

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

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

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 former 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 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?

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 four.

What are bonuses?

Bonuses are the way you get your share of the profits of the Fund. We'll include the bonus rates relevant to your plan 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 can't be removed. It's added to your Guaranteed Annuity. We'll reduce your Guaranteed Annuity each year by your Anticipated Bonus Rate (ABR). You can find out more about ABR on page four.

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.

We'll determine your Total Annuity 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.

We'll reduce your Total Annuity by a combination of your ABR and any Guaranteed Investment Return (GIR). You can find out more about GIRs on page four.

The amount of income we'll pay 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 the Fund each year. In good years we hold back some of the profit to use in years where the investment return has been lower.

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

How do we work out bonuses?

We set bonus rates 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,
- charges for guarantees,
- other charges and costs,
- taxation, and
- profits and losses from former Equitable Life **Planholders** dying sooner or living longer than expected.

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

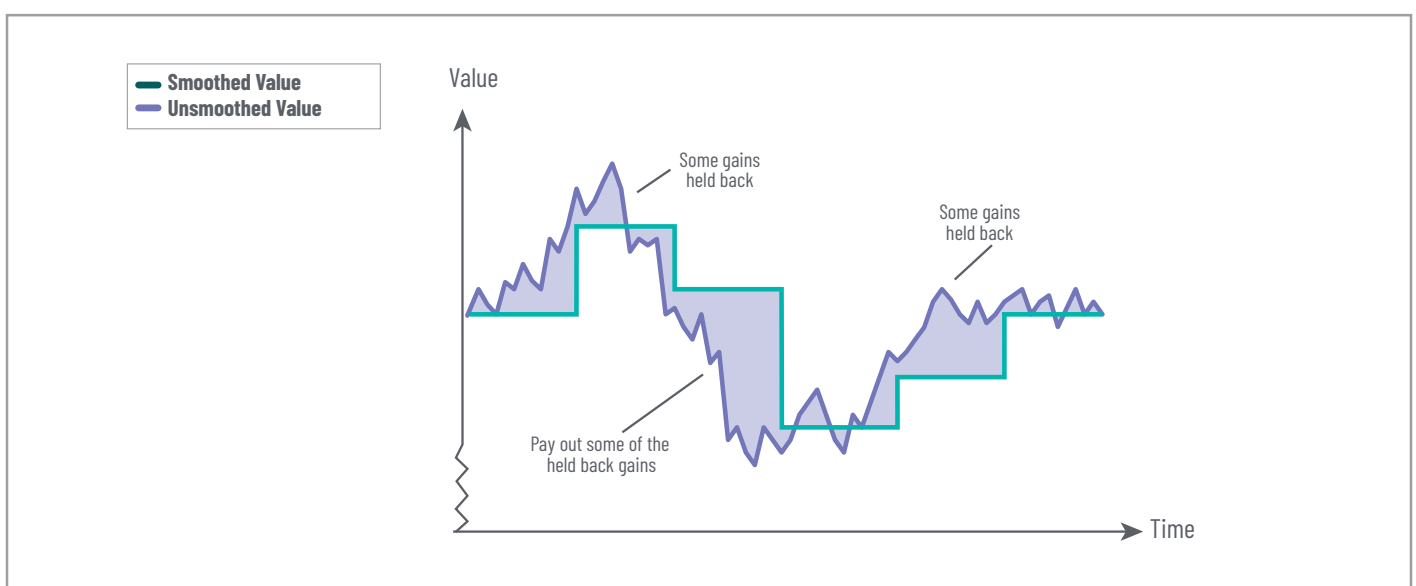
What's smoothing?

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 will not stop the income from your Plan reducing if investment returns have been low.

The light blue 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 two main reasons:

- the unsmoothed value changes each day, as the value of the Fund's assets changes,
- there will be a minimum income level (the value of the Guaranteed Annuity) under the Plan.



This is not representative of any particular plan, original term or time period. Its only aim is to explain how smoothing works.

What affects 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 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 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.

The investment return applicable to former Equitable Life plans is the same as that applicable to plans in the main **With-Profits Fund**.

b) Anticipated Bonus Rate (ABR)

You might 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 might go down over the longer term.

c) Guaranteed Investment Return (GIR)

Certain former 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 explained on page three, limits the immediate effect of investment market 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 value of a typical 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 value of a high number of plans, we'll consider changing the bonus rates.

e) Administration charges

The maximum 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 and smoothing

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

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.

h) Mortality

The annuity rates used to determine the income payable from the unsmoothed value, explained above, might also have a significant effect. However the impact of changes in our assessment of how long **planholders** might live is limited. The way these limits are applied is set out in our PPFM.

Where can you find out more?

If you'd like more information about your investment in our With-Profits, please 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 the Prudential **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 Prudential's 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
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
smoothing	adjusting returns for some of the extreme ups and downs of short-term investment performance to provide a more stable return
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