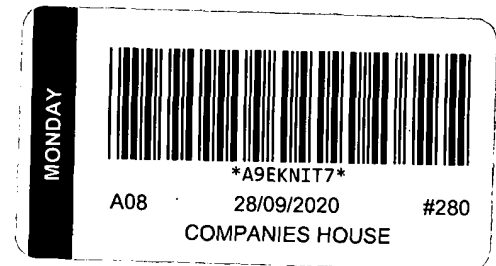


Registration number: 1024618

PGIM Financial Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2019



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Officers and professional advisers

Directors	P. M. Barrett M. G. Fresson S. Saperstein P. M. East K. D. LaPointe J. Muhlhauser S. L. Pollard A. M. Rosenthal
Company secretary	L. D. King
Registered office	Grand Buildings 1-3 Strand Trafalgar Square London WC2N 5HR
Solicitors	CMS Cameron McKenna LLP Cannon Place 78 Cannon Street London EC4N 6AF
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

Strategic Report

The Directors present their Strategic Report for PGIM Financial Limited ('PFL' or the 'Company') and its subsidiary undertakings (together the 'Group') for the year ended 31 December 2019.

Principal Activities

PFL is a wholly owned subsidiary of PGIM, Inc., the asset management division of Prudential Financial, Inc., ('PFI') and provides investment management and investment advisory services (collectively 'Asset Management services') to institutional investors (including PGIM, Inc. and other companies within the PFI group) and various collective investment schemes. The Group provides Asset Management services in five core business lines (PGIM Real Estate, PGIM Fixed Income, PGIM Private Capital, PGIM UCITS and PGIM QMA) through its four principal operating subsidiaries.

- PGIM Limited is authorised and regulated by the Financial Conduct Authority ('FCA') and is authorised by the Securities and Exchange Commission ('SEC') as a registered investment adviser and has branches in Germany and Switzerland. PGIM Limited provides Asset Management services to the PGIM Real Estate, PGIM Fixed Income and PGIM UCITS business lines.
- PGIM Real Estate (UK) Limited (formerly known as PGIM Fund Management Limited) is authorised as an Alternative Investment Fund Manager and regulated by the FCA and is authorised by the SEC as an investment advisor.
- PGIM Private Capital Limited (formerly known as Pricoa Capital Group Limited) is authorised and regulated by the FCA. The branches in Germany, France and Italy were transferred, on 12 April 2019, to Pricoa Capital Group (Ireland) Limited.
- QMA Wadhvani LLP is authorised and regulated by the FCA.

Group Business Review

Review of Group performance

On 2 January 2019, PGIM Financial Limited ('PFL') issued 53,183,100 Ordinary shares at par at a value of £53.2m to support the acquisition of Wadhvani Cayman Limited.

On 9 January 2019, PFL wholly acquired Wadhvani Cayman Limited, the parent of Wadhvani Capital Limited ('WCL') following approval from the FCA. On 12 August 2019, Wadhvani Cayman Limited transferred its holding in WCL to the Company and on 30 December 2019 Wadhvani Cayman Limited was dissolved. PFL and WCL jointly own the limited liability partnership QMA Wadhvani LLP ('QMA W'), previously known as Wadhvani Asset Management LLP. WCL and QMA W while remaining separate legal entities are now operating as part of the PGIM QMA business, the quantitative equity and global multi-asset solutions manager of PGIM, Inc.

The existing investment platform of the Partnership continues to operate independently of QMA's investment platform, however the synergies from the acquisition are expected to benefit the QMA division of the wider PGIM Group and during the year QMA W moved the Systematic Absolute Return Strategy from the Fidante platform to the PGIM platform.

On 12 April 2019, the PGIM Private Capital Limited (formerly known as Pricoa Capital Group Limited) ('PPC') transferred the activities of its three branches in Frankfurt, Paris and Milan, including the employees working in those branches, to Pricoa Capital Group (Ireland) Limited. This transfer was in exchange for the issuance of new shares at par, representing 5.45% (115,208 shares) of Pricoa Capital Group (Ireland) Limited. As a result of the transfer of the branch activities, PPC reported a fall in revenue in 2019 compared to 2018 as a direct result of the transfer of the branch activities, and this will have an ongoing permanent impact. The rationale behind the transfers is to enable the business activities conducted within the branches to continue in the event of a 'hard' Brexit.

PPC forms part of a Global Business Unit which refined its branding during 2019. The Global Business Unit adopted PGIM Private Capital as its investor facing name and Pricoa Private Capital as its borrower facing name. In keeping with this initiative, the Company changed its name on 3 April 2020 to Pricoa Private Capital Limited and further changed on 7 April 2020 to PGIM Private Capital Limited.

Strategic Report (continued)

On 16 August 2019, the Company paid off its loans of £13.5m (€15.0m) and £8.3m to Pramerica (Hong Kong) Holdings Limited. On 23 December 2019, PGIM Limited borrowed £74.6m (€88.0m) from PFL to expand its holdings in Collateralised Loan Obligations ('CLOs') in support of its Fixed Income business, with investments in CLOs at the year-end of £310.1m (2018: £298.3m). PGIM Limited has debts of £176.2m (€208.0m) with PGIM Foreign Investments, Inc., contracted to fund the acquisition of CLO investments. Of the loans with PGIM Foreign Investments, Inc., £30.5m (€36.0m) is due to mature in July 2020. Due to the current market turmoil resulting from the Covid-19 pandemic, PGIM Foreign Investments, Inc. has provided a letter of commitment to refinance the loan of €36.0m falling due in July 2020 on market terms.

During 2019 PGIM Real Estate (UK) Limited (formerly known as PGIM Fund Management Limited) ('PGIMREL') applied for, and in February 2020 received, FCA approval for the Variation of Permission in relation to its MiFID top-up application. PGIMREL now has an expanded list of Permissions in addition to its previous permission of 'managing an unauthorised AIF' and on 1 April 2020 PGIMREL took over third party mandates in connection with the Ground Lease Fund activity from PGIM Limited ('PGIML'). The rationale behind this re-structuring is to better align the corporate entities to the business divisions of PGIM, Inc. and in this context the name of PGIM Fund Management Limited was changed on 30 March 2020 to PGIM Real Estate (UK) Limited.

During 2019 the strategic decision was also taken to terminate the Deed of Guarantee for insurance mediation activities carried out by PGIM Limited underwritten by PPC and for PGIMREL to underwrite a similar Deed of Guarantee to PGIML instead. In order to be able to make this guarantee, PGIMREL was required to have net assets of at least £10.0 million and to achieve this PGIMREL issued £9.3 million of Ordinary shares at par during the year to PFL. The guarantee between PGIMREL and PGIML is for a maximum claim of £3.0 million. Following the termination of the Deed of Guarantee by PPC, PPC bought back 5,751,000 shares at par from PFL, and, in line with the Group's Capital Management policy of ensuring surplus capital is deployed efficiently, returned £12.0 million of surplus capital to its sole shareholder, PFL, by way of an interim dividend.

In light of the ongoing uncertainty surrounding the form that Brexit may take, the Group decided to re-structure its European Branches. On 12 April 2019, PPC transferred the activities of its three branches, including the employees working in those branches, to Pricoa Capital Group (Ireland) Limited. This transfer was in exchange for the issuance of new shares at par, representing 5.45% (115,208 shares) of Pricoa Capital Group (Ireland) Limited. In the same context, on 1 January 2020, the Fixed Income employees of PGIML working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt. On 1 February 2020, PGIML's remaining German based employees had their employment contracts moved across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V. The Munich and Frankfurt branches of PGIML are now in the process of being closed and their closure is expected to be completed during 2020.

In addition, the Group's parent PGIM, Inc. operates a UCITS platform in Ireland for which the Group provides administration and distribution services.

In the opinion of the Directors, the Group's performance in the year was satisfactory. Investment Originations in the PGIM Private Capital business were £1.6bn (2018: £2.5bn) reflecting an increasingly competitive market. Growth in PGIM Fixed Income continues with strong net inflows of Assets Under Management ('AUM') £41.5bn (2018: £31.5bn), particularly from European institutional investors, and the successful launch of two European CLOs. PGIMREL continues to develop its fund management business. QMA W and WCL reported losses in 2019, arising primarily from retention payments and integration costs linked to the acquisition. The Directors recognise that QMA W and WCL may require support in 2020, but are confident that the ongoing contractual relationships together with the distribution capabilities of the QMA division will provide synergies beneficial to the Group going forward. Despite the current market turmoil due to the Covid-19 pandemic, the Directors expect all business lines to maintain performance in 2020.

Strategic Investing

In support of its investment management services the Group is also required to co-invest in CLOs and collective investment schemes alongside third party investors. During the year the Group significantly expanded its holdings of CLOs in support of its Fixed Income business. Investments in CLOs at the year-end were £310.1m (2018: £298.3m) and are analysed in more detail in note 13 to the financial statements. These are made up of Financial assets at fair value through profit or loss of £25.3m (2018: £27.1m) and Financial assets at amortised cost of £284.7m (2018: £271.1m).

Strategic Report (continued)

Section 172(1) Statement

The Strategic Report must include a statement describing how the Directors have a regard to the matters as set out in section 172(1) of the Companies Act 2016 (CA 2016) as detailed below.

(a) The likely consequences of any decision in the long term

The Company regularly assesses its strategy from both a commercial and risk perspective at an individual Company and Group level to ensure the long term consequences of any strategic decision are understood.

Wadhvani Cayman Limited, the parent of WCL was acquired on 9 January following approval from the FCA. The rationale behind the acquisition is to use the distribution capabilities of the QMA division to leverage the contractual customer relationships of WCL and QMA W to the benefit of the wider PGIM Group. In the short term it is acknowledged that WCL and QMA W will require the support of its parent as in 2019 both entities were loss making due primarily to retention and other acquisition costs. In the long term WCL and QMA W and the QMA division are expected to benefit from the synergies created by the acquisition.

As detailed in the Group Business Review, several strategic decisions were taken within the Group during 2019 as part of the overall objective to better align the individual corporate entities with the wider Group's business lines to better support long term growth of those business lines. Within this context, PGIMREL received FCA approval for a Variation of its Permissions and has subsequently taken over third party mandates in connection with the Ground Lease Fund activity from PGIML effective 1 April 2020. PGIM Fund Management Limited changed its name on 30 March 2020 to PGIM Real Estate (UK) Limited and similarly Pricoa Capital Group Limited's name was changed on 3 April 2020 to Pricoa Private Capital Limited and further changed on 7 April 2020 to PGIM Private Capital Limited.

As detailed in the Group Business review, PPC terminated the Deed of Guarantee with PPC for insurance mediation activities carried out by PGIML, and a new Deed of Guarantee was underwritten by PGIMREL instead. Following the termination of the Deed of Guarantee PPC bought back 5,751,000 Ordinary shares at par from PFL and returned £12.0 million of surplus capital to its sole shareholder by way of an interim dividend. In order to be able to underwrite the Deed of Guarantee, PGIMREL was required to have net assets of at least £10.0 million and to achieve this PFL acquired £9.3 million of Ordinary shares at par in PGIMREL during the year.

To support PGIML's continued long-term investment in CLO products and to ensure it is adequately capitalised both in the immediate and long term, PGIML issued share capital of 29,300,000 Ordinary shares at par. PGIML further strengthened its balance sheet by drawing down two tranches of its €120.0m subordinated loan with PFL of £29.7m (€53.0m) and £44.9m (€35.0m) in December 2019.

In light of the ongoing uncertainty surrounding the form that Brexit may take and as detailed in the Group Business review, the Group decided to re-structure its European Branches and on 12 April 2019 PPC transferred the activities of its three branches, including the employees working in those branches, to Pricoa Capital Group (Ireland) Limited. On 1 January 2020, the Fixed Income employees of PGIML working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt, with PGIML's remaining German based employees moving across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V. on 1 February 2020. The Munich and Frankfurt branches of PGIML are now in the process of being closed and their closure is expected to be completed during 2020.

(b) The interests of the Company's employees

The Group has 236 employees. The Group seeks to promote the interests of its employees by ensuring that they are skilled to undertake the role they perform, receiving regular training to maintain their competencies, and that all employees are fairly and appropriately remunerated. The Group also engages with its employees at least annually via an anonymous questionnaire, the results of which are summarised and shared with its employees to identify key areas of development.

Strategic Report (continued)

(c) The need to foster the Company's business relationships with suppliers, customers and others

The Company works to foster positive business relationships with suppliers, customers and other stakeholders. Relationships with customers are governed by written contracts to ensure transparency and clarity of expectation of performance. The Company has established good working relationships with its suppliers and seeks to ensure a responsible payment culture, with the publishing for the UK Group of its Business Payment practices and Performance reporting on the Companies' House website. Following a review of the Modern Slavery Act, the Company has engaged with its suppliers to ensure mutual compliance.

The Company seeks to establish positive relationships with the local regulatory authorities.

(d) The impact of the Company's operations on the community and the environment

The Group encourages its employees to contribute to the community in which the Company operates by offering the opportunity to take part in local charity and volunteering initiatives. The Group seeks where possible to minimise its impact on the environment and has developed in-house initiatives, such as an internal recycling scheme and the provision of employee cycle racks, to this aim.

(e) The desirability of the Company maintaining a reputation for high standards of business conduct

There is worldwide engagement with employees regarding individual conduct and the high standards of ethics and integrity expected of employees is outlined in Prudential's Code of Conduct "Making the Right Choices". The Code of Conduct is supported by ongoing training and annual re-certification.

(f) The need to act fairly as between members of the Company

The Company is a private limited company with a sole shareholder.

Key Performance Indicators

The Group's key financial and other performance indicators during the year were as follows:

	2019 £	2018 £
Group revenue	216,264,802	176,455,275
Profit before tax	37,946,177	49,320,445
Tax expense	<u>(4,832,479)</u>	<u>(7,223,495)</u>
Profit for the financial year	<u>33,113,698</u>	<u>42,096,950</u>

As well as overall Group profitability, the Directors consider AUM, including assets managed under sub-advisory agreements, and Investment Originations to be key performance indicators for these business lines.

	2019 £ bn	2018 £ bn
<i>Assets Under Management</i>		
PGIM Real Estate	3.4	3.7
PGIM Fixed Income	41.5	31.5
PGIM Private Capital	0.8	0.9
QMA Wadhvani	0.7	-
<i>Investment Originations</i>		
PGIM Private Capital	1.6	2.5
PGIM Real Estate Finance	0.2	0.5

QMA W was acquired on 9 January 2019 and its Assets Under Management are considered in the Group's key performance indicators from this date onwards.

Strategic Report (continued)

Principal risks and uncertainties

The Directors continually assess the risks faced by the Group and believe that its main risk is business risk is the Group's failure to meet its strategic objectives through significant market movements or other external factors. The Group's approach to managing business risk is to closely monitor market and other movements in the business environment and amend its strategy where necessary. The Group also maintains sufficient capital to enable a wind down of its operations in an orderly fashion should the need arise. In addition to business risk the Group faces other principal risks which are outlined below. Management of financial risks is discussed in more detail in note 30 to the financial statements.

Market risk

The Group is exposed to market risks, in the form of foreign exchange risk, interest rate risk and investment risk arising from the market value of Group investments. Foreign exchange risk arises from fluctuations in the value of its assets and liabilities denominated in currencies other than Pounds Sterling. To the extent that the market risk associated with a particular asset or liability is deemed to be material, the Group utilises various hedging strategies to mitigate this risk which are discussed in more detail in note 30 to the financial statements. The Group is exposed to interest rate risk through its holdings of floating rate loan notes in certain collateralised loan obligations. The Group is also subject to market risk on the marked to market value of those loan notes, however, investment price risk nor interest rate risk are considered material at this stage and no hedging strategies have been utilised to mitigate these risks.

Credit risk

Credit risk arises mainly from cash and cash equivalents and from receivables from third parties, including balances with other affiliated companies. The Group's approach to managing this risk is to hold cash with large, systemically important banks and to monitor and arrange settlement of receivable balances and non affiliated balances with third parties on a timely basis. The Group does not therefore consider credit risk to be material.

Liquidity risk

The Group manages liquidity risk through a combination of maintenance of cash surpluses held by the Group, funding lines with affiliated companies and detailed regular forecasting of the Group's funding requirements, and does not consider liquidity risk to be material.

Brexit Risk

Following the UK's vote to withdraw from the European Union on 23 June 2016, a working group was established to assess the impact of Brexit on the PGIM Group's business and analyse the options available for continuing the UK Group's various regulated activities in the EU. The UK Group has the benefit of being able to work with other regulated affiliated entities located within the EU and the working group concluded that the establishment of a further 2 EU regulated legal entities and an extension of the regulatory permissions of an existing EU affiliate would be beneficial to manage the potential impact on the UK Group's business. The Board of PGIM Financial Limited believes that the UK Group is well positioned to ensure as little disruption as possible to its existing business set-up and PGIM's ability to market its products into EU jurisdictions and, directly or indirectly, provide its investment management services to EU domiciled clients.

On 31 January 2020, the UK left the EU with a transition period in relation to existing laws and regulations until 31 December 2020. There is still a high degree of uncertainty regarding the outcome of the trade negotiations between the UK and EU in relation to the period beyond 1 January 2021 especially in the context of financial services (the transition period could be extended subject to agreement between the UK and EU by 1 July 2020). The UK Group has continued to prepare for a "hard" Brexit and has contingency plans, as appropriate, for each business. At this stage, the Group boards have not identified nor do they anticipate Brexit having a material impact to any of their businesses.

Business Continuity Risk

On 11 March 2020, the World Health Organisation declared a global pandemic in respect of Covid-19. As a result of the pandemic the stock markets are witnessing significant levels of turmoil and many countries have implemented "lockdown" measures. To protect the wellbeing of its employees and ensure continuity of services to its clients, the employees of PFL and its subsidiaries in the UK and in the overseas branches are, as of March 2020, working remotely.

Strategic Report (continued)

Following the move to working remotely, internal controls and procedures have been reviewed to ensure that all controls continue to perform as expected. The governance of PFL and its subsidiaries has been augmented with more frequent Senior Management and Board meetings to ensure the ongoing market and operational impacts of the crisis are being monitored and where necessary, appropriate actions taken. Where necessary, additional IT solutions and equipment have been sourced and installed. PFL and its subsidiaries have not taken advantage of any local government support made available at this time as the companies are able to withstand such a systemic shock.

The Company and its subsidiaries have continued to provide services without interruption, to its client base, demonstrating the operational resilience of the BCP framework, which has effectively now become the Group's Business as Usual method of operating until the end of the lockdowns are announced.

To ensure PFL and its subsidiaries are able to pursue their strategic goals, PGIM Limited has secured a five year loan of £18.6m (€21.0m) in March 2020 from PGIM Foreign Investments, Inc. to proceed with the funding of the investment in Dryden 79. Due to the current market turmoil resulting from the Covid-19 pandemic, PGIM Foreign Investments, Inc. has provided a letter of commitment to refinance the loan of £30.5m (€36.0m) falling due in July 2020 on market terms. As at 31 December 2019, PFL had net current liabilities of £10.4m. This is primarily due to the conversion of its intercompany balance with PGIML into long term debt and the investment in share capital of subsidiaries in order to support those subsidiaries in meeting their strategic goals. PGIM, Inc, as the parent of PFL has issued a letter of support, to provide up to £25.0m of financial support to PFL if necessary.

PFL Group includes entities which are regulated by the Financial Conduct Authority in the UK. In light of the current market turmoil, and to preserve capital and liquidity in the UK group, the payment of the dividend proposed on 14 February 2020 of £30.0m by PFL to its parent PGIM, Inc. has been deferred until such time as deemed prudent. In order to ensure the Company and its subsidiaries continue to hold sufficient capital and liquidity for regulatory purposes and liquidity to meet obligations as they fall due, capital and liquidity adequacy are being monitored on an ongoing basis.

Approved by the Board on 27 April 2020 and signed on its behalf by:

 Digitally signed by
Kimberly LaPointe
Date: 2020.04.27
20:05:27 +01'00'

.....
K. D. LaPointe
Director

Directors' Report

The Directors present their Annual Report and Consolidated Financial Statements of the Group for the year ended 31 December 2019.

PGIM Financial Limited is a company incorporated in the United Kingdom and has its registered office at Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR. The consolidated financial statements include the Company and its subsidiaries, as detailed in note 15 to the financial statements. Two subsidiaries of the Company had foreign branches during the period under review; PGIM Private Capital Limited's branches in Frankfurt, Paris and Milan were transferred on 12 April 2019, to Pricoa Capital Group (Ireland) Limited, and PGIM Limited has branches in Munich, Frankfurt and Zurich. The Munich and Frankfurt branches of PGIM Limited are now in the process of being closed and their closure is expected to be completed during 2020.

The Company's immediate parent is PGIM, Inc. (the 'Parent'), a company incorporated in the United States. PGIM, Inc. is itself a subsidiary of Prudential Financial, Inc., (the 'Ultimate Parent') a company incorporated in the United States, and listed on the New York Stock Exchange (NYSE: PRU), and the parent undertaking of the largest group for which Group financial statements are prepared.

These financial statements have been prepared on a going concern basis using International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

Directors' of the Group

The Directors, who held office during the year and up to the date of the signing of the financial statements were as follows:

P. M. Barrett

D. Campbell (resigned 30 July 2019)

H. C. Day (resigned 15 August 2019)

A. Dyson (resigned 11 October 2019)

M. L. Fioramonti (resigned 29 July 2019)

M. G. Fresson

R. Greenwood (resigned 11 October 2019)

S. Saperstein

E. Samson (resigned 15 August 2019)

P. M. East (appointed 11 October 2019)

K. D. LaPointe (appointed 11 October 2019)

J. Muhlhauser (appointed 11 October 2019)

S. L. Pollard (appointed 11 October 2019)

A. M. Rosenthal (appointed 11 October 2019)

Directors' Report (continued)

Branches outside the United Kingdom

On 12 April 2019, the activity of the branches of PGIM Private Capital Limited ('PPC') in Frankfurt, Paris and Milan were transferred to Pricoa Capital Group (Ireland) Limited. The Paris branch of PPC was then closed with an effective date 15 April 2019 and the Frankfurt and Milan branches are in the process of being closed.

PGIM Limited incorporated a new branch in Zurich on 1 July 2019.

On 1 January 2020, PGIM Netherlands B.V. incorporated two new branches in Munich and Frankfurt.

On 1 January 2020, the Fixed Income employees of PGIM Limited working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt. On 1 February 2020, PGIM Limited's remaining German based employees had their employment contracts moved across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V.

The Munich and Frankfurt branches of PGIM Limited are now in the process of being closed and their closure is expected to be completed during 2020.

Detail on the Group's international activities is disclosed in the financial statements of PGIM Private Capital Limited, Pricoa Capital Group (Ireland) Limited, PGIM Limited and PGIM Netherlands B.V. The revenue from the branches as at 31 December 2019 is shown below:

	2019 £	2018 £
Frankfurt	1,517,450	1,768,777
Paris	2,208,526	2,199,804
Milan	921,972	981,912
Munich	2,394,519	1,641,493
Zurich	-	-
	<u>7,042,467</u>	<u>6,591,986</u>

Dividends

The Company declared an interim dividend of £30.0m on 14 February 2020, no interim dividend was paid during 2019 (2018: £nil). In light of the current market turmoil due to the Covid-19 pandemic, the Company has deferred payment of the dividend until such time as deemed prudent. The Directors do not recommend the payment of a final dividend (2018: £nil).

Political donations and charitable contributions

The Group has made no political donations and incurred no political expenditure during the year (2018: £nil). The Group has made charitable contributions of £9,131 during the year (2018: £19,263).

Financial instruments

The Group holds certain financial instruments. Additional information on the Group's financial instruments can be found in note 13 to the financial statements. Further information on the risks associated with the Group's financial instruments and the Group's approach to financial risk management can be found in the Strategic Report and in note 30 to the financial statements.

Directors' Report (continued)

Relationships with suppliers, customers and other stakeholders

As referenced in the Section 172 statement in the Strategic Report, the Company works to foster positive business relationships with suppliers, customers and other stakeholders. Relationships with customers are governed by written contracts to ensure transparency and clarity of expectation of performance.

The Company has established good working relationships with its suppliers and seeks to ensure a responsible payment culture, with the publishing for the UK Group of its Business Payment practices and Performance reporting on the Companies' House website. Following a review of the Modern Slavery Act, the Company has engaged with its suppliers to ensure mutual compliance.

The Company seeks to establish positive relationships with the local regulatory authorities.

Pillar 3 Disclosures

Under the Pillar 3 requirements of the Capital Requirements Directive, as enacted in the UK by the Financial Conduct Authority through Chapter 11 of the Prudential Sourcebook for Banks, Buildings Societies ("BIPRU 11"), the Group is required to disclose in a public forum its principal risk management and capital adequacy procedures. The Group's BIPRU 11 disclosures are unaudited and included on the Group's website:

www.pgim.com/links/terms-conditions

Country by country reporting

As a qualifying investment firm, the Company has obligations under Article 89 of the Capital Requirements Directive to report its international activities and establishments. The Company's obligations disclosures are unaudited and included on the Company's website:

www.pgim.com/links/terms-conditions

Directors' Report (continued)

Going concern

On 11 March the World Health Organisation declared a global pandemic in respect of Covid-19. As a result of the pandemic the stock markets are witnessing significant levels of turmoil and many countries have implemented "lockdown" measures. To protect the wellbeing of its employees and ensure continuity of services to its clients, the employees of the Group are as of March 2020 working remotely.

Following the move to working remotely, internal controls and procedures have been reviewed to ensure that all controls continue to perform as expected. The governance of the Group has been augmented with more frequent Management and Board meetings to ensure the ongoing market and operational impacts of the crisis are being monitored and where necessary, appropriate actions taken. Where necessary, additional IT solutions and equipment have been sourced. The Group has not taken advantage of any local government support made available at this time.

The Group has continued to provide services without interruption, demonstrating the operational resilience of its BCP framework, which has effectively now become the Group's Business as Usual method of operating. This will continue until the end of the official lockdown.

The Group contains entities regulated by the FCA. The regulated entities and the Group hold capital sufficient to provide resilience against a severe yet plausible event as part of its normal business activity. In order to ensure the Group continues to hold sufficient capital for regulatory purposes and liquidity to meet obligations as they fall due Capital and liquidity adequacy are being monitored on an ongoing basis.

The Group has performed an assessment of the actual and potential impact of the deteriorating market conditions of the 2020 expected performance of the Group and has seen that the actual fair value through profit and loss impact of the fall in market values of the Group's investments is as at 31 March 2020 £9.7m. The potential impact on the performance of the Group for the 12 months following the signature of the accounts is difficult to forecast given the changing market conditions and is being monitored closely.

The Directors have performed an analysis of expected cashflows, including work performed on stress testing due to the Covid-19 situation and planned for mitigating actions that can be taken. The Group is profitable, and when factoring the expected fall in revenue resulting from lower AUMs, is forecasted to remain profitable for the 12 months following the signing of the accounts. The Group has sufficient cash reserves, access to sources of additional funding and the support of its parent to enable it to meet its strategic goals as planned, for example the funding of Dryden 74, for at least 12 months from the signing of the accounts.

As at 31 December 2019, PFL had net current liabilities of £10.4m. This is primarily due to the conversion of its intercompany balance with PGIML into long term debt and the investment in share capital of subsidiaries in order to support those subsidiaries in meeting their strategic goals. The Group has a loan with PGIM Foreign Investments, Inc. of £30.5m (€36.0m) falling due in July 2020 and PGIM Foreign Investments, Inc. has issued a letter of commitment to refinance the loan. PGIM, Inc, as the parent of PFL has issued a letter of support, to provide up to £25.0m of financial support to PFL if necessary. PFL has also deferred payment of the proposed interim dividend of £30.0m to PGIM, Inc., until the 2019 accounts have been signed and may defer further if deemed prudent.

Because of the diversity of its revenue base, its liquidity, the strength of its balance sheet, access to sources of additional funding and the support of its parent, the Directors are confident that, in spite of the current market turmoil, the Company and the Group can meet their liabilities as they fall due for the next 12 months and are going concerns and the Financial Statements have therefore been prepared on a going concern basis.

Future outlook and events after the Statement of Financial Position date

The Group will continue to look to expand its five principal business lines. The Group launched two new CLOs in 2019 and anticipates to launch new CLOs in 2020, to the extent that there is demand in light of the current market turmoil, with one currently in the warehousing stage. QMA Wadhvani LLP was acquired on 9 January 2019 and the Group is looking to further expand this business and grow AUM with the support of QMA and its distribution network.

Directors' Report (continued)

Important non adjusting events after the financial year

On 14 February 2020, the Board of Directors of PFL approved the payment of an interim dividend of £30.0m (2018: £nil) to its parent PGIM, Inc. Due to the current market turmoil, payment of the dividend has been deferred until such time as deemed prudent.

On 1 January 2020, the Fixed Income employees of PGIML working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt. On 1 February 2020, PGIM Limited's remaining German based employees had their employment contracts moved across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V.

The Munich and Frankfurt branches of PGIM Limited are now in the process of being closed and their closure is expected to be completed during 2020.

On 26 February 2020, PGIMREL received FCA Approval for the Variation of Permission in relation to its MiFID top-up application. The company now has an expanded list of Permissions in addition to its previous permission of "managing an unauthorised AIF".

On 11 March 2020, the World Health Organisation declared a global pandemic in respect of Covid-19. As a result of the pandemic the stock markets have been witnessing significant levels of turmoil post the balance sheet date. Given this situation was not known as at 31 December 2019, this is deemed to be a non-adjusting post balance sheet event. The Group has performed an assessment of the actual and potential impact of the deteriorating market conditions on its forecasted performance. The actual fair value impact through profit and loss impact of the fall in market value of the Company's investments is £9.7m as at 31 March 2020. The potential impact on the performance of the Company for the 12 months following the signature of the accounts is difficult to forecast given the changing market conditions and is being monitored closely. The impact of Covid-19 on the cash flows of the Group has also been assessed, and this assessment concluded that the Group has sufficient liquidity to meet its obligations as they fall due for a period of 12 months from the signing of the accounts.

Deed of Guarantee for Insurance Mediation Activities

On 12 November 2019, the Deed of Guarantee for insurance mediation activities carried out by PGIML, up to maximum claim of £3.0 million was transferred from PPC to PGIMREL.

Directors indemnity statement

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is in force as at the date of signature of the accounts. The Group does not have its own Directors' and Officers' liability insurance but is covered by a scheme run by its ultimate parent, Prudential Financial, Inc. maintained throughout the financial year in respect of itself and its Directors.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

Directors' Report (continued)

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company was proposed and agreed at the Board Meeting on 21 April 2020.

Approved by the Board on 27 April 2020 and signed on its behalf by:

Kimberly LaPointe
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Kimberly LaPointe
Date: 2020.04.27
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K. D. LaPointe
Director

Independent Auditors' Report to the Members of PGIM Financial Limited

Opinion

In our opinion, PGIM Financial Limited's Group financial statements and Company financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2019 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2019; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent Auditors' Report to the Members of PGIM Financial Limited (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the Members of PGIM Financial Limited (continued)


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



.....
Sonia Copeland (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 27 April 2020

Consolidated Income Statement
for the year ended 31 December 2019

	Note	2019 £	2018 £
Management fees and other revenue		211,036,949	172,194,090
Interest income on financial assets at amortised cost		<u>5,227,853</u>	<u>4,261,185</u>
Total revenue	5	216,264,802	176,455,275
Administrative expenses		<u>(197,595,486)</u>	<u>(129,539,275)</u>
Gross profit		18,669,316	46,916,000
Other gains	6	<u>13,064,140</u>	<u>5,720,945</u>
Operating profit	7	<u>31,733,456</u>	<u>52,636,945</u>
Finance income		9,239,787	69,263
Finance expense		<u>(3,027,066)</u>	<u>(3,385,763)</u>
Net finance income/(expense)	10	<u>6,212,721</u>	<u>(3,316,500)</u>
Profit before tax		37,946,177	49,320,445
Tax expense	11	<u>(4,832,479)</u>	<u>(7,223,495)</u>
Profit for the financial year attributable to the owners		<u><u>33,113,698</u></u>	<u><u>42,096,950</u></u>

The above results were derived from continuing operations.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2019

	2019	2018
	£	£
Profit for the financial year	<u>33,113,698</u>	<u>42,096,950</u>
Other comprehensive income/(expense)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Foreign currency translation differences – foreign operations	<u>(142,798)</u>	<u>32,482</u>
Other comprehensive (expense)/income for the year, net of income tax	<u>(142,798)</u>	<u>32,482</u>
Total comprehensive income for the year	<u><u>32,970,900</u></u>	<u><u>42,129,432</u></u>

**Consolidated Statement of Financial Position
as at 31 December 2019**

	Note	2019 £	2018 £
Non-current assets			
Property, plant and equipment	12	4,994,589	3,454,884
Right-of-use assets	18	9,652,529	-
Intangible assets	19	37,188,056	-
Deferred tax assets	17	757,703	1,024,795
Financial assets at fair value through profit or loss	13	25,465,757	27,143,488
Financial assets at amortised cost	13	284,728,380	271,140,655
Trade and other receivables	21	314,928	-
		<u>363,101,942</u>	<u>302,763,822</u>
Current assets			
Trade and other receivables	21	47,968,577	46,923,433
Cash	22	109,452,371	78,681,480
Financial assets at fair value through profit or loss	13	1,676,157	2,543,533
Derivative financial instruments	16	3,197,488	-
		<u>162,294,593</u>	<u>128,148,446</u>
Total assets		<u>525,396,535</u>	<u>430,912,268</u>
Current liabilities			
Lease liabilities	2	(3,325,484)	-
Trade and other payables	23	(72,016,619)	(53,367,492)
Derivative financial instruments	16	-	(359,518)
Loans and borrowings	24	(30,503,305)	-
Current tax liabilities	11	(1,545,978)	(3,731,582)
		<u>(107,391,386)</u>	<u>(57,458,592)</u>
Net current assets		<u>54,903,207</u>	<u>70,689,854</u>
Total assets less current liabilities		<u>418,005,149</u>	<u>373,453,676</u>
Non-current liabilities			
Trade and other payables	23	(19,235,925)	(7,036,717)
Lease liabilities	2	(7,371,688)	-
Loans and borrowings	24	(145,691,854)	(208,412,671)
Provisions	27	(351,401)	(251,403)
Deferred tax liabilities	17	(2,740,681)	-
		<u>(175,391,549)</u>	<u>(215,700,791)</u>
Net assets		<u>242,613,600</u>	<u>157,752,885</u>

**Consolidated Statement of Financial Position
as at 31 December 2019 (continued)**

	Note	2019 £	2018 £
Capital and reserves			
Share capital	28	96,943,356	43,760,256
Other reserves	29	(131,720)	11,078
Retained earnings		<u>145,801,964</u>	<u>113,981,551</u>
Total equity		<u>242,613,600</u>	<u>157,752,885</u>

The financial statements on pages 17 to 82 were approved by the Board and signed on its behalf on 27 April 2020 by:

**Mark
Fresson** Digitally signed by
Mark Fresson
Date: 2020.04.27
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.....
M. G. Fresson
Director

Registered number: 1024618

Company Statement of Financial Position
as at 31 December 2019

	Note	2019 £	2018 £
Assets			
Non-current assets			
Property, plant and equipment	12	3,703,386	3,018,244
Trade and other receivables	21	74,563,633	3,000,000
Right-of-use assets	18	5,359,799	-
Intangible assets	19	37,188,056	-
Investments in subsidiaries	15	113,712,553	57,489,476
Deferred tax assets	17	-	867,859
		<u>234,527,427</u>	<u>64,375,579</u>
Current assets			
Trade and other receivables	21	13,791,238	114,640,667
Derivative financial instruments	16	3,197,488	-
Cash	22	93,278,078	29,459,239
		<u>110,266,804</u>	<u>144,099,906</u>
Total assets		<u>344,794,231</u>	<u>208,475,485</u>
Current liabilities			
Lease liabilities	2	(2,400,961)	-
Trade and other payables	23	(117,419,826)	(89,433,369)
Derivative financial instruments	16	-	(359,518)
Current tax liabilities		(811,854)	(105,407)
		<u>(120,632,641)</u>	<u>(89,898,294)</u>
Net current (liabilities)/assets		<u>(10,365,837)</u>	<u>54,201,612</u>
Total assets less current liabilities		<u>224,161,590</u>	<u>118,577,191</u>
Non-current liabilities			
Trade and other payables	23	(19,235,925)	(7,036,717)
Loans and borrowings	24	-	(21,763,782)
Provisions	27	(283,393)	(197,117)
Lease liabilities	2	(3,529,184)	-
Deferred tax liabilities	17	(2,723,786)	-
		<u>(25,772,288)</u>	<u>(28,997,616)</u>
Net assets		<u>198,389,302</u>	<u>89,579,575</u>

**Company Statement of Financial Position
as at 31 December 2019 (continued)**

	Note	2019 £	2018 £
Capital and reserves			
Share capital	28	96,943,356	43,760,256
Other reserves	29	154,110	154,110
Retained earnings		<u>101,291,836</u>	<u>45,665,209</u>
Total equity		<u>198,389,302</u>	<u>89,579,575</u>

The Company's profit for the financial year is £56,595,757 (2018: £22,556,461).

The financial statements on pages 17 to 82 were approved by the Board and signed on its behalf on 27 April 2020 by:

Mark Fresson
Digitally signed
by Mark Fresson
Date: 2020.04.27
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.....
M. G. Fresson
Director

Registered number: 1024618

Consolidated Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £	Fair value reserve £	Other reserves £	Retained earnings £	Total equity £
Balance at 1 January 2018	23,760,256	(1,606,063)	(21,404)	74,403,739	96,536,528
Adjustment to restate Available For Sale financial assets at fair value	-	3,827,363	-	(3,827,363)	-
Adjustment to restate Available For Sale financial assets at fair value through profit and loss	-	(2,221,300)	-	649,852	(1,571,448)
At 1 January 2018 (As restated)	23,760,256	-	(21,404)	71,226,228	94,965,080
Profit for the financial year	-	-	-	42,096,950	42,096,950
Other comprehensive income					
Foreign currency translation differences – foreign operations	-	-	32,482	-	32,482
Total comprehensive income	-	-	32,482	42,096,950	42,129,432
Issue of additional share capital	20,000,000	-	-	-	20,000,000
Equity settled share based payments	-	-	-	658,373	658,373
Balance at 31 December 2018	43,760,256	-	11,078	113,981,551	157,752,885
Balance at 1 January 2019	43,760,256	-	11,078	113,981,551	157,752,885
Effect of adoption of IFRS 16: Leases	-	-	-	(532,201)	(532,201)
At 1 January 2019 (As restated)	43,760,256	-	11,078	113,449,350	157,220,684
Profit for the financial year	-	-	-	33,113,698	33,113,698
Other comprehensive income					
Foreign currency translation differences – foreign operations	-	-	(142,798)	-	(142,798)
Total comprehensive income	-	-	(142,798)	33,113,698	32,970,900
Issue of additional share capital	53,183,100	-	-	-	53,183,100
Equity settled share based payments	-	-	-	(761,084)	(761,084)
Balance at 31 December 2019	96,943,356	-	(131,720)	145,801,964	242,613,600

Company Statement of Changes in Equity
for the year ended 31 December 2019

	Share capital £	Other reserves £	Retained earnings £	Total £
Balance at 1 January 2018	23,760,256	154,110	22,657,764	46,572,130
Profit for the financial year	-	-	22,556,461	22,556,461
Total comprehensive income	-	-	22,556,461	22,556,461
Issue of additional share capital	20,000,000	-	-	20,000,000
Equity settled share based payments	-	-	450,984	450,984
Balance at 31 December 2018	43,760,256	154,110	45,665,209	89,579,575
Balance at 1 January 2019	43,760,256	154,110	45,665,209	89,579,575
Effect of adoption of IFRS 16: Leases	-	-	(453,593)	(453,593)
Balance at 1 January 2019 (As restated)	43,760,256	154,110	45,211,616	89,125,982
Profit for the financial year	-	-	56,595,757	56,595,757
Total comprehensive income	-	-	56,595,757	56,595,757
Issue of additional share capital	53,183,100	-	-	53,183,100
Equity settled share based payments	-	-	(515,537)	(515,537)
Balance at 31 December 2019	96,943,356	154,110	101,291,836	198,389,302

Consolidated and Company Statements of Cash Flows for the Year Ended 31 December 2019

	Note	Consolidated Group		Company	
		2019 £	2018 £	2019 £	2018 £
Cash flows from operating activities					
Profit for the year before tax		37,946,177	49,320,445	59,296,492	23,498,228
Adjustments to cash flows from non-cash items					
Depreciation, amortisation and impairment	12, 19	4,747,325	1,258,345	3,901,603	988,134
Depreciation on right of use assets	18	2,756,531	-	1,828,492	-
(Gain)/loss on derivative contracts	10	(8,781,696)	677,616	(8,781,696)	677,616
Fair value gain/(loss) on financial assets through profit and loss		3,282,637	(1,254,624)	-	-
Gain on derecognition of contingent consideration payable		(10,528,042)	-	(10,528,042)	-
(Loss) on sale of financial assets at amortised cost	6	(243,001)	(394,972)	-	-
Finance income	10	-	-	(386,554)	-
Finance expense	10	2,752,051	2,603,624	391,338	1,448,730
Equity settled share based payments		(761,084)	658,373	(515,537)	450,984
Foreign exchange gain/(loss) on investments	13	16,474,776	(3,019,315)	-	-
Foreign exchange (loss)/gain on loans		(10,353,899)	2,026,280	222,336	(535,638)
Dividends received		-	-	(27,000,000)	(7,000,000)
		37,291,775	51,875,772	18,428,432	19,528,054
Working capital adjustments					
Decrease in trade and other receivables	21	3,950,908	8,162,745	29,670,124	126,885,315
Increase/(decrease) in trade and other payables	23	19,841,479	(21,194,602)	32,224,465	(8,638,001)
Increase in provisions and employee benefits	27	99,998	86,251	86,276	78,847
Cash generated from/(used in) operations		61,184,160	38,930,166	80,409,297	137,854,215
Income taxes paid		(7,848,314)	(7,632,181)	(2,524,772)	(2,072,159)
Interest paid		(2,770,569)	(2,873,345)	(459,720)	(1,977,887)
Net cash flow generated from/(used in) operating activities		50,565,277	28,424,640	77,424,805	133,804,169
Cash flows from investing activities					
Finance income received		458,091	-	361,744	-
Settlement of derivative contracts	10	5,230,056	(550,060)	5,230,056	(538,830)
Dividend income	10	-	-	27,000,000	7,000,000
Acquisitions of property, plant and equipment	12	(3,688,098)	(1,260,695)	(1,987,811)	(1,030,249)
Acquisition of subsidiary	20	(15,511,767)	-	(16,997,092)	-
Reversal of impairment of investment in subsidiary		-	-	(4,704,735)	-
Acquisition of investments	13	(81,805,494)	(135,032,108)	-	-
Investment in subsidiary	15	-	-	(56,876,855)	(27,002,930)
Disposal of investments	13	47,550,676	56,345,445	5,358,488	-
Net cash flows (used in)/generated from investing activities		(47,766,536)	(80,497,418)	(42,616,205)	(21,572,009)

Consolidated and Company Statements of Cash Flows for the Year Ended 31 December 2019 (continued)

	Note	Consolidated Group		Company	
		2019 £	2018 £	2019 £	2018 £
Cash flows from financing activities					
Interest expense on leases		(239,510)	-	(130,481)	-
Proceeds from issue of ordinary shares, net of issue costs	28	53,183,100	20,000,000	53,183,100	20,000,000
Proceeds from new loan	24	-	184,087,170	-	-
Repayment of borrowings	24	(21,863,613)	(151,661,011)	(21,863,613)	(151,661,011)
Payments to finance lease creditors		<u>(2,965,029)</u>	<u>-</u>	<u>(2,178,767)</u>	<u>-</u>
Net cash flows generated from/(used in) financing activities		<u>28,114,948</u>	<u>52,426,159</u>	<u>29,010,239</u>	<u>(131,661,011)</u>
Net increase/(decrease) in cash and cash equivalents		30,913,689	353,381	63,818,839	(19,428,851)
Cash and cash equivalents at 1 January		78,681,480	78,295,617	29,459,239	48,888,090
Effect of exchange rate fluctuations on cash held		<u>(142,798)</u>	<u>32,482</u>	<u>-</u>	<u>-</u>
Cash and cash equivalents at 31 December	22	<u><u>109,452,371</u></u>	<u><u>78,681,480</u></u>	<u><u>93,278,078</u></u>	<u><u>29,459,239</u></u>

Notes to the Financial Statements

1 General information

PGIM Financial Limited is a company incorporated in the United Kingdom and has its registered office at Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR. The consolidated financial statements include the Company and its subsidiaries, as detailed in note 15 to the financial statements. Two subsidiaries of the Company had foreign branches during the period under review: PGIM Private Capital Limited's branches in Munich, Paris and Milan were transferred on 12 April 2019, to Pricoa Capital Group (Ireland) Limited, and PGIM Limited has branches in Frankfurt, Munich and Zurich. On 1 January 2020, the Fixed Income employees of PGIM Limited working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt. On 1 February 2020, PGIM Limited's remaining German branch based employees had their employment contracts moved across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V.

The Munich and Frankfurt branches of PGIM Limited are now in the process of being closed and their closure is expected to be completed during 2020.

The Company's immediate parent is PGIM, Inc. (the 'Parent'), a company incorporated in the United States. PGIM, Inc. is itself a subsidiary of Prudential Financial, Inc., (the 'Ultimate Parent') a company incorporated in the United States, and listed on the New York Stock Exchange (NYSE: PRU), and the parent undertaking of the largest group for which Group financial statements are prepared. Prudential Financial, Inc.'s financial statements are available at 751 Broad Street, Newark, NJ 07102.

The address of its registered office is:
Grand Buildings
1-3 Strand
Trafalgar Square
London
WC2N 5HR

These financial statements were authorised for issue by the board on 27 April 2020.

2 Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, applicable as at 31 December 2019 and have been prepared on a going concern basis. The consolidated financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and EU adopted IFRS and interpretations issued by the IFRS Interpretations Committee (IFRS IC) and under the historical cost convention, as modified by the revaluation of financial investments measured at fair value through profit and loss. These policies have been consistently applied to all the years presented, unless otherwise stated. On publishing the parent company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in Section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Going concern

On 11 March 2020, the World Health Organisation declared a global pandemic in respect of Covid-19. As a result of the pandemic the stock markets are witnessing significant levels of turmoil. The Group has performed an assessment of the actual and potential impact of the deteriorating market conditions of the 2020 expected performance of the Group and has seen that the actual fair value through profit and loss impact of the fall in market values of the Group's investments is £9.7m as at 31 March 2020. The potential impact on the performance of the Company for the 12 months following the signature of the accounts is difficult to forecast given the changing market conditions and is being monitored closely.

The Directors have performed an analysis of expected cashflows, including work performed on stress testing due to the Covid-19 situation, planned for mitigating actions that can be taken and obtaining a commitment of support from the entity's parent.

The Group is profitable, and when factoring the expected fall in revenue resulting from lower AUMs, is forecasted to remain profitable for the 12 months following the signing of the accounts. The Group has sufficient cash reserves, access to sources of additional funding and the support of its parent to enable it to meet its strategic goals as planned, for example the funding of Dryden 74, for at least 12 months from the signing of the accounts.

As at 31 December 2019, PFL had net current liabilities of £10.4m. This is primarily due to the conversion of its intercompany balance with PGIML into long term debt and the investment in share capital of subsidiaries in order to support those subsidiaries in meeting their strategic goals. The Group has a loan with PGIM Foreign Investments, Inc. of £30.5m (€36.0m) falling due in July 2020 and PGIM Foreign Investments, Inc. has issued a letter of commitment to refinance the loan. PGIM, Inc. as the parent of PFL has issued a letter of support, to provide up to £25.0m of financial support to PFL necessary. PFL has also deferred payment of the proposed interim dividend of £30.0m to PGIM, Inc., until the 2019 accounts have been signed and may defer further if deemed prudent.

Because of the diversity of its revenue base, its liquidity, the strength of its balance sheet, access to sources of additional funding and the support of its parent, the Directors are confident that, in spite of the current market turmoil, the Company and the Group can meet their liabilities as they fall due for the next 12 months and the Financial Statements have therefore been prepared on a going concern basis.

Foreign currencies

Functional and presentation currency

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). These consolidated financial statements are presented in Pounds Sterling which is the Group's functional currency unless otherwise noted.

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies, outstanding at the balance sheet date, are translated at the exchange rates ruling at that date.

Foreign exchange differences arising on translation are recognised in the Income Statement specifically in the administrative expenses. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Foreign operations

The Group has overseas operations including subsidiaries and branches that prepare their financial statements in foreign currencies being the currency of the primary economic environment in which they operate. On consolidation, the assets and liabilities of these operations are translated into Pounds Sterling at exchange rates at the balance sheet date whilst income and expenses are translated at rates applicable to particular transactions or approximate rates thereof. The exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in other reserves.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Significant changes in the current accounting period

The financial performance of the Group was particularly affected by the following events and transactions during the reporting period:

- The acquisition of Wadhvani Asset Management Group which resulted in the recognition of goodwill and other intangible assets.
- The allotment of 53,183,100 Ordinary shares with an individual nominal value of £1 for an aggregate consideration of £53,183,100.
- Restructure of overseas branches with the transfer of activity of the Paris, Frankfurt and Milan branches of PGIM Private Capital Limited (formerly known as Pricoa Capital Group Limited) to Pricoa Capital Group (Ireland) Limited.
- Repayment of its loans of £13.5m (€15.0m) and £8.3m to Pramerica (Hong Kong) Holdings Limited.
- Issuance of £74.6m (€88.0m) of subordinated loans by the Company to PGIM Limited.

Changes in accounting policy

New standards, interpretations and amendments effective

The following standards have been adopted by the Company for the first time for the financial year beginning on 1 January 2019:

IFRS 16 'Leases'

IFRS 16 was issued in January 2016 and is effective from 1 January 2019. It resulted in almost all leases being recognised on the Statement of Financial Position by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard affects primarily the accounting for the Group's operating leases. The Group leases various offices, equipment and residential properties. Rental contracts are typically made for fixed periods of 2 to 8 years but may have extension options.

In accordance with the transition provisions in IFRS 16 the new rules have been adopted retrospectively with the cumulative effect of initially applying the new standard recognised on 1 January 2019. Comparatives for the 2018 financial year have not been restated.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases recognised in the Income Statement
- accounting for operating leases with an annual value of less than £5,000 as low-value leases recognised in the Income Statement
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

On adoption of IFRS 16 as at 1 January 2019, the Group recognised an additional £7,982,320 of right-of-use assets and £8,888,663 of lease liabilities in relation to leases which had previously been classified as operating leases under the principles of IAS 17.

Measurement of right-of-use assets

Right-of-use assets for property leases are measured on transition as if the new rules had always been applied. All other right-of-use assets are measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Right-of-use assets were measured at cost comprising the following:

- the amount of the initial measurement of lease liability, and
- any lease payments made at or before the commencement date less any lease incentives received

Measurement of lease liabilities

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. A single incremental borrowing rate is used across the Group, adjusted at a country level to reflect local market conditions, and the weighted average incremental borrowing rate applied to the lease liabilities recognised on 1 January 2019 was 2.14% for assets in the UK and 1.92% for assets in Continental Europe.

Group	£
Operating lease commitments disclosed as at 31 December 2018	10,129,919
Less: short-term leases not recognised as a liability	(548,531)
Less: low-value leases not recognised as a liability	(146,837)
	<u>9,434,551</u>
Discounted using the Group's incremental borrowing rates	<u>8,888,663</u>
Lease liabilities recognised as at 1 January 2019	8,888,663
Add: New lease liabilities recognised in the financial year	4,534,028
Add: Interest expense on lease liabilities	239,510
Less: Rental payments in the financial year	(2,965,029)
Lease liabilities recognised as at 31 December 2019	<u>10,697,172</u>
Current portion of lease liabilities	3,325,484
Non-current portion of lease liabilities	7,371,688
Company	£
Operating lease commitments disclosed as at 31 December 2018	6,994,061

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Company	£
Less: short-term leases not recognised as a liability	(517,901)
Less: low-value leases not recognised as a liability	(125,861)
	<u>6,350,299</u>
Discounted using the Group's incremental borrowing rates	<u>6,140,922</u>
Lease liabilities recognised as at 1 January 2019	6,140,922
Add: New lease liabilities recognised in the financial year	1,837,509
Add: Interest expense on lease liabilities	130,481
Less: Rental payments in the financial year	(2,178,767)
Lease liabilities recognised as at 31 December 2019	<u>5,930,145</u>
Current portion of lease liabilities	2,400,961
Non-current portion of lease liabilities	3,529,184

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, eg term, country, currency and security.

Adjustments recognised in the Statement of Financial Position at 1 January 2019

The change in accounting policy affected the following items in the Statement of Financial Position on 1 January 2019.

Group	£
Assets as at 31 December 2018	430,912,268
Right-of-use assets	7,982,320
Prepayments	<u>(532,201)</u>
Assets as at 1 January 2019	<u>438,362,387</u>
Liabilities as at 31 December 2018	(273,159,383)
Lease liabilities	(8,888,663)
Operating lease liability as at 31 December 2018	<u>906,343</u>
Liabilities as at 1 January 2019	<u>(281,141,703)</u>
Net assets as at 1 January 2019	157,220,684
Net assets as at 31 December 2018	<u>(157,752,885)</u>
Net effect on Retained earnings	<u>(532,201)</u>

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Company	£
Assets as at 31 December 2018	208,475,485
Right-of-use assets	5,353,324
Prepayments	<u>(453,593)</u>
Assets as at 1 January 2019	<u>213,375,216</u>
Liabilities as at 31 December 2018	(118,895,910)
Lease liabilities	(6,140,922)
Operating lease liability as at 31 December 2018	<u>787,598</u>
Liabilities as at 1 January 2019	<u>(124,249,234)</u>
Net assets as at 1 January 2019	89,125,982
Net assets as at 31 December 2018	<u>(89,579,575)</u>
Net effect on Retained earnings	<u><u>(453,593)</u></u>

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

The Company's activities with short-term and low-value leases are recognised on a straight-line basis as an expense in profit or loss.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements.

None of the other standards, interpretations and amendments effective for the first time from 1 January 2019 have had a material effect on the financial statements.

Revenue recognition

The Group receives fees for services provided to the Group's parent company and fellow subsidiaries and also provides management services to third party funds, CLOs and affiliates of the Company for which it receives management fees, transaction fees and incentive fees.

The Group also charges its divisional parent, PGIM, Inc., for certain services performed on a cost-plus basis. Services are performed in support of individual business lines as well as senior relationship management of PGIM Inc's European institutional clients.

The Group is required to co-invest in CLOs alongside third-party investors and receives investment income from the CLOs based on the investment share it holds. Interest income from those investments classified as financial assets at amortised cost is accounted for in revenue on an accruals basis where reliable estimates of income are available.

Under IFRS 15, these fees were assessed under the five steps to recognising revenue. The Group meets the performance obligation for these revenue streams over time. Accordingly, the amount of variable consideration earned under these revenue streams is recognised as revenue to the extent that it is highly probable that a significant reversal will not occur.

Accounting policy - IFRS 15

The Group recognises revenue under IFRS 15, which came into effect on 1 January 2018. IFRS 15 introduced a new model for revenue recognition, based on the transfer of control rather than the transfer of risks and rewards and replaces IAS 18 "Revenue" (goods and services) and IAS 11 "Constructions Contracts".

IFRS 15 introduced a 5 step model to recognising revenue:

- (1) Identify the contract with a customer: revenue stream is covered by an asset management agreement which details the enforceable rights and obligations in respect of which the Company can expect to receive money;
- (2) Identify the performance obligations in the contract: the asset management agreements include promises to deliver services to a customer and, to the extent that those promises are distinct, they represent the discrete performance obligations which are accounted for separately;
- (3) Determine the transaction price: the asset management agreements detail the agreed fees to be paid. The fees may be fixed in price and/or variable. Where variable, the amount of consideration to which the Company becomes entitled and the related conditions are detailed in the asset management agreement;
- (4) Allocate the transaction price to the performance obligations; The transaction price is as per the asset management agreement and usually is a rate applies to the assets under management calculated on an average daily basis.
- (5) Recognise revenue when the performance obligation is satisfied: By nature of the service provided, the provision of services is deemed to be simultaneously received and consumed by the customer and on this basis fees are accrued throughout the contract period on the basis of the fee rate agreed in the asset management agreement.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Performance obligations

IFRS 15 introduced the concept of performance obligations "POs", which are essentially the units of account for revenue recognition. The Group recognises its revenue by reference to individual funds.

In relation to revenue recognition, the Group provides management services which are simultaneously received and consumed by the customer. This characteristic of the service provided satisfies point 5 of the recognition criteria. Where it is determined that the performance obligations associated with the Company's revenue streams are met over the period of time, revenue is recorded to the extent that it is highly probable that a significant reversal will not occur. The Company recognises transaction fees as they occur and variable revenue, in the form of incentive fees, is recognised only once the conditions have been met.

Significant judgements

Judgement has been applied in relation to the accounting for variable consideration, which is only recognised to the extent that it is highly probable that no revenue reversal will occur.

Other gains/(losses)

As disclosed in note 13 the Group is also required to co-invest in CLOs alongside third-party investors.

The Group receives investment income from the CLOs based on the investment share the Company holds. Interest income from CLOs accounted for as financial assets at fair value through profit or loss are recorded in other gains/(losses). This also includes gains/(losses) on financial assets at amortised cost and fair value gains/(losses) on financial assets at fair value through profit or loss.

In addition where the Group makes other gains or losses that are not considered to be revenue or direct expenses and are outside of its principal activity of the business, these will be recognised as earned or incurred in other gains/(losses).

Interest receivable and interest payable

Interest receivable and interest payable is recognised in the Income Statement as it accrues, using the effective interest method.

Tax

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income Statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Costs include the original purchase price of the assets and the costs attributable to bringing the asset to its working condition for its intended use.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is charged to the Income Statement on a straight-line basis over the estimated useful lives of the asset.

The rates of depreciation are as follows:

Asset class	Depreciation method and rate
Leasehold improvements	Over the term of the lease
Office equipment, furniture and fittings	10% - 33% per annum

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date. Any impairment loss on an asset carried at historical cost is recognised in the Income Statement.

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets and liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill and intangible assets with an indefinite useful life must be tested annually for impairment irrespective of whether there is any indication of impairment. An impairment test is required additionally if there are indicators of impairment, which would trigger an immediate review. An example of such an indicator would be the fall in value of an asset during the reporting period. Impairment losses are recognised in the profit and loss account.

Trademarks, licenses (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licenses and customer-related intangible assets with a finite useful life are carried at cost less accumulated amortisation and any accumulated impairment losses. These intangible assets are subject to an impairment review when there is an indication of impairment at the reporting date. An example of such an indicator would be the loss of a client relationship during the reporting period. Any impairment loss is recognised in the profit and loss account, unless there is an existing revaluation surplus in respect of that asset against which the impairment loss can be recognised. In this case the impairment loss is recognised in other comprehensive income.

If goodwill, a finite or infinite intangible asset is recognised initially during the reporting period, it must be tested for impairment at the end of that reporting period.

Amortisation

Amortisation is provided on intangible assets with a finite useful life so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Customer relationships	9% - 20% per annum
Proprietary technology	20% per annum
Trade name	20% per annum

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Cash and cash equivalents

In the Consolidated Statement of Cash Flows, cash includes cash in hand and deposits with banks held either at call or on term for up to 35 days.

Trade and other receivables

A regular review is performed of all the Group's receivables. If there is significant uncertainty regarding the recoverability of any of its debtors, a provision is recognised. If there is strong evidence indicating the amounts recognised in the Statement of Financial Position will not be recovered, they will be written off.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairments.

The Group has applied the simplified approach to measuring expected credit losses for trade and other receivables and the Group will measure lifetime credit losses at all times for trade and other receivables.

Trade and other payables

Trade and other payables, including accrued expenses and other creditors qualifying as financial instruments, are initially recognised at fair value net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Derivative contract - foreign currency hedging

Where the Directors consider that an individual exposure to a foreign currency is material to the Group, hedging strategies will be employed to mitigate the effects of the exposure. The Group utilises forward currency contracts to hedge currency exposures and values the effects of those contracts in the financial statements as the difference between the forward rate of exchange agreed in the contract and the forward currency rates prevailing at the balance sheet date. The forward currency contract is held at fair value through the profit and loss account.

Administrative expenses

The Group does not incur costs of sales or distribution expenses in generating its income and it considers all expenses incurred to be administrative in nature and recognised on an accrual basis.

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the Income Statement over the period of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Defined contribution scheme

A defined contribution pension scheme is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income Statement in the periods during which services are rendered by employees.

Share based payments

The Group participates in the ultimate parent Prudential Financial, Inc.'s ('PFI') share-based incentive schemes, for Stock Options, Restricted Stock Units and Performance Awards. The scheme is an equity settled share-based payment scheme in which the Group receives goods or services as consideration for PFI's equity instruments.

The Group recognises an expense based on the fair value of the options at the grant date. The fair value of the options granted is measured using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The valuation methodology and assumptions are disclosed in note 25 to the consolidated financial statements. This cost is spread over the three-year vesting period for each grant. These amounts have been recognised as an employee expense for the year with corresponding amounts included in equity. At each balance sheet date the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in profit and loss, with a corresponding adjustment to equity.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated. Impairment losses, with the exception of those recognised in relation to goodwill, may be reversed in subsequent accounting periods if there are indicators to suggest the impairment may have decreased or no longer exists. An example of such an indicator would be periods of continuous profitability.

The Group's significant assets that are subject to IFRS 9's expected credit loss model are its investment in subsidiaries, its investment in CLOs and trade and other receivables, including intercompany receivables. No loss allowance for the investment in CLOs nor trade and other receivables was recognised for the year under IFRS 9 (2018: £nil).

Investment in subsidiaries

Investments in subsidiaries are stated at cost less, where appropriate, provisions for impairment.

A provision made for impairment may be reversed in subsequent accounting periods if there are indicators to suggest the impairment may have decreased or no longer exists. An example of such an indicator would be periods of continuous profitability.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Financial instruments

Initial recognition

Financial assets and financial liabilities comprise all assets and liabilities reflected in the Statement of Financial Position, although excluding property, plant and equipment, investment properties, intangible assets, deferred tax assets, prepayments, deferred tax liabilities and employee benefits plan.

The Group recognises financial assets and financial liabilities in the Statement of Financial Position when, and only when, the Group becomes party to the contractual provisions of the financial instrument.

Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

All regular way purchases and sales of financial assets and financial liabilities classified as fair value through profit or loss ("FVPL") are recognised on the trade date, i.e. the date on which the Group commits to purchase or sell the financial assets or financial liabilities. All regular way purchases and sales of other financial assets and financial liabilities are recognised on the settlement date, i.e. the date on which the asset or liability is received from or delivered to the counterparty. Regular way purchases or sales are purchases or sales of financial assets that require delivery within the time frame generally established by regulation or convention in the market place.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology.

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVOCI); or
- financial assets at fair value through the profit or loss (FVPL).

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVPL).

The classification and the basis for measurement are subject to the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below.

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVPL:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through FVPL.

If a financial asset meets the amortised cost criteria, the Group may choose to designate the financial asset at FVPL. Such an election is irrevocable and applicable only if the FVPL classification significantly reduces a measurement or recognition inconsistency.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Financial assets at fair value through other comprehensive income (FVOCI)

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVPL)

Financial assets not otherwise classified above are classified and measured as FVPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVPL. This classification includes derivative liabilities.

Derecognition

Financial assets

The Group derecognises a financial asset when;

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in profit or loss.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Modification of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to the cash flows from the original financial asset are deemed to expire. In this case the original financial asset is derecognised and a new financial asset is recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Group recalculates the gross carrying amount of the financial asset and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement.

Notes to the Financial Statements (continued)

2 Accounting policies (continued)

Financial liabilities

If the terms of a financial liabilities are modified, the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual obligations from the cash flows from the original financial liabilities are deemed to expire. In this case the original financial liabilities are derecognised and new financial liabilities are recognised at either amortised cost or fair value.

If the cash flows are not substantially different, then the modification does not result in derecognition of the financial liabilities. In this case, the Group recalculates the gross carrying amount of the financial liabilities and recognises the amount arising from adjusting the gross carrying amount as a modification gain or loss in the Income Statement.

Derivative financial instruments

Derivative financial instruments are contracts, the value of which is derived from one or more underlying financial instruments or indices, and include futures, forwards, swaps and options in the interest rate, foreign exchange, equity and credit markets.

Derivative financial instruments are recognised in the Statement of Financial Position as financial assets at fair value through profit or loss. Fair values are derived from prevailing market prices, discounted cash flow models or option pricing models as appropriate.

In the Statement of Financial Position, derivative financial instruments with positive fair values (unrealised gains) are included as assets and derivative financial instruments with negative fair values (unrealised losses) are included as liabilities.

The changes in the fair values of derivative financial instruments entered into for trading purposes are included in trading income.

3 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, both tangible and intangible (including useful life of intangible assets and impairment of goodwill), liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Estimates made in the preparation of these financial statements are as follows:

- The fair value of the investment held in collateral loan obligations that are held at FVPL are estimated based on market data and independent prices received from third party arranger banks.
- The fair value of the contingent consideration recognised on the acquisition of Wadhvani Capital Limited and QMA Wadhvani LLP (collectively 'Wadhvani Group') is estimated based on the future profitability and AUM growth of the Wadhvani Group. The contingent consideration is defined by pre-determined future performance targets being met by the Wadhvani group.
- The current fair value of management and performance fee earnouts recognised on the acquisition of Wadhvani group have been estimated by reference to the expected future earnings of the Wadhvani group and will be revalued at each reporting date until the end of years 4 and 5.
- The fair value of intangible assets recognised on the acquisition of the Wadhvani Group were estimated based on the present value of the future income attributable to such assets. These intangible assets include in-house proprietary technology, contractual client relationships and trade names associated with the Wadhvani Group.
- The fair value of goodwill recognised on the acquisition of the Wadhvani Group has been estimated by reference to the fair value of tangible and intangible assets recognised at the date of acquisition and the consideration paid over in respect of those assets.
- The useful economic life of intangible assets recognised on the acquisition of the Wadhvani Group is estimated based on the expected duration of the benefits to be received in respect of those intangible assets.

Notes to the Financial Statements (continued)

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

- Following the introduction of IFRS 16 lease accounting, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is the case for leases in the Group, the lessee's incremental borrowing rate ('IBR') is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. The IBR is composed of two components, the spread rate and the country risk free rate (the country specific bond rate). The spread rate applied is broadly equivalent to the PGIM, Inc. borrowing rate, this is because the IBR is effectively the rate of interest a lessee would have to pay to borrow the equivalent of the lease payments. If the Company or its subsidiary were to borrow outside of the Group, it is probable that in the absence of other assets with which to secure the loan PGIM, Inc. would be asked to offer a guarantee, the lender in this instance would take the credit rating of PGIM, Inc. into consideration when determining the borrowing rate, which would bring the local borrowing rate into line with the PGIM, Inc. rate adjusted for the country risk free rate.

Significant judgements made in the preparation of these financial statements are as follows:

- The Group is entitled to receive incentive fees based on the performance of certain fixed income and real estate funds, for which it performs investment management services, such incentive fees are based upon the investment return in those funds meeting pre-defined performance targets across the life of the fund. Accordingly, the amount of variable consideration earned under this revenue stream is recognised as revenue to the extent that it is highly probable that a significant reversal will not occur. The Directors have reviewed the funds in question and have concluded that certain incentive fees should be recognised at this time because fund performance has met target levels.
- The Group is entitled to senior and subordinated management fees on CLOs for acting as collateral manager. The Directors have reviewed the CLOs in question and have concluded these fees should be recognised at this time because it is highly probable that the Company will receive these fees.
- Deferred tax has been recognised in line with the accounting policy above. The Group has recognised several deferred tax assets based on an assessment of future profitability and an ability to recover these tax assets.
- The Group has utilised forward foreign currency contracts to hedge certain currency exposures. In the opinion of the Directors the terms of the contracts do not meet the criteria for the adoption of hedge accounting under IFRS 9.
- The Group has applied single discount rates to portfolios of leases with reasonably similar characteristics (e.g. term and similar economic environments), to determine the right-of-use asset and corresponding lease liability to be recognised in the Statement of Financial Position following the introduction of IFRS 16. As the Group makes use of a centralised treasury function for its funding, it was judged appropriate to use a rate to reflect this, adjusted for local conditions.
- In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, extension options are only included in the lease term if the lease is reasonably determined to be extended.

4 Profit of Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented as part of these financial statements. The Company's gain for the financial year after tax was £56,595,757 (2018: £22,556,461).

5 Revenue

The analysis of the Group's revenue for the year from continuing operations is as follows:

	2019	2018
	£	£
Fees charged to parent company and fellow subsidiaries	117,681,341	89,480,851
Fees received and receivable from third parties and affiliated companies	93,355,608	82,713,239
Interest income on financial assets at amortised cost	5,227,853	4,261,185
	<u>216,264,802</u>	<u>176,455,275</u>

Notes to the Financial Statements (continued)

5 Revenue (continued)

Financial assets held at fair value to profit or loss are included in Other gains.

Group revenue is analysed as follows:

	2019	2018
	£	£
PGIM Private Capital	20,950,681	19,896,267
PGIM Real Estate	54,945,624	49,733,169
PGIM Fixed Income	109,352,526	90,534,716
PGIM Real Estate Finance	7,474,131	6,326,148
Institutional Relationship Management	3,522,982	3,044,743
Undertakings for Collective Investment in Transferable Securities (UCITS)	7,758,111	4,456,504
Quantitative Management Associates	10,096,703	1,876,380
Jennison Associates	784,396	-
Shared services and other departments	1,379,648	587,348
Total revenue	<u>216,264,802</u>	<u>176,455,275</u>

6 Other gains/(losses)

The analysis of the Group's other gains/(losses) for the year is as follows:

	2019	2018
	£	£
Net fair value (losses)/gains on financial assets at fair value through profit or loss	(3,355,398)	1,157,043
Interest income on financial assets at fair value through profit or loss	5,408,480	4,168,930
Net gains on disposal of amortised cost financial assets	243,001	394,972
Realised losses on foreign currency translation reserve	(152,497)	-
Gain on liquidation of Wadhvani Cayman Limited	392,512	-
Gain on derecognition of contingent consideration payable	10,528,042	-
	<u>13,064,140</u>	<u>5,720,945</u>

In June 2019, £10,528,042 was released to the profit and loss account, once it became apparent that the conditions for the payment of contingent consideration agreed on the acquisition of the Wadhvani Group would not be met (note 20).

In 2019, following a review of the business structure subsequent to acquisition, Wadhvani Cayman Limited was liquidated and a gain on liquidation of £392,512 was recognised in the profit and loss account.

Notes to the Financial Statements (continued)

7 Operating profit

Operating profit is stated after charging/(crediting):

	2019	2018
	£	£
Total staff costs (note 8)	110,591,284	79,242,402
Depreciation expense (note 12)	2,148,393	1,258,345
Depreciation on right-of-use assets (note 18)	2,756,531	-
Amortisation expense (note 19)	1,391,724	-
Impairment loss (note 19)	1,207,208	-
Operating lease expense - plant and machinery	48,623	39,331
Operating lease expense - property	465,410	2,749,704
Foreign exchange losses/(gains)	7,353,618	(893,344)
Fees payable to Company's auditors in respect of:		
- audit of the Company's financial statements	169,219	105,361
Fees payable to Group's auditors in respect of:		
- audit of Group subsidiaries financial statements	354,432	392,852
- audit-related assurance services	73,723	66,447
Management recharges for the Group:		
- Parent entity	39,834,473	24,481,052
- affiliated entities	<u>10,538,928</u>	<u>1,137,201</u>

The management recharges from affiliated entities have increased in the current year predominantly because of the increase in staff costs for the Shared Services department recharged from PGIM European Services Limited to PGIM Financial Limited.

8 Staff costs

The aggregate payroll costs of the Group (including Directors' remuneration) were as follows:

	2019	2018
	£	£
Wages and salaries	93,111,366	65,620,103
Share-based payments (note 25)	3,097,053	2,666,179
Social security costs	11,200,579	8,400,440
Other pension costs (note 26)	<u>3,182,286</u>	<u>2,555,680</u>
Staff costs	<u>110,591,284</u>	<u>79,242,402</u>

Staff costs increased during the period due to higher overall staff numbers as a result of the continued expansion of existing business lines and the Wadhvani acquisition, recruitment costs due to staff turnover and non-recurring items such as retention payments.

The aggregate payroll costs of the Company (including Directors' remuneration) were as follows:

	2019	2018
	£	£
Wages and salaries	78,961,607	55,917,146
Share-based payments (note 25)	2,904,239	2,220,163
Social security costs	9,886,827	7,164,802
Other pension costs (note 26)	<u>2,737,422</u>	<u>2,296,698</u>
Staff costs	<u>94,490,095</u>	<u>67,598,809</u>

Notes to the Financial Statements (continued)

8 Staff costs (continued)

The monthly average number of persons employed by the Group (including Directors) during the year, analysed by category was as follows:

	2019 No.	2018 No.
Investment professionals	146	128
Finance and support functions	90	67
	<u>236</u>	<u>195</u>

9 Directors' remuneration

Company

The Directors' remuneration for the year was as follows:

	2019 £	2018 £
Aggregate emoluments	1,960,159	2,093,263
Aggregate amounts (excluding shares) receivable under long term incentive schemes	453,335	441,077
Contributions to pension schemes	40,572	25,050
	<u>2,454,066</u>	<u>2,559,390</u>

In respect of the highest paid Director:

	2019 £	2018 £
Aggregate emoluments	<u>1,122,770</u>	<u>1,044,611</u>

The value of awards receivable by the highest paid Director under long-term incentive schemes is £240,000 (2018: £228,000). Four Directors received Restricted Stock Units and/or Options during the year (2018: Four). Four Directors are members of the defined contributions scheme operated for the benefit of all eligible employees of the PGIM Financial Limited Group (2018: two). The highest paid Director had no accrued UK defined benefits plan entitlements at the end of the year (2018: £nil). Eight Directors participate in the Ultimate Parent company's pension scheme (2018: five). No options were exercised by the Directors during the year (2018: nil). The highest paid Director did not exercise any options during the year (2018: nil).

Included in remuneration are amounts paid to Directors for their qualifying services to affiliated companies. It is not possible to make an accurate apportionment of their emoluments in respect of each affiliated company. Accordingly no recharges have been made.

Notes to the Financial Statements (continued)

9 Directors' remuneration (continued)

Company

The emoluments, including pension contributions of the following Directors, were paid for by:

Directors	Paid for by
P. M. Barrett	PGIM Financial Limited
H. C. Day	PGIM Financial Limited
D. Campbell	PGIM Private Capital Limited (a subsidiary of PGIM Financial Limited)
M. G. Fresson	PGIM European Services Limited (a subsidiary of Prudential Financial, Inc.)
S. L. Pollard	PGIM European Services Limited (a subsidiary of Prudential Financial, Inc.)
P. M. East	PGIM European Services Limited (a subsidiary of Prudential Financial, Inc.)
R. Greenwood	PGIM, Inc. (the parent company of PGIM Financial Limited)
A. Dyson	PGIM, Inc. (the parent company of PGIM Financial Limited)
S. Saperstein	PGIM, Inc. (the parent company of PGIM Financial Limited)
E. Samson	PGIM, Inc. (the parent company of PGIM Financial Limited)
M. L. Fioramonti	PGIM, Inc. (the parent company of PGIM Financial Limited)
K. D. LaPointe	PGIM, Inc. (the parent company of PGIM Financial Limited)
J. Muhlhauser	PGIM, Inc. (the parent company of PGIM Financial Limited)
A. M Rosenthal	PGIM, Inc. (the parent company of PGIM Financial Limited)

Notes to the Financial Statements (continued)

10 Finance income and expense

Group

	2019 £	2018 £
Finance income		
Interest income from Group undertakings	458,091	69,263
Realised gain on derivative contract	5,230,056	-
Unrealised gain on derivative contract	<u>3,551,640</u>	<u>-</u>
Total finance income	<u>9,239,787</u>	<u>69,263</u>
Finance expense		
Interest expense to third parties	-	(12,644)
Interest expense on leases	(239,510)	-
Bank charges	(35,505)	(35,858)
Loan interest payable to Group affiliates	(2,752,051)	(2,659,645)
Realised loss on derivative contract	-	(550,060)
Unrealised loss on derivative contract	<u>-</u>	<u>(127,556)</u>
Total finance expense	<u>(3,027,066)</u>	<u>(3,385,763)</u>
Net finance income/(expense)	<u>6,212,721</u>	<u>(3,316,500)</u>

Company

	2019 £	2018 £
Finance income		
Interest income from Group undertakings	386,554	4,442
Realised gain on derivative contract	5,230,056	-
Unrealised gain on derivative contract	<u>3,551,640</u>	<u>-</u>
Total finance income	<u>9,168,250</u>	<u>4,442</u>
Finance expense		
Interest expense on leases	(130,481)	-
Bank charges	(3,197)	(22,076)
Loan interest payable to Group affiliates	(391,338)	(1,448,730)
Realised loss on derivative contract	-	(550,060)
Unrealised loss on derivative contract	<u>-</u>	<u>(127,556)</u>
Total finance expense	<u>(525,016)</u>	<u>(2,148,422)</u>
Net finance income/(expense)	<u>8,643,234</u>	<u>(2,143,980)</u>

Notes to the Financial Statements (continued)

14 Tax expense

Tax charged/(credited) in the Income Statement

	2019 £	2018 £
Current taxation		
UK corporation tax	5,652,836	7,056,502
Double taxation relief	(188,508)	(220,654)
Overseas taxes	366,935	339,592
Total current income tax	<u>5,831,263</u>	<u>7,175,440</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(998,784)	48,055
Total deferred taxation	<u>(998,784)</u>	<u>48,055</u>
Tax expense in the Income Statement	<u>4,832,479</u>	<u>7,223,495</u>

No income tax is recognised in Other Comprehensive Income (2018: £nil).

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19.00% (2018 - 19.00%).

The differences are reconciled below:

	2019 £	2018 £
Profit before tax	<u>37,946,177</u>	<u>49,320,445</u>
Corporation tax at standard rate	7,130,868	9,305,030
Increase from effect of capital allowances depreciation	20,712	258,043
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	489,383	497,112
(Decrease) from effect of unrelieved tax losses carried forward	(914,989)	-
(Decrease) arising from group relief tax reconciliation	(45,762)	-
Increase arising from overseas tax suffered (expensed)	366,935	339,592
(Decrease) from effects of double taxation relief	(188,508)	(220,654)
Decrease from changes in pension fund prepayment	-	(409,795)
Disallowable share based payments	-	433,126
Allowable share based payments	(81,064)	(437,803)
(Decrease) from effect of unrelieved advance corporation tax carried forward	(1,248,948)	(2,541,157)
Allowable lease expenses	(113,431)	-
Losses carried forward	(582,717)	-
Total tax charge	<u>4,832,479</u>	<u>7,223,494</u>

The tax charge is stated after taking benefit for the Company's brought forward balance of Advance Corporation Tax ("ACT") of £1,248,948 (2018: £2,541,157). In the prior year ACT in the sum of £1,292,209 was utilised with the balance being covered by brought forward capital losses, leaving an amount of £1,248,948 still available for utilisation in the current year. The ACT is specific to the Company and cannot be utilised by other Group companies nor until the Company itself has absorbed all of its shadow ACT. As the utilisation of the ACT has now become sufficiently certain, the full amount is being recognised in the current year.

The Company's profits for this accounting year are taxed at a standard rate of 19.00%. During the previous year, the Company profits were taxed at rate of 19.00%.

Notes to the Financial Statements (continued)

11 Tax expense (continued)

The current tax payable as at 31 December 2019 recognised in the Consolidated Statement of Financial Position is £1,545,978 (2018: 3,731,582).

In the Spring Budget 2020, the Government announced that from 1 April 2020 the corporation tax rate would remain at 19.00% (rather than reducing to 17.00%, as previously enacted). This new law was substantively enacted on 17 March 2020. As the proposal to keep the rate at 19.00% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the statement of financial position date, would be to increase the tax expense for the period by £117,504 to £4,949,983. The total net deferred tax liability in the Statement of Financial Position as at 31 December 2019 would have increased by £233,292 to £2,216,270.

12 Property, plant and equipment

Group

	Office equipment, furniture and fittings £	Leasehold improvements £	Total £
Cost or valuation			
At 1 January 2018	3,632,905	5,087,541	8,720,446
Additions	<u>563,377</u>	<u>697,318</u>	<u>1,260,695</u>
At 31 December 2018	<u>4,196,282</u>	<u>5,784,859</u>	<u>9,981,141</u>
At 1 January 2019	4,196,282	5,784,859	9,981,141
Additions	<u>2,896,368</u>	<u>791,730</u>	<u>3,688,098</u>
At 31 December 2019	<u>7,092,650</u>	<u>6,576,589</u>	<u>13,669,239</u>
Accumulated depreciation			
At 1 January 2018	2,625,023	2,642,889	5,267,912
Charge for year	<u>659,908</u>	<u>598,437</u>	<u>1,258,345</u>
At 31 December 2018	<u>3,284,931</u>	<u>3,241,326</u>	<u>6,526,257</u>
At 1 January 2019	3,284,931	3,241,326	6,526,257
Charge for the year	<u>1,321,271</u>	<u>827,122</u>	<u>2,148,393</u>
At 31 December 2019	<u>4,606,202</u>	<u>4,068,448</u>	<u>8,674,650</u>
Net book value			
At 31 December 2019	<u>2,486,448</u>	<u>2,508,141</u>	<u>4,994,589</u>
At 31 December 2018	<u>911,351</u>	<u>2,543,533</u>	<u>3,454,884</u>
At 1 January 2018	<u>1,007,882</u>	<u>2,444,652</u>	<u>3,452,534</u>

Notes to the Financial Statements (continued)

12 Property, plant and equipment (continued)

Company	Office equipment, furniture and fittings £	Leasehold improvements £	Total £
Cost or valuation			
At 1 January 2018	3,005,656	4,252,636	7,258,292
Additions	<u>333,907</u>	<u>696,342</u>	<u>1,030,249</u>
At 31 December 2018	<u>3,339,563</u>	<u>4,948,978</u>	<u>8,288,541</u>
At 1 January 2019	3,339,563	4,948,978	8,288,541
Additions	<u>1,609,403</u>	<u>378,410</u>	<u>1,987,813</u>
At 31 December 2019	<u>4,948,966</u>	<u>5,327,388</u>	<u>10,276,354</u>
Accumulated depreciation			
At 1 January 2018	2,094,496	2,187,667	4,282,163
Charge for year	<u>503,754</u>	<u>484,380</u>	<u>988,134</u>
At 31 December 2018	<u>2,598,250</u>	<u>2,672,047</u>	<u>5,270,297</u>
At 1 January 2019	2,598,250	2,672,047	5,270,297
Charge for the year	<u>566,204</u>	<u>736,467</u>	<u>1,302,671</u>
At 31 December 2019	<u>3,164,454</u>	<u>3,408,514</u>	<u>6,572,968</u>
Net book value			
At 31 December 2019	<u>1,784,512</u>	<u>1,918,874</u>	<u>3,703,386</u>
At 31 December 2018	<u>741,313</u>	<u>2,276,931</u>	<u>3,018,244</u>
At 1 January 2018	<u>911,160</u>	<u>2,064,969</u>	<u>2,976,129</u>

Notes to the Financial Statements (continued)

13 Investments - Group

a) Financial assets at fair value through profit or loss

The Company classifies CLOs that do not qualify for measurement at either amortised cost or fair value through other comprehensive income (FVOCI) as financial assets at fair value through profit or loss (FVPL).

Non-current Assets

Analysis of movements:

	2019	2018
	£	£
Collateralised loan obligations		
As at 1 January	27,143,488	17,829,419
Additions	2,981,401	7,801,485
Movement in fair value due to foreign exchange (losses)/gains	(1,505,582)	257,960
(Losses)/gains on Financial assets at fair value through profit or loss	(3,282,637)	1,254,624
Other investments		
Other investments in funds	<u>129,087</u>	<u>-</u>
As at 31 December	<u>25,465,757</u>	<u>27,143,488</u>

Further to the £25.3m investments in CLOs classified as FVPL held by the Group, QMA Wadhvani LLP, a subsidiary of PGIM Financial Limited holds investments of £129,087 in the fund, Keynes Leveraged Quantitative Strategies Fund Limited, to which it provides investment management services.

Current Assets

Analysis of movements:

	2019	2018
	£	£
Warehouse		
As at 1 January	2,543,533	-
Additions	11,973,433	8,618,339
Disposals	(13,119,676)	(6,096,500)
Movement in fair value due to foreign exchange gains/(losses)	<u>278,867</u>	<u>21,694</u>
As at 31 December	<u>1,676,157</u>	<u>2,543,533</u>

During the year, the Group contributed £1.7m (€1.9m) towards its warehouse investment in Dryden 79 Euro CLO 2019 B.V.

b) Financial assets at amortised cost

The Group classifies its financial assets as at amortised cost only if both of the following criteria are met:

- the asset is held within a business model whose objective is to collect the contractual cash flows; and
- the contractual terms give rise to cash flows that are solely payments of principal and interest.

Notes to the Financial Statements (continued)

13 Investments - Group (continued)

Non-current Assets

Analysis of movements:

	2019	2018
	£	£
Collateralised loan obligations		
As at 1 January	271,140,654	199,586,662
Additions	66,850,661	118,612,284
Disposals	(34,431,000)	(49,949,750)
Repayment of financial assets	(3,909,244)	(299,195)
Movement in fair value due to foreign exchange rate	(15,248,060)	2,739,661
Realised gains on sale of investment	250,583	394,972
Amortisation charges	74,786	56,020
As at 31 December	<u>284,728,380</u>	<u>271,140,654</u>

For financial assets, a 12-month ECL model was used which calculated the estimated expected credit loss for the 12 months subsequent to the balance sheet date based on a probability weighted range of expected outcome. The expected credit loss was immaterial, which would have otherwise been recognised in profit or loss. Due to the waterfall structure in the CLOs, the sub tranches are effectively absorbing the credit loss on behalf of the tranches carried at amortised cost. The fair value of CLO instruments classified as financial assets at amortised cost at 31 December 2019 is £283,692,477 (2018: £267,029,962).

Notes to the Financial Statements (continued)

13 Investments - Group (continued)

Investments in Collateralised Loan Obligations

The Group has various investments in CLOs, which are classed as 'Structured Entities' as defined by International Financial Reporting Standard 12 - Disclosure of Interests in Other Entities ('IFRS 12'). The investments in the CLOs comprise loan notes of variable seniority secured on the CLO investments in various fixed income products, principally traded bank loans and bonds. The Group's interests have been acquired in accordance with the Risk Retention rules of Article 405 of the Capital Requirements Regulations (EU no 575/2015). Under the Risk Retention rules, the Group, as the Collateral Manager for the CLOs is required to co-invest alongside third party note holders and to hold its investment until the maturity of the notes or, in the event of prepayment of the notes, the date of final prepayment.

Additions

For the year ended 31 December 2019, the newly launched CLOs additions of £69.8m, (€79.8m EUR CLO) is made up of the purchase of new notes totalling £35.1m (€40.3m) in Dryden 69 Euro CLO 2018 B.V. and Dryden 73 Euro CLO 2018 B.V. also included in additions is an amount of £34.7m (€39.5) related to the purchase of new notes in Dryden 46 Euro CLO 2016 B.V. and Dryden 48 Euro CLO 206 B.V. following a reset/refinance in 2019.

For the year ended 31 December 2018, the newly launched CLOs additions of £126.4m (€123.8m EUR CLO and £16.5m GBP CLO) is made up of the purchase of new notes totalling £76.7m (€67.7m) in Dryden 59, Dryden 62, Dryden 63 and Dryden 66 also included in additions is an amount of £49.7m (€56.0m) related to the purchase of new notes in Dryden 29, Dryden 32 and Dryden 44 following a reset/refinance in 2018.

Disposals

For the year ended 31 December 2019, the disposals of £34.7m (€39.5m) reflects the notes repaid in Dryden 46 Euro CLO 2016 B.V. and Dryden 48 Euro CLO 2016 B.V. following the reset/refinance in June and October. Repayment of £3.6m (€4.3m) reflects the principal repayment of Class X, Class A-1a and Class A-1b tranches in Dryden 29 Euro CLO 2013 B.V., Dryden 32 Euro CLO 2014 B.V., Dryden 35 Euro CLO 2014 B.V. and Dryden 39 Euro CLO 2015 B.V. in 2019.

For the year ended 31 December 2018, the disposals of £49.9m (€56.3m) reflects the notes repaid in Dryden 29, Dryden 32 and Dryden 44 following the reset/refinance in January, July and August 2018. Repayment of £0.3m reflects repayment of Class X tranches in Dryden 29R and Dryden 39R.

Warehouse investment

For the year ended 31 December 2019, the Group contributed £12.0m towards its warehouse investment in Dryden 69 Euro CLO 2018 B.V. and Dryden 79 Euro CLO 2019 B.V. and also received £13.1m for the disposal of Dryden 69 Euro CLO 2018 B.V.

For the year ended 31 December 2018, the Group contributed £2.5m (€2.8m) towards its warehouse investment in Dryden 69 Euro CLO.

Notes to the Financial Statements (continued)

13 Investments - Group (continued)

Current contractual maturity of the loan notes and the maximum exposure to loss on the loan notes is as follows:

Non-current assets:	Maturity 2019	Carrying value 2019 / Maximum exposure to loss £	Maturity 2018	Carrying value 2018/ Maximum exposure to loss £
Dryden XXVII-R Euro CLO 2017 B.V.	2030	19,758,595	2030	21,197,485
Dryden 29 Euro CLO 2013 B.V.	2032	17,015,895	2026	18,306,185
Dryden 32 Euro CLO 2014 B.V.	2026	16,929,429	2026	18,149,515
Dryden 35 Euro CLO 2014 B.V.	2027	14,487,649	2027	19,498,843
Dryden 39 Euro CLO 2015 B.V.	2031	21,234,336	2031	22,710,717
Dryden 44 Euro CLO 2015 B.V.	2030	17,181,834	2030	18,369,087
Dryden 46 Euro CLO 2016 B.V.	2030	18,957,026	2030	20,455,842
Dryden 48 Euro CLO 2016 B.V.	2032	17,129,858	2031	18,017,967
Dryden 51 Euro CLO 2017 B.V.	2031	16,949,296	2031	18,081,808
Dryden 52 Euro CLO 2017 B.V.	2031	17,297,693	2031	18,525,762
Dryden 56 Euro CLO 2017 B.V.	2032	25,719,215	2032	27,700,156
Dryden 59 Euro CLO 2017 B.V.	2032	20,542,881	2032	21,768,667
Dryden 62 Euro CLO 2017 B.V.	2031	19,351,729	2031	20,910,503
Dryden 63 Euro CLO 2018 B.V.	2032	16,206,302	2032	16,284,677
Dryden 66 Euro CLO 2018 B.V.	2032	17,019,958	2032	18,306,929
Dryden 69 Euro CLO 2019 B.V.	2030	17,152,396		-
Dryden 73 Euro CLO 2019 B.V.	2034	17,130,957		-
		<u>310,065,049</u>		<u>298,284,143</u>

At 31 December the following Group balances relate to the Group's investments in CLOs.

	2019 £	2018 £
Carrying value of financial assets through profit or loss	25,336,670	27,143,488
Carrying value of financial assets at amortised cost	<u>284,728,380</u>	<u>271,140,655</u>
Total investments	<u>310,065,050</u>	<u>298,284,143</u>

Notes to the Financial Statements (continued)

13 Investments - Group (continued)

Maximum exposure to loss
The investment comprises loan notes independently rated as follows:
(Standard & Poor's / Moody's)

	2019	2018
	£	£
AAA / Aaa	182,805,550	174,609,610
AA+ / Aa1	-	2,423,481
AA / Aa2	36,451,394	32,964,875
A+ / A1	-	1,419,537
A / A2	20,956,807	18,032,443
BBB+ / Baa1	-	969,496
BBB / Baa2	11,606,576	11,081,814
BBB- / Baa3	5,737,796	3,917,961
BB / Ba2	16,057,655	14,491,444
BB- / Ba3	2,090,663	1,023,023
B+ / B1	1,203,300	1,271,001
B / B2	7,204,972	8,935,968
B- / B3	613,666	-
Not rated	25,336,670	27,143,490
Maximum exposure to loss	<u>310,065,049</u>	<u>298,284,143</u>

The investments in CLOs, and funding obtained by the Group from affiliates to purchase the investments, are denominated predominantly in Euros. Where Euro purchases have been only partially funded by Euro borrowing the Group is exposed to currency movements against the Group's functional currency, Pounds Sterling. As the exposures are considered material, the Group has utilised hedging strategies, principally forward currency contracts to mitigate the exposure. Please refer to note 16 for details.

14 Interests in unconsolidated structured entities

The Group invests in unconsolidated structured entities. Please refer to note 13 above for further details. The Group's exposure to these interests is detailed below.

	Financial investment (£m)	Total assets under management (£m)	Management fee income (£m)
2019 CLO	310.1	6,234	30.3
2018 CLO	298.3	5,723	29.1

The principal risks associated with the investments in CLOs arise from movements in currencies, interest rates associated with floating rate loan notes and fluctuations in the market values of loan notes prior to maturity.

In light of the current market volatility due to the Covid-19 pandemic, the Company has estimated the impact of the market volatility as disclosed in note 35. Disclosures relating to the financial risk management policies and procedures used by the Group are included in note 30.

As the collateral manager for the CLOs, the Company is entitled to receive collateral management fees and performance related incentive fees. Other than collateral management services, the Company has not provided and has no future intention of providing any financial or other support to the CLOs.

Notes to the Financial Statements (continued)

14 Interests in unconsolidated structured entities (continued)

Other interests in structured entities

The Group performs asset management services for a number of other unconsolidated structured entities comprising other CLOs and collective investment schemes in which it has no investment interest. The Group's exposure to loss from these interests relates solely to future management fees.

The Group does not act as sponsor to any structured entities. The total assets of structured entities managed by the Group and the fees earned there on, are included in the table below.

	Assets under management (£m)	Investment management fees earned (£m)
2019		
Collective investment schemes	4,218	23.7
Institutional investors	18,222	42.8
2018		
Collective investment schemes	3,501	16.4
Institutional investors	11,417	33.5

15 Investments in subsidiaries - Company

Summary of the Company investments

	Subsidiaries £	Other investments £	Total £
Cost or valuation			
At 1 January 2018	30,486,545	1	30,486,546
Additions	27,002,930	-	27,002,930
At 31 December 2018	57,489,475	1	57,489,476
At 1 January 2019	57,489,475	1	57,489,476
Reversal of impairment	4,704,735	-	4,704,735
Additions	57,269,342	-	57,269,342
Disposals	(5,751,000)	-	(5,751,000)
At 31 December 2019	113,712,552	1	113,712,553
Carrying amount			
At 31 December 2019	113,712,552	1	113,712,553
At 31 December 2018	57,489,475	1	57,489,476

On assessment of the Company's investment in PGIM Private Capital Limited (formerly known as Pricoa Capital Group Limited) it was determined that as the subsidiary had reported profits for several years and is expected to continue to do so going forward, the impairment of £4,704,735 (2018: £nil) previously recognised, could be reversed. This reversal of impairment has been recognised in the profit and loss and the carrying value of PGIM Private Capital Limited is now £10,251,000.

Notes to the Financial Statements (continued)

15 Investments in subsidiaries - Company (continued)

On 9 January 2019, PGIM Financial Limited ('PFL') wholly acquired Wadhvani Cayman Limited, the parent of Wadhvani Capital Limited ('WCL'). WCL was subsequently wholly acquired by PGIM Financial Limited and its parent Wadhvani Cayman Limited was dissolved on 30 December 2019. PFL has formed a partnership with its subsidiary WCL, to invest in QMA Wadhvani LLP ('QMA W'), previously known as Wadhvani Asset Management LLP. QMA W is a London based investment manager which invest in public equity, fixed income and currency markets across the globe, including separately managed accounts and open-ended mutual funds. The Company recognised an investment in subsidiary of £2.0m on the date of acquisition of the Wadhvani Group with an additional investment of £0.4m recognised on the dissolution of Wadhvani Cayman Limited and the formation of the partnership with WCL to invest in QMA W. Throughout 2019, PFL invested £12.0m of additional capital into the Wadhvani Group, in return for shares, to support the growth of this business.

On 25 March 2019, the Company also acquired 100% of the Ordinary share capital of PGIM Netherlands B.V. for £2.6m (€3.0m), an entity again established to support the ongoing European operations of the Group.

On 12 April 2019, PFL purchased 2,000,000 Ordinary shares of €1 each in Pricoa Capital Group (Ireland) Limited for a consideration of £1.7m (€2.0m), representing a 94.55% shareholding in the Company. This share purchase constituted the initial capital of Pricoa Capital Group (Ireland) Limited, an entity established to support the ongoing European operations of the Group, in the event of a "hard" Brexit.

On 31 December 2019, PFL increased its shareholding in PGIM Limited by 29,300,000 Ordinary shares at par for a value of £29.3m. On 15 October 2019, PFL also acquired 9,300,000 Ordinary shares in PGIM Real Estate (UK) Limited (formerly know as PGIM Fund Management Limited) at par for a value of £9.3m.

PFL reduced its shareholding in PGIM Private Capital Limited ('PPC') on 12 November 2019, as PPC bought back 5,751,000 Ordinary shares at par from PGIM Financial Limited at a value of £5.8m.

The Company has the following investments in its subsidiaries¹:

Name of legal entity	Country of incorporation	Class of shares held	Ownership 2019	2018
PGIM Limited	UK	£1 Ordinary	100%	100%
PGIM Private Capital Limited	UK	£1 Ordinary	100%	100%
PGIM Real Estate (UK) Limited	UK	£1 Ordinary	100%	100%
Pricoa Management Partner Limited	UK	£1 Ordinary	100%	100%
PGIM (Scots) Limited	UK ²	£1 Ordinary	100%	100%
Pramerica Real Estate Capital IV GP Ltd	UK	£1 Ordinary	100%	100%
PGIM Real Estate CD S.a.r.l	Luxembourg ³	€100 Ordinary	100%	100%
PGIM Management Partner Limited	UK	£1 Ordinary	100%	100%
German Retail Income General Partner Limited	Jersey ⁴	£1 Ordinary	100%	100%
Pramerica Fixed Income Funds Management Limited	Ireland ⁵	€1 Ordinary	100%	100%
Legos GP Limited	Jersey ⁴	£1 Ordinary	100%	50%
Pramerica PRECAP I GP LLP	UK	£1 Ordinary	50%	50%
Pramerica PRECAP II GP LLP	UK	£1 Ordinary	50%	50%
Pramerica PRECAP III GP LLP	UK	£1 Ordinary	50%	50%
Pramerica PRECAP IV GP LLP	UK	£1 Ordinary	50%	50%
Pramerica Real Estate Capital V (Netherlands) GP LLP	UK	£1 Ordinary	50%	50%

Notes to the Financial Statements (continued)

15 Investments in subsidiaries - Company (continued)

Name of legal entity	Country of incorporation	Class of shares held	Ownership 2019	2018
Pramerica General Partner LLP	UK	£1 Ordinary	50%	50%
Pramerica Europrisa Feeder GP LLP	UK	£1 Ordinary	50%	50%
Pramerica Real Estate Capital I GP (Scots Feeder) LLP	UK ²	£1 Ordinary	50%	50%
Pramerica Real Estate Capital IV GP (Scots Feeder) LLP	UK ²	£1 Ordinary	50%	50%
Pramerica (Scots) CP GP LLP	UK ²	£1 Ordinary	50%	50%
Sterling Private Placement Management LLP	UK	£1 Ordinary	50%	50%
PPPF General Partner LLP	UK	£1 Ordinary	50%	50%
Preco III GP LLP	UK	£1 Ordinary	50%	50%
Pramerica PRECAP VI GP (Scots Feeder) LLP	UK ²	£1 Ordinary	50%	50%
Pramerica PRECAP VI GP LLP	UK	£1 Ordinary	50%	50%
Pricoa Capital Group (Ireland) Ltd	Ireland ⁶	€1 Ordinary	100%	100%
Wadhvani Capital Limited	UK ⁷	£1 Ordinary	100%	0%
QMA Wadhvani LLP	UK ⁷	£1 Ordinary	50%	0%
PGIM Netherlands B.V.	Netherlands ⁸	€1 Ordinary	100%	100%

¹ All with Registered Office as: Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR, unless otherwise stated

² Registered Office: 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ

³ Registered Office: Boulevard de la Foire, L-1528 Luxembourg, Grand-Duché de Luxembourg

⁴ Registered Office: First Island House, Peter Street, St Helier, Jersey JE2 4SP Channel Islands

⁵ Registered Office: 70 Sir John Rogerson's Quay, Dublin, Ireland

⁶ Registered Office: Pramerica Drive, Letterkenny Business & Technology Park, Letterkenny, Ireland

⁷ Registered Office: 9th Floor, Orion House, 5 Upper St. Martin's Lane, London, England, WC2H 9EA

⁸ Registered Office: Noma House Offices, Gustav, Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands

16 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Group measures the fair value of an instrument using quoted prices from an orderly transaction in the principal market, or in the absence of a principal market, in the most advantageous market, for that instrument. The market for a financial instrument is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique considered appropriate by the Directors. The chosen valuation technique makes maximum use of observable inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Notes to the Financial Statements (continued)

16 Fair value of financial instruments (continued)

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques based on significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instrument.

Group investments

2019

	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Unconsolidated structured entities	-	-	25,336,670	25,336,670
Warehouse investments	-	-	1,676,157	1,676,157
Other investments	129,087	-	-	129,087
Total	129,087	-	27,012,827	27,141,914

2018

	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss				
Unconsolidated structured entities	-	-	27,143,488	27,143,488
Warehouse investments	2,543,533	-	-	2,543,533
Total	2,543,533	-	27,143,488	29,687,021

Group and Company derivative financial instruments

2019

	Level 1 £	Level 2 £	Level 3 £	Total £
Fair value through (profit)/ loss				
Derivative forward contract	-	(3,197,488)	-	(3,197,488)
Total	-	(3,197,488)	-	(3,197,488)

2018

Notes to the Financial Statements (continued)

16 Fair value of financial instruments (continued)

	Level 1 £	Level 2 £	Level 3 £	Total £
Fair value through (profit)/ loss				
Derivative forward contract	-	359,518	-	359,518
Total	-	359,518	-	359,518

Derivative financial instruments are forward foreign exchange contracts undertaken to hedge principally Euro currency exposures. At the period end the Group had 3 foreign exchange contracts in place with different maturity dates. The foreign currency exposures of the Group are monitored on an ongoing basis and where necessary the value of the foreign exchange contracts adjusted. Any foreign exchange gains or losses are recognised in the profit and loss accounts.

Level 3 roll forward table for unconsolidated structured entities

	2019 £	2018 £
Opening balance 1 January	27,143,488	17,829,419
Acquisitions	2,981,401	7,801,485
Movement in fair value due to foreign exchange rate	(1,505,582)	257,960
Financial (liabilities)/assets at fair value to profit or loss	(3,282,637)	1,254,624
Closing balance 31 December	25,336,670	27,143,488

Valuation inputs and relationships to fair value

2019

Description	Fair value at 2019 £	Unobservable input	Range of input (probability weighted average)	Relationship of unobservable input to fair value
Unconsolidated structured entities	25,336,670	Tranche value	53.00-94.50 (75.98)	An increase in the input would lead to an increase in the fair value.

2018

Description	Fair value at 2018 £	Unobservable input	Range of input (probability weighted average)	Relationship of unobservable input to fair value
Unconsolidated structured entities	27,143,488	Tranche value	71.00-106.00 (85.85)	An increase in the input would lead to an increase in the fair value.

Notes to the Financial Statements (continued)

17 Deferred tax (liabilities)/assets

Deferred tax

Group

Recognised deferred tax (liabilities)/assets

Deferred tax (liabilities)/assets are attributable to the following:

2019	Asset £	Liability £	Net deferred tax £
Disallowed share based payments	95,412	777,591	873,003
Accelerated tax depreciation	46,206	(69,127)	(22,921)
Amortisation	-	(3,529,209)	(3,529,209)
Tax losses carry-forwards	582,718	-	582,718
Leases	33,367	80,064	113,431
	<u>757,703</u>	<u>(2,740,681)</u>	<u>(1,982,978)</u>

2018	Asset £
Disallowed share based payments	973,150
Accelerated tax depreciation	51,645
Amortisation	-
Tax losses carry-forwards	-
Leases	-
	<u>1,024,795</u>

Deferred tax movement during the year:

	At 1 January 2019 £	Recognised in income £	Recognised on acquisition £	At 31 December 2019 £
Disallowed share based payments	973,150	(100,147)	-	873,003
Accelerated tax depreciation	51,645	(74,566)	-	(22,921)
Amortisation	-	477,348	(4,006,557)	(3,529,209)
Tax losses carry-forwards	-	582,718	-	582,718
Leases	-	113,431	-	113,431
Net tax assets/(liabilities)	<u>1,024,795</u>	<u>998,784</u>	<u>(4,006,557)</u>	<u>(1,982,978)</u>

Notes to the Financial Statements (continued)

17 Deferred tax (liabilities)/assets (continued)

Deferred tax movement during the prior year:

	At 1 January 2018 £	Recognised in income £	At 31 December 2018 £
Disallowed share based payments	844,995	128,155	973,150
Accelerated tax depreciation	227,855	(176,210)	51,645
Amortisation	-	-	-
Tax losses carry-forwards	-	-	-
Leases	-	-	-
Net tax assets/(liabilities)	<u>1,072,850</u>	<u>(48,055)</u>	<u>1,024,795</u>

Company

Recognised deferred tax liabilities

Deferred tax liabilities are attributable to the following:

2019	Liability £
Disallowed share based payments	777,591
Accelerated tax depreciation	(69,127)
Amortisation	(3,529,209)
Leases	96,959
	<u>(2,723,786)</u>

Deferred tax movement during the year:

	At 1 January 2019 £	Recognised in income £	Recognised on acquisition £	At 31 December 2019 £
Disallowed share based payments	843,709	(66,118)	-	777,591
Accelerated tax depreciation	24,150	(93,277)	-	(69,127)
Amortisation	-	477,348	(4,006,557)	(3,529,209)
Leases	-	96,959	-	96,959
Net tax assets/(liabilities)	<u>867,859</u>	<u>414,912</u>	<u>(4,006,557)</u>	<u>(2,723,786)</u>

Deferred tax movement during the prior year:

	At 1 January 2018 £	At 31 December 2018 £
Disallowed share based payments	715,258	715,258
Accelerated tax depreciation	231,881	231,881
Amortisation	-	-
Leases	-	-
Net tax assets/(liabilities)	<u>947,139</u>	<u>947,139</u>

Notes to the Financial Statements (continued)

18 Right-of-use assets

Group

	Property £	Total £
Cost or valuation		
At 31 December 2018	-	-
Effect of adoption of IFRS 16: Leases	<u>7,982,320</u>	<u>7,982,320</u>
At 1 January 2019	<u>7,982,320</u>	<u>7,982,320</u>
Additions	4,426,740	4,426,740
At 31 December 2019	<u>12,409,060</u>	<u>12,409,060</u>
Depreciation		
At 31 December 2018	-	-
At 1 January 2019	-	-
Charge for the year	(2,756,531)	(2,756,531)
Eliminated on disposal	<u>-</u>	<u>-</u>
At 31 December 2019	<u>(2,756,531)</u>	<u>(2,756,531)</u>
Carrying amount		
At 31 December 2019	<u>9,652,529</u>	<u>9,652,529</u>
At 31 December 2018	<u>-</u>	<u>-</u>

Company

	Property £	Total £
Cost or valuation		
At 31 December 2018	-	-
Effect of adoption of IFRS 16: Leases	<u>5,353,324</u>	<u>5,353,324</u>
At 1 January 2019	<u>5,353,324</u>	<u>5,353,324</u>
Additions	1,834,967	1,834,967
At 31 December 2019	<u>7,188,291</u>	<u>7,188,291</u>
Depreciation		
At 31 December 2018	-	-
Charge for the year	(1,828,492)	(1,828,492)
At 31 December 2019	<u>(1,828,492)</u>	<u>(1,828,492)</u>
Carrying amount		
At 31 December 2019	<u>5,359,799</u>	<u>5,359,799</u>
At 31 December 2018	<u>-</u>	<u>-</u>

Following the introduction of IFRS 16, effective 1 January 2019, the Group has recognised Right-of-use assets for the first time in respect of the present value of the lease payments of the relevant leases held by the Group. This constitutes a change in accounting policy as these leases were previously recognised as operational leases, with the annual leases payments being recorded directly in the Income Statement.

Notes to the Financial Statements (continued)

19 Intangible assets

Group and Company

	Goodwill £	Trade name £	Contractual customer relationships £	Proprietary technology £	Total £
Cost or valuation					
At 1 January 2019	-	-	-	-	-
Acquisition (note 20)	<u>16,428,003</u>	<u>628,141</u>	<u>18,412,376</u>	<u>4,318,468</u>	<u>39,786,988</u>
At 31 December 2019	<u>16,428,003</u>	<u>628,141</u>	<u>18,412,376</u>	<u>4,318,468</u>	<u>39,786,988</u>
Amortisation					
Amortisation charge	-	153,782	392,143	845,799	1,391,724
Impairment charge	-	-	<u>1,207,208</u>	-	<u>1,207,208</u>
At 31 December 2019	-	<u>153,782</u>	<u>1,599,351</u>	<u>845,799</u>	<u>2,598,932</u>
Carrying amount					
At 31 December 2019	<u><u>16,428,003</u></u>	<u><u>474,359</u></u>	<u><u>16,813,025</u></u>	<u><u>3,472,669</u></u>	<u><u>37,188,056</u></u>

On 9 January 2019, PFL wholly acquired Wadhvani Cayman Limited, the parent of Wadhvani Capital Limited, refer to note 15. On the acquisition of the Wadhvani Group, the Company recognised the following intangible assets:

- Goodwill of £16,428,003, calculated as the difference between the consideration paid and the net assets acquired;
- An intangible asset of £628,141 in respect of the trade name;
- Intangible assets of contractual customer relationships of £18,412,376, and
- An intangible asset of £4,318,468 in respect of proprietary technology.

Amortisation

Contractual customer relationship include intangible assets with definite and indefinite lives.

On 9 January 2019, PFL wholly acquired Wadhvani Cayman Limited, the parent of Wadhvani Capital Limited, refer to note 15. As a result of this acquisition the Company recognised £15,703,519 in respect of customer relationships with indefinite lives. These relationships were deemed to have an indefinite life as the underlying funds are open ended and there is no contractual liquidation date of the funds nor is there any intention to wind down the existing funds. The carrying value of the customer relationships with indefinite lives was £15,703,519 at the reporting date.

Customer relationships with initial values of £1,413,317 and £1,295,540 were recognised and will be amortised over a useful economic life of 5 and 11 years respectively, with the useful economic lives calculated on the basis of the probability of the mandates being renewed. Following the termination of a contractual customer relationship, the intangible asset recognised in respect of that relationship was written off and £1,207,208 recognised as impairment in the profit and loss account.

The intangible asset in respect of the trade name is being amortised over 5 years, calculated by reference to duration of retention and earn-out payments to be made to senior management, and the intangible asset of £4,318,468 recognised in respect of proprietary technology is being amortised over an estimated useful economic life of 5 years.

Impairment

As per IAS 36 intangible assets with an indefinite useful life and intangible assets which are not yet available for use must be tested annually for impairment irrespective of whether there is any indication of impairment. An impairment test is required additionally if there are indicators of impairment, which would trigger an immediate review. An example of such an indicator would be the fall in value of an asset during the reporting period. Impairment losses are recognised in the profit and loss account.

Notes to the Financial Statements (continued)

19 Intangible assets (continued)

If an intangible asset is recognised initially during the reporting period, it must be tested for impairment at the end of that reporting period. Following the discontinuation of a contractual customer relationship, recognised separately on acquisition, the Company fully impaired the intangible asset at its carrying value of £1,207,208.

Goodwill

On 9 January 2019 the Company purchased 100% of Wadhvani Cayman Limited for a purchase consideration of £37,758,637. In accordance with IFRS 3 Business Combinations, as a result of the acquisition, the Company undertook an exercise to determine the fair value of the assets of the Wadhvani companies. The assessment concluded that the fair value of assets to be £21,330,634 and the goodwill to be £16,428,003, goodwill being recognised as the excess of consideration paid over net assets acquired.

Under IAS 36 para 10, goodwill should be tested annually for impairment. An impairment review must be performed in the first year in which the goodwill is recognised and impairment should be assessed at the Cash Generating Unit level, or the lowest level of independent cash flows. The goodwill impairment assessment performed at the year end concluded that the goodwill was not impaired.

20 Acquisition of subsidiary

On 9 January 2019, PGIM Financial Limited acquired 100% of the shares and voting interests in Wadhvani Cayman Limited and its subsidiary Wadhvani Capital Limited. Wadhvani Capital Limited and Wadhvani Cayman Limited between them held 100% interest in QMA Wadhvani LLP (formerly known as Wadhvani Asset Management LLP) which was also acquired as part of the acquisition. The fair value of the shares and voting interests acquired in Wadhvani Cayman Limited and its subsidiaries was determined by reference to the expected future earnings of the entities and the total consideration paid in respect of the acquisition was £37,758,637.

Consideration transferred

	Note	£
Cash		16,997,092
Contingent consideration	20.1	14,897,000
Management fee earnout	20.2	4,588,000
Performance fee earnout	20.2	24,000
Tax equalisation	20.3	752,545
Retention pool	20.4	<u>500,000</u>
Total consideration		<u>37,758,637</u>

- (1) The Company agreed to pay the selling shareholders additional consideration contingent on certain cumulative profit and AUM targets being achieved as detailed in Sale and Purchase Agreement.
- (2) Management fee earn-outs and performance fee earn-outs are variable amounts that will be paid for each of the five successive twelve month periods. They are also dependent of certain key employees being continually employed in the first three years. The management and performance fee earnouts of £4.5m and £0.02m respectively relate to years 4 and 5 of the earnout period and are revalued at each reporting date. As years 1-3 of the earnout consideration are contingent upon employment, they are not held as a liability at fair value as part of consideration, but rather expensed through the profit and loss account as remuneration.
- (3) In the event that any management fee earn-out or performance fee earn-out consideration will be accounted for as employment income the Company and sellers have agreed to evenly share the additional tax costs incurred.
- (4) The retention pool payments are arrangements for contingent payment to employees. The underlying condition is the continued employment of the employees, and payments are automatically forfeited if employment terminates.

Notes to the Financial Statements (continued)

20 Acquisition of subsidiary (continued)

The fair value of the net assets acquired as at 9 January 2019 was as follows:

Net assets acquired	£
Trade and other receivables	1,027,343
Cash	1,485,325
Property and equipment	108,378
Other non-current assets	429,370
Total assets	<u>3,050,416</u>
Trade and other payables	<u>(1,072,210)</u>
Net identifiable assets acquired	1,978,206
Customer relationships	18,412,376
Proprietary technology	4,318,468
Trade name	628,141
Deferred tax liability	<u>(4,006,557)</u>
Net assets acquired	21,330,634
Goodwill	16,428,003
Consideration transferred	<u>37,758,637</u>

Goodwill arising on acquisition

PGIM Financial Limited recognised goodwill of £16,428,003 on the acquisition of Wadhvani, representing the difference between consideration paid and the fair value of net tangible and intangible assets recognised on acquisition, which will bolster PGIM's alternative investment strategies and are expected to benefit the QMA division of the wider PGIM Group.

The goodwill was tested for impairment at the year end and on the basis of the synergies resulting from the acquisition benefiting the wider QMA business division, no impairment of goodwill was recognised.

Acquisition costs

Acquisition related costs are costs incurred to effect a business combination. The Company recorded costs of £657,720 as expenses.

Post-acquisition

Contingent consideration recognised on acquisition was based on certain performance targets being met at 30 June 2019. The performance targets were not met and subsequently contingent consideration of £10,528,042 was released to the profit and loss account. As at 31 December 2019, the balance of contingent consideration due was £4,368,958.

Following the acquisition, Wadhvani Cayman Limited was dissolved on 30 December 2019. Following the dissolution and as at 31 December 2019, PGIM Financial Limited owns 100% of the share Capital of Wadhvani Capital Limited who in turn are 47.0% partners in QMA Wadhvani LLP with PGIM Financial Limited owning the other 53.0% interest.

QMA W contributed revenue of £7,053,284 to the Group results, but suffered a loss of £8,215,439 in 2019, due mainly to retention payments and integration costs, however, with the support of QMA and QMA's distribution network, the members are optimistic about the future growth in AUM.

Notes to the Financial Statements (continued)

20 Acquisition of subsidiary (continued)

		Opening Balance 9 January 2019	Movement during the year	Closing Balance 31 December 2019
	Note	£	£	£
Cash		16,997,092	-	16,997,092
Contingent consideration	20.1	14,897,000	(10,528,042)	4,368,958
Management fee earnout	20.2	4,588,000	235,865	4,823,865
Performance fee earnout	20.2	24,000	(3,000)	21,000
Tax equalisation	20.3	752,545	-	752,545
Retention pool	20.4	500,000	4,685,048	5,185,048
Total consideration		37,758,637	(5,610,129)	32,148,508

The contingent consideration recognised on the acquisition of the Wadhvani group was contingent on certain performance targets being met by June 2019. When the performance targets were not met, part of the contingent consideration was released to the profit and loss account of the Company. The movement in assets acquired was offset by the recognition of a retention bonus accrual, which was charged to the profit and loss account during the year.

21 Trade and other receivables

	Group		Company	
	2019	2018	2019	2018
Current	£	£	£	£
Trade receivables	6,695,806	2,410,056	256,778	259,530
Receivables from Group related undertakings	9,479,651	21,690,992	9,403,948	111,272,554
Receivables from related parties	11,949,984	10,173,771	-	-
Accrued income	12,431,971	9,089,934	-	-
Prepayments	2,406,826	1,475,815	1,692,566	1,226,839
Other receivables	5,004,339	2,082,865	2,437,946	1,881,744
	47,968,577	46,923,433	13,791,238	114,640,667
Non-current				
Receivables from Group related undertakings	314,928	-	74,563,633	3,000,000

Amounts included within amounts due from Group related undertakings are interest free, unsecured and repayable on demand. Included in the Company receivables is an amount of £74,563,633 (2018: £3,000,000) due from PGIM Limited (PGIML), a wholly owned subsidiary of the Company, which represents a subordinated loan to PGIML and which forms part of the regulatory capital of PGIML.

The Group has not suffered any losses as a result of trade debtor or counterparty defaults during the year (2018:£ nil). The Group applies the IFRS 9 simplified approach to measuring expected credit losses ("ECL") which uses a lifetime expected loss allowance for all trade and other receivables. The Group did not recognise a loss allowance during the year in respect of its receivables (2018: £nil).

22 Cash and cash equivalents

	Group		Company	
	2019	2018	2019	2018
	£	£	£	£
Cash	34,484,753	78,681,480	18,310,460	29,459,239
Short-term deposits	74,967,618	-	74,967,618	-
	109,452,371	78,681,480	93,278,078	29,459,239

Notes to the Financial Statements (continued)

22 Cash and cash equivalents (continued)

The Group's approach to managing credit risk is to hold cash with large, systemically important banks and to monitor and arrange settlement of receivable balances and non-affiliated balances with third parties on a timely basis. The term deposits held by the Group are short-term deposits, for no more than 35 days. The Group does not therefore consider credit risk to be material.

23 Trade and other payables

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Current				
Amounts owed to Group related undertakings	11,467,219	6,296,994	65,711,428	50,072,863
Trade payables	24,891	238,992	-	48,326
Other payables	3,126,565	1,132,691	2,631,592	242,485
Non-trade payables and accrued expenses	57,098,997	45,179,021	49,076,806	38,878,808
Loan interest payable to Group related undertakings	298,947	519,794	-	190,887
	<u>72,016,619</u>	<u>53,367,492</u>	<u>117,419,826</u>	<u>89,433,369</u>
Non-current				
Non-trade payables and accrued expenses	<u>19,235,925</u>	<u>7,036,717</u>	<u>19,235,925</u>	<u>7,036,717</u>

The amounts owed to Group related undertakings are interest free, unsecured and repayable on demand.

24 Loans and borrowings

	Group		Company	
	2019 £	2018 £	2019 £	2018 £
Current loans and borrowings				
Other borrowings	<u>30,503,305</u>	<u>-</u>	<u>-</u>	<u>-</u>

The current loan and borrowings of £30.5m (€36.0m) relate to a loan received by PGIM Limited, a subsidiary of PGIM Financial Limited, from PGIM Foreign Investments Inc. with an interest rate of 0.1157% and maturity in July 2020. This loan was contracted by PGIM Limited to fund investments in CLOs.

Group

2019 Lender	Loan amount €	Loan amount £	Maturity	Interest rate
Non-current				
PGIM Foreign Investments Inc.	1,505,597	1,275,714	March 2026	1.3099%
PGIM Foreign Investments Inc.	11,254,897	9,536,432	January 2026	1.2933%
PGIM Foreign Investments Inc.	30,000,000	25,419,420	December 2025	1.3520%
PGIM Foreign Investments Inc.	26,000,000	22,030,165	December 2023	0.9680%
PGIM Foreign Investments Inc.	19,028,738	16,123,316	March 2026	1.3094%
PGIM Foreign Investments Inc.	28,050,353	23,767,457	December 2030	1.8456%

Notes to the Financial Statements (continued)

24 Loans and borrowings (continued)

PGIM Foreign Investments Inc.	15,025,818	12,731,586	December 2031	1.9089%
PGIM Foreign Investments Inc.	41,080,123	34,807,764	September 2031	1.8971%
	<u>171,945,526</u>	<u>145,691,854</u>		

Notes to the Financial Statements (continued)

24 Loans and borrowings (continued)

Company

2019

No loans are held by the Company at year end following repayment of loans of £8.3m and £13.5m (€15.0m) to Prametrica (Hong Kong) Holdings Limited (2018: £21,763,782).

Company	2018	Lender	Loan amount		Maturity	Interest rate	
			€	£			
PGIM Foreign Investments Inc.	2018	Lender	222,945,526	208,412,671			
			PGIM Foreign Investments Inc.	41,080,123	36,872,923	September 2031	1.8971%
			PGIM Foreign Investments Inc.	15,025,818	13,486,956	December 2031	1.9089%
			PGIM Foreign Investments Inc.	28,050,353	25,177,590	December 2030	1.8456%
			PGIM Foreign Investments Inc.	19,028,738	17,079,919	March 2026	1.3094%
			PGIM Foreign Investments Inc.	36,000,000	32,313,079	July 2026	0.1157%
			PGIM Foreign Investments Inc.	26,000,000	23,337,223	December 2023	0.9680%
			PGIM Foreign Investments Inc.	30,000,000	26,927,565	December 2025	1.3520%
			PGIM Foreign Investments Inc.	11,254,897	10,102,232	January 2026	1.2933%
			PGIM Foreign Investments Inc.	1,505,597	1,351,402	March 2026	1.3099%
			PGIM Foreign Investments Inc.	-	8,300,000	June 2022	3.1212%
			PGIM Foreign Investments Inc.	15,000,000	13,463,782	December 2031	1.5888%
			PGIM Foreign Investments Inc.	15,000,000	13,463,782	December 2031	1.5888%
			PGIM Foreign Investments Inc.	15,000,000	21,763,782	June 2022	3.1212%

Non-current amounts owed to related parties includes long term debts owed to affiliated companies borrowed to fund the acquisition of CLO investments. The maturity and interest rate of those loans is shown above. Interest on the borrowing will be paid on a quarterly or annual basis while the loan amount will be paid at maturity.

Notes to the Financial Statements (continued)

25 Share-based payments

Prudential Financial Inc's Omnibus Incentive Plan

The Group's equity settled share based payment plan consists entirely of Prudential Financial, Inc.'s Omnibus Incentive Plan ('Omnibus Plan') which was adopted by the Board of Directors of Prudential Financial, Inc in March 2003, and subsequently amended and restated in November 2008. Under the Omnibus Plan, eligible employees may be awarded a combination of restricted stock units and stock options which vest over a 3-year period and are exercisable over a 10-year period. A summary of the status of the Company and Group's option grants for the years ended 31 December 2019 and 2018 is as follows:

Group

	Number of stock options	
	2019	2018
Outstanding at 1 January	10,718	14,056
Granted during the period	5,691	3,143
Exercised during the period	<u>(3,786)</u>	<u>(6,481)</u>
Outstanding at 31 December	<u>12,623</u>	<u>10,718</u>

The movements in the weighted average exercise price of share options during the year were as follows:

	Weighted average exercise price	
	2019 £	2018 £
Outstanding at 1 January	70.76	59.45
Granted during the period	72.44	76.95
Exercised during the period	48.69	49.22
Outstanding at 31 December	<u>78.40</u>	<u>70.76</u>
Weighted average remaining contractual life (years)	<u>8.3</u>	<u>8.1</u>

The range of exercise prices for options outstanding for the Group at 31 December 2019 was £72.44 to £88.60 (2018: £47.83 to £88.60). The Group recorded £104,751 (2018: £60,150) in share based compensation related to stock options during the year ended 31 December 2019.

Company

	Number of stock options	
	2019	2018
Outstanding at 1 January	10,718	14,056
Granted during the period	5,691	3,143
Exercised during the period	<u>(3,786)</u>	<u>(6,481)</u>
Outstanding at 31 December	<u>12,623</u>	<u>10,718</u>

The movements in the weighted average exercise price of share options during the year were as follows:

Notes to the Financial Statements (continued)

25 Share-based payments (continued)

	Weighted average exercise price	
	2019	2018
	£	£
Outstanding at 1 January	70.76	59.45
Granted during the period	72.44	76.95
Exercised during the period	48.69	49.22
Outstanding, end of period	78.40	70.76
Weighted average remaining contractual life (years)	8.3	8.1

The range of exercise prices for options outstanding for the Company at 31 December 2019 was £72.44 to 88.60 (2018: £47.83 to £88.60). The Company recorded £104,751 (2018: £60,150) in share based compensation related to stock options during the year ended 31 December 2019.

The weighted average grant date fair value of stock options granted during the years ended 31 December 2019 and 2018 were £15.69, and £20.33, respectively. The options are valued using a binomial option pricing model on the date of grant. The weighted average grant date assumptions used in the binomial option valuation model are detailed in the table below, components of which take into consideration the worldwide workforce of Prudential Financial, Inc.

	2019	2018
Expected volatility (%)	34.63	35.39
Expected dividends, expressed as a dividend yield (%)	4.26	2.64
Expected life of option in practice in years	5.54	5.49
Risk-free interest rate (%)	2.50	2.64

Expected volatilities are based on historical volatility of PFI's common stock and implied volatilities from traded options on PFI's common stock. Historical data and expectations of future exercise patterns to estimate option exercises and employee terminations are used within the valuation model. The expected dividend yield is based on the current expected annual dividend and share price on the grant date. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Notes to the Financial Statements (continued)

25 Share-based payments (continued)

Restricted stock units

A restricted stock unit is an unfunded, unsecured right to receive a share of common stock at the end of a specified period of time, which is also subject to forfeiture and transfer restrictions. The restrictions on restricted stock units will lapse on the third anniversary of the date of grant. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals.

The following table summarises restricted stock award activity for the year ended 31 December 2019:

Non-vested shares	Number of shares	
	Group	Company
Outstanding at 1 January 2018	100,335	80,858
Granted during the period	42,586	37,150
Vested during the period	(28,786)	(23,673)
Forfeited during the period	(5,049)	(5,049)
Outstanding at 31 December 2018	109,086	89,286
Outstanding at 1 January	109,086	89,286
Granted during the period	49,766	42,144
Vested during the period	(49,131)	(39,417)
Forfeited during the period	(11,852)	(9,489)
Adjusted during the period	939	939
Outstanding at 31 December 2019	98,808	83,463

The movements in the weighted average exercise price of restricted stock during the year were as follows:

Non-vested shares	Weighted average grant-date fair value	
	Group	Company
Outstanding at 1 January 2018	60.19	60.91
Granted during the period	74.36	73.99
Vested during the period	51.19	51.20
Transfers	0.00	0.00
Forfeited during the period	67.39	67.39
Exercised during the period	0.00	0.00
Outstanding at 31 December 2018	68.46	64.79
Granted during the period	72.56	72.58
Vested during the period	50.42	49.92
Forfeited during the period	76.81	76.91
Adjusted during the period	80.01	80.01
Outstanding at 31 December 2019	78.32	78.22

The Group recorded an expense of £2,554,369 (Company of £2,361,555) (2018: £2,606,028 (Company of £2,160,012)) in share-based payments, related to restricted stock units, during the year ended 31 December 2019.

Performance awards

A performance award is similar to a restricted stock unit, an unfunded, unsecured right to receive a share of common stock at the end of a specified period of time, which is also subject to forfeiture and transfer restrictions. The restrictions on restricted stock units will lapse on the third anniversary of the date of grant. The number of units is determined over the performance period, and may be adjusted based on the satisfaction of certain performance goals.

The following table summarises restricted stock award activity for the year ended 31 December 2019:

Notes to the Financial Statements (continued)

25 Share-based payments (continued)

	Number of shares	
	Group	Company
Non-vested shares		
Outstanding at 1 January 2018	10,016	10,016
Granted during the period	2,870	2,870
Vested during the period	(3,224)	(3,224)
Transfers	304	304
Outstanding at 31 December 2018	9,966	9,966
Granted during the period	8,056	8,056
Vested during the period	(4,273)	(4,273)
Adjusted during the period	5,840	-
Outstanding at 31 December 2019	19,589	13,749

The movements in the weighted average exercise price of share options during the year were as follows:

	Weighted average grant-date fair value	
	Group	Company
Non-vested shares		
Outstanding at 1 January 2018	61.00	61.00
Vested during the period	51.19	51.19
Transfers	51	51
Granted during the period	76.95	76.95
Outstanding at 31 December 2018	68.47	68.47
Granted during the period	72.44	72.44
Vested during the period	43.87	43.87
Exercised during the period	66.57	66.57
Outstanding at 31 December 2019	69.21	69.21

The Group recorded an expense of £437,933 (Company of £437,933) (2018: £219,591 (Company of £219,591)) in share-based payments, related to performance awards, during the year ended 31 December 2019.

26 Pension and other schemes

The Group participates in the Pramerica UK Retirement Savings Plan in which there is a defined benefit plan and a defined contribution plan.

The defined benefit plan was closed to new members in 2001 and closed to new contributions in 2011. The Group is unable to identify its share of underlying assets and liabilities in the plan and has accounted for it as if the plan were a defined contribution scheme. Accounting for the assets and liabilities of the plan is included in the financial statements of PGIM European Services Limited, an affiliate of the Group and the Principal Employer for the plan. There is no requirement under the contribution timetable for the Company to make any further contributions to the defined benefit plan (2018: £nil).

The Group contributes to a defined contribution scheme. The total expense relating to this plan in the current year was £3,182,286 (Company of £2,737,422) (2018: £2,555,680, (Company of £2,296,698).

Notes to the Financial Statements (continued)

27 Provisions

Non-current

Group

	Dilapidation 2019	Dilapidation 2018
	£	£
As at 1 January	251,403	165,152
Charge in the year	99,998	86,251
Total provisions at 31 December	351,401	251,403

Company

	Dilapidation 2019	Dilapidation 2018
	£	£
As at 1 January	197,117	118,270
Charge in the year	86,276	78,847
Total provisions at 31 December	283,393	197,117

The Group has leases signed for Grand Building and London Bridge, and the Upper St. Martin's Lane offices, and a dilapidation provision has been estimated to make right any changes made to the office space during the tenancies.

28 Share capital

Group and Company

Allotted, called up and fully paid shares

	No.	2019 £	No.	2018 £
Ordinary shares of £1 each	96,943,356	96,943,356	43,760,256	43,760,256

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

New shares allotted

During the year ended 31 December 2019, 53,183,100 Ordinary shares having an aggregate nominal value of £1 were allotted for an aggregate consideration of £53,183,100.

29 Other reserves

Group

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations where their functional currency is not GBP. This is a non-distributable reserve.

Notes to the Financial Statements (continued)

29 Other reserves (continued)

	2019 £	2018 £
At 1 January	11,078	(21,404)
Foreign currency translation differences – foreign operations	(295,295)	32,482
Realised losses on foreign currency translation reserve (note 6)	152,497	-
At 31 December	<u>(131,720)</u>	<u>11,078</u>

Notes to the Financial Statements (continued)

29 Other reserves (continued)

Company

Capital contribution reserve

The capital contribution reserve represents an irrevocable gift to the Company from PGIM, Inc. and is a distributable reserve.

	2019	2018
	£	£
At 31 December	154,110	154,110

30 Financial risk management - Group and Company

The Group has exposure to credit risk, liquidity risk and market risk from financial instruments. This note presents information about the Group's exposure to each of these risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework and for developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

In light of the current market turmoil caused by the Covid-19 pandemic and the lockdowns implemented in the UK and other jurisdictions in which entities of the Group operate, the internal controls and procedures embedded in the risk management framework, have been reviewed to ensure that all controls continue to perform as expected.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The governance of the Group has been augmented with more frequent Management and Board meetings to ensure the ongoing market and operational impacts of the Covid-19 crisis are being monitored and where necessary, appropriate actions taken.

The ultimate parent's Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee of the ultimate parent.

Credit risk

Credit risk is the risk of a counterparty of the Group defaulting on funds deposited with it or the non-receipt of a trade debt.

The Group regularly monitors and reviews its credit risk. The Group's most significant credit risk arises on its investment in CLOs. The Company holds senior, junior and subordinated loan notes in CLOs and is exposed to the risk of partial or non-repayment of those notes on maturity. The senior and junior notes in those CLOs are independently rated (as outlined in note 13). Furthermore, the Group is the collateral manager of the CLOs in which it invests and is therefore able to adequately monitor those investments for impairments. A 12 month ECL model is used to calculate the estimated expected credit loss on all CLOs accounted for as Fair Value assets at material cost for the 12 months subsequent to the Balance sheet date.

As at 31 December 2019 the ECL scenario were chosen to reflect the impacts of the Covid-19 virus and on the basis of a severe case scenario, with an expected 12 month default rate of 17% there is no expected credit loss assumed for any of the tranches. The 17% default rate is based on the highest default rate seen during the financial crisis in 2008. On the basis of a worst case scenario with 25% default, a higher default rate than previously seen during the 2008 financial crisis, there is no expected credit loss in the junior and senior loan notes and the expected loss in the subordinated loan notes is considered to be immaterial. On this basis no provision for ECL has been recognised in the financial statements.

Notes to the Financial Statements (continued)

30 Financial risk management - Group and Company (continued)

A significant portion of the Group's counterparties are affiliated entities or investment vehicles for which the Group performs managerial services and has oversight of the records of those vehicles. As a result the Group is well placed to identify potential credit risk issues and respond accordingly. For counterparties where the Group does not have such a relationship, the Group, both on the inception of an agreement with a counterparty and periodically thereafter, reviews and appraises the risk of payment default through reference to standard credit measures and the monitoring of payment patterns and outstanding balances.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure ECLs trade receivables have been grouped by Business Unit to reflect the shared credit risk characteristics. Expected loss rates are based on the historic credit loss experienced for each Business Unit and adjusted for current and forward information affecting the ability of the individual customers to settle receivables.

The Group has recognised no loss allowance as at 31 December 2019 (2018: £nil).

	0-30 days £	30-90 days £	90+ days £	Total £
2019				
Group				
Trade receivables	43,788	4,818,277	1,833,741	6,695,806
Company				
Trade receivables	43,788	152,536	60,454	256,778
2018				
Group				
Trade receivables	86,719	824,037	1,499,300	2,410,056
Company				
Trade receivables	57,514	29,069	172,947	259,530

Liquidity risk

Liquidity risk is the risk that the Group may be unable to meet its payment obligations as they fall due.

Group liquidity is managed on a daily basis by Group Finance, to ensure that the Group has sufficient cash or highly liquid assets available to meet its liabilities. Group Finance also controls and monitors the use of the Group's non-operating capital resources. It is the Group's policy to ensure that it has access to funds to cover all forecast commitments for at least the next 12 months. Financial liabilities comprise trade and other payables with remaining contractual maturities of less than one year.

In light of the current market conditions, the stressed cash of the Group have been forecast for 18 months from the signing of the accounts on the basis of severe yet plausible and worst case scenarios. In both cases the Group has sufficient liquidity to meet its cash flow obligations as they fall due.

Notes to the Financial Statements (continued)

30 Financial risk management – Group and Company (continued)

Maturity analysis

The table below reflects the age profile of the Group's payables. Refer to note 24 for the liquidity of the borrowings (borrowings includes £298,947 of accrued interest).

Group

	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £	Total contractual cash flows £	Carrying amount liabilities £
At 31 December 2019						
Non-derivatives						
Amounts owed to Group affiliates	11,467,219	-	-	-	11,467,219	11,467,219
Trade and other payables	24,891	-	-	-	24,891	24,891
Other payables	3,126,565	-	-	-	3,126,565	3,126,565
Non-trade payables and accrued expenses	57,098,997	3,463,269	15,772,656	-	76,334,922	76,334,922
Bank borrowings	30,802,252	2,270,697	24,280,274	125,698,548	183,051,771	176,195,159
Derivatives						
Gross settled (forward foreign exchange contracts)						
- (inflow)	(131,568,500)	-	-	-	(131,568,500)	-
- outflow	128,283,342	-	-	-	128,283,342	-
Total	99,234,766	5,733,966	40,052,930	125,698,548	270,720,210	267,148,756
	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Over 5 years £	Total contractual cash flows £	Carrying amount liabilities £
At 31 December 2018						
Non-derivatives						
Amounts owed to Group affiliates	6,274,025	-	-	-	6,274,025	6,274,025
Trade and other payables	238,992	-	-	-	238,992	238,992
Other payables	1,132,691	-	-	-	1,132,691	1,132,691
Non-trade payables and accrued expenses	41,554,617	4,067,412	5,802,395	-	51,424,424	51,825,254
Borrowings (including interest)	101,925,433	2,940,263	49,433,865	183,536,617	337,836,178	208,412,671
Derivatives						
Gross settled (forward foreign exchange contracts)						
- (inflow)	(66,212,301)	-	-	-	(66,212,301)	-
- outflow	66,421,327	-	-	-	66,421,327	209,026
Total	151,334,784	7,007,675	55,236,260	183,536,617	397,115,336	268,092,659

Notes to the Financial Statements (continued)

30 Financial risk management - Group and Company (continued)

Company

	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Total contractual cash flows £	Carrying amount liabilities £
At 31 December 2019					
Non-derivatives					
Amounts owed to Group affiliates	65,711,428	-	-	65,711,428	65,711,428
Trade and other payables	-	-	-	-	-
Other payables	2,631,592	-	-	2,631,592	2,631,592
Non-trade payables and accrued expenses	49,076,806	3,463,269	15,772,656	68,312,731	62,053,241
Derivatives					
Gross settled (forward foreign exchange contracts)					
- (inflow)	(131,568,500)	-	-	(131,568,500)	-
- outflow	128,283,342	-	-	128,283,342	-
Total	114,134,668	3,463,269	15,772,656	133,370,593	130,396,261
At 31 December 2018					
Non-derivatives					
Amounts owed to Group affiliates	50,072,863	-	-	50,072,863	50,072,863
Trade and other payables	48,326	-	-	48,326	48,326
Other payables	242,485	-	-	242,485	242,485
Non-trade payables and accrued expenses	36,045,718	4,067,412	5,802,395	45,915,525	45,915,525
Borrowings (including interest)	553,734	553,734	9,961,201	16,265,954	21,763,782
Derivatives					
Gross settled (forward foreign exchange contracts)					
- (inflow)	(66,212,301)	-	-	(66,212,301)	-
- outflow	66,421,327	-	-	66,421,327	209,026
Total	87,172,152	4,621,146	15,763,596	123,822,848	118,252,007

Notes to the Financial Statements (continued)

30 Financial risk management - Group and Company (continued)

Capital management

Group

The Group's main objectives in managing its capital are as follows:

- ensure continued compliance with its capital requirements as outlined by the FCA; and
- ensure surplus capital in excess of its capital requirements is deployed appropriately, to protect the overall returns of the Group and with due consideration to the Group's liquidity.

The Group was successful in meeting its objectives during this and the previous financial year.

The Group's capital is represented by the Group's total equity as disclosed in the Statement of Changes in Equity. As at 31 December 2019 this totalled £242,613,600 (2018: £157,752,885). The Group's objective when managing capital is to safeguard its ability to continue as a going concern in order to maintain a strong capital base to support the development of the business and provide returns for shareholders.

Externally imposed capital requirements

Certain subsidiaries of the Group are regulated by the FCA in the UK and as such are required to maintain minimum levels of capital. Regulatory capital requirements have been met throughout the financial years ended 31 December 2019 and 31 December 2018.

Company

The Company's capital is represented by the Company's total equity as disclosed in the statement of changes in equity. As at 31 December 2019 this totalled £198,389,302 (2018: £89,579,575). The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order to support the developments of the business and provide returns for shareholders.

Pillar 3 disclosures

Under the Pillar 3 requirements of the Capital Requirements Directive, as enacted in the UK by the FCA through Chapter 11 of the Prudential Sourcebook for Banks, Buildings Societies ("BIPRU 11"), the Group is required to disclose in a public forum its principal risk management and capital adequacy procedures. The Group's BIPRU 11 disclosures are included on the Group's website as follows:

www.pgim.com/links/terms-conditions

The disclosures are unaudited.

31 Leases

Following the introduction of IFRS 16 on 1 January 2019, only leases with an annual value of less than £5,000 or for a duration of less than 12 months are recognised in the profit and loss as non-cancellable operating lease agreements. On this basis, the value of non-cancellable operating lease agreements recognised in the period has fallen significantly.

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:	2019	2018
	£	£
Within one year - equipment	49,240	7,866
Within one year - land and buildings	237,945	594,417
Within two to five years - equipment	37,681	13,110
Within two to five years - land and buildings	-	1,861,898
Over five years - land and buildings	-	658,567
	<u>324,866</u>	<u>3,135,858</u>

Notes to the Financial Statements (continued)

31 Leases (continued)

The company initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

32 Related party transactions

Summary of transactions with other related parties

The Group manages a number of Collective Investment Schemes and Structured Entities, which include entities deemed to be related parties investment management agreements and collateral management agreements between companies within the Group and those entities.

Group

Income and receivables from related parties

	2019	2018
	£	£
Affiliates of the Group		
Revenue charged	47,065,572	43,225,496
Receivables outstanding	11,949,984	10,173,771

Company

Income and receivables from related parties

	2019	2018
	£	£
Affiliates of the Group		
Revenue charged	-	-
Receivables outstanding	-	80,480

Summary of transactions with other related parties

33 Fair value reserves

	2019	2018
	£	£
At 1 January	-	(1,606,063)
Reclassify investments from Available For Sale to financial assets at amortised cost	-	(2,221,300)
Reclassify investments from Available For Sale to FVPL	-	3,827,363
At 31 December	-	-

During the year ended 31 December 2018 PFL adopted IFRS 9, as part of the adoption of this accounting policy and the reclassification of investments to being held at amortised cost or FVPL the fair value reserve decreased to nil driven by this change in accounting policy. As at 31 December 2019, the balance was also nil. This note is included for comparative purposes.

34 Commitments

PGIM Limited has committed to purchase a 5% interest in Dryden 74 Euro CLO 2019 B.V. for £18.2m (€20.5m) of which nothing had been paid at 31 December 2019.

During the year, the Company contributed £1.7m (€1.9m) towards its warehouse investment in Dryden 79 Euro CLO 2019 B.V. and has an open commitment to funding this investment.

Notes to the Financial Statements (continued)

35 Non adjusting events after the financial year

On 1 January 2020, the Fixed Income employees of PGIM Limited working in its Munich and Frankfurt branches had their employment contracts moved across to the newly established branches of PGIM Netherlands B.V. also in Munich and Frankfurt. On 1 February 2020, PGIM Limited's remaining German based employees had their employment contracts moved across from its Frankfurt branch to the Frankfurt branch of PGIM Netherlands B.V.

The Munich and Frankfurt branches of PGIM Limited are now in the process of being closed and their closure is expected to be completed during 2020.

On 14 February 2020, the Board of Directors of PFL approved the payment of an interim dividend of £30.0m (2018: £nil) to its parent PGIM, Inc. Due to the current market turmoil, payment of the dividend has been deferred until the signing of the 2019 accounts and may be deferred further if deemed prudent.

On 26 February 2020, PGIM Real Estate (UK) Limited (formerly known as PGIM Fund Management Limited) received FCA Approval for the Variation of Permission in relation to its MiFID top-up application. The company now has an expanded list of permissions in addition to its previous permission of "managing an unauthorised AIF". The rationale behind this re-structuring is to better align the corporate entities to the business divisions of PGIM and in this context the name of the company was changed on 30 March 2020 to PGIM Real Estate (UK) Limited. On 1 April 2020, and in spite of the current challenging conditions, PGIM Real Estate (UK) Limited took over third party mandates in connection with the Ground Lease Fund activity from PGIM Limited.

On 11 March 2020, the World Health Organisation declared a global pandemic in respect of Covid-19. As a result of the pandemic, the stock markets are witnessing significant levels of turmoil. Given this situation was not known as at 31 December 2019, this is deemed to be a non-adjusting post balance sheet event.

The Group has performed an assessment of the actual and potential impact of the deteriorating market conditions of the 2020 expected performance of the Company and note that the actual FVTPL impact of the fall in market values of the Company's investments as at 31 March 2020 is £9.7m. The potential impact on the performance of the Company for the 12 months following the signature of the accounts is difficult to forecast given the uncertainty and changing market conditions and is being monitored closely. The potential impact of Covid-19 on the cash flows of the Group has also been considered when assessing whether the Group has sufficient liquidity to meet its obligations as they fall due for a period of 12 months from the signing of the accounts.

On 3 April 2020, Pricoa Capital Group Limited changed its name to Pricoa Private Capital Limited and further changed on 7 April 2020 to PGIM Private Capital Limited ('PPC'). PPC forms part of a Global Business Unit which refined its branding during 2019, and in keeping with this initiative, it has adopted PGIM Private Capital as its corporate name. Pricoa Private Capital is the customer facing brand used across Europe.

On 12 April 2019, PPC transferred the activities of its three branches in Frankfurt, Paris and Milan, including the employees working in those branches, to Pricoa Capital Group (Ireland) Limited. Following the transfer of activity other Paris branch was closed effective 15 April 2019. After the balance sheet date, the Frankfurt and Milan branches are in the process of being closed.