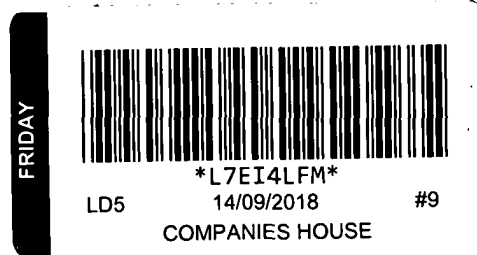


**PGIM European Services Limited (formerly
PBI (UK) Limited)**

Annual report and financial
statements
31 December 2017



Contents

Directors' report	1
Independent auditors' report to the members of PGIM European Services Limited (formerly PBI (UK) Limited)	3
Profit and Loss Account	5
Statement of Comprehensive Income	6
Balance Sheet	7
Statement of Changes in Equity	8
Notes to the financial statements	9

Officers and Advisers

Directors

P. Aronoff
M.G.Fresson
G. Murphy
S. L. Pollard

Company Secretary

M.G. Fresson

Registered Office

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

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Solicitors

Simmons & Simmons LLP
One Ropemaker Street
London
EC2Y 9SS

Directors' report

The directors present their annual report and the audited financial statements of PGIM European Services Limited (formerly PBI (UK) Limited) ('PGIMESL' or the 'Company') for the year ended 31 December 2017.

On the 5th of September 2017, the Company changed its name to PGIM European Services Limited (formerly PBI (UK) Limited).

The Directors' report has been prepared taking advantage of the small companies exemption in accordance with Section 415A of the Companies Act 2006 (the 'Act').

Principal activities, business review and future developments

The Company performs certain UK based services, on behalf of the ultimate parent company, Prudential Financial Inc. ('PFI'), and other affiliated companies. These services are limited to the administration of payroll and pension payments to certain PFI employees in the UK and Europe as well as the provision of taxation and human resources support to affiliated companies in the UK.

In 2011, the Company became the principal employer for the Pramerica UK Retirement Savings Plan ('Plan'), formerly called the Bache and Associates Retirement Plan.

The Plan includes both a defined benefit scheme and a defined contribution scheme. The defined benefit scheme was closed to new members in 2001 (see note 2(i) to the financial statements).

The Company will continue to act as the principal employer for the Plan and to perform its administrative duties in 2018, and for the foreseeable future.

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

The shared services functions previously carried on by PGIM Financial Limited, a related company, were transferred to the Company resulting in a staff increase of 38 persons. The Company recharges the cost of these functions to other affiliated companies thereby increasing the turnover and administration expenses. During the year the company opened a branch in the Netherlands to further enhance its activities.

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:

P. Aronoff
M. G. Fresson
G. Murphy
S.L. Pollard (Appointed October 2017)

Results for the year

	2017	2016
	£	£
Turnover	<u>6,928,195</u>	<u>860,016</u>
Loss before taxation	<u>(296,657)</u>	<u>(63,525)</u>
Income tax expense	<u>(47,915)</u>	<u>(51,576)</u>
Loss for the financial year	<u><u>(344,572)</u></u>	<u><u>(115,101)</u></u>

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).

Directors' report (*continued*)

Financial instruments

The Company holds financial instruments including cash, trade receivables and creditors as detailed in the Balance Sheet (2016: cash, trade receivables and creditors).

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, PFI, 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 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 102, 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.

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 in accordance with the requirements of Section 487 of the Companies Act 2006.

On behalf of the board



M. G. Fresson

Director

30 August 2018

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PGIM EUROPEAN SERVICES LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, PGIM European Services 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the profit and loss account, the statement of comprehensive income, and the statement 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 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.

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 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.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the 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 Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, 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. 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

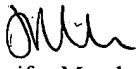
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to take advantage of the small companies exemption from preparing a strategic report. 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
30 August 2018

Profit and Loss Account

for the year ended 31 December 2017

	Note	2017 £	2016 £
Turnover	3	✓ 6,928,195	860,016
Administrative expenses		<u>(7,224,309)</u>	<u>(923,095)</u>
Operating loss	4	(296,114)	(63,079)
Finance expense	7	<u>(543)</u>	<u>(446)</u>
Loss before taxation		(296,657) ✗	(63,525)
Income tax expense	9	<u>(47,915)</u>	<u>(51,576)</u>
Loss for the financial year		<u><u>(344,572)</u></u>	<u><u>(115,101)</u></u>

The notes on pages 9 to 23 form part of the financial statements.

Stock option
payment
missing

recovered
Share
series

Statement of Comprehensive Income
for the year ended 31 December 2017

	<i>Note</i>	2017	2016
		£	£
Loss for the financial year		(344,572)	(115,101)
Other comprehensive(expense)/ income: Items that will not be transferred to profit or loss			
Effect of change in assumptions		(9,620,000)	(54,019,000)
Return on plan assets		6,380,000	47,526,000
Changes in asset ceiling	8	764,000	3,786,000
Past Service Cost offset against unrecognised surplus		(180,000)	-
Contributions from third parties		<u>3,000,000</u>	<u>3,000,000</u>
Other comprehensive income for the year, net of income tax		<u>344,000</u>	<u>293,000</u>
Total comprehensive income/(loss) for the year		<u>(572)</u>	<u>177,899</u>

The notes on pages 9 to 23 form part of the financial statements.

Balance Sheet
as at 31 December 2017

	<i>Note</i>	2017 £	2016 £
Current assets			
Trade and other receivables	<i>11</i>	2,363,179	802,141
Cash	<i>12</i>	<u>4,201,708</u>	<u>2,730,595</u>
		6,564,887	3,532,736
Current liabilities			
Creditors: amounts falling due within one year	<i>13</i>	<u>(4,363,465)</u>	<u>(1,532,025)</u>
Net current assets		2,201,422	2,000,711
Total assets less current liabilities		2,201,422	2,000,711
Net assets		<u>2,201,422</u>	<u>2,000,711</u>
Capital and reserves			
Called up share capital	<i>15</i>	1,263,374	1,263,374
Profit and loss account		<u>938,048</u>	<u>737,337</u>
Total equity		<u>2,201,422</u>	<u>2,000,711</u>

The notes on pages 9 to 23 form part of the financial statements.

The financial statements on pages 5 to 23 were approved by the board of directors on 30 August 2018 and were signed on its behalf by:



S. L. Pollard
Director

Registered number 01957069

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

	Called up share capital	Profit and loss account	Total equity
	£	£	£
Balance at 1 January 2016	1,263,374	541,216	1,804,590
Loss for the financial year	-	(115,101)	(115,101)
Other comprehensive income	-	<u>293,000</u>	<u>293,000</u>
Total comprehensive income	-	177,899	177,899
Equity settled share based payments	-	<u>18,222</u>	<u>18,222</u>
Balance at 31 December 2016	<u>1,263,374</u>	<u>737,337</u>	<u>2,000,711</u>
Loss for the financial year	-	(344,572) ✓	(344,572)
Other comprehensive income	-	<u>344,000</u> ✗	<u>344,000</u>
Total comprehensive expense	-	(572)	(572)
Equity settled share based payments	-	<u>201,283</u> ✓	<u>201,283</u>
Balance at 31 December 2017	<u>1,263,374</u>	<u>938,048</u>	<u>2,201,422</u>

The notes on pages 9 to 23 form part of the financial statements.

Notes to the financial statements

1. General information

PGIM European Services Limited (formerly PBI (UK) Limited) ('PGIMESL' or the 'Company') provides certain services, on behalf of the ultimate parent company, Prudential Financial Inc. ('PFI'), and other affiliated companies. These services are to provide the administration of payroll and pension payments to certain PFI employees in the UK and Europe and to provide shared services to affiliated companies. The Company is a private company and is incorporated and domiciled in the United Kingdom. The registered office of the Company is Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR.

The financial statements are presented in Pounds Sterling (£) which is also the Company's functional currency.

The Company is a wholly owned direct subsidiary of Pramerica Holdings Limited ('PHL') and of its ultimate parent, PFI. It is included in the consolidated results of both PHL and of PFI both of which are publicly available. PHL's financial statements are available at Grand Buildings, 1-3 Strand, Trafalgar Square, London WC2N 5HR. PFI'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 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland* ('FRS 102'). 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 reserves to continue its existing and projected activities for the foreseeable future and consequently the financial statements have been prepared on a going concern basis.

a) Turnover

Turnover consists of certain payroll and administrative costs recharged to affiliated companies at either cost or cost plus 10%.

b) Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions. The Company is a member of the PFI Group which prepare consolidated, publicly available financial statements. As a result, in accordance with Section 7 of FRS 102 and paragraph 3.17(d), the Company is exempt from the requirement to prepare a cash flow statement under FRS 102 as the cash flows of the Company are included in the consolidated cash flow statement of the parent Company, PFI.

Notes to the financial statements (*continued*)

2. Accounting policies (*continued*)

c) *Significant estimates and judgements*

The preparation of the financial statements in conformity with FRS 102 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.

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

- The Company has made assumptions relating to the pension arrangement which are disclosed in note 8 to the financial statements.
- Deferred tax has been recognised in line with the accounting policy below. The Company has recognised a deferred tax liability based on an assessment of future profitability.

d) *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'). These consolidated financial statements are presented in Pounds Sterling which is the Company's functional currency.

Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company 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. However, the foreign exchange differences arising on the movement in fair value on the investments is recognised in other comprehensive income. 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 Company 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. When a foreign operation is disposed of, such that control or significant influence (as the case may be) is lost, the accumulated amount in the other reserves is recycled to profit or loss as part of the gain or loss on disposal.

e) *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.

Notes to the financial statements (*continued*)

2. Accounting policies (*continued*)

e) Taxation (continued)

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.

f) Related parties

The Company discloses transactions with related parties which are not wholly owned within the PFI Group.

g) Cash

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

h) Share-based payments

The Company participates in PFI's share-based incentive schemes for 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 14 to the financial statements.

At each balance sheet date the entity revises its estimate 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.

i) Pension costs

The Company has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan and where a constructive obligation does exist for the Company to pay further contributions if the fund does not have sufficient assets.

The cost of a defined contribution scheme is equal to the contributions paid into the scheme for the period.

Upon the sale of Bache Commodities Limited ('BCL'), the Company assumed responsibility for a defined benefit scheme based in the UK. The assets of that scheme are measured at their market value at the balance sheet date. The liabilities are measured using the projected unit method with a discount rate equal to the rate of return on an AA corporate bond of equivalent term and currency. The extent to which the scheme's assets exceed its liabilities is shown as a surplus in the balance sheet, if the directors consider that a surplus is recoverable by the Company. The extent to which the scheme's assets fall short of its liabilities is shown as a deficit in the balance sheet, net of the related deferred tax asset, to the extent that a deficit represents an obligation of the Company.

Notes to the financial statements (PGIM European Services Limited continued)

2. Accounting policies (continued)

i) Pension costs (continued)

Where applicable, the following amounts are charged to operating profit in the period:

- (i) the increase in the present value of scheme liabilities arising from employee service in the period;
- (ii) gains and losses arising on settlements/curtailments in the period; and
- (iii) a credit representing the expected return on the scheme's assets and a charge relating to the increase in the present value of the scheme's liabilities are included in administrative expenses.

In addition, any increase in the present value of scheme liabilities resulting from benefit improvements is recognised over the period during which such improvements vest. Actuarial gains and losses are recognised in the change in benefit obligation.

Additional details of the Company's pension arrangements have been provided in note 8.

j) Trade and other receivables

A regular review is performed on 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 Balance Sheet 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.

k) Creditors

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

3. Turnover

	2017 £	2016 £
Recharge and reimbursement income	<u>6,928,195</u>	<u>860,016</u>
Total turnover	<u>6,928,195</u>	<u>860,016</u>

The turnover is accrued and earned in the United Kingdom.

Notes to the financial statements (continued)

4. Operating loss

	2017 £	2016 £
<i>Operating loss is stated after charging:</i>		
Employment costs:		
Wages and salaries	4,672,893	477,565
Share based payments (note 14)	118,306	9,441
Social security costs	475,632	56,748
Other pension costs	<u>433,227</u>	<u>83,137</u>
Total employment costs	<u>5,700,058</u>	<u>626,891</u>
Pension administrative expense	344,000	293,000
Fees payable to Company's auditors in respect of:		
- audit of the Company's financial statements	46,122	44,348

5. Employee Information

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

	2017 Number	2016 Number
By activity:		
Managerial and administration	<u>43</u>	<u>5</u>
	<u>43</u>	<u>5</u>

During the year the shared services employees were transferred from PGIM Financial Limited to PGIM European Services Limited.

6. Directors' remuneration

Company

	2017 £	2016 £
Aggregate emoluments	729,011	-
Aggregate amounts (excluding shares) receivable under long term incentive schemes	50,586	-
Contributions to pension schemes	<u>33,921</u>	<u>-</u>
	<u>813,518</u>	<u>-</u>
Remuneration of the highest paid director		
- aggregate emoluments	388,787	-
- contributions to pension scheme	<u>22,584</u>	<u>-</u>
	<u>411,371</u>	<u>-</u>

Notes to the financial statements (*continued*)

6. Directors' remuneration (*continued*)

The value of awards receivable by the highest paid director under long-term incentive schemes is USD \$65,000.00. Two directors received Restricted Stock Units and/or Options during the year. Three directors are members of the defined contributions scheme operated for the benefit of all eligible employees of the PGIM Financial Limited group. The highest paid director has no accrued UK defined benefits plan entitlements at the end of the year. No directors participate in the Ultimate Parent company's pension scheme. No options were exercised by the directors during the year. The highest paid director did not exercise any options during the year.

Included in the 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
M. G. Fresson	PGIM European Services Limited (a subsidiary of Prudential Financial Inc.)
G. Murphy	PGIM European Services Limited (a subsidiary of Prudential Financial Inc.)
S.L. Pollard	PGIM European Services Limited (a subsidiary of Prudential Financial Inc.)
P. Aronoff	PGIM, Inc. (the ultimate parent company of PGIM European Services Limited)

7. Finance expenses

	2017	2016
	£	£
Bank charges	<u>543</u>	<u>446</u>

8. Pension Schemes

The Company operates pension schemes in the United Kingdom for the benefit of its employees. Details of these schemes are provided below.

UK pension schemes – Defined benefit plan

The principal employer as of 31 December 2017 is PGIM European Services Limited.

The Plan's assets are legally separated from the Company's assets and form no part of these financial statements. The actuarial valuation at 31 December 2017 for the Plan showed surplus of £71.9 million (2016: £70.7 million). The accounting valuations for the defined benefit pension plan have been performed by Mercer, an independent actuary. Since it is in surplus and the Company does not view this surplus as recoverable, in accordance with Section 28 of FRS 102, there is also no pension asset recognised in the balance sheet.

The defined benefit plan is closed to all new members. As such the defined benefit section of the pension plan is closed to future accruals.

PGIM Financial Limited made a final pension contribution of £3.0 million in 2017 (2016: £3.0 million).

UK pension schemes- Defined contribution plan

The defined contribution plan is operated for all eligible employees of subsidiaries of PFI, operating in the United Kingdom, who entered service on or after 1 April 2002. Company contributions to this scheme are based on the age of the member on joining or on renewal at 1 April each year.

Notes to the financial statements (*continued*)

8. Pension Schemes (*continued*)

Pramerica UK Retirement Savings Plan – UK Defined Benefit Plan Disclosures under Section 28 of FRS 102

	2017 £	2016 £
Change in benefit obligation		
Benefit obligation at beginning of year	(216,605,000)	(160,754,000)
Interest cost	(5,643,000)	(6,185,000)
Actuarial (loss)	(9,620,000)	(54,019,000)
Loss on curtails/changes/introductions	(180,000)	-
Benefits paid	<u>22,838,000</u>	<u>4,353,000</u>
Benefit obligation at end of year	<u>(209,210,000)</u>	<u>(216,605,000)</u>

Notes to the financial statements (continued)

8. Pension Schemes (continued)

	2017 £	2016 £
Change in plan assets		
Fair value of plan assets at beginning of year	287,257,000	232,301,000
Interest income	7,656,000	9,076,000
Employer contributions	3,000,000	3,000,000
Benefit payments from plan assets	(22,838,000)	(4,353,000)
Administrative expenses paid from plan assets	(344,000)	(293,000)
Return on plan assets (excluding interest income)	<u>6,380,000</u>	<u>47,526,000</u>
Fair value of plan assets at end of year	<u>281,111,000</u>	<u>287,257,000</u>

	2017 £	2016 £
Amounts recognised in the balance sheet		
Defined benefit obligation	(209,210,000)	(216,605,000)
Fair value of plan assets	<u>281,111,000</u>	<u>287,257,000</u>
Funded status	71,901,000	70,652,000
Effect of asset ceiling	<u>(71,901,000)</u>	<u>(70,652,000)</u>
Asset balance	<u>-</u>	<u>-</u>

	2017 £	2016 £
Components of pension expense		
Interest cost	(5,643,000)	(6,185,000)
Interest income on plan assets	7,656,000	9,076,000
Interest expense on effect of asset ceiling	(2,013,000)	(2,891,000)
Administrative expense and/or taxes	<u>(344,000)</u>	<u>(293,000)</u>
Total pension expense recognised in the Profit and Loss Account	<u>(344,000)</u>	<u>(293,000)</u>

Given that the scheme is in surplus, and the Company does not deem that surplus to be recoverable, in accordance with Section 28 of FRS 102 the expected return on plan assets has been restricted to the total interest cost of £5.643m (2016: £6.185m).

Notes to the financial statements (continued)

8. Pension Schemes (continued)

	2017 £	2016 £
Remeasurements (recognised in other comprehensive income)		
Effect of changes in assumptions	(9,620,000)	(54,019,000)
Return on plan assets	6,380,000	47,526,000
Changes in asset ceiling	764,000	3,786,000
Past Service Cost offset against unrecognised surplus	(180,000)	-
Contributions from third parties	<u>3,000,000</u>	<u>3,000,000</u>
Total remeasurement included in OCI	<u>344,000</u>	<u>293,000</u>

	2017 £	2016 £
Plan assets		
The fair value of plan assets at the year end were as follows:		
Equity instruments	40,946,000	39,739,000
Debt instruments	223,284,000	135,238,000
Cash and cash equivalents	16,881,000	22,910,000
Other	-	89,370,000
	<u>281,111,000</u>	<u>287,257,000</u>

There were no amounts invested in property or in the Company's own financial instruments.

To develop the expected long-term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio which resulted in the selection of a rate of return assumption of 2.75% (2016: 3.70%).

	2017 £	2016 £
Actual return on plan assets	<u>14,036,000</u>	<u>56,602,000</u>

	2017	2016
Weighted-average assumptions to determine benefit obligation at year-end:		
Discount rate	2.75%	2.75%
Rate of price inflation (RPI)	3.25%	3.25%
Rate of pension increase	3.25%	3.25%
Rate of salary increase	N/A	N/A

	2017	2016
Weighted-average life expectancy for mortality tables used to determine benefit obligation:		
Member age 65 (current expectancy)	22.8yrs	22.7 yrs
Member age 45 (life expectancy at age 65)	24.9yrs	24.8 yrs

Notes to the financial statements (continued)

9. Income tax expense

	2017 £	2016 £
Recognised in the profit and loss account		
Total current tax:		
Current year	88,708	49,349
Group relief	<u>(4,508)</u>	<u>(4,744)</u>
Total current tax	<u>84,200</u>	<u>44,605</u>
Total deferred tax:		
Origination and reversal of temporary differences	<u>(36,285)</u>	<u>6,971</u>
Total deferred tax	<u>(36,285)</u>	<u>6,971</u>
Income tax expense	<u>47,915</u>	<u>51,576</u>

No income tax is recognised in Other Comprehensive Income (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: 20.00%). The difference is explained in the table below.

	2017 £	2016 £
Loss before taxation	<u>(296,657)</u>	<u>(63,525)</u>
Loss before taxation multiplied by standard rate of corporation tax in UK 19.25% (2016: 20.25 %)	(57,106)	(12,705)
Effects of:		
Disallowable expenses	-	432
Stock options not deductible for tax purposes	57,944	9,994
Stock options deductible for tax purposes	(19,143)	-
Group relief surrendered from affiliated companies	-	(4,745)
Disallowable pension expense	<u>66,220</u>	<u>58,600</u>
Total tax charge	<u>47,915</u>	<u>51,576</u>

The Company's profits for this accounting year are taxed at an effective rate of 19.25%. (2016: 20.00%). From April 2020 there will be a reduction in the rate of corporation tax from 19% to 17%. The relevant deferred tax balances have therefore been remeasured at 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. Deferred tax liability

Recognised deferred tax liability

Deferred tax liability is attributable to the following:

	2017 £	2016 £
Disallowed share based payments	<u>(36,285)</u>	<u>(6,971)</u>
Tax liability	<u>(36,285)</u>	<u>(6,971)</u>
Net tax liability	<u>(36,285)</u>	<u>(6,971)</u>

The deferred tax asset is calculated using the 17% corporation tax rate (2016: 18% 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%.

Movement in deferred tax during the year

	1 January 2017 £	Recognised in profit or loss £	31 December 2017 £
Disallowed share based payments	(6,971)	(29,314)	(36,285)
	<u>(6,971)</u>	<u>(29,314)</u>	<u>(36,285)</u>

Movement in deferred tax during the prior year

	1 January 2016 £	Recognised in profit or loss £	31 December 2016 £
Disallowed share based payments	(2,331)	(4,640)	(6,971)
	<u>(2,331)</u>	<u>(4,640)</u>	<u>(6,971)</u>

Notes to the financial statements (*continued*)

11. Trade and other receivables

	2017 £	2016 £
Current		
Amounts owed by group undertakings	2,265,421	764,993
Other receivables	73,048	12,709
Prepayments and accrued income	<u>24,710</u>	<u>24,439</u>
	<u>2,363,179</u>	<u>802,141</u>

Amounts included within amounts owed by group undertakings are interest free, unsecured and repayable on demand.

12. Cash

	2017 £	2016 £
Cash	<u>4,201,708</u>	<u>2,730,595</u>

13. Creditors: amounts falling due within one year

	2017 £	2016 £
Amounts falling due within one year		
Amounts owed to group undertakings	3,340,856	1,321,972
Deferred tax liability	36,285	6,971
Accruals and deferred income	<u>1,058,894</u>	<u>203,082</u>
	<u>4,363,465</u>	<u>1,532,025</u>

Amounts included within amounts owed to group undertakings are interest free, unsecured and repayable on demand.

Notes to the financial statements (continued)

14. Employee benefits

Share based payments

The Company'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's option grants for the years ended 31 December 2017 and 2016 is as follows:

	Number of Stock options	Weighted Average Exercise price £
At 1 January 2016	-	-
Granted	-	-
Vested	-	-
Forfeited/transferred	-	-
At 31 December 2016	-	-
Granted	3,794	46.84
Exercised	(1,326)	49.32
Cancelled	-	-
At 31 December 2017	<u>2,468</u>	<u>46.84</u>
Weighted average remaining contractual life		7.5 years

The range of exercise prices for options outstanding for the Company at 31 December 2017 was £43.87 to £51.33 (2016: nil). The Company recorded nil (2016: nil) in share based compensation related to stock options during the year ended 31 December 2017.

The number of options that are eligible for exercise at 31 December 2017 is nil (2016: nil).

The weighted average grant date fair value of stock options granted during the years ended 31 December 2017 and 2016 were £21.67, and £10.97, 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 ("PFI").

	2017	2016
Expected volatility	35.29%	38.36%
Expected dividend yield	2.84%	3.92%
Expected term	5.6 years	5.61 years
Risk-free interest rate	2.06%	1.25%

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

Notes to the financial statements (continued)

14. Employee benefits (continued)

Restricted stock units

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

The following table summarises restricted stock award activity for the year ended 31 December 2017:

	Number of Shares	Weighted Average Grant-Date Fair Value £
Non-vested Shares		
At 1 January 2016	487	51.19
Granted	-	-
Vested	-	-
Forfeited/transferred	-	-
At 31 December 2016	487	51.19
Granted	5,895	88.60
Vested	(1,702)	61.03
Forfeited/transferred	(951)	51.33
At 31 December 2017	3,729	58.32

The Company recorded an expense of £58,527 (2016: £9,441) in share-based payments, related to restricted stock units, during the year ended 31 December 2017.

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 performance award activity for the year ended 31 December 2017:

	Number of Shares	Weighted Average Grant-Date Fair Value £
Non-vested Shares		
At 1 January 2016	-	-
Granted	-	-
Vested	-	-
Forfeited/transferred	-	-
At 31 December 2016	-	-
Granted	1,560	88.60
Vested	-	-
Forfeited/transferred	(397)	51.33
Performance adjustment	80	51.33
At 31 December 2017	1,243	58.32

Notes to the financial statements *(continued)*

15. Called up share capital

	2017 £	2016 £
Allotted, issued and fully paid:		
1,263,374 (2016: 1,263,374) ordinary shares of £1 each	<u>1,263,374</u>	<u>1,263,374</u>

16. Subsequent events

There were no subsequent events.