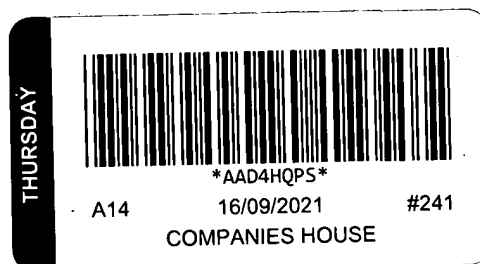


Registration number: 1024618

# PGIM Financial Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2020



PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

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PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Officers and professional advisers**

<b>Directors</b>	P. M. Barrett
	M. G. Fresson
	P. M. East
	K. D. LaPointe
	J. Muhlhauser
	S. L. Pollard
	A. M. Rosenthal
	D. J. Malooly
<b>Company secretary</b>	L. D. King
<b>Registered office</b>	Grand Buildings 1-3 Strand Trafalgar Square London WC2N 5HR
<b>Solicitors</b>	CMS Cameron McKenna LLP Cannon Place 78 Cannon Street London EC4N 6AF
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT

## 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 2020.

### 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., PFI and other subsidiaries of PFI ('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 Investments and PGIM Quantitative Management Associates ('PGIM QMA'), the quantitative equity and global multi-asset solutions manager of the PGIM business) through its five principal operating subsidiaries.

- PGIM Limited ('PGIML') is authorised and regulated by the Financial Conduct Authority ('FCA') and the Securities and Exchange Commission ('SEC') as a registered investment adviser and has a branch in Zurich, Switzerland. The Company provides asset management services in three principal asset classes, Real Estate (to 30 March 2020 as its business division Real Estate related funds was transferred to PGIM Real Estate (UK) Limited to better align its corporate entity), PGIM Fixed Income and the Group's Undertaking for Collective Investments in Transferable Securities ('UCITS').
- PGIM Netherlands B.V. ('PGIM NL BV') is registered in the Netherlands and is authorised by the Autoriteit Financiële Markten ('AFM') to act as an alternative investment fund manager ('AIFM') for the purpose of managing the Group's Qualifying Investors Funds ('QIF') plc.

PGIM NL BV is also authorised to conduct certain Markets in Financial Instruments Directive (also referred as 'MiFID') activities to allow for the management and marketing of UCITS funds in the Netherlands and in the EU.

PGIM NL BV has established a branch in Germany on 1 January 2020, with offices in Munich and Frankfurt. The German branch acts as sales offices to support the sale and marketing of the AIF and marketing the single account mandates and UCITS capabilities for the various investment management strategies and/or services and products offered by the Group's businesses.

- PGIM Real Estate (UK) Limited (formerly known as PGIM Fund Management Limited) ('PGIMREL') is authorised as an alternative investment fund manager and regulated by the FCA and is authorised by the SEC as an investment advisor. PGIMREL forms part of the PGIM Real Estate business line and provides asset management services to clients under mandate, institutional investors (including PGIM, Inc. and other companies within the PFI Group) and alternative investment funds, principally collective investment schemes investing in real estate related equity and debt.
- PGIM Private Capital Limited (formerly known as Pricoa Capital Group Limited) ('PPC') is authorised and regulated by the FCA. PPC provides investment origination and sourcing services to institutional investors (including PGIM, Inc. and other companies within the PFI Group) and also manages and monitors portfolios of investments on behalf of investors. PGIM Private Capital (Ireland) Limited (formerly known as Pricoa Capital Group (Ireland) Limited) ('PPCI') is registered and regulated by the Central Bank of Ireland ('CBI') and has branches in Paris, Milan and Frankfurt. PPCI receives management fees through the management of its Irish Collective Asset-Management Vehicle ('ICAV') and to third party investment funds.
- QMA Wadhvani LLP ('QMAW') is authorised and regulated by the FCA. QMAW provides investment management services and operates as part of the business of QMA LLC, the quantitative equity and global multi-asset solutions manager of PGIM.

## Strategic Report (continued)

### Group Business Review

#### *Review of Group performance*

Following the declaration of a global pandemic in March 2020 by the World Health Organisation, the first half of 2020 saw significant volatility across global markets and asset classes. The latter half of the year was characterized by a steady recovery in market values.

Despite the market volatility witnessed in Q1 2020, the value of the Collateralised Loan Obligations ('CLOs') recognised on the Group's balance sheet as at 31 December 2020 was £347.0m (2019: £310.1m) following the reset of Dryden 35 in January 2020 and the launch of Dryden 74 in April 2020.

To expand its CLO holdings in support of the PGIM Fixed Income business, the Group borrowed £18.8m (€21.0m) from PGIM Foreign Investments, Inc. in March 2020 and as at the year-end the Group had loans to support the CLO activity of £204.9m (€228.9m). On 11 July 2020, the Group refinanced £32.4m (€36.0m) of subordinated debt from PGIM Foreign Investments, Inc. Looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIM Loan Originator Manager Limited ('PGIMLOM'). In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

As at 31 December 2020, total Group Assets Under Management ('AUM') were £56.2bn (2019: £47.5bn). The year on year increase in AUM is due to new mandates, in particular in PGIM Fixed Income products, cash inflows into existing funds and market appreciation, particularly in the latter half of the year. Investment originations in the PGIM Private Capital business in the UK were £0.8bn (2019: £1.6bn) reflecting an increasingly competitive market.

Whilst 2020 was a challenging year for the Company, the Group, the asset management industry and global markets as a whole, the financial impact of COVID-19 on the businesses of the Group was not material, the impact being more operational in nature as the Group moved to working remotely overnight. Notwithstanding the volatility in the marketplace, PGIM Financial Limited and its subsidiaries continued with its strategy to better align corporate entities to the business divisions of PGIM, Inc.

On 1 January 2020, the Fixed Income employees of PGIML working in its Munich and Frankfurt offices were transferred to the newly established German branch of PGIM Netherlands B.V., with offices also in Munich and Frankfurt. On 1 February 2020, PGIML's remaining German based employees were transferred from its Frankfurt office to the Frankfurt office of PGIM Netherlands B.V.. The German branch of PGIML officially became inactive in November 2020.

In February 2020, PGIMREL 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 30 March 2020 PGIMREL took over third party and affiliated mandates in connection with the Real Estate activities from PGIML. On 30 March 2020 PGIM Fund Management Limited name was changed to PGIM Real Estate (UK) Limited. In keeping with this initiative, the Pricoa Capital Group Limited changed its name on 3 April 2020 to Pricoa Private Capital Limited and then further changed on 7 April 2020 to PGIM Private Capital Limited.

Headcount has increased during the year and as a result, the Group now exceeds all three criteria to be classified as a large company, as defined in section 465 and 466 of Companies Act 2006 by reporting annual turnover above £36 million, a balance sheet total of more than £18 million and an average number of employees of more than 250.

## Strategic Report (continued)

In 2019 the Group acquired QMAW and Wadhvani Capital Limited ('WCL'). WCL, as the service entity to QMAW historically makes a small loss. QMAW reported losses in 2020, arising primarily from retention payments and ongoing integration costs linked to the acquisition. During the year, PFL has increased the paid in capital in QMAW and the Directors recognise that QMAW and WCL may still require support in 2021, 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.

In the opinion of the Directors, the Group's performance in the year was satisfactory with revenue for the year of £251.5m (2019: £249.0m) due to strong underlying performance and the recognition of incentive fees and carry interest of £30.6m receivable. In February 2020, the Directors approved a dividend of £30.0m to be paid by 30 September 2020 to PGIM, Inc. but, with the agreement of PGIM, Inc. and in light of the ongoing market uncertainty throughout 2020, it was decided to allow the dividend approval to lapse.

Despite the market volatility due to the COVID-19 pandemic, the Group and Company performance has proven to be resilient during 2020 and the Directors expect all business lines to maintain performance in 2021.

### *Strategic Investing*

In connection with its role as collateral manager, PGIML is required to co-invest in CLOs alongside third party investors. During the year PGIML expanded its holdings of CLOs in support of the PGIM Fixed Income business. Investments in CLOs at the year-end were £347.0m (2019: £310.1m) 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 £26.3m (2019: £25.3m) and Financial assets at amortised cost of £320.7m (2019: £284.7m). Dryden 74 Euro CLO 2020 DAC was launched on 24 April 2020.

PGIML holds debts with PGIM Foreign Investments, Inc. of £204.9m (2019: £228.9m), contracted to fund the acquisition of CLO investments. In July 2020, as agreed via a letter of commitment to refinance, PGIML refinanced £32.4m (€36.0m) of subordinated debt with PGIM Foreign Investment, Inc. at market rates.

### *Section 172(1) Statement*

The Directors have 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.

During the year, the governance of the Company and its subsidiaries was augmented with more frequent Senior Management and Board meetings to ensure the ongoing market and operational impacts of the COVID-19 crisis were monitored and where necessary, appropriate actions taken.

As the financial impact of COVID-19 on the Company was not material, the Directors have been able to continue to pursue their long term strategic goals. In this context and as detailed in the Group Business Review, several strategic decisions were taken within the Group during 2020 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 funds and debt activity from PGIML effective 30 March 2020. PGIM Fund Management Limited changed its name on 30 March 2020 to PGIM Real Estate (UK) Limited and similarly Pricoa Capital Group Limited changed its name on 3 April 2020 to Pricoa Private Capital Limited and further changed on 7 April 2020 to PGIM Private Capital Limited.

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 refinanced a loan of £32.4m (€36m) on 11 July 2020 with PGIM Foreign Investments, Inc. Looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIMLOM. In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

## Strategic Report (continued)

In light of the ongoing uncertainty surrounding the form that Brexit would take and as detailed in the Business review, the Company decided to re-structure its European Branches. On 12 April 2019, PPC transferred the activities of its three branches in Paris, Milan and Frankfurt, including the employees working in those branches, to PGIM Private Capital (Ireland) Limited (formerly known as Pricoa Capital Group (Ireland) Limited). The Fixed Income employees of PGIML working in its Munich and Frankfurt branches were transferred to the newly established Munich and Frankfurt branches of PGIM Netherlands B.V., effective 1 January 2020. As part of the Brexit Strategy, the Directors have also reviewed and authorised the application for a cross-border marketing license in 2021, in order to be able to market its products to the Italian market on a cross-border basis from the UK. The application is pending with the Italian regulator.

Following engagement with the Company's immediate parent, PGIM, Inc., the Directors approved the payment of an interim dividend of £30.0m on 14 February 2020, to be paid by 30 September 2020. The potential impact of COVID-19 on the performance and cash flows of the Company was considered when assessing whether the Company had sufficient liquidity and capital adequacy to make the dividend payment and to meet its obligations as they fall due and the Directors do not consider that COVID-19 has had a material impact on the Company. However, in light of the market volatility experienced during 2020 and with the agreement of the sole shareholder, the dividend was not paid by 30 September 2020, and subsequently the resolution to pay the dividend has lapsed.

### (b) The interests of the Company's employees

The Group views its employees as fundamental to the success of the business. The Directors take active steps to ensure that the suggestions, views and interests of the workforce are captured and considered in their decision-making.

As a result of the World Health Organisation declaring a global pandemic in March 2020, the Group's employees substantially worked remotely in 2020 and will continue to so until the Government announces a return to office based working. To support employees working remotely during this period of general uncertainty, the Group has focused on employee wellbeing and launched a number of support programs and initiatives. These include:

- Additional day's leave provided for wellness;
- Introduction of online mindfulness sessions and offer of subscription to mindfulness application;
- Added communications about support programs;
- Inclusion month with mental health focus;
- Greater flexibility around carrying unused leave forward to 2021.

The Group also has a number of effective workforce engagement mechanisms in place.

(i) Employees are kept informed of Group performance and provided with relevant business updates through regular company-wide Town Halls from the management team as well as regular business briefings. Regular announcements and video blogs updates by senior management are also made available on the intranet site.

(ii) During the year a new online tool was put in place to facilitate ongoing, meaningful performance and development conversations between managers and teams. This tool also provides a forum for feedback by individuals, peers and managers.

(iii) The Head of HR EMEA is a director of the Company, and regularly provides updates on employee-related matters, including workforce demographics, engagement activities, the results of employee surveys, staff retention rates, diversity & inclusion, pay and reward and HR initiatives.

(iv) In order to ensure that the Group continues to retain, develop and attract talent, the Group has a competitive reward structure in place, which provides a wide range of benefits covering health and well-being, lifestyle and family. The Group reviews and enhances its benefits packages on an ongoing basis and seeks input from employees to better accommodate their personal circumstances and needs.

(v) The employees are supported and encouraged to leverage the resources of the PGIM global network. On-going on the job training as well as online or in person training is provided to support individual professional development.

(vi) All employees were asked to participate in an online Global Employee Engagement Survey. This survey is normally conducted bi-annually, but was brought forward in 2020 in light of the impact of COVID-19 and the move to remote working. The results are communicated to senior management who have committed to act on the feedback and help inform and improve subsequent HR initiatives.

## 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 PFL and its UK subsidiaries 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.

In spite of the overnight move to working from home as a result of COVID-19 and the operational challenges this initially entailed, the Company has maintained good performance payment practices ensuring that suppliers continued to be paid in a timely manner. The Company has not experienced an increase in the ageing of its receivables and has not taken advantage of any government financial assistance offered as a result of the pandemic.

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 support this aim. The Group has set a quantitative and qualitative target for its business, aimed at reducing its overall environmental impact of its operations.

The Company's Grand Building offices uses 100% renewable energy for its electric and gas supply.

### (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 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:

	2020	2019
	£	£
Group revenue	249,965,089	216,264,802
Profit before tax	48,329,040	37,946,177
Tax expense	(7,036,889)	(4,832,479)
Profit for the financial year	<u>41,292,151</u>	<u>33,113,698</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.



## Strategic Report (continued)

	2020 £ bn	2019 £ bn
<b><i>Assets Under Management</i></b>		
PGIM Real Estate	3.6	3.4
PGIM Fixed Income	48.8	41.5
PGIM Private Capital	0.9	0.8
PGIM QIF	1.1	-
PGIM QMA	0.7	0.7
<b><i>Investment Originations</i></b>		
PGIM Private Capital	0.8	1.6
PGIM Real Estate Finance	-	0.2

### 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.

## Strategic Report (continued)

### *Brexit Risk*

On 31 January 2020, the UK left the EU with a transition period in relation to existing laws and regulations running through to 31 December 2020. Although a post-Brexit trade deal was secured prior to the end of that transitional period, it did not cover financial services and so, for regulatory purposes, the UK is now considered a "third country". The impact of this "hard" Brexit for the Company is mitigated both by its ability to partner with its non-UK affiliates, which benefit from their continuing EU permissions, and the fact that the Company has made preparations by applying for temporary permissions and cross border licences in key EU jurisdictions (where available) where it wishes to do business (e.g. Denmark and Finland). Furthermore, in 2021 the Company applied to the Italian regulator for a cross-border marketing license in order to be able to market its products to the Italian market on a cross-border basis from the UK. The application is pending with the Italian regulator. As the post-Brexit regulatory landscape develops, there will undoubtedly be further changes but, whilst these will be monitored by the Company, it is not anticipated that they will materially impact the Company's ability to earn fee income from its investment management and investment advisory activities.

### *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 have witnessed significant levels of turmoil during 2020 and across the world countries have entered in and out of physical and economic lockdown. 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 have been working remotely from March 2020 and continue to substantially work remotely today.

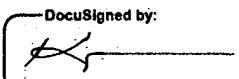
Following the move to working remotely, internal controls and procedures were reviewed to ensure that all controls continue to perform as expected. The governance of PFL and its subsidiaries was augmented with more frequent Senior Management and Board meetings and where necessary, appropriate actions taken. Where necessary, additional IT solutions and equipment were sourced and installed.

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 is announced.

To ensure PFL and its subsidiaries are able to pursue their strategic goals, PGIML 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. On 11 July 2020, the Group has refinanced the loan of £32.4m (£36.0m) with PGIM Foreign Investments, Inc. The Company received dividends of £29.0m (2019: £27.0m) from its subsidiaries during the year. As at 31 December 2020, PFL had net current assets of £5.5m (2019: net current liabilities £10.4m).

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 15 April 2021 and signed on its behalf by:

DocuSigned by:  
  
67F85D22A7894A6...  
K. D. LaPointe  
Director

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Directors' Report**

The Directors present their Annual Report and Consolidated Financial Statements of the Group for the year ended 31 December 2020.

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.

These financial statements have been prepared on a going concern basis in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

**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

M. G. Fresson

S. Saperstein (resigned 1 May 2020)

P. M. East

K. D. LaPointe

J. Muhlhauser

S. L. Pollard

A. M. Rosenthal

D. J. Malooly (appointed 1 May 2020)

## Directors' Report (continued)

### Branches outside the United Kingdom

On 1 January 2020, PGIM Netherlands B.V. incorporated a new branch in Germany with offices in Munich and Frankfurt.

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 have been inactive since November 2020.

On 12 April 2019, PPC transferred the activities of its three branches in Paris, Milan and Frankfurt, including the employees working in those branches, to PGIM Private Capital (Ireland) Limited (formerly known as Pricoa Capital Group (Ireland) Limited).

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

	2020 £	2019 £
Frankfurt	2,155,817	1,517,450
Paris	2,816,153	2,208,526
Milan	1,706,216	921,972
Munich	95,351	2,394,519
Zurich	2,398,378	-
	<u>9,171,915</u>	<u>7,042,467</u>

### Dividends

The Company declared an interim dividend of £30.0m to the sole shareholder PGIM, Inc on 14 February 2020 (2019: £nil). With the agreement of the sole shareholder, the dividend was not paid by 30 September 2020, and subsequently the resolution to pay the dividend has lapsed. The Directors do not recommend the payment of a final dividend (2019: £nil).

In September 2020, the Company recognised interim dividends from the subsidiaries. PGIML declared an interim dividend of £10.0m, PGIM Private Capital Limited declared an interim dividend of £5.0m, PGIMREL declared an interim dividend of £5.0m, PGIM (Scots) Limited declared an interim dividend of £5.0m and PGIM Management Partner Limited declared an interim dividend of £4.0m.

### Political donations and charitable contributions

The Group has made no political donations and incurred no political expenditure during the year (2019: £nil). The Group has made charitable contributions of £5,750 during the year (2019: £9,131).

### Financial instruments

The Group holds certain financial instruments. Additional information on the Group's financial instruments can be found in note 16 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/node/909](http://www.pgim.com/node/909)

### **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/node/909](http://www.pgim.com/node/909)

## Directors' Report (continued)

### Streamlined Energy and Carbon Report

The Group is now required to report on UK energy use and carbon emissions.

In this context Green House Gas ('GHG') emissions from all controlled or leased offices in Trafalgar Square, London Bridge and St Martin's Lane have been quantified. This formal inventory process uses the operational control approach per the World Resource Institute (WRI)/ World Business Council for Sustainable Development (WBCSD) Greenhouse Gas Protocol (GHGP) to define its organizational boundaries. The Group maintains an Inventory Management Plan (IMP) which records institutional, managerial, and technical procedures and processes used annually to collect and manage reliable GHG data. The Group's main office in Trafalgar Square uses 100% renewable energy.

In 2020, the COVID-19 pandemic resulted in lower greenhouse gas emissions within the Group. The employees of the Group have, as of March 2020, moved to working substantially from home. As a result, there has been a reduction in transportation, air travel, and industrial emissions.

The Group has conducted and reported on a baseline analysis of CO<sub>2</sub> (Carbon dioxide). Emissions relating to gasoline or diesel from operationally controlled, owned and leased vehicles are not reportable as there was effectively no business travel during the year due to COVID-19, but will be evaluated and included in future inventories.

Scope 1 emissions are identified as stationary combustions (e.g. natural gas, propane for heating, diesel used in emergency generators), mobile combustions (e.g., leased vehicles for executive transport, employee shuttles) and refrigeration/air conditioning equipment use. Scope 2 emissions are indirect emissions from acquired electricity, steam, heat, and cooling.

Scope 3 emissions which include business travel (including commercial air transport, intercity rail, employee mileage reimbursements, public transit, rental cars and hotel stays) as well as from fuel and energy related activities not included in Scope 1 and Scope 2 have not yet been quantified. It should be noted that levels of business travel in 2020 were unusually low due to the pandemic.

The energy consumption data was collected from the management company of the buildings. 19% of the data has been estimated based on monthly average usage due to data inaccessibility. The emission factors applied to the report is kg CO<sub>2</sub>e. The source of the emission factors is the government (BEIS) factors -

<https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2020>.

The Group will continue to gather data, including Scope 3 GHG emissions for upstream and downstream categories that are relevant and material to its business. The data is estimated to be ready by end of 2021.

The GHG emissions and energy use data for the financial year 2020:

	Reporting Year 2020
Energy consumption used to calculate emissions: /kWh (gas and electricity)	728,246
Emissions from activities for which the Group is responsible including combustion of fuel & operation of facilities / (Scope 1) tCO <sub>2</sub> e	46
Emission from purchase of electricity, heat, steam and cooling purchase for own use / (Scope 2) tCO <sub>2</sub> e (location-based factors and market-based factors)	111
Total gross emissions / (Scope 1+ Scope 2) tCO <sub>2</sub> e	157
Intensity ratio: tCO <sub>2</sub> e / £100,000 revenue	0.06

## Directors' Report (continued)

### Engagement with employees

Within the Group, diversity of perspectives is at the core of who we are and what we do. The Group believes that harnessing the differences and creating a workplace where all talent thrives is what allows us to deliver the exceptional outcomes our clients have come to expect. The Group's programmes and policies are designed to ensure that upon joining the Group and throughout their career, all employees feel welcomed and are empowered to bring their authentic selves to work each day.

Inclusion is not just something we aspire to, it's an obligation. The Group's leaders and colleagues across the globe are committed to creating a culture of belonging, where diverse perspectives are celebrated.

As highlighted in the Strategic Report with details on initiatives taken, the Group views its employees as fundamental to the success of the business. In the context of the Group's long term strategy of recruiting and retaining talent and to meet the needs of our diverse community, the Group offers global programming year-round and celebrate the ways we are more alike than we are different. The Group's global inclusion initiatives provide opportunities for the Group community to come together and celebrate International Women's Day, Pride Month, Inclusion Month and more. The Group provides these platforms so our employees can have their individual voices heard, and to support and empower them as they drive the positive change they want to see in the world.

The Group is committed to providing equal opportunities to all our employees, whether they are able-bodied or have a disability. The Group endeavours to make any reasonable adjustments that may be necessary to facilitate the employment of people with disabilities. In addition, during the course of employment, the Group makes reasonable accommodations for any physical or mental limitations that employees may have.

Applications for employment by disabled persons are considered fully, bearing in mind the aptitudes of the applicant concerned. It is the policy of the Group that the training, career development and opportunity of disabled persons should, as far as possible, be identical with that of other employees. The Group's premises offer full access for disabled persons. Through health and safety reviews, the Group offers equipment to assist staff work effectively given individual needs. Some examples have included specialist screens and chairs, both in the office and at home. In 2020, the Group added an option to disclose a disability on our new joiner form.

### Engagement with stakeholder groups

As outlined in the Strategic Report where further detail can be found, COVID-19 has affected all of our stakeholders.

In March 2020, the COVID-19 global pandemic forced an abrupt shift to the Company's working practices, including lockdowns in the UK and other countries. The situation is still evolving today, and the Group is committed to supporting its stakeholders.

Following engagement with the Company's immediate parent, PGIM, Inc., the Directors approved the payment of an interim dividend of £30.0m on 14 February 2020, to be paid by 30 September 2020. The potential impact of COVID-19 on the performance and cash flows of the Company was considered when assessing whether the Company had sufficient liquidity and capital adequacy to make the dividend payment and to meet its obligations as they fall due and as detailed in the strategic report, the Directors do not consider that COVID-19 has had a material impact on the Company. However, in light of the market volatility experienced during 2020 and with the agreement of the sole shareholder, the dividend was not paid by 30 September 2020, and subsequently the resolution to pay the dividend has lapsed.

## Directors' Report (continued)

### Going concern

2020 was a challenging time for the Group, for the asset management industry and global markets as a whole. With the declaration of a global pandemic in March 2020 by the World Health Organisation, the markets witnessed unprecedented turmoil as across the world different countries entered in and out of periods of physical and economic lockdown. For the employees of the PGIM Financial Group of companies, March 2020 was the beginning of an extended period of remote working, which continues today.

Following the move to working remotely, internal controls and procedures were reviewed to ensure that all controls continue to perform as expected. The governance of the Group has been augmented with more frequent Senior Management and Board meetings and where necessary, appropriate actions taken. Where necessary, additional IT solutions and equipment were sourced and installed.

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. As different countries continue to enter in and out of periods of physical lockdown, it is anticipated that the employees of the Group will continue to predominantly work remotely for some time.

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 Company has performed an assessment on the 2021 expected performance of the Company. The potential impact on the performance of the Company for the 12 months following the signature of the accounts is difficult to forecast and is monitored closely. The Directors have performed an analysis of expected cashflows, including work performed on stress-testing for severe yet plausible scenarios, and planned for mitigating actions that can be taken. The Company is profitable, and is forecasted to remain profitable for the 12 months following the signing of the accounts. The Company 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 at least 12 months from the signing of the accounts.

Because of the diversity of its revenue base, its liquidity, the strength of its balance sheet, access to sources of additional funding, the Directors are confident that 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 2020 and looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIMLOM. In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

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.

In 2021, within the context of Brexit, in 2021 the PGIML applied to the Italian regulator for a cross-border marketing license in order to be able to market its products to the Italian market on a cross-border basis from the UK, and is at the same time looking to establish an Italian branch in order to be able to market its funds directly in the Italian market going forward.

The employees of the Group have substantially worked remotely since March 2020 and the declaration a global pandemic in respect of COVID-19 by the World Health Organisation. To protect the wellbeing of its employees and ensure continuity of services to its clients, the employees of the Group in the UK and overseas will continue to substantially work remotely until a staged return to the workplace is announced by the governments of the relevant jurisdictions.



## Directors' Report (continued)

### 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 accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, 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 for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, 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

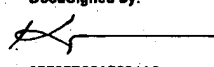
In the case of each Director in office at the date the Directors' Report is approved:

- 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 30 March 2021.

Approved by the Board on 15 April 2021 and signed on its behalf by:

DocuSigned by:  
  
67F85D22A7694A6...  
K. D. LaPointe  
Director

## **Independent Auditors' Report to the Members of PGIM Financial Limited**

### **Report on the audit of the financial statements**

#### **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 2020 and of the group's and company'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 accounting standards in conformity with the requirements 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, which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2020; 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**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

#### **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 or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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.

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of financial data to present a more favourable financial or capital position, the posting of inappropriate journal entries to increase revenue and management bias in accounting estimates and judgemental areas of the Financial Statements such as the valuation of collateralised loan obligations and the valuation of contingent consideration and impairment analysis for goodwill and intangible assets transferred in the Wadhvani business combination. Audit procedures performed included:

- Enquiries with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing correspondence with the Financial Conduct Authority in relation to compliance with laws and regulations;
- Understanding of management's internal controls designed to prevent and detect irregularities;
- Reviewing relevant meeting minutes, including those of the Board;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular the valuation of collateralised loan obligations and the valuation of contingent consideration and impairment analysis for goodwill and intangible assets transferred in the Wadhvani business combination.
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and

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

- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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](http://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.

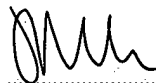
**Other required reporting**

*Companies Act 2006 exception reporting*

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

- we have not obtained 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.



Jennifer March (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

16 April 2021

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated Income Statement**  
*for the year ended 31 December 2020*

	Note	2020 £	2019 £
Management fees and other revenue		244,199,212	211,036,949
Interest income on financial assets at amortised cost		<u>5,765,877</u>	<u>5,227,853</u>
<b>Total revenue</b>	<b>5</b>	<b>249,965,089</b>	<b>216,264,802</b>
<b>Administrative expenses</b>		<b><u>(199,128,165)</u></b>	<b><u>(197,595,486)</u></b>
<b>Gross profit</b>		<b>50,836,924</b>	<b>18,669,316</b>
<b>Other gains</b>	<b>6</b>	<b><u>5,362,946</u></b>	<b><u>13,064,140</u></b>
<b>Operating profit</b>	<b>7</b>	<b><u>56,199,870</u></b>	<b><u>31,733,456</u></b>
Finance income		333,841	9,239,787
Finance expense		<u>(8,204,671)</u>	<u>(3,027,066)</u>
<b>Net finance (expense)/income</b>	<b>10</b>	<b><u>(7,870,830)</u></b>	<b><u>6,212,721</u></b>
<b>Profit before tax</b>		<b>48,329,040</b>	<b>37,946,177</b>
<b>Tax expense</b>	<b>11</b>	<b><u>(7,036,889)</u></b>	<b><u>(4,832,479)</u></b>
<b>Profit for the financial year attributable to the owners</b>		<b><u>41,292,151</u></b>	<b><u>33,113,698</u></b>

The above results were derived from continuing operations.

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated Statement of Comprehensive Income**  
*for the year ended 31 December 2020*

Note	2020 £	2019 £
<b>Profit for the financial year</b>	<b>41,292,151</b>	<b>33,113,698</b>
<b>Items that may be reclassified subsequently to profit or loss</b>		
Foreign currency translation differences – foreign operations	<u>228,970</u>	<u>(142,798)</u>
<b>Total comprehensive income for the financial year</b>	<b><u>41,521,121</u></b>	<b><u>32,970,900</u></b>
<b>Total comprehensive income attributable to:</b>		
Owners of the company	<u>41,521,121</u>	<u>32,970,900</u>

The above results were derived from continuing operations.

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated Statement of Financial Position  
as at 31 December 2020**

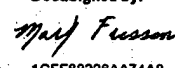
	Note	2020 £	2019 £
<b>Non-current assets</b>			
Property, plant and equipment	12	4,159,063	4,994,589
Right-of-use assets	18	6,885,065	9,652,529
Intangible assets	20	37,086,788	37,188,056
Deferred tax assets	17	648,549	757,703
Financial assets at fair value through profit or loss	13	26,464,607	25,465,757
Financial assets at amortised cost	13	320,680,889	284,728,380
Trade and other receivables	21	314,928	314,928
		<b>396,239,889</b>	<b>363,101,942</b>
<b>Current assets</b>			
Trade and other receivables	21	134,835,611	47,968,577
Cash	22	79,941,833	109,452,371
Financial assets at fair value through profit or loss	13	-	1,676,157
Derivative financial instruments	16	2,895,434	3,197,488
		<b>217,672,878</b>	<b>162,294,593</b>
<b>Total assets</b>		<b>613,912,767</b>	<b>525,396,535</b>
<b>Current liabilities</b>			
Lease liabilities	31	(2,850,566)	(3,325,484)
Trade and other payables	23	(93,892,445)	(72,016,619)
Loans and borrowings	24	-	(30,503,305)
Current tax liabilities	11	(2,624,512)	(1,545,978)
		<b>(99,367,523)</b>	<b>(107,391,386)</b>
<b>Net current assets</b>		<b>118,305,355</b>	<b>54,903,207</b>
<b>Total assets less current liabilities</b>		<b>514,545,244</b>	<b>418,005,149</b>
<b>Non-current liabilities</b>			
Trade and other payables	23	(16,135,870)	(19,235,925)
Lease liabilities	31	(4,738,958)	(7,371,688)
Loans and borrowings	24	(204,927,968)	(145,691,854)
Provisions	27	(1,074,523)	(351,401)
Deferred tax liabilities	17	(2,919,318)	(2,740,681)
		<b>(229,796,637)</b>	<b>(175,391,549)</b>
<b>Net assets</b>		<b>284,748,607</b>	<b>242,613,600</b>
<b>Capital and reserves</b>			
Share capital	28	96,943,356	96,943,356
Other reserves	29	97,250	(131,720)
Retained earnings		187,708,001	145,801,964
<b>Total equity</b>		<b>284,748,607</b>	<b>242,613,600</b>

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated Statement of Financial Position**  
*as at 31 December 2020 (continued)*

The financial statements on pages 19 to 82 were approved by the Board and signed on its behalf on 15 April 2021 by:

DocuSigned by:  
  
1CFFB8228AA74A8... ..  
M. G. Fresson  
Director

**Registered number: 1024618**

The notes on pages 29 to 82 form an integral part of these financial statements.



PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Company Statement of Financial Position  
as at 31 December 2020**

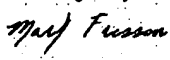
	Note	2020 £	2019 £
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	2,735,568	3,703,386
Trade and other receivables	21	78,768,349	74,563,633
Right-of-use assets	18	3,127,085	5,359,799
Net-investment in sub-lease	19	1,245,199	-
Intangible assets	20	37,086,788	37,188,056
Investments in subsidiaries	15	126,809,732	113,712,553
		<u>249,772,721</u>	<u>234,527,427</u>
<b>Current assets</b>			
Trade and other receivables	21	44,835,002	13,791,238
Derivative financial instruments	16	2,895,434	3,197,488
Cash	22	35,607,445	93,278,078
		<u>83,337,881</u>	<u>110,266,804</u>
<b>Total assets</b>		<u>333,110,602</u>	<u>344,794,231</u>
<b>Current liabilities</b>			
Lease liabilities	31	(2,216,138)	(2,400,961)
Trade and other payables	23	(75,883,082)	(117,419,826)
Current tax liabilities	11	285,072	(811,854)
		<u>(77,814,148)</u>	<u>(120,632,641)</u>
<b>Net current assets/(liabilities)</b>		<u>5,523,733</u>	<u>(10,365,837)</u>
<b>Total assets less current liabilities</b>		<u>255,296,454</u>	<u>224,161,590</u>
<b>Non-current liabilities</b>			
Trade and other payables	23	(16,135,873)	(19,235,925)
Provisions	27	(1,074,648)	(283,393)
Lease liabilities	31	(2,668,471)	(3,529,184)
Deferred tax liabilities	17	(2,917,362)	(2,723,786)
		<u>(22,796,354)</u>	<u>(25,772,288)</u>
<b>Net assets</b>		<u>232,500,100</u>	<u>198,389,302</u>
<b>Capital and reserves</b>			
Share capital	28	96,943,356	96,943,356
Other reserves	29	154,110	154,110
Retained earnings		<u>135,402,634</u>	<u>101,291,836</u>
<b>Total equity</b>		<u>232,500,100</u>	<u>198,389,302</u>

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Company Statement of Financial Position**  
*as at 31 December 2020 (continued)*

The financial statements on pages 19 to 82 were approved by the Board and signed on its behalf on 15 April 2021 by:

DocuSigned by:  
  
1CFF88226AA74A8...  
M. G. Fresson  
Director

**Registered number: 1024618**

The Company's profit for the financial year after tax was £33,835,395 (2019: £56,595,757).

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated Statement of Changes in Equity**  
*for the year ended 31 December 2020*

	Share capital £	Other reserves £	Retained earnings £	Total equity £
<b>Balance at 1 January 2019</b>	43,760,256	11,078	113,981,551	157,752,885
Effect of adoption of IFRS 16: Leases	-	-	(532,201)	(532,201)
<b>At 1 January 2019</b>	<b>43,760,256</b>	<b>11,078</b>	<b>113,449,350</b>	<b>157,220,684</b>
Profit for the financial year	-	-	33,113,698	33,113,698
Other comprehensive income/(expense):				
Foreign currency translation differences – foreign operations	-	(142,798)	-	(142,798)
<b>Total comprehensive income</b>	-	(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)
<b>Balance at 31 December 2019</b>	<b>96,943,356</b>	<b>(131,720)</b>	<b>145,801,964</b>	<b>242,613,600</b>
<b>Balance at 1 January 2020</b>	96,943,356	(131,720)	145,801,964	242,613,600
Profit for the financial year	-	-	41,292,151	41,292,151
Other comprehensive income/(expense):				
Foreign currency translation differences – foreign operations	-	228,970	-	228,970
<b>Total comprehensive income</b>	-	228,970	41,292,151	41,521,121
Equity settled share based payments	-	-	613,886	613,886
<b>Balance at 31 December 2020</b>	<b>96,943,356</b>	<b>97,250</b>	<b>187,708,001</b>	<b>284,748,607</b>

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Company Statement of Changes in Equity  
for the year ended 31 December 2020**

	Share capital £	Other reserves £	Retained earnings £	Total £
<b>Balance at 1 January 2019</b>	43,760,256	154,110	45,665,209	89,579,575
Change in accounting policy	-	-	(453,593)	(453,593)
<b>Balance at 1 January 2019</b>	<b>43,760,256</b>	<b>154,110</b>	<b>45,211,616</b>	<b>89,125,982</b>
Profit for the financial year	-	-	56,595,757	56,595,757
<b>Total comprehensive income</b>	-	-	<b>56,595,757</b>	<b>56,595,757</b>
Issue of additional share capital	53,183,100	-	-	53,183,100
Equity settled share based payments	-	-	(515,537)	(515,537)
<b>Balance at 31 December 2019</b>	<b>96,943,356</b>	<b>154,110</b>	<b>101,291,836</b>	<b>198,389,302</b>
<b>Balance at 1 January 2020</b>	96,943,356	154,110	101,291,836	198,389,302
Effect of net-sub-lease	-	-	(103,797)	(103,797)
<b>Balance at 1 January 2020 (As restated)</b>	<b>96,943,356</b>	<b>154,110</b>	<b>101,188,039</b>	<b>198,285,505</b>
Profit for the financial year	-	-	33,835,395	33,835,395
<b>Total comprehensive income</b>	-	-	<b>33,835,395</b>	<b>33,835,395</b>
Equity settled share based payments	-	-	379,200	379,200
<b>Balance at 31 December 2020</b>	<b>96,943,356</b>	<b>154,110</b>	<b>135,402,634</b>	<b>232,500,100</b>

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated and Company Statements of Cash Flows for the Year Ended 31 December 2020**

		Consolidated Group		Company	
	Note	2020 £	2019 £	2020 £	2019 £
<b>Cash flows from operating activities</b>					
<b>Profit for the year before tax</b>		<b>48,329,040</b>	<b>37,946,177</b>	<b>33,741,941</b>	<b>59,296,492</b>
Adjustments to cash flows from non-cash items					
Depreciation, amortisation and impairment	12, 20	2,632,722	4,747,325	1,613,591	3,901,603
Depreciation on right of use assets	18	3,213,718	2,756,531	2,232,714	1,828,492
(Gain)/loss on derivative contracts	10	4,978,374	(8,781,696)	4,978,374	(8,781,696)
Fair value gain/(loss) on financial assets through profit and loss		224,414	3,282,637	-	-
Gain on derecognition of contingent consideration payable	6	(611,332)	(10,528,042)	(611,332)	(10,528,042)
Loss on sale of financial assets at amortised cost	6	382,149	(243,001)	-	-
Finance income	10	(333,841)	-	(757,175)	(386,554)
Finance expense	10	3,191,797	2,752,051	139,218	391,338
Equity settled share based payments		614,007	(761,084)	379,201	(515,537)
Foreign exchange (loss)/gain on investments	13	(15,919,506)	16,474,776	-	-
Foreign exchange gain/(loss) on loans		9,935,818	(10,353,899)	(4,204,716)	222,336
Dividends received		-	-	(29,000,000)	(27,000,000)
		<b>56,637,360</b>	<b>37,291,775</b>	<b>8,511,816</b>	<b>18,428,432</b>
Working capital adjustments					
(Increase)/decrease in trade and other receivables	21	(86,867,179)	3,950,908	(31,043,764)	29,670,124
Increase/(decrease) in trade and other payables	23	22,487,161	19,841,479	(40,925,412)	32,224,465
Increase in lease liability		-	-	1,707,482	-
Increase in contract assets		(446,254)	-	(1,348,997)	-
Increase in provisions and employee benefits	27	723,122	99,998	791,255	86,276
<b>Cash generated from/(used in) operations</b>		<b>(7,465,790)</b>	<b>61,184,160</b>	<b>(62,307,620)</b>	<b>80,409,297</b>
Income taxes paid		(5,670,564)	(7,848,314)	(809,894)	(2,524,772)
Interest paid		(3,015,369)	(2,770,569)	(17,590)	(459,720)
<b>Net cash flow generated from/(used in) operating activities</b>		<b>(16,151,723)</b>	<b>50,565,277</b>	<b>(63,135,104)</b>	<b>77,424,805</b>
<b>Cash flows from investing activities</b>					
Finance income received	10	333,841	458,091	757,175	361,744
Settlement of derivative contracts	10	(4,676,320)	5,230,056	(4,676,320)	5,230,056
Dividend income		-	-	29,000,000	27,000,000
Acquisitions of property, plant and equipment	12	(1,189,376)	(3,688,098)	(544,505)	(1,987,811)
Acquisition of subsidiary		-	(15,511,767)	-	(16,997,092)
Reversal of impairment of investment in subsidiary		-	-	-	(4,704,735)
Acquisition of investments	13	(20,468,814)	(81,805,494)	-	-
Investment in subsidiary	15	-	-	(13,097,179)	(56,876,855)
Disposal of investments	13	-	47,550,676	-	5,358,488
<b>Net cash flows (used in)/generated from investing activities</b>		<b>(26,000,669)</b>	<b>(47,766,536)</b>	<b>11,439,171</b>	<b>(42,616,205)</b>

The notes on pages 29 to 82 form an integral part of these financial statements.

PGIM Financial Limited  
Annual Report and Consolidated Financial Statements  
for the Year Ended 31 December 2020

**Consolidated and Company Statements of Cash Flows for the Year Ended 31 December 2020 (continued)**

		Consolidated Group		Company
	Note	2020 £	2019 £	2020 £
Cash flows from financing activities				
Interest expense on leases		(176,425)	(239,510)	(121,628)
Proceeds from issue of ordinary shares, net of issue costs	28	-	53,183,100	-
Proceeds from new loan	24	18,796,992	-	-
Repayment of borrowings	24	(3,100,055)	(21,863,613)	(3,100,054)
Payments to finance lease creditors		<u>(3,107,648)</u>	<u>(2,965,029)</u>	<u>(2,753,018)</u>
Net cash flows generated from/(used in) financing activities		<u>12,412,864</u>	<u>28,114,948</u>	<u>(5,974,700)</u>
Net (decrease)/increase in cash and cash equivalents		(29,739,528)	30,913,689	(57,670,633)
Cash and cash equivalents at 1 January		109,452,371	78,681,480	93,278,078
Foreign exchange revaluation reserve		<u>228,990</u>	<u>(142,798)</u>	<u>-</u>
Cash and cash equivalents at 31 December	22	<u>79,941,833</u>	<u>109,452,371</u>	<u>35,607,445</u>

The notes on pages 29 to 82 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1 General information

PGIM Financial Limited is a company limited by shares and 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.

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 the Company's registered office is:

Grand Buildings  
1-3 Strand  
Trafalgar Square  
London  
WC2N 5HR

These financial statements were authorised for issue by the board on 30 March 2021

### 2 Accounting policies

#### Basis of preparation

The consolidated financial statements have been prepared on a going concern basis in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, applicable as at 31 December 2020 and have been prepared on a going concern basis. The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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

The financial statements have been prepared on a going concern basis.

2020 was a challenging time for PGIM, for the asset management industry and global markets as a whole. With the declaration of a global pandemic in March 2020 by the World Health Organisation, the markets witnessed unprecedented turmoil as across the world different countries entered in and out of periods of physical and economic lockdown. For the employees of the Group, March 2020 was the beginning of an extended period of remote working, which continues today.

Following the move to working remotely, internal controls and procedures were reviewed to ensure that all controls continue to perform as expected. The governance of the Group was augmented with more frequent Senior Management and Board meetings and where necessary, appropriate actions taken. Where necessary, additional IT solutions and equipment was sourced and installed.

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. As different countries continue to enter in and out of periods of physical lockdown, it is anticipated that the employees of the Group will continue to predominantly work remotely for some time.

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 Company has performed an assessment of the 2021 expected performance of the Company. The potential impact on the performance of the Company for the 12 months following the signing of the accounts is difficult to forecast and is being monitored closely.

The Directors have performed an analysis of expected cashflows, including work performed on stress-testing for severe yet plausible scenarios, and planned for mitigating actions that can be taken. The Company is profitable, and is forecasted to remain profitable for the 12 months following the signing of the accounts. The Company 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 at least 12 months from the signing of the accounts.

A dividend of £30.0m was declared by the Directors on 14 February 2020, to be paid to the Group's sole shareholder PGIM, Inc. by 30 September 2020. In light of the market volatility witnessed in 2020 and in order to support balance sheet growth, with the agreement of PGIM, Inc, the dividend was not paid by 30 September 2020, and subsequently the resolution to pay the dividend has lapsed.

Because of the diversity of its revenue base, its liquidity, the strength of its balance sheet and access to sources of additional funding, the Directors are confident that 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.

#### Foreign currencies

##### *Functional and presentation currency*

Items included in the consolidated 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.



## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### *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.

#### *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 2020.

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 Company received dividends of £29.0m from its subsidiaries during the year;
- A dividend of £30.0m was declared by the Directors on 14 February 2020, to be paid to the Company's sole shareholder, PGIM, Inc. by 30 September 2020. With the agreement of PGIM, Inc., the dividend was not paid by 30 September 2020, and subsequently the resolution to pay the dividend has been allowed to lapse.

Significant changes in the current accounting period, but that did not impact the financial performance were as follows:

- PFL changed the pricing of the cost plus arrangement with its UK subsidiaries so that costs re-charged from 1 January 2020 are re-charged at cost with no mark-up. The estimated impact of this change in PFL was £14.0m, but there is no financial impact at a Group level;
- Transfer of £2.7bn in Assets under Management ('AUM') from third party and affiliated mandates in connection with Real Estate activities from PGIML to PGIMREL following the extension of its FCA permissions. The impact of this transfer of activities from PGIML and PFL to PGIMREL has resulted in a material increase of £28.0m in revenue from those mandates and affiliated activities in PGIMREL, together with an increase of £28.4m in associated costs transferred from PFL to PGIMREL.
- Novation of certain Fixed Income Mandates from PGIML to PGIM, Inc. and PGIM Netherlands B.V., whereby PGIML will continue to act as asset manager. Whilst there is a financial impact in the two companies, there is no financial impact at a Group level.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

- Establishment of the Frankfurt and Munich branches of PGIM Netherlands B.V. and the transfer of employees from the Frankfurt and Munich branches of PGIML.
- There has been no material financial impact as a result of COVID-19. The Group has been impacted from an operational perspective, whereby substantially all of the Group employees have been working remotely since march 2020 and continue to do today.

### Changes in accounting policy

#### New standards, interpretations and amendments effective

During the year, the following amendments to accounting standards came into effect:

- IFRS 3, 'Business combinations', definition of a business;
- IAS 1, 'Presentation of financial statements';
- IAS 8, 'Accounting policies, changes in accounting estimates';
- IFRS 9, IAS 39 and IFRS 17: Interest rate benchmark reform.

Following review of the amendments, the Directors consider that none of the standard, interpretations and amendments effective for the first time from 1 January 2020 have had a material effect on the financial statements.

There are no other amendments to the accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2020 that had a material impact on the consolidated 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.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### Accounting policy - IFRS 15

The Group recognises revenue under IFRS 15, which recognises revenue based on the transfer of control rather than the transfer of risks and rewards and employs a 5 step model to recognising revenue:

(1) Identify the contract with a customer:

Asset management fees, transactions fees and performance fees are covered by asset management agreements which detail the enforceable rights and obligations in respect of which the Group can expect to receive money. Transfer pricing fees are governed by transfer pricing agreements which outline the rights and obligations of each party and investment income received in respect of CLOs is governed also by contract.

(2) Identify the performance obligations in the contract:

IFRS 15 employs the concept of performance obligations. The Group recognises its revenue by reference to type of revenue stream. The Group recognises transaction fees as they occur and variable revenue, in the form of incentive fees, is recognised only once the conditions have been met. In respect of re-charge revenue, revenue is recorded on an incurred basis. Where it is determined that the performance obligations associated with the Group'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 asset management, transfer pricing and other revenue 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 and transfer pricing 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 Group becomes entitled and the related conditions are detailed in the agreement. The variability of the fee income relates to either the value of the underlying assets upon which the fee is based, or the variability of the costs to be re-charged. Where variable fee income is determined by reference to the underlying value of assets, the valuation of those assets is performed by a third party. Where variable re-charge income is determined by reference to costs incurred, the costs to be re-charged are determined when incurred. No significant management judgement is required to determine the transaction price.

(4) Allocate the transaction price to the performance obligations:

The transaction price is determined by the asset management or transfer pricing agreement. In respect of asset management fees, the fee rate detailed in the agreement is usually applied to the assets under management. In respect of re-charged costs, the amount of costs is re-charge to the counterparty with either a percentage margin or no margin, depending on the transfer pricing agreement. No significant management judgement is required to allocate the transaction price as the pricing approach is detailed in the agreement.

(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. At regular periods throughout the year, either quarterly or monthly depending on the agreement, the accrued fees will be adjusted to the actual fee earned during the period at the time the invoice is issued.

The Group recognises transaction fees as they occur and variable revenue, in the form of performance fees, is recognised only once the conditions have been met. Judgement is 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. Carry interest and performance fees of £30.6m have been recognised this year (2019: £3.3m).

In respect of re-charge revenue, revenue is recorded on an incurred basis.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

Interest income on equity tranches of CLOs classified as financial assets at amortised cost is accounted for in revenue on an accruals basis where reliable estimates of income is available.

#### 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 interest income from the CLOs based on the investment share PGIML 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.

#### Goodwill

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 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. Because of the wider contribution of the QMA Wadhvani LLP ("QMAW") business to PGIM, Inc. and its subsidiaries, it has been determined that the most appropriate level at which the impairment assessment for goodwill should be performed is at the PFL level.

#### Intangible assets

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 an 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.

Intangible assets 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 loss of a client relationship. 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. In the event that the impairment assessment justifies the reversal of an impairment loss previously recognised in the profit and loss account, this is recognised in the profit and loss account.

In respect of client relationships the methodology used to assess for impairment changed during the year. On acquisition, and during the first year following recognition, assessing the client relationships individually for impairment was deemed appropriate as the relationships had initially been valued on an individual basis. On this basis, during 2019 an intangible asset recognised in respect of a specific client relationship was fully impaired with a financial impact of £1.2m. From 1 January 2020 and further to the development of the QMAW business within the PGIM, Inc. group, it has been determined that the lowest level at which the intangible assets should be assessed for impairment is at the aggregate asset class level. It has been recognized that the future cash flows relating to the client relationships capitalized as intangible assets in the balance sheet of PFL form part of a global QMA strategy, and will benefit not only QMAW, but can also benefit PGIM Limited in its capacity as the global distributor of the PGIM Investment UCITs platform. During 2020 assets managed by QMAW have increased. Because of this and the decision to review client assets in aggregate, the impairment of £1.2m less accumulated amortisation has been reversed in 2020.

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.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### 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
Proprietary technology	20% per annum
Customer relationships	9% - 20% per annum
Trade name	20% per annum

#### 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 consolidated 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 accruals 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 for dilapidations

Provisions for dilapidations are recognised on a lease by lease basis and based on the Company's best estimate of the likely committed cash flow. A provision for dilapidations previously held by PPC in respect of its office lease for London Bridge has been reclassified as an intercompany payable to PFL, as it is the contractual counterparty to the London Bridge lease. PFL has subsequently recognised a provision for dilapidations.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### Contingent Consideration

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.

Contingent consideration was recognised at fair value on the acquisition of Wadhvani Capital Limited and QMA Wadhvani LLP (collectively 'Wadhvani Group') in the form of management and performance fee earnouts.

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 are revalued at each reporting date until the end of years 4 and 5 after acquisition. The assumptions used in the valuation model are also assessed to ensure they are still appropriate. If, on review of the expected earnings an adjustment to the fair value of the contingent consideration is necessary, the impact is recognised in the profit and loss account.

#### 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.

#### Dividends

Any dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

#### IFRS 16 Leases

The Group transitioned to IFRS 16 using the modified retrospective approach and as a result the cumulative effect of initial application was recognised in retained earnings at 1 January 2019. The prior period figures were not adjusted.

On adoption of IFRS 16, the Group set up a specialised project team to review the existing leasing arrangements to identify and align the Group's leases to the standard.

In this review, the Group decided to apply recognition exemptions to leases with a term not exceeding 12 months and leases where the underlying assets are of low value.

For leases classified as operating leases under IAS 17, these 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.

The Group has used the following practical expedients permitted by IFRS 16 for leases previously classified as operating leases:

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise liabilities for leases with less than 12 months of lease term remaining;
- Excluded initial direct costs for the measurement of right-to-use assets at the date of initial application;
- Accounted for operating leases with an annual value of less than £5,000 as low-value leases recognised in the Income Statement;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### *Measurement of right-of-use assets:*

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.

Right-of-use assets are subject to depreciation through the profit and loss, with the estimated useful economic life calculated as the term of the lease.

#### *Measurement of lease liabilities:*

The lease liabilities are 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.

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 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.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Group's activities associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in the Income Statement.

#### *Net investment in sublease:*

The Company subleases office space at 1 London Bridge to its subsidiary PGIM Private Capital Limited. This sublease is classified by reference to the right-of-use asset arising from the head lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the head lease, otherwise, it is classified as an operating lease.

For subleases classified as finance lease, the Company derecognises the right-of-use asset to the extent that it is subject to the sublease and recognises a net investment in sublease.

#### *Measurement of net investment in sublease:*

At the commencement date, the net investment in sublease is measured at an amount equal to the present value of the lease payments for the underlying right-of-use assets during the lease term. Finance income will be recognised over the lease term.

#### **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.



## Notes to the Financial Statements (continued)

### 2 Accounting policies (continued)

#### 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 (2019: £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 asset 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 accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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 and intangible assets), 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 management and performance fee earnouts recognised on the acquisition of Wadhvani Group was initially estimated by reference to the expected future earnings of the Wadhvani Group and is revalued at each reporting date until the end of years 4 and 5 after acquisition. The assumptions used in the valuation model are also assessed to ensure they are still appropriate.
- The fair value of intangible assets recognised on the acquisition of the Wadhvani Group were initially 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 the intangible assets is subject to an annual impairment review.
- The fair value of goodwill recognised initially on the acquisition of the Wadhvani Group was 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 goodwill recognised in the balance sheet is subject to an annual impairment assessment.
- 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.
- The Group utilises a share based payments programme for senior staff. The calculation of the liability under this programme incorporates certain assumptions such as the number of units to be awarded over the performance period and the weighted average grant-date fair value of restricted stock units.
- The Group provides for potential dilapidation costs in respect of its leases. To estimate the amount of the provision, management has adopted a method whereby they estimate the potential costs by reference to previous dilapidation costs and guidance from the Real Estate team who have established a per foot cost in order to restore the building based on market information.
- Bonus accruals are estimated by reference to the previous year charge for existing staff adjusted for new joiners and leavers throughout the year with oversight by the compensation team.

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

- The Group is entitled to receive performance fees and carry interest based on the performance of certain fixed income and real estate funds, for which it performs investment management services, such performance 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 performance 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 Group will receive these fees and a significant reversal will not occur.
- Trade and other payable balances to Group affiliates have been recognised in line with the accounting policy above and on the basis that they are fully payable.
- 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.
- Trade and other receivable balances from related and Group affiliates have been recognised in line with the accounting policy above and on the basis that they are fully recoverable.
- 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.

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## Notes to the Financial Statements (continued)

### 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 profit for the financial year after tax was £33,835,395 (2019: £56,595,757).

The decrease in Company's profit is mainly due to a change in management recharges to the subsidiaries from a 20% mark up to cost. The Company has also received £29.0m (2019: £27.0m) of dividends from its subsidiaries during the year recorded in management fees and other revenue.

### 5 Total Revenue

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

	2020 £	2019 (As restated) £
Fees charged to PFI Group companies	146,596,544	116,446,588
Fees charged to PFI Group affiliates	51,882,209	41,673,551
Fees charged to third parties	45,720,459	52,916,810
Interest income on financial assets at amortised cost	5,765,877	5,227,853
	<u>249,965,089</u>	<u>216,264,802</u>

In the 2019 comparatives, £1,234,753 which was incorrectly classified in 2019, has been reclassified from PFI Group affiliates to PFI Group companies. Fees charged to PFI Group affiliates and third party is now split into separate lines.

Interest income on financial assets held at fair value to profit or loss are included in Other gains.

Group revenue is analysed as follows:

	2020 £	2019 £
PGIM Private Capital	25,095,618	20,950,681
PGIM Real Estate	63,159,065	54,945,624
PGIM Fixed Income	121,923,660	109,352,526
PGIM Real Estate Finance	11,058,361	7,474,131
Institutional Relationship Management	3,221,300	3,522,982
Undertakings for Collective Investment in Transferable Securities (UCITS)	10,984,886	7,758,111
Quantitative Management Associates	12,401,808	10,096,703
Jennison Associates	1,094,367	784,396
Shared services and other departments	1,026,024	1,379,648
<b>Total revenue</b>	<u>249,965,089</u>	<u>216,264,802</u>

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## Notes to the Financial Statements (continued)

### 6 Other gains/(losses)

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

	2020 £	2019 £
Net fair value (losses)/gains on financial assets at fair value through profit or loss	(203,114)	(3,355,398)
Interest income on financial assets at fair value through profit or loss	5,336,876	5,408,480
Net (losses)/gains on disposal of amortised cost financial assets	(382,148)	243,001
Realised losses on foreign currency translation reserve	-	(152,497)
Gain on liquidation of Wadhvani Cayman Limited	-	392,512
Derecognition of contingent consideration payable	611,332	10,528,042
	<u>5,362,946</u>	<u>13,064,140</u>

### 7 Operating profit

Operating profit is stated after charging/(crediting):

	2020 £	2019 (As restated) £
Total staff costs (note 8)	121,080,865	110,592,637
Depreciation expense (note 12)	2,024,902	2,148,393
Depreciation on right-of-use assets (note 18)	3,213,717	2,756,531
Amortisation expense (note 20)	1,308,476	1,391,724
Impairment (reversal)/loss (note 20)	(1,207,208)	1,207,208
Operating lease expense - plant and machinery	46,825	48,623
Operating lease expense - property	-	465,410
Foreign exchange losses/(gains)	(4,983,320)	7,353,618
Fees payable to Company's auditors in respect of:		
- audit of the Company's financial statements	179,310	169,219
Fees payable to Group's auditors in respect of:		
- audit of Group subsidiaries financial statements	390,102	354,432
- audit-related assurance services	82,721	73,723
Management recharges for the Group:		
- PFI Group companies	<u>57,633,040</u>	<u>51,560,161</u>

The management recharges from PFI Group companies 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.

In the 2019 comparatives, £10,538,928 which was incorrectly classified in 2019, has been reclassified from affiliated entities to PFI Group companies. £1,186,760 which was incorrectly missed from classification in 2019, has been included to PFI Group companies.

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## Notes to the Financial Statements (continued)

### 8 Staff costs

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

	2020	2019
	£	£
Wages and salaries	100,636,795	93,111,366
Share-based payments (note 25)	3,754,201	3,247,390
Social security costs	12,728,669	11,200,579
Other pension costs (note 26)	3,961,200	3,033,302
<b>Staff costs</b>	<b>121,080,865</b>	<b>110,592,637</b>

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

	2020	2019
	£	£
Wages and salaries	82,806,036	78,961,607
Share-based payments (note 25)	3,167,687	3,035,622
Social security costs	10,812,613	9,886,827
Other pension costs (note 26)	3,400,049	2,606,039
<b>Staff costs</b>	<b>100,186,385</b>	<b>94,490,095</b>

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

	2020	2019
	No.	No.
Investment professionals	163	146
Finance and support functions	115	90
	<b>278</b>	<b>236</b>

### 9 Key management personnel

#### Company

The Directors' remuneration for the year was as follows:

	2020	2019
	£	£
Directors emoluments	2,088,638	1,960,159
Amounts excluding shares receivable under long term incentive schemes	264,000	453,335
Contributions to pension schemes	30,687	40,572
	<b>2,383,325</b>	<b>2,454,066</b>

The total value of awards receivable by the Directors under long-term incentive schemes excluding shares is £264,000 (2019: £240,000).

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2020	2019
	No.	No.
Received or were entitled to receive shares under long term incentive schemes	4	4
Accruing benefits under defined benefit pension scheme	4	4
Accruing benefits under money purchase pension scheme	8	8



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## Notes to the Financial Statements (continued)

### 9 Key management personnel (continued)

In respect of the highest paid Director:

	2020 £	2019 £
Director emoluments	1,133,852	1,122,770
Amounts excluding shares receivable under long term incentive schemes	<u>264,000</u>	<u>240,000</u>
	<u><u>1,397,852</u></u>	<u><u>1,362,770</u></u>

The value of awards receivable by the highest paid Director under long-term incentive schemes excluding shares is £264,000 (2019: £240,000). Four Directors received Restricted Stock Units and/or Options during the year (2019: Four). Four Directors are members of the defined contributions scheme operated for the benefit of all eligible employees of the PGIM Financial Limited Group (2019: Four). The highest paid Director had no accrued UK defined benefits plan entitlements at the end of the year (2019: £nil). Eight Directors participate in the Ultimate Parent company's pension scheme (2019: eight). No options were exercised by the Directors during the year (2019: nil). The highest paid Director did not exercise any options during the year (2019: 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.

#### *Company*

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

Directors	Paid for by
P. M. Barrett	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.)
S. Saperstein	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)
D. J. Malooly	PGIM, Inc. (the parent company of PGIM Financial Limited)

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**Notes to the Financial Statements (continued)**

**10 Finance income and expense**

*Group*

	2020 £	2019 £
<b>Finance income</b>		
Interest income from Group undertakings	333,841	458,091
Realised gain on derivative contract	-	5,230,056
Unrealised gain on derivative contract	-	3,551,640
<b>Total finance income</b>	<b>333,841</b>	<b>9,239,787</b>
<b>Finance expense</b>		
Interest expense on leases	(176,426)	(239,510)
Bank charges	(34,500)	(35,505)
Loan interest payable to affiliates	(3,015,371)	(2,752,051)
Realised loss on derivative contract	(4,668,979)	-
Unrealised loss on derivative contract	(309,395)	-
<b>Total finance expense</b>	<b>(8,204,671)</b>	<b>(3,027,066)</b>
<b>Net finance (expense)/income</b>	<b>(7,870,830)</b>	<b>6,212,721</b>

*Company*

	2020 £	2019 £
<b>Finance income</b>		
Interest income from Group undertakings	757,175	386,554
Realised gain on derivative contract	-	5,230,056
Unrealised gain on derivative contract	-	3,551,640
<b>Total finance income</b>	<b>757,175</b>	<b>9,168,250</b>
<b>Finance expense</b>		
Interest expense on leases	(121,628)	(130,481)
Bank charges	(16,992)	(3,197)
Loan interest payable to affiliates	(17,590)	(391,338)
Realised loss on derivative contract	(4,978,374)	-
<b>Total finance expense</b>	<b>(5,134,584)</b>	<b>(525,016)</b>
<b>Net finance (expense)/income</b>	<b>(4,377,409)</b>	<b>8,643,234</b>

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## Notes to the Financial Statements (continued)

### 11 Tax expense

Tax charged/(credited) in the Income Statement

	2020 £	2019 £
<b>Current taxation</b>		
UK corporation tax	6,337,238	5,652,836
Double taxation relief	(434,588)	(188,508)
Overseas taxes	846,447	366,935
<b>Total current income tax</b>	<b>6,749,097</b>	<b>5,831,263</b>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	287,792	(998,784)
<b>Total deferred taxation</b>	<b>287,792</b>	<b>(998,784)</b>
<b>Tax expense in the Income Statement</b>	<b>7,036,889</b>	<b>4,832,479</b>

No income tax is recognised in Other Comprehensive Income (2019: £nil).

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019: lower than the standard rate of corporation tax in the UK) of 19.00% (2019: 19.00%).

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these consolidated financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the tax expense for the period by £65,493 and to increase the deferred tax liability by £921,272.

The differences are reconciled below:

	2020 £	2019 £
<b>Profit before tax</b>	<b>48,329,040</b>	<b>37,946,177</b>
<b>Corporation tax at standard rate</b>	<b>8,600,941</b>	<b>7,130,868</b>
Increase from effect of capital allowances depreciation	(4,634)	20,712
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2,236,726	489,383
Tax decrease from utilisation of tax losses	(233,683)	-
(Decrease) from effect of unrelieved tax losses carried forward	(4,237,036)	(914,989)
(Decrease) arising from group relief tax reconciliation	-	(45,762)
Increase arising from overseas tax suffered (expensed)	846,447	366,935
(Decrease) from effects of double taxation relief	(434,588)	(188,508)
Disallowable share based payments	861,468	-
Allowable share based payments	(1,169,994)	(81,064)
(Decrease) from effect of unrelieved advance corporation tax carried forward	454,346	(1,248,948)
Allowable lease expenses	(56,291)	(113,431)
Losses carried forward	173,187	(582,717)
<b>Total tax charge</b>	<b>7,036,889</b>	<b>4,832,479</b>

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%.

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## Notes to the Financial Statements (continued)

### 11 Tax expense (continued)

The current tax payable as at 31 December 2020 recognised in the Consolidated Statement of Financial Position is £2,624,512 (2019: 1,545,978).

### 12 Property, plant and equipment

#### Group

	Office Equipment, Furniture and Fittings £	Leasehold improvements £	Total £
<b>Cost or valuation</b>			
At 1 January 2019	4,196,282	5,784,859	9,981,141
Additions	2,896,368	791,730	3,688,098
<b>At 31 December 2019</b>	<b>7,092,650</b>	<b>6,576,589</b>	<b>13,669,239</b>
At 1 January 2020	7,092,650	6,576,589	13,669,239
Additions	1,136,619	52,757	1,189,376
<b>At 31 December 2020</b>	<b>8,229,269</b>	<b>6,629,346</b>	<b>14,858,615</b>
<b>Accumulated Depreciation</b>			
At 1 January 2019	3,284,931	3,241,326	6,526,257
Charge for year	1,321,271	827,122	2,148,393
<b>At 31 December 2019</b>	<b>4,606,202</b>	<b>4,068,448</b>	<b>8,674,650</b>
At 1 January 2020	4,606,202	4,068,448	8,674,650
Charge for the year	1,146,143	878,759	2,024,902
<b>At 31 December 2020</b>	<b>5,752,345</b>	<b>4,947,207</b>	<b>10,699,552</b>
<b>Carrying amount</b>			
<b>At 31 December 2020</b>	<b>2,476,924</b>	<b>1,682,139</b>	<b>4,159,063</b>
<b>At 31 December 2019</b>	<b>2,486,448</b>	<b>2,508,141</b>	<b>4,994,589</b>
<b>At 1 January 2019</b>	<b>911,351</b>	<b>2,543,533</b>	<b>3,454,884</b>

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**Notes to the Financial Statements (continued)**

**12 Property, plant and equipment (continued)**

**Company**

	Office Equipment, Furniture and Fittings £	Leasehold improvements £	Total £
<b>Cost or valuation</b>			
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>
<b>At 31 December 2019</b>	<b><u>4,948,966</u></b>	<b><u>5,327,388</u></b>	<b><u>10,276,354</u></b>
At 1 January 2020	4,948,966	5,327,388	10,276,354
Additions	<u>493,471</u>	<u>51,034</u>	<u>544,505</u>
<b>At 31 December 2020</b>	<b><u>5,442,437</u></b>	<b><u>5,378,422</u></b>	<b><u>10,820,859</u></b>
<b>Accumulated Depreciation</b>			
At 1 January 2019	2,598,250	2,672,047	5,270,297
Charge for year	<u>566,204</u>	<u>736,467</u>	<u>1,302,671</u>
<b>At 31 December 2019</b>	<b><u>3,164,454</u></b>	<b><u>3,408,514</u></b>	<b><u>6,572,968</u></b>
At 1 January 2020	3,164,454	3,408,514	6,572,968
Charge for the year	<u>761,776</u>	<u>750,547</u>	<u>1,512,323</u>
<b>At 31 December 2020</b>	<b><u>3,926,230</u></b>	<b><u>4,159,061</u></b>	<b><u>8,085,291</u></b>
<b>Carrying amount</b>			
<b>At 31 December 2020</b>	<b><u>1,516,207</u></b>	<b><u>1,219,361</u></b>	<b><u>2,735,568</u></b>
<b>At 31 December 2019</b>	<b><u>1,784,512</u></b>	<b><u>1,918,874</u></b>	<b><u>3,703,386</u></b>
<b>At 1 January 2019</b>	<b><u>741,313</u></b>	<b><u>2,276,931</u></b>	<b><u>3,018,244</u></b>

## Notes to the Financial Statements (continued)

### 13 Investments - Group

#### a) Financial assets at fair value through profit or loss

The Group 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:

	2020 £	2019 £
<b>Collateralised loan obligations</b>		
As at 1 January	25,336,670	27,143,488
Additions	1,398,055	2,981,401
Movement in fair value due to foreign exchange (losses)/gains	(370,337)	(1,505,582)
(Losses)/gains on Financial assets at fair value through profit or loss	(224,414)	(3,282,637)
Amortisation	190,550	-
<b>Other investments</b>		
Other investments in funds	134,083	129,087
<b>As at 31 December</b>	<b>26,464,607</b>	<b>25,465,757</b>

Further to the £26.3M (2019: £25.3M) investments in CLOs classified as FVPL held by the Group, QMA Wadhvani LLP, a subsidiary of PGIM Financial Limited holds investments of £134,082 (2019: £129,087) in the fund, Keynes Leveraged Quantitative Strategies Fund Limited, to which it provides investment management services.

#### Current Assets

##### Analysis of movements:

	2020 £	2019 £
<b>Warehouse</b>		
As at 1 January	1,676,157	2,543,533
Additions	7,830,599	11,973,433
Disposals	(9,601,772)	(13,119,676)
Movement in fair value due to foreign exchange gains/(losses)	95,016	278,867
<b>As at 31 December</b>	<b>-</b>	<b>1,676,157</b>

During the year and upon the launch of Dryden 79 Euro CLO 2019 B.V., the Group was refunded the £9.6m (€10.7m) it had originally contributed towards its warehouse investment in the CLO. Looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIMLOM. In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

#### 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:*

	2020	2019
	£	£
<b>Collateralised loan obligations</b>		
As at 1 January	284,728,380	271,140,654
Additions	33,288,530	66,850,661
Disposals	(13,280,000)	(34,431,000)
Repayment of financial assets	(279,718)	(3,909,244)
Movement in fair value due to foreign exchange rate	16,289,843	(15,248,060)
Realised (losses)/gains on sale of investment	(382,149)	250,583
Amortisation charges	316,003	74,786
<b>As at 31 December</b>	<b><u>320,680,889</u></b>	<b><u>284,728,380</u></b>

For financial assets at amortised cost, a 12-month ECL model was used to calculate the estimated expected credit loss for the 12 months subsequent to the balance sheet date based on a probability weighted range of expected outcomes. The expected credit loss was immaterial, which would have otherwise been recognised in the Income Statement. Due to the waterfall structure in the CLOs, the sub tranches are more exposed to credit losses than the tranches carried at amortised cost. The fair value of CLO instruments classified as financial assets at amortised cost at 31 December 2020 is £318,642,071 (2019: £283,692,477).

## 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.

Looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIM Loan Originator Manager Limited ('PGIMLOM'). In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

#### *Additions*

During the year, Dryden 74 Euro CLO 2020 DAC launched on 24 April at £17.7m, (€20.4m) and Dryden 35 Euro CLO 2014 B.V. reset 31 January at £16.9m (€20.1m) with the exception of the Sub notes.

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.

#### *Disposals*

During the year, Dryden 35 Euro CLO 2014 B.V. existing notes were redeemed at par at £13.5m (€16.0m) following reset in January and the principal Class X notes of £0.4m (€0.5m) for Dryden 32 Euro CLO 2014 B.V., Dryden 48 Euro CLO 2016 B.V. and Dryden 69 Euro CLO 2018 B.V. were repaid in 2020.

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.

#### *Warehouse investment*

For the year ended 31 December 2020, the Group contributed £7.8m (€8.7m) towards its warehouse investment in Dryden 79 Euro CLO 2019 B.V. and also received £9.6m (€10.7m) for the disposal of Dryden 79 Euro CLO 2019 B.V.

Looking forward, it is anticipated that the majority of new CLO launches and resets of existing CLOs will not require PGIML to hold the risk retention percentage and instead this will be undertaken by a new affiliate, PGIM Loan Originator Manager Limited ('PGIMLOM'). In those instances, risk retention investment will be undertaken by PGIMLOM, which will act as co-manager with PGIML. PGIML will continue to act as sole collateral manager to the existing CLOs and hold the 5% investment required in these CLOs. The 5% investment in respect of existing CLOs will remain with PGIML.

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.



## 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 2020	Carrying value 2020 / Maximum exposure to loss £	Maturity 2019	Carrying value 2019/ Maximum exposure to loss £
Dryden XXVII-R Euro CLO 2017 DAC	2030	20,863,332	2030	19,758,595
Dryden 29 Euro CLO 2013 DAC	2032	17,722,791	2032	17,015,895
Dryden 32 Euro CLO 2014 DAC	2026	17,806,998	2026	16,929,429
Dryden 35 Euro CLO 2014 DAC	2027	19,441,416	2027	14,487,649
Dryden 39 Euro CLO 2015 DAC	2031	22,478,794	2031	21,234,336
Dryden 44 Euro CLO 2015 DAC	2030	17,768,121	2030	17,181,834
Dryden 46 Euro CLO 2016 DAC	2030	20,280,557	2030	18,957,026
Dryden 48 Euro CLO 2016 DAC	2032	17,949,306	2032	17,129,858
Dryden 51 Euro CLO 2017 DAC	2031	17,838,936	2031	16,949,296
Dryden 52 Euro CLO 2017 DAC	2031	18,164,997	2031	17,297,693
Dryden 56 Euro CLO 2017 DAC	2032	27,103,567	2032	25,719,215
Dryden 59 Euro CLO 2017 DAC	2032	21,536,612	2032	20,542,881
Dryden 62 Euro CLO 2017 DAC	2031	20,372,466	2031	19,351,729
Dryden 63 Euro CLO 2018 DAC	2032	15,637,814	2032	16,206,302
Dryden 66 Euro CLO 2018 DAC	2032	17,936,160	2032	17,019,958
Dryden 69 Euro CLO 2019 DAC	2030	17,849,565	2030	17,152,396
Dryden 73 Euro CLO 2019 DAC	2034	18,009,389	2034	17,130,957
Dryden74 Euro CLO 2020 DAC	2033	18,250,592		-
		<u>347,011,413</u>		<u>310,065,049</u>

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

	2020 £	2019 £
Carrying value of financial assets through profit or loss	26,330,524	25,336,670
Carrying value of financial assets at amortised cost	<u>320,680,889</u>	<u>284,728,380</u>
<b>Total investments</b>	<u><b>347,011,413</b></u>	<u><b>310,065,050</b></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)

	2020	2019
	£	£
AAA / Aaa	197,060,777	182,805,550
AA / Aa2	39,637,406	36,451,394
A / A2	22,997,466	20,956,807
BBB / Baa2	11,233,282	11,606,576
BBB- / Baa3	19,504,117	5,737,796
BB / Ba2	15,015,487	16,057,655
BB- / Ba3	4,191,712	2,090,663
B+ / B1	1,286,029	1,203,300
B / B2	7,806,298	7,204,972
B- / B3	1,948,315	613,666
Not rated	26,330,524	25,336,670
<b>Maximum exposure to loss</b>	<b>347,011,413</b>	<b>310,065,049</b>

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)
2020 CLO	347.0	6,949	33.8
2019 CLO	310.1	6,234	30.3

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.

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

#### 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.

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## Notes to the Financial Statements (continued)

### 14 Interests in unconsolidated structured entities (continued)

	Assets under management (£m)	Investment management fees earned (£m)
<b>2020</b>		
Collective investment schemes	1,679	16.3
Institutional investors	19,094	48.1
<b>2019</b>		
Collective investment schemes	4,218	23.7
Institutional investors	18,222	42.8

### 15 Investments in subsidiaries - Company

#### Summary of the Company investments

	Subsidiaries £	Other investments £	Total £
<b>Cost or valuation</b>			
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)
<b>At 31 December 2019</b>	<b>113,712,552</b>	<b>1</b>	<b>113,712,553</b>
At 1 January 2020	113,712,552	1	113,712,553
Additions	13,100,567	-	13,100,567
Disposals	(3,388)	-	(3,388)
<b>At 31 December 2020</b>	<b>126,809,731</b>	<b>1</b>	<b>126,809,732</b>
<b>Carrying amount</b>			
<b>At 31 December 2020</b>	<b>126,809,731</b>	<b>1</b>	<b>126,809,732</b>
<b>At 31 December 2019</b>	<b>113,712,552</b>	<b>1</b>	<b>113,712,553</b>

No impairment has been recognised in respect of any of the Company's investments (2019: £4,704,735). In 2019 it was determined that the £4,704,735 of impairment previously recognised could be reversed as the subsidiary PPC had reported profits for several years.

Other investments relates to interests assigned to the Company.

The Company has the following investments in its subsidiaries<sup>1</sup>:

Name of legal entity	Country of incorporation	Class of shares held	Ownership 2020	2019
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 <sup>2</sup>	£1 Ordinary	100%	100%
Pramerica Real Estate Capital IV GP Limited	UK	£1 Ordinary	100%	100%

## Notes to the Financial Statements (continued)

### 15 Investments in subsidiaries - Company (continued)

Name of legal entity	Country of incorporation	Class of shares held	Ownership 2020	2019
PGIM Real Estate CD S.a.r.l	Luxembourg <sup>3</sup>	€100 Ordinary	100%	100%
PGIM Management Partner Limited	UK	£1 Ordinary	100%	100%
German Retail Income General Partner Limited	Jersey <sup>4</sup>	£1 Ordinary	100%	100%
Pramerica Fixed Income Funds Management Limited	Ireland <sup>5</sup>	€1 Ordinary	100%	100%
Legos GP Limited	Jersey <sup>4</sup>	£1 Ordinary	100%	100%
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%
Pramerica General Partner LLP	UK	£1 Ordinary	50%	50%
Pramerica Real Estate Capital I GP (Scots Feeder) LLP	UK <sup>2</sup>	£1 Ordinary	50%	50%
Pramerica Real Estate Capital IV GP (Scots Feeder) LLP	UK <sup>2</sup>	£1 Ordinary	50%	50%
Pramerica (Scots) CP GP LLP	UK <sup>2</sup>	£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 <sup>2</sup>	£1 Ordinary	50%	50%
Pramerica PRECAP VI GP LLP	UK	£1 Ordinary	50%	50%
PGIM Private Capital (Ireland) Limited	Ireland <sup>6</sup>	€1 Ordinary	94.55%	94.55%
Wadhvani Capital Limited	UK <sup>7</sup>	£1 Ordinary	100%	100%
QMA Wadhvani LLP	UK <sup>7</sup>	£1 Ordinary	50%	50%
PGIM Netherlands B.V.	Netherlands <sup>8</sup>	€1 Ordinary	100%	100%

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

<sup>2</sup> Registered Office: 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ

<sup>3</sup> Registered Office: Boulevard de la Foire, L-1528 Luxembourg, Grand-Duché de Luxembourg

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

<sup>5</sup> Registered Office: 70 Sir John Rogerson's Quay, Dublin, Ireland

<sup>6</sup> Registered Office: Pramerica Drive, Letterkenny Business & Technology Park, Letterkenny, Ireland

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

<sup>8</sup> Registered Office: Noma House Offices, Gustav, Mahlerlaan 1212, 1081 LA Amsterdam, Netherlands

## Notes to the Financial Statements (continued)

### 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.

The Group measures fair values in accordance with IFRS 13 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

##### 2020

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Financial assets at fair value through profit or loss</b>				
Unconsolidated structured entities	-	-	26,330,524	26,330,524
Other Investments	134,082	-	-	134,082
<b>Total</b>	<b>134,082</b>	<b>-</b>	<b>26,330,524</b>	<b>26,464,606</b>

##### 2019

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

The Group has concluded that its investments in CLOs are appropriately considered as Level 3 financial instruments based on the illiquidity of trading and the lack of reliable market valuations for those investments. There has been no transfer between levels during the year.

## Notes to the Financial Statements (continued)

### 16 Fair value of financial instruments (continued)

#### Group and Company derivative financial instruments

##### 2020

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>Fair value through (profit)/ loss</b>				
Derivative Forward contract	-	2,895,434	-	2,895,434
<b>Total</b>	<b>-</b>	<b>2,895,434</b>	<b>-</b>	<b>2,895,434</b>

##### 2019

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

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

	2020 £	2019 £
<b>Opening balance 1 January</b>	25,336,670	27,143,488
Acquisitions	1,398,055	2,981,401
Movement in fair value due to foreign exchange rate	(370,337)	(1,505,582)
Financial (liabilities)/assets at fair value to profit or loss	(224,414)	(3,282,637)
Amortisation	190,550	-
<b>Closing balance 31 December</b>	<b>26,330,524</b>	<b>25,336,670</b>

#### Level 3 valuation inputs and relationships to fair value

In 2020, the unconsolidated structured entities were valued using adjusted pricing information and deemed to have a fair value of £26,330,524. As such, no significant unobservable inputs have been utilised by the Company.

##### 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.

Contingent consideration of £8,772,657 (2019: £9,366,000) recognised on the acquisition of QMA Wadhvani LLP and Wadhvani Capital Limited has been measured as a Level 3 liability as it is valued using discounted cash flows.

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**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:

	Asset £	Liability £	Net deferred tax £
<b>2020</b>			
Disallowed share based payments	170,036	1,328,613	1,498,649
Amortisation	-	(4,340,370)	(4,340,370)
Tax losses carry-forwards	409,531	-	409,531
Accelerated tax depreciation	8,009	(16,310)	(8,301)
Leases	60,973	108,749	169,722
Rate Change	-	-	-
	<u>648,549</u>	<u>(2,919,318)</u>	<u>(2,270,769)</u>
<b>2019</b>			
Disallowed share based payments	95,412	777,591	873,003
Amortisation	-	(3,529,209)	(3,529,209)
Tax losses carry-forwards	582,718	-	582,718
Accelerated tax depreciation	46,206	(69,127)	(22,921)
Leases	33,367	80,064	113,431
Rate Change	-	-	-
	<u>757,703</u>	<u>(2,740,681)</u>	<u>(1,982,978)</u>

Deferred tax movement during the year:

	At 1 January 2020 £	Recognised in income £	At 31 December 2020 £
Disallowed share based payments	873,003	625,646	1,498,649
Amortisation	(3,529,209)	(811,161)	(4,340,370)
Tax losses carry-forwards	582,718	(173,187)	409,531
Accelerated tax depreciation	(22,921)	14,620	(8,301)
Leases	113,431	56,291	169,722
Rate Change	-	-	-
Net tax assets/(liabilities)	<u>(1,982,978)</u>	<u>(287,791)</u>	<u>(2,270,769)</u>

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**Notes to the Financial Statements (continued)**

**17 Deferred tax (liabilities)/assets (continued)**

Deferred tax movement during the prior 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
Amortisation	-	477,348	(4,006,557)	(3,529,209)
Tax losses carry-forwards	-	582,718	-	582,718
Accelerated tax depreciation	51,645	(74,566)	-	(22,921)
Leases	-	113,431	-	113,431
Rate Change	-	-	-	-
Net tax assets/(liabilities)	<u>1,024,795</u>	<u>998,784</u>	<u>(4,006,557)</u>	<u>(1,982,978)</u>

**Company**

*Recognised deferred tax liabilities*

Deferred tax liabilities are attributable to the following:

	Liability £
<b>2020</b>	
Disallowed share based payments	1,328,614
Leases	108,749
Amortisation	(4,340,370)
Accelerated tax depreciation	(14,355)
	<u>(2,917,362)</u>
<b>2019</b>	
Disallowed share based payments	777,591
Leases	96,959
Amortisation	(3,529,209)
Accelerated tax depreciation	(69,127)
	<u>(2,723,786)</u>



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## Notes to the Financial Statements (continued)

### 17 Deferred tax (liabilities)/assets (continued)

Deferred tax movement during the year:

	At 1 January 2020	Recognised in income	At 31 December 2020
	£	£	£
Disallowed share based payments	777,591	551,023	1,328,614
Leases	96,959	11,790	108,749
Amortisation	(3,529,209)	(811,161)	(4,340,370)
Accelerated tax depreciation	(69,127)	54,772	(14,355)
Net tax assets/(liabilities)	<u>(2,723,786)</u>	<u>(193,576)</u>	<u>(2,917,362)</u>

Deferred tax movement during the prior 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
Leases	-	96,959	-	96,959
Amortisation	-	477,348	(4,006,557)	(3,529,209)
Accelerated tax depreciation	24,150	(93,277)	-	(69,127)
Net tax assets/(liabilities)	<u>867,859</u>	<u>414,912</u>	<u>(4,006,557)</u>	<u>(2,723,786)</u>

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**Notes to the Financial Statements (continued)**

**18 Right-of-use assets**

**Group**

	Property £	Total £
<b>Cost or valuation</b>		
At 1 January 2019	7,982,320	7,982,320
Additions	4,426,740	4,426,740
<b>At 31 December 2019</b>	<b>12,409,060</b>	<b>12,409,060</b>
At 1 January 2020	12,409,060	12,409,060
Adjustments	446,254	446,254
<b>At 31 December 2020</b>	<b>12,855,314</b>	<b>12,855,314</b>
<b>Accumulated Depreciation</b>		
At 1 January 2019	-	-
Charge for year	(2,756,531)	(2,756,531)
<b>At 31 December 2019</b>	<b>(2,756,531)</b>	<b>(2,756,531)</b>
At 1 January 2020	(2,756,531)	(2,756,531)
Charge for the year	(3,213,718)	(3,213,718)
<b>At 31 December 2020</b>	<b>(5,970,249)</b>	<b>(5,970,249)</b>
<b>Carrying amount</b>		
At 31 December 2020	6,885,065	6,885,065
At 31 December 2019	9,652,529	9,652,529

**Company**

	Property £	Total £
<b>Cost or valuation</b>		
At 1 January 2019	5,353,324	5,353,324
Additions	1,834,967	1,834,967
<b>At 31 December 2019</b>	<b>7,188,291</b>	<b>7,188,291</b>
At 1 January 2020	7,188,291	7,188,291
<b>At 31 December 2020</b>	<b>7,188,291</b>	<b>7,188,291</b>
<b>Accumulated Depreciation</b>		
At 1 January 2019	-	-
Charge for year	(1,828,492)	(1,828,492)
<b>At 31 December 2019</b>	<b>(1,828,492)</b>	<b>(1,828,492)</b>
At 1 January 2020	(1,828,492)	(1,828,492)
Charge for the year	(2,232,714)	(2,232,714)
<b>At 31 December 2020</b>	<b>(4,061,206)</b>	<b>(4,061,206)</b>
<b>Carrying amount</b>		
At 31 December 2020	3,127,085	3,127,085
At 31 December 2019	5,359,799	5,359,799

## Notes to the Financial Statements (continued)

### 18 Right-of-use assets (continued)

The Group leases various offices and other real estate.

The Company leases the Eighth Floor of East Building, One London Bridge, London SE1 9BG (London Bridge Office) under a 10 year lease signed on 8 August 2014 which is occupied by PGIM Private Capital Limited ('PPC').

The Company, as the contractual lease holder, has recognised a lease liability in respect of the London Bridge lease and an investment in sublease in respect of the intercompany liability with PPC for lease payments due. Refer to Notes 19 and 31.

Following a rent review during 2020 and then a subsequent increase in the annual rent charge applied retrospectively to 24 June 2019, the right-of-use asset recognised in PPC has been increased to reflect the increased annual rent charge and the impact recognised an adjustment to the right-of-use asset.

Right-of-use assets are measured at cost comprising the following:

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

The right-of-use assets are subject to depreciation through the profit and loss, with the estimated useful economic life calculated as the term of the lease.

### 19 Net-investment in sub-lease

#### Company

	Property £	Total £
Cost or valuation		
At 31 December 2019	-	-
At 1 January 2020	-	-
Adjustment	1,245,199	1,245,199
At 31 December 2020	<u>1,245,199</u>	<u>1,245,199</u>

The Company subleases office space at 1 London Bridge. This sublease is classified by reference to the right-of-use asset arising from the head lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards from the right-of-use asset resulting from the head lease, otherwise, it is classified as an operating lease. Following the transfer of benefits and obligations in relation to the lease from the Company to PPC under an inter-affiliate agreement the Company has derecognised the right-of-use asset to the extent that it is subject to the sub-lease and recognised a net investment in sublease.

At the commencement date, net investment in sublease is measured at an amount equal to the present value of the lease payments for the underlying right-of-use assets during the lease term. Finance income will be recognised over the lease term.

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**Notes to the Financial Statements (continued)**

**20 Intangible assets**

**Group and Company**

	Goodwill £	Trade name £	Contractual customer relationships £	Proprietary technology £	Total £
<b>Cost or valuation</b>					
Additions	16,428,003	628,141	18,412,376	4,318,468	39,786,988
<b>At 31 December 2019</b>	<b>16,428,003</b>	<b>628,141</b>	<b>18,412,376</b>	<b>4,318,468</b>	<b>39,786,988</b>
<b>At 1 January 2020</b>	<b>16,428,003</b>	<b>628,141</b>	<b>18,412,376</b>	<b>4,318,468</b>	<b>39,786,988</b>
<b>At 31 December 2020</b>	<b>16,428,003</b>	<b>628,141</b>	<b>18,412,376</b>	<b>4,318,468</b>	<b>39,786,988</b>
<b>Accumulated Amortisation</b>					
Amortisation charge	-	153,782	392,143	845,799	1,391,724
Impairment charge	-	-	1,207,208	-	1,207,208
<b>At 31 December 2019</b>	<b>-</b>	<b>153,782</b>	<b>1,599,351</b>	<b>845,799</b>	<b>2,598,932</b>
<b>At 1 January 2020</b>	<b>-</b>	<b>153,782</b>	<b>1,599,351</b>	<b>845,799</b>	<b>2,598,932</b>
Amortisation charge	-	157,035	287,748	863,693	1,308,476
Impairment charge reversal	-	-	(1,207,208)	-	(1,207,208)
<b>At 31 December 2020</b>	<b>-</b>	<b>310,817</b>	<b>679,891</b>	<b>1,709,492</b>	<b>2,700,200</b>
<b>Carrying amount</b>					
<b>At 31 December 2020</b>	<b>16,428,003</b>	<b>317,324</b>	<b>17,732,485</b>	<b>2,608,976</b>	<b>37,086,788</b>
<b>At 31 December 2019</b>	<b>16,428,003</b>	<b>474,359</b>	<b>16,813,025</b>	<b>3,472,669</b>	<b>37,188,056</b>

On 9 January 2019, PFL wholly acquired Wadhvani Cayman Limited, the parent of Wadhvani Capital Limited. 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. 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 are 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.

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.

## Notes to the Financial Statements (continued)

### 20 Intangible assets (continued)

#### 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.

In respect of client relationships with a indefinite useful life the methodology used to assess for impairment changed during the year. On acquisition, and during the first year following recognition, assessing the client relationships individually for impairment was deemed appropriate as the relationships had initially been valued on an individual basis. From 1 January 2020 and further to the development of the QMA Wadhvani business within PGIM, Inc. and its subsidiaries ('PGIM Group'), it has been determined that because of the wider contribution of these intangible assets to the PGIM Group, the lowest level at which the intangible assets should be assessed for impairment is at an aggregated class level. Further to this change in methodology the impairment assessment performed in 2020 determined that the impairment loss of £1.2m recognised in 2019 in respect of an individual client relationship should be written back to the profit and loss account.

It has been recognized that the future cash flows relating to the client relationships capitalized as intangible assets in the balance sheet of PFL form part of a global QMA Wadhvani strategy, and will benefit not only QMA Wadhvani, but can also benefit PGIM Limited in its capacity as the global distributor of the PGIM Investment UCITs platform. On this basis, and considering the client assets in aggregate, as a result of growth in Assets under Management the impairment of £1.2m, less accumulated amortisation has been reversed in 2020

#### 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 Group. 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. Because of wider contribution of the Wadhvani Group to the Group, the Cash Generating Unit has been determined to be at the Group level. The goodwill impairment assessment performed at the year end concluded that the goodwill was not impaired.

## Notes to the Financial Statements (continued)

### 20 Intangible assets (continued)

#### Contingent consideration

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.

Part of the consideration was composed of fee earn-outs and performance fee earn-outs; variable amounts that will be paid for each of the five successive twelve month periods following the acquisition. They are dependent of certain key employees being continually employed in the first three years. Management and performance fee earnouts of £4.5m and £0.02m respectively were recognised on acquisition in respect of 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 have not been held as a liability at fair value as part of consideration, but rather expensed through the profit and loss account as remuneration.

Also as part of the acquisition the Company agreed to pay the selling shareholders additional consideration of £14,897,000 contingent on certain cumulative profit and AUM targets being achieved as detailed in Sale and Purchase Agreement.

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 of the Company. As at 31 December 2020, the balance of contingent consideration due (including management earnouts) was £4,368,958 (2019 : £4,368,958).

Contingent consideration is periodically reviewed for impairment by reference to the expected contribution of Wadhvani to the PGIM Group. In 2020 the Wadhvani Group contributed revenue of £8,550,685 to the Group results, but suffered a loss of £9,837,003, due mainly to retention payments and integration costs, however, with the support of QMA and QMA's distribution network, the QMA Wadhvani LLP's members are optimistic about the future growth in AUM.

### 21 Trade and other receivables

	Group		Company	
	2020	2019	2020	2019
	£	(As restated) £	£	(As restated) £
<b>Current</b>				
Amounts due from PFI Group companies	79,341,909	9,615,790	37,777,821	9,403,948
Amount due from PFI Group affiliates	14,507,683	12,323,569	-	-
Receivable from third party	8,822,568	7,802,791	1,642,733	1,802,183
Accrued income	12,922,555	10,935,103	-	-
Prepayments	14,086,171	4,248,628	4,839,847	1,692,566
Other receivables	5,154,725	3,042,696	574,601	892,541
	<u>134,835,611</u>	<u>47,968,577</u>	<u>44,835,002</u>	<u>13,791,238</u>
<b>Non-current</b>				
<b>Receivables from Group related undertakings</b>	<u>314,928</u>	<u>314,928</u>	<u>78,768,349</u>	<u>74,563,633</u>
Trade and other receivables	<u>314,928</u>	<u>314,928</u>	<u>78,768,349</u>	<u>74,563,633</u>

## Notes to the Financial Statements (continued)

### 21 Trade and other receivables (continued)

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 £79,083,277 (2019: £74,563,633) due from 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 (2019: £ 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 (2019: £nil).

The trade and other receivables classified as financial instruments are disclosed below. The Company's exposure to credit and market risks, including maturity analysis, relating to trade and other receivables is disclosed in the financial risk review note.

Following a review of the classification of related parties, it was determined that certain balances had been incorrectly classified in 2019 and the following adjustments were made to the 2019 comparatives:

#### Group

- Amount due from PFI Group companies - £136,138
- Amount due from PFI group affiliates - £373,585
- Trade receivables - (£6,695,806)
- Accrued income - (£1,496,868)
- Prepayments - £1,841,801
- Other receivables - (£1,961,642)
- Receivable from third party - £7,802,791

#### Company

- Trade receivables - (£256,778)
- Other receivables - (£1,545,405)
- Receivable from third party - £1,802,183

The reclassification caused no balance sheet impact.

### 22 Cash and cash equivalents

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
Cash	79,941,833	34,484,753	35,607,445	18,310,460
Short-term deposits	-	74,967,618	-	74,967,618
	<u>79,941,833</u>	<u>109,452,371</u>	<u>35,607,445</u>	<u>93,278,078</u>

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.

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## Notes to the Financial Statements (continued)

### 23 Trade and other payables

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
<b>Current</b>				
Amounts owed to PFI Group companies	14,297,031	11,467,219	16,105,510	65,711,428
Trade payables	5,969	24,891	-	-
Other payables	7,433,389	3,126,565	1,638,892	2,631,592
Non-trade payables and accrued expenses	71,804,647	57,098,997	58,138,680	49,076,806
Loan interest payable to Group related undertakings	351,409	298,947	-	-
	<u>93,892,445</u>	<u>72,016,619</u>	<u>75,883,082</u>	<u>117,419,826</u>
<b>Non-current</b>				
Non-trade payables and accrued expenses	<u>16,135,870</u>	<u>19,235,925</u>	<u>16,135,873</u>	<u>19,235,925</u>

The amounts owed to Group related undertakings are interest free, unsecured and repayable as per the terms outlined in the relevant agreement.

### 24 Loans and borrowings

	Group		Company	
	2020	2019	2020	2019
	£	£	£	£
<b>Current loans and borrowings</b>				
Other borrowings	<u>-</u>	<u>30,503,305</u>	<u>-</u>	<u>-</u>

#### Current

There are no current loan and borrowings (2019: £30.5m (€36m)). The borrowings recognised in 2019 related to a loan received by PGIML, a subsidiary of the Company, from PGIM Foreign Investments, Inc. This loan was contracted by PGIML to fund investments in CLOs. In July 2020 this loan was re-financed with PGIM Foreign Investments, Inc at a rate of 0.345% with a maturity date of 11 July 2025 and has subsequently been recognised in non-current borrowings.

#### Non-current

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 below. Interest on the borrowing will be paid on a quarterly or annual basis while the loan amount will be paid at maturity.

During the year, the Company borrowed £18.8m (€21.0m) from PGIM Foreign Investment, Inc. at an interest rate of 0.887% and maturity date in March 2025.

#### Group

2020				
Lender	Loan amount €	Loan amount £	Maturity	Interest rate
<b>Non-current</b>				
PGIM Foreign Investments, Inc.	26,000,000	23,272,467	December 2023	0.9680%
PGIM Foreign Investments, Inc.	21,000,000	18,796,992	March 2025	0.887%
PGIM Foreign Investments, Inc.	36,000,000	32,223,416	July 2025	0.3450%
PGIM Foreign Investments, Inc.	30,000,000	26,852,846	December 2025	1.3520%



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**Notes to the Financial Statements (continued)**

**24 Loans and borrowings (continued)**

PGIM Foreign Investments, Inc.	11,254,897	10,074,201	January 2026	1.2933%
PGIM Foreign Investments, Inc.	1,505,597	1,347,652	March 2026	1.3099%
PGIM Foreign Investments, Inc.	19,028,738	17,032,525	March 2026	1.3094%
PGIM Foreign Investments, Inc.	28,050,353	25,107,728	December 2030	1.8456%
PGIM Foreign Investments, Inc.	15,025,818	13,449,533	December 2031	1.9089%
PGIM Foreign Investments, Inc.	41,080,123	36,770,608	September 2031	1.8971%
	<u>228,945,526</u>	<u>204,927,968</u>		

**Group**

**2019**

Lender	Loan amount €	Loan amount £	Maturity	Interest rate
<b>Non-current</b>				
PGIM Foreign Investments, Inc.	26,000,000	22,030,165	December 2023	0.9680%
PGIM Foreign Investments, Inc.	30,000,000	25,419,420	December 2025	1.3520%
PGIM Foreign Investments, Inc.	11,254,897	9,536,432	January 2026	1.2933%
PGIM Foreign Investments, Inc.	1,505,597	1,275,714	March 2026	1.3099%
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%
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>		

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.

**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 2020 and 2019 is as follows:

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**Notes to the Financial Statements (continued)**

**25 Share-based payments (continued)**

*Group*

	<b>Number of stock options</b>	
	<b>2020</b>	<b>2019</b>
Outstanding at 1 January	12,623	10,718
Granted during the period	7,551	5,691
Exercised during the period	-	(3,786)
<b>Outstanding at 31 December</b>	<b>20,174</b>	<b>12,623</b>

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

	<b>Weighted average exercise price</b>	
	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Outstanding at 1 January	78.40	70.76
Granted during the period	74.08	72.44
Exercised during the period	-	48.69
Outstanding at 31 December	76.78	78.40
Weighted average remaining contractual life (years)	8.0	8.3

The range of exercise prices for options outstanding for the Group at 31 December 2020 was £72.44 to £88.60 (2019: £72.44 to £88.60). The Group recorded £63,763 (2019: £104,751) in share based compensation related to stock options during the year ended 31 December 2020.

*Company*

	<b>Number of stock options</b>	
	<b>2020</b>	<b>2019</b>
Outstanding at 1 January	12,623	10,718
Granted during the period	7,551	5,691
Exercised during the period	-	(3,786)
<b>Outstanding at 31 December</b>	<b>20,174</b>	<b>12,623</b>

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

	<b>Weighted average exercise price</b>	
	<b>2020</b>	<b>2019</b>
	<b>£</b>	<b>£</b>
Outstanding at 1 January	78.40	70.76
Granted during the period	74.08	72.44
Exercised during the period	-	48.69
Outstanding, end of period	76.78	78.40
Weighted average remaining contractual life (years)	8.0	8.3

The range of exercise prices for options outstanding for the Company at 31 December 2020 was £72.44 to £88.60 (2019: £72.44 to £88.60). The Company recorded £63,763 (2019: £104,751) in share based compensation related to stock options during the year ended 31 December 2020.

The weighted average grant date fair value of stock options granted during the years ended 31 December 2020 and 2019 were £14.04, and £15.69, 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.

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## Notes to the Financial Statements (continued)

### 25 Share-based payments (continued)

	2020	2019
Expected volatility (%)	33.99	34.63
Expected dividends, expressed as a dividend yield (%)	4.59	4.26
Expected life of option in practice in years	5.60	5.54
Risk-free interest rate (%)	<u>1.42</u>	<u>2.50</u>

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.

#### 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 2020:

	Number of shares	
	Group	Company
<b>Non-vested shares</b>		
Outstanding at 1 January 2019	109,086	89,286
Granted during the period	49,766	42,144
Vested during the period	(49,131)	(39,417)
Exercised during the period	939	939
Forfeited during the period	<u>(11,852)</u>	<u>(9,489)</u>
<b>Outstanding at 31 December 2019</b>	<u><b>98,808</b></u>	<u><b>83,463</b></u>
Outstanding at 1 January 2020	98,808	83,463
Granted during the period	46,856	38,329
Vested during the period	(30,046)	(25,014)
Transfers	650	-
Forfeited during the period	<u>(2,173)</u>	<u>(1,993)</u>
<b>Outstanding at 31 December 2020</b>	<u><b>114,095</b></u>	<u><b>94,785</b></u>

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

	Weighted average grant-date fair value	
	Group	Company
<b>Non-vested shares</b>		
Outstanding at 1 January 2019	68.46	64.79
Granted during the period	72.56	72.58
Vested during the period	50.42	49.92
Transfers	0.00	0.00
Forfeited during the period	76.81	76.91
Exercised during the period	80.01	80.01
<b>Outstanding at 31 December 2019</b>	<u><b>78.32</b></u>	<u><b>78.22</b></u>

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## Notes to the Financial Statements (continued)

### 25 Share-based payments (continued)

Granted during the period	72.52	72.39
Vested during the period	87.73	87.57
Transfers	72.44	-
Forfeited during the period	73.20	73.11
<b>Outstanding at 31 December 2020</b>	<b>72.67</b>	<b>72.63</b>

The Group recorded an expense of £3,149,174 (Company of £3,103,924) (2019: £2,554,369 (Company of £2,361,555)) in share-based payments, related to restricted stock units, during the year ended 31 December 2020.

### 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 2020:

Non-vested shares	Number of shares	
	Group	Company
Outstanding at 1 January 2019	9,966	9,966
Granted during the period	8,056	8,056
Vested during the period	(4,273)	(4,273)
Exercised during the period	5,840	-
<b>Outstanding at 31 December 2019</b>	<b>19,589</b>	<b>13,749</b>
Granted during the period	9,381	9,381
Vested during the period	(6,832)	(6,832)
Transfers	548	548
<b>Outstanding at 31 December 2020</b>	<b>22,686</b>	<b>16,846</b>

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

Non-vested shares	Weighted average grant-date fair value	
	Group	Company
Outstanding at 1 January 2019	68.47	68.47
Vested during the period	43.87	43.87
Exercised during the period	66.57	66.57
Granted during the period	72.44	72.44
<b>Outstanding at 31 December 2019</b>	<b>69.21</b>	<b>69.21</b>
Granted during the period	74.08	74.08
Vested during the period	88.63	88.63
Transfers	74.08	74.08
<b>Outstanding at 31 December 2020</b>	<b>73.23</b>	<b>73.23</b>

The Group recorded an expense of £541,263 (Company of £541,263) (2019: £437,933 (Company of £437,933)) in share-based payments, related to performance awards, during the year ended 31 December 2020.

**Notes to the Financial Statements (continued)****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. 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 (2019: £nil).

The Group contributes to a defined contribution scheme. The total expense relating to this plan in the current year was £3,961,200 (Company of £3,400,049) (2019: £3,033,302, (Company of £2,606,039)).

**27 Provisions****Non-current****Group**

	<b>Dilapidation 2020 £</b>	<b>Dilapidation 2019 £</b>
As at 1 January	351,401	251,403
Charge in the year	<u>723,122</u>	<u>99,998</u>
<b>Total provisions at 31 December</b>	<b><u>1,074,523</u></b>	<b><u>351,401</u></b>

**Company**

	<b>Dilapidation 2020 £</b>	<b>Dilapidation 2019 £</b>
As at 1 January	283,393	197,117
Charge in the year	<u>791,255</u>	<u>86,276</u>
<b>Total provisions at 31 December</b>	<b><u>1,074,648</u></b>	<b><u>283,393</u></b>

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. Following the signing of the sublease agreement with PGIM Private Capital Limited ('PPC') during the year, the dilapidation provision for the London Bridge office is now recorded in the Company with an equal intercompany provision recorded in PPC.

**28 Share capital****Group and Company****Allotted, called up and fully paid shares**

	<b>No.</b>	<b>2020 £</b>	<b>No.</b>	<b>2019 £</b>
Ordinary shares of £1 each	<u>96,943,356</u>	<u>96,943,356</u>	<u>96,943,356</u>	<u>96,943,356</u>

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.

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## Notes to the Financial Statements (continued)

### 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.

	2020 £	2019 £
At 1 January	(131,720)	11,078
Foreign currency translation differences – foreign operations	228,970	(295,295)
Realised losses on foreign currency translation reserve (note 6)	-	152,497
At 31 December	<u>97,250</u>	<u>(131,720)</u>

#### Company

##### *Capital contribution reserve*

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

	2020 £	2019 £
At 31 December	<u>154,110</u>	<u>154,110</u>

### 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.

## Notes to the Financial Statements (continued)

### 30 Financial risk management - Group and Company (continued)

#### 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 Group 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.

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 ('ECLs') which uses a lifetime expected loss allowance for all trade receivables. To measure ECLs trade receivables have been aggregated to reflect the shared credit risk characteristics. Expected loss rates are based on the historic credit loss experienced by the Group 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 2020 (2019: £nil).

	0-30 days £	30-90 days £	90+ days £	Total £
<b>2020</b>				
<b>Group</b>				
Trade receivables	2,545,183	2,465,100	3,812,285	8,822,568
<b>Company</b>				
Trade receivables	18,287	96,521	1,527,925	1,642,733
<b>2019</b>				
<b>Group</b>				
Trade receivables	43,788	5,925,262	1,833,741	7,802,791
<b>Company</b>				
Trade receivables	43,788	1,697,941	60,454	1,802,183

#### 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 £351,409 of accrued interest (2019: £298,947)).

#### 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 £
<b>At 31 December 2020</b>						
<b>Non-derivatives</b>						
Amounts owed to PFI Group companies	14,297,031	-	-	-	14,297,031	14,297,031
Trade and other payables	5,969	-	-	-	5,969	5,969
Other payables	7,433,389	-	-	-	7,433,389	7,433,389
Non-trade payables and accrued expenses	55,668,777	4,120,959	12,014,912	-	71,804,648	71,804,648
Interest bearing borrowings	2,670,498	2,670,498	109,157,214	114,866,532	229,364,742	-
Bank borrowings	-	-	-	-	-	205,279,378
Finance lease liabilities (present value)	2,850,566	4,738,958	-	-	7,589,524	7,589,524
<b>Derivatives</b>						
Gross settled (forward foreign exchange contracts)						
- (inflow)	(163,763,714)	-	-	-	(163,763,714)	-
- outflow	160,848,550	-	-	-	160,848,550	2,895,434
<b>Total</b>	<b>80,011,066</b>	<b>11,530,415</b>	<b>121,172,126</b>	<b>114,866,532</b>	<b>327,580,139</b>	<b>309,305,373</b>
<b>At 31 December 2019</b>						
<b>Non-derivatives</b>						
Amounts owed to PFI Group companies	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	37,863,072	3,463,269	15,772,656	-	57,098,997	57,098,997
Borrowings (including interest)	30,802,252	2,270,697	24,280,274	125,698,548	183,051,771	176,195,159
<b>Derivatives</b>						
Gross settled (forward foreign exchange contracts)						
- (inflow)	(131,568,500)	-	-	-	(131,568,500)	-
- outflow	128,283,342	-	-	-	128,283,342	-
<b>Total</b>	<b>79,998,841</b>	<b>5,733,966</b>	<b>40,052,930</b>	<b>125,698,548</b>	<b>251,484,285</b>	<b>247,912,831</b>



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**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 £
<b>At 31 December 2020</b>					
<b>Non-derivatives</b>					
Amounts owed to PFI Group companies	16,105,510	-	-	16,105,510	16,105,510
Amounts owed to Group affiliates	-	-	-	-	8,148,124
Trade and other payables	-	-	-	-	-
Other payables	1,638,892	-	-	1,638,892	1,638,892
Non-trade payables and accrued expenses	42,002,809	4,120,959	12,014,912	58,138,680	75,096,637
Finance lease liabilities (present value)	2,216,138	2,668,471	-	4,884,609	4,884,609
<b>Derivatives</b>					
Gross settled (forward foreign exchange contracts)					
- (inflow)	(163,763,714)	-	-	(163,763,714)	-
- outflow	160,848,550	-	-	160,848,550	2,895,434
<b>Total</b>	<b>59,048,185</b>	<b>6,789,430</b>	<b>12,014,912</b>	<b>77,852,527</b>	<b>108,769,206</b>
	Less than 1 year £	Between 1 and 2 years £	Between 2 and 5 years £	Total contractual cash flows £	Carrying amount liabilities £
<b>At 31 December 2019</b>					
<b>Non-derivatives</b>					
Amounts owed to PFI Group companies	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	29,840,881	3,463,269	15,772,656	49,076,806	49,076,806
<b>Derivatives</b>					
Gross settled (forward foreign exchange contracts)					
- (inflow)	(131,568,500)	-	-	(131,568,500)	-
- outflow	128,283,342	-	-	128,283,342	-
<b>Total</b>	<b>94,898,743</b>	<b>3,463,269</b>	<b>15,772,656</b>	<b>114,134,668</b>	<b>117,419,826</b>

## 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 Consolidated Statement of Changes in Equity. As at 31 December 2020 this totalled £284,748,607 (2019: £242,613,600). 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.

##### Company

The Company's capital is represented by the Company's total equity as disclosed in the Company Statement of Changes in Equity. As at 31 December 2020 this totalled £232,500,100 (2019: £198,389,302). 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.

### 31 Lease Liabilities

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

- Applied a single discount rate to a portfolio of leases with similar characteristics;
- Applied the exemption not to recognise liabilities for leases with less than 12 months of lease term remaining;
- Accounted for operating leases with an annual value of less than £5,000 as low-value leases recognised in the Income Statement;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in profit or loss.

Future aggregate minimum lease payments under non-cancellable operating leases are as follows:	2020	2019
	£	£
Within one year - equipment	31,217	49,240
Within one year - land and buildings	-	237,945
Within two to five years - equipment	-	37,681
Within two to five years - land and buildings	-	-
Over five years - land and buildings	-	-
	<b>31,217</b>	<b>324,866</b>

Under IFRS 16 lease liabilities, other than operational lease liabilities, are 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.

Lease liabilities are classified between current and non-current liabilities, representing amount due within and after 12 months respectively.

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**Notes to the Financial Statements (continued)**

**31 Lease Liabilities (continued)**

	2020	2019
	£	£
<b>Lease Liabilities - Group</b>		
Current portion of long term lease liabilities	(2,850,566)	(3,325,484)
Long term lease liabilities	<u>(4,738,958)</u>	<u>(7,371,688)</u>
	<u><b>(7,589,524)</b></u>	<u><b>(10,697,172)</b></u>
	2020	2019
	£	£
<b>Lease Liabilities - Company</b>		
Current portion of long term lease liabilities	(2,216,138)	(2,400,961)
Long term lease liabilities	<u>(2,668,471)</u>	<u>(3,529,184)</u>
	<u><b>(4,884,609)</b></u>	<u><b>(5,930,145)</b></u>

The Group leases various offices and other real estate. Rental contracts are typically made for fixed periods of 6 months to 8 years but may have extension options.

PGIM Private Capital Limited ('PPC') leases the Eighth Floor of East Building, One London Bridge, London SE1 9BG (London Bridge Office) under a 10 year lease signed on 8 August 2014 by PFL. The benefits and obligations of the lease are deemed to have been transferred from PFL to PPC by an inter-affiliate agreement and the right-of-use asset originally recognised in PFL has now been derecognised in the Company and a right-use asset recognised in PPC. PFL, as the contractual lease holder, has recognised a lease liability in respect of the London Bridge lease and an investment in sublease in respect of the intercompany liability with PPC for lease payments due.

Following a rent review during 2020 and then a subsequent increase in the annual rent charge applied retrospectively to 24 June 2019, the lease liability in PFL has been increased to reflect the increased annual rent charge.

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## Notes to the Financial Statements (continued)

### 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.

Related parties consist of PFI Group companies and PFI Group affiliates.

#### Group

##### Income and receivables from related parties

	2020	2019 (As restated)
	£	£
Related parties of the Group		
Revenue charged	158,120,139	47,065,572
Receivables outstanding	<u>21,939,359</u>	<u>11,949,984</u>

#### Company

##### Income and receivables from related parties

	2020	2019 (As restated)
	£	£
Related parties of the Group		
Revenue charged	129,625,902	138,147,753
Receivables outstanding	<u>37,777,821</u>	<u>9,403,948</u>

Following a review of the classification of related parties, it was determined that certain balances had been incorrectly classified in 2019. Refer to Note 21 for details of the impact.

### 33 Non adjusting events after the financial year

In 2021 PGIM Limited ('PGIML') applied to the Italian regulator for a cross-border marketing license in order to be able to market its products to the Italian market on a cross-border basis from the UK. The application is pending with the Italian regulator. It is anticipated that this activity will benefit other members of the Group as they benefit from cross-selling opportunities.

In connection with Brexit, several client mandates have been transferred from PGIML to PGIM Netherlands (B.V.) with effect from 1 January 2021. As PGIML will continue to provide sub advisory services in connection with these mandates, it is not anticipated that this will have a material effect on the Company's net income.

In connection with the resets of the Dryden 27 R CLO and the Dryden 44- R Euro CLO on the 23 and 24 of March 2021 respectively, PGIML has been able to liquidate its EU risk retention holdings in those products and has received £37.0m (£43.3m) in respect of those holdings which were included in the 31 December 2020 accounts at an aggregate amount of £38.6m (£43.2m).

On 11 February 2021, Pramerica General Partner LLP was dissolved following the liquidation of its underlying fund.

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% 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 balance sheet date, would be to increase the tax expense for the period by £65,493 and to increase the deferred tax liability by £921,272.