

**Pricoa Capital Group Limited**

**Annual report and financial  
statements  
31 December 2017**



## **Contents**

Strategic report	1
Directors' report	3
Statement of directors' responsibilities	4
Independent auditors' report to the members of Pricoa Capital Group Limited	6
Income Statement	9
Statement of Comprehensive Income	10
Statement of Financial Position	11
Statement of Changes in Equity	12
Notes to the financial statements	13

## **Officers and Advisers**

### *Directors*

D. Campbell  
M. L. Fioramonti  
E. Jolly  
T. Sirvanci  
E. M. Barker

### *Company Secretary*

M. G. Fresson

### *Registered Office*

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

### *Independent auditors*

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
1 Embankment Place  
London  
WC2N 6RH

### *Solicitors*

S.J. Berwin  
10 Queen Street Place  
London  
EC4R 1BE

## Strategic report

The Directors present their Strategic report for Pricoa Capital Group Limited ('PCGL' or the 'Company') for the year ended 31 December 2017.

### PRINCIPAL ACTIVITIES

The Company is a wholly owned subsidiary of PGIM Financial Limited, who in turn is a direct subsidiary of PGIM Inc. ('PGIM'), the asset management division of Prudential Financial Inc. ('PFI'), and provides loan origination and sourcing services to institutional investors (including PGIM and other companies within the PFI group).

The Company is authorised and regulated by the Financial Conduct Authority ('FCA') and has branches in Germany, France and Italy.

### BUSINESS REVIEW

During the year the Company continued to provide loan origination and sourcing services.

#### *Review of Company performance*

In the opinion of the Directors, the Company's performance in the year was satisfactory. Market conditions continue to be challenging however the Company has continued to make steady progress.

During the year 2016 the Company extended its regulatory license with the FCA allowing it to conduct limited investment management activities. The Company will look to build this aspect of its business in 2018.

#### *Key Performance Indicators*

The Company's principal measure of performance is its profit after tax. The financial statements show results for the year ended 31 December as set out below:

	2017 £	2016 £
Revenue	16,446,038	12,823,091
Profit before tax	3,696,360	3,063,756
Taxation	<u>(826,635)</u>	<u>(649,660)</u>
Profit for the financial year	<u><u>2,869,725</u></u>	<u><u>2,414,096</u></u>

As well as overall Company profitability, the Directors consider loan originations to be a key performance indicator for the business.

	2017 £bn	2016 £bn
<i>Originations</i>		
Pricoa Capital Group	2.6	1.2

## Strategic report (*continued*)

### PRINCIPAL RISKS AND UNCERTAINTIES

The Directors continually assess the risks faced by the Company and believe that its principal risk is business risk which is defined as the Company's failure to meet its strategic objectives through significant market movements or other external factors. The Company's approach to managing business risk is to closely monitor market and other movements in the business environment and amend its strategy where necessary. In addition to business risk, the Company faces other significant risks which are outlined below.

#### *Market risk*

The Company is exposed to market risks, principally in the form of foreign exchange risk, arising on its European operations and assets and liabilities held in currencies other than the Company's functional currency, 'Pounds Sterling'. Where exposures are considered material the Company employs hedging strategies to mitigate risks. The Directors do not consider market risks to be material to the Company at the present time.

#### *Credit risk*

Credit risk arises mainly from cash and cash equivalents and from receivables from third parties, including balances with other affiliated companies. The Company'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 Company does not therefore consider credit risk to be material.

#### *Liquidity risk*

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

By order of the board



M. G. Fresson  
Company Secretary  
28 March 2018

## Directors' report

The Directors present their Annual report and audited financial statements of the Company for the year ended 31 December 2017.

Pricoa Capital Group 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 Company's immediate parent is PGIM Financial Limited, ('Parent Company') who in turn is a subsidiary of PGIM Inc., a company incorporated in the United States. PGIM Inc. is itself a subsidiary of Prudential Financial Inc., 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.

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

### Directors

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

D. Campbell	
M. L. Fioramonti	
E. Jolly	
T. Sirvanci	
E. M. Barker	Appointed 24 November 2017

### Future outlook and events after the Statement of Financial Position date

As outlined in the Strategic report the Company will continue to provide loan origination and sourcing services and will look to begin limited investment management activities in 2018.

### Proposed dividend

No interim dividends were paid in the year (2016: £nil). The Directors do not recommend the payment of a final dividend (2016: £nil).

### Political donations

The Company has made no political donations and incurred no political expenditure during the year (2016: £nil).

### Financial instruments

The Company holds financial instruments including cash, trade receivables and creditors as detailed in the Statement of Financial Position. (2016: cash, trade receivables and creditors).

### 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:

<https://www.pgim.com/links/terms-conditions>

## **Directors' report (*continued*)**

### **Brexit**

Following the UK's vote to withdraw from the European Union on June 23, 2016, The Company convened a working group to assess the impact of Brexit on the firm's business. That working group has been analysing the options available for continuing the firm's various regulated activities within the EU. The Company has the benefit of other regulated affiliated entities located within the EU and the working group is assessing the ability to utilise these locations or the potential need for further EU regulated legal entities.

With no framework agreement in place or clear guidelines against which to fully analyse the implications of Brexit, the working group will continue to consider the Company's position by reference to the following objectives:

1. Create as little disruption as possible to the existing business set-up;
2. Maintain the Company's ability to market its products into EU jurisdictions;
3. Were an EU office is required to be established, identify the EU jurisdiction with the most efficient regulatory and logistical requirements in order to achieve the above.

Whilst there is still a high degree of uncertainty regarding the final outcome of the political discussions between the UK and the EU the recent announcements regarding a potential transition period running through to 1 January 2021 are both noted and welcomed.

### **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 currently in force. The Company 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.

### **Branches outside the United Kingdom**

The Company has branches in Germany, France and Italy.

### **Statement of Directors' responsibilities in respect of the financial statements**

The Directors are responsible for preparing the Annual report and the 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 United Kingdom Accounting Standards, comprising FRS 101, 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 Company will continue in business.

## **Directors' report (*continued*)**

### ***Statement of Directors' responsibilities in respect of the financial statements (continued)***

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

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

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 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 Company's auditors are aware of that information.

### **Independent Auditors**

It is the intention of the Directors to reappoint the auditors, PricewaterhouseCoopers LLP, in accordance with the requirements of Section 487 of the Companies Act 2006.

By order of the board



M. G. Fresson  
Company Secretary  
28 March 2018



## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRICOA CAPITAL GROUP LIMITED**

### **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

#### ***Opinion***

In our opinion, Pricoa Capital Group Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 Statement of Financial Position as at 31 December 2017; the Income Statement and the Statement of Comprehensive Income for the year then ended, the Statement of Changes in Equity for the year then ended; the accounting policies; and the notes to the financial statements.

#### ***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 Company 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***

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

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

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRICOA CAPITAL GROUP LIMITED (continued)**

### ***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.

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

### ***Strategic report and Directors' report***

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2017 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 Company and its 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 in respect of the financial statements set out on page 4, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

### ***Auditors' responsibilities for the audit of the financial statements***

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](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.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRICOA CAPITAL GROUP LIMITED (continued)**

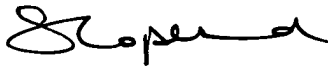
**OTHER REQUIRED REPORTING**

***Companies Act 2006 exception reporting***

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

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

We have no exceptions to report arising from this responsibility.



Sonia Copeland (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
28 March 2018

**Income Statement**  
*for the year ended 31 December 2017*

	<i>Note</i>	<b>2017</b> £	<b>2016</b> £
Revenue	3	16,446,038	12,823,091
Administrative expenses		<u>(12,743,388)</u>	<u>(10,080,338)</u>
Gross profit		3,702,650	2,742,753
Other income	4	<u>-</u>	<u>325,092</u>
Operating profit	5	3,702,650	3,067,845
Finance income	8	56	1,755
Finance expense	8	<u>(6,346)</u>	<u>(5,844)</u>
Net finance expense		(6,290)	(4,089)
Profit before tax		3,696,360	3,063,756
Tax expense	9	<u>(826,635)</u>	<u>(649,660)</u>
Profit for the year attributed to the owners		<u><u>2,869,725</u></u>	<u><u>2,414,096</u></u>

All amounts are from continuing operations. The notes on pages 13 to 26 are an integral part of these financial statements.

**Statement of Comprehensive Income**  
*for the year ended 31 December 2017*

	2017 £	2016 £
<b>Profit for the financial year</b>	<b>2,869,725</b>	<b>2,414,096</b>
<b>Other comprehensive income/(expense): Items that will not be transferred to profit or loss</b>		
Foreign currency translation differences – foreign operations	<u>9,986</u>	<u>(58,220)</u>
<b>Other comprehensive income/(expense) for the year</b>	<u>9,986</u>	<u>(58,220)</u>
<b>Total comprehensive income for the year</b>	<u><b>2,879,711</b></u>	<u><b>2,355,876</b></u>

The notes on pages 13 to 26 are an integral part of these financial statements.

**Statement of Financial Position**  
*as at 31 December 2017*

	<i>Note</i>	<b>2017</b> £	<b>2016</b> £
<b>Fixed assets</b>			
Property, plant and equipment	10	476,405	600,596
Deferred tax assets	11	<u>125,710</u>	<u>146,944</u>
		602,115	747,540
<b>Current assets</b>			
Trade and other receivables	12	24,135,286	14,646,079
Cash and cash equivalents	13	<u>4,954,363</u>	<u>7,307,777</u>
		29,089,649	21,953,856
<b>Current liabilities</b>			
Creditors – amounts falling due within one year	14	<u>(10,158,279)</u>	<u>(5,735,746)</u>
Net current assets		<u>18,931,369</u>	<u>16,218,110</u>
<b>Total assets less current liabilities</b>		19,533,485	16,965,650
<b>Non-current liabilities</b>			
Provisions	15	<u>(46,882)</u>	<u>(31,417)</u>
<b>Net assets</b>		<u>19,486,603</u>	<u>16,934,233</u>
<b>Capital and reserves</b>			
Called up share capital	18	10,251,000	10,251,000
Other reserves	19	(165,451)	(175,437)
Profit and loss account		<u>9,401,054</u>	<u>6,858,670</u>
<b>Total equity</b>		<u>19,486,603</u>	<u>16,934,233</u>

The notes on pages 13 to 26 are an integral part of these financial statements.

The financial statements on pages 9 to 26 were approved by the board of Directors on 28 March 2018 and were signed on its behalf by:



T. Sirvanci  
Director

Registered number 1331817

**Statement of Changes in Equity**  
*for the year ended 31 December 2017*

	Called up share capital £	Other reserves £	Profit and loss account £	Total equity £
<b>Balance at 1 January 2016</b>	<b>10,251,000</b>	<b>(117,217)</b>	<b>4,268,539</b>	<b>14,402,322</b>
Profit for the financial year	-	-	2,414,096	2,414,096
Other comprehensive expense				
Foreign currency translation differences – foreign operations	-	(58,220)	-	(58,220)
Total comprehensive income	-	(58,220)	2,414,096	2,355,876
Deferred tax in equity	-	-	4,951	4,951
Equity settled share based payments	-	-	171,084	171,084
<b>Balance at 31 December 2016</b>	<b><u>10,251,000</u></b>	<b><u>(175,437)</u></b>	<b><u>6,858,670</u></b>	<b><u>16,934,233</u></b>
Profit for the financial year	-	-	2,869,725	2,869,725
Other comprehensive income				
Foreign currency translation differences – foreign operations	-	9,986	-	9,986
Total comprehensive income	-	9,986	2,869,725	2,879,711
Equity settled share based payments	-	-	(327,341)	(327,341)
<b>Balance at 31 December 2017</b>	<b><u>10,251,000</u></b>	<b><u>(165,451)</u></b>	<b><u>9,401,054</u></b>	<b><u>19,486,603</u></b>

## Notes to the financial statements *(forming part of the financial statements)*

### 1. General information

The Company is a wholly owned subsidiary of PGIM Financial Limited. PCGL and all PGIM Financial Limited subsidiaries comprise the PGIM Financial Limited Group (the 'Group'). The results of PCGL are consolidated with the results of both PGIM Financial Limited and of Prudential Financial Inc. both of which are publicly available. PGIM Financial Limited's financial statements are available at Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR. Prudential Financial Inc.'s financial statements are available at 751 Broad Street, Newark, NJ 07102.

### 2. Accounting policies

#### *Basis of preparation*

The Company is preparing its financial statements in accordance with *Financial Reporting Standard 101 – Reduced Disclosure Framework* ('FRS 101'). The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006. The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### *Going concern*

The Company has sufficient cash reserves, is currently profitable and, in line with forecasts, is expected to continue making profits into the future; consequently, the financial statements have been prepared on a going concern basis.

#### a) *Exemptions for qualifying entities under FRS 101*

FRS 101 allows a qualifying entity certain disclosure exemptions. The Company is a member of the PGIM Financial Limited and Prudential Financial Inc. Groups both of which prepare consolidated, publicly available financial statements. As a result the Company has taken advantage of the following disclosure exemptions under FRS 101:

- (a) the requirements of IFRS 7 *Financial instruments: Disclosures* to disclose quantitative and qualitative information regarding risks arising from all financial instruments held by the Company. Equivalent disclosures are included in the consolidated financial statements of PGIM Financial Limited, the Company's immediate parent;
- (b) the requirements of paragraphs 91-99 of IFRS 13 *Fair Value Measurement* to disclose the valuation techniques and inputs used to develop fair value measurements for assets and liabilities held at fair value. Equivalent disclosures are included in the consolidated financial statements of PGIM Financial Limited, the Company's immediate parent;
- (c) the requirement in paragraph 38 of IAS 1 '*Presentation of Financial Statements*' to present comparative information in respect of
  - (i) Paragraph 79(a)(iv) of IAS 1 to prepare a reconciliation of share capital at the beginning and end of the period;
  - (ii) Paragraph 73(e) of IAS 16 *Property, plant and equipment* to disclose a reconciliation of the carrying amount at the beginning and end of the period for the prior year;



## Notes to the financial statements (continued)

### 2. Accounting policies (continued)

#### *Exemptions for qualifying entities under FRS 101 (continued)*

- (d) the requirements of the following paragraphs of IAS 1:
  - a. 10(d) to prepare a statement of cash flows,
  - b. 16 to make an explicit statement of compliance with all IFRSs,
  - c. 38(a) to present a minimum of two primary statements, including cash flow statements
  - d. 38(b-d) to present additional comparative information,
  - e. 111 to present cash flow information, such as the ability to generate cash, and
  - f. 134-136 to disclose information that enables users of the financial statements to evaluate the entity's objectives, policies and procedures for managing capital;
- (e) the requirements of IAS 7 *Statement of Cash Flows* to present a cash flow statement for the Company;
- (f) the requirements of paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors* to present the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective;
- (g) the requirements of paragraph 17 of IAS 24 *Related party disclosures* to disclose key management personnel compensation in total and for all applicable categories;
- (h) the requirements of IAS 24 *Related party disclosures* to disclose related parties transactions entered into between two or more members of a group; and
- (i) the requirements of paragraphs 45(b) and 46 - 52 of IFRS 2 *Share-based payment* to disclose the details of the number and weighted-average exercise prices at the share options, and how the fair value of goods or services received was determined.

### (b) Foreign Currencies

#### *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the 'functional currency'). The Company's functional currency is Pounds Sterling (£).

#### *Foreign Currency Transactions*

Transactions in foreign currencies are translated 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.

#### *Conversion of overseas results*

Currency differences arising on the translation of the Company's European operations are included in other comprehensive income.

### (c) Significant estimates and judgements

The preparation of the financial statements in conformity with FRS 101 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

## Notes to the financial statements *(continued)*

### 2. Accounting policies *(continued)*

#### *(c) Significant estimates and judgements*

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.

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

Deferred tax has been recognised in line with the accounting policy below. The Company has recognised several deferred tax assets based on an assessment of future profitability and an ability to recover these tax assets

- The Company utilises a share based payments programme for senior staff. The calculation of the liability under this programme incorporates certain assumptions which are disclosed in note 16 to the financial statements.
- The Company makes estimates around the useful lives of property, plant and equipment. The useful lives for specific classes of fixed assets are outlined in the property, plant and equipment accounting policy below.

#### *(d) Revenue*

Revenue comprises management fees in respect of the loan origination and sourcing services provided by the Company and charged to affiliated companies. The Company also receives sub advisory fees in connection with investment management services to affiliates in connection with third party investment funds. These fees are recognised on an accruals basis.

#### *(e) Property, plant and equipment*

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The rates of depreciation, charged in equal instalments, are as follows:

Leasehold improvements	Over term of the lease
Office equipment, furniture and fittings	25% per annum

Any impairment loss on an asset carried at depreciated historical cost is recognised in the profit and loss account.

#### *(f) Taxation*

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.

## Notes to the financial statements *(continued)*

### 2. Accounting policies *(continued)*

#### *(f) Taxation (continued)*

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.

#### *(g) Trade and other receivables*

A regular review is performed of all the Company'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.

#### *(h) Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

#### *(i) Creditors*

Creditors are recognised initially at fair value and subsequently measured at amortised cost.

#### *(j) Share-based payments*

The Company participates in the ultimate parent Prudential Financial Inc.'s ("PFI") share-based incentive schemes, for Stock Options and Restricted Stock Units. The Company recognises an expense based on the fair value of the options granted. This cost is spread over the three-year vesting period for each grant. These amounts have been included in employee costs for the period with corresponding amounts included in equity. Disclosures for the scheme have been provided in note 16 to the financial statements.

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 the income statement, with a corresponding adjustment to equity.

#### *(k) Operating leases*

Rental cost payments made under operating leases are recognised as an operating expense in the income statement on a straight line basis over the lease term. Operating lease incentives are amortised over the duration of the lease.

#### *(l) Other income*

The Company receives rental income from surplus property leased by the Company and sub-let to third parties and investment income arising from investments held by the Company on an accruals basis.

#### *(m) Administrative expenses*

Administrative expenses are comprised of costs incurred by the Company. These are recognised on an accruals basis.

## Notes to the financial statements (continued)

### 3. Revenue

	2017 £	2016 £
Total Revenue comprises:		
Management fees in respect of the loan origination and sourcing	15,377,612	12,350,937
Sub advisory fees	<u>1,068,426</u>	<u>472,154</u>
	<u>16,446,038</u>	<u>12,823,091</u>

Revenue classified by geographical office, is analysed as follows:

	2017 £	2016 £
London	12,217,135	9,108,065
Frankfurt	1,518,872	2,066,787
Paris	2,166,171	1,239,963
Milan	<u>543,860</u>	<u>408,276</u>
Total	<u>16,446,038</u>	<u>12,823,091</u>

Management fees in respect of the loan origination and sourcing services provided by the Company are charged to affiliated companies.

### 4. Other income

	2017 £	2016 £
Rental Income:	<u>-</u>	<u>325,092</u>

Other income relates to rental income from property sub-leases from surplus property held by the Company that was sub-let to third parties. The Company surrendered its sublease in 2016. Rental income recorded in the previous year was for the period to May 2016.

### 5. Operating profit

	2017 £	2016 £
<i>Operating profit is stated after charging/(crediting):</i>		
Employment costs, including directors' emoluments:		
Wages and salaries	8,498,481	6,933,638
Share based payments (Note 16)	400,146	284,361
Social security costs	1,150,496	873,986
Other pension costs (Note 17)	<u>161,463</u>	<u>156,011</u>
Staff costs	<u>10,210,586</u>	<u>8,247,996</u>
Fees payable to Company's auditor in respect of:		
- audit of the Company's financial statements	51,563	49,580
- audit related assurance services	3,640	3,500
Depreciation on tangible fixed assets (Note 10)	133,031	106,817
Operating lease rentals - plant and machinery	4,675	5,170
- other	569,804	761,341
Foreign exchange gain	(131,503)	(914,061)

## Notes to the financial statements (continued)

### 6. Employee Information

The monthly average number of persons employed by the Company, which includes directors, is analysed below:

	2017 Number	2016 Number
By activity:		
Investment advisers	23	23
Finance and administration	<u>4</u>	<u>4</u>
	<u>27</u>	<u>27</u>

### 7. Directors' remuneration

	2017 £	2016 £
Aggregate emoluments	1,677,042	1,516,980
Aggregate amounts (excluding shares) receivable under long term incentive schemes	167,040	178,032
Contributions to pension schemes	<u>29,933</u>	<u>75,189</u>
	<u>1,874,015</u>	<u>1,770,201</u>
Remuneration of the highest paid director		
- aggregate emoluments	722,600	721,712
- contribution to pension schemes	-	<u>17,044</u>
	<u>722,600</u>	<u>738,756</u>

The value of awards receivable by the highest paid director under long-term incentive schemes is £167,040 (2016: £147,530). The highest paid director had no accrued UK defined benefit plan entitlements at the end of the year (2016: none). None of the Directors exercised share options in the year (2016: one). Three of the directors (2015: three) were members of the Group defined contributions pension plan operated for all eligible employees of the Company and other affiliated companies which operate in the UK.

The emoluments of D. Campbell, T. Sirvanci, E. Jolly and E.M. Barker are paid by the Company. The emoluments of M. L. Fioramonti, are paid by PGIM Inc., the parent company of PGIM Financial Limited, the immediate parent of the Company.

Included in remuneration are amounts paid to directors in respect of their qualifying services to affiliated companies. No recharges have been made to those affiliated companies because it is not possible to make an accurate apportionment.

## Notes to the financial statements (continued)

### 8. Finance income and expense

	2017 £	2016 £
Finance income		
Interest income from third parties	<u>56</u>	<u>1,755</u>
Finance expense		
Bank charges	<u>(6,346)</u>	<u>(5,844)</u>

### 9. Tax Expense

	2017 £	2016 £
<b>Recognised in the income statement</b>		
<b>Total current tax:</b>		
Current year	697,218	625,241
Overseas taxes on the profit of the year	251,915	136,769
Double tax relief on overseas profit	<u>(156,927)</u>	<u>(96,062)</u>
Total current tax	792,206	665,948
<b>Total deferred tax:</b>		
Origination and reversal of temporary differences	<u>34,429</u>	<u>(16,288)</u>
Total deferred tax	<u>34,429</u>	<u>(16,288)</u>
Tax on profit on ordinary activities	<u>826,635</u>	<u>649,660</u>

Current year income tax is recognised in Other Comprehensive Income of £nil (2016: £nil).

The tax expense for the year was higher (2016: higher) than the standard rate of corporation tax in the United Kingdom for the year ended 31 December 2017 of 19.25% (2016: 20.0%). The difference is explained in the table below.

## Notes to the financial statements (continued)

### 9. Tax Expense (continued)

	2017 £	2016 £
Profit on ordinary activities before tax	<u>3,696,360</u>	<u>3,063,756</u>
Profit on ordinary activities multiplied by effective rate of corporation tax in UK 19.25% (2016: 20.0%)	711,549	612,751
Effects of:		
Expenses not deductible for tax purposes	7,659	10,466
Depreciation in excess of (less than) capital allowances	2,000	5,557
Stock option not deductible for tax purposes	120,464	29,488
Stock option deductible for tax purposes	(110,025)	(52,235)
Overseas taxes in the year	251,915	136,769
Group relief	-	(4,058)
Double tax relief on overseas profit	(156,927)	(96,062)
Change in deferred tax rate	-	6,984
Total tax charge	<u>826,635</u>	<u>649,660</u>

The standard rate of corporation tax is 19.25% (2016: 20%). From April 2017 there was a reduction in the rate of corporation tax from 20% to 19%. Therefore, the Company's profits for this accounting period are taxed at a blended rate of 19.25%. From April 2020 there will be a reduction in the rate of corporation tax from 19% to 17%. The directors consider that the tax charge in future years will be affected by movements to the corporation tax rate.

## Notes to the financial statements (continued)

### 10. Property, plant and equipment

	Leasehold Improvements	Office Equipment Furniture and Fittings	Total
	£	£	£
<b>2017</b>			
<b>Cost</b>			
1 January 2017	834,905	618,410	1,453,315
Additions	-	8,840	8,840
31 December 2017	<u>834,905</u>	<u>627,250</u>	<u>1,462,155</u>
<b>Accumulated depreciation</b>			
1 January 2017	401,014	451,705	852,719
Charge for year	<u>54,209</u>	<u>78,822</u>	<u>133,031</u>
31 December 2017	<u>455,223</u>	<u>530,527</u>	<u>985,750</u>
<b>Net book value</b>			
31 December 2017	<u>379,682</u>	<u>96,723</u>	<u>476,405</u>
<b>2016</b>			
<b>Cost</b>			
1 January 2016	834,905	580,774	1,415,679
Additions	-	37,636	37,636
31 December 2016	<u>834,905</u>	<u>618,410</u>	<u>1,453,315</u>
<b>Accumulated depreciation</b>			
1 January 2016	346,805	399,097	745,902
Charge for year	<u>54,209</u>	<u>52,608</u>	<u>106,817</u>
31 December 2016	<u>401,014</u>	<u>451,705</u>	<u>852,719</u>
<b>Net book value</b>			
31 December 2016	<u>433,891</u>	<u>166,705</u>	<u>600,596</u>



## Notes to the financial statements (continued)

### 11. Deferred tax assets

#### *Recognised deferred tax assets*

Deferred tax assets are attributable to the following:

	Assets 2017 £	Assets 2016 £
Accrued share based payments	129,735	146,089
Decelerated capital allowances	<u>(4,025)</u>	<u>855</u>
Tax assets	<u>125,710</u>	<u>146,944</u>

The deferred tax asset is calculated using the 17% corporation tax rate (2016: 17% corporation tax rate). From April 2017 there will be a reduction in the rate of corporation tax from 20% to 19%. From April 2020 there will be a reduction in the rate of corporation tax from 19% to 17%. The directors, after evaluating forecasts of future profitability, consider that sufficient future profits will be generated to offset the deferred tax credits and have therefore recognised the deferred tax asset.

#### *Movement in deferred tax during the year*

	1 January 2017 £	Rate change £	Recognised in profit or loss £	Recognised in equity £	31 December 2017 £
Accrued share based payments	146,089	-	(16,353)	-	129,735
Decelerated capital allowances	855	-	(4,881)	-	(4,025)
	<u>146,944</u>	<u>-</u>	<u>(21,234)</u>	<u>-</u>	<u>125,710</u>

#### *Movement in deferred tax during the prior year*

	1 January 2016 £	Rate change £	Recognised in profit or loss £	Recognised in equity £	31 December 2016 £
Accrued share based payments	114,457	(6,358)	33,039	4,951	146,089
Decelerated capital allowances	11,247	(625)	(9,767)	-	855
	<u>125,704</u>	<u>(6,983)</u>	<u>23,272</u>	<u>4,951</u>	<u>146,944</u>

## Notes to the financial statements (continued)

### 12. Trade and other receivables

	2017 £	2016 £
<b>Current</b>		
Receivables from Group affiliates	23,579,836	14,126,090
Trade receivables	251,645	255,965
Other receivables	20,146	51,631
Prepayments	<u>283,659</u>	<u>212,393</u>
	<u>24,135,286</u>	<u>14,646,079</u>

Amounts included within receivables from Group affiliates are interest free, unsecured and repayable on demand.

The Company has not suffered any losses as a result of trade debtor or counterparty defaults during the year (2016: £nil) and as a result management does not believe that any provision is required for bad or doubtful debts (2016: £nil).

### 13. Cash and cash equivalents

	2017 £	2016 £
Cash and cash equivalents	<u>4,954,363</u>	<u>7,307,777</u>

### 14. Creditors – amounts falling due within one year

	2017 £	2016 £
<b>Amounts falling due within one year</b>		
Amounts owed to Group affiliates	3,947,763	-
Other payables	360,823	598,476
Non-trade payables and accrued expenses	<u>5,849,693</u>	<u>5,137,270</u>
	<u>10,158,279</u>	<u>5,735,746</u>

Amounts included within payable to Group affiliates are interest free, unsecured and repayable on demand.

### 15. Provisions

The provision is entirely an obligation under the lease for the Company's office. Upon expiry of the lease in August 2024 the Company will be obliged to restore the office to its previous condition and the estimated expense for the restoration is being accrued over the life of the lease.

	2017 £	2016 £
At 1 January	(31,417)	-
Dilapidation provision	<u>(15,465)</u>	<u>(31,417)</u>
At 31 December	<u>(46,882)</u>	<u>(31,417)</u>

## Notes to the financial statements (continued)

### 16. Employee benefits

#### Share based payments

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 after which they expire. A summary of the status of the Company's option grants for the years ended 31 December 2017 and 2016 is as follows:

	2017		2016	
	Number of Stock options	Weighted Average Exercise price £	Number of Stock options	Weighted Average Exercise price £
Outstanding at 1 January	5,220	62.35	9,066	39.16
Exercised	(5,220)	42.36	(2,254)	50.58
Forfeited/expired	-	-	(1,592)	47.06
Outstanding 31 December	-	-	5,220	62.35
Weighted average remaining contractual life		0 years		0.8 years

The range of exercise prices for option outstanding for the Company at 31 December 2017 was £nil (2016: £55.87 to £74.24).

The Company recorded £nil (2016: £nil) in share-based compensation related to stock options during the year ended 31 December 2017.

The weighted average grant date fair value of stock options granted during the years ended 31 December 2017 and 2016 were £nil, and £nil, respectively.

#### Restricted stock units

A restricted stock unit is an unfunded, unsecured right to receive a share of Prudential Financial Inc.'s 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 2016 and 2017:

	Number of Shares	Weighted Average Grant-Date Fair Value £
Non-vested Shares		
At 1 January, 2016	15,512	45.42
Granted	7,236	44.18
Vested	(6,596)	37.54
Forfeited	(199)	51.22
At 31 December, 2016	15,953	48.05
Granted	6,123	86.47
Vested	(3,909)	49.13
Forfeited	-	-
At 31 December, 2017	18,167	59.77

## Notes to the financial statements (continued)

### 16. Employee Benefits (continued)

The Company recorded an expense of £400,146 (2016: £284,361) in share-based payments, related to restricted stock units, during the year ended 31 December 2017.

### 17. Pension costs

The Company 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. There are no current employees of the Company participating in the defined benefit plan. The Company is unable to identify its share of underlying assets and liabilities in the plan and has accounted for it as if the plan were a defined contribution scheme. Accounting for the assets and liabilities of the plan is included in the financial statements of PGIM European Services Ltd. (previously known as PBI (UK) Limited), an affiliate of the Company and the Principal Employer for the plan.

Following Prudential Financial Inc.'s disposal of the Company's affiliate, Bache Financial Limited (a further participant in the defined benefit plan), a contribution timetable was agreed between the Company's parent, PGIM Financial Limited (also a participant in the plan), and the Trustees of the plan. Under the contribution timetable, PGIM Financial Limited made contributions of £6.8 million to the plan in 2011 and £3.0 million in 2012, 2013, 2014, 2015, 2016 and 2017. There is no requirement under the contribution timetable for the Company to make contributions to the defined benefit plan. The current plan has a surplus of £71.9 million (2016: £70.7 million) and therefore no further contribution will be necessary from the Company.

Contributions made by the Company are paid wholly into the defined contribution plan and, in 2017, amounted to £161,463 (2016: £156,011). At the year-end, £nil remained payable to the scheme (2016: £nil).

### 18. Called up share capital

	2017 £	2016 £
Allotted, issued and fully paid:		
10,251,000 (2016: 10,251,000) ordinary shares of £1 each	<u>10,251,000</u>	<u>10,251,000</u>

### 19. Other reserves

	2017 £	2016 £
At 1 January	(175,437)	(117,217)
Foreign exchange translation differences	<u>9,986</u>	<u>(58,220)</u>
At 31 December	<u>(165,451)</u>	<u>(175,437)</u>

Other reserves are comprised of the foreign exchange reserve and the capital contribution reserve.

#### *Foreign exchange reserve*

The foreign exchange reserve of (£179,319) (2016: (£189,305)) represents the movement in foreign exchange as a result of the foreign operations.

#### *Capital contribution reserve*

The capital contribution reserve of £13,868 (2016: £13,868) represents an irrevocable gift to the Company from PGIM Financial Limited, and is a distributable reserve.

## Notes to the financial statements *(continued)*

### 20. Operating leases

		2017	2016
		£	£
Future aggregate minimum lease payments under non-cancellable operating leases are as follows:			
within one year	- equipment	5,496	8,244
	- land and buildings	557,992	471,744
within two to five years	- equipment	-	5,496
	- land and buildings	1,540,926	1,257,732
	- land and buildings	<u>524,055</u>	<u>976,053</u>
		<u>2,628,469</u>	<u>2,719,269</u>

The Company leases various offices under non-cancellable operating lease agreements.

### 21. Related parties

The Company's ultimate parent company is Prudential Financial Inc., a company incorporated in the United States of America. Related parties of the Company comprise the ultimate parent and other subsidiaries of the ultimate parent, principally PGIM Inc. (PGIM Inc), for which the Company performs and receives Investment Advisory and Investment Management services. The Company is a wholly owned direct subsidiary of PGIM Financial Limited.