



Investor & Analyst Presentation

27 September 2019

M&G plc Investor & Analyst Presentation

Disclaimer

This presentation is made by M&G plc (“M&G”). For the purposes of this notice, ‘presentation’ shall mean and include the document that follows and any oral presentation, any question-and-answer session and any other written or oral material delivered or distributed by M&G in connection with it.

This presentation is for informational purposes only and does not constitute a prospectus or offering memorandum or an offer or solicitation in respect of any securities and is not intended to provide the basis for any evaluation of any securities of M&G and should not be considered as a recommendation that any person should purchase any such securities in any jurisdiction. The shares of M&G have not been, and will not be, registered under the US Securities Act of 1933 (the “US Securities Act”) or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offering of the shares in M&G in the United States for the purposes of the US Securities Act.

No representations or warranties, express or implied are given in, or in respect of, the presentation. In no circumstances, to the fullest extent permitted by law, will M&G or any of its subsidiaries, shareholders, affiliates, representatives, partners, directors, officers, employees, advisers or agents, or any other person be responsible or liable for any direct, indirect or consequential loss or loss of profit arising from the use of the presentation, its contents, or its omissions, or reliance on the information contained herein or on opinions communicated in relation thereto or otherwise arising in connection therewith.

This presentation may contain certain statements relating to the future, including forward-looking statements relating to M&G’s financial position and strategy. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms ‘intend’, ‘aim’, ‘project’, ‘anticipate’, ‘estimate’, ‘plan’, ‘believe’, ‘expect’, ‘may’, ‘should’, ‘will’, ‘continue’ or other similar words. These statements discuss future expectations concerning M&G’s results of operations or financial condition, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond M&G’s control, and which may cause the actual results to differ materially from those expressed in the statements contained in this presentation. M&G’s actual results of operations, financial condition and the development of the business sectors in which M&G operates may differ materially from those suggested by the forward-looking statements contained in this presentation due to certain factors including, but not limited to, domestic and global economic and business conditions, market-related risks pertaining to the financial services industry as a whole, the policies and actions of regulatory authorities, market developments regarding financial services products, the impact of competition, technological development, inflation, deflation, the timing, impact and other uncertainties of any future acquisitions, combinations or divestments within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which M&G operates. In addition, even if M&G’s actual results of operations, financial condition and the development of the business sectors in which it operates are consistent with the forward-looking statements contained in this presentation, those results or developments may not be indicative of results or developments in subsequent periods. Recipients of this presentation are cautioned not to put undue reliance on forward-looking statements.

Any forward looking-statements contained in this presentation speak only as of the date on which they are made. M&G expressly disclaims any obligation to update any of the forward-looking statements contained in this presentation or any other forward-looking statements it may make, whether as a result of future events, new information or otherwise except as required pursuant to applicable laws and regulations.

Note: Throughout this presentation totals in tables and charts might not sum as a result of rounding

Agenda

Session	Time	Presenter
Business overview and strategy	10.00 - 10.30	John Foley
Finance and capital management	10.30 - 11.15	Clare Bousfield
Coffee break	11.15 - 11.30	
Q&A	11.30 - 12.15	John and Clare
Lunch	12.15 - 13.30	



M
&G

Business overview and strategy

John Foley – Chief Executive

What we will cover today

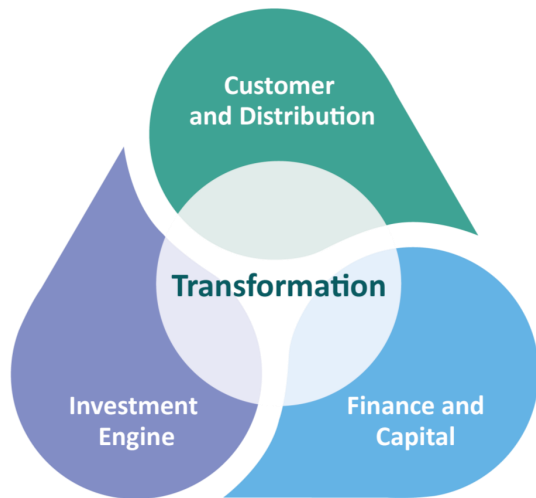
How we create value for shareholders

1 Recap on our business

2 Sources of competitive advantage

3 Growth opportunities

4 Attractive financials



Depth of investment capabilities



Scale of Private Assets franchise



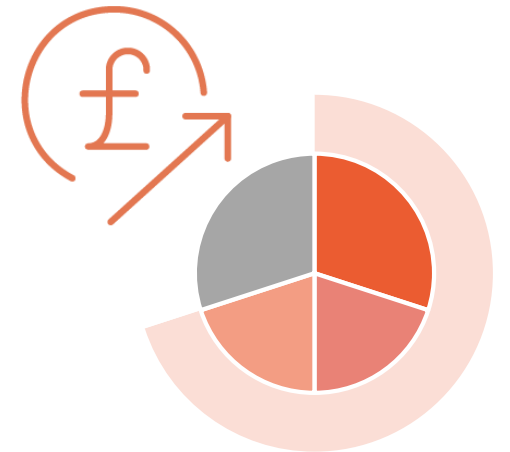
Uniqueness of PruFund offering



Reach of distribution footprint

Our principles for growth

- 1** Disciplined
- 2** Capital-efficient
- 3** Profitable
- 4** Responsible





1. Recap on our business

Who we are

A unique business mix

an **Asset Manager and Asset Owner...**
... focused on delivering great customer outcomes
through active, high-value added solutions



Our History

2017 M&G PRUDENTIAL

1931 M&G INVESTMENTS

1848 PRUDENTIAL



Customers

c. 5.5 million
retail customers

more than 800
institutional clients



Geographies

20 distribution
offices...
...serving **28**
markets

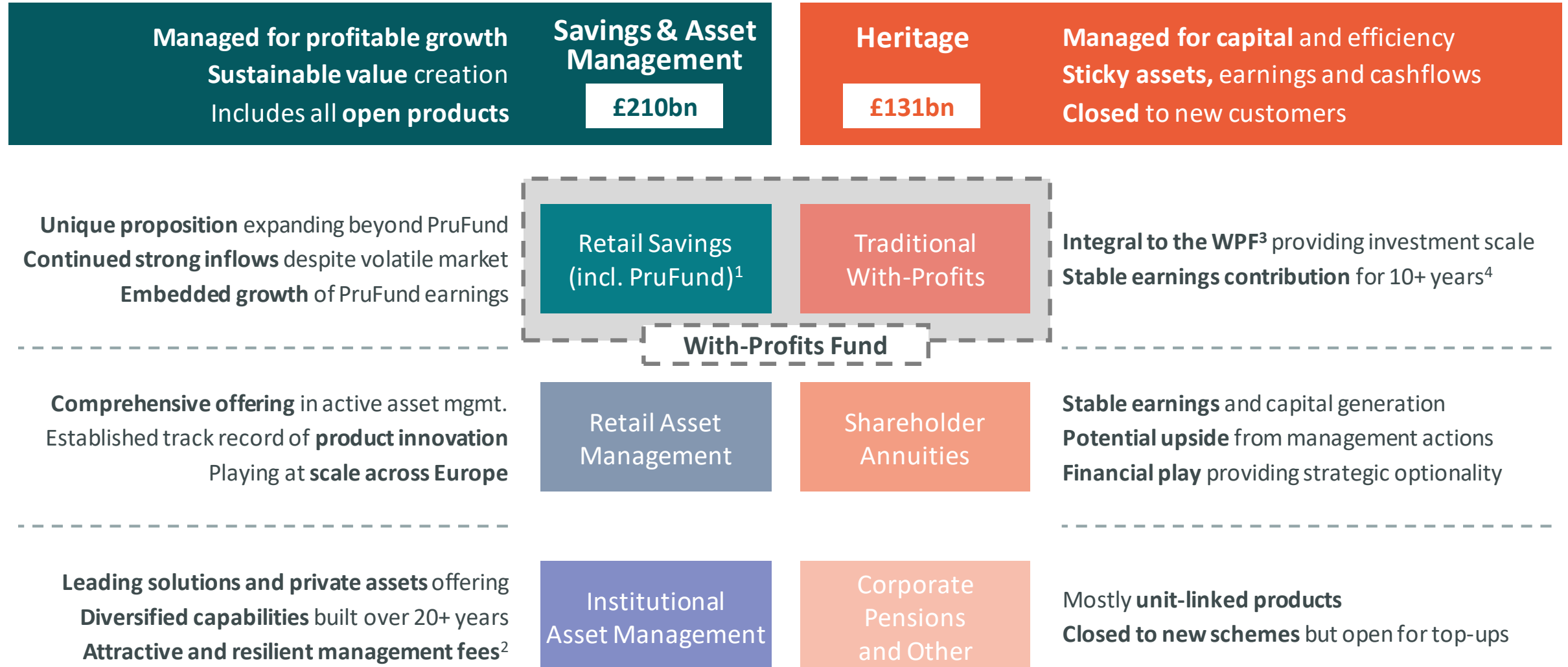


AuMA¹

£341bn

(H1 2019)

What drives our business

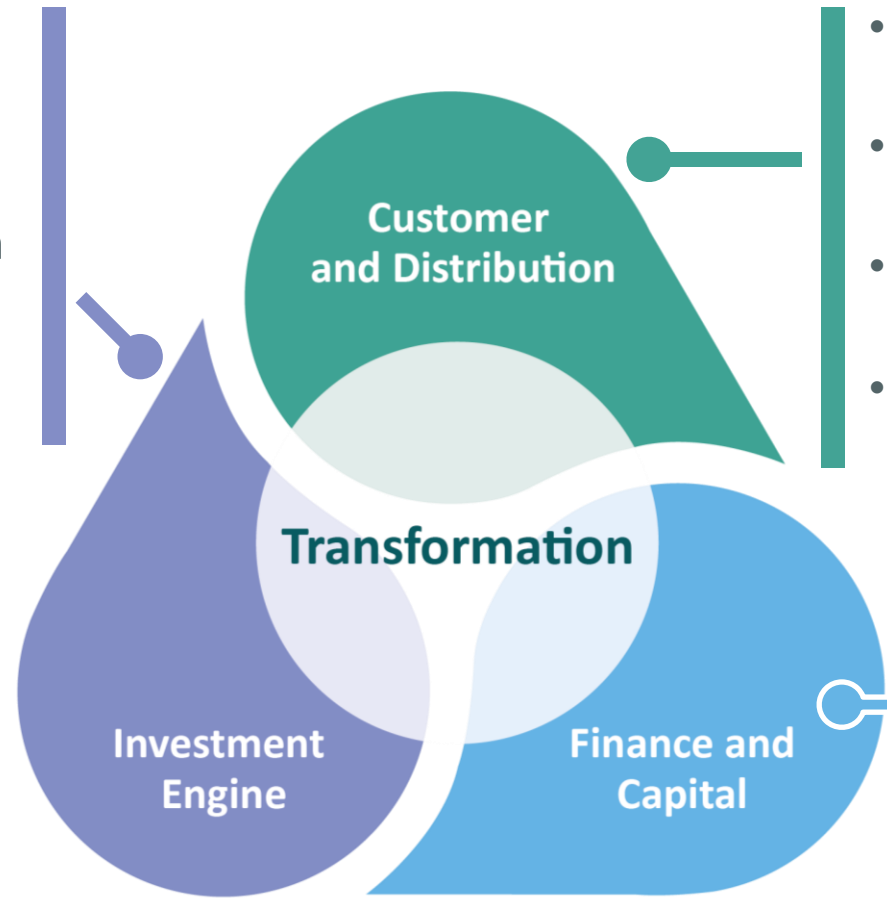


1. Includes a small amount, £4bn, of non With-Profits AuMA; 2. Performance fees account for a minimal part of Institutional Asset Management income (£15m in FY 2018); 3. With-Profits Fund; 4. Assuming normal financial market development and policyholder behaviour
Note: All AuMA figures refer to position as of H1 2019

M&G plc at a glance

Our investment case

- Leading house offering **deep expertise in high-value added solutions** with resilient margins
- **World class Private Asset franchise** with £60bn AuM and an attractive fee model¹
- **UK's largest With-Profits Fund** (£144bn with £11bn Own Funds)



- **Unique PruFund offering** with fast growing asset base (£50bn H1 2019)
- **One of UK and Europe's strongest brands** for institutional asset mgmt.
- **Leading retail cross-border player** in Europe with £37bn AuM
- **Expanding international network** of 20 distribution offices serving 28 markets

- **Diversified sources of earnings**
- **Capital-efficient** growth opportunities
- Strong **cash generation** over the long-term

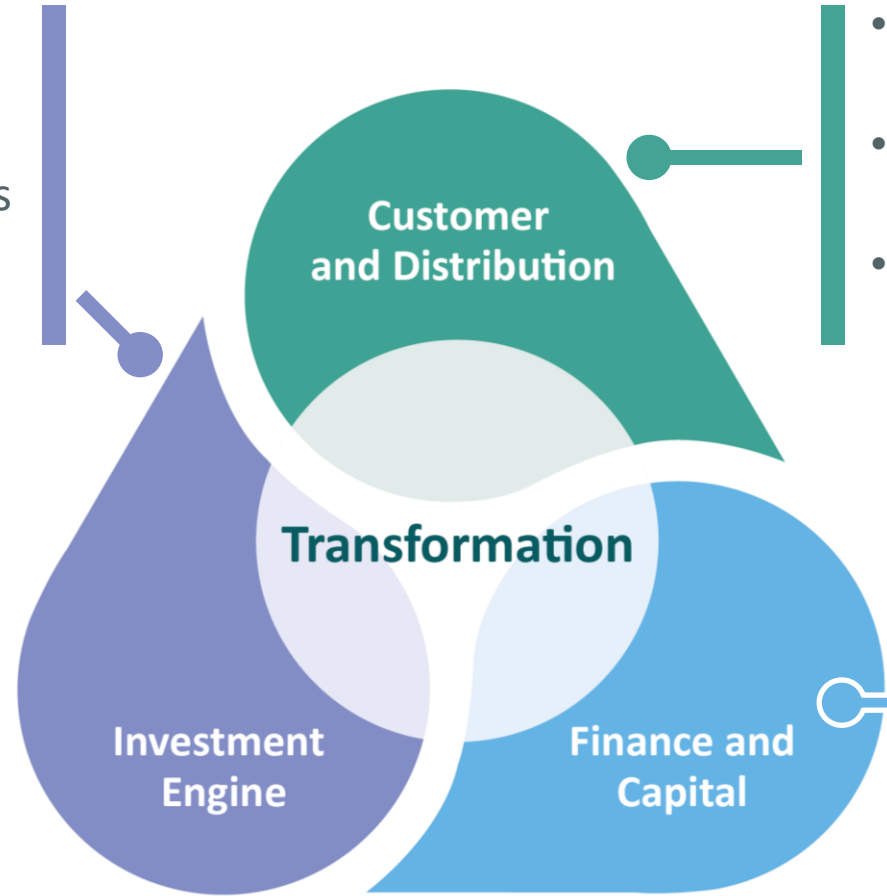
1. Fee income is mostly management fees; performance fees account for a minimal proportion of income (£15m in FY 2018)

Note: All AuMA figures refer to position as of H1 2019

Why the total is greater than the sum of the parts

Developing high-value added solutions as Asset Owner and Asset Manager

- **Provide scale** to our asset management operations
- **Rapidly deploy seed funding** in innovative investment solutions
- Adopt a **truly long-term investment perspective**



- **Understand the needs** of complex institutional clients
- **Develop unique new propositions**
- **Co-invest with clients** thus aligning incentives

- **Differentiated capabilities** underpinning sustainable growth
- **More resilient earnings** with long-term stable cashflows
- **Upside potential** from capital optimisation actions



2. Sources of competitive advantage

What differentiates us

Sources of competitive advantage



Depth of investment capabilities

Specialist coverage in high-value added areas of active mgmt., e.g. £140bn in multi-asset solutions¹



Scale of Private Assets franchise

One of the world's largest private asset investors; 36% AuM increase since 2015 (to £60bn)



Uniqueness of PruFund offering

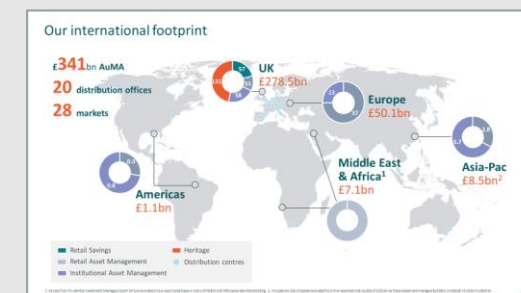
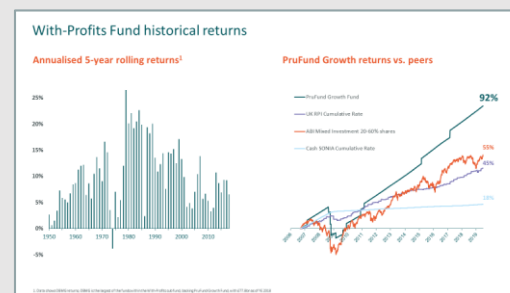
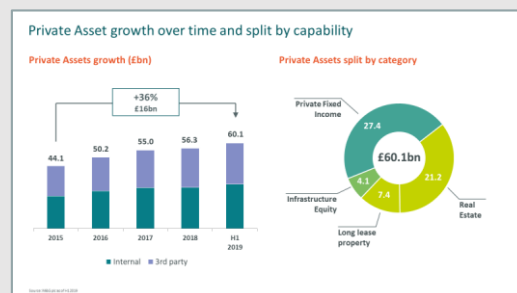
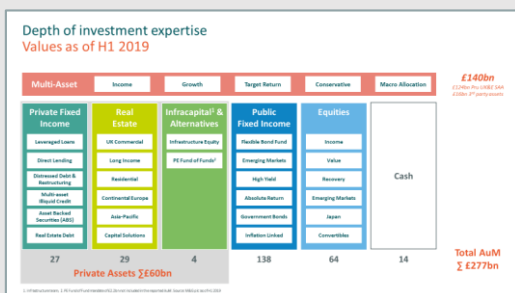
Part of our £144bn With-Profits Fund, one of UK's largest with an enviable performance track record



Reach of distribution footprint

Established international network of 20 distribution offices, with new openings in US and Australia

See appendix for more details



1. Of which £124bn through Prudential UK & Europe Strategic Asset Allocation and £16bn through 3rd party assets
Note: All AuMA figures refer to position as of H1 2019

How we generate value for our customers and shareholders

Competitive advantages at play



Depth of investment capabilities

- Enables **in-house implementation of the WPF SAA¹** retaining value for shareholders
- **Caters to retail and institutional customer needs** through a wide range of solutions
- Supports **continuous product innovation**



Scale of Private Assets franchise

- Empowers us to **invest rapidly and at scale** to take advantage of market opportunities
- Gives us access to 3rd party **sticky assets and resilient margins**
- **Powers PruFund** performance and our institutional solutions
- **Underpins** significant portion of **annuity book**



Uniqueness of PruFund offering

- Acts as an **anchor for our broader offering** in Retail Asset Management, e.g. PruFolio
- Provides **superior outcomes to retail customers**
- Generates **long-term value and earnings** for shareholders



Reach of distribution footprint

- Opens up international markets to pursue **organic growth opportunities**
- Provides **comprehensive coverage of the UK and Europe** to offer our products to retail and institutional customers

How we will be known

A new corporate identity and two strong market brands

One Corporate Identity



Two Market Brands

PRUDENTIAL



Region:



Audience:

- Direct consumer
- Intermediated consumer
- Introducer

- Intermediated consumer
- Wholesalers
- Institutional clients

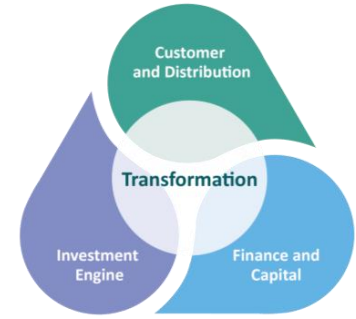


3. Growth opportunities

Established track record

Key drivers of growth over the past 10 years

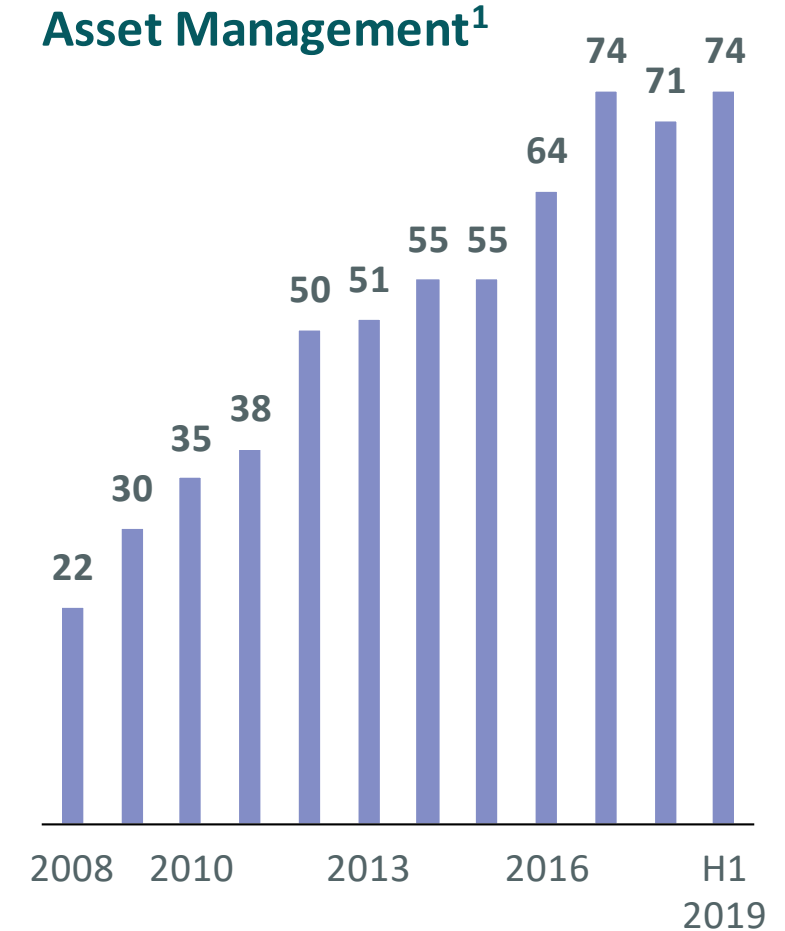
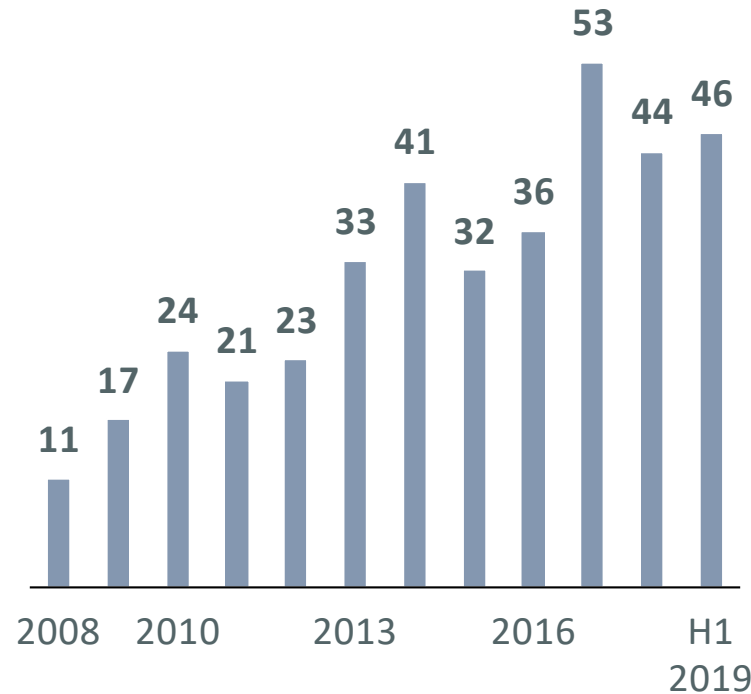
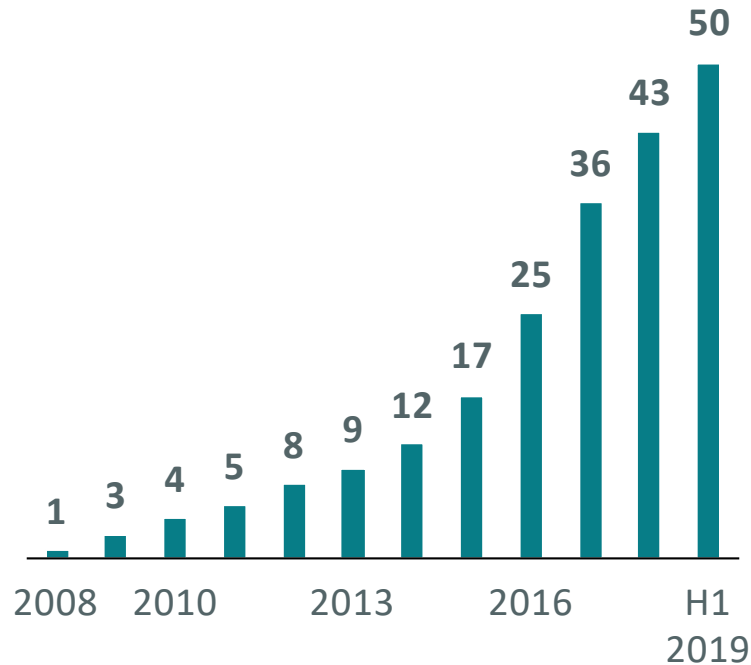
All charts show AuMA in £bn



PruFund

International Retail Asset Management

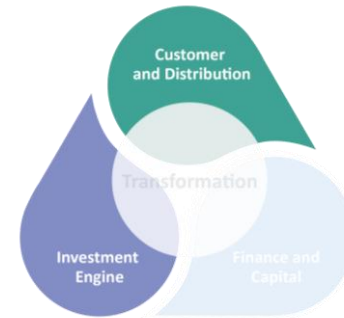
Institutional Asset Management¹



1. "PPL GILP" has been reclassified from Institutional to UK Retail from 2015 onwards

Our principles and focus

Sustainable growth



Supportive Trends

Ageing population globally

Widening savings gap

€10tn+ of cash in Europe

See July 2019 presentation

Our principles for growth

- 1 **Disciplined**
leveraging our core competencies
- 2 **Capital-efficient**
for shareholders
- 3 **Profitable**
no 'loss-leader' approach
- 4 **Responsible**
Aligned with our core value of care

Our Focus

Investment Engine

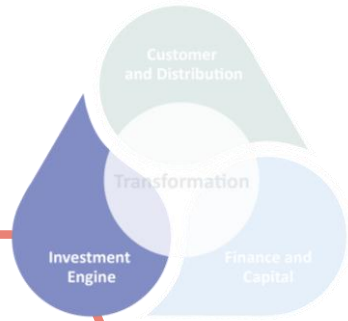
- Multi-assets** | Develop investment solutions tailored to client needs
- Private Assets** | Expand sourcing capacity leveraging existing expertise
- Public Assets** | Strengthen capabilities in high-value added areas for active mgmt.

Customer and Distribution

- Retail customers** | Broaden and digitise proposition
- Institutional clients** | Expand partnership model across and outside Europe

Investment Engine

Building capabilities in high-value added areas of the market



Multi-Asset

£140bn

Manager of one of Europe's largest multi-asset funds (our With-Profits Fund)

Our priority: Leverage in-house asset allocation, private and public asset capabilities to address client needs through outcome-oriented investment solutions

Private Assets

£60bn

One of the world's largest Private Asset managers, with sourcing mostly in the UK and Europe

Our priority: Expand sourcing capacity internationally strengthening existing areas of expertise

- Continued focus on expanding presence in the US syndicated loans market building on success in Europe
- Enhancing Private Debt capabilities; targeting a c. 33% increase in origination and analyst staff over the medium term
- Relocating and hiring investment staff in the US and Asia
- Broadening Real Estate offering into higher risk-return strategies

Public Assets

£217bn

An established active manager with critical scale across major Public Asset classes

Our priority: Strengthen capabilities in asset classes and regions where we can provide value as an active manager

- Enhanced Emerging Market Equity expertise acquiring a 7-strong Asia specialist team through lift-out in September 2019
- Strengthening Emerging Market Debt team to broaden proposition and capitalise on existing strong track record
- Ongoing development of systematic and thematic equity product offering; fund launches in 2017 and 2018 with further planned

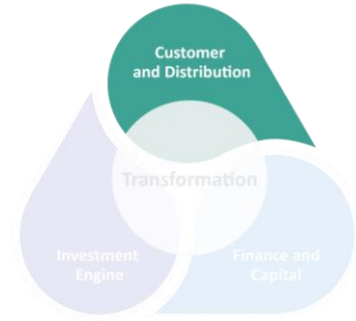
ESG

Already launched a number of funds within Private, Public and Multi-Asset

Our priority: Develop a consistent and comprehensive approach to ESG across asset classes

Customer and Distribution

Expanding our proposition at home and internationally



UK retail customers

An established player with a unique offering, including both with-profits and asset management products

Our priority: Broaden and digitise proposition

- Improving tied agents' productivity through technology upgrades
- Investing to enhance customer and advisor experience
- Leveraging PruFund as an anchor to broaden retail proposition; launched PruFolio and M&G OEICs on own platform in H1 2019

International retail customers

A leading European cross-border manager

Our priority: Leverage existing local presence and relationship with global banks to extend distribution reach

- Capitalising on sub-advisory market growth
- Significant wins in southern Europe
- Ongoing project to distribute PruFund outside the UK

Institutional clients

One of the most highly regarded institutional asset managers in Europe and one of the market leaders in the UK

Our priority: Expand our proven client partnership model to key institutions across and outside Europe

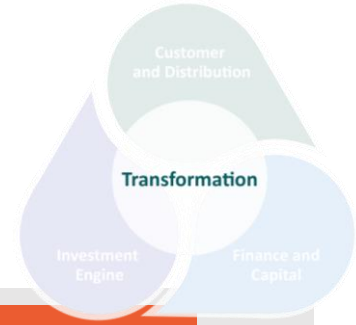
- Strengthening local distribution coverage in key institutional markets; e.g. hires in the US and Asia
- Adding dedicated solutions specialist resources to capitalise on the need of European insurance companies to outsource investment management post Solvency II
- Leverage the expanding 'Investment Engine' capabilities to broaden institutional investment proposition and tailor it to the needs of global clients
- Combine existing asset management and insurance expertise to establish M&G as a leading CDI provider in a maturing UK Defined Benefit market

Leverage international retail distribution footprint to cross-sell institutional products and vice versa

e.g. Italy has traditionally been a retail market for M&G but has added £0.5bn institutional AuM in 2017 and 2018

Transformation

A fundamental enabler across all areas of our business



Savings & Asset Management

- **Create a multi-channel, multi-wrapper, digital environment** broadening our existing customer proposition
- **Lead market on experiential innovation**, to offer superior critical customer outcomes (e.g. vulnerability and advice), on top of traditional ones (e.g. price)
- **Deliver a simplified and scalable distribution and investment model** to improve efficiency and lower marginal costs to serve

Heritage

- **Improve customer outcomes** through a fundamental transformation of our operational environment
- **Simplify IT and systems landscape** to reduce cost to serve and change (includes reduction from 14 policy administration systems to just one)
- **Variabilise cost base** to maintain profitability as book runs-off through the outsourcing deal with TCS¹ / Diligenta

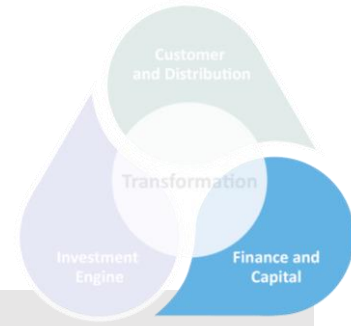
Do the right thing for customers while strengthening controls and reducing ongoing change cost



4. Attractive financials

Rewarding our shareholders

Capital generation underpins attractive dividend



Business target

3-year cumulative capital generation¹



2020-22
mid-point
target²

£2.2bn

After debt financing costs, other Corporate Centre costs and tax

Dividend policy

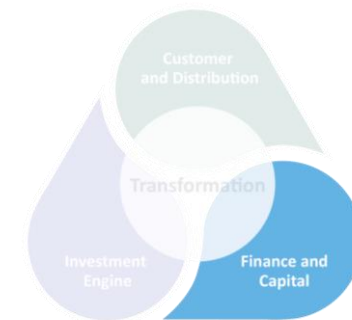
Expectations for ordinary dividends:

- 1 Stable or increasing**
in absolute terms over time
- 2 Two dividend payments per year**
interim dividend being 1/3 of the previous full year
- 3 2019 final ordinary dividend of £310m³**
implying an “as-if” full year ordinary dividend of c. £465m^{3,4}
- 4 To develop broadly in line with capital generation over the longer term**

1. Total change in Solvency II surplus before capital movements and dividends; 2. Provisional target subject to further consideration by the Remuneration Committee of appropriate 2020 incentive plan targets at year-end 2019; 3. Subject to the Company's financial performance and overall financial position remaining in line with expectations; 4. M&G plc expects³ to declare a one-off demerger related dividend of £100m in recognition that, for the majority of 2019, it was operating without incurring certain costs, e.g. debt interest costs, which it would expect to bear in future and which have been allowed for in determining the initial level of ordinary dividend

Target and compensation

Aligning remuneration with shareholders interests



Business target

3-year cumulative capital generation¹

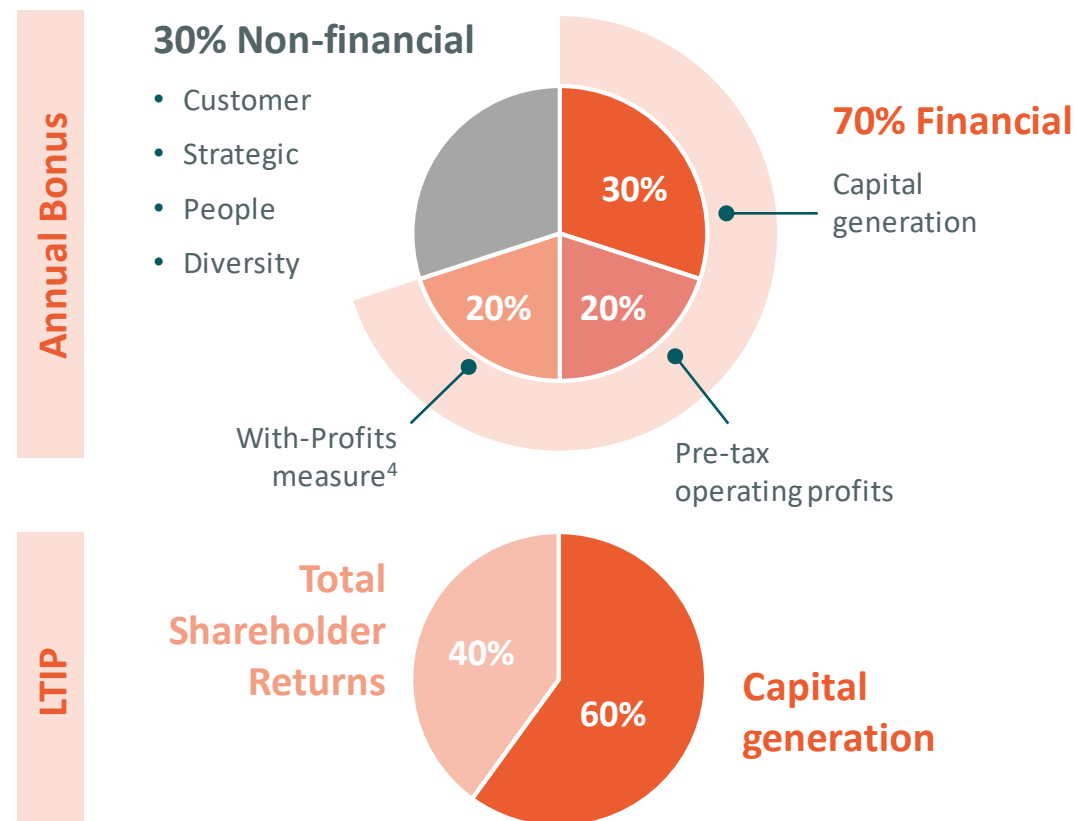


2020-22
mid-point
target²

£2.2bn

After debt financing costs, other Corporate Centre costs and tax

Executive Directors' Compensation³



1. Total change in Solvency II surplus before capital movements and dividends; 2. Provisional target subject to further consideration by the Remuneration Committee of appropriate 2020 incentive plan targets at year-end 2019;

3. Both Annual Bonus and LTIP are subject to potential uncapped downward Risk Adjustments; 4. Includes With-Profits Fund investment performance and expense measures

Key messages

1



Unique and compelling business mix being both an Asset Manager and an Asset Owner

2



Differentiated and **high-value added savings & investments solutions** to address customers' needs

3



Proven track record for growing new franchises, at home and internationally

4



Well positioned to capture opportunities from demographic shifts and the search for yield

5



Attractive total return profile with capital discipline and profitable growth



Finance and capital management

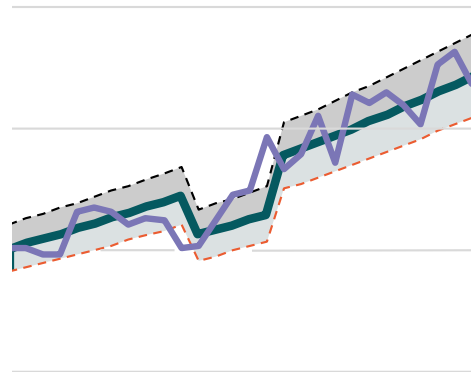
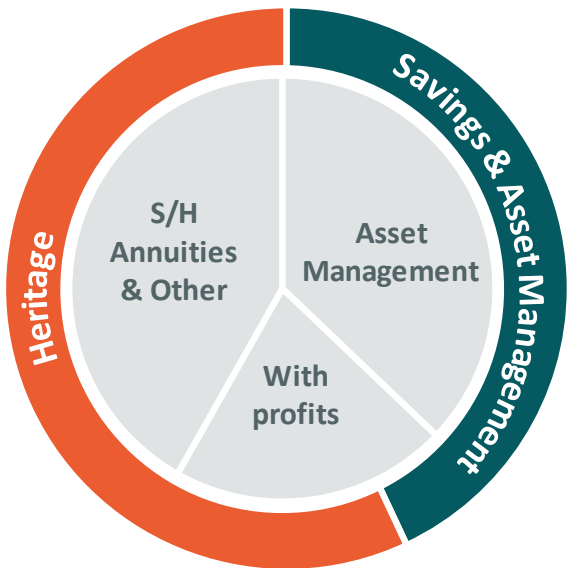
Clare Bousfield – Chief Financial Officer

What we will cover today

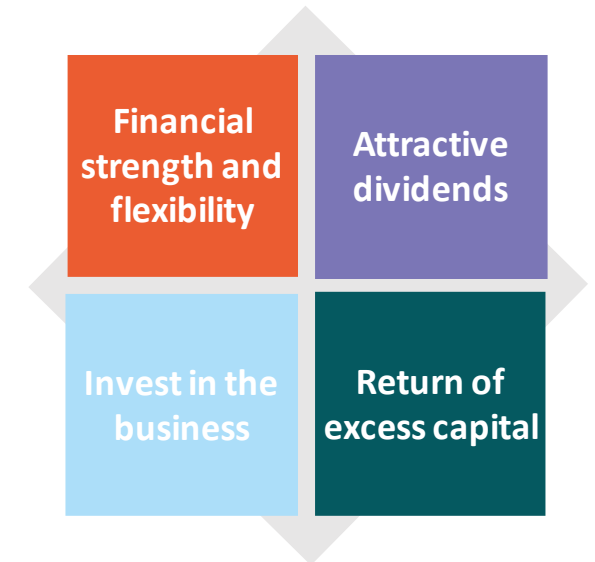
From earnings to dividends



Adjusted Operating Profit split (H1 2019)¹



- 1** Day 1 balance sheet
- 2** Capital generation framework
- 3** Review of key drivers



1. Total Adjusted Operating Profit before corporate centre expenses. Mix excludes £127m longevity assumption change from annuity book



1. Review of H1 2019 results

H1 2019 Results summary

AuMA

£341bn

- **Up 6%** from FY 2018 driven by strong market performance
- **PruFund AuMA up 15%** to almost £50bn
- Headwinds remain in **Retail Asset Management flows**

Adjusted Operating Profit

£715m

- Down from £772m in H1 2018
- **Savings & Asset Management** £34m lower, due to lower asset management fee income
- Continued strong profitability of **Heritage**
- **Corporate centre cost** up £14m, increasing as expected ahead of listing
- Transformation programme **on-track**

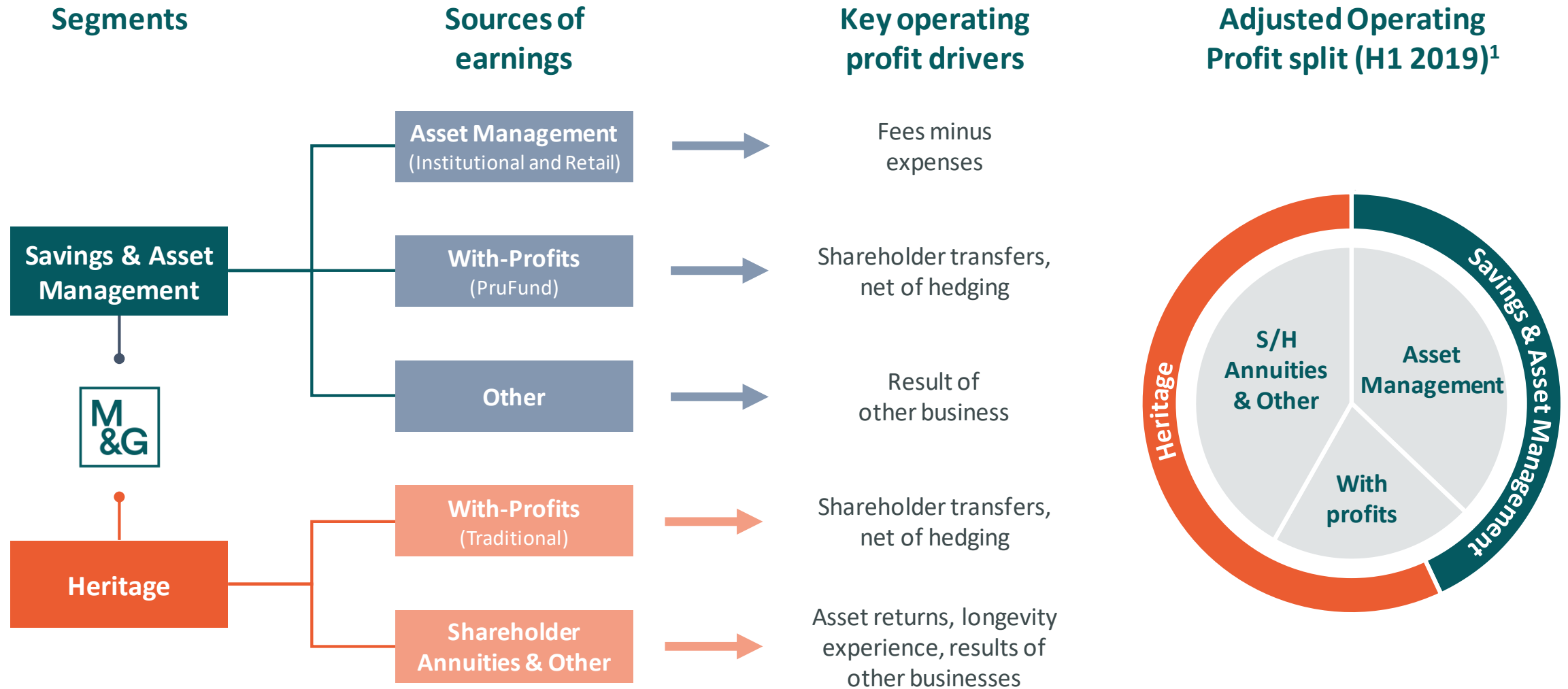
Pro forma Group Solvency II ratio

170%

- Position at 30 June 2019 on the basis of £3.2bn subordinated debt substitution

Our profit drivers

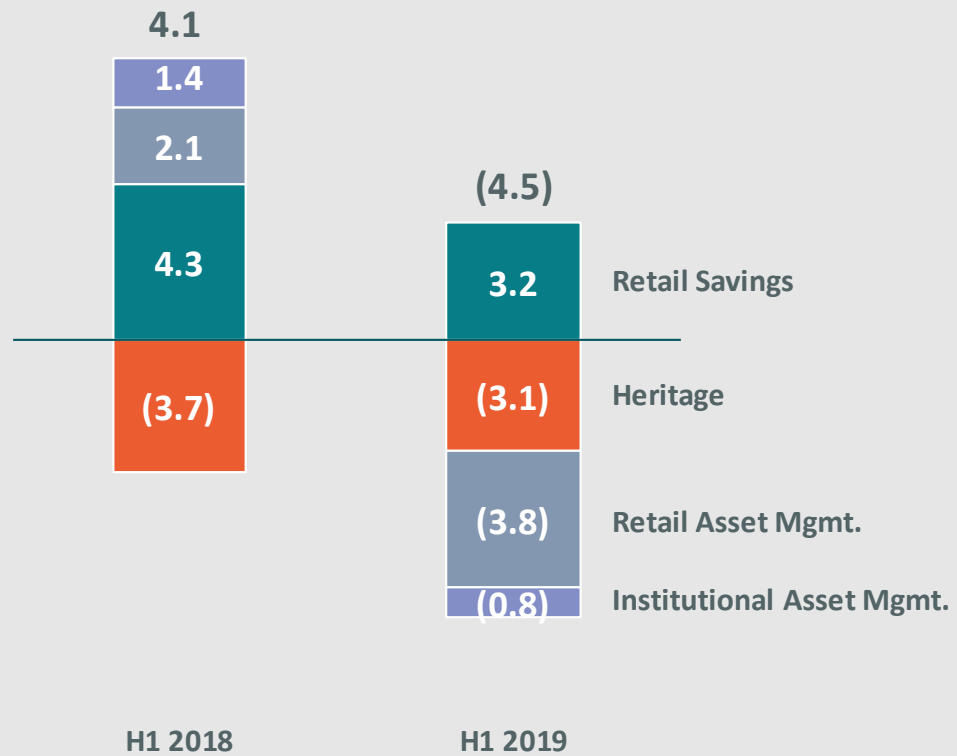
What underpins the earnings of each segment



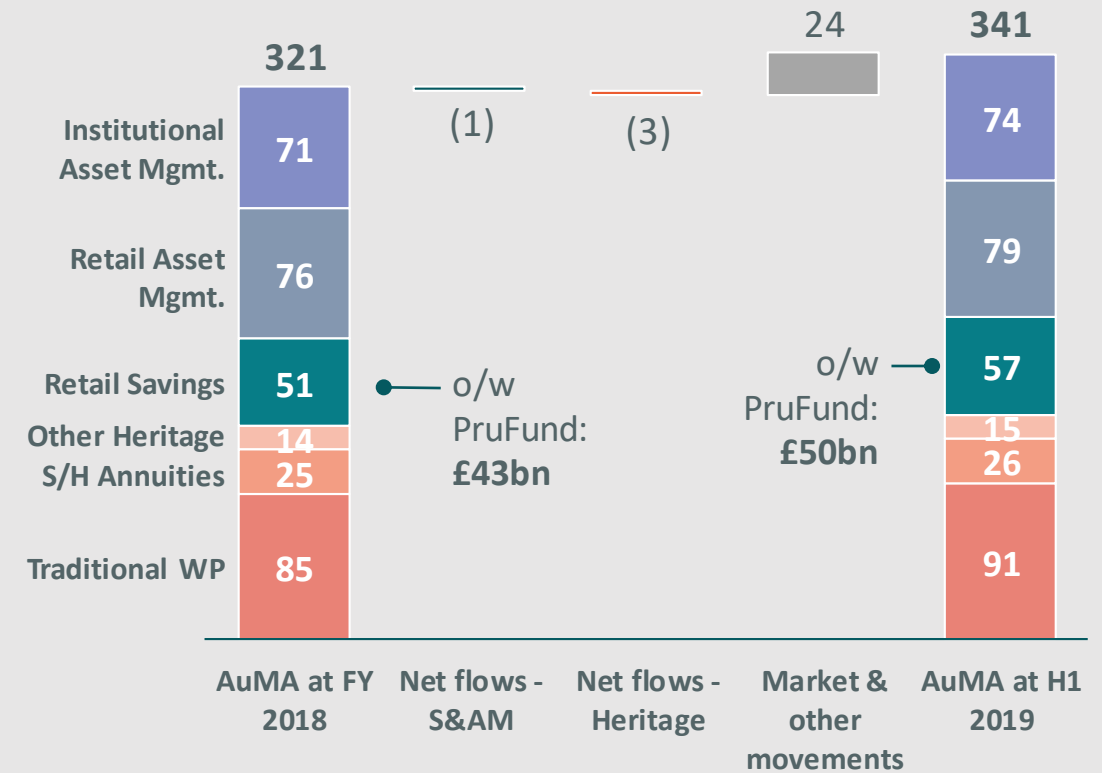
1. Total Adjusted Operating Profit before corporate centre expenses. Mix excludes £127m longevity assumption change from annuity book

Net client flows and AuMA

Net client flows £bn



Movement in AuMA £bn



Adjusted Operating Profit by source

		H1 2018 £m	H1 2019 £m	YoY%
Savings & Asset Management	Asset Management	265	216	(18)%
	With-Profits (PruFund ¹)	23	29	+26%
	Other	8	17	+113%
	Total Savings & Asset Management	296	262	(11)%
Heritage	With-Profits	91	97	+7%
	Shareholder Annuities & Other	392	377	(4)%
	Total Heritage	483	474	(2)%
	Corporate centre	(7)	(21)	
	Total Adjusted Operating Profit	772	715	(7)%

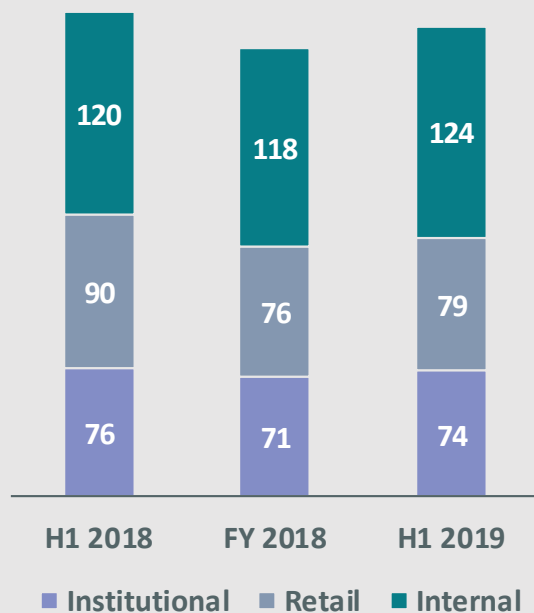
1. Includes a small amount of PruFund predecessor unitised With-Profits contracts

Sources of earnings

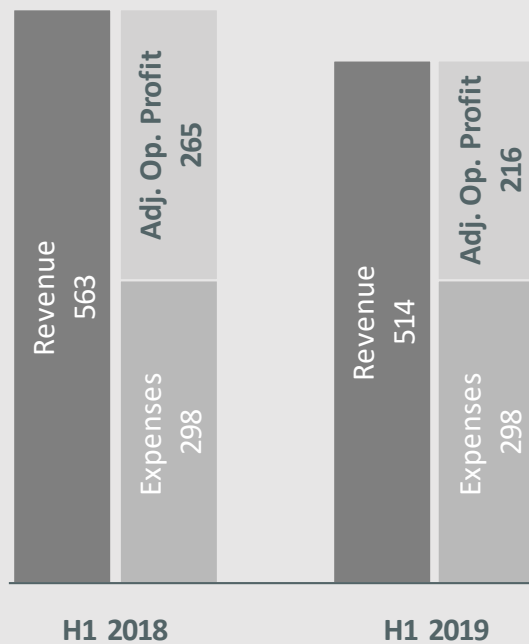
Asset Management

Savings & Asset Management

AuM (£bn)



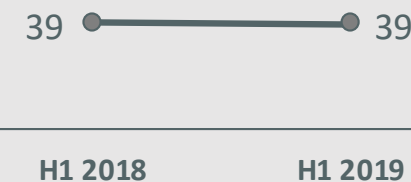
Profitability¹ (£m)



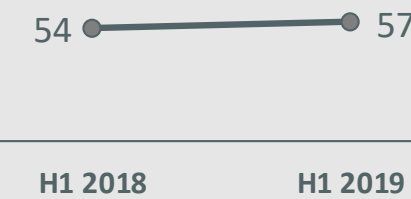
Key ratios

Average fee margin

(bps of average AuM incl. internal²)



Cost / Income ratio (%)



¹ Adjusted Operating Profit, excluding share of associate's profit and investment income; ² Fee margin calculated as fee based Adjusted Operating Income, excluding performance fees, over monthly average AuM. Performance fees were H1 2018: £8m; H1 2019: £7m

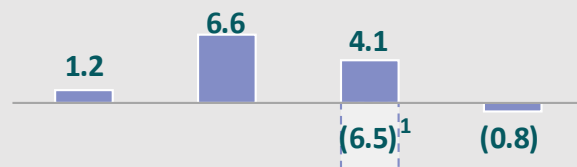
Sources of earnings

Institutional Asset Management

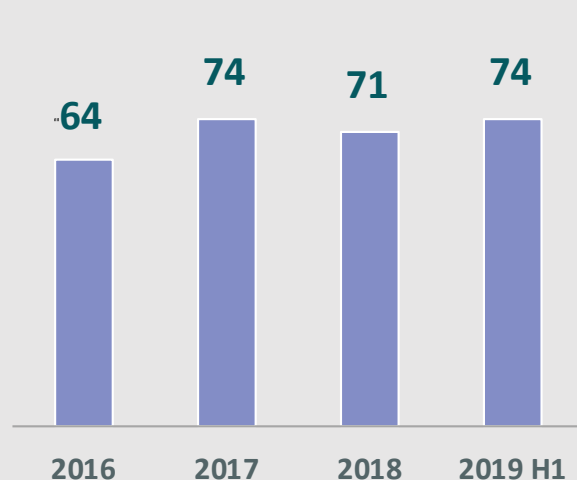
Savings & Asset Management

Assets

3rd party Institutional net client flows (in £bn)



3rd party Institutional AuM (in £bn)



Fees

Institutional Asset Mgmt. average fees (in bps)²



Key points

- **Flows are less volatile** than retail due to long duration, liability-linked mandates
- **Tenure is typically 7+ years** vs. 2-3 years for retail customers
- 3rd party clients predominantly UK-centric but ongoing **international expansion to support growth**
- **Resilient fees** underpinned by gradual shift of product mix towards high-value added solutions and private assets

1. Outflow of one particular £6.5bn low-margin Institutional mandate as referred to in Prudential plc's Full Year 2018 results; 2. Includes fees on Prudential Assurance Company internal assets managed by M&G

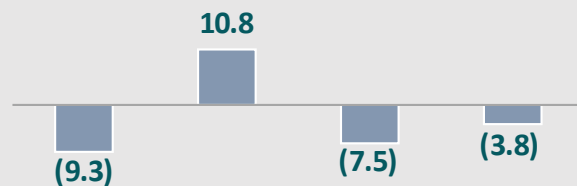
Sources of earnings

Retail Asset Management

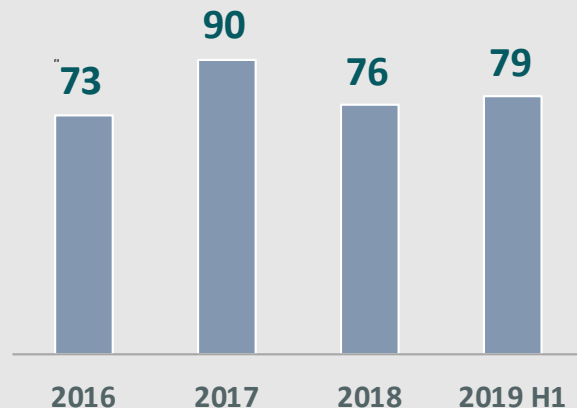
Savings & Asset Management

Assets

3rd party Retail net client flows (in £bn)



3rd party Retail AuM (in £bn)



Fees

Retail Asset Mgmt. average fees (in bps)¹



Key points

- Negative flow picture in 2018 and 2019 due to **challenging macroeconomic environment and retail investor confidence**
- Current **focus on building sub-advisory** offering expected to generate flows into stickier mandates over time
- **Fee pressure expected to continue** over the medium-term
- Gradual **shift towards solutions and multi-assets** to partially counterbalance this pressure

1. Includes fees on Prudential Assurance Company internal assets managed by M&G

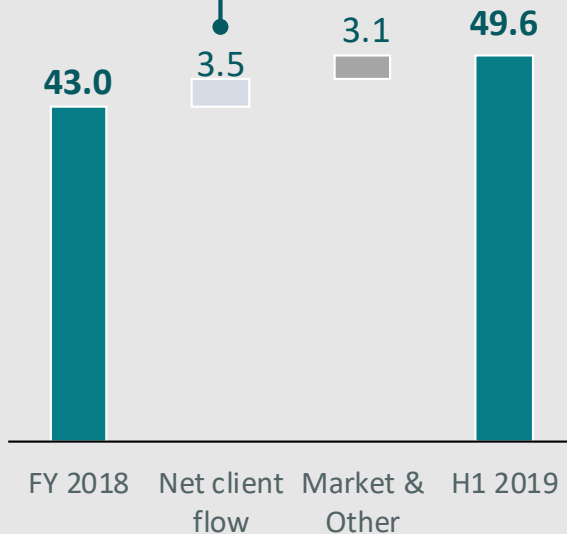
Sources of earnings

With-Profits / PruFund

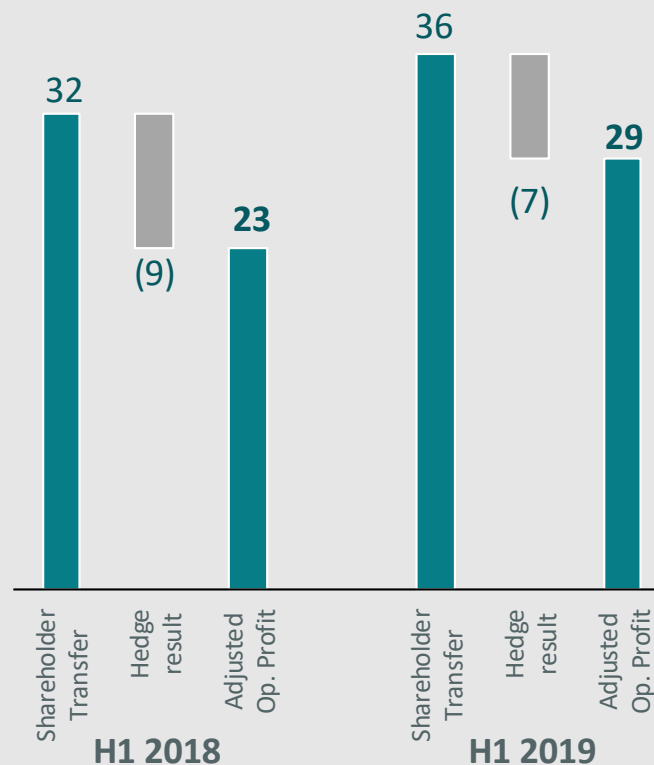
Savings & Asset Management

PruFund AuMA (£bn)

	H1 18	H1 19
Inflow	6.0	5.5
Outflow	(1.6)	(2.0)
Net	4.4	3.5



Adjusted Operating Profit (£m)¹



Key Developments

- **AuMA up 15%** over first six months of 2019
- **Net inflows 8%² of opening AuMA**
 - **Gross inflows** remain strong at £5.5bn, though slightly lower YoY due to lower DB transfer activity
 - **Gross outflows** continue to increase moderately as expected, as book matures
- **Adjusted Operating Profit up 26%** with shareholder transfers continuing to grow

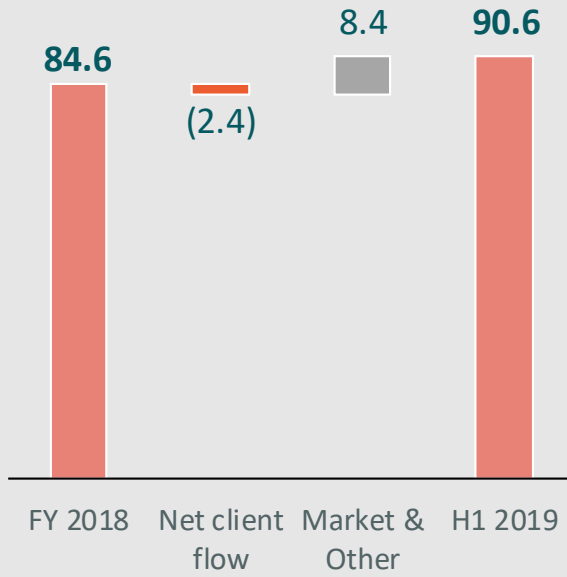
1. Shareholder Transfer includes PruFund and a small amount of PruFund predecessor unitised With-Profits contracts; 2. Not annualised

Sources of earnings

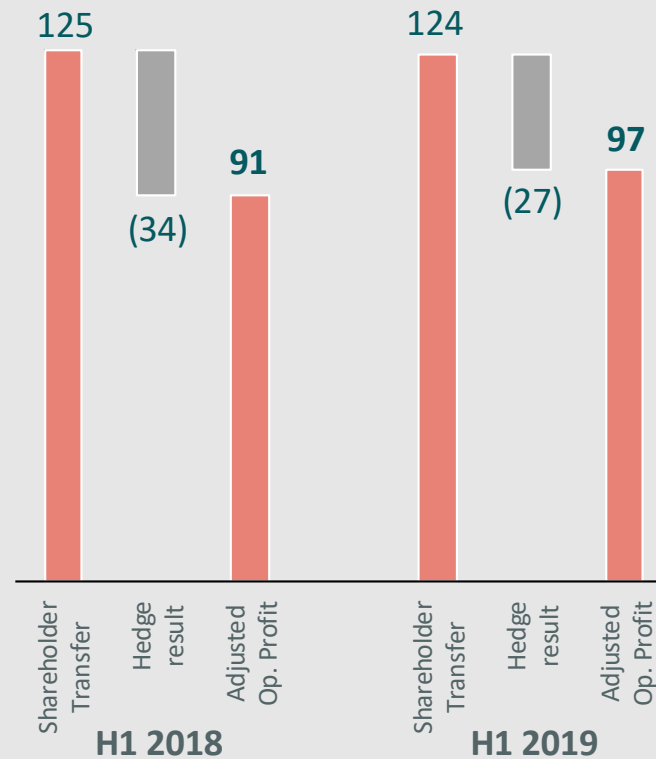
Traditional With-Profits

Heritage

Traditional WP AuMA (£bn)



Adjusted Operating Profit (£m)



Key Developments

- **AuMA up 7%** over first six months of 2019, driven by strong market performance
- **Net client flow** remains broadly stable YoY
- **Adjusted Operating Profit up 7%** due to improved hedge result; pre-hedge shareholder transfers stable as expected

Sources of earnings

Shareholder Annuities & Other

Heritage

Adjusted Operating Profit (£m)	H1 2018 £392m	H1 2019 £377m	Nature of earnings
Return on excess assets & margin release	111	118	Investment income from assets not backing insurance liabilities and gradual release of prudence in actuarial assumptions
Asset trading & other optimisation	92	63	Lower discounted annuity liabilities due to trading into higher yielding assets and optimising asset allocation
Longevity assumption changes		127	Change in mortality expectations for annuity customers
TRASP ¹ insurance recovery	166		One-off indemnity insurance recovery for Thematic Review of Annuity Sales Practices
Other	23	69	Results of other activities (c. £50m positive one-offs in H1 2019)

Sources of earnings – Expected development¹

Key drivers of Adjusted Operating Profit

Savings & Asset Management

Asset Management

- **AuM & Flows:** Market conditions difficult near term. Focused on medium-term growth initiatives
- **Average fee margin:** Pressure across industry especially on retail, mitigated by focus on value-added solutions
- **Costs:** Beneficial impact of transformation; expected investment in growth initiatives dependent on market conditions

With-Profits

- **Shareholder transfers** continue to rise as PruFund AuMA grow and the book matures
- **Hedge result** to remain a net cost under normal market conditions (actual outcome depends on market movements)

Other

- Result from minor other businesses (including Prudential international branches) and service companies
- Expected to remain small in Group context

Heritage

With-Profits

- **Shareholder transfers** expected to remain at around current levels on average for medium term
- **Hedge result** to remain a net cost under normal market conditions (actual outcome depends on market movements)

Shareholder Annuities & other

- **Return on excess assets and margin release** expected to decline gradually over the long-term as book runs off. Low double-digit £m reduction expected in 2020 due to payment of dividend up to M&G plc at end 2019
- **Annuity asset trading** expected to remain positive, but at lower levels than previous years after bedding-down of Solvency II
- **Longevity** remains uncertain: Prudent approach with continued focus on mortality trends; CMI17 already adopted at H1 stage for FY 2019

Corporate centre

Head office expense

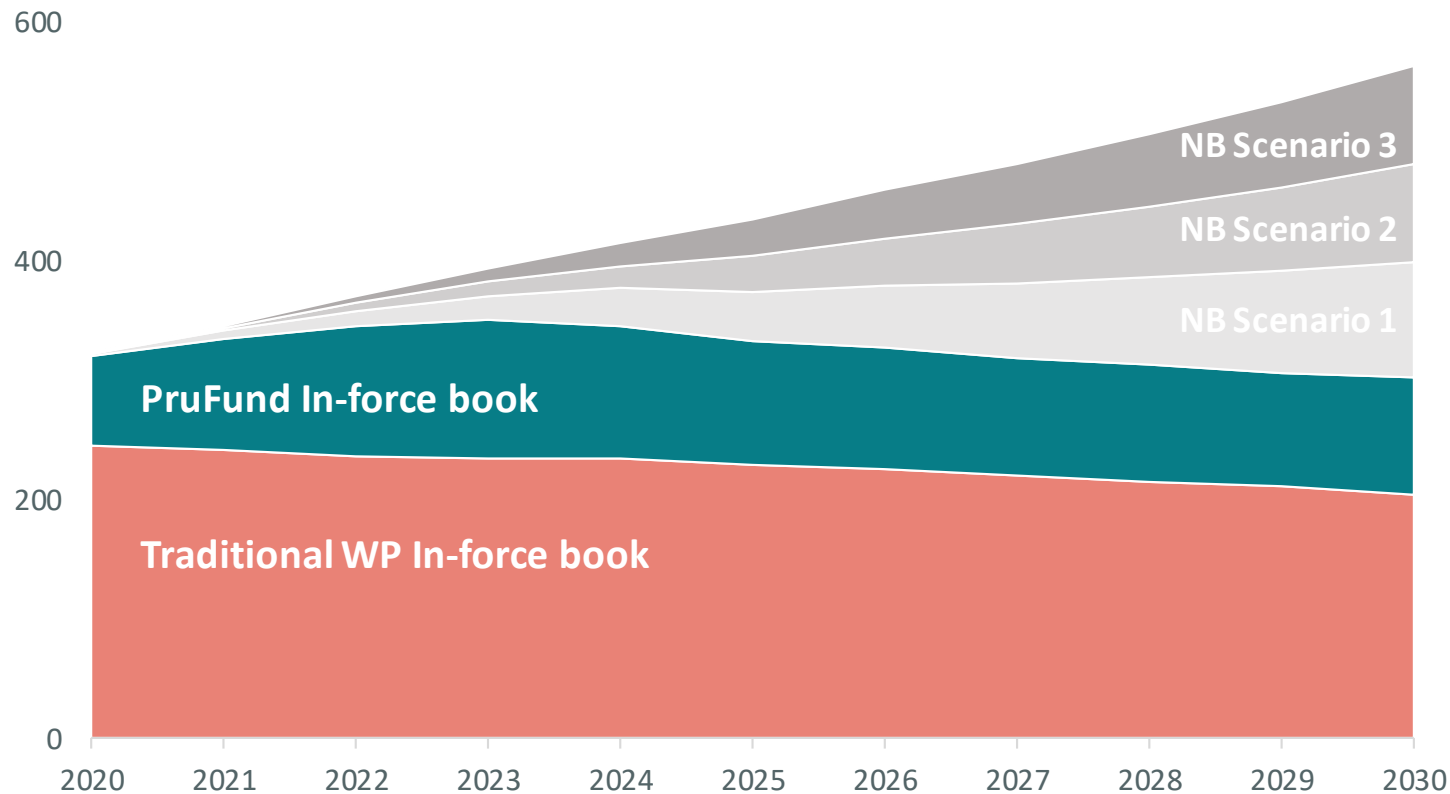
- Expected to be in the range of £80-100m p.a.

Debt interest cost

- Coupons on post-demerger debt of £3.2bn amount to c. £190m² p.a.

Continued With-Profits Transfer growth expected

Illustrative With-Profits Shareholder Transfer¹ before tax (£m)



Shareholder transfers from future new PruFund business, shown in 3 different scenarios²:

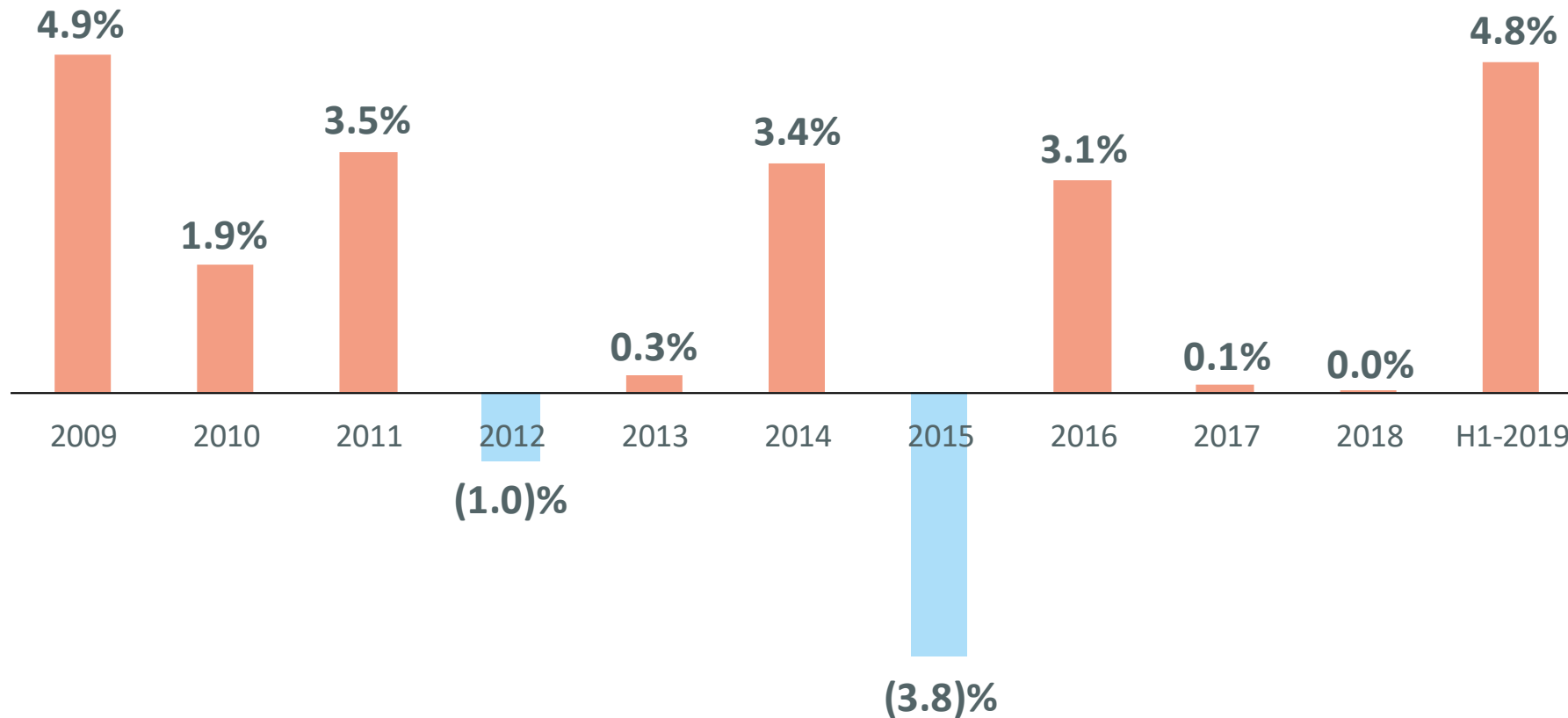
- **Scenario 1:** New business volume of £5bn p.a.
- **Scenario 2:** New business volume of £10bn p.a.
- **Scenario 3:** New business volume of £15bn p.a.

1. Based on economic conditions at 30 June 2019, and assuming actual investment returns as per Expected Growth Rates (EGRs) in force at that date; 2. Alternative new business volume scenarios apply from 2020 onwards

Mortality trends

CMI Q2 2019 update

Cumulative annual standardised mortality improvements (%)





2. PruFund deep-dive

Before we move onto the details

What is PruFund

For customers

A savings product similar to traditional mutual funds...

- Multi-asset
- Daily unit price
- With a clear annual charge

... but with characteristics that make it stand out from the crowd

- Low volatility
- Smoothed returns
- Strong performance track record

For the With-Profits Fund

A proposition priced to recover the costs the With-Profits Fund expects to incur:

- Distribution and Admin expenses
- Investment management
- Smoothing and holding account
- Shareholder Transfer

Deviations from expectations are absorbed by the With-Profits estate

For Shareholders

Strategically

- Unique proposition
- Element of differentiated growth
- Anchor for our broader offering

Financially

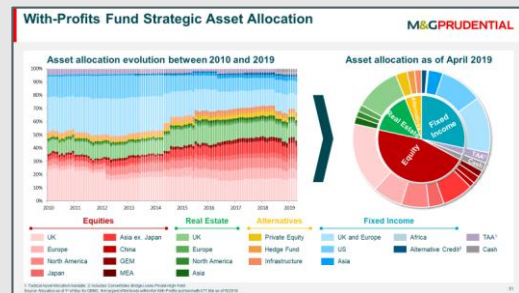
- Growing source of earnings (£54m in 2018, £29m in H1 2019)
- Store of value with back-end loaded profit signature
- Capital-efficient proposition

Intro to PruFund

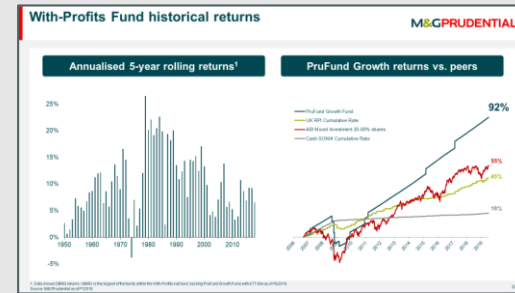
A unique proposition

What we covered in July

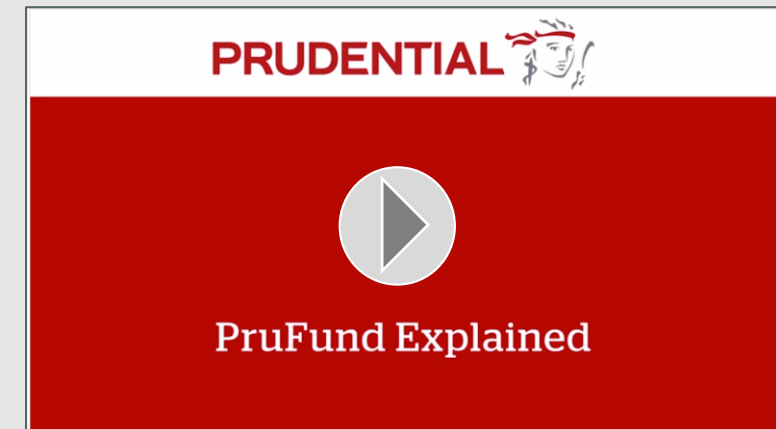
Breadth and diversification of our With-Profits Fund SAA¹



Historical performance and returns



To warm us up



...and what we will cover today

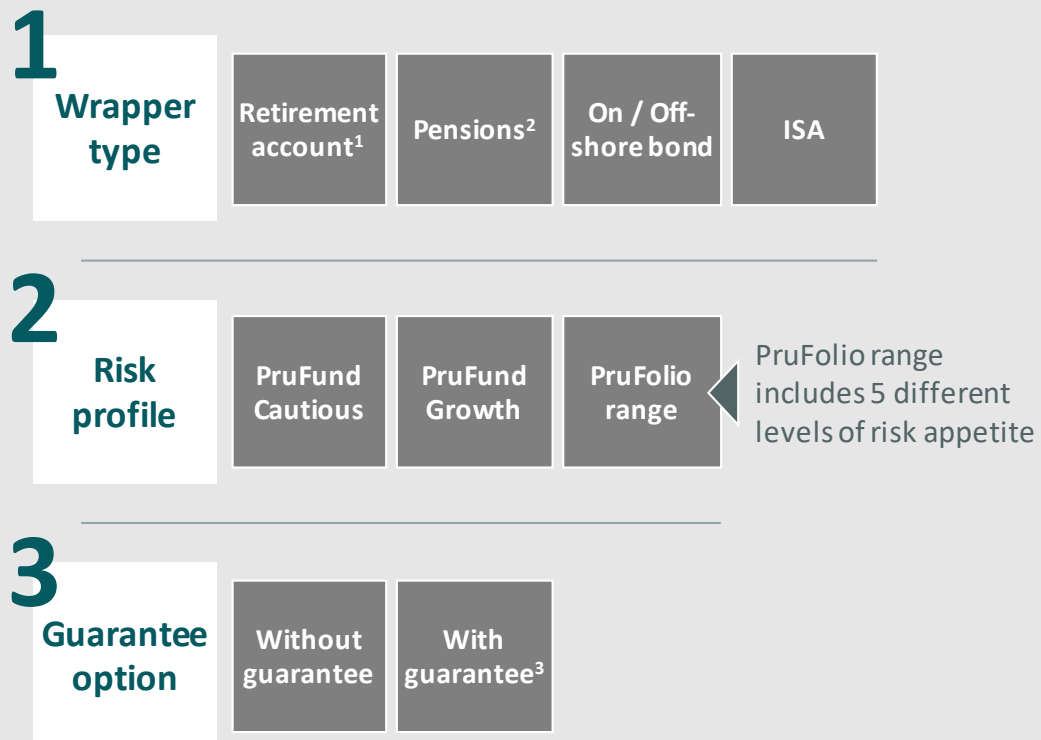
- 1 Functioning of the PruFund from a customer perspective
- 2 Role of the With-Profits Fund
- 3 Financial impact on shareholder earnings and balance sheet

Customer perspective

PruFund components and investment returns

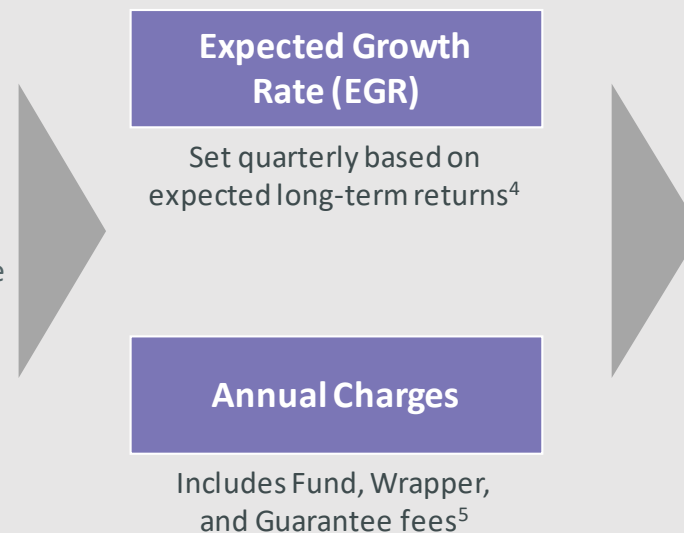
Flexible components

Three key choices for customers

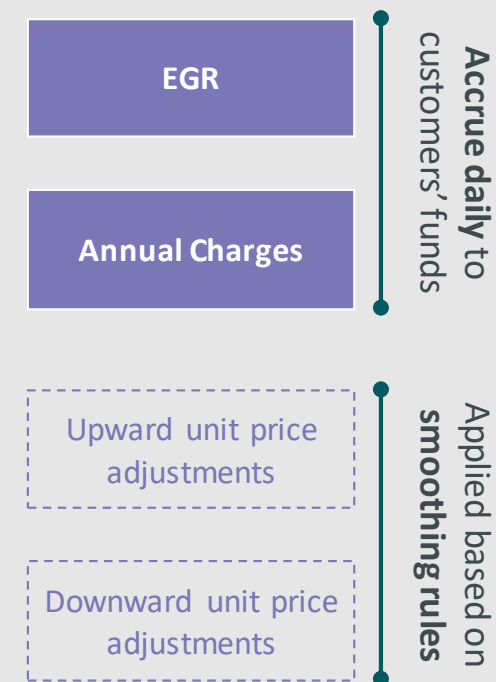


Resulting features

Determined by customer choices



Investment returns



1. Including Income Drawdown; 2. Flexible Retirement Plan and Trustee Investment Plan; 3. Less than 1% of new customers in the 18 months to June 2019 have selected guarantee option;

4. Having regard to the investment returns expected to be earned on the assets of the funds over the long-term (15 years); 5. The Annual Charges cover, amongst other things, the expected cost of Shareholder Transfers

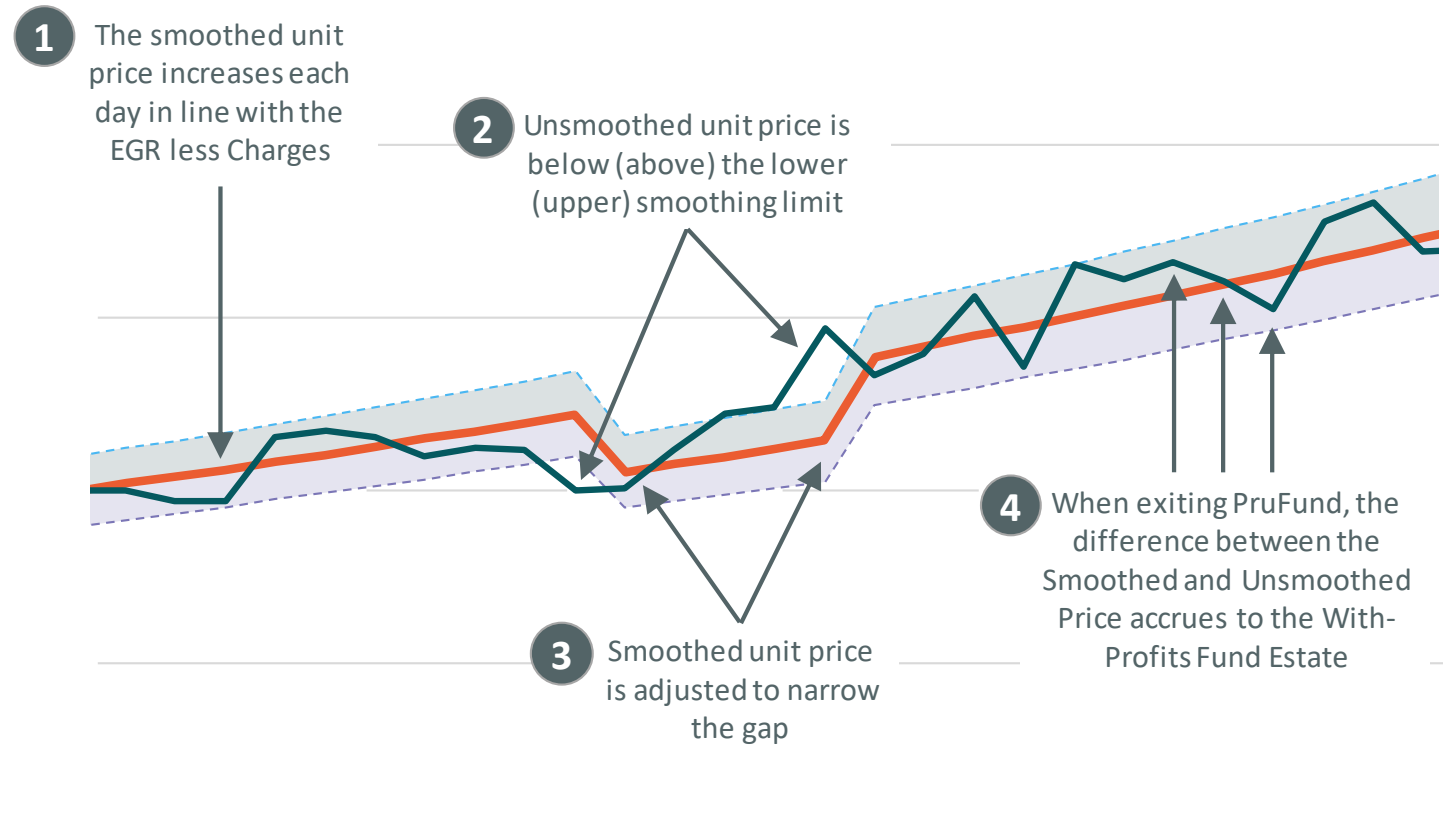
Customer perspective

Smoothing mechanism and Unit Price Adjustments¹ in theory

In theory

Illustrative example

- Smoothed unit price
- Unsmoothed unit price²
- - Upper smoothing limit
- - Lower smoothing limit



1. Smoothing mechanism can be temporarily suspended in exceptional circumstances to protect the With-Profits Fund; if it is suspended, the smoothed unit price of the affected fund is set equal to the unsmoothed price

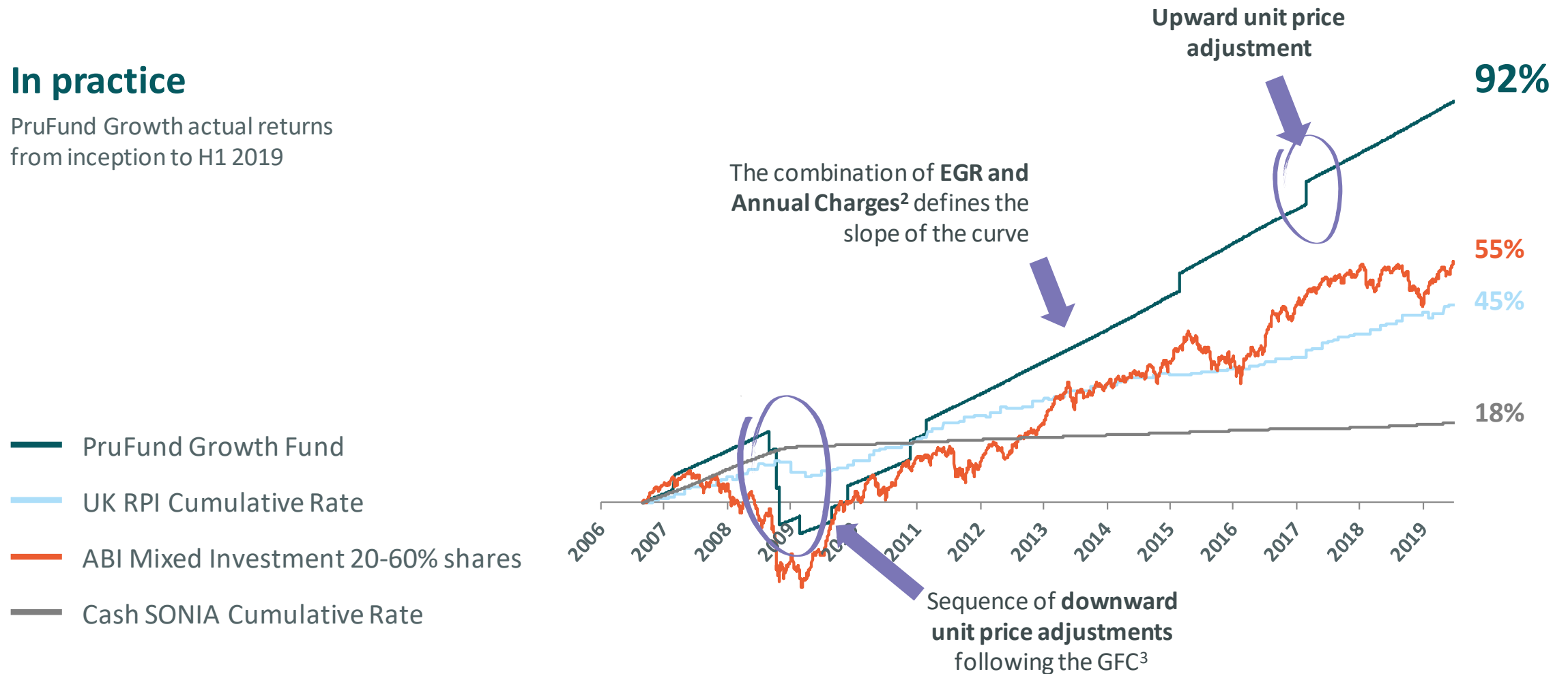
2. The unsmoothed price increases or decreases each day in line with the performance for the underlying assets in the With-Profits Fund less the pro-rated Annual Charges

Customer perspective

Smoothing mechanism and Unit Price Adjustments¹ in practice

In practice

PruFund Growth actual returns from inception to H1 2019



1. Smoothing mechanism can be temporarily suspended in exceptional circumstances to protect the With-Profits Fund; if it is suspended, the smoothed unit price of the affected fund is set equal to the unsmoothed price

2. Charges refer to any charge allowed for in the unit pricing. Note that some charges may be taken by unit cancellation depending on product wrapper; 3. Global Financial Crisis

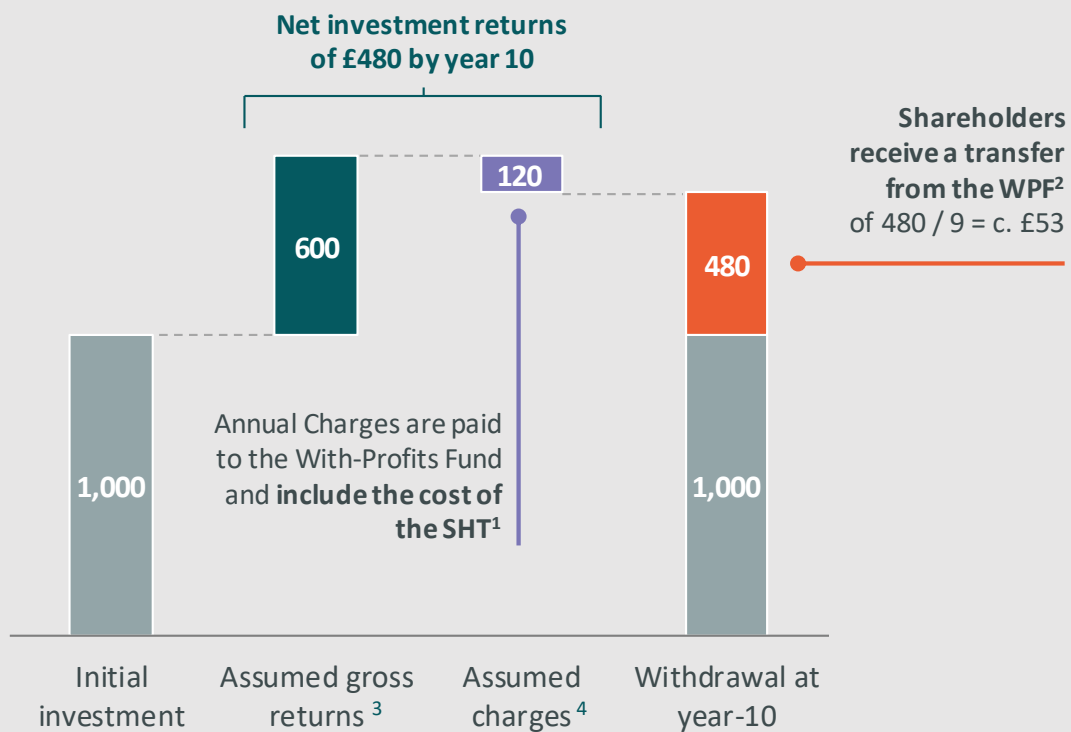
From a customer to the With-Profits Fund perspective

Withdrawals and the Shareholder Transfer (SHT)

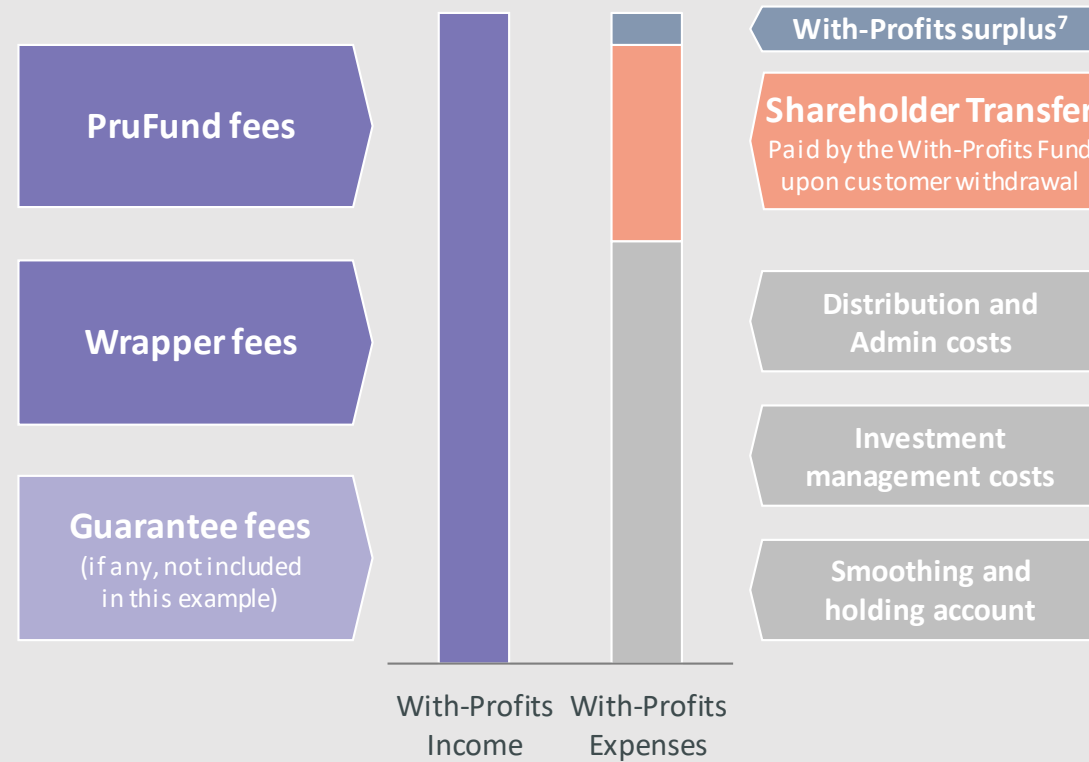
Illustrative⁵

Single withdrawal

Customer withdrawing 100% of funds in year 10



With-Profits income and expenses⁶



1. Shareholder Transfer; 2. With-Profits Fund; 3. Based on 5% Expected Growth Rate and assuming no Unit Price Adjustments; 4. Based on 1% Annual Charge (including both fund and wrapper fees); 5. For simplicity, the charts assume EGR of 5% and Annual Charges of 1% remaining unaltered over the entirety of the holding period with no Unit Price Adjustments; 6. With-Profits income and expenses shown on a present value basis; 7. This could be a surplus or deficit depending on how actual experience compares to that used in pricing new business, which is effected in accordance with FCA requirements

Shareholder perspective

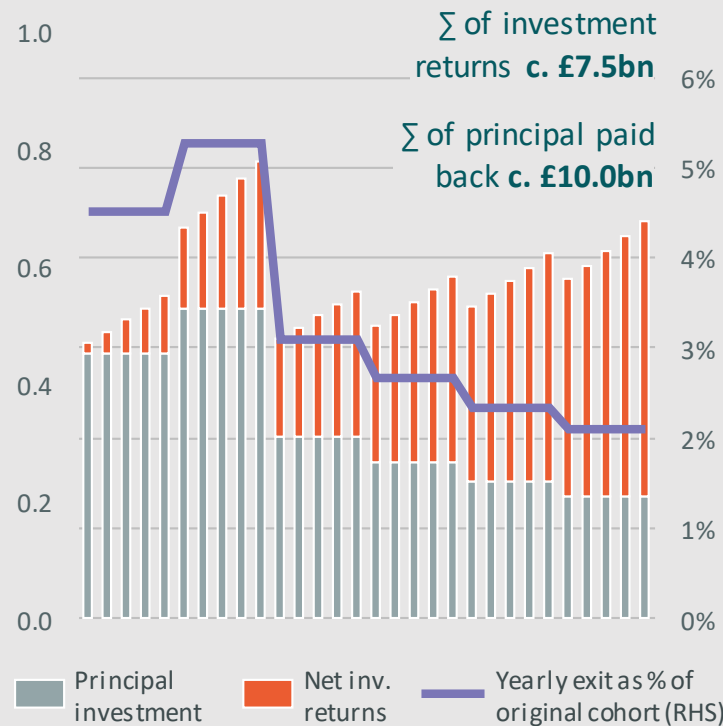
The Present Value of the Shareholder Transfer

Illustrative¹

Customer withdrawals

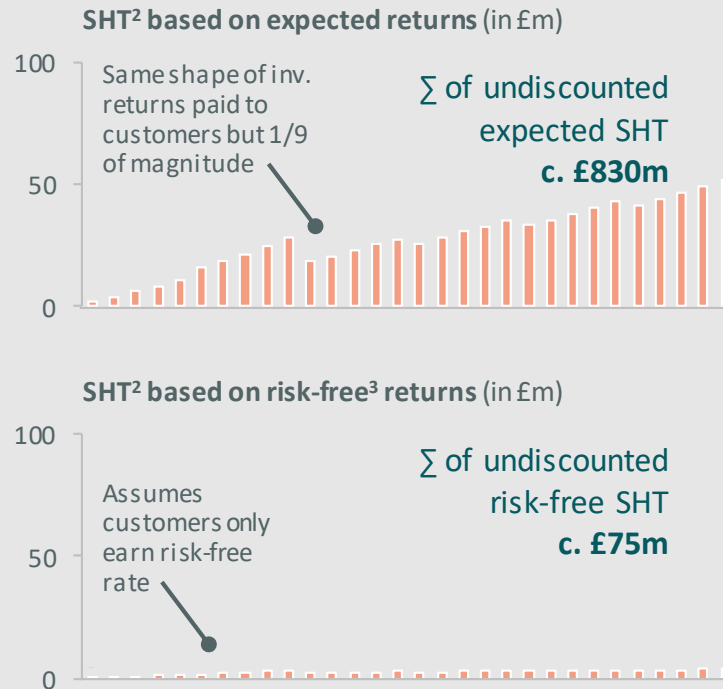
Illustrative¹ £10bn cohort and expected churn

Payment to customers over 30 years (in £bn)



Shareholder transfer

Transfer is 1/9 of the net investment return



Present value

Present value of Shareholder Transfer (PVST)

PVST based on expected returns and discount rate⁴:
c. £340m

PVST recognised under Solvency II on Day-1³:
c. £55m

1. For simplicity, the charts assume EGR of 5% and Annual Charges of 1% remaining unaltered over the entirety of the holding period with no Unit Price Adjustments;

2. Shareholder Transfer; 3. Assumes risk-free rate of 1.5%; 4. Assumes 5% discount rate

Shareholder perspective

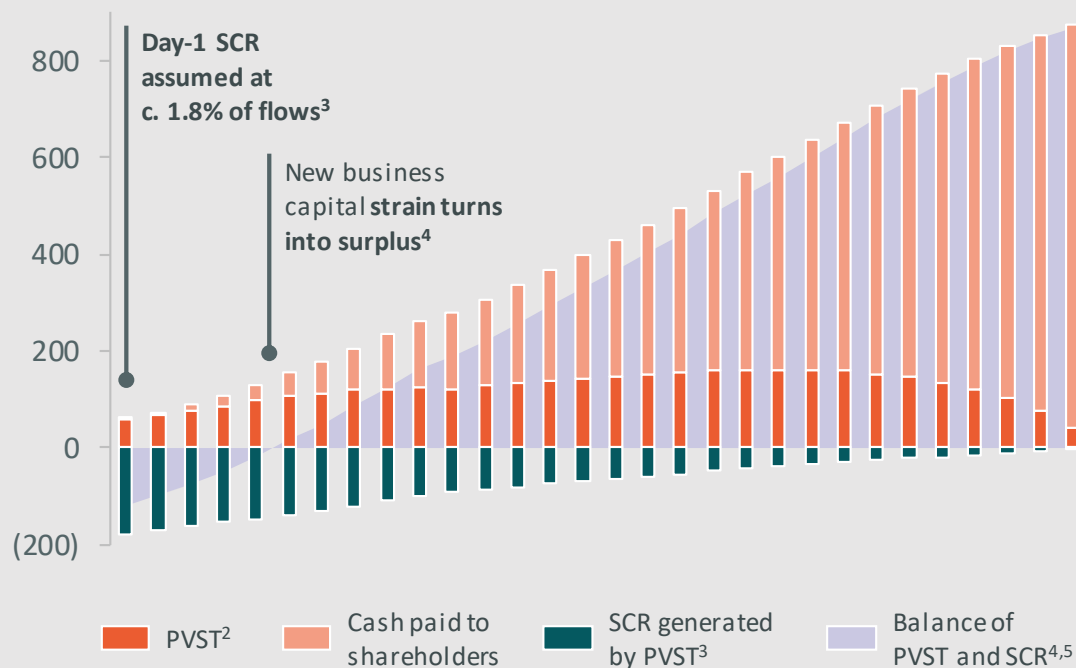
Solvency II impact

Illustrative¹

Capital requirement turning into surplus

SCR generated by PVST² is based on a 1/200 shock to PruFund's assets

PruFund impact on Shareholder balance sheet assuming a £10bn cohort¹ (in £m)



Development over time

Year-on-year movements in the balance sheet

Own funds

- 1 Unwind of the discount rate** | Always Positive (as long as discount rates are not negative)
- 2 Realisation of 'real' returns** | Positive but only if real returns are greater than risk-free
- 3 Payment of SHT to shareholders** | PVST² becomes cash on the balance sheet

Solvency Capital Requirement

- 4 Exposure to market risk** | SCR changes as PVST² and / or asset allocation move over time

1. For simplicity, the charts assume EGR of 5% and Annual Charges of 1% remaining unaltered over the entirety of the holding period with no Unit Price Adjustments; 2. Present Value of the Shareholder Transfer; 3. Day-1 SCR highly dependent on prevalent interest rates. Chart shown before the impact of any hedging; 4. Balance of PVST and capital requirements highly dependent on prevalent interest rates and investment returns. Chart shown before the impact of any hedging; 5. Assumes Shareholders retain cash on balance sheet and do not pay it out

PruFund mechanics

Summary

Customers

- Invest initial saving and / or retirement pot into the fund
- Investment grows in line with an EGR¹ (reviewed on a quarterly basis)
- Annual Charges, which cover the expenses incurred by the WPF², including the cost of any Shareholder Transfer, are deducted from the investment
- Downward / upward UPAs³ are applied for significant market movements
- Funds can be withdrawn in part or in full when needed

With-Profits Fund

- Receives the actual investment returns and accrues the Expected Growth Rate to customers
- Absorbs any positive or negative difference between the Annual Charges and the expenses incurred (which include the transfer paid to shareholders)
- Pays the Shareholder Transfer at point of customers' withdrawal

Shareholders

- The PVST⁴ is recognised as an asset on the Solvency II balance sheet along with a related capital requirement
- The balance between the two elements evolves over time generating a surplus
- The Shareholder Transfer is paid by the With-Profits Fund when customers withdraw funds
- The amount of the Shareholder Transfer is equivalent to 1/9th of the value created for the customer⁵


1. Expected Growth Rate; 2. With-Profits Fund; 3. Unit Price Adjustments; 4. Present Value of the Shareholder Transfer;
5. In case the claim value is less than the initial premium, the shareholder transfer will be correspondingly negative for 1/9th of the loss



3. Capital and capital generation

Pro forma M&G plc Group Solvency II¹

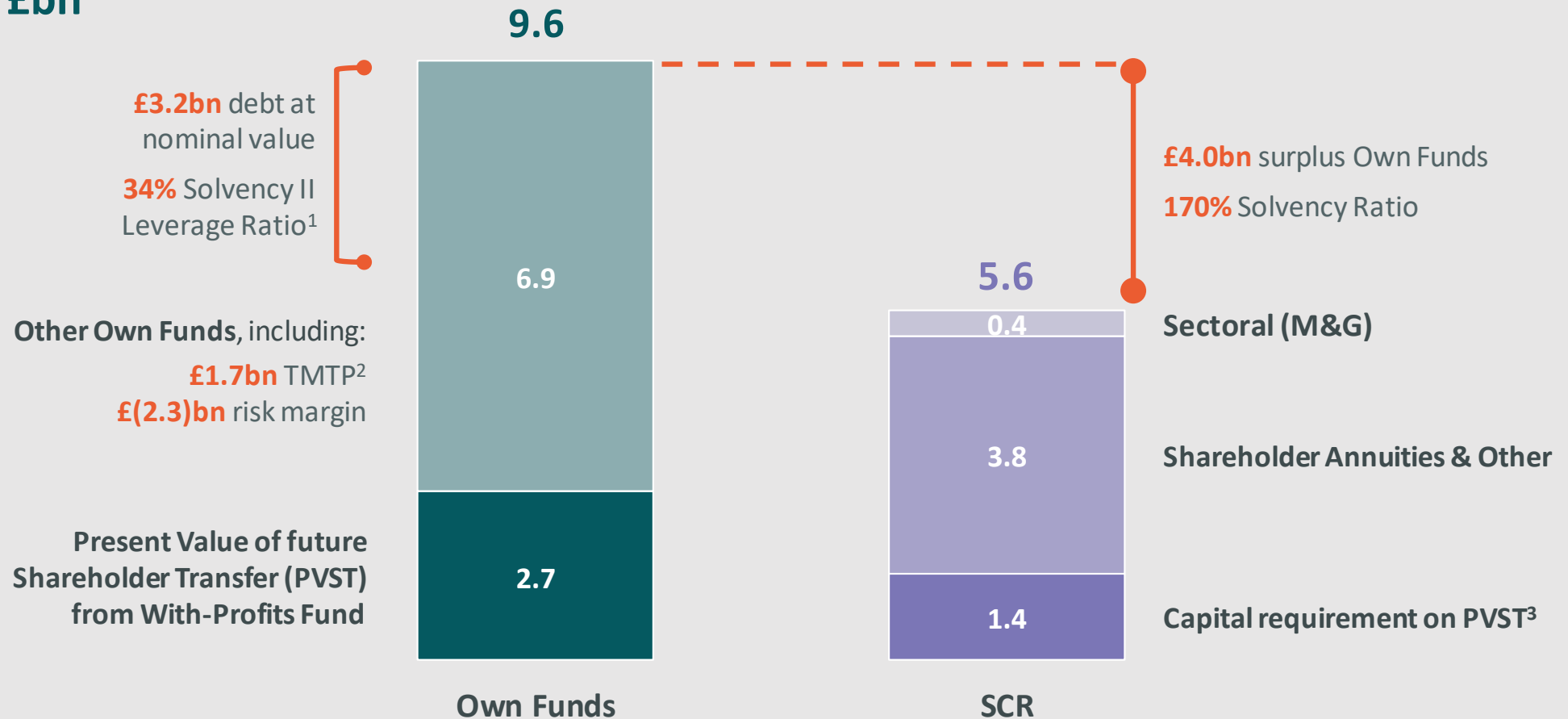
- PAC represents the majority of the Group's consolidated solvency capital position of 169% at 30 June 2019
- Shortly prior to demerger, M&G plc will assume £3.2bn of substitutable debt² from Prudential plc, offset by a pre-demerger dividend of £(3.2)bn³ and other closing adjustments of £0.1bn. Pro forma solvency ratio is 170%.
- Actual solvency ratio at demerger will depend on ongoing capital generation from the business, market movements and other developments up until the demerger date

H1 2019, £bn	PRUDENTIAL 					
	PAC	M&G+ other subs	M&G plc Consolidated	Assumption of debt	Pre-merger dividend / closing adjustments ^{3,4}	Pro forma Solvency II
Own Funds	8.9	0.5	9.5	3.2	(3.1)	9.6
SCR	5.2	0.4	5.6	-	-	5.6
Solvency Ratio	173%		169%			170%

1. The Group has requested approval from the PRA to amend the Prudential Group internal model to apply at the level of the Group, rather than at the level of the Prudential Group. The decision is pending and is expected to be provided shortly before the Demerger, such that the Prudential Group internal model remains in place until the Demerger with the Group's model commencing from that point; 2. At nominal value; 3. Includes £0.2bn paid on 20 of September 2019; 4. Not including £100m demerger related dividend expected to be paid in May 2020

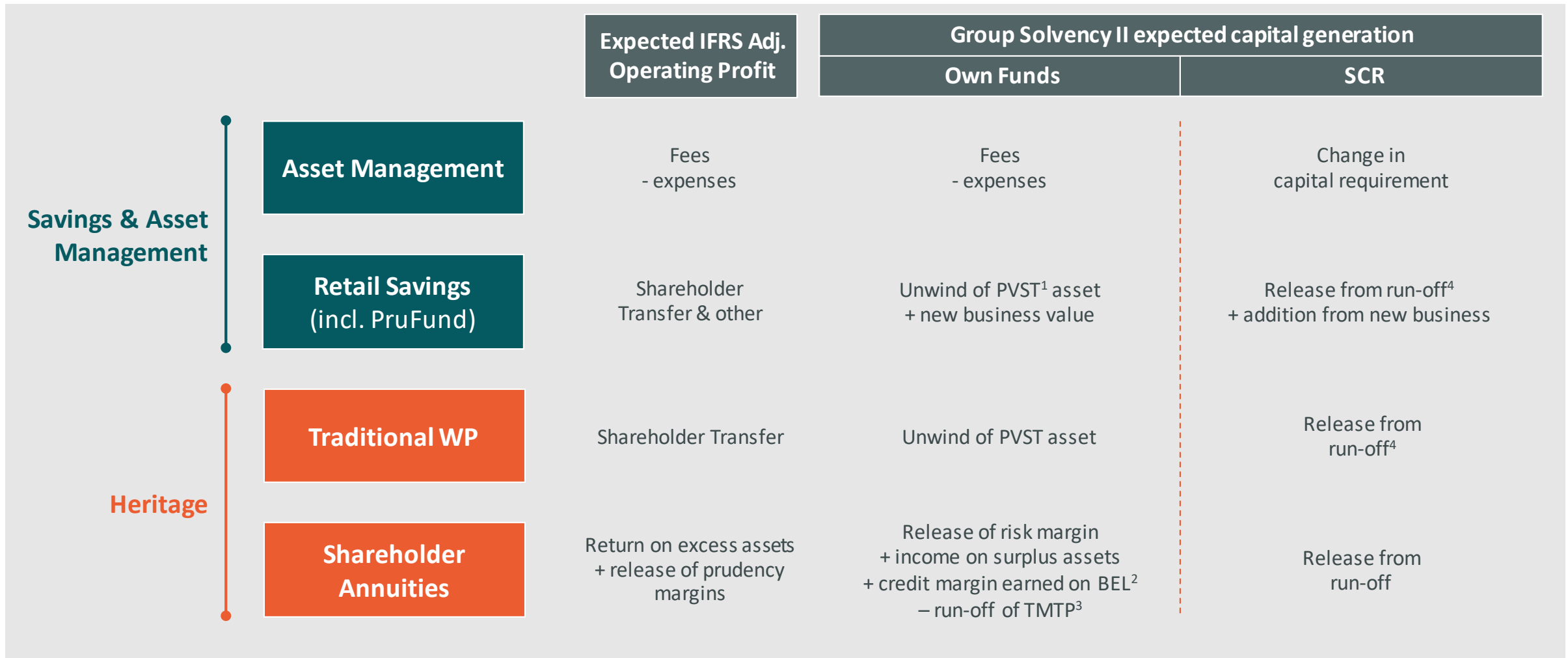
Pro forma M&G plc Group Solvency II

H1 2019, £bn



1. Calculated as nominal value of debt as % of total Group Own Funds; 2. Transitional Measures on Technical Provisions; 3. Net of hedging

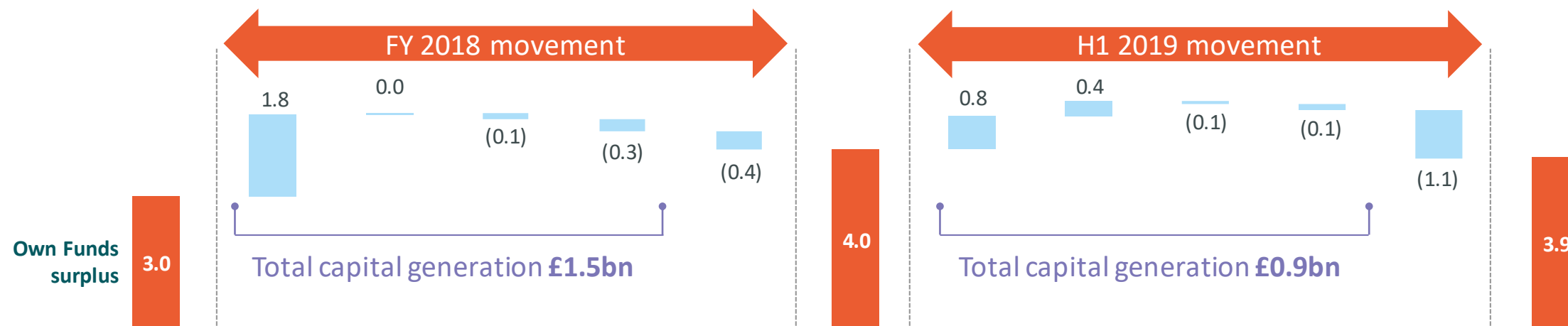
Capital generation framework



1. Present Value of Shareholder Transfer; unwind of PVST based on real world returns; 2. Best Estimate Liabilities; 3. Transitional Measures on Technical Provisions; 4. SCR movements include impact from run-off of hedging programme on Shareholder Transfer which negatively affects capital generation

Capital generation¹

FY 2018 and H1 2019



£bn	FY 2017 ¹	Operating capital generation	Economic variances	Other movements	Tax	Dividends & capital movements	FY 2018	Operating capital generation	Economic variances	Other movements	Tax	Dividends & capital movements	H1 2019
Own Funds	9.1	1.6	(0.4)	(0.1)	(0.2)	(0.4)	9.6	0.5	0.7	(0.1)	(0.2)	(1.1)	9.5
SCR	6.1	(0.2)	(0.4)	0.0	0.1	-	5.6	(0.2)	0.3	0.0	(0.1)	0.0	5.6
Surplus	3.0	1.8	0.0	(0.1)	(0.3)	(0.4)	4.0	0.8	0.4	(0.1)	(0.1)	(1.1)	3.9

S-II Ratio 149%

172%

169%

1. M&G plc Group before pro forma adjustments; 2. Adjusted for transfer of Hong Kong to Prudential Asia and reinsurance of part of annuity portfolio to Rothesay

Sources of operating capital generation before tax

FY 2018

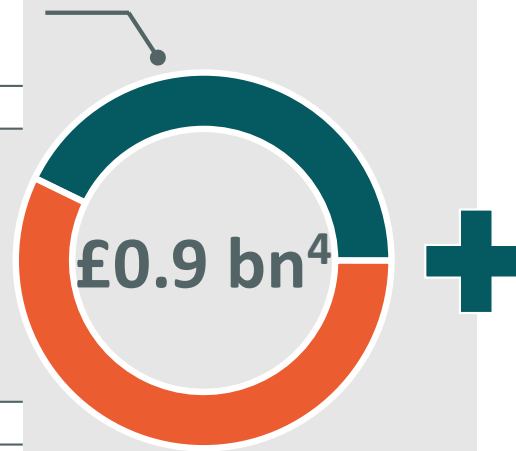
Underlying capital generation

Savings & Asset Management

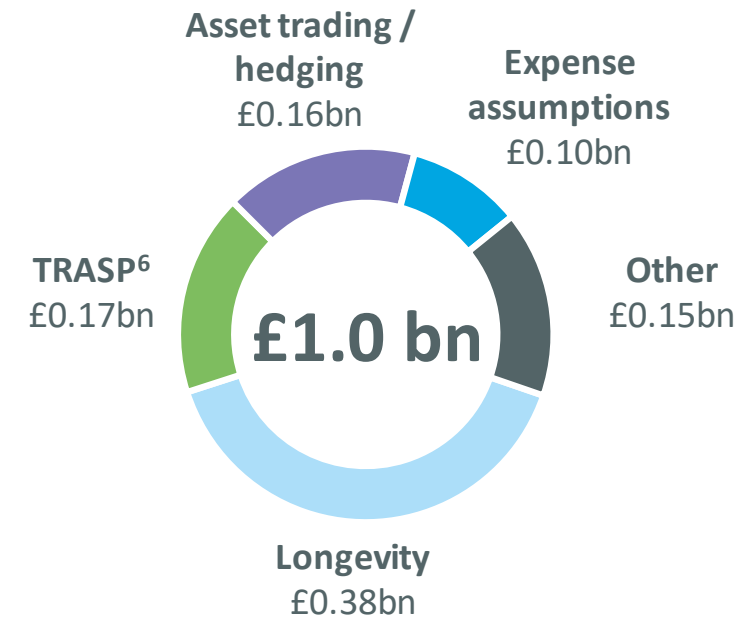
£m	OF ¹	SCR ²	Total
Asset Management	472	(75)	397
With-Profits in-force	50	(23) ³	27
With-Profits new bus.	75	(127)	(52)
Other	20	(3)	17
Total Underlying	617	(228)	389

Heritage

£m	OF ¹	SCR ²	Total
With-Profits	178	(26) ³	152
S/H Annuities & Other	217	151	368
Total Underlying	395	125	520



Other operational capital generation⁵



1. Own Funds; 2. Solvency Capital Requirement; 3. Includes run-off of Shareholder Transfer hedging programme of £(44)m in Savings & Asset Management and £(55)m in Heritage;
4. Includes £(13)m from Corporate Centre; 5. Includes management actions, non-market experience variances, assumption and model changes; 6. Thematic Review of Annuity Sales Practices

Sources of operating capital generation before tax

H1 2019

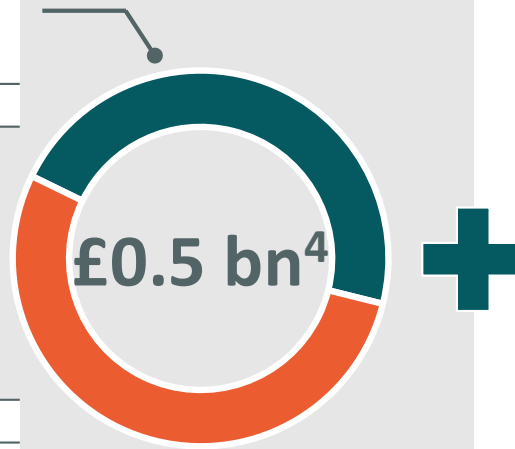
Underlying capital generation

Savings & Asset Management

£m	OF ¹	SCR ²	Total
Asset Management	239	-	239
With-Profits in-force	19	(18) ³	1
With-Profits new bus.	15	(48)	(33)
Other	18	(1)	17
Total Underlying	291	(67)	224

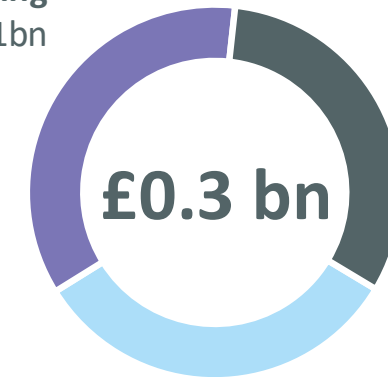
Heritage

£m	OF ¹	SCR ²	Total
With-Profits	76	(22) ³	54
S/H Annuities & Other	129	73	202
Total Underlying	205	51	256



Other operational capital generation⁵

Asset trading /
hedging
£0.11bn



Other
£0.09bn

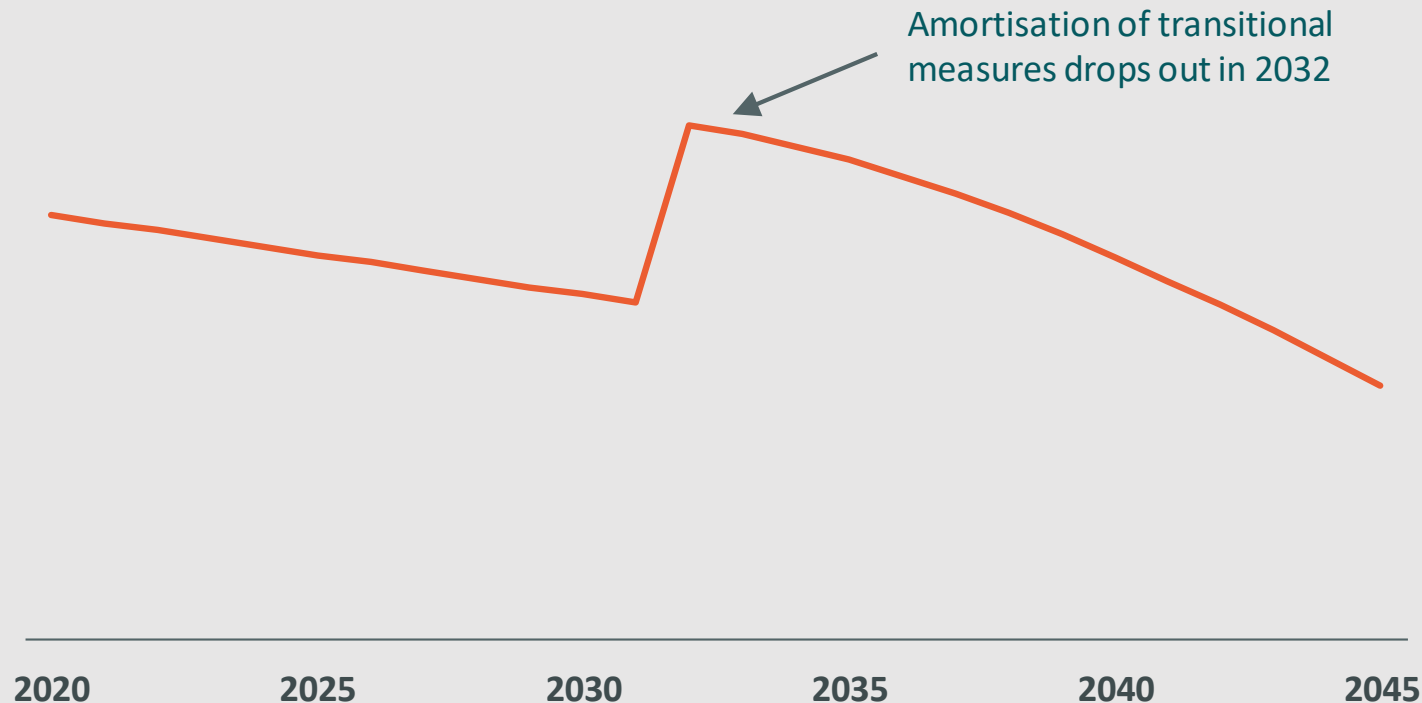
Longevity
£0.10bn

Underlying capital generation

Shareholder Annuities¹

Illustrative long-term run-rate

Run-off is gradual, TMTP² amortisation dropping out in 2032

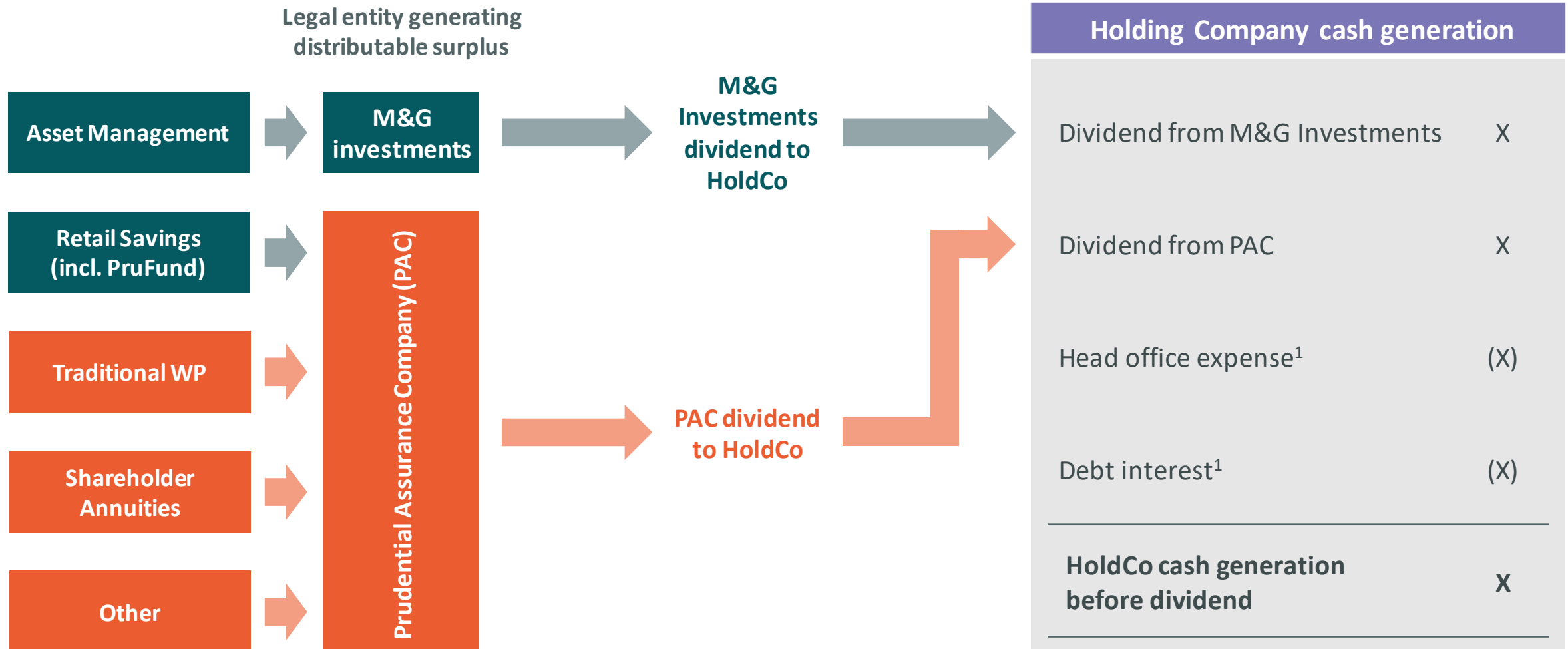


Cumulative capital generation from Shareholder Annuities more than sufficient to repay all debt and interest cost³

1. Illustrative Solvency II capital generation; disregards any potential impacts from assumption changes and other non-recurring effects;
2. Transitional Measures on Technical Provisions; 3. Refers to the £3.2bn debt expected to be substituted upon demerger and related interest cost

Translating capital generation to Holding Company cash

Indicative flows post-demerger



1. After tax



4. Financial management framework

Financial management framework

Business target

3-year cumulative capital generation¹



2020-22
mid-point
target²

£2.2bn

After debt financing costs, other Corporate Centre costs and tax

Uses of capital

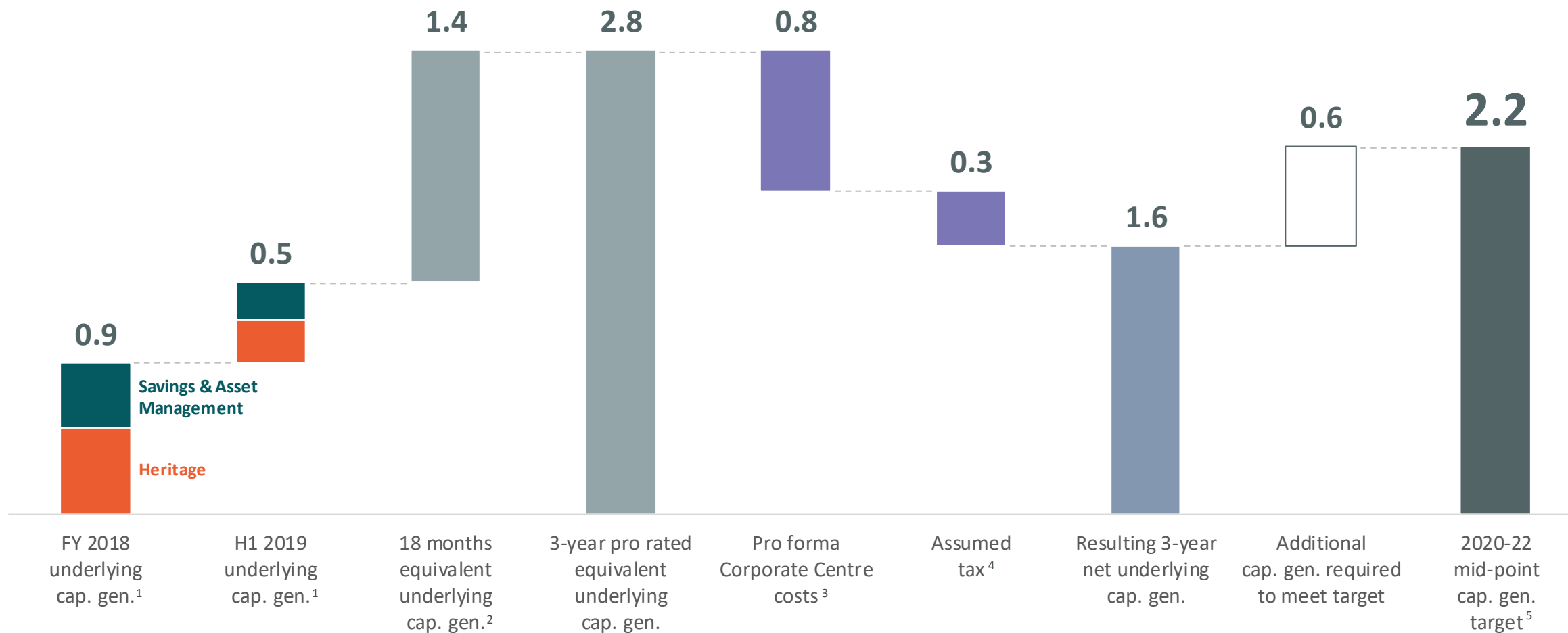


1. Total change in Solvency II surplus before capital movements and dividends; 2. Provisional target subject to further consideration by the Remuneration Committee of appropriate 2020 incentive plan targets at year-end 2019

2020-22 mid-point capital generation target

Illustrative bridge from past underlying capital generation

£bn



1. Excludes Corporate Centre costs; 2. Set equal to the sum of FY 2018 and H1 2019 underlying capital generation; 3. Based on interest cost of £190m and the mid-point of the Head Office £80-100m cost expectation;

4. Assumed corporate tax at standard rate; 5. Provisional target subject to further consideration by the Remuneration Committee of appropriate 2020 incentive plan targets at year-end 2019; refers to total change in Solvency II surplus before capital movements and dividends

Uses of capital

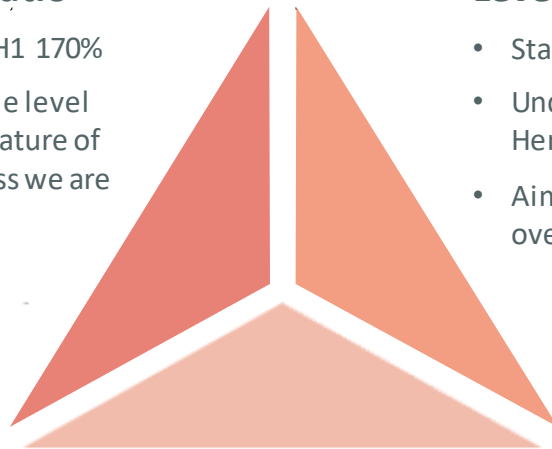
Financial strength and attractive dividends

Financial strength

Assessing our position relative to:

Solvency ratio¹

- Pro forma H1 170%
- Comfortable level given the nature of the business we are writing



Leverage ratio²

- Starting position at 34%
- Underpinned by strong Heritage cashflows
- Aim to reduce gradually over time

HoldCo Liquidity

Ensure sufficient liquid resources to cover expected cash outflows for at least 1 year, including dividend

Dividend policy

Expectations for ordinary dividends:

- 1 Stable or increasing**
in absolute terms over time
- 2 Two dividend payments per year**
interim dividend being 1/3 of the previous full year
- 3 2019 final ordinary dividend of £310m³**
implying an “as-if” full year ordinary dividend of c. £465m^{3,4}
- 4 To develop broadly in line with capital generation over the longer term**

1. Group shareholder SII ratio; 2. Nominal value of debt as % of total Group Own Funds. 3. Subject to the Company's financial performance and overall financial position remaining in line with expectations; 4. M&G plc expects³ to declare a one-off demerger related dividend of £100m in recognition that, for the majority of 2019, it was operating without incurring certain costs, e.g. debt interest costs, which it would expect to bear in future and which have been allowed for in determining the initial level of ordinary dividend.

Key messages

1 Resilient H1 performance despite challenging market backdrop

2 Differentiated proposition driving flow potential and protecting margins

3 Strongly positioned to generate sustainable growth in capital and cash

4 Robust and disciplined capital management framework

5 Aim to deliver attractive and sustainable returns to shareholders



Q&A



M
&G

Appendix



Appendix 1

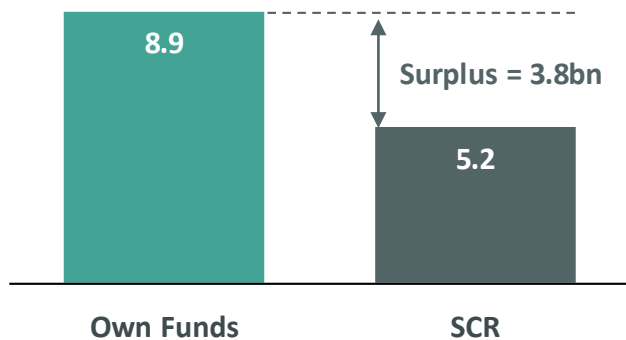
Additional financial information

Solvency II position

Prudential Assurance Company (PAC)

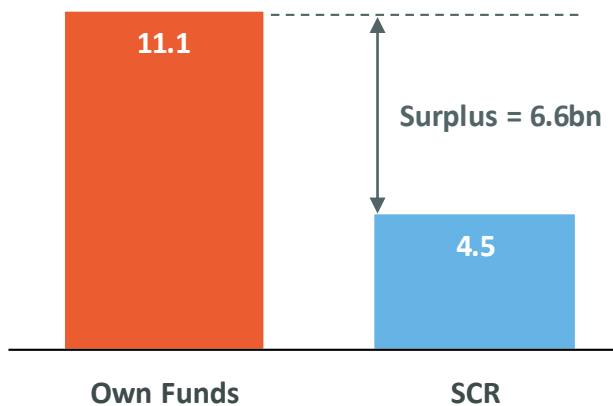
H1 2019, £bn

Shareholder view



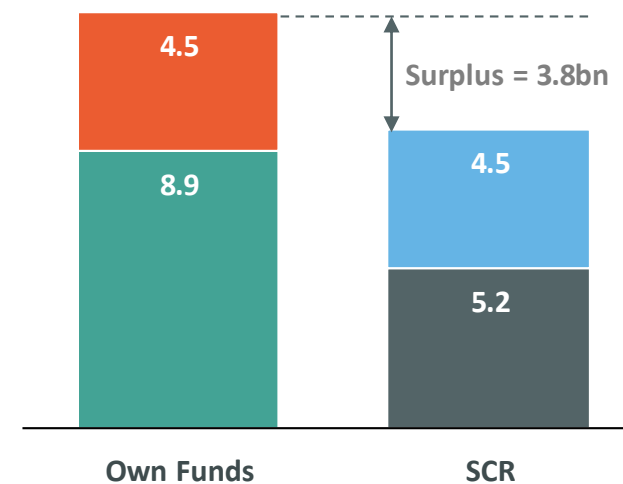
Solvency ratio 173%

With-Profits Fund view



Solvency ratio 249%

Consolidated solvency view¹



Solvency ratio 139%

1. Regulatory view including the recalculation of Transitional Measures on Technical Provisions (TMTP)

Diverse risk exposures

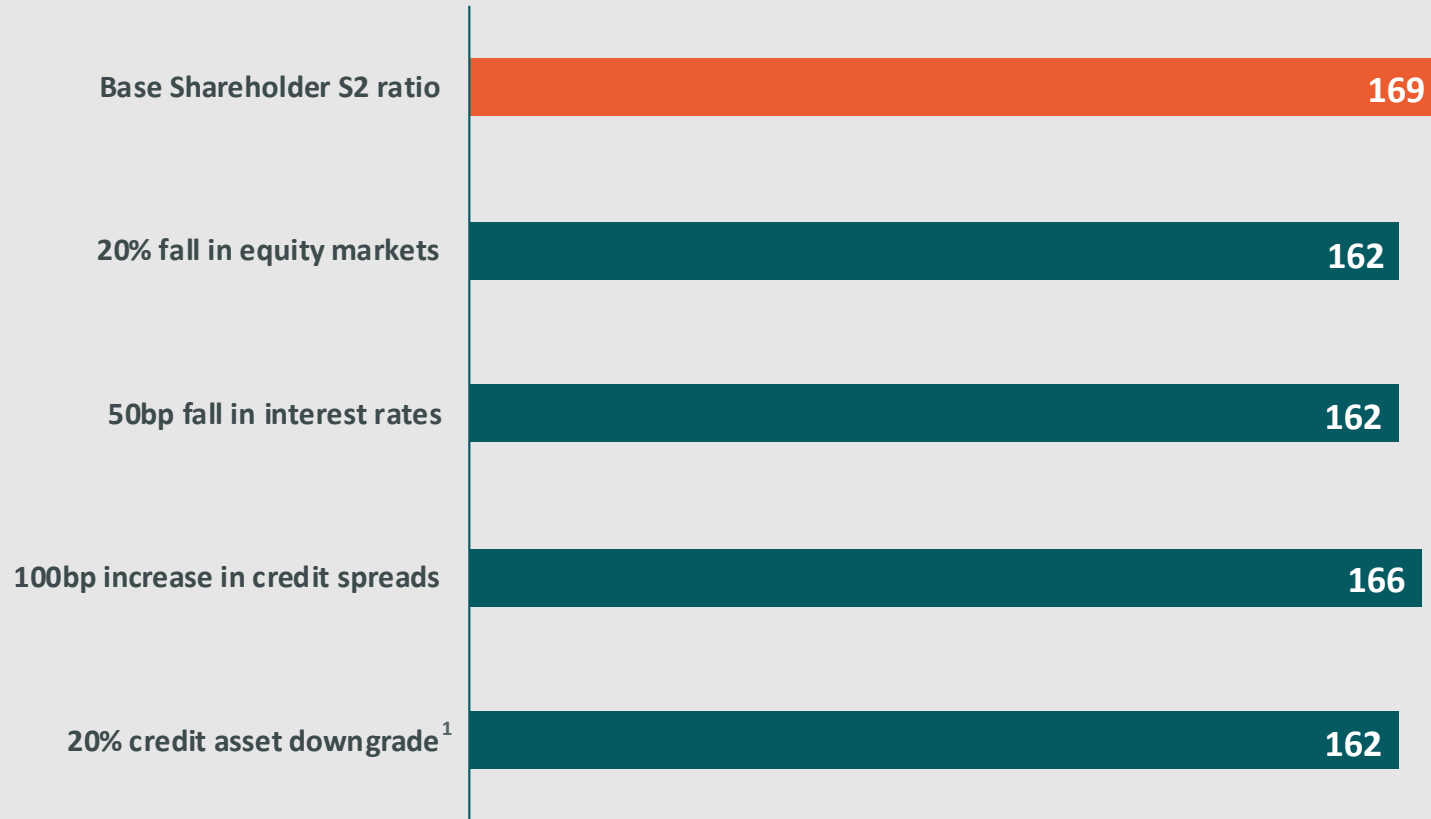
Analysis of M&G plc Group SCR (shareholder view)



M&G plc Solvency II Sensitivities

Group Shareholder Solvency II market sensitivities (%)

As of H1 2019



1. Average impact of one full letter downgrade across 20% of assets exposed to credit risk

Note: Sensitivities assuming recalculation of Transitional Measures on Technical Provisions (TMTP)

Bonds in issue expected to transfer to M&G plc on demerger¹

ISIN	Currency	Nominal (in m)	Coupon	Issue Date	Maturity Date	Call Date
XS2025521886	GBP	300	3.875%	2019	2049	2024
XS1888930150	USD	500	6.500%	2018	2048	2028
XS1888920276	GBP	750	5.625%	2018	2051	2031
XS1243995302	GBP	600	5.560%	2015	2055	2035
XS1003373047	GBP	700	6.340%	2013	2063	2043
XS1888925747	GBP	500	6.250%	2018	2068	2048

1. Prudential plc has in issue Tier 2 subordinated notes which include in their respective terms a substitution mechanic permitting Prudential plc to substitute the M&G plc as the issuer thereof at the point of demerger

Operating capital generation

£m		FY 2018			H1 2019		
		Own Funds	SCR	Total	Own Funds	SCR	Total
Savings & Asset Management	Asset Management	472	(75)	397	239	-	239
	With-Profits	125	(150)	(25)	34	(66)	(32)
	- of which: In-force ¹	50	(23)	27	19	(18)	1
	- of which: New business	75	(127)	(52)	15	(48)	(33)
	Other	20	(3)	17	18	(1)	17
	Total Underlying capital generation	617	(228)	389	291	(67)	224
	Other operating capital generation	(66)	122	56	(60)	(28)	(88)
Total Operating capital generation	551	(106)	445	231	(95)	136	
Heritage	With-Profits	178	(26)	152	76	(22)	54
	Shareholder Annuities & other	217	151	368	129	73	202
	Total Underlying capital generation	395	125	520	205	51	256
	Other operating capital generation	698	206	904	100	321	421
Total Operating capital generation	1,093	331	1,424	305	372	677	
Corporate centre	Interest & Head Office cost	(13)	-	(13)	(21)	-	(21)
	Other operating capital generation	(9)	-	(9)	9	(47)	(38)
	Total Interest & Head Office capital generation	(22)	-	(22)	(12)	(47)	(59)
Total Operating Capital Generation		1,622	225	1,847	524	230	754

1. Includes a small amount of PruFund predecessor unitised With-Profits contracts

IFRS Adjusted Operating Profit by source

£m		FY 2016	FY 2017	FY 2018	H1 2018	H1 2019
Savings & Asset Management	Asset Management	384	477	473	265	216
	With-Profits (PruFund ¹)	32	39	54	23	29
	Other	39	7	(59)	8	17
	Total Savings & Asset Management	455	523	468	296	262
Heritage	With-Profits	179	164	201	91	97
	Shareholder Annuities & Other	574	683	961	392	377
	Total Heritage	753	847	1,162	483	474
	Corporate centre	(5)	(8)	(13)	(7)	(21)
Total Adjusted Operating Profit		1,203	1,362	1,617	772	715

1. Includes a small amount of PruFund predecessor unitised With-Profits contracts

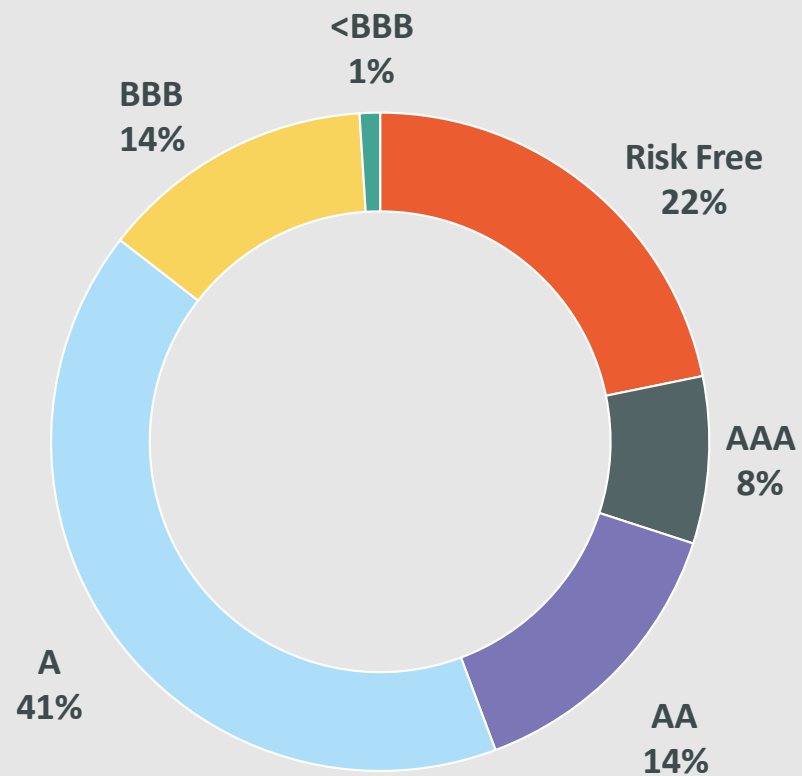
From IFRS Adjusted Operating Profit to Net Profit

£m	FY 2016	FY 2017	FY 2018	H1 2018	H1 2019
Total Adjusted Operating Profit	1,203	1,362	1,617	772	715
Short-term fluctuations in investment returns	211	42	(3)	(136)	364
Disposal of businesses & corporate transactions	-	-	(508)	(513)	-
Restructuring costs	(16)	(73)	(109)	(41)	(82)
Profit Before Tax Attributable to Shareholders	1,398	1,331	997	82	997
Tax	(264)	(257)	(191)	(15)	(203)
Profit After Tax	1,134	1,074	806	67	794

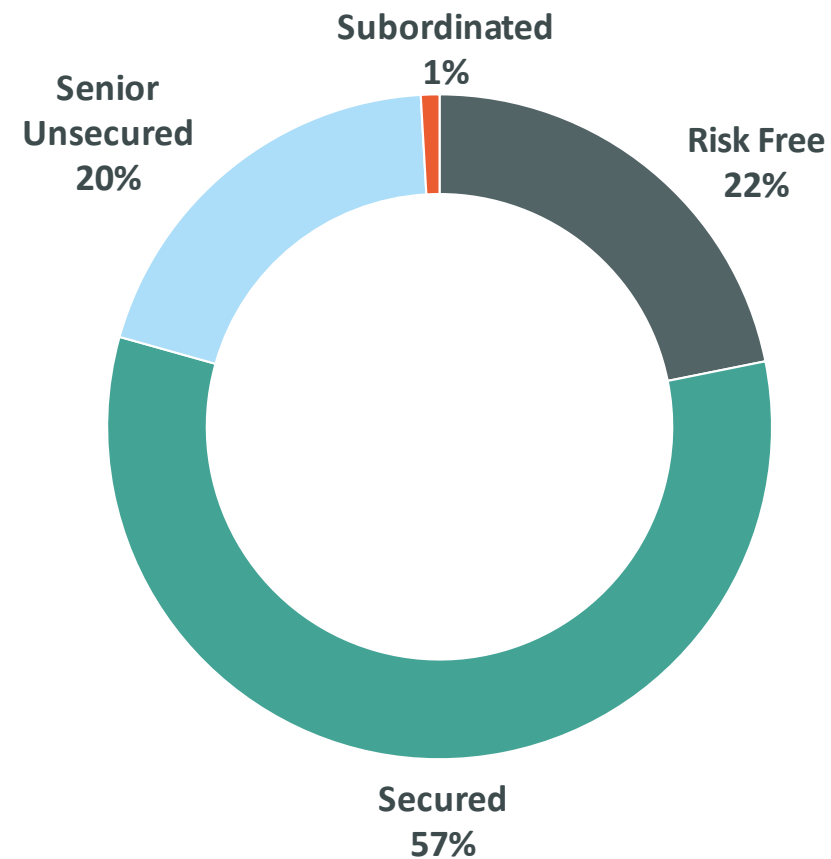
Shareholder Annuities – Credit quality

As at H1 2019

Credit rating¹



Capital ranking¹



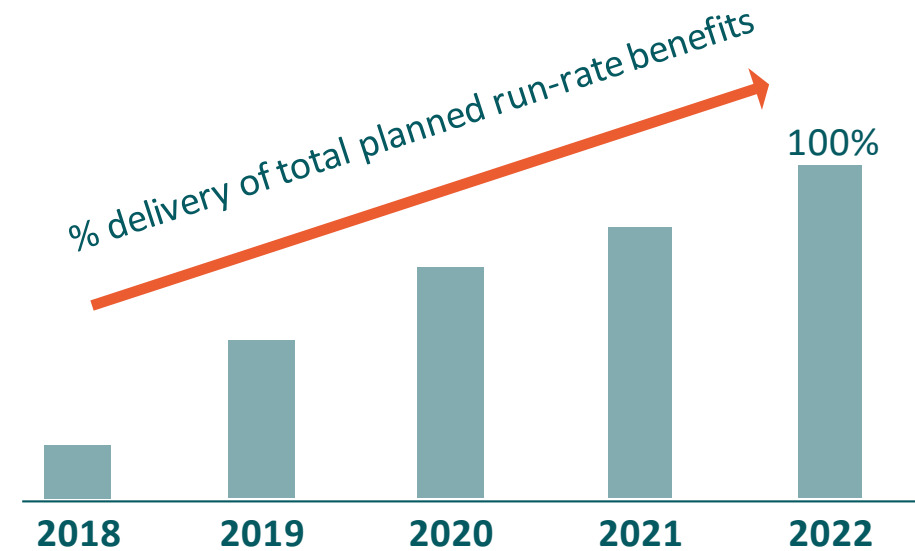
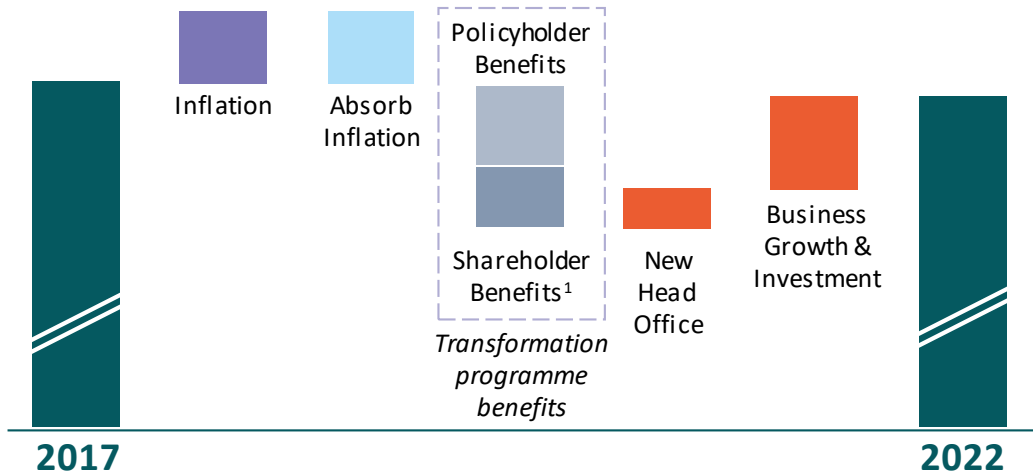
1. Based on front office data

Efficiency benefits absorb upward cost pressures

Cost efficiency programme to absorb inflation, offset business investment & reshape the cost base

Run-rate benefits from transformation programme expected to materially increase from end of 2019

Indicative development of gross operating cost base



1. Annual shareholder cash benefits of c. £145m, as previously announced

Asset under Management and Administration

£ bn		YE 2015	Net flows	Market / Other	YE 2016	Net flows	Market / Other	YE 2017	Net flows	Market / Other	YE 2018	Net flows	Market / Other	H1 2019
Savings & Asset Management	Institutional Asset Management	55.3	1.2	7.6	64.1	6.6	2.9	73.6	(2.4)	(0.7)	70.5	(0.8)	4.7	74.4
	Retail Asset Management	71.1	(9.3)	10.9	72.7	10.8	6.8	90.3	(7.5)	(6.4)	76.4	(3.8)	6.0	78.6
	Retail Savings	23.9	6.3	2.2	32.4	8.7	2.9	44.0	8.2	(1.6)	50.6	3.2	3.5	57.3
	- of which: PruFund	16.5	6.5	1.7	24.7	9.0	2.2	35.9	8.5	(1.4)	43.0	3.5	3.1	49.6
	Other	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	0.0	0.2	0.0	(0.1)	0.1
	Total Savings & Asset Management	150.5	(1.8)	20.7	169.4	26.1	12.6	208.1	(1.7)	(8.7)	197.7	(1.4)	14.1	210.4
Heritage	Traditional With-Profits	84.3	(5.4)	10.7	89.6	(5.5)	7.3	91.4	(5.3)	(1.5)	84.6	(2.4)	8.4	90.6
	Shareholder Annuities	36.3	(1.4)	4.5	39.4	(1.7)	1.4	39.1	(1.3)	(12.9)	24.9	(0.5)	1.1	25.5
	Other	12.8	(0.3)	(0.1)	12.4	(0.5)	0.2	12.1	(0.4)	2.3	14.0	(0.2)	0.8	14.6
	Total Heritage	133.4	(7.1)	15.1	141.4	(7.7)	8.9	142.6	(7.0)	(12.1)	123.5	(3.1)	10.3	130.7
Group Total	283.9	(8.9)	35.8	310.8	18.4	21.5	350.7	(8.7)	(20.8)	321.2	(4.5)	24.4	341.1	

AuMA by asset class

H1 2019

£bn	On-balance sheet AuMA				External AuMA			Total AuMA
	With-Profits	Unit linked	S/H Annuity & other shareholder	Total on-balance sheet	Retail	Institutional	Total external	
Equities	46	10	0	56	33	6	39	95
Public fixed income	52	5	20	77	41	38	79	156
- of which Government	10	1	6	17	18	9	27	44
- of which Corporate	42	4	14	60	23	29	52	112
Private fixed income	7	0	3	10	1	17	18	28
Real estate	16	1	2	19	2	9	11	30
Alternatives	9	0	0	9	0	3	3	12
Other	14	1	2	17	2	1	3	20
Total	144	17	27	188	79	74	153	341

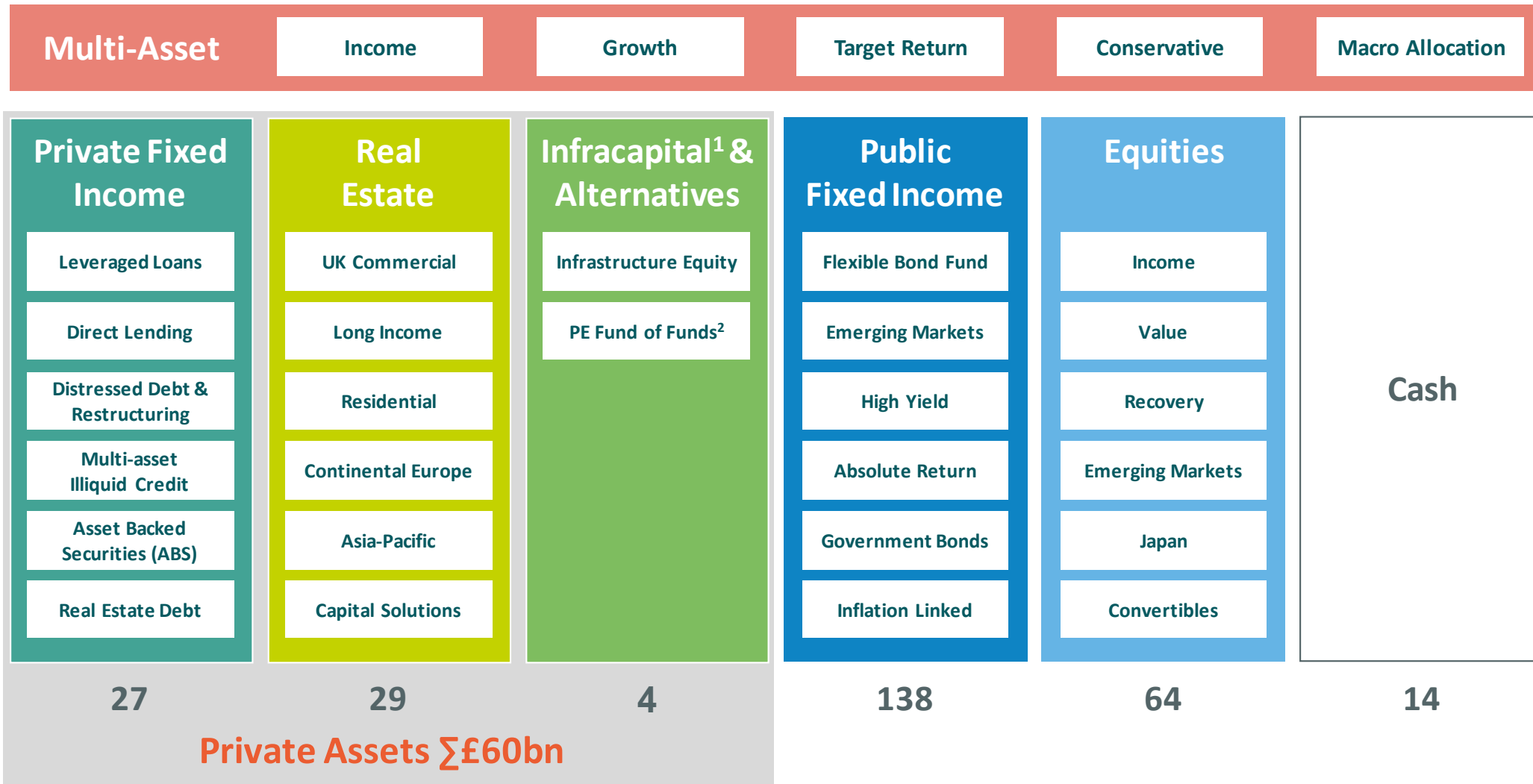


Appendix 2

Additional information on sources of competitive advantage

Depth of investment expertise

Values as of H1 2019



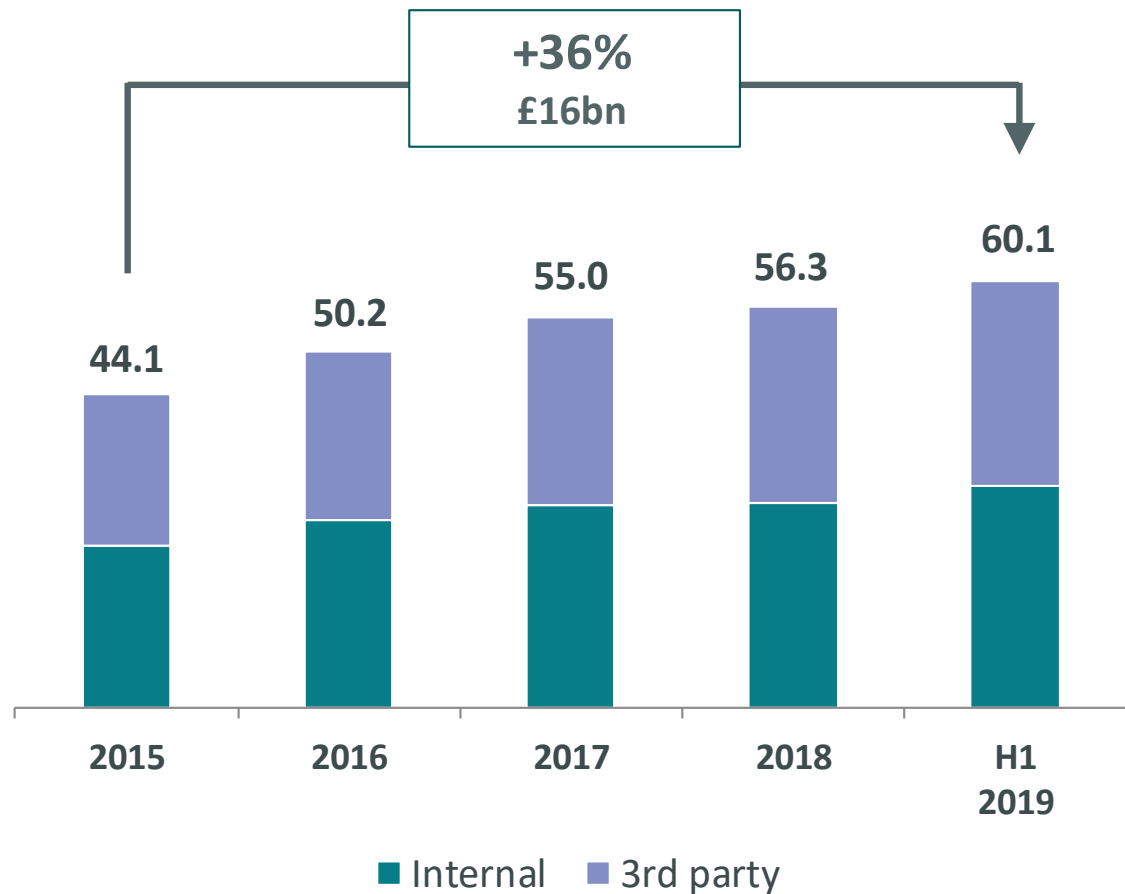
£140bn
 £124bn Pru UK&E SAA
 £16bn 3rd party assets

Total AuM
Σ £277bn

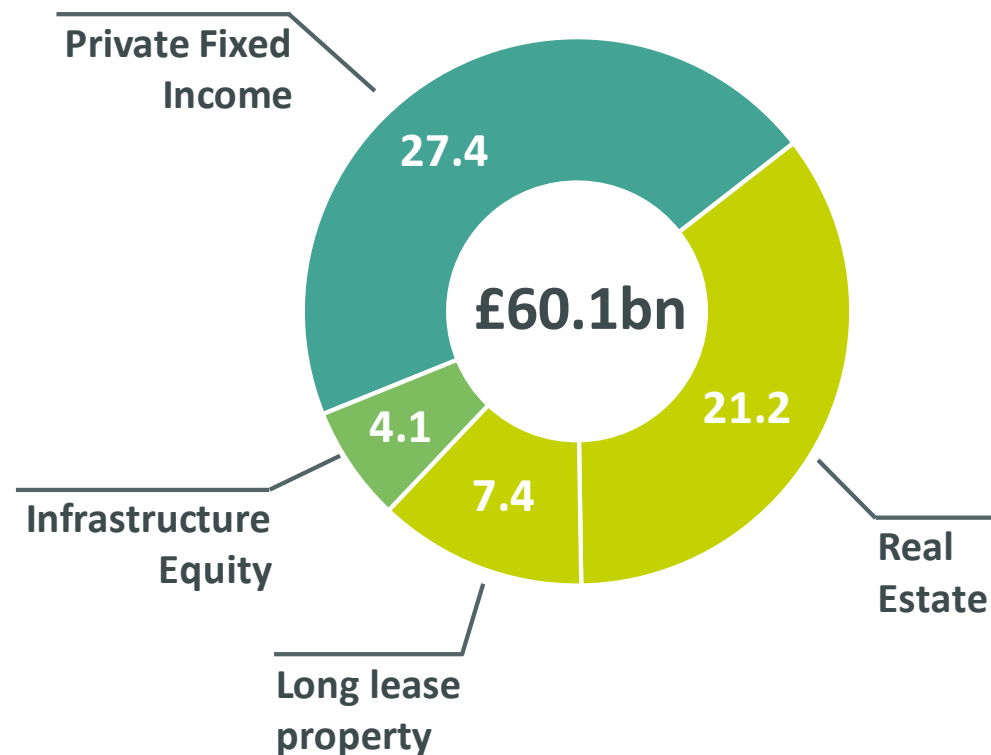
1. Infrastructure team; 2. PE Fund of Fund mandate of £2.2bn not included in the reported AuM
 Note: All AuMA figures refer to position as of H1 2019

Private Asset growth over time and split by capability

Private Assets growth (£bn)

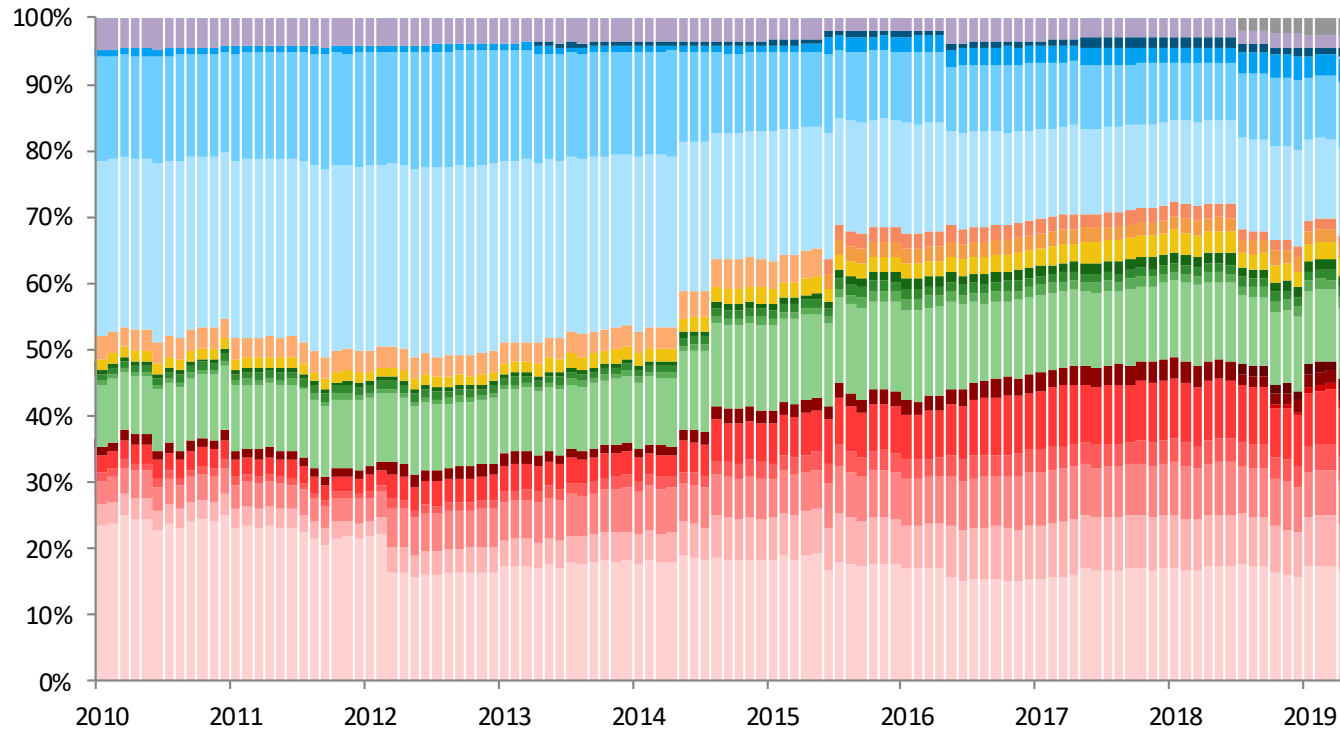


Private Assets split by category

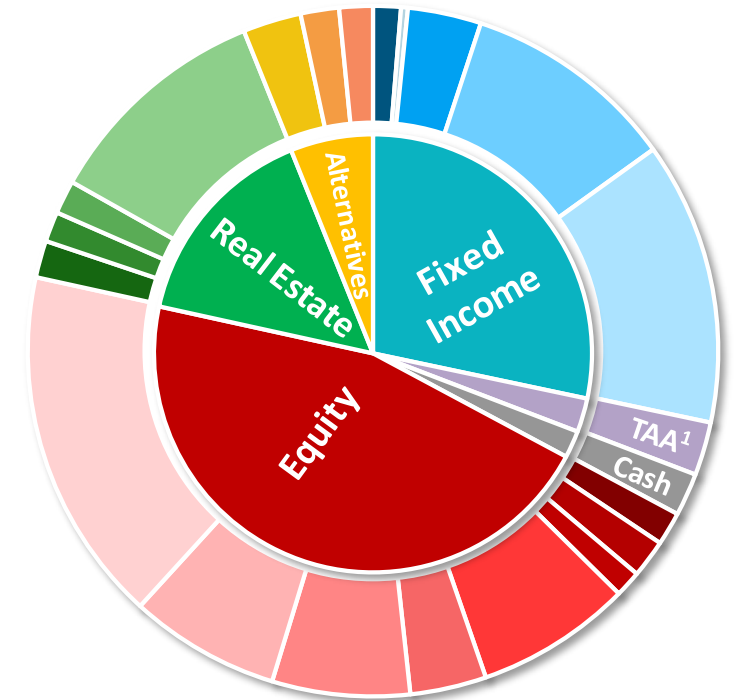


With-Profits Fund Strategic Asset Allocation

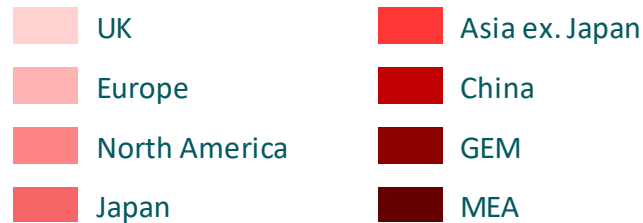
Asset allocation evolution between 2010 and 2019



Asset allocation as of April 2019



Equities



Real Estate



Alternatives



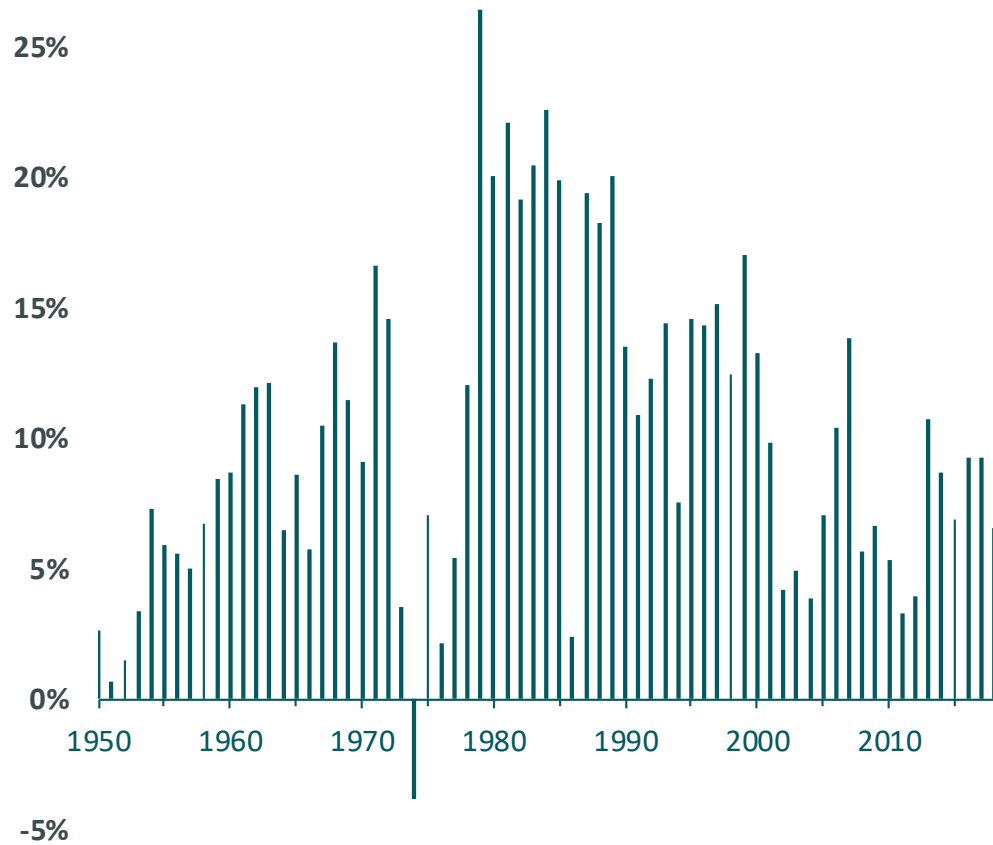
Fixed Income



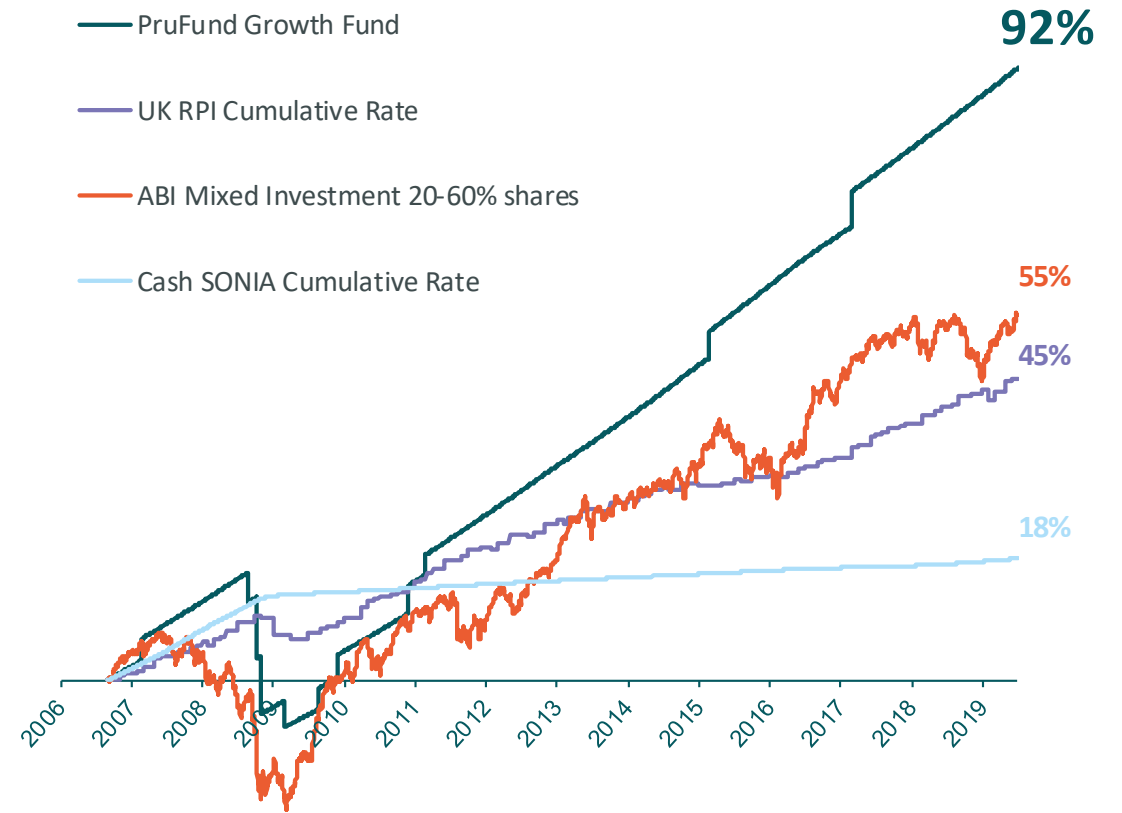
1. Tactical Asset Allocation mandate; 2. Includes: Convertibles, Bridge Loans, Private High-Yield
 Source: Allocation as of 1st of May for OBMG, the largest of the funds within the With-Profits subfund with £77.8bn as of YE 2018

With-Profits Fund historical returns

Annualised 5-year rolling returns¹



PruFund Growth returns vs. peers



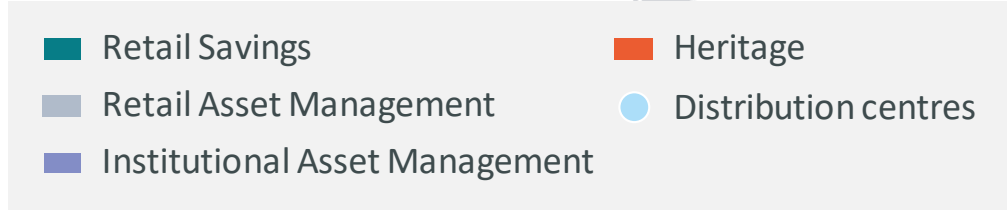
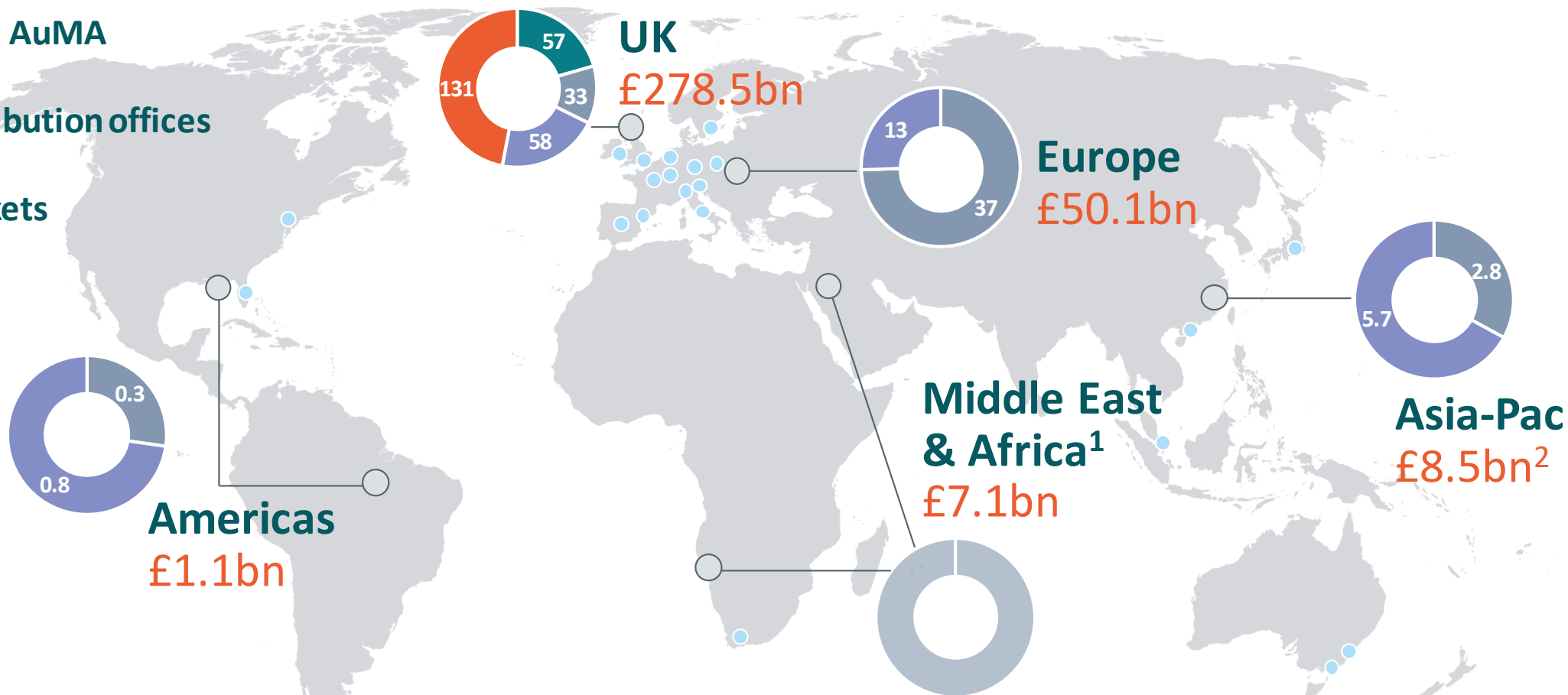
1. Data shows OBMG returns; OBMG is the largest of the funds within the With-Profits sub fund, backing PruFund Growth Fund, with £77.8bn as of YE 2018

Our international footprint

£341bn AuMA

20 distribution offices

28 markets



1. Assets from Prudential Investment Managers South Africa recorded on a proportional basis in line with M&G's 49.99% associate shareholding; 2. Includes £4.2bn of assets excluded from the reported total AuMA of £341bn as these assets are managed by M&G on behalf of other Prudential plc Group companies; Note: All AuMA figures refer to position as of H1 2019, based on client domicile

Our Investor Relations contacts

Spencer Horgan

Director of Investor Relations



+44 (0)203 977 7888

+44 (0)797 381 5837



spencer.horgan@prudential.co.uk

Luca Gagliardi

Head of Investor Relations – Equity



+44 (0)203 977 7307

+44 (0)752 559 7694



luca.gagliardi@prudential.co.uk

Nicola Caverzan

Head of Credit and Rating Agency Relations



+44 (0)203 977 9025

+44 (0)781 1744 668



nicola.caverzan@prudential.co.uk

Maria Baines

Investor Relations Event Manager



+44 (0)203 977 6122

+44 (0)781 020 3731



maria.baines@prudential.co.uk