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Prudential 2009

With-Profits Explained – Group Pensions

This brochure gives a clear insight into the Prudential Assurance Company Limited (PAC) With-Profits Fund and describes how the Fund operates. It also details why we believe the PAC With-Profits Fund can be a good choice for investors and what we are currently doing to maintain investor confidence in their choice.

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2009 With-Profits Bonus Declaration

In 2009, Prudential will add a total of £2.8 billion to policy values (split £1.3 billion Regular Bonus and £1.5 billion Final Bonus), whilst helping to protect its With-Profits policyholders against the worst of stock market falls.

Given the last 12 months' volatility in all financial markets, the worst for many decades, Prudential is pleased the strength of its With-Profits Fund has allowed it to provide some protection to its policyholders.

Prudential's With-Profits Fund invests in a wide range of assets. Over 2008 the investment return of the Fund was -19.7% (before tax) against the FTSE All-Share index (total return index) which fell almost 30%.

This year some of the money held back from the better years has softened the impact for individual policyholders. We refer to this as smoothing. This is evidenced by the smaller fall in policy values than the With-Profits Fund has suffered as a whole.

Prudential has softened the blow of the fall in stock markets with values on Group Pensions policies falling, typically, between 7% and 10% over the past year. Some policyholders may see year on year changes outside of this range.

Our strength and security

Prudential has one of the largest^{††} and strongest[†] With-Profits Funds in the UK, which means we believe, we are well placed to offer the potential for competitive payments over the medium to long term.

A financially strong company is better able to withstand periods of poor stockmarket performance. It can continue to support bonuses through troubled times for longer because it has greater resources to call upon if needed when market conditions dictate.

The strength of our Fund has been supported by prudent bonus and Market Value Reduction (MVR) policies. This year regular bonus rates have been reduced by 0.5%. Limiting the proportion of guaranteed pay-out values enables us to retain flexibility in our investment policy and to protect the ongoing solvency of the Fund. In a period of historically low interest rates, with the base rate currently below 1%, the regular bonus rates continue to be attractive.

We are rated AA+ (negative outlook) by Standard & Poor's[†] for our financial strength, the second highest rating available.

This financial strength gives investment freedom, allowing us the potential to deliver competitive returns and bonuses. This financial strength has also enabled Prudential to add just under £25 billion to policy values for its with-profits customers between 1999 and 2009.

Another benefit of the Fund strength is that we can continue to sell business. The Prudential remains fully committed to With-Profits.

[†] Standard & Poor's as at February 2009.

^{††} Based on funds under management as at 31 December 2008.

Past performance is not a reliable indicator to future performance.

Investing for the long-term – Prudential's With-Profits Fund

Prudential has been offering With-Profits policies for more than 100 years and the performance of Prudential's With-Profits Fund has historically been strong. The Prudential With-Profits Fund has performed better than the With-Profits funds of our major competitors and industry indices in the UK over the 10 year period ending 31 December 2008 and compares well with our major competitors over the 5 year period ending 31 December 2008. The cumulative return on the PAC With-Profits Fund, over 5 & 10 years to 31 December 2008, was 31.7% and 67.2% respectively (both figures before tax). The total return for the FTSE All-Share index over the same period was 18.7% and 12.4% respectively.

PAC With-Profits Fund – comparative cumulative returns over 5 and 10 years

	5 years	10 years
Prudential With-Profits Fund	31.7%	67.2%
FTSE All-Share (Total Return) Index	18.7%	12.4%
FTSE 100 (Total Return) Index	18.3%	3.2%
ABI UK – Balanced (up to 85% Equity) Managed-Life	14.3%	12.3%
ABI UK – Cautious (up to 60% Equity) Managed-Life	7.0%	11.3%

Source: Prudential, Lipper Hindsight. All figures to 31 December 2008. With-Profits performance is gross of tax, charges and the effects of smoothing.

Comparative competitor returns on With-Profits Funds (gross of tax and charges)

Company	5-year Performance	10-year Performance
Prudential	31.7%	67.2%
Legal & General	27.6%	45.5%
CGNU	32.8%	45.8%
Standard Life*	29.7%	44.8%
Norwich Union	27.3%	45.0%
Friends Provident	30.7%	37.9%
Clerical Medical	23.9%	42.1%

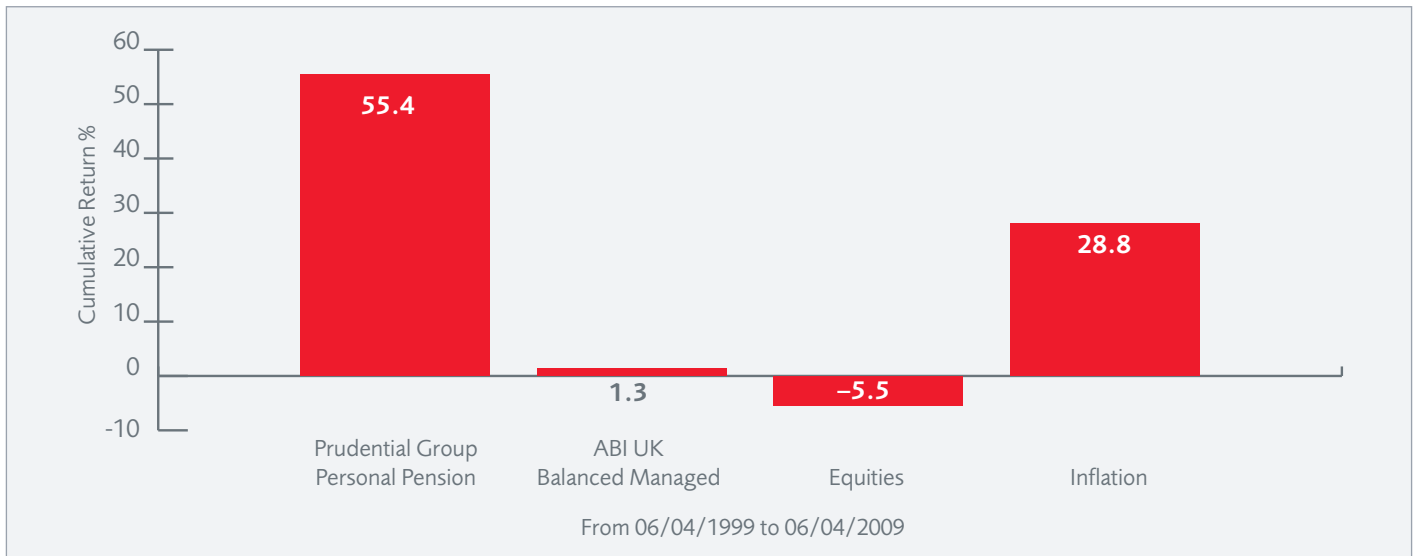
* Standard Life returns are for years 15 November to 14 November rather than calendar years up to and including 2003. Calendar years thereafter. Standard Life returns reflect their return on "Asset mix 2: With-Profits Bonds" for years 2006 through to 2008.

Source: Prudential and various. The figures in the table above have been sourced by Prudential from public Bonus Declarations, Press Releases or 3rd party reports (AKG, Cazalet Consulting).

The value of the policy will depend on how much policyholders have paid, how long it has been invested, the With-Profits Fund's investment performance while their money was invested, tax, charges and smoothing and will be sent out in their annual statement, or is available on request. As a result of these factors, the change policyholders see in the value of their policy from one annual statement to the next could be more or less than the fund returns shown above.

Past performance is not a reliable indicator of future performance.

Good real returns



Past performance is not a reliable indicator of future performance and the rate of future bonuses cannot be guaranteed.

Notes: Shows growth over a 10-year period.

For investments in With-Profits Funds, the value of the Policy depends on how much profit the Funds make and how we decide to distribute that profit.

Policyholders receive a distribution of profits by means of bonuses, or other methods as specified in the relevant policy documentation. The amount added to individual plans will be shown in policyholders' annual statements.

Inflation is included in the graph for information and does not represent an 'Investment Return'.

Prudential Group Personal Pension: Growth of 55.4% in the 10-year period to 6 April 2009 is based on £5,000 single premium invested, 104% allocation rate, 5% bid offer spread, £18 p.a. policy fee. These are the explicit charges that applied to the GPP as at 6 April 1999. For details of the current charges that apply to your contract please look in the latest plan literature. Charges may vary in the future.

ABI UK Balanced Managed: Lipper Hindsight ABI UK Balanced (up to 85% Equity) Managed-Life % growth total return, using actual performance from 6 April 1999 to 6 April 2009.

Equities: Lipper Hindsight FTSE All Share Total Return Index % growth, using actual performance from 6 April 1999 to 6 April 2009.

Inflation: Lipper Hindsight Retail Price Index, using actual inflation from 6 April 1999 to 6 April 2009.

Recent stock market volatility has highlighted the benefits of with-profits smoothing for long-term investors. We believe that with-profits policies continue to offer the potential for competitive real returns over the longer term. These factors combine to mean with-profits investments could be an ideal part of many investment portfolios.

Even with lower bonuses than applied during the high inflation era, our performance is extremely competitive in relative terms against indices and competitors in the longer term.

Our view on future bonuses

Future bonus rates will be dependent on future investment returns and the experience of the Fund. We believe we are still well placed to offer competitive results as we remain one of the strongest UK insurers and have an experienced team managing the Fund. The Prudential With-Profits Fund has performed better than the With-Profits funds of our major competitors in the UK over the 10 year period ending 31 December 2008 and compares well with our major competitors over the 5 year period ending 31 December 2008.

Our commitment to With-Profits

We believe with-profits has a key role to play in an investment portfolio and our financial strength enables us to continue competing in this market. We believe with-profit funds from the strongest providers, like Prudential, have a good future.

With-profits can help to meet the needs of policyholders who are looking for better potential returns over the longer term. As with any medium risk investment there is a risk to your capital because you are partly invested in equities. Those who have been invested in with-profits for the long-term have done much better than many other investors who have been invested directly in the stockmarket – who have sometimes seen quite dramatic falls in the value of their original investment. Our PAC With-Profits Fund has provided competitive long-term returns and, this year in particular, our policyholders have benefited from the smoothing of with-profits returns.

Ensuring fair and accurate With-Profits' management

We established an independent With-Profits Committee in January 2005 and this committee has overseen the approach to and setting of the 2009 bonus declaration.

The committee assesses how we balance the rights and interests of policyholders and shareholders in relation to our with-profits funds and whether we comply with our Principles and Practices of Financial Management.

Fund Management

The Fund Manager

The assets of the PAC With-Profits Fund are managed by the various asset management companies of Prudential around the world.

Prudential is one of the UK's biggest institutional investors, managing in excess of £249 billion* of assets globally. At 31 December 2008, the size of our PAC With-Profits Fund was approximately £57 billion.

With approximately 500 investment specialists, based in a number of major financial centres around the world, we use this global expertise to invest in equities, bonds, property, cash and alternative assets (such as venture capital) on behalf of the PAC With-Profits Fund.

* As at 31 December 2008.

Aim

The investment objectives of the PAC With-Profits Fund are to secure, on behalf of its policyholders, the highest combination of income and growth in capital value (allowing for the effect of taxation), whilst maintaining the security of the Fund.

Investment Philosophy

We believe in active management and that a sound and consistent investment philosophy is vital to delivering an above average investment return.

Our investment philosophy places emphasis on the long-term returns and controlling risk. It is based on fundamental analysis to identify quality assets at attractive valuations which should deliver attractive returns.

We believe that investment markets are not always efficient and that periodically market prices may not reflect fundamental value. This is a consequence of our observation that investment decision-making is often irrational, driven by fashion and the comfort of acting with the crowd rather than looking at the true quality of any investment.

It is easy to recognise quality with hindsight; finding it in advance is where the skill lies. Our investment professionals apply considerable resources to independent fundamental research and analysis to identify attractive opportunities and apply a rigorous investment process in managing the assets of the Fund.

Strategy and Asset Allocation

Dedicated specialists steer the long-term direction of the PAC With-Profits Fund and agree short term tactical investment decisions. Clearly defined investment mandates have been established and are regularly monitored. The Fund's asset allocation is designed to optimise the potential medium to long-term investment returns while controlling risk.

The benchmark, which reflects the desired medium to long-term asset distribution, is derived by extensive modelling of the different asset classes together with the liabilities of the PAC With-Profits Fund. This takes into account the expected real returns on, and the volatility of income and capital values of, these asset classes. The benchmarks are reviewed regularly.

The solvency of the Fund is paramount and is monitored daily. Although the PAC With-Profits Fund is large and invested for the long-term, it may be necessary (for example, due to solvency considerations) or advantageous to make changes in the investment mix. Prudential's asset management companies, through their experience in using financial instruments, can implement changes efficiently.

The main asset classes in which the PAC With-Profits Fund is currently invested are:

UK Equities

UK equities have the potential to give good long-term returns compared to inflation levels.

Policyholders expect the value of their investments to grow, not only in nominal terms, but also in real terms, and therefore we view this asset class as a good match for achieving this over the longer term.

Overseas Equities

The overseas equity markets are viewed as an essential alternative to the UK equity market, not only because some markets may represent better value but also because of different industries which may not be available in the UK. In addition, overseas investment helps to diversify risks.

Asset allocation decisions between markets are based on economic, financial and political factors across each region and the countries within each region.

The main areas in which funds are invested are:

- Europe
- United States
- Japan
- Pacific Basin

Investment Returns



Past performance is not a reliable indicator of future performance.

UK Retail Price Index is included in the graph for information and does not represent an 'Investment Return'.

Source: UK Equities: Lipper Hindsight FTSE All Share TR % Growth TR GBP. INTL Equities: Lipper Hindsight FTSE World ex UK TR GBP % Growth TR GBP. Inflation: Lipper Hindsight UK Retail Price Index % Growth TR GBP. Property: Lipper Hindsight ABI UK – Global Property-Life % Growth TR GBP. Fixed Interest: Lipper Hindsight ABI UK – UK Sterling Fixed Interest-Life % Growth TR GBP.

Property

Commercial property is an important investment alternative to UK and overseas equities. However, many financial institutions are unable to benefit from investing in property due to the considerable resources needed to create an effective property portfolio. The PAC With-Profits Fund benefits from the scale of Prudential Property Investment Management's operations which enables them to provide a comprehensive investment management service.

We believe that:

- the right choice of property represents good long-term value; and
- property performance tends to be out of step with equity performance, providing good investment diversification.

Fixed Interest and cash

This part of the Fund comprises primarily UK, Euro and US public and private debt and cash on deposit. Key investment decisions are based on future interest rate trends and inflationary expectations, amongst other indicators. Currently, corporate debt is the major part of the PAC With-Profits Fund's holdings in fixed interest. Dedicated credit analysts evaluate investment risk and the potential reward of corporate debt as an alternative to government issues.

Changes to the PAC With-Profits Fund during 2008

Our with-profits contracts are long-term with relatively low guaranteed amounts. This combined with the strong financial position of the Fund enables us to invest primarily in equities and property.

Our investment strategy at the end of December 2008 positioned the Fund's holding 70/30 between real assets and fixed interest (including cash).

The high equity backing ratio means the Fund is well positioned to benefit from the expected long-term superior returns from equities and property. These assets have the potential to offer superior real returns, for example, they may offer some protection of future wealth and spending power against the impact of inflation.

The bond exposures are an internationally diversified portfolio of corporate bonds having an average credit rating of BBB+.

The Fund remains extremely well diversified geographically, by asset type and within the underlying stock portfolios, which we believe is an attractive feature of our with-profits proposition. It helps reduce risk or volatility by insulating the total Fund from potential weakness in any particular market of stock.

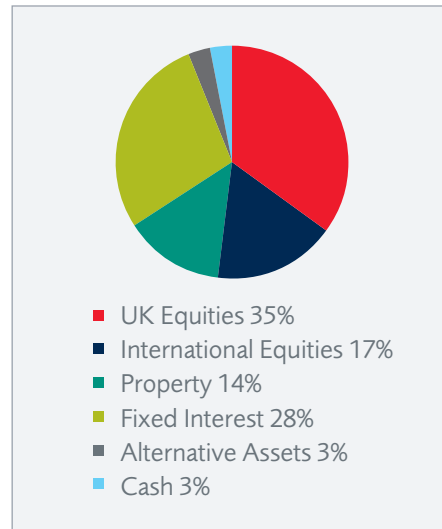
This mix of risk assets offers attractive risk adjusted long-term returns and a good degree of protection from volatility in equities. The US dollar and euro exposures on the fixed income portfolios are hedged.

We are confident that our current Fund structure represents a sound approach to asset allocation, particularly as our financial strength gives us the flexibility to adapt to market changes. This is an extremely strong and resilient Fund. This means that as investors we have a lot of flexibility to take opportunities in the current distressed and volatile market conditions. It also gives us the strength to do the smoothing that is an important part of the Fund's appeal.

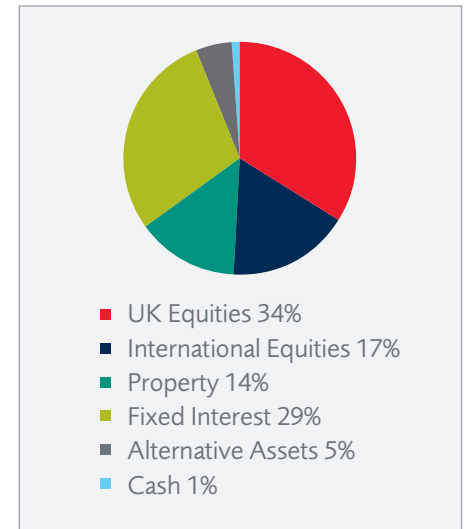
These charts show the asset allocation of the PAC With-Profits Fund at the end of 2007 and 2008. Our analysis shows that the current asset distribution has the potential to deliver attractive long-term real returns to our policyholders while maintaining a high level of financial strength.

Asset allocations are kept under review and could change in the future if the company were to believe that such a change might benefit its policyholders or, where necessary, to maintain the security of the Fund.

PAC With-Profits Fund asset allocation as at 31/12/2007



PAC With-Profits Fund asset allocation as at 31/12/2008



Converting Returns into bonuses

Bonus Philosophy

Fairness to all policyholders is fundamental to our bonus policy.

In setting bonuses, our main objectives are:

- To give each with-profits policyholder a return on their payments which reflects the earnings of the underlying investments while helping to smooth the peaks and troughs of investment performance; and
- To ensure that with-profits policyholders receive a fair share of the profits distributed from the PAC With-Profits Fund by way of bonus additions to their policies.

Payments into the With-Profits Fund are pooled together with those of other policyholders and invested in a wide range of assets, as previously described.

For any insurance company, bonuses on with-profits policies are set by the company's Board of Directors.

Asset Shares

In order to help achieve these objectives, regular financial analyses are carried out, currently the most important of which is an examination of the accumulated asset shares for sample policies.

Asset shares are calculated for typical policies becoming claims. We do this by accumulating the premiums paid, less deductions for expenses and charges, at the actual rates of return earned on the assets of the PAC With-Profits Fund over the lifetime of these policies. These rates of return include both income and changes in investment values within the Fund. The deductions from asset share also allow for the shareholders' share of divisible surplus, the charges required to cover the expected cost of guarantees, and any adjustment that should be made to reflect profits or losses from non-profit business that is written in the PAC With-Profits Fund and from other miscellaneous sources. This is all done on a "best estimate" basis.

We set policy values to target asset share, subject to smoothing.

Smoothing

Equating policy values with asset share at all times would reflect the actual returns achieved over the lifetime of the policy. However, this would also mean that policyholders bear all the investment risk. Smoothing is applied so that in normal investment conditions the total payout values actually paid only change gradually over time. In doing this, we also take into account the expected future trend in asset shares.

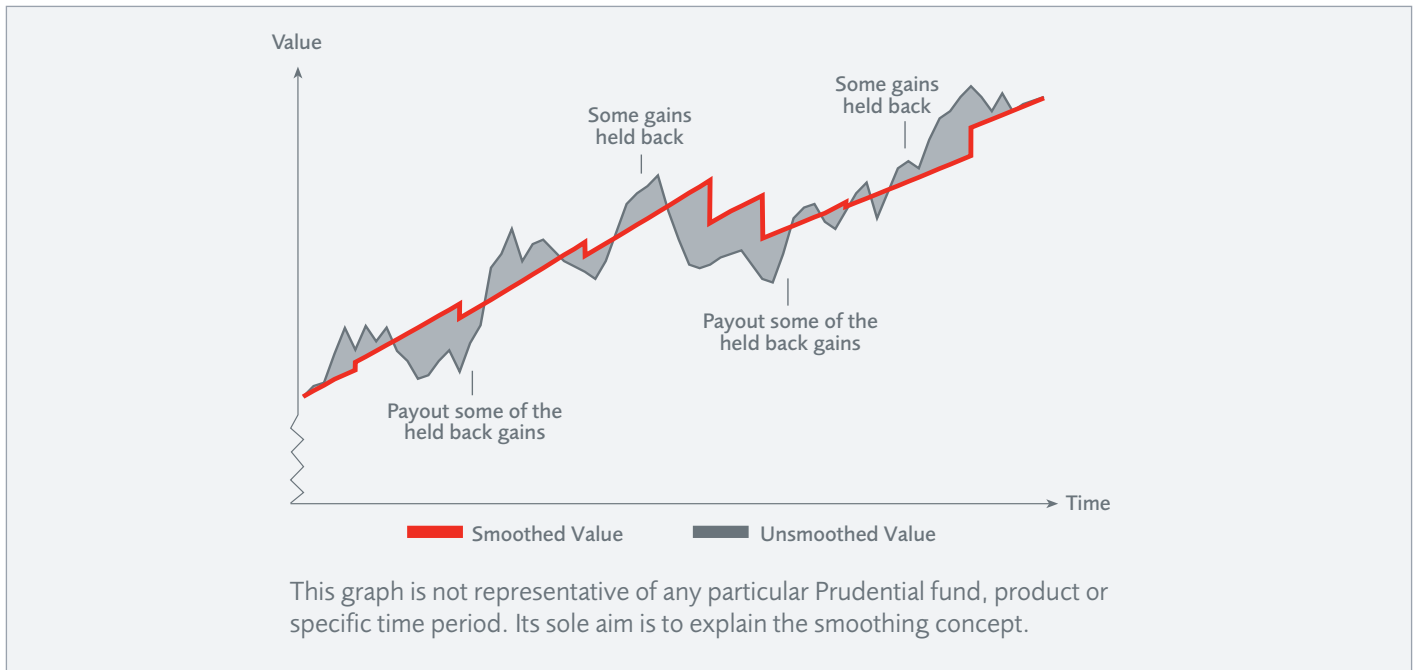
In normal investment conditions, we aim to ensure that total pay-outs on policies of the same duration do not change by more than 10% from one year to the next. Greater flexibility may be required in certain circumstances, for example following a significant rise or fall in market values, such as occurred in 2008.

The impact of smoothing over the longer term is illustrated by the diagram overleaf. This illustrates how a with-profits investment could provide less volatile returns than investments directly linked to the value of the underlying assets.

Our intention is that any profits or losses from smoothing should balance out over time, so that in the long run, with-profits policyholders, as a whole, neither gain nor lose as a result of our smoothing policy.

Effects of smoothing

The payment amount is represented by the smoothed value on the chart below. It moves up or down at each bonus declaration.



The smoothing technique is used in such a way that in relatively good years the full return is not credited to the investor but some of it is held back in reserve.

Types of bonus

Our with-profits investments have two types of bonus.

Regular bonuses (also known as annual or reversionary bonus) accumulate throughout the lifetime of policies and once added are guaranteed to be paid on normal retirement date or earlier death. However, if you withdraw your funds for any other reason a market value reduction may be applied which may be taken from the regular bonuses previously credited.

Regular bonus rates are declared at least once each year. Rates of regular bonus are determined for each type of policy primarily by targeting them at a prudent

proportion of the long-term expected future investment return on the underlying assets. We hold back some of this return to give us the potential to pay Final Bonuses. This helps to maintain flexibility for our investment strategy and also helps to protect the ongoing solvency of the Fund. The rate of future regular bonuses cannot be guaranteed.

Our Cash Accumulation contracts usually contain a minimum regular bonus rate. This rate varies depending on when premiums were paid and when the pension scheme was set up. We add regular bonuses to the value of the policy (including previous regular bonus additions, but excluding final bonus).

If, for part of the fund the rate of regular bonus is less than the minimum regular bonus rate, then this part of the fund accumulates at the minimum regular bonus rate.

Final Bonus makes up the difference between the guaranteed benefits and the claim value, allowing for smoothing.

We set Final Bonus rates to ensure that policyholders receive a fair return. If the regular bonuses added during the life of a policy do not represent what we believe to be a fair return, we aim to add a final bonus to increase the final value of a policy.

Final bonus may vary and is not guaranteed.

Surrender values

General principles

The nature of with-profits investments is that asset values can be higher or lower than the value of the policy including bonuses. If we were always to pay the higher amount on surrender, it would be possible for policyholders to secure an advantage by surrendering their policies at a time when asset values were significantly lower than the value of the policy with bonuses. In these circumstances, we believe that it is fair for policyholders to receive a surrender value that generally reflects the movement in the underlying assets. Otherwise, such surrenders would undoubtedly impact on the amounts we could eventually pay to continuing policyholders.

Our surrender value approach therefore looks to differentiate between surrenders which are potentially a result of an investment decision to the detriment of continuing policyholders and those where we do not believe this to be the case.

We therefore look to protect continuing policyholders and avoid paying surrender values in excess of the value of the underlying assets. This is achieved by applying a Market Value Reduction (MVR) when necessary. The adjustment to the Fund (including regular and any final bonus) is in addition to any Discontinuance Charge which may apply in accordance with the policy provisions.

On normal retirement date or on death, we guarantee to return a smoothed benefit to investors with no MVR being applied.

It is not our intention to apply MVRs which reduce surrender values below an amount fairly reflecting the movement in assets underlying the policies.

MVR Practice for Prudential Grouped Pension arrangements

In general, our surrender value practice, which is not guaranteed, is as follows:

NB. "surrender" for pensions business usually means the transfer of the fund to another pension provider.

For Individual Members of Occupational Pension Schemes (MPPs and AVCs)

Where a defined contribution grouped arrangement or group scheme is partially or wholly terminated, it is our practice to relate the surrender value to the market value of assets underlying the contract, where the latter is lower.

If money is taken out of the PAC With-Profits Fund, we may make an adjustment to policyholders fund value if the value of the underlying assets is less than the value of policyholders Plan including all bonuses. This adjustment is known as a Market Value Reduction (MVR). It is designed to protect investors who are not taking their money out and its application means that policyholders get a return based on the earnings of the PAC With-Profits Fund over the period their payments have been invested. We apply the MVR to their Plan value including regular and final bonuses. If investment returns have been very poor, they may get back less than they have invested in their Plan. We do not apply an MVR at their company's normal retirement date or on any claims due to death.

Our current practice is not to apply an MVR if policyholders retire before or after their company's normal retirement date. However if a member transfers to another pension provider, or switches funds out of the PAC With-Profits Fund we may apply an MVR.

We reserve the right to change our practice at any time, in particular in the light of a significant move in the investment market or in the event of a significant increase in the level of withdrawals taken by our policyholders.

Any change we make to our practice would be applied without prior notice and would apply to existing Plans as well as to any new Plans.

For Individual Members of Group (or Grouped) Personal Pension Plans

If money is taken out of the PAC With-Profits Fund, we may make an adjustment to policyholders fund value if the value of the underlying assets is less than the value of policyholders Plan including all bonuses. This adjustment is known as a Market Value Reduction (MVR). It is designed to protect investors who are not taking their money out and its application means that policyholders get a return based on the earnings of the PAC With-Profits Fund over the period policyholders payments have been invested. We apply the MVR to their Plan value including regular and final bonuses. If investment returns have been very poor, they may get back less than they have invested in their Plan. We do not apply an MVR at their selected pension date or on any claims due to death.

Our current practice of applying an MVR is as follows:

We may apply an MVR, to full or partial withdrawals as a result of switches or transfers, on all investments that have been running for less than five years. For investments that have been running for longer periods, we would consider the application of an MVR on any particular withdrawal where that withdrawal results in the total amount paid out, including any other payments in the previous 12 months, exceeding £25,000. We would only apply the MVR to the withdrawal amount in excess of £25,000 in these circumstances. As Plans

approach the selected pension date, the size of any MVR that would apply could be expected to gradually reduce. We do not currently apply an MVR on full withdrawals as a result of early or late retirements.

The impact of an MVR will be to reduce the amount payable on a withdrawal.

We reserve the right to change our practice at any time, in particular in the light of a significant move in the investment market or in the event of a significant increase in the level of withdrawals taken by our policyholders.

Any change we make to our practice would be applied without prior notice and would apply to existing Plans as well as to any new Plans or top-ups.

Full product terms and conditions are available on request from **Prudential, Stirling FK9 4UE.**

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