

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

Prudential Income Choice Annuity – plans starting on or after 7 November 2011

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.

Our investment strategy aims to secure the highest total return over the time you have your plan, while maintaining an acceptable level of risk to our fund.

Aims of this guide

This guide explains briefly how our **With-Profits Fund** works and our current approach to managing it. Please keep this guide in a safe place, along with your other plan documents, as you might find it useful:

- when you get your yearly statement,
- if you'd like to discuss your plan with a financial adviser.

This guide applies to Prudential Income Choice Annuities which started on or after 7 November 2011. You might need to refer to one of our similar guides if you have more than one type of With-Profits plan.

Further Information

You can find more detailed, technical information about how we manage our fund in our Principles and Practices of Financial Management (PPFM) document, which is available on our website: pru.co.uk/ppfm

You can find the most up-to-date version of this guide, together with a summary of notable past or upcoming changes to our Principles and Practices of Financial Management, on our website.

Glossary

We've put terms in **bold** and explained what they mean in the glossary on the last page.

This guide only applies to Prudential Income Choice Annuities which started on or after 7 November 2011. If this guide doesn't apply to your Income Choice Annuity and you'd like a copy of the guide that does, please see our website or give us a call on **0800 000 000**.

What's a With-Profits plan?

It's a plan that shares in the profits of our **With-Profits Fund**. See "What is the smoothed return?" for more information.

We aim to grow your money invested in our **With-Profits Fund** over the medium to long term (5 to 10 years or more).

How does our With-Profits Fund work?

We combine and invest money from all of our **planholders** in our **With-Profits Fund**. The Fund has a wide range of investment types which we generally refer to as assets.

Investment performance usually has the biggest effect on the value of your plan. You can find more detail on the factors that might affect the value of your plan on page four.

What is the smoothed return?

The smoothed return applicable to your plan is the way we give you your share of the profits of our fund. We'll include the impact of the smoothed return in your yearly statement.

- **The smoothed return**

The smoothed return usually acts to increase your income each year before the impact of any required smoothed return. This is explained on page four. We can change the smoothed return at any time but it won't affect your income until on or after the next plan anniversary depending on the frequency you chose to receive your payments. The smoothed return changes each year and could be negative, for example if stockmarkets perform badly.

Smoothing

In describing the **smoothing** process and how we work out smoothed returns, 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 do we work out smoothed returns?

We set the smoothed returns 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. We set smoothed returns considering all business written in each year.

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 are entitled to 10% of any profit, with the remaining 90% going to **planholders** through the smoothed returns allocated,
- profits and losses from Income Choice Annuity **planholders** dying sooner or living longer than expected, and
- any profits and losses arising in our fund from other business risks. (See "Other business risks" on page five for more information).

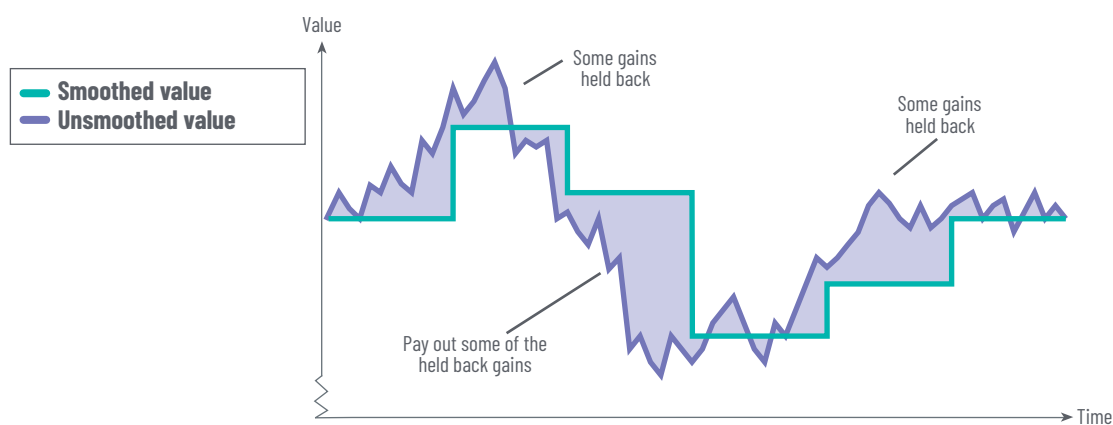
Instead of simply sharing out what our Fund makes – or loses – each year, we use a process known as **smoothing**.

What's smoothing?

We hold back some of the investment returns in good years with the aim of using this to support the smoothed returns in years where the investment return has been lower. It offers some protection against investment market conditions but it won't stop the income from your annuity reducing if investment returns have been low.

The light blue line in the chart below shows the amount paid out (the smoothed value). The amount will go up or down at each smoothed return announcement.

For each **planholder**, the value of the income payable, (the smoothed value) will also differ from the unsmoothed value because the unsmoothed value changes each day, as the value of our fund's assets changes.



This is not representative of any particular plan, original term or time period. Its only 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 – the secure level – regardless of future smoothed returns. Please see your Key Features Document for more information on the secure level.

What affects the value of the income from your plan?

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

- holders of different types of plan
- **planholders** starting plans at different times
- **planholders** remaining in our fund and those leaving our fund
- our **shareholders**.

There are many factors that affect the smoothed returns we announce each year, which will 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 the funds we invest in the different types of asset.

The main asset types are:

- **company shares**
- **real estate**
- **fixed interest securities**
- **deposits.**

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

Over time, the performance of different types of asset varies a lot. So our expert fund managers might 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 secure the highest total return while maintaining an acceptable level of risk to our Fund.

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 might go down over the long term, although we'll never pay you less than your secure level.

c) Smoothing

Explained on page three, smoothing limits the immediate effect of ups and downs in investment markets on what you'll 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 value of a typical 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 more than a 20% difference between the smoothed and the unsmoothed values of a high number of plans, we'll consider changing the smoothed returns for all plans.

d) Charges and costs

As costs affect plan payouts, we aim to keep the costs of running the business as low as possible and also to allocate the costs fairly across all **planholders**. By a fair allocation, we mean that, broadly across groups of products, each product group meets all the direct expenses for that group, as well as an appropriate share of all other expenses, including over-heads. Your Key Features Document will give you more information about the charges and costs that apply to your plan.

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 might affect smoothed returns on all plans and, in more extreme circumstances, also the mix of assets in our fund.

f) Transfers to our shareholders

Payments are made to our **shareholders**, who are entitled to 10% of any profit, with the remaining 90% going to **planholders** through the Smoothed returns allocated. This is taken into account when we set the smoothed returns.

g) Tax

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 smoothed returns we announce.

We charge tax in a way that is fair across all of our funds. Investment returns earned over the lifetime of a plan allow for the effects of tax, including an allowance for unrealised gains.

Currently, there's no UK tax payable by our fund on assets backing pensions business, although this might change in the future.

This information is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. You might need to pay tax depending on your individual circumstances. Tax rules can also change in the future.

h) Other business risks

Other risks that might affect the income from your plan include:

- Profits and losses from plans in our **With-Profits Fund** which do not receive bonuses or smoothed returns, such as conventional annuities, and
- Operational risks, such as changes in regulatory requirements or taxation.

We regularly review risk levels to make sure they're acceptable to our fund.

i) Mortality

The annuity rates used to determine the income payable from the unsmoothed value, explained above, might also have a significant effect. In particular, changes in our assessment of how long **planholders** might live.

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'll usually be able to choose a new income from a range we give you, although there might be circumstances where we need to withdraw or postpone your choice. We'd do this to maintain the financial strength of our **With-Profits Fund** for the benefit of all our **planholders**. 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 our With-Profits Fund?

An Income Choice Annuity can't be cashed in but it can be converted to a Guaranteed Pension Annuity (conventional annuity) on certain dates. These dates are described in the Key Features Document you received when you started your Income Choice Annuity.

The amount of Guaranteed Pension Annuity income will depend on the value of the expected future payments under the Income Choice Annuity at the time of the conversion. It will also depend on the cost of buying a Guaranteed Pension Annuity at the time.

What's the 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.

How we use the Inherited Estate

This capital lets you benefit from **smoothing** and guarantees. And it gives us more flexibility to invest in a wide range of assets. We're also required by regulation to hold a substantial amount of capital in our **With-Profits Fund**. This lets us demonstrate, at all times, that our Fund is solvent and able to meet its obligations to all **planholders**. The **Inherited Estate** provides this **solvency capital**.

Planholders or Prudential **shareholders** shouldn't have any expectation of a distribution of the **Inherited Estate**. However in accordance with regulation, if the **Inherited Estate** contains surplus capital and to retain that surplus would lead to the unfair treatment of **planholders**, then we should make a distribution from the **Inherited Estate**.

When managing our **With-Profits Fund** we are not required to take account of any current **planholders'** interest in the prospect of a distribution from Prudential's **Inherited Estate** to **planholders**. 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'd like more information about your investment in our **With-Profits Fund**, please call us on **0800 000 000** or speak to a financial adviser. If you don't have a financial adviser and would like to know more about financial advice you can find out more information on our website: pru.co.uk/find-an-adviser

We put this guide together as a summary of how our **With-Profits Fund** works. However, because we've kept it as short as possible, we've only given you the most important information.

We need to let you know that without all details you'll 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 PPFM. You might also find our Asset Mix and Investment Returns document useful. You can find these on our website at pru.co.uk/ppfm

If you'd prefer a printed version, please let us know.

In the event of any conflict between this guide and the PPFM, the PPFM will take precedence.

Glossary

This is a glossary to help you with the terms specifically in this guide.

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
Inherited Estate	amount of money built up over time in our With-Profits Fund, which is in excess of the amount needed to meet expected commitments to current policyholders/planholders.
planholder/ With-Profits planholder	a person that holds a Prudential With-Profits policy or plan
real estate	an investment in commercial real estate 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
smoothing	adjusting returns for some of the ups and downs of short-term investment performance to provide a more stable return
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 Fund	The With-Profits Fund is the fund where Prudential's With-Profits business is written. With-profits planholders can share in the profits of the With-Profits Fund through discretionary distributions