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

Prudential's Income Choice Annuity

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Contents

This Guide applies to our Income Choice Annuity. You may receive similar Guides if you have more than one type of with-profits plan.

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. 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 that would affect your plan.

Introduction

A Prudential With-Profits Plan is an investment that

- combines your money with money from other planholders,
- 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 whilst maintaining an acceptable level of risk to the Fund.

Aims of the guide

This Guide explains briefly how the Prudential 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 plan,
- if you discuss your plan with a Prudential specialist or a Financial Adviser.

So please keep it in a safe place with your other plan documents.

Applicable from March 2009

What is a With-Profits Plan?

It is a plan that shares in the profits of the With-Profits Fund by the addition of bonuses. You can find more details on the next page.

How does the With-Profits Fund work?

Money from all planholders is combined and invested in the With-Profits Fund, which has 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. But the Fund also takes on other business risks and with-profits 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 8.

What are bonuses and how are they decided?

Bonuses are the way you receive your share of the profits of the Fund. The impact of the bonus rates on your income will be included in your yearly statement.

There are two types of bonus:

Increases in the Secure Level

The Secure Level represents the minimum income that we will pay you. Once increases have been added to your Secure Level we cannot take them away. There is a description of how the Secure Level is worked out each year in the Key Features document you received when you started your Income Choice Annuity.

The Smoothed Return

The Smoothed Return usually acts to increase your income each year before the impact of any Required Smoothed Return. The Smoothed Return can be amended at any time but it will not affect your income until on or after the next policy anniversary dependent on the payment frequency you've chosen. The Smoothed Return changes each year and could be negative, for example if stockmarkets perform badly.

The Smoothed Returns are set after considering the unsmoothed values of Income Choice Annuity plans*, the annuity rates then available 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
- how much has been paid out in the form of income
- the Fund's investment performance while the money was invested
- our charges and costs
- taxation
- guarantees
- payments made to our shareholders**
- profits and losses from Income Choice Annuity planholders dying sooner or living longer than expected
- any profits and losses arising in the Fund from other business risks.

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

** When profits are allocated as bonuses, normally our shareholders receive 10% of the profits allocated and planholders receive 90%.

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

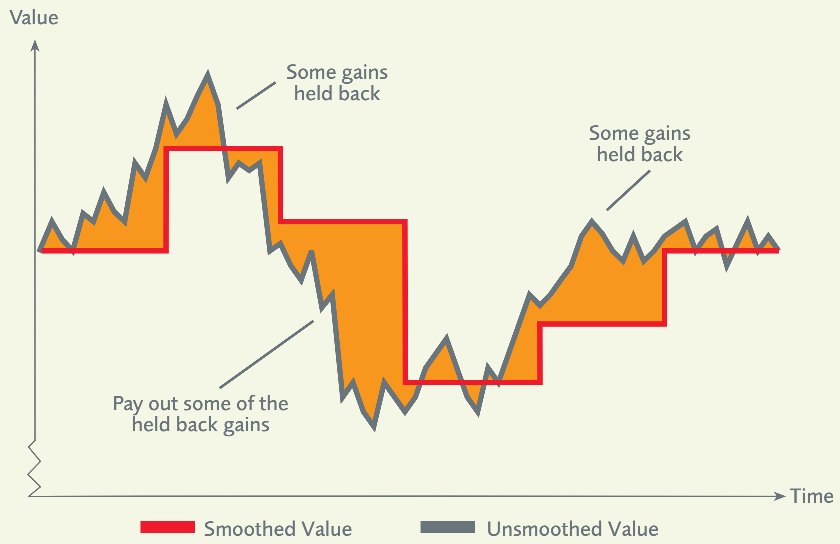
What is smoothing?

We hold back some of the investment returns in good years and use this to boost the Smoothed Returns in the years when 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 annuity reducing if investment returns have been poor.

The income payable is represented by the smoothed value on the chart below. It moves up and down at each bonus declaration.

For each planholder, the income payable will also differ from the income secured by the unsmoothed value for two main reasons:

- the unsmoothed value changes each day, as the value of the Fund's assets changes, and also
- because we use a representative plan when setting the smoothed return for plans issued in the same year.



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

What may affect the value of your plan?

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

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

There are many factors that will affect the Smoothed Return we announce each year and will therefore affect the amount you get back from your plan. Some of the main ones are:

a) Investment Performance

This usually has the biggest impact on the income from your plan. It depends on several things, including the different types of asset we invest in, and how much we invest in each type of asset. The main asset types are:

- Company shares
- Property
- Fixed interest securities
- Deposits

We invest in a wide range of these assets, both in the UK and abroad.

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.

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

b) The Smoothed Return required for the income you have chosen

The income you choose for your Income Choice Annuity has a Required Smoothed Return. This is the return your annuity will need from our Fund to maintain your income level over your lifetime.

Choosing a higher income will mean you need a higher Required Smoothed Return. This will have the effect of reducing the potential for future increases through the application of the Smoothed Return for your annuity. If you have selected the maximum income there is a significant risk that your income may go down over the long term, although we will never pay you less than your Secure Level.

c) Smoothing

Smoothing, which is described on page 6, limits the immediate effect of stockmarket ups and downs on what you will get back from your plan.

Over time, the value of the income payable from our Income Choice Annuity 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 our Income Choice Annuity plans and the unsmoothed values of a high number of plans, we will consider changing the Smoothed Returns 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 Smoothed Return.

e) Cost of guarantees and smoothing

Our charges 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 plans and, in extreme circumstances, also the mix of assets in the Fund.

f) Tax

We aim to charge tax fairly across all Prudential funds. Any tax we have to pay on the With-Profits Fund will reduce what you get back from your plan. We allow for tax in the bonus rates we announce.

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

g) Other business risks

Some other risks that may affect the income from your plan are:

- Profits and losses from plans in the With-Profits Fund which do not receive bonuses, such as non-profit annuities and
- Operational risks, such as changes in regulatory requirements or taxation.

Risk levels are reviewed regularly to ensure they are acceptable to the Fund.

What if you decide to change your level of income?

At certain dates that are described in the Key Features document you received when you started your Income Choice Annuity you will usually be able to choose a new income from a range we give you, although there may be circumstances where we need to remove or postpone your choice. We'd do this to maintain the financial strength of the With-Profits Fund for the benefit of all our customers. This could happen because of adverse market conditions, for example; a significant fall in market values (either sudden or over a period of years), a poor investment outlook or in periods when stockmarket prices fluctuate widely.

What if you decide to move out of with-profits?

An Income Choice Annuity cannot be cashed in but it can be converted to a non-profit annuity plan at certain dates that are described in the Key Features document you received when you started your Income Choice Annuity.

We may apply a Market Value Reduction (MVR) if you switch to a non-profit annuity plan. An MVR is applied if investment returns have been poor whilst your investment has been in the Fund. It is designed to protect investors who are not taking their money out.

The amount of the non-profit annuity will also depend on the annuity basis in force at the time the switch is undertaken.

What is the 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 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 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 Financial Adviser. Calls to Prudential may be monitored or recorded for quality and security purposes.

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 which is available on our website: www.pru.co.uk.

Printed versions are available on request.

In the event of any conflict between the two documents, the Principles and Practices of Financial Management 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

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