

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

Unitised With-Profits Plans originally issued by Scottish Amicable Life Plc (SAL)

Your Prudential 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 get an illustration of what you might get back from your Plan, or
- if you'd like to discuss your Plan with a financial adviser.

This guide applies to Prudential Unitised With-Profits Plans, originally issued by Scottish Amicable Life Plc (SAL) and transferred under a Scheme of arrangement to Prudential in December 2002. 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.

What's a with-profits plan?

It's a plan that shares in the profits of our **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 (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 are bonuses?

Bonuses are the way you get your share of the profits of our Fund. Different types of plans get different bonus rates. We'll include the bonus rates relevant to your plan in your yearly statement.

There are two types of bonus:

1) Regular bonus

We'll add this during the term of your Plan. We'll add this bonus daily, monthly or yearly, depending on the type of plan. We don't guarantee that we'll add a regular bonus each year but once added to your Plan it acts to increase the guaranteed minimum payout. Please see "Is the payout guaranteed?" on page four for more information on what the guaranteed minimum payout is and when it applies.

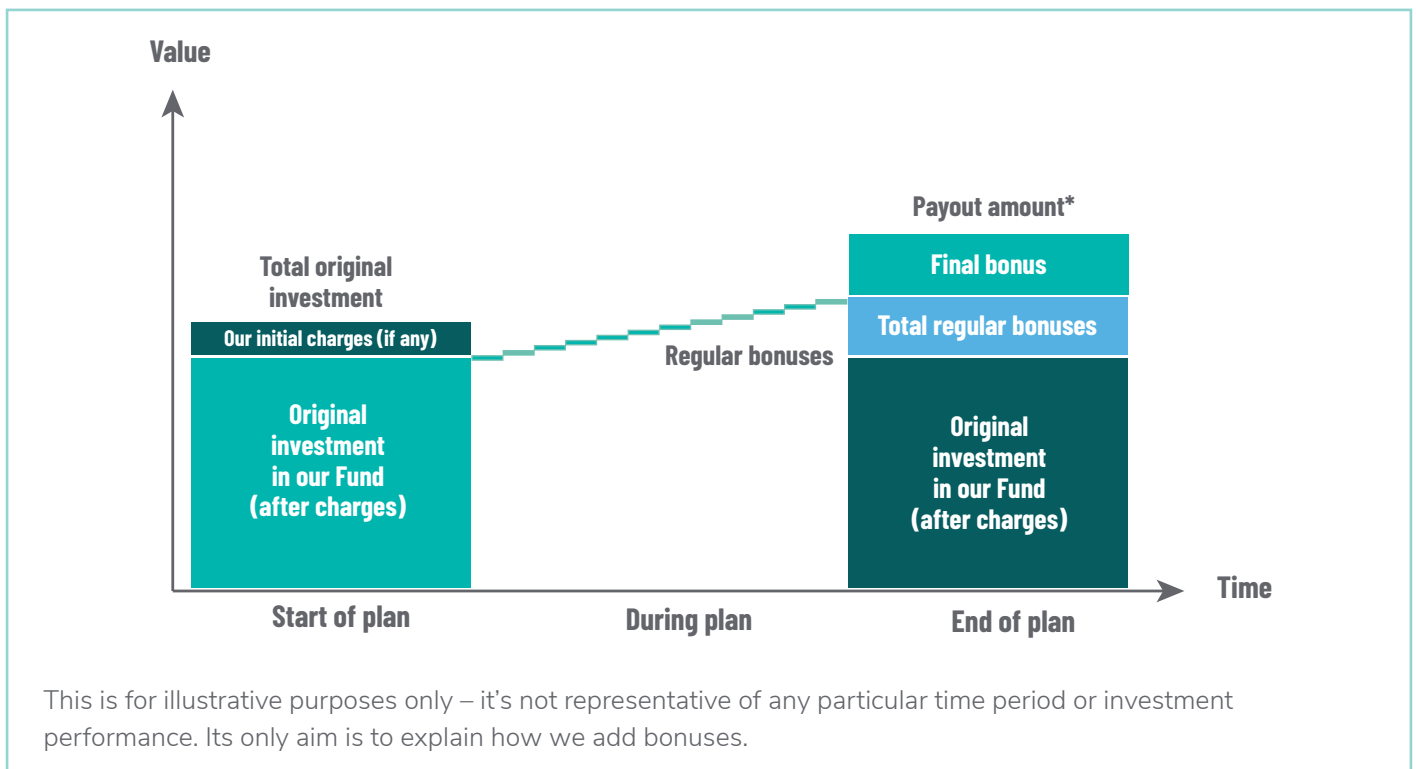
2) Final bonus

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

How do we work out regular bonuses?

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 final bonuses.

The chart shows how we add bonuses to your investment to reach your payout amount. It shows a single investment but the same principles apply to each **premium** paid for a regular **premium** plan.



* If you take your money from your Plan other than when a guarantee applies, you might get back less than the payout represented in the chart above. For more information on guarantees and the impact on bonuses please see "Is the payout guaranteed?" and "What affects the value of your Plan?" on page four and "What if you decide to move out of our With-Profits Fund?" on page five.

Smoothing

In describing the **smoothing** process and how we work out final bonuses 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, and is before the application of any Market Value Reduction*.

How do we work out final bonuses?

We set final bonus rates after considering the unsmoothed values of plans and how we expect investments to perform in the following months. We combine all 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 and any withdrawals (where appropriate),
- how long it’s been invested,
- our Fund’s investment performance while your money was invested,
- charges for guarantees,
- other charges, and
- taxation.

Under normal circumstances, for plans issued by SAL, the unsmoothed value is not impacted by:

- our costs,
- payments made to our **shareholders**, who are entitled to 10% of any profit with the remaining 90% going to **planholders** through the bonuses allocated, or
- any profits and losses of our Fund from other business risks (see “Other business risks” on page five for more information).

If however, our costs (including a **shareholders** payment of 10%) are less than our charges, after taking into account the effects of any profits and losses from other business risks, we’ll base final bonuses on these lower costs.

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

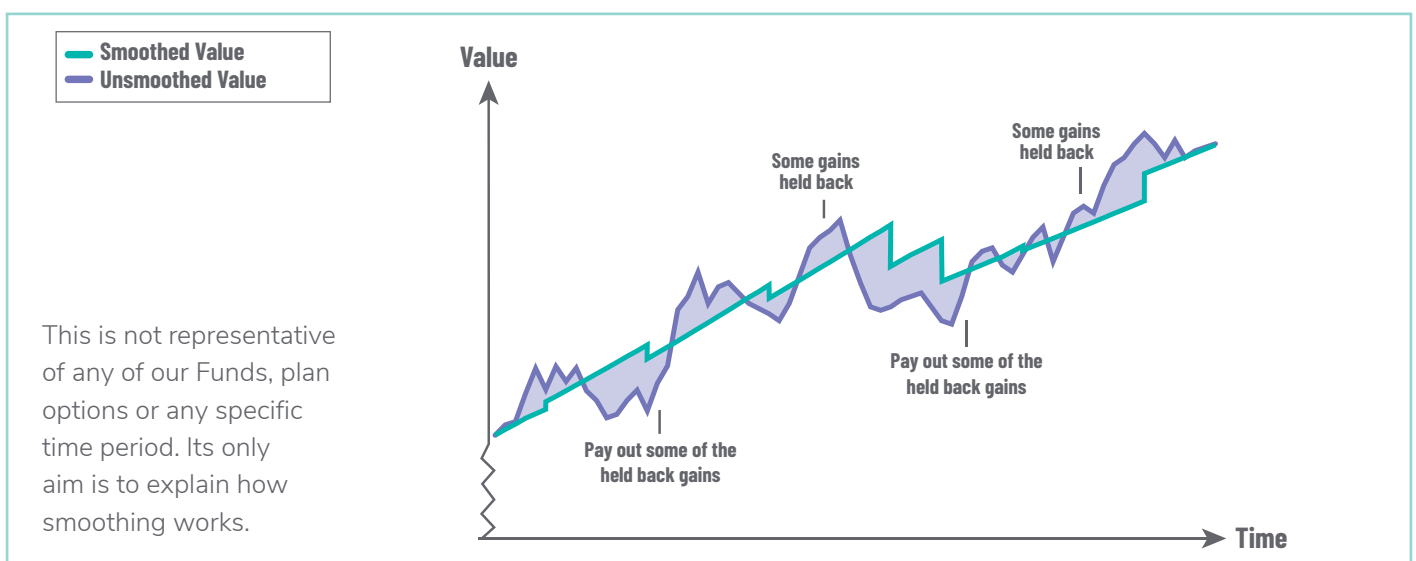
What’s smoothing?

We hold back some of the investment returns in good years with the aim of using this to support bonus rates in years where the investment return has been lower. It offers some protection against investment market conditions but it won’t stop the value of your Plan going down if investment returns have been low.

The blue line in the chart below represents the amount paid out, before any Market Value Reduction* (the smoothed value). The amount will go up or down at each bonus declaration.

For each **planholder**, the payout amount 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 mentioned earlier, we use a typical plan rather than individual plans when setting the bonus rates for plans issued in the same year



* For more information on Market Value Reductions, please see “What if you decide to move out of our With-Profits Fund?” on page five.

Is the payout guaranteed?

There's no fixed payout on a with-profits plan. We guarantee a minimum amount you'll get back from your With-Profits Plan but we'll only apply the guarantee if you move out of our **With-Profits Fund** at particular times – for instance on the selected/normal retirement date specified in your plan literature for pensions, or if you die.

The guaranteed minimum amount is the amount you have invested (adjusted for any withdrawals, where appropriate), less charges, plus any regular bonuses we've added. We'd then add any final bonus to this amount. The total payout – guaranteed minimum amount plus any final bonus – is the smoothed value of the plan.

What affects the value of 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 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 payout 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**
- **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) Smoothing

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

Over time, payout values will average 100% of the unsmoothed value. We intend that the difference between the smoothed and unsmoothed values 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 unsmoothed values of a high number of plans, we'll consider changing the bonus rates for all plans.

c) 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**. 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 overheads. The rates of charge we apply to with-profits plans to meet the costs of running the business are capped. Your Key Features Document will give you more information about the charges and costs that apply to your Plan.

d) 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 bonus rates on all plans and, in extreme circumstances, also the mix of assets in our Fund.

e) 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 bonuses allocated. This is taken into account when we set our bonuses.

f) 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 bonus rates we pay.

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.

g) Other business risks

Other risks that might 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, 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.

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

You might decide to take money from your Plan for one of the following reasons*:

- to retire early,
- to switch to another one of our Funds,
- to transfer your investment to another company, or
- to cash in your Plan.

* *Only some of these options will be appropriate for your particular plan. Please see your Key Features Document.*

In some cases if you move money out of our **With-Profits Fund**, we'll apply a Market Value Reduction or Surrender Charge.

1) Market Value Reduction

We'll only apply a Market Value Reduction (MVR) if the value of the assets underlying your Plan is less than the value of your Plan including bonuses, and we'll apply it to protect people who remain in our **With-Profits Fund** from the effects of people leaving it.

We might apply an MVR if you take money from your Plan at any date other than when a guarantee applies. Your Key Features Document sets out when a guarantee applies to your specific plan.

If an MVR applies you might not get any final bonus, or the full value of your regular bonus, and you might even get back less than you had invested. When we apply an MVR, the amount you get back from your Plan will not be less than the unsmoothed value. Unsmoothed value is described on page three.

2) Surrender Charge

If you take money from some types of plan in the first few years of an investment, we'll apply a Surrender Charge regardless of whether an MVR has been applied. If a Surrender Charge could apply to your Plan, you can find information in the Key Features Document you got when you started the Plan.

If you're considering moving out of our **With-Profits Fund** you might want to speak to a financial adviser.

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 in relation to plans transferred from SAL. However, because we have 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: 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
premium	the amount paid or to be paid by the planholder for the 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 extreme 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