PRUDENTIAL

Prudential plc

英國保誠有限公司*

(Incorporated and registered in England and Wales under the number 01397169)

(Stock code: 2378)

WAIVER IN RESPECT OF SPECIFIC MANDATE TO ISSUE MANDATORY CONVERTIBLE SECURITIES

Prudential plc (the "**Company**" and, together with its subsidiaries, the "**Group**") has applied for, and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granted on 19 March 2020, a waiver from strict compliance with the requirements of Rule 13.36(1) of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Listing Rules**") pursuant to which the Company is permitted to seek (and, if approved, to utilise) a specific mandate (the "**Mandate**") to issue Mandatory Convertible Securities ("**MCS**") (and to allot ordinary shares into which they may be converted or exchanged) alongside the limit on the general mandate to issue up to 10 per cent of the Company's issued share capital on a non pre-emptive basis (the "**Waiver**").

Background to the Waiver

The Company typically seeks at each annual general meeting ("**AGM**") a general mandate to allot shares both on a pre-emptive and a non pre-emptive basis. The general mandate to be sought at the Company's 2020 AGM (the "**General Mandate**") will be set out in Resolutions 21 and 23 of the notice of the AGM of the Company to be held on Thursday 14 May 2020, together with the accompanying circular, which will be published on or about Thursday 2 April 2020 (the "**Notice of AGM**"). Such authority complies both with institutional guidelines issued by The Investment Association, and with the relevant requirements of the Hong Kong Listing Rules including Rule 13.36(2) which limits the general mandate to issue shares on a non pre-emptive basis to a maximum of 20 per cent of the Company's issued share capital.

In addition to the General Mandate referred to above, the Company intends at its 2020 AGM and at future AGMs to seek shareholders' approval for the Mandate, which will allow the directors of the Company (the "**Directors**") to create and issue MCS that automatically convert into, or are exchanged for, ordinary shares in the Company in prescribed circumstances, such as the Group's capital ratios falling below a certain level. The Mandate to be sought at the Company's 2020 AGM will be set out in Resolutions 25 and 26 of the Notice of AGM.

The aggregate nominal amount of ordinary shares that can be allotted under the General Mandate and the Mandate shall not exceed 33.3 per cent of the Company's issued share capital. While the Company acknowledges that this may restrict its flexibility, it believes that the aggregate 33.3 per cent limit best protects shareholders' interests. This will be further explained in the explanatory notes to Resolutions 21 and 23 of the Notice of AGM.

Description of MCS

With effect from the demerger of M&G plc from the Group, the Company became subject to the Hong Kong regulatory framework and the Hong Kong Insurance Authority (the "**HKIA**") has assumed the role of the group-wide supervisor for the Group. The Company ceased at this time to be subject to the Solvency II regulatory framework.

The Company currently applies the local capital summation method (the "**LCSM**") that has been agreed with the HKIA. Under the LCSM, the summation of local statutory capital requirements across the Group is used to determine Group regulatory capital requirements and the Group available capital is determined by the summation of available capital across local solvency regimes for regulated entities and IFRS net assets (with adjustments) for non-regulated entities.

In due course, the Group will become subject to the formal framework for the group-wide supervision of insurance groups by the HKIA (the "**GWS Framework**"), to be enabled by way of an amendment to the Insurance Ordinance (Cap. 41), a draft bill for which was introduced to the Legislative Council in March 2020. The HKIA announced in their Annual Report 2018-19 that the GWS Framework will be consistent with the Insurance Core Principles of the International Association of Insurance Supervisors and the Common Framework for the Supervision of Internationally Active Insurance Groups. The GWS Framework is expected to include the LCSM described above and the Company does not expect material changes to its minimum or prescribed capital requirements to result from the application of the GWS Framework.

Consistent with the Insurance Core Standards of the International Association of Insurance Supervisors, it is anticipated that the GWS Framework will require capital resources to be categorised into tiers, similar to the approach under Solvency II, based on the characteristics of the relevant capital instruments.

It is anticipated that the GWS Framework will make provision for MCS to form part of the Company's available capital as "Limited Tier 1 Capital" (a sub-set of Tier 1 Capital), which is expected to be permitted by the HKIA to satisfy up to 10 per cent of the Group minimum capital requirements.

Further details on MCS will be set out in Appendix 2 of the Notice of AGM.

Potential benefits of issuing MCS

Satisfying the Group's Tier 1 Capital requirements in part through the issue of MCS is expected to be a cost effective means of raising capital and therefore enable the Group to reduce its overall cost of capital. This is, in turn, expected to be more beneficial for existing ordinary shareholders than if the Group were to satisfy its Tier 1 Capital requirements through, for example, the issue of ordinary shares or the retention of profits alone. This is consistent with the Group's aim to ensure capital efficient profits and cash generation for the Group.

Conversion of MCS into ordinary shares

Any MCS issued by the Group will automatically convert into new ordinary shares in the Company upon the occurrence of predefined trigger events. The holders of MCS will have no right to require the conversion of the MCS into ordinary shares in any other circumstances.

It is expected that the terms of any MCS will provide for automatic conversion to occur in the event that the Group fails to comply with certain capital requirements applicable to it. If thought appropriate, the Directors may also issue MCS that include terms providing for automatic conversion to occur in other defined circumstances.

The terms and conditions of any MCS issued will specify a conversion price or a mechanism for setting a conversion price, with the conversion price being the rate at which the MCS will be exchanged into ordinary shares in the Company.

The resolutions enable the Directors to set the specific terms and conditions of the MCS (including a conversion price or mechanism for setting a conversion price) after considering market conditions at the time of issuance. This conversion price (or the conversion price set through the application of a predetermined mechanism) may be at a significant discount to the prevailing market price of the shares at the time of issue of the MCS, to reflect the fact that the MCS would only be expected to be converted into ordinary shares in the

Company in stressed scenarios. The extent of the discount will be determined in consultation with the HKIA and taking into account prevailing market convention.

The Group may, if permitted by law and regulation and if considered appropriate at the relevant time, issue MCS that include in their terms and conditions a mechanism through which the Group may elect to give existing ordinary shareholders the opportunity to purchase the ordinary shares issued on conversion of the MCS in proportion to their existing shareholdings in the Company (subject to legal, regulatory or practical restrictions).

Options available to the Group prior to the occurrence of a trigger event under the MCS

If the Group's capital position were to deteriorate, a number of options are available to the Group to improve its capital position before the occurrence of trigger event resulting in conversion of any MCS issued into ordinary shares in the Company. The Directors can be expected to take such steps in line with the Group Recovery Plan, which could include reducing the Group's liabilities or increasing capital (for example through raising extra share capital from investors by way of a rights issue). If the Company were, in future, to launch a rights issue, the Company's existing ordinary shareholders would be offered the opportunity to acquire new ordinary shares in proportion to their existing shareholding.

Reasons for seeking the Waiver

The Company is seeking the Mandate to enable it to issue MCS, which may only be used for the purposes of issuing MCS (for example, the Company could not rely on the Mandate to issue ordinary shares or securities convertible into ordinary shares which are not intended to qualify as regulatory capital).

Through seeking the Mandate, the Company intends to provide greater certainty for shareholders as to the purposes for which the Company may seek to issue MCS, whilst preserving flexibility for the Company by retaining a general mandate for other purposes (for example, to offer shares as consideration for an acquisition).

For these reasons, the Company would not seek to rely on the General Mandate in connection with the issue of MCS. Accordingly, shareholders' approval for the Mandate is to be sought at the Company's 2020 AGM and is expected to be sought at future AGMs. The Waiver permits the Company to seek the Mandate without complying with the strict requirement of Rule 13.36(1) of the Hong Kong Listing Rules, which would otherwise require the Company to seek the further approval of shareholders each time the Company proposes to issue MCS.

The Company believes it would not be practical to obtain a specific mandate from shareholders to issue MCS only when the need arises, primarily due to the time it would take to prepare the relevant circular to shareholders, obtain pre-clearance for the circular from the relevant authorities, and then print and despatch the relevant circular to shareholders convening the general meeting to seek shareholder approval. For the reasons set out above, the Company believes that the ability to issue MCS offers a number of benefits, and having a pre-approved mandate will enable the Company to act on a timely basis to issue MCS when market conditions are conducive to launching the issue.

Basis on which the size of the Mandate has been calculated

The size of the Mandate has been calculated based on the Group's anticipated capital requirements to provide flexibility to the Group to maintain an appropriate and efficient capital structure. In particular, the size of the Mandate has been calculated based on internal modelling to provide flexibility to the Group to issue MCS up to the maximum amount which would be eligible to satisfy the Group's expected Limited Tier 1 Capital capacity (with appropriate haircuts to reflect the volatility of the Group's MCS capacity and a conversion applied from US dollars (the Company's functional currency) to pound sterling (the currency of the Company's issued ordinary shares)). For this purpose, and in line with prevailing market practice in European bank and insurance contingent convertible regulatory capital issuances, the Company has assumed that the maximum conversion price discount applicable to the MCS would be 60 per cent of the Company's prevailing share price at the time of issuance. The size of the Mandate requested this year (approximately 10 per cent of the aggregate nominal value of the Company's issued share capital as of the latest practicable date) is significantly lower than the equivalent requested in previous years (which equalled approximately 20 per cent of the aggregate nominal value of the Company's issued share capital as of the respective latest practicable dates). This reflects the fact that the Limited Tier 1 Capital capacity of the Group is expected to be lower than the Restricted Tier 1 Capital capacity of the Group under Solvency II, to which MCS were previously eligible to contribute.

As noted above, the resolutions enable the Directors to set the specific terms and conditions of the MCS, including the conversion price, after considering market conditions at the time of issuance. Any conversion price discount of the MCS will be determined in consultation with the HKIA and taking into account prevailing market convention.

Terms of the Waiver

The Waiver has been granted on terms that permit the Mandate, if approved, to continue in force until:

(i) the earlier of (a) 30 June 2021; and (b) the conclusion of the first AGM of the Company following the date on which the Mandate is approved, at which time the Mandate shall lapse unless it is renewed; or

(ii) such time as it is revoked or varied by ordinary resolution of the shareholders in general meeting.

The Mandate, to be sought annually, will permit the Directors to determine the terms of the MCS at the time of their issue within the terms of the approval granted by shareholders. Each Mandate will grant authority to allot MCS which are convertible into a specified maximum amount of share capital. The terms of the MCS will specify a fixed conversion price or a mechanism for setting a conversion price which will determine how many ordinary shares are issued on conversion or exchange of the MCS if an event triggering conversion occurred. The Company will only issue MCS pursuant to the authority granted under the Mandate and not under the General Mandate. Furthermore, in connection with the Waiver, the Company has confirmed to the Hong Kong Stock Exchange that it will only proceed to issue MCS if the terms of the proposed issue have first been shared with, and no objection has been raised in relation to such terms by, the HKIA.

By order of the Board
Prudential plc
Thomas S. Clarkson
Company Secretary

1 April 2020, Hong Kong

As at the date of this announcement, the Board of Directors of Prudential plc comprises:

Chairman
Paul Victor Falzon Sant Manduca

Executive Directors
Michael Andrew Wells *(Group Chief Executive)*, Mark Thomas FitzPatrick CA and Stuart James Turner FCA FCSI FRM

Independent Non-executive Directors
Jeremy David Bruce Anderson CBE, Sir Howard John Davies, David John Alexander Law ACA, Kaikhushru Shiavax Nargolwala FCA, Anthony John Liddell Nightingale CMG SBS JP, The Hon. Philip John Remnant CBE FCA, Alice Davey Schroeder, Thomas Ros Watjen, Jane Fields Wicker-Miurin OBE and Yok Tak Amy Yip

** For identification purposes*