Retirement has more potential with PRUDENTIAL

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

Ex-Equitable Life Assurance Society With-Profits Annuities effective from 1 January 2008

Your With-Profits Plan is a 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 while maintaining an acceptable level of risk to the Fund.

Words in **bold** are defined in the glossary on page 5.

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 a financial adviser

This Guide applies to ex-Equitable Life Assurance Society With-Profits Plans (Annuities) which were transferred to Prudential on 31 December 2007 under Part VII of the Financial Services and Markets Act 2000. 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 the Fund in our Principles and Practices of Financial Management (PPFM) document. This is available on our website, www.pru.co.uk/ppfm/

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

continued overleaf

What's a with-profits plan?

It's a Plan that shares in the profits of the 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 for your Plan?

At the end of 2007 a large number of With-Profits Plans were transferred from Equitable Life to Prudential. The total amount transferred in respect of the Equitable Life With-Profits Annuities is invested in a broad mix of investment types, generally referred to as assets.

Investment performance usually has the biggest effect on the income payable from your Plan. The income can also be affected by a number of other items. A fuller explanation of how these may affect the income payable from your Plan is given on page 3.

What are bonuses?

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

There are three types of bonus announced each year, which impact your Guaranteed Annuity and your Total Annuity. These are:

- Regular bonus
- Overall Rate of Return, and
- Interim Rate of Return

1) **Regular (or Declared Reversionary) Bonus**
   Once a Regular Bonus is added to your Plan, it cannot be removed. It's added to your Guaranteed Annuity. In line with previous Equitable Life practice we don't expect to add any Regular Bonuses to your Plan in the foreseeable future. Your Guaranteed Annuity will be reduced each year by your Anticipated Bonus Rate (ABR).

2) **Overall Rate of Return and Interim Rate of Return**
   The amount of Total Annuity is affected at your Plan anniversary by the Overall Rate of Return (ORR) and Interim Rate of Return (IRR) applicable at that time.

   The ORR is intended to give credit for the investment return earned by the Fund in each calendar year.

   The investment return earned on the Fund in a given calendar year is reflected in the ORR applying from Plan anniversaries in the 12 months from the following 1 April.

   The IRR is intended to give credit for the expected return after the end of the calendar year until your Plan anniversary.

   Your Total Annuity will be determined by applying a combination of the ORR and the new IRR, to your previous Total Annuity, after removing the previous year's IRR.

   Although the IRR can be changed at any time, any change will not impact your income until your next Plan anniversary.

   Your Total Annuity will be reduced by a combination of your ABR and any Guaranteed Investment Return (GIR). You can find out more about GIR's on page 4.

   The amount of income paid each year is the greater of the Guaranteed Annuity and the Total Annuity.

Smoothing

We use the terms smoothed and unsmoothed when referring to plan values.

We don't share all our profits from our fund each year. In good years we hold back some of the profit to use in years when the fund doesn't perform well.

- We call this a smoothed value because it smooths the peaks and troughs in the funds actual performance.
- The unsmoothed value is the actual value of the fund before we have smoothed the peaks and troughs

How are bonuses worked out?

Bonus rates are set after considering the unsmoothed values of plans, the annuity rates then available and how we expect investments to perform in the following period.

The unsmoothed value depends on:

- how much Equitable Life transferred to us in respect of your Plan,
- how much has been paid out in the form of income,
- the Fund's investment performance since the money was invested,

- our charges,
- taxation,
- guarantees,
- profits and losses from ex-Equitable Life Planholders dying sooner or living longer than expected.

We take a set of sample plans and then calculate an unsmoothed value for this sample, rather than for each individual Plan.

Instead of simply sharing out what the 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 and use 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 income from your Plan reducing if investment returns have been poor.

The red line in the chart below (the Smoothed Value) represents the income payable. It moves up or down at each bonus declaration. For each planholder, the income payable can also differ from the income secured by the unsmoothed value for three main reasons:

- the unsmoothed value changes each day, as the value of the Fund's assets changes,
- because we use a representative set of sample plans when setting the bonus rates, and
- there will be a minimum income level (the value of the Guaranteed Annuity) under the Plan.

What affects 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 the Fund and those leaving the Fund

There are many factors that affect our bonus rates, and therefore will affect the amount of income you get back from your Plan. These include:

a) **Investment performance**

This usually has the biggest impact on the income payable from your Plan

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

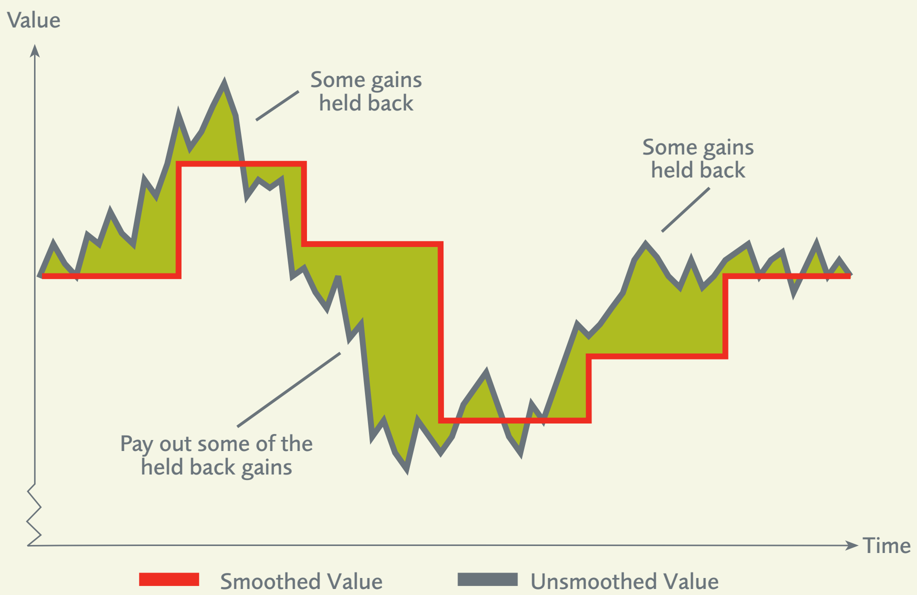
The main asset types are:

- **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.



This graph is not representative of any particular age or year of issue. Its sole aim is to explain the smoothing concept.

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

The investment return applicable to ex-Equitable Life plans is the same as that applicable to plans in the main With-Profits 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 have selected a high level of ABR, there's a significant risk that your income may go down over the longer term.

c) Guaranteed Investment Return (GIR)

Certain ex-Equitable Life Assurance Society With-Profits Plans (Annuities) made an allowance for a guaranteed interest rate. (This was 3.5% for Plans effected before 1 July 1996.) The GIR is included in the calculation of your Total Annuity. Therefore if the bonuses announced are less than the combined effect of the ABR and GIR, then your Total Annuity will fall.

d) Smoothing

Smoothing, which is described on page 3, limits the immediate effect of stockmarket ups and downs on the income payable from your Plan. Over time, we expect that the value of the income payable from these With-Profits plans will average 100% of the unsmoothed value. We intend that the difference between the value of the income payable and the unsmoothed values of a plan 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 value of the income payable from these With-Profits plans and the unsmoothed values of a high number of plans, we will consider changing the bonus rates.

e) Administration charges

The charge made for administering these plans is 1% per annum of the value of the Plan. This charge is taken by way of deduction from the gross investment return that would otherwise be credited to these Plans.

f) Cost of guarantees

A maximum charge of 0.5% per annum of the value of the Plans is made for investment guarantees. This charge is taken by way of deduction from the gross investment return that would otherwise be credited to these Plans.

g) Tax

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

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

h) Mortality

The annuity rates used to determine the income payable from the unsmoothed value, described above, may also have a significant effect. However the impact of changes in our assessment of how long Planholders might live is limited to an addition or deduction of 0.5% p.a. applied to the unsmoothed value.

Where can you find out more?

If you want more information about your investment in with-profits, please speak to your financial adviser.

This guide aims to provide a summary of how the Prudential 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 Prudential's 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 Financial Services Authority gives general information about with-profits funds in the Consumer section on their website **www.moneymadeclear.fsa.gov.uk/products/with-profits/types_of_fund.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
- **with-profits planholder**: a person that holds a Prudential with-profits policy

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

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