PRUDENTIAL

**Embargo: 07.00am Tuesday 21 February 2006**

**PRU DELIVERS EXCELLENT INCREASES FOR ITS 4.5m WITH-PROFITS CUSTOMERS**

- **With-profits fund produces 20 per cent annual return in 2005, well ahead of its major rivals who have announced to date**
- **Pru's investment performance stands 'head and shoulders above the rest'**
- **With-profits payout values boosted by up to 18 per cent**
- **With-profits annuities income increased by up to 11 per cent for the coming year**
- **All Prudential endowments and an estimated 96 per cent of Scottish Amicable endowments forecast to meet repayment targets in 2006**
- **£2.5 billion added to policy values**

Prudential's 4.5 million with-profits customers are to receive increases of up to 18 per cent in their policy values after the investment giant's with-profits fund delivered an exceptional annual return of 20 per cent (before tax and charges) in 2005.

The Pru's with-profits fund, which at £83 billion is the UK's largest, has significantly outperformed the FTSE-100 Total Return and FTSE All-Share Total Return indices over five and 10 years and outstripped competitor funds. Its nearest major competitor delivered 17.7 per cent gross in 2005.

For the second year running, Prudential has increased year-on-year payouts across the vast majority of policies and in doing so, has raised the benchmark significantly for the with-profits reporting season.

Prudential has achieved this outstanding result due to its superior investment performance, its investment freedom which allows it to change the asset mix to reflect its views on markets, and its continued focus on maintaining the financial health of the with-profits fund. All of this adds up to an exceptionally strong with-profits fund.



**Group Communications**
Prudential plc
Laurence Pountney Hill London EC4R 0HH Tel 020 7220 7588 Fax 020 7548 3725

**Ned Cazalet, Cazalet Consulting, and a leading industry commentator, said:** "Looking at the nine larger with-profits funds (CGNU Life, Clerical Medical, Commercial Union, Friends Provident, Norwich Union, Prudential, Scottish Mutual, Scottish Widows and Standard Life) that have reported to date, the underlying gross unsmoothed investment performance achieved by the Prudential's with-profit assets stands head and shoulders above everybody else – a 45 per cent cumulative return over the six calendar years from 2000 compared to an average of 20 per cent for the rest.

"Since 2000, with-profit fund assets have generally delivered better returns than equities. The 45 per cent return achieved by Prudential since the start of the decade compares to the 5 per cent total cumulative return clocked up by the FTSE All-Share index and -2.8 per cent outcome for the FTSE-100."

**Excellent increases in payout values**

Crucially for savers, Pru's investment success translates into increased payouts for all of its policies maturing in 2006 compared with their value 12 months ago, demonstrating the attraction of holding on to long-term investments for the full term.

Policy values on Prudence Bond increased by up to 13 per cent compared with a year ago while values on pensions rose by up to 18 per cent.

Prudential believes this is a more significant measure for policyholders as it shows the return on their policies over the last year rather than making a comparison with a product maturing a year ago which is not relevant for nearly all policyholders.

Policies in 2006 show increases compared with their position a year ago of:

- 10 year Prudence Bond (£10,000 single premium) **up 12.7 per cent**
- 15 year Personal Pension (£200 per month regular premiums) **up 12.4 per cent**
- 20 year Personal Pension (£200 per month regular premiums) **up 18.3 per cent**
- 25 year With-Profits Mortgage Endowment (£50 per month regular premiums based on male aged 30 at start of contract) **up 16.7 per cent for Prudential** and **16.1 per cent for Scottish Amicable.**

**Note:** all figures are after deduction of tax (where relevant) and charges.

**Roger Ramsden, Executive Director, Prudential UK and Europe, said:** "This is a continuing and strong validation for the concept of an actively managed and well run with-profits fund which is delivering excellent returns for our investors.

"Prudential savers are enjoying the returns we are providing as a reward for maintaining their investments through the turbulence and volatility of stock markets at the start of the decade.

“We strongly believe that all with-profits funds are **not** the same and it’s important that investors aren’t led into bad investment decisions based on sweeping generalisations about the with-profits sector as a whole.

“This excellent performance, should make those who have doubted with-profits as an investment method, think again. A strong office such as Prudential has proved the worth of with-profits, demonstrating it has delivered solid and steady returns for all investors.”

**Mortgage endowments**

Customers with mortgage endowments are also benefiting – all Prudential endowments maturing this year will meet their repayment target as will an estimated 96 per cent of Scottish Amicable policies. The average surplus is expected to be £3,300 and £2,600 respectively.

The long-term outlook for maturing mortgage endowments is also improving with a significant reduction in the number of customers who will see ‘red’ warning letters from Pru (down to 13 per cent) and Scottish Amicable (down to 16 per cent).

**With-profits annuities**

With-profits annuities (WPA) have also performed strongly with annuities income increased by up to 11 per cent for the coming year.

WPA are invested in the with-profits fund and promise to pay retirees an income for the rest of their life. Crucially, WPA generate an income stream that has the potential to grow. By contrast a fixed level annuity will not rise, so a retiree will find that the value of their annuity is gradually reduced by inflation.

Conventional annuity payments are backed by fixed-interest investments (mainly corporate bonds), so when the yield on bonds falls – as it has recently – so do annuity rates.

Conventional annuity rates are at their lowest for more than 30 years, and while these are essentially risk-free, savers who are considering a conventional annuity now will be locking themselves into these relatively low rates.

WPA, on the other hand, 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.

WPA can also provide an attractive alternative to conventional annuities that are linked to inflation. Although incomes from inflation-linked annuities are guaranteed to rise in line with the Retail Price Index, the starting incomes are usually lower.

**Annual bonus rates**

Annual bonus rates are being maintained on all policies. When we decide on the rate of the annual bonus, the main thing we consider is the return we expect our investments to earn in the future. We hold some of this return back to enable us to pay final bonuses and maintain a flexible investment strategy.

We target annual bonuses to be a prudent proportion of the expected long-term future investment return (net of tax where relevant, and charges), and we aim to change the annual bonus rates only gradually. For the with-profits fund our expected long-term future investment return is around 8 per cent p.a. gross.

So, annual bonuses look forward and final bonuses look back. Therefore, it's the final bonus that takes into account the actual investment return over the term of the policy and it's this element of the overall return that is most likely to change year-on-year.

**With-Profits Committee**

Prudential established its independent With-Profits Committee – one of the first companies to do so – in January 2005 and the members have overseen the approach to, and setting of, the 2006 declaration.

Committee members are Andreas Whittam Smith, First Church Estates Commissioner and founding editor of The Independent newspaper; Michael Arnold, Head of the Life Practice at Milliman; and Jeremy Goford, a past President of the Institute of Actuaries.

The Committee assesses 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.

Full details of Prudential's 2006 bonus announcement can be downloaded from:

- www.pru.co.uk/presscentre
- www.headlinemoney.co.uk

Or contact the Pru UK press office on:

| | | |
|---|---|---|
| James Murray | Tel:0207 150 2203 | Mobile: 07810 181757 |
| Anthony Frost | Tel:0207 150 3001 | Mobile: 07886 967649 |
| Steve Colton | Tel:0207 150 3136 | Mobile: 07771 531525 |
| Darragh LeesonTel: | Tel:0207 150 2600 | Mobile: 07801 856011 |

**The information contained in Prudential UK's press releases is intended solely for journalists and should not be used by consumers to make financial decisions. Full consumer product information can be found at www.pru.co.uk**

**About Prudential**

Prudential plc is a leading international financial services group, providing retail financial services and fund management in its chosen markets: the United Kingdom, the United States, Asia and continental Europe.

Prudential has been writing life insurance in the United Kingdom for over 150 years and has had the largest long-term fund in the United Kingdom for over a century. Today, Prudential has over 16 million customers worldwide and over £214 billion (as of 30 June 2005) of funds under management.

In the United Kingdom Prudential is a leading life and pensions provider offering a range of retail financial products. M&G is Prudential's UK & European Fund Manager, with around £126 billion of funds under management. Jackson National Life, acquired by Prudential in 1986, is a leading provider of long-term savings and retirement products to retail and institutional customers throughout the United States. Egg provides banking, insurance and investment products through its internet site www.egg.com.

Prudential is the leading European-based life insurer in Asia with operations in 12 countries.

*Prudential plc, a company incorporated and with its principal place of business in the United Kingdom, and its affiliated companies constitute one of the world's leading financial services groups. It provides insurance and financial services directly and through its subsidiaries and affiliates throughout the world. It has been in existence for over 150 years and has £214 billion in assets under management, (as at 30 June 2005). Prudential plc is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America.

**Forward-Looking Statements**

This statement may contain certain “forward-looking statements” with respect to certain of Prudential's plans and its current goals and expectations relating to its future financial condition, performance, results, strategy and objectives. Statements containing the words “believes”, “intends”, “expects”, “plans”, “seeks” and “anticipates”, and words of similar meaning, are forward-looking. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Prudential's control including among other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which Prudential and its affiliates operate. This may for example result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits. As a result, Prudential's actual future financial condition, performance and results may differ materially from the plans, goals, and expectations set forth in Prudential's forward-looking statements. Prudential undertakes no obligation to update the forward-looking statements contained in this statement or any other forward-looking statements it may make.

**The information contained in Prudential UK's press releases is intended solely for journalists and should not be used by consumers to make financial decisions. Full consumer product information can be found at www.pru.co.uk**

## Contents

# 1. Investment performance

### Fund performance

**The With-Profits Fund has once again achieved an excellent performance, with a total return of 20 per cent (before tax and charges) in 2005.**

Over five years, the fund has achieved a total return of 41 per cent, against 6 per cent for the FTSE-100 Total Return and 12 per cent for the FTSE All-Share Total Return indices.

Over 10 years, the fund has returned 162 per cent, against 107 per cent for the FTSE-100 Total Return and 114 per cent for the FTSE All-Share Total Return indices.

*(All figures are to 31 December 2005, before tax and charges.)*

### How the fund is run and the role of the PMG

Prudential has an exceptionally strong investment capability, with £214 billion in funds under management (as at June 2005) and more than 300 investment professionals around the world.

Within the With-Profits Fund – which accounts for £83 billion of the total funds invested – its geographical and sector portfolios are run by different managers. This resource is co-ordinated by the Portfolio Management Group (PMG), which acts as 'manager of managers' for the Prudential Group and is responsible for asset allocation and risk management.

The PMG team is made up of economists, investment strategists and analysts who operate separately from the conventional asset managers of Prudential. They come from a range of backgrounds and, between them, have extensive investment knowledge and experience.

### Asset allocation

The fund's asset allocation is actively managed and has played a major part in its successful long-term performance.

With-profits contracts are long-term contracts with relatively low guaranteed amounts and this combined with the strong financial position of the fund enables Prudential to invest primarily in equities and property. At the end of 2005 the equity backing ratio (equity plus property) was nearly 74 per cent which reflects an approximate 10 per cent increase in the equity exposure over the year with a corresponding reduction in the bond and, to a lesser extent, the property exposure. This strategy was driven by the perceived attractive pricing of equities relative to other assets in the earlier part of 2005, which led Pru to move back into equities.

The fund remains extremely well diversified geographically, by asset type and within the underlying stock portfolios, which we believe is an attractive feature of the Prudential with-profits proposition. It helps reduce risk or expected volatility by insulating the total fund from potential weakness in any particular market or stock. The active management of the asset mix in recent years has had a substantial beneficial impact on investment returns.

The broad asset mix will continue to be reviewed as the economic environment and market valuations change.

**Current Asset Mix:**

| | 31/12/05 % | 31/12/04 % | 31/12/03 % | 31/12/02 % |
|---|---|---|---|---|
| **Equity shares** | | | | |
| **- UK shares** | 40 | 33 | 33 | 32 |
| **- Non-UK shares** | 19 | 15 | 15 | 13 |
| **Fixed interest** | 21 | 29 | 31 | 33 |
| **Cash** | 3 | 3 | 2 | 2 |
| **Property** | 15 | 18 | 17 | 18 |
| **Alternative investments** | 2 | 2 | 2 | 2 |
| **Total** | 100 | 100 | 100 | 100 |

**Comments on Prudential's with-profits fund**
In the Cazalet 2005 WP report, our rating was increased from 8/10 to 9/10 (the only major adviser-oriented life office to receive an upgrade this year) due to our "superior investment performance, current investment freedom and the quality of its liability management".

Prudential's WP life fund was ranked as the top-performing fund in the WM UK Life Fund Universe. This survey is compiled on a quarterly and annual basis by WM, the leading independent fund performance service provider. The annual WM survey of 23 UK life funds' 2004 investment performance, produced in May 2005, placed Pru's WP life fund in first place in both its life fund and with-profits fund surveys.

Over 3 years, the WM with-profits survey showed the fund ranked 2nd with the Scottish Amicable WP fund ranked 1st. In the longer running life funds survey, Prudential was ranked 1st over 10 years.

We expect the report covering 2005 to show a similar result.

**Scottish Amicable's with-profits fund**
Prudential's asset management team is also responsible for the running of the closed Scottish Amicable with-profits fund, which accounts for £14 billion of the £83 billion under management. Since the takeover of Scottish Amicable by Prudential in 1997 the fund has benefited from the same investment process as the Prudential fund. The Scottish Amicable fund delivered an investment return of 19 per cent in 2005. Over five years the fund has delivered 40.5 per cent and 92.3 per cent since 1 October 1997.

**Solvency Outlook remains strong**
The long-term fund remains well capitalised and is one of the strongest in the UK with a financial strength rating of AA+ from S&P.

## 2. What this means for customers

**The exceptionally strong investment performance means we are able to deliver excellent year-on-year increases for the vast majority of policyholders.**

- **Payout values increased by up to 13 per cent on Prudence Bond**
- **Payout values increased by up to 18 per cent on pensions**

## How the investment performance relates to policyholders

The superb performance of the fund has meant that Prudential is able to increase policy values for the vast majority of with-profits policies maturing in 2006, by up to 18 per cent.

In translating the performance of the fund into benefits for policyholders, various allowances are made. First, for plans other than pensions, there is a deduction for tax and for all plans there are charges to take into account. The return on the fund over 2005 net of tax was 17 per cent.

There is then an allowance for smoothing. Some of the investment return in good years is held back so that we can boost bonus rates when markets have not been so good - producing a generally smoother pattern of returns to policyholders, year to year, than the actual performance of the fund.

Finally, the investment return is apportioned between annual bonuses and final bonuses. In most cases, we aim to keep a substantial proportion of payout values in non-guaranteed form – that is, payable as final bonus. This helps to maintain flexibility for our investment strategy and to protect the ongoing solvency of the fund.

Annual bonuses are based on our view of the expected long-term investment return. Final bonus rates are more closely linked to actual past performance, taking into account smoothing, as described above.

What is generally important to customers is this total value added to their policy. The figures in the following sections reflect this, showing the value of policies in 2006 compared with the value in 2005.

**Please note:**

1. 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. For the purposes of this announcement we have maintained the split so it is clear which example relates to which policies.
2. Where we refer to a building society account it should be remembered that this would generally return all the investor's capital whereas investments in Prudence Bond or a pension may return less than has been invested.

# Payout values for Prudence Bond, personal pensions and savings endowments

# 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 2006 (2005)** | **Single Premium** | **Bond Value 2006** | **Bond Value 2005** | **Increase in Value over 2005** | **%** |
| **5 years** (4 years) | £10,000 | £12, 666 | £11,375 | +£1,291 | +11.3 |
| **7 years** (6 years) | £10,000 | £13,729 | £12,621 | +£1,108 | +8.8 |
| **10 years** (9 years) | £10,000 | £18,137 | £16,095 | +£2,042 | +12.7 |

# before deducting any MVRs

### 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) | **£18,137** | **+6.1%** |
| Average building society account | £12,074 | +1.9% |
| Average balanced managed unit trust | £18,445 | +6.3% |
| Average balanced managed unit-linked life fund | £16,536 | +5.2% |

**NOTE:** Prudential - capital at risk
Building Society 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 £18,137** over the ten years up to 6 April 2006. By investing with Prudential over the last 12 months, the policyholder's bond is worth **12.7 per cent more** than it was on 1 May 2005. This payout represents an overall return of **6.1 per cent** over each of the last 10 years.

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

## Prudential Personal Pension

| Personal pension* For policies maturing in 2006 | | 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 2006 (2005)** | **Regular Premium** | **Policy Value 2006** | **Policy Value 2005** | **Increase in Value over 2005** | **%** |
| **5 Years** (4 years) | £200 p.m. | £14,675 | £10,892 | +£3,783 | +11.4 |
| **10 Years** (9 years) | £200 p.m. | £31,511 | £26,125 | +£5,386 | +10.9 |
| **15 Years** (14 years) | £200 p.m. | £62,288 | £53,143 | +£9,145 | +12.4 |
| **20 Years** (19 years) | £200 p.m. | £127,680 | £105,668 | +£22,011 | +18.3 |

** 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) | **£127,680** | **+8.9%** |
| Average building society account | £69,725 | +3.6% |
| Average UK balanced managed unit trust | £122,599 | +8.6% |
| Average balanced managed unit-linked life fund | £118,431 | +8.3% |

**NOTE:** Prudential - capital at risk
Building Society 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 **£127,680**. If the same customer had decided to transfer the policy last year, he would have lost out on the **18.3 per cent increase** had he kept the policy for another year (after allowing for the premiums paid in the year).

**Note:** all figures before tax but after 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 2006 (2005)** | **Regular Premium** | **Policy Value Date 2006** | **Policy Value Date 2005** | **Increase in Value over 2005** | **%** |
| **5 Years*** (4 years) | £200 p.m. | £15,276 | £11,138 | +£4,138 | +14.0 |
| **10 Years** (9 years) | £200 p.m. | £32,973 | £27,434 | +£5,539 | +10.9 |
| **15 Years** (14 years) | £200 p.m. | £66,783 | £57,772 | +£9,011 | +11.2 |
| **20 Years# (19 years)** | £200 p.m. | £132,056 | £111,251 | +£20,805 | +16.4 |

*Ex-Scottish Amicable Life policy.
# 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) | **£132,056** | **+9.2%** |
| Average building society account | £69,725 | +3.6% |
| Average balanced managed unit trust | £122,599 | +8.6% |
| Average balanced managed unit-linked life fund | £118,431 | +8.3% |

**NOTE:** Scottish Amicable - capital at risk
Building Society account – capital secure
Averaged balanced fund – capital at risk

**Note:** all figures before tax but after charges

## 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 2006 (2005)** | **Regular Premium** | **Policy Value Date 2006** | **Policy Value Date 2005** | **Increase in Value over 2005** | **%** |
| **10 years** (9 years) | £50 p.m. | £6,904 | £4,742 | +£2,162 | +30.9 |
| **15 years** (14 years) | £50 p.m. | £14,125 | £11,004 | +£3,121 | +22.3 |
| **20 years** (19 years) | £50 p.m. | £27,012 | £21,715 | +£5,297 | +21.3 |
| **25 years** (24 years) | £50 p.m. | £49,486 | £41,825 | +£7,661 | +16.8 |

## 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) | **£49,486** | **+8.5%** |
| Average building society account | £23,927 | +3.5% |
| Average balanced managed unit trust | £62,519 | +10.0% |
| Average balanced managed unit-linked life fund | £43,749 | +7.7% |

**NOTE:** Prudential - capital at risk
Building Society 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 25 year with-profits endowment paying a premium of £50 per month, the payout value on maturity is **£49,486**, which reflects an **8.5 per cent return** (net of tax and charges), for each of the 25 years.

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

## 3. With-Profits Annuities

**Key points:**

- **With-profits annuities income increased by up to 11 per cent for the coming year.**
- **Five-year overall average bonus up to 5.6 per cent (from 4.4 per cent)**
- **Regular Bonus held at 2.75 per cent for third year running.**
- **As a result, all with-profits annuitants, regardless of their Anticipated Bonus Rate, will receive an increase in income at their annual review in 2006/7.**

**With-Profits Annuities (WPA)**
WPA are invested in the with-profits fund and promise to pay retirees an income for the rest of their life. Crucially, WPA generate an income stream that has the potential to grow. By contrast a fixed level annuity will not rise, so a retiree will find that the value of their annuity is gradually reduced by inflation.

**How With-Profits Annuities work**
Conventional annuity payments are backed by fixed-interest investments (mainly corporate bonds), so when the yield on bonds falls – as it has recently – so do annuity rates. Conventional annuity rates are at their lowest for more than 30 years, and while these are essentially risk-free, savers who are considering a conventional annuity now will be locking themselves into these relatively low rates.

WPA, on the other hand, 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.

An important factor is the anticipated bonus rate (ABR) that policyholders choose at the outset. This determines the starting income and is used to calculate how much the income goes up or down when bonuses are added each year. If the actual bonuses awarded are higher than the ABR, the annuity payments in the next year will increase. If they are lower, the annuity income will drop.

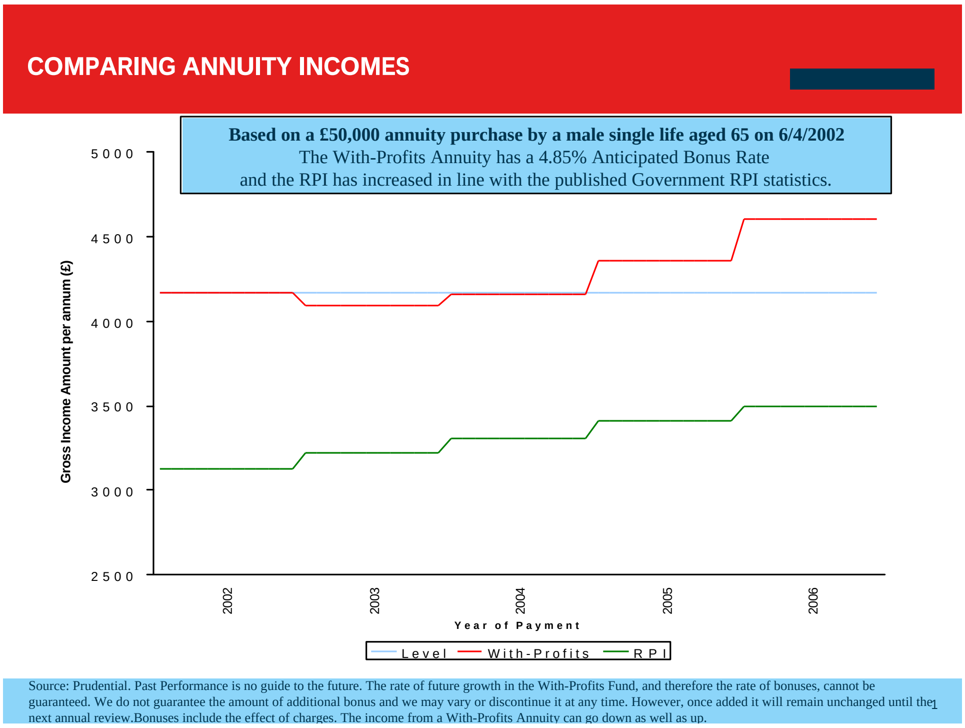
Our experience shows that many people opt for a middle range ABR that can provide a similar starting income to a conventional level annuity. Currently an ABR of around 3.5 per cent will achieve this for most retirees. This makes future income growth with a WPA more likely because it's a reasonably low performance to beat.

WPA can also provide an attractive alternative to conventional annuities that are linked to inflation. Although incomes from inflation-linked annuities are guaranteed to rise in line with the Retail Price Index, the starting incomes are usually lower.

By way of an example, a 65-year old man could have bought three types of annuity when he invested £50,000 on 6 April 2002.

| Product | Starting income 2002/03 | Income paid in 2006/07 | Increase in income over 2002 | Total income in five years since 2002 | Extra income over level annuity after 5 years |
|---|---|---|---|---|---|
| **Pru WPA (ABR 4.85%)** | £4,167 | £4,606 | £437 | £21,380 | 2.6% |
| **Level** | £4,167 | £4,167 | £0 | £20,845 | N/A |
| **RPI Linked** | £3,130 | £3,492 | £362 | £16,561 | -20.6% |

**Note:**
1. The amount of the additional bonus is not guaranteed and it may vary or be discontinued at any time. However, once added it will remain unchanged until the next yearly review.
2. The anticipated bonus rate (ABR) determines the starting income and is used to calculate how much the income goes up or down when bonuses are added each year.  If the actual bonuses awarded are higher than the ABR, the annuity payments in the next year will increase.  If they are lower, the annuity income will drop.



# 4. Mortgage Endowments

**Key points:**

**All Prudential and an estimated 96 per cent of Scottish Amicable endowments maturing in 2006 will meet repayment targets**

- We expect 10,049 Prudential policies to mature in 2006, and the average surplus is expected to be £3,300.
- We expect 18,500 Scottish Amicable policies to mature in 2006. Of these, an estimated 96 per cent will meet repayment targets, the average surplus expected to be £2,600. Of the 800 policies that won't meet repayment targets the average shortfall is expected to be around £700.
- All Prudential endowments maturing in 2005 met their repayment targets - the average surplus on policies was £2,200.
- 95 per cent of Scottish Amicable endowment policies maturing in 2005 met their repayment target with an average surplus of £2,409. The remaining 5 per cent (815 policies) had an average shortfall of £49

### 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 2006 (2005)** | **Regular Premium** | **Policy Value Date 2006** | **Policy Value Date 2005** | **Increase in Value over 2005** | **%** |
| **10 years** (9 years) | £50 p.m. | £6,707 | £4,607 | +£2,100 | +30.5 |
| **15 years** (14 years) | £50 p.m. | £13,401 | £10,441 | +£2,960 | +22.0 |
| **20 years** (19 years) | £50 p.m. | £26,046 | £20,938 | +£5,108 | +21.2 |
| **25 years** (24 years) | £50 p.m. | £46,892 | £39,632 | +£7,260 | +16.7 |

**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) | **£46,892** | **+8.2%** |
| Average building society account | £23,927 | +3.5% |
| Average balanced managed unit trust | £62,519 | +10.0% |
| Average balanced managed unit-linked life fund | £43,313 | +7.6% |

**NOTE:** Prudential - capital at risk
Building Society 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 **£46,892**, which is equivalent to **8.2 per cent 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 2006 (2005)** | **Regular Premium** | **Policy Value Date 2006** | **Policy Value Date 2005** | **Increase in Value over 2005** | **%** |
| **10 years** (9 years) | £50 p.m. | £7,174 | £5,872 | +£1,302 | +11.3 |
| **15 years** (14 years) | £50 p.m. | £13,331 | £11,322 | +£2,009 | +12.1 |
| **20 years** (19 years) | £50 p.m. | £26,297 | £23,004 | +£3,293 | +11.5 |
| **25 years** (24 years) | £50 p.m. | £47,872 | £40,673 | +£7,199 | +16.1 |

## 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) | **£47,872** | **+8.3%** |
| Average building society account | £23,927 | +3.5% |
| Average balanced managed unit trust | £62,519 | +10.0% |
| Average balanced managed unit-linked life fund | £43,313 | +7.6% |

**NOTE:** Scottish Amicable - capital at risk
Building Society 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 **£47,872**, which is equivalent to **8.3 per cent 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 likely shortfall: 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 220,000 mortgage endowment policies in force.

- 12,000 policies matured in 2003, **all** of which met their target values.
- 9,271 policies matured in 2004, **all** of which met their target values (the average surplus was £1,900).
- 8,333 policies matured in 2005, **all** of which met their target values (the average surplus was £2,200).
- We expect 10,049 policies to mature in 2006, all of which are anticipated to meet repayment targets. The expected average surplus is £3,300.

About 160,000 mortgage endowment letters were issued to Prudential policyholders in 2005 (where a customer has more than one mortgage endowment policy with Prudential, only one letter is sent) of which:

| | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|
| Green | 62% | 51% | 41% | 24% |
| Amber | 25% | 24% | 29% | 32% |
| | **87%** | **75%** | **70%** | **56%** |
| Red | 13% | 25% | 30% | 44% |

**Scottish Amicable**

Scottish Amicable has approximately 514,000 plans in force.

- 19,000 Scot Am mortgage endowments matured in 2003, of which 2,700 did not meet their target amount (the average shortfall was £595).
- 19,356 endowment policies matured in 2004 of which 17,238 (89 per cent) met their repayment targets, the average surplus being £2,900. Of the 2,118 (11 per cent) that did not meet their target amount there was an average shortfall of £890.

- 16,774 endowment policies matured in 2005 of which 15,959 (95 per cent) met their repayment targets, the average surplus being £2,409. Of the 815 that did not meet their target amount there was an average shortfall of £49.
- We expect 18,500 policies to mature in 2006 with an average surplus of £2,600. Of the 800 (4 per cent) policies which are not anticipated to meet their target amount, the average shortfall is expected to be around £700.

**Note:** The expected shortfall is based on a representative sample of policies and depending on which policies actually mature, the actual shortfall may turn out to be different. For example, in February 2005 we estimated the average shortfall to be around £1,000 for policies maturing during 2005, whereas the actual shortfall was only £49.

Around 544,000 endowment letters were issued to Scottish Amicable policyholders in 2005 (which includes some 2004 re-projection letters mailed out in 2005 – hence the reason that the number of letters appears to exceed the number of policies in force), of which:

| | **2006** | **2005** | **2004** | **2003** |
|---|---|---|---|---|
| Green | 41% | 24% | 16% | 13% |
| Amber | 43% | 42% | 31% | 22% |
| | **84%** | **66%** | **47%** | **35%** |
| Red | 16% | 34% | 53% | 65% |

## 5. How you can get access to Prudential's with-profits performance

**Access to the with-profits fund is available through a range of Prudential's investment products. These include:**

**Prudence Bond:**
An investment bond that is designed to give the client a smoothed return based on the performance of the with-profits fund. It is available via Pru's Flexible Investment Plan.

**PruFund:**
An investment bond that is designed to give the client a smoothed return based on the performance of the with-profits fund. It differs from Prudence Bond in that returns are smoothed according to a tested formula. Typically, PruFund's policyholder returns will more closely reflect the performance of the with-profits fund over shorter terms. Over the medium to long term, returns on PruFund and Prudence Bond are expected to be similar. Policyholder returns are not subject to any MVR throughout the term of investment. PruFund also pays a quarterly return in advance, currently 5 per cent net of life fund tax and product charges.

**With-Profits Annuity:**
An annuity that provides income based on both actuarial calculations and the performance of the with-profits fund. In the current market place, under normal investment conditions, income from a with-profits annuity is expected to be greater than a conventional or inflation-linked annuity would provide.

**International With-Profits Bonds:**
Available in Sterling, US Dollar and Euro denominations. Bonus rates are not subject to the deduction of life fund tax and are therefore quoted on a gross basis. The returns and the assets supporting those returns are based in the currency of the relevant fund (that is, Sterling, US Dollars and Euros).

**Individual Pension Plans:**
A with-profits pension plan that is designed to give smoothed access to the returns of the life fund, without deduction of life fund tax (other taxes may apply).

**Trustee Investment Plan (TIP):**
A single premium plan aimed at Trustees of Pension Funds. Returns are paid gross of tax and net of charges. Prudential also offers a 'no MVR Guarantee' at the end of 5 years. TIP can be used as a core holding to a growth portfolio for the medium term (5 years or more) and it can also reduce the need for Trustees to actively make investment decisions as these are taken by Prudential. This fund cannot lose money at maturity. Regular bonuses once added cannot be taken away and this, coupled with the no MVR guarantee at maturity, provides an excellent proposition for Trustees.

**Note:**

1. The value of an investment may fluctuate and is not guaranteed. You may not get back the full amount of your investment and, for investments in the With-Profits Funds as above, the value of the policy depends on how much profit the fund makes and how Prudential decides to distribute it.
2. With regard to the Expected Growth Rate for PruFund, this rate is an indication of how we expect the PruFund Growth fund to grow over the year and assumes no regular withdrawals are taken. The Expected Growth Rates for the funds can be found on www.pru.co.uk, these are reviewed at the end of each quarter and are not guaranteed.

## 6. Annual and final bonus rates for 2006

**Total bonus rates (which is the combination of annual and final bonus rates) increased on all unitised plans and excellent year-on-year increases in the value of nearly all with-profits policies.**

Prudential takes a prudent but active 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).

  When we decide on the rate of the annual bonus, the main thing we consider is the return we expect our investments to earn in the future. We hold some of this return back to enable us to pay final bonuses and maintain a flexible investment strategy.

  We target annual bonuses to be a prudent proportion of the expected long-term future investment return (net of tax and charges), and we aim to change the annual bonus rates only gradually.

  For the with-profits fund our expected long-term future investment return is around 8 per cent p.a. gross.

  Annual bonus rates are being maintained on all policies.

- **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.

So, in summary, annual bonuses look forward and final bonuses look back. Therefore, it's the final bonus that takes into account the actual investment return over the term of the policy and it’s this element of the overall return that is most likely to change year-on-year.

**Examples of bonus rates**

| Product | Regular/Annual Bonus Rate % | | | | New Money Rate % | | |
|---|---|---|---|---|---|---|---|
| **Prudence Bond** | **2006** | **2005** | **Change** | | **2006** | **2005** | **Change** |
| Prudence Bond (Optimum Return) No Initial Charge | 3.25 | 3.25 | 0.00 | | 5.20 | 4.70 | 0.50 |
| **Pension** | | | | | | | |
| Pru Personal Pensions | 3.25 | 3.25 | 0.00 | | 6.75 | 6.25 | 0.50 |
| **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 | | 6.50** | 6.00 | 0.50 |

*-% 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.

**So who isn't getting an increase?**
Less than 500 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.

**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.

## 7. Customer Friendly Principles and Practices of Financial Management

**With effect from 1 January 2006, we now give our With-Profits customers information about the fund and how we manage it.**

This information is in a simple six-page guide, titled '*Your With-Profits plan - A guide to how we manage the fund'.* The guide makes it easier for with-profits policyholders or potential with-profits policyholders that do not possess any specialist or technical knowledge to understand:

- What a with-profits plan is
- What bonuses are and how they are added
- How smoothing works
- What an Inherited Estate is

There are eight different versions of the guide, which are all very similar, covering different product groups within Prudential and Scottish Amicable's with-profits product range.

The guides have been produced in response to an FSA requirement for all firms which carry out with-profits business to define and make publicly available the Principles and Practices of Financial Management (PPFM) that are applied in the management of their with-profits funds.

The Customer Friendly PPFM document is available on our website – www.pru.co.uk – or by calling Pru on 0800 000 000.

# 8. Notes to Editors:

Release Specific Notes:

(1) Comparison between Prudential products and other returns are for periods to 1 May 2006.

(2) The deposit fund values, unit trust values and unit-linked life fund values in 2006 use actual returns from the relevant 1 May to 31 December 2005 and then projected to 1 May 2006 using the most recent returns.

(3) 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. 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 income from With-Profits Annuities can go down as well as up. Additional bonuses can be reduced or removed. Bonuses include the effect of charges that are not recovered through explicit deductions

(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.

(8) Full terms and conditions are available on request.

(9) Calls may be monitored or recorded for training purposes