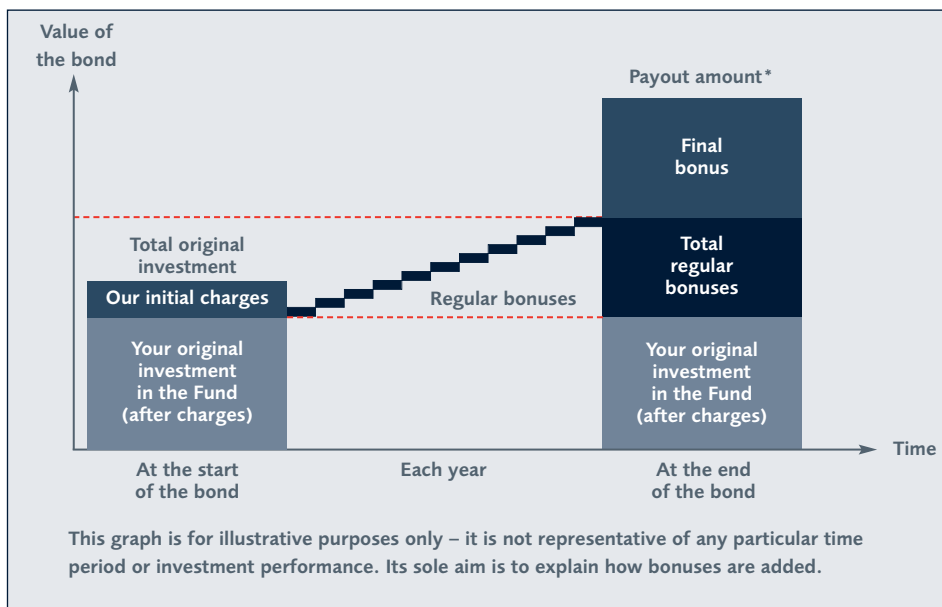
Regular bonus

This is added daily during the term of your bond. It is not guaranteed that a regular bonus will be added each year, but once regular bonuses are added to your bond, they can not be removed.* When we decide the rates of regular bonus, the main thing we consider is the return we expect our investments to earn in the future. We hold back some of this return to enable us to pay final bonuses.

Final bonus

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

The following graph shows how we add bonuses to your investment to reach your payout amount.



* If you take money from your bond other than when a guarantee applies, you may receive less than the payout amount shown (see 'What if you decide to move out of With-Profits' on page 4, for more information).

Final bonus rates are set after considering the unsmoothed values of With-Profits investments and how we expect investments to perform in the following months.† The unsmoothed value depends on:

- how much has been invested,
- how long it has been invested,
- the Fund's investment performance while the money was invested,
- our charges and costs, and
- guarantees.

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

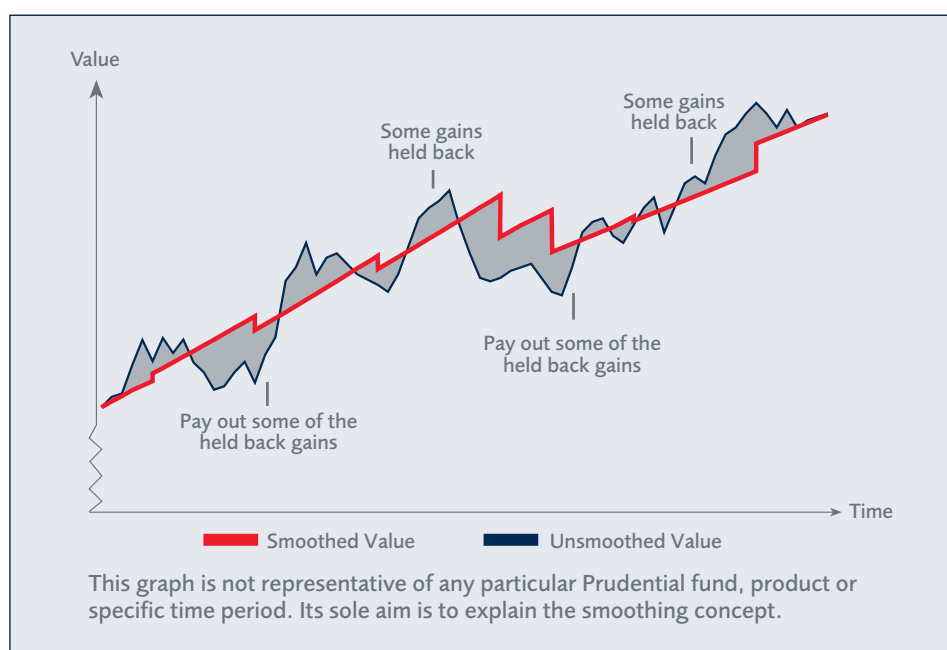
† We combine all similar plans (that is, all plans issued in a year which have the same bonus rate) into a single representative plan. We then calculate an unsmoothed value for this plan, rather than for each individual plan.

What is smoothing?

We hold back some of the investment returns in good years and use this to boost final 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 bond reducing if investment returns have been poor.

The payout amount is represented by the smoothed value on the graph below. It moves up or down at each bonus declaration. For each bondholder, the payout amount will also differ from the unsmoothed value for two main reasons:

- › the unsmoothed value changes each day, as the value of the Fund's assets change, and
- › we use a representative plan when setting the bonus rate for bonds issued in the same year.*



* We combine all similar plans (that is, all plans issued in a year which have the same bonus rate) into a single representative plan. We then calculate an unsmoothed value for this plan, rather than for each individual plan.

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 our bonus rates each year, and therefore 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 in the section 'What is smoothing?' above, limits the immediate effect of stockmarket ups and downs on what you will get back from your bond.

Over time, payout values will average 100% of the unsmoothed value.

We intend that the difference between the smoothed and unsmoothed values of a bond will rarely be more than 20%.

As market values change during a year, the value of the Fund is automatically affected. If this causes more than a 20% difference between the smoothed and unsmoothed values of a high number of bonds, we will consider changing the bonus rates for all bonds.

c) PIA charges

The statement of charges document for the International Prudence Bond gives information about the charges.

d) Cost of guarantees and smoothing

Bonus rates may also include an allowance that is intended to pay for the guarantees and smoothing you receive. If the eventual cost of these is more than we expected, it may affect bonus rates on all bonds and, in extreme circumstances, also the mix of assets in the Fund.

e) 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 With-Profits?

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

- to switch to another type of Prudential International fund, or
- to cash in all or part of your bond.

We may apply a Market Value Reduction (MVR) if you take the benefits from your bond at any date other than when a guarantee applies eg on death.

An MVR is applied if investment returns have been poor while your investment has been in the Fund. It is designed to protect investors who are not taking their money out.

If an MVR applies you may not receive any final bonus, or the full value of the regular bonus. If investment returns have been very poor, you may get back less than you have invested in your bond.

The amount you get back from your bond will not be less than the unsmoothed value which is described on page 2.

If you take money out in the first few years of an investment, an Early Cash-In Charge will apply whether or not an MVR has been applied. 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 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.

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. We 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 PAC With-Profits Funds please see 'Your guide to investing in With-Profits'.

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/ppfm. Printed versions are available on request.

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

The Financial Services Authority give general information about with-profits funds in the Consumer section on their website:

<http://www.moneymadeclear.fsa.gov.uk/products/with-profits/with-profits.html>



www.pru.co.uk/international