27 May 2020

M&G plc business update for the 2020 Annual General Meeting

M&G plc provides the following business update in advance of its Annual General Meeting, scheduled for 10am today.

Throughout the COVID-19 crisis, our priority has been the well-being and safety of our colleagues, the continued service to our customers and clients, and the long-term resilience of our business.

Highlights

- M&G plc is financially strong. Our shareholder Solvency II coverage ratio has remained comfortably above our risk appetite throughout this crisis, and stood at 168% at 31 March 2020
- Given our financial strength and the importance of dividends to investors, we will pay our dividends of £410m (comprising an ordinary dividend of 11.92 pence per share and a special demerger dividend of 3.85 pence per share) on 29 May as previously announced
- M&G's 6,000 colleagues will continue to serve our customers and manage their assets from their homes until it is safe for them to return to our offices. No colleague has been put on furlough and we have not taken any government financial assistance related to COVID-19
- Total assets under management and administration (AUMA) were £323bn as at 31 March 2020, compared with £352bn at the end of 2019. The fall largely reflects the shock to markets in March from the disruption associated with the outbreak of COVID-19
- Our Institutional Asset Management business continues to perform well through the crisis, attracting net inflows of £2.1bn during the first quarter. Similarly, in the UK, our Retail Savings franchise saw net inflows of £0.7bn. These positive movements were offset by Retail Asset Management net outflows of £5.6bn in the quarter.
- Adjusted operating profit of £134m reflected strong underlying business performance, offset by negative mark to market impacts
- Our Heritage segment - the Prudential UK life insurance and annuity book which is closed to new customers - continues to generate steady cashflow
- High quality credit book: 98% of our shareholder annuity debt portfolio is investment grade
- We continue to be sharply focused on costs, and remain committed to our target of £145m of annual shareholder cost savings by the end of 2022
- The rating agencies Moody's and Fitch have affirmed M&G's insurance financial strength ratings at 'Aa3' and 'AA-' respectively, with stable outlooks, following the assessment of coronavirus impact on UK insurers
- Further details on our financial performance for the first quarter of the year are provided below
- M&G also announces today an agreement with Royal London to acquire its digital wrap and wealth management platform for UK independent financial advisers, Ascentric

John Foley, Chief Executive, says:

"I've been through a number of financial crises, but none has been like this terrible pandemic. It is testing all of us, in many different ways.

"Fortunately, M&G is a resilient business and I am proud of how my colleagues have risen to the challenge of continuing to serve, from their homes, the millions of customers we have around the world.

"Our financial strength means we can also do the right thing by our shareholders, and make good on our announced intention to pay dividends totalling £410m. Many of our shareholders are income funds or individual savers who rely on these payments for part of their retirement income.

"While markets have recovered from their March lows, I expect volatility to continue, but as an asset owner of scale we are well positioned to acquire assets at competitive prices. In the meantime, we will continue to manage the business in a prudent way, with our usual disciplined approach to capital management."

M&G will host a Q&A call with analysts and investors at 8.30am this morning. To listen to the call, dial +44 20 3936 2999 and use access code 863296.

Financial performance in the first quarter of 2020

M&G plc has demonstrated strength and resilience in the first quarter of 2020 despite the negative impact on global financial markets resulting from COVID-19.

AUMA and Net client flows

- AUMA fell by 8%, of which 7% was related to market impacts associated with the COVID 19 pandemic, and 1% to net client outflows. Despite net outflows in the quarter, PruFund continued to see net client inflows and Institutional Asset Management also benefited from strong net client inflows.
- Savings and Asset Management net client outflows for the quarter were £2.8bn:
  - Retail Savings continued to see net client inflows of £0.7bn in the quarter despite increased outflows in bonds and ISAs as customers needed to access their savings.
  - Institutional Asset Management flows have been strong with £2.1bn of net client inflows, in particular within our public debt and infracapital investment offerings.
  - Retail Asset Management net client outflows of £5.6bn were driven by global uncertainty particularly across Europe. The majority of these outflows were in March and, although some continue, the extent of such outflows has significantly reduced since then.
- Net client outflows in the Heritage segment remained stable in line with expectation as this mature book continues to run off.

Adjusted operating profit

£m	For the 3 months ended 31 March 2020
Savings and Asset Management	**74**
Heritage	**166**
Corporate Centre	**(106)**
Adjusted operating profit before tax	**134**

- Savings and Asset Management adjusted operating profit of £74m consists of £84m from asset management and £18m from with-profits shareholder transfer, net of hedging, offset by negative mark to market investment returns on our seed capital investments due to the impact on markets from the COVID 19 pandemic.
- Heritage adjusted operating profit has remained stable.
- The operating loss from the Corporate centre is largely due to finance costs associated with subordinated debt assumed from Prudential plc on demerger and the planned establishment of our head office. In addition FX movements on USD denominated debt and other mark to market effects on corporate assets had a negative impact of £43m.

Capital generation

- Operating capital generation for the first quarter of 2020 was £467m, mainly reflecting a series of management actions to strengthen the solvency position in response to market events, as well as expected surplus generated from in-force insurance business and adjusted operating profit from the asset management business.
- This was offset by adverse market impacts of £(700)m and other non-operating items of £(78)m, resulting in total capital generation of £(311)m for the first quarter of 2020.
- Despite the negative market impacts in the first quarter of 2020, M&G plc remains committed to delivering its target of £2.2bn[1] total capital generation for the three years ended 2022.

Shareholder Solvency II coverage ratio[2,3]

- The Group's solvency position remains resilient and comfortably above our risk appetite. The estimated and unaudited Group shareholder Solvency II coverage ratio as at 31 March 2020 was 168% (176% as at 31 December 2019), and remains at approximately that level currently. The movement over the period reflected total capital generation of £(311)m and a deduction of £410m for the ordinary dividend of 11.92 pence per share and the special demerger dividend of 3.85 pence per share due to be paid on 29 May 2020.
- Management will continue to manage the solvency position in line with the Group's risk appetite and limits, as events unfold.

[1] Target of £2,150m corresponds to relevant remuneration plans.

[2] The estimated and unaudited regulatory view of the Solvency II coverage ratio as at 31 March 2020 was 138% (31 December 2019: 143%).

[3] The shareholder view and regulatory view of the Solvency II coverage ratio as at 31 March 2020 assume transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.

Sensitivity analysis of the shareholder Solvency II coverage ratio

The estimated sensitivity of the Group's shareholder Solvency II coverage ratio to significant changes in market conditions are shown below, relative to the position as at 31 March 2020.

	As at 31 March [1] 2020
Base shareholder Solvency II coverage ratio	**168%**
20% instantaneous fall in equity markets	**163%**
20% instantaneous fall in property markets	**161%**
50 bp reduction in interest rates	**162%**
100 bp widening in credit spreads	**164%**
20% credit asset downgrade[2]	**161%**

[1]All sensitivities are presented after an assumed recalculation of transitional measures on technical provisions which have been recalculated using management's estimate of the impact of operating and market conditions at the valuation date.

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

Credit portfolio shareholder annuities

- Over 98% of the shareholder annuity debt portfolio is investment grade and only 15% is BBB. In addition 83% of the shareholder annuity portfolio is held in securities either categorised as Risk Free or Secured (including cash). The annuity portfolio has limited exposure to sectors most at risk with an aggregate of 2% held in total in oil & gas, hotel, leisure and traditional retail.
- We experienced limited downgrades to 31 March 2020 with only 2% of bonds in the shareholder annuity portfolios subject to a downgrade which changed the letter rating.

M&G plc to acquire Ascentric from Royal London

M&G also announces today an agreement with Royal London to acquire its digital wrap and wealth management platform for UK independent financial advisers, Ascentric.

The acquisition will bring £14 billion of assets under administration to M&G, as well as relationships with more than 1,500 advisory firms acting on behalf of over 90,000 individual customers.

John Foley, Chief Executive of M&G, says: "This deal strengthens our position in the UK savings and investment market, complementing our existing offering to advisers and customers with a well-established digital wealth management platform.

"Asentric's platform will also accelerate our ability to provide a wider range of M&G and Prudential investment solutions to more customers, through the tax wrappers and service propositions they favour. Advisers will also benefit as we invest to grow the platform."

The acquisition brings to M&G a capability to offer third-party discretionary fund management services, as well as Individual Savings Account (ISA), Self-Invested Personal Pension (SIPP) and General Investment Account (GIA) wrappers on a single platform.

The deal is subject to regulatory approval.

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Notes to Editors

1. This announcement is a trading update only and does not constitute an interim report
2. The Group uses Alternative Performance Measures, including certain adjusted measures, to help explain business performance and financial position. These measures have been calculated consistently with those for the year ended 31 December 2019 and reconciliations will be provided with the condensed consolidated financial statements for the period ended 30 June 2020.
3. Ascentric is a digital wrap and wealth management platform, available exclusively to financial advisers and offers a fully integrated online investment management and dealing platform. It also enables advisers to transfer their clients' assets onto a single platform to provide them with the ability to manage their clients' financial needs in just one place.

   Ascentric is the trading name for the group of businesses sold, which includes Wrap IFA Services Limited and its subsidiaries.
4. M&G plc is a savings and investment business which was formed in 2017 through the merger of Prudential plc's UK and Europe savings and insurance operation and M&G Investments, the international asset manager. Following the completion of its demerger from Prudential plc, M&G plc shares were admitted to trading on the London Stock Exchange on 21 October 2019. As an independent company, M&G plc has a single corporate identity and continues with two customer-facing brands; Prudential for savings and insurance customers in the UK and Europe and for asset management in South Africa and M&G Investments for asset management clients globally.
5. M&G plc, a company incorporated in the United Kingdom, is the direct parent company of The Prudential Assurance Company Limited. The Prudential Assurance Company Limited is not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.

Forward-Looking Statements

This announcement may contain certain 'forward-looking statements' with respect to M&G plc and its affiliates (the "M&G Group"), its plans, its current goals and expectations relating to its future financial condition, performance, results, operating environment, strategy and objectives. Statements that are not historical facts, including statements about M&G plc's beliefs and expectations and including, without limitation, statements containing the words 'may', 'will', 'should', 'continue', 'aims', 'estimates', 'projects', 'believes', 'intends', 'expects', 'plans', 'seeks', 'outlook' and 'anticipates', and words of similar meaning, are forward-looking statements. These statements are based on plans, estimates and projections as at the time they are made, and therefore persons reading this announcement are cautioned against placing undue reliance on forward-looking statements.

By their nature, all forward-looking statements involve inherent assumptions, risk and uncertainty, as they generally relate to future events and circumstances that may be beyond the M&G Group's control. A number of important factors could cause M&G plc's actual future financial condition or performance or other indicated results to differ materially from those indicated in any forward-looking statement.

Such factors include, but are not limited to, UK domestic and global economic and business conditions (including the political, legal and economic effects of the UK's decision to leave the European Union and the impact of the COVID-19 pandemic); market-related conditions and risk, including fluctuations in interest rates and exchange rates, the potential for a sustained low-interest rate environment, corporate liquidity risk and the future trading value of the shares of M&G plc; investment portfolio-related risks, such as the performance of financial markets generally; the policies and actions of regulatory authorities, including, for example, new government initiatives; the impact of competition, economic uncertainty, inflation and deflation; the effect on M&G plc's business and results from, in particular, mortality and morbidity trends, longevity assumptions, lapse rates and policy renewal rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; the impact of internal projects and other strategic actions, such as transformation programmes, failing to meet their objectives; the impact of operational risks, including risk associated with third party arrangements, reliance on third party distribution channels and disruption to the availability, confidentiality or integrity of M&G plc's IT systems (or those of its suppliers); the impact of changes in capital, solvency standards, accounting standards or relevant regulatory frameworks, and tax and other legislation and regulations in the jurisdictions in which the M&G Group operates; and the impact of legal and regulatory actions, investigations and disputes. These and other important factors may, for example, result in changes to assumptions used for determining results of operations or re-estimations of reserves for future policy benefits.

Any forward-looking statements contained in this document speak only as of the date on which they are made. M&G plc expressly disclaims any obligation to update any of the forward-looking statements contained in this document 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 the UK Prospectus Rules, the UK Listing Rules, the UK Disclosure and Transparency Rules, or other applicable laws and regulations. Nothing in this announcement shall be construed as a profit forecast, or an offer to sell or the solicitation of an offer to buy any securities.

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