22 February 2005

PRUDENTIAL

Prudential with-profits bonus announcement 2005

Contents:

Prudential with-profits bonus overview 2005

Prudential shows strength with buoyant bonuses

- Total bonus rates **increased or maintained on all unitised plans,** and **good year-on-year increases** in the value of nearly all with-profits policies

- Exceptionally **strong investment-return** on the Prudential with-profits fund of 13.4% (before tax and charges)
  - This compares to the FTSE 100 index (Total Return) of 11.25%
  - Over the last five years, the with-profits fund has **delivered a pre-tax return of 20.7%, compared to a negative total return of –19.5%** from the FTSE 100 index over the same period

- **Policies paying out in 2005 show strong increases** compared with their position a year ago

  - o 10-year Prudence Bond (£10,000 single premium) **up 7.9%** on its 9-year value in 2004
  - o 15-year Personal Pension (£200 per month regular premiums) **up 7.75%** on its 14-year value in 2004
  - o 20-year Personal Pension (£200 per month regular premiums) **up 10.7%** on its 19-year value in 2004
  - o 25-year With-Profits Mortgage Endowment (£50 per month regular premiums based on male aged 30 at start of contract) **up 11.1% for Prudential and 13.8% for ScotAm** on its 24-year value in 2004

    Note – All figures are after deduction of tax and charges

- Annual bonus rates are being maintained for all business

- With-profits annuities total bonus **increased to 7.12%** (6.35% in 2004)

- Buoyant performance enables Prudential to **add £2.2 billion** to policy values

- The with-profits fund of Prudential is the UK's largest, with more than **£73 billion** under management and has **5.5 million policyholders** (inclusive of the Scottish Amicable Insurance Fund)

- Prudential mortgage endowments maturing in 2005 will meet repayment targets and we've seen a significant improvement in Scottish Amicable policies meeting repayment targets

- A 25-year savings endowment has delivered an **annualised return of 8.7%** net of tax and charges, well ahead of comparable returns for deposits

- Prudential remains committed to maintaining a fair Market Value Reduction (MVR) policy. This currently allows customers to withdraw £25,000, free of any MVR adjustment, in any 12-month period, assuming the money has been in the same with-profits fund for at least five years.

David Belsham, Actuarial Director, Prudential Assurance, said:

“We are now seeing the benefit of long-term prudence. We took early action to protect policyholders’ funds by switching out of equities ahead of the prolonged bear market and policyholders are now benefiting from the strong returns earned on Prudential’s with-profits fund.

“This year’s bonus declaration shows that with-profits continues to be an attractive investment for policyholders when provided by a financially strong and well managed fund, such as Prudential.”

Mark Wood, Chief Executive, Prudential UK and Europe, said:

“We know from talking to our customers that many people are still looking for attractive returns, but are not prepared to take on the risk associated with investing directly in the stock market.

“As a result, we are confident about the future of the with-profits market and we believe with-profits continues to offer a valuable way of saving. Our financial strength enables us to compete strongly in this market.”

Prudential established its independent with-profits committee in January 2005.

This committee assesses effectively and appropriately how the company balances the rights and interests of policyholders and shareholders in relation to its with-profits funds, and whether Prudential complies with its Principles and Practices of Financial Management.

Continued/….

The committee comprises three members, all of whom are independent of Prudential. They are:

- Andreas Whittam Smith, First Church Estates Commissioner and the founding Editor of The Independent newspaper;
- Michael Arnold, a Principal and Head of the Life practice in the London office of Milliman; and
- Jeremy Goford, until recently Principal of Tillinghast-Towers Perrin and President of the Institute of Actuaries.

The committee has overseen the approach to, and setting of, the 2005 bonus declaration.

Full details of Prudential's 2005 bonus announcement are available from:

- **the Prudential UK Press Office**
- **www.pru.co.uk/presscentre**
- **www.headlinemoney.co.uk**

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What this means for customers

Key points:

- Total bonus rates increased or maintained on all individual unitised plans and good year-on-year increases in the value of nearly all of our with-profits policies

- Exceptionally strong investment-return on the Prudential with-profits fund of 13.4% gross.
  - This compares to the FTSE 100 Index (Total Return) of 11.25%.
  - Over the last five years, the with-profits fund has delivered a pre-tax return of 20.7%, compared to a negative total return of –19.5% from the FTSE 100 index over the same period.
- Policy payouts continue to produce significant year-on-year increases and compared to their value in 2004 have increased by:

  - 10-year Prudence Bond (£10,000 single premium) **up 7.9%**
  - 15-year Personal Pension (£200 per month regular premiums) **up 7.7%**
  - 20-year Personal Pension (£200 per month regular premiums) **up 10.7%**
  - 25-year with-profits endowment (£50 per month regular premiums; male aged 30 next birthday at outset) **up 11.1%**

  Note – all figures after deduction of tax and charges

- Annual bonus rates are being maintained for all business

- A 25-year savings endowment has delivered an annualised return of 8.7% net of tax and charges, well ahead of comparable returns for deposits

Annual bonus rates for 2005 and how they compare to last year

Annual bonus rates for 2005
Prudential takes a prudent approach to fund management, smoothing and bonus rates. It's this approach which has allowed us to continue to pay bonuses and provide policyholders with competitive returns over recent years, despite difficult market conditions.

Prudential will pay two types of bonuses this year:

- **Annual (or regular) bonuses** are added to policies each year in order to gradually increase the plan value (excluding MVR, or cash-in charges).

- **Final (or terminal) bonuses** may be added when the benefits of a policy mature, are cashed-in/transferred or the policyholder dies. These bonuses are used to make up the difference between the guaranteed benefits (annual bonuses) and the overall smoothed value of each customer's policy asset shares. Prudential uses these bonuses to return to each policyholder a fair share of the assets of the with-profits fund, while smoothing for the impact of market changes, especially around the date of maturity. Payment of a final bonus is not guaranteed.

Please refer to Prudential's PPFM for further details.

Examples of annual bonus rates

Product	Regular/Annual Bonus Rate %				New Money Rate %		
Prudence Bond	**2005**	**2004**	**Change**		**2005**	**2004**	**Change**
Prudence Bond (Optimum Return) No Initial Charge	3.25	3.25	0.00		5.00	5.00	0.00
Pension							
Pru Personal Pensions	3.25	3.25	0.00		6.25	6.25	0.00
Mortgage Endowments	1.00/ 2.00*	1.00/ 2.00*	0.00		N/A	N/A	N/A
Retirement Income							
With-Profits Annuities	2.75	2.75	0.00		6.00**	6.00	0.00

*-% sum assured / % of attaching regular bonus
**This is the bonus that will apply on first policy anniversary in 2006

Full details of all annual bonus rates are available on request.

Payout values for Prudence Bond, personal pensions and savings endowments

Payout values have increased year-on-year
What is important to our policyholders is the value added to their policy each year rather than a comparison with the benefit they would have got if they had invested over a different period, for example, if they had held a similar policy which had 'matured' exactly 12 months ago.

Therefore, in the examples that follow, we show what our policyholders will see in relation to their investment in 2004 versus that in 2005.

In recent years all of our policies have been re-branded 'Prudential' and are now sold under one brand. Historically, however, we operated two brands, Prudential and Scottish Amicable, and for the purposes of this announcement we have maintained the split so it is clear to see which example relates to which policies.

Prudential

Typical increase in Prudence Bond policy values

Prudence Bond With-Profits Bond		Year-on-Year Increase in a Bond's Value #			**Annual Increases in Cash-in values***
Policy Duration In 2005 (2004)	**Single Premium**	**Bond Value 2005**	**Bond Value 2004**	**Increase in Value over 2004**	**%**
5-years (4-years)	£10,000	£11,990	£11,310*	+£680	+6.0
7-years (6-years)	£10,000	£13,367	£12,694	+£673	+5.3
10-years (9-years)	£10,000	£17,886	£16,583	+£1,303	+7.9

before deducting any MVRs
* after deducting the 1% discontinuance charge at 4years duration

Prudence Bond's performance relative to alternative investment products

Investment Product	Total Payout	Annualised return
Prudential With-Profits Bond (10 year , £10,000 single premium)	**£17,886**	**+6.0%**
Average 90 day building society account	£12,250	+2.1%
Average balanced managed unit trust	£18,387	+6.3%
Average balanced managed unit-linked life fund	£16,199	+4.9%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

What this means for the Typical Prudence Bond Customer

A typical customer with a Prudence Bond policy will have seen its value increase from **£10,000 to £17,886** over the ten years up to 6th April 2005. By investing with Prudential over the last 12 months, the policyholder's bond is worth **7.9 per cent more** than it was on 1 May 2004. This payout represents an overall return of **6.0 per cent** each year over the last 10 years. The same customer would only have received a **2.1 per cent p.a.** return in interest paid if their money had been in a deposit account (although the capital would have been guaranteed - see Notes 1-3), or **6.3 per cent return p.a.** on a unit trust over the same 10-year period (See notes 1-3).

Note: all figures are after tax and charges

Prudential Personal Pension

Personal pension* For policies maturing in 2005		**Year-on-Year Increase in a Policy's Value**			**Annual Increase in cash-in value, after allowing for premiums paid during the year**
Policy Duration In 2005 (2004)	**Regular Premium**	**Policy Value 2005**	**Policy Value 2004**	**Increase in Value over 2004**	**%**
5 Years (4 years)	£200 p.m.	£13,804	£10,607	+£3,197	+6.1
10 Years (9 years)	£200 p.m.	£30,133	£25,867	+£4,266	+6.6
15 Years (14 years)	£200 p.m.	£61,030	£54,274	+£6,756	+7.7
20 Years (19 years)	£200 p.m.	£120,776	£106,665	+£14,111	+10.7

** Prudential Personal Retirement Plan for policy durations of 19 and 20 years*

Prudential's Personal Pension performance relative to alternative investment products

Investment Product	Total Payout	Annualised return
Prudential With-Profits Individual Pension (20 year term, £200 per month regular premiums)	**£120,776**	**+8.5%**
Average 90 day building society account	£73,452	+4.1%
Average UK balanced managed unit trust	£111,035	+7.7%
Average balanced managed unit-linked life fund	£87,281	+5.6%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

What this means for the typical Individual Pension Customer

For a typical male personal pension customer, who has paid £200 per month into their pension for 20 years and is retiring at age 65, the fund is **£120,776**. If the same customer had decided to transfer the policy last year, he would have received 10.7% less than if he had kept the policy for another year (after allowing for the premiums paid in the year).

Note: all figures after tax and charges

Scottish Amicable

Scottish Amicable Personal Pension		**Year-on-Year Increase in a Policy's Value #**			**Annual Increase in cash-in value, after allowing for premiums paid during the year ****
Policy Duration In 2005 (2004)	**Regular Premium**	**Policy Value Date 2005**	**Policy Value Date 2004**	**Increase in Value over 2004**	**%**
5 Years* (4 years)	£200 p.m.	£13,790	£10,419	+£3,371	+8.3
10 Years (9 years)	£200 p.m.	£32,704	£29,317	+£3,387	+3.2
15 Years (14 years)	£200 p.m.	£68,493	£64,518	+£3,976	+2.4
20 Years# **(19 years)**	£200 p.m.	£128,191	£119,597	+£8,594	+5.1

*Ex-SAL policy.
** after allowing for premiums paid during the year
# Conventional policy (RNI basis)

Scottish Amicable's Personal Pension performance relative to alternative investment products

Investment Product	Total Payout	Annualised return
Scottish Amicable With-Profits Individual Pension (20 year term, £200 per month regular premiums)	**£128,191**	**+8.9%**
Average 90 day building society account	£73,452	+4.1%
Average balanced managed unit trust	£111,035	+7.7%
Average balanced managed Unit-linked life fund	£87,281	+5.6%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

Savings Endowments

Prudential

With-Profits Endowment 25 Year Policy (male 30 next birthday at outset)		Year-on-Year Increase in a Policy's Value			Annual Increase in cash-in values, after allowing for premiums paid during the year*
Policy Duration In 2005 (2004)	**Regular Premium**	**Policy Value Date 2005**	**Policy Value Date 2004**	**Increase in Value over 2004**	**%**
10-years (9-years)	£50 p.m.	£5,619	£4,850	+£769	+3.1
15-years (14-years)	£50 p.m.	£12,964	£11,341	+£1,623	+8.6
20- years (19-years)	£50 p.m.	£24,679	£22,020	+£2,659	+9.1
25-years (24-years)	£50 p.m.	£50,489	£44,831	+£5,658	+11.1

*after allowing for premiums paid during the year

Savings endowments performance relative to alternative investment products

Investment Product	**Total Payout**	**Annualised return**
With-Profits Endowment (25 Year Term, £50 per month regular premiums; male aged 30 next birthday at outset)	**£50,489**	**+8.7%**
Average 90 day building society account	£25,205	+3.9%
Average balanced managed unit trust	£59,092	+9.7%
Average balanced managed unit-linked life fund	£40,125	+7.1%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

What this means for the typical with-profits endowment customer
For a typical customer who holds a twenty-five year with-profits endowment paying a premium of £50 per month, the payout value on maturity is £50,489, which reflects an 8.7% return (net of tax and charges), for each of the 25 years.

Note: all figures after tax and charges

So who isn't getting an increase?

Less than 1,000 policyholders may not see an increase in their policy values.

The issue for them is not that they won't see their annual bonus maintained – they will - but rather it is the impact of charges in the early years on a long-term policy. This means that over the course of the year, the charges applied are slightly higher than the bonus paid, thereby reducing the value of the fund on a net basis.

Mortgage Endowments

Key points:

- All Prudential endowments maturing in 2004 met their repayment targets - the average surplus on policies was £1,900
- We expect 8,376 Prudential policies to mature in 2005, all of which will meet their repayment targets, the average surplus expected to be £2,200
- 89% of Scottish Amicable endowment policies maturing in 2004 met their repayment target with an average surplus of £2,900. The remaining 11% had an average shortfall of £890
- We estimate that of the 17,000 Scottish Amicable policies maturing in 2005, around 4.5% (680) are not anticipated to meet their target amount with an average shortfall of £1,050
- We've seen a significant improvement in the number of Scottish Amicable customers whose policies will meet their repayment targets
- We announced in June 2004 that all mortgage endowment customers who feel they have been mis-sold their product will currently face no deadline to lodge their complaint.

Payout values for mortgage endowment customers
Prudential

Prudential With-Profits Mortgage Endowment 25 Year Policy (male 30 next birthday at outset)		**Year-on-Year Increase in a Policy's Value**			**Annual Increase in cash-in values, after allowing for premiums paid during the year***
Policy Duration In 2005 (2004)	**Regular Premium**	**Policy Value Date 2005**	**Policy Value Date 2004**	**Increase in Value over 2004**	**%**
10-years (9-years)	£50 p.m.	£5,459	£4,711	+£748	+3.1
15-years (14-years)	£50 p.m.	£12,149	£10,628	+£1,521	+8.6
20- years (19-years)	£50 p.m.	£23,895	£21,320	+£2,575	+9.1
25-years (24-years)	£50 p.m.	£47,798	£42,441	+£5,357	+11.1

*after allowing for premiums paid during the year

Prudential Mortgage endowments performance relative to alternative investment products

	Total Payout	Annualised return
Prudential With-Profits Endowment (25 Year Term, £50 per month regular premiums; male aged 30 next birthday at outset)	**£47,798**	**+8.3%**
Average 90 day building society account	£25,205	+3.9%
Average balanced managed unit trust	£59,092	+9.7%
Average balanced managed unit-linked life fund	£40,125	+7.1%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

What this means for the typical Prudential mortgage endowment customer
For a typical customer who holds a twenty-five year with-profits endowment paying a premium of £50 per month, the payout value on maturity is £47,798, which is equivalent to 8.3% return (net of tax and charges) for each of the 25 years.

Note: **all figures after tax and charges**

Scottish Amicable

Scottish Amicable With-Profits Mortgage Endowment 25 Year Policy (male 30 next birthday at outset)		**Year-on-Year Increase in a Policy's Value**			**Annual Increase in cash-in values, after allowing for premiums paid during the year ***
Policy Duration In 2005 (2004)	**Regular Premium**	**Policy Value Date 2005**	**Policy Value Date 2004**	**Increase in Value over 2004**	**%**
10-years (9-years)	£50 p.m.	£7,763	£6.238	+£1.525	+14.1
15-years (14-years)	£50 p.m.	£15,247	£13,016	+£2,231	+12.2
20- years (19-years)	£50 p.m.	£27,469	£24,563	+£2,906	+9.3
25-years (24-years)	£50 p.m.	£47,531	£41,192	+£6,339	+13.8

"after allowing for premiums paid during the year

Scottish Amicable's mortgage endowment performance relative to alternative investment products

	Total Payout	**Annualised return**
Scottish Amicable With-Profits Endowment (25 Year Term, £50 per month regular premiums; male aged 30 next birthday at outset)	**£47,531**	**+8.2%**
Average 90-day building society account	£25,205	+3.9%
Average balanced managed unit trust	£59,092	+9.7%
Average balanced managed unit-linked life fund	£40,125	+7.1%

NOTE: Prudence Bond - capital at risk
90-day account – capital secure
Averaged balanced fund – capital at risk

What this means for the typical Scottish Amicable mortgage endowment customer
For a typical customer who holds a twenty-five year with-profits endowment paying a premium of £50 per month, the payout value on maturity is £47,531, which is equivalent to 8.2% return (net of tax and charges) for each of the 25 years.

Note: all figures after tax and charges

Red, Amber and Green mortgage endowment status

In accordance with accepted guidelines we monitor how many of our endowment customers' policies are not expected to meet their repayment targets. This is shown as 'red, amber, or green', with green being satisfactory, amber indicating a potential shortfall and red showing a shortfall likely: action should be taken.

Colour Coding of mortgage endowment letters

Prudential is committed to making sure that all our endowment customers know what action they need to take in the event of any shortfall and what options they have available

For this reason, colour printing has been introduced for mortgage endowment annual re-projection letters as recommended by the Treasury Select Committee. Where a shortfall is projected, we print the introductory paragraph of the letter in red to draw attention to the need for action.

Prudential

Prudential has approximately 235,000 mortgage endowment policies in force. Some 174,000 letters were issued to our policyholders with mortgage related endowments in the 12 months to end December 2004 (where customers have more than one policy only one letter is issued). These letters are categorised:

	2005	2004	2003
Green	50%	41%	24%
Amber	27%	29%	32%
	77%	**70%**	**56%**
Red	23%	30%	44%

Scottish Amicable

Scottish Amicable has approximately 560,000 policies in force. Around 704,000 letters were issued to Scottish Amicable mortgage endowment policyholders in the 12 months to end December 2004 with some customers receiving two letters over the course of the year. These were categorised:

	2005	2004	2003
Green	29%	16%	13%
Amber	41%	31%	22%
	70%	**47%**	**35%**
Red	30%	53%	65%

‘Project Homeowner’

Key points

- Recognising the need of our policyholders receiving red letters to take action we piloted a scheme to refinance the policyholder’s mortgage, often at no addition to monthly outgoings, to cover the projected shortfall

- To date, less than 0.1% of those contacted have taken up our offer. This raises concerns that many customers affected by potential shortfalls in their endowment policies, either expect all to be well, are unconcerned or can cover the shortfall, despite our offer

Background

In March 2004, the Treasury Select Committee issued a report that was critical of information and communication provided to policyholders, the lack of help with solving the shortfall problem, and handling of complaints made.

While there is recognition that shortfalls have arisen from the significant change in economic and market conditions, which have had a significant impact on investment returns, the Treasury Select Committee felt that life companies could do more to help their customers address this issue.

Homeowner Pilot

As part of our commitment to making sure that all our endowment customers know what action they need to take to address a shortfall we introduced a pilot scheme which we call ‘Homeowner’.

At present, when Prudential or Scottish Amicable issues a ‘red or amber’ letter to its customers, we include a section highlighting the actions customers can take to make up their projected shortfall. These include: making changes to their mortgage loan; starting an additional savings plan; or varying their mortgage endowment plan. However, by providing these customers with a readily available solution at an affordable price we can help them solve this problem and offer them an alternative.

The pilot is due to finish at the end of February 2005 and involves 15,000 customers with projected shortfalls.

We are writing to these customers referring them back to the possible actions highlighted in their ‘red, amber, or green’ letters and offering them an alternative. This involves providing them with the option to continue with their Prudential or Scottish Amicable endowment, but re-mortgage the interest-only element of their existing arrangement. This will match the amount that the endowment is expected to achieve; the balance will be made up through a repayment option which will address the shortfall.

There are two mortgage options: a 5-year tracker and a 5-year fixed rate mortgage.

- The 5-year tracker is 0.75% above the Bank of England base rate
- The 5- year fixed rate mortgage is at 6.19% p.a.

On either of these options:

- We will not charge an arrangement fee;
- We will pay standard legal and conveyancing fees;
- There will be a free annual review where the loan can be altered.

Example

- If a typical standard variable rate were being paid (6.75% p.a.) on an endowment mortgage loan of £75,000, the monthly repayments would be £419.60
- Assuming there is a £7,500 shortfall and 10 years left on the mortgage loan - the loan could be re-mortgaged as interest only for £67,500 and £7,500 as capital and interest repayment
- If the re-mortgaged loan was based on the tracker, the monthly outgoings after re-mortgage would be £389.04
- If the re-mortgaged loan was based on the 5-year fixed rate, the monthly outgoings after re-mortgage would be £430.02
- In both these cases, at the end of the 10-year term, £7,500 of the outstanding amount will have been paid, leaving just the £67,500 to be repaid from the mortgage endowment policy
- We will provide a free annual review and will allow the interest only/capital and interest repayment mix to be altered to reflect changing projections up or down for the mortgage endowment policy

Current position

The pilot is almost at an end and so far we have established the following:

- Most people were happy to be contacted,
- However, there has been very little take-up, with only 16 loan applications being made.

Note: Time-barring of complaints

We announced in June 2004 that all mortgage endowment customers who feel they have been mis-sold their product will currently face no deadline to lodge their complaint.

With-Profits Annuities

Key points:

- We have once again declared strong bonus additions for 2005 for our with-profits annuities. The annual bonus rate for 2005 has been maintained at 2.75 per cent and annuitants will also receive an additional bonus on the anniversary of the policy after 6 April 2005

- At their first policy anniversary, With-Profit annuities will receive bonuses totalling 7.12%

- This equates to a increase for our with-profits customers of £361 per annum or £807 for five and ten year annuities (see example below)

The Total Bonus below is the overall bonus addition (made up of the annual and additional bonuses) that will apply at the first anniversary on or after 6 April 2005.

Product	Annual Bonus Rate %				Total Bonus Rate %		
	2005	2004	change		2005	2004	change
With-Profits Annuities	2.75	2.75	0.00		7.12	6.35	+0.77

Note: after charges, tax does not apply

What this means for a typical with-profits annuity customer

Prudential With-Profits Annuity (based on a starting annuity of £4,708 p.a.)		**Annual Increase in annuity per annum**	**Year-on-Year Increase in an annuity per annum.**		
Policy Duration In 2005 (2004)	**Premium**	**Feb 2005 Bonus %**	**Income if taken in 2005**	**Income if taken in 2004**	**Increase in Value over 2004**
5-Years (4-years)	£100,000	+6.6	£5,828 p.a.	£5,467 p.a.	+£361 p.a.
10-Years (9-years)	£100,000	+9.6	£9,213 p.a.	£8,406 p.a.	+£807 p.a.

See Note (5)

How With-Profits Annuities work:
With-profits annuities promise to pay a policyholder an income for the rest of their life, which can be a long time. For example, the life expectancy of 60 year-old male is 80 and a female 83, and a 75 year-old male is 85 and a female 87. With-profit annuities link the level of income to the performance of the with-profits fund, which has a mix of assets that over the longer term gives them the prospect of income growth. The returns from these investments are paid to annuitants as bonuses, which may vary from year-to-year. Bonuses are designed to smooth the ups and downs of the investment markets.

Policyholders can increase their income at the outset by anticipating some of the future bonuses and building these anticipated bonuses into their initial income. Choosing a higher Anticipated Bonus Rate (ABR) creates a higher starting income. Conversely, the lower the ABR, the lower the starting income, but the higher the potential for income growth. This is because the ABR is offset against bonuses that are added to the annuity each year.

Investment performance

Key points:

- Exceptionally strong investment-return on the Prudential with-profits fund of 13.4 per cent gross in 2004
  - This compares to the FTSE 100 Index (Total Return) of 11.25%
  - Over the last five years, the fund has delivered a pre-tax return of 20.7% compared to a negative total return of -19.5% from the FTSE 100 Index over the same period

- Similarly impressive return on the Scottish Amicable Insurance Fund of 13.2%. This compares to the FTSE 100 Index (Total Return) of 11.25%. Over the last five years, the fund has delivered a pre-tax return of 20.4%

- Prudential's with-profits fund is the UK's largest, with more than £61 billion under management

- Scottish Amicable's with-profits fund has £12 billion under management

Prudential's with-profits fund
We have seen another very strong return on the fund in 2004, which delivered a pre-tax return of 13.4%.

All major markets contributed positively to the 2004 return, with a particularly strong performance from property. The tactical asset allocation bias towards smaller equity markets was a positive contributor, as was fixed interest and overseas equity stock selection.

The 2004 return builds on the successful track record of the Prudential with-profits fund over time. An important feature of the fund is diversification across asset classes, as can be seen from the table below:

	31/12/04 %	31/12/03 %	31/12/02 %	31/12/01 %	31/12/98 %
Equity shares					
- UK shares	33	33	32	38	59
- Non-UK shares	15	15	13	14	13
Fixed interest	29	31	33	28	12
Cash	3	2	2	3	5
Property	18	17	18	15	11
Alternative investments	2	2	2	2	-
Total	100	100	100	100	100

The active management of this asset mix, together with investment flexibility afforded by our financial strength, has allowed Prudential to deliver excellent long-term returns. The five-year with-profits return of 20.7% compares very favourably with a -19.5% return on the FTSE 100 Index (Total Return) over the same period.

While asset allocation has been a major driver of these longer-term returns, underlying stock selection has also been a major contributor. UK equity, overseas equity, fixed interest and property stock selection, have contributed positively to the five-year numbers.

Our strong investment performance has allowed us to maintain our financial strength. As a financially strong company we have been better placed to withstand periods of changing stockmarket performance. We have been able to support bonuses through 'troubled times' for longer because we have greater reserves to call upon when market conditions dictate. The strength of our fund has been supported by prudent bonus and MVR policies.

Financial strength is also important because it allows us greater freedom in how we invest the money in the with-profits fund. Stronger companies, such as Prudential, with our higher level of capital, have fewer constraints on investment policy. This allows us to invest in assets that offer stronger prospects over the medium to longer term.

In today's low inflation and low interest rate world, all investment products are expected to deliver returns lower than experienced in the 1980s and 1990s. We believe Prudential's with-profits fund, with its high real asset weighting, is well placed to continue to deliver competitive future returns.

The long-term expected investment return on the with-profits fund is 7.5% p.a. gross. This is derived by multiplying: our expected long-term returns on the assets in which the fund is invested, by our current asset allocation. The expected asset returns ranges from cash (4.75%) to equities (8.25%).

Prudential's asset management companies became responsible for the Scottish Amicable with-profits fund in 1997 following the acquisition of Scottish Amicable by Prudential. Since that time the fund has benefited from the same investment process as the Prudential equivalent, as the 13.2% return for the Scottish Amicable Fund in 2004 and 20.4% return over the last five years indicate.

Year	Returns on the Prudential With-Profits Fund
2004	+ 13.4%
2003	+ 16.5 %
2002	-8.1%
2001	-3.5%
2000	+ 3.0%

Year	Returns on the Scottish Amicable With-Profits Fund
2004	+ 13.2%
2003	+ 16.2 %
2002	-6.9%
2001	-3.6%
2000	+ 2.0%

Solvency Outlook remains strong

A strong asset allocation and investment strategy has further strengthened the Prudential with-profits fund. It remains well capitalised and one of the strongest in the UK with a AA+ rating from Standard & Poor's.

A common measure of financial strength for long-term insurance business is the Free Asset Ratio. This ratio was 14.8% as at 31 December 2004, up from 10.5% at 31 December 2003 without taking account of future profits or implicit items.

With-profits fact sheet

Introduction
Prudential is the largest with-profits fund in the UK.

Our with-profits philosophy is to operate a prudent approach to fund management, smoothing and bonus rates. It's this approach which has allowed us to continue to pay bonuses and provide policyholders with competitive returns over recent years, despite difficult market conditions.

Determining Bonus Rates
The natural conclusion that many people understandably arrive at is: if the with-profits fund has increased by 13.4 per cent this year and the stock market has also risen, then bonus rates (and policy values) should increase by a similar amount.

Unfortunately, it's not as simple as that. A number of factors are considered when determining bonus rates, including:

- Volatility of the investment market and the use of smoothing
- Stock market performance being only one aspect of fund performance
- Future fund returns and the impact of inflation and interest rates on future bonus rates

Smoothing of Market Volatility
Investment markets have a habit of changing and can be volatile. To avoid this volatility, a with-profits fund uses smoothing to help take out the peaks and troughs. Smoothing is something our policyholders probably do every day without even thinking about it. Like many people, they may hold back a little spare cash to build up a reserve. This means they have money to hand when they're a bit short or want to buy something special. Put simply, that's exactly what a with-profits fund does.

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

We have delivered competitive returns in a difficult environment. Through smoothing, we were able to soften the blow of poorer returns by drawing on the reserves previously built up.

Stock market performance
While there has been an improvement in UK stock market performance, this has been fairly modest – the FTSE 100 index ended 2004 around 2,100 points below its peak of 6,900 in late 1999. Clearly, any improvement in the stock market does benefit our fund performance, as around 33 per cent of the fund is currently invested in UK equities. A further 15 per cent is currently in international equities.

However, this is only one aspect of the equation. Our with-profits fund invests in a range of assets including property, stocks and shares, cash and corporate bonds. Therefore, good past performance of stock markets only doesn't equate to increased bonus rates.

The fact that we are able to invest in a diversified range of assets means that we can help protect investors from the peaks and troughs of the stock market. The active management of our fund, coupled with the smoothing process, does mean that we have been able to deliver a steady and consistent return over the last three years, despite some heavy falls in stock market values in previous years.

Future fund returns and potential future bonus rates

Future bonus rates will be dependent on future investment returns and the experience of the with-profits fund. In general, the low rates of inflation experienced in the 1990s are expected to continue and hence we expect lower rates of investment return than were experienced in the high inflation era of the 1970s, 1980s and early 1990s. Payouts have been reduced since the 1990s to reflect these lower returns, and we don't expect to see bonus levels rising to their historic peaks.

However, Prudential is well placed to offer competitive returns in a low-rate and low-inflation environment. We remain one of the strongest UK insurers. We have the benefit of scale and are continuing a major programme to reduce the costs of servicing the business. The performance of the Prudential with-profits fund, relative to its competitors and alternative investments, remains strong and the current fund structure reflects the decision we took in 1999 to gradually shift a significant proportion of the fund from UK equities largely in favour of bonds.

We are confident that this balance represents a sound approach to asset allocation, particularly as our financial strength gives us the flexibility to adapt to market changes (to help maximise returns on investments), whilst continuing to maintain the financial health of the with-profits fund.

Unitised policies versus conventional policies

While there are many variations of with-profits policies and plans, they can be grouped into two areas – unitised policies and conventional policies.

Unitised with-profits policies

Where money is invested in a unitised policy – such as our Prudence Bond or Personal Pension plan - units are allocated to policyholders, and these units increase at a steady rate, determined by the annual bonus rate.

At retirement or when the policy is cashed-in, a final bonus may be added. An MVR may apply when a policy is cashed-in or transferred.

Since these policies are with-profits, they benefit from the smoothing process. This is different to a unit-linked policy where the value of the units goes up or down in line with market movements.

Conventional policies

Conventional with-profits policies – such as mortgage endowments - have an initial amount that is guaranteed to be payable to the policyholder on maturity – known as the sum assured. Each year the guaranteed amount can be increased by the annual bonus. At maturity a final bonus may also be added.

Market Value Reduction (MVR) policy for 2005

Prudential remains committed to maintaining a fair MVR policy. This currently allows customers to withdraw £25,000, free of any MVR adjustment, in any 12-month period, assuming the money has been in the same with-profits fund for at least five years.

In addition, Prudence Bond customers can take up to 5% of their total fund value free of tax and MVR-free, as income, in the form of a capital withdrawal in any one twelve month period.

Outside of this, an MVR is a deduction that we may make when a policyholder decides to cash-in, switch or transfer their investment from one with-profits fund to another. It may also apply if they transfer their policy to another provider or to a unit-linked fund.

MVRs are designed to ensure that those who are cashing-in or transferring early do not receive more than their fair share of the fund. In applying an MVR we are reducing the cash-in value, but to no lower than the value of the assets underlying them. The likelihood of a MVR being applied is higher if an investor chooses to cash-in or transfer in the early years of their policy. We believe this is a fair approach and protects all our policyholders remaining in the fund.

We do not apply MVRs as a standard fixed percentage deduction on all policies – we calculate the amount on each individual withdrawal at the time the withdrawal is made. The amount depends on:

- the length of time invested in our with-profits fund
- the performance of the fund over this time period

However, by way of an example, the average MVR applied to Prudence Bond contracts in 2004 was 4.4 per cent. For 2005 (up to 10 February) the average MVR was 2.5 per cent.

MVR's do not apply to a with-profits annuity. And, of course policyholders are guaranteed that there will be no MVR on their selected retirement.

Where do profits from the with-profits fund go?

Prudential's with-profits policyholders in the main with-profits fund currently receive 90 per cent of the profits distributed from the with-profits fund as bonus additions to their policies and shareholders receive the remaining 10 per cent as dividend payments. Since policyholders and shareholders share proportionately in these profits, their interests are exactly aligned.

Please refer to Prudential's PPFM for further details.

Notes to Editors:

Release Specific Notes:

(1) Comparison between Prudential products and other returns are for periods to 1 May 2005.

(2) The deposit fund values, unit trust values and unit-linked life fund values use annualised returns from the relevant 1 May for periods ending 31 December 2004 to project the values to 1 May 2005.

(3) For all RP contracts and SPs less than £25,000 the Micropal UK Savings Indices assumed are gross of tax for pension products, net of tax for life products (net of tax, for Prudence Bond) and are for deposits of £2,500+ at 7 day notice or better. For SPs equal to or greater than £25,000 the Micropal UK Savings Indices assumed are gross of tax for pension products and are for deposits of £25,000+ with 90 days notice or better. The unit trust returns are based on an average for the "Balanced Managed" sector, offer to bid, gross income reinvested (net income reinvested, for Prudence Bond *).* The unit-linked life fund returns are based on the average returns in the ABI UK Life Fund's "Balanced Managed – Life Fund" category.

(4) Source for stock market returns: M&G

(5) The figures shown in the table for Annuities are the increase in pension at the policy anniversary, where the rate of bonus anticipated at the outset was nil. The increases will be lower where a non-zero rate of anticipated bonus was chosen by the policyholder.

(6) MVR policy is subject to change without notice.

(7) Past performance is no guide to the future. The payment of a final bonus is not guaranteed. Future rates of bonus are not guaranteed.