PGIM FINANCIAL LIMITED

PILLAR 3 DISCLOSURES

DECEMBER 2018

CONTENTS

PGIM Financial Limited
Registered in England and Wales No.1024618,
Registered. Office: Grand Buildings, 1-3 Strand,
Trafalgar Square, London WC2N 5HR

Purpose

These disclosures are published to satisfy the requirements of the Capital Requirements Directive IV (Directive 2013/36/EU) (‘CRD IV’) and in particular the detailed requirements of Part 8 of the Capital Requirements Regulations (Regulation (EU) 575/2013) (‘CRR’). This document provides the disclosures required under Pillar 3 of this directive.

All figures disclosed, unless otherwise stated, are as at 31st December 2018, the financial year end of the PGIM Group. Subsequent disclosures will be published annually and should be read alongside the annual consolidated report and financial statements of PGIM Financial Limited. All subsidiaries of PGIM are consolidated for accounting and prudential reporting purposes. The information set out in this disclosure is not subject to audit and should not be relied upon in making financial decisions on any PGIM entity.

Basis of preparation

The Pillar 3 disclosures relate to the consolidated group of companies (**“PGIM Group”** or the **“Group”**). The individual firms detailed below are consolidated for regulatory purposes under the aggregate method.

PGIM Group is made up of the following companies:

- PGIM Limited (“PGIML”): A Euro 125k full scope IFPRU limited licence investment firm FCA regulated entity; FRN 193418
- Pricoa Capital Group Limited (“PCGL”): A Euro 50k BIPRU limited licence investment firm FCA regulated entity; FRN 172071
- PGIM Fund Management Limited (“PGIMFML”): A Euro 125k full scope AIFM FCA regulated entity: FRN 181389
- Pricoa Capital Group (Ireland) Limited: Ireland CBI authorisation C184298
- PGIM Netherlands BV (Netherlands) (Regulatory application made in the Netherlands).
- Other smaller unregulated entities. (See Appendix 2 for Organization Chart)

PGIM Financial Limited Group does not form a Significant IFPRU firm because each of the regulated entities do not exceed any of the following thresholds:

- Total assets of the Group do not exceed £530 million;
- Total liabilities of the Group do not exceed £380 million;
- Annual fees and commission income it receives in relation to the regulated activities carried on by the firm do not exceed £ 160 million in the 12 month period immediately preceding the date the firm carries out the assessment under this rule on a rolling basis.

The PGIM Group does not hold client money.

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Each of the regulated entities in the UK Group has sufficient capital resources in relation to its minimum regulatory capital requirement on a stand-alone basis.

Transferability of funds among PGIM Financial Limited and its subsidiaries

There are no current or foreseen material practical or legal impediments to the prompt transfer of funds among PGIM group and its subsidiaries other than the UK Companies Act requirements in respect of declaration and payment of dividends.

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Risk Management Framework

PGIM Financial Limited

The PGIM Group is the UK operating division of PGIM Inc, the global asset management business of Prudential Financial Inc (**"PFI"**), a US listed financial services company. PFI is not affiliated in any manner with Prudential PLC, a company incorporated in the United Kingdom.

The PGIM Group comprises the following business units; PGIM Real Estate, PGIM Fixed Income, Pricoa Capital Group, PGIM Real Estate Finance, PGIM UCITS, QMA (Quantitative Management Associates) and IRG (Institutional Global Relations).

The PGIM Group approaches the oversight of risk management on the basis of a three-tier hierarchy. At the highest level, the PGIM Group is subject to the Enterprise wide principles and policies of Prudential Financial Inc. (**"PRU"**), (NYSE: PRU). These are approved by the Board and sub-committees of PRU and govern the detailed operational controls for support functions (such as operations, finance and human resources) as well as the general framework within which specific business unit risks are managed.

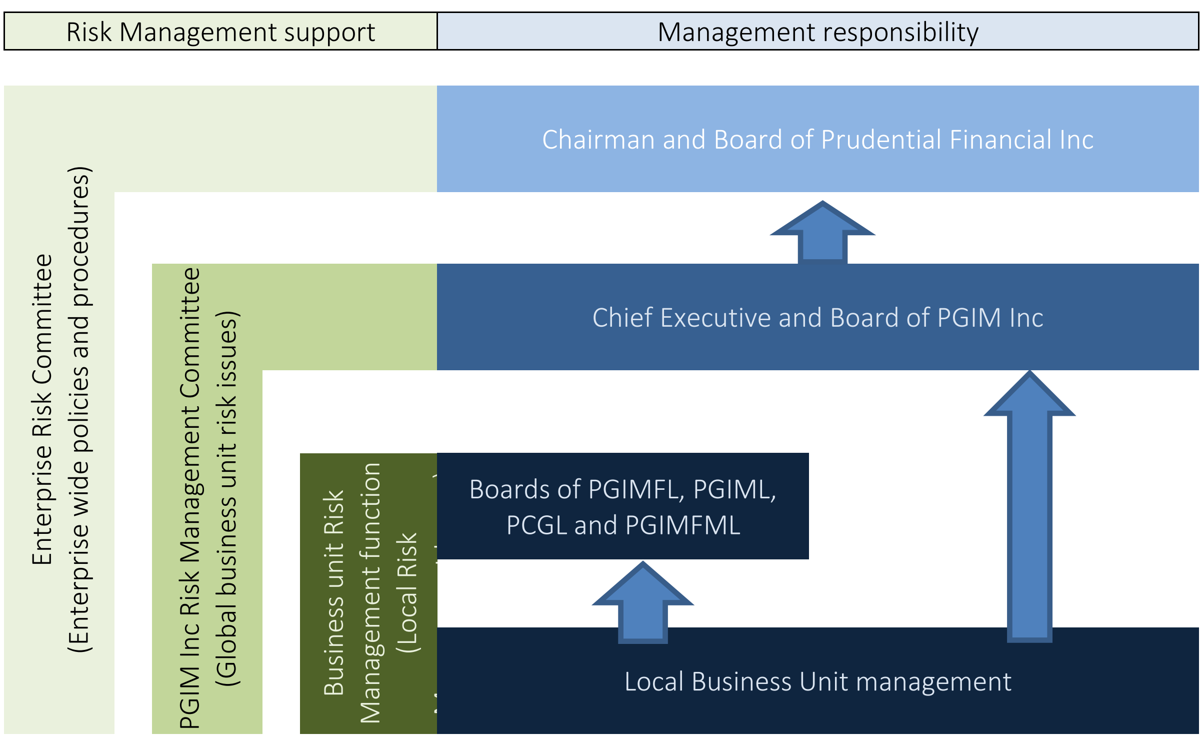

Figure 1: Business Units' Risk Management Framework

It is PRU's policy that Business Unit managers are ultimately responsible for control and risk management in their Business Units and must take ownership of the control framework they have in place. In this context, Business Unit CEO's and/or management committees within PGIM Inc are each responsible for the risk management of their global operations.

Business Unit managers are supported by PGIM Inc.'s Operational Risk Management department which provides oversight and operates as a functional unit of PGIM Inc. Its principal role is to oversee day to day risk management issues as well as performing periodic assessments of business unit internal controls, acting as a liaison with PRU's internal audit department (including the scheduling of internal audits) and identifying emerging risk issues. The Operational Risk Management department collates risk inventories for each business and facilitates risk and control self-assessments (**"RCSAs"**) on each identified risk.

Risk Management Process

The risk management framework is based on a "Three Lines of Defence" model and is summarised below:

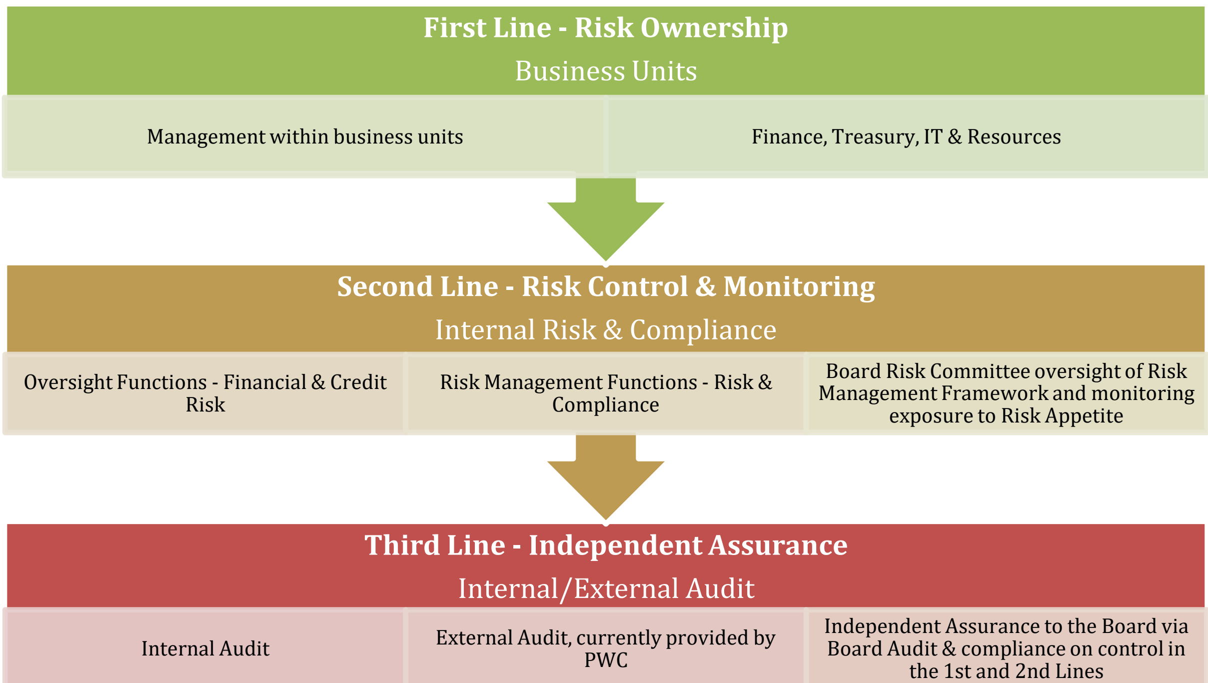

Figure 1: 'Three Lines of Defence' Model

The *first line* of defence is management within the business units, which through the implementation of the risk framework is responsible for the identification, assessment and management of risk.

The *second line* of defence is comprised of independent risk functions by business units through the risk and compliance functions. These functions are accountable for challenging and guiding the units in managing risk exposures. These functions are represented by the various risk teams which then feed to the business unit committees.

The *third line* of defence provides independent assurance to the Board via the External audit and Internal audit functions regarding the adequacy and effectiveness of systems and controls in the first and second lines in identifying and managing risk.

PGIM's Key Risks

Operational Risk

The PGIM Group's exposure to operational risk arises from the potential failure of business systems or controls, whether through unintentional error or deliberate misuse. The Directors' approach to operational risk is to mitigate the occurrence of losses through combining the promotion of a culture of prudent and ethical behaviour with a stringent internal control regime. Key operational internal controls are monitored and the regime as a whole is subject to periodic review by PGIM Inc's Risk Management department and by PFI's Internal Audit department.

Business Risk

The PGIM Group considers business risk to be the risk to the group through failure of Group business units, either individually or collectively, to achieve their desired strategy. The PGIM Group's revenue streams are principally comprised of cost based revenues from affiliates, from third party clients or from unregulated closed and open-ended investment funds managed by PGIML. The Group is therefore substantially insulated from the effects of short term business fluctuations and is more concerned with longer term business flows and development, in particular the risk that a material effect on market conditions or investor sentiment results in a shrinking of assets under management and an ensuing decision to reduce the size of the London-managed and operated businesses.

Credit Risk

The PGIM Group has adopted the standardised approach to credit risk. Its major credit counterparties are its investments in collateralised loan obligations ('CLOs'), receivables from affiliated companies and major institutional clients and cash deposits held with systemically important banks. The Group closely monitors credit risk on its exposures and has no past due or impaired financial assets at 31 December 2018 (31 December 2017: £nil).

The credit risk exposures of the Group are as follows:

PGIM FINANCIAL LIMITED (GROUP)	31 December 2018		31 December 2017	
Exposures to	Gross Exposures (£m)	Risk Weighted Exposures (£m)	Gross Exposures (£m)	Risk Weighted Exposures (£m)
Central Government	2.1	3.2	1.7	-
Institutions	81.5	16.4	78.3	15.7
Corporates	51.7	51.7	52.3	52.3

Other Exposures	1.6	1.6	6.2	6.2
Securitisations	300.1	577.7	219.0	406.7
Total Credit Risk	436.9	650.5	357.5	480.9

Brexit Risk

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

There is still a high degree of uncertainty regarding the final outcome of the political discussions between the UK and EU and, while the potential transition period running through to 1 January 2021 is welcomed, the UK Group has continued to prepare for a "hard" Brexit and has contingency plans, as appropriate, for each business. At this stage, the Board has not identified nor does it anticipate a material impact on business.

Unencumbered assets

Gross exposure values are split between encumbered and unencumbered per the table below:

31 December 2018	Carrying amount of encumbered assets	Carrying amount of unencumbered assets
	£m	£m
Loans on demand		78.7
Debt securities		300.1
Other assets	0.6	57.6
Total Assets	0.6	436.3

The above disclosure is per the Asset Encumbrance filing, pre audited accounts.

Exposure to securitisation positions

The Group acts as collateral manager to a range of collateralised loan obligations. The Group is also, under the risk retention rules of the Capital Requirements Directive, required to invest in those CLOs alongside the third-party investors. As a result, the U.K. Group has a very substantial investment, in the CLOs showing, on its balance sheet £300m. Under the risk retention rules, the Group takes a 5% holding in tranche of loan note in the CLO (a so called "vertical slice"). Under these rules, the Group must hold these loan notes to maturity.

- Pillar 1 capital and method

The Pillar 1 capital set aside at 31 December 2018 is £46mn. This is arrived at by taking the value of the CLO's held on the Balance Sheet at amortised cost (under International Financial Reporting Standard 9) and credit rating each tranche of the holding and applying the prescribed risk rating per the FCA rule and multiplying by 8%.

- Monitoring risks associated with securitisation

On the CLO products, the probability of default increases as the credit quality deteriorates. The credit quality is tracked by credit ratings supplied by Moody's. Independent valuations are received of the CLO's from arranger banks every month. In addition, the analysts on the CLO desk monitor the credit quality of the CLO's on a daily basis and management team will swap out of deteriorating loans or bonds and replace with better quality ones to comply with the manager mandate. This is also relevant for Pillar 1 capital which depends on the credit ratings of the CLOs.

- Hedging strategy

The Group's investments in CLOs are denominated in Euros and subject to gains or losses on movements in currency rates. The Group mitigates this risk exposure through a combination of euro denominated borrowing and currency hedging.

- Accounting treatment of positions and recognising gains

Under IFRS 9, the contractual cash flows of debt instruments must be assessed as to whether they meet the test of being solely payments of principle and interest ("SPPI").

The subordinated tranches for all CLOs fail this test. As a result, they are accounted for as Fair Value through Profit and Loss, and gains / (losses) on fair value are now recorded in the Income Statement.

The remaining tranches, having passed the SPPI test, were then assessed under the business model test. The Company's business model is to hold these investments to maturity. As a result, these remaining tranches are now classified as Financial Assets at Amortised Cost.

External Credit Assessment Institution (ECAI)

PGIM Group uses credit agency Moody's for the asset classes, Central Governments and Banks, Institutions and Corporates with material balances.

Market Risk

The PGIM Group has no market risk exposure other than foreign currency risk associated with assets and liabilities held in currencies other than UK sterling, the functional currency of the group. Significant currency exposures of the PGIM Group are hedged using standard hedging techniques such as forward contracts or currency swaps.

Exposure to Interest Rate Risk not in trading book

The PGIM Group has Euro denominated investments in collateralised loan obligations which are principally floating rate loan notes. The Group has purchased these investments using Euro, fixed rate borrowings from affiliated companies. The impact of an interest rate shock of 200bps on PGIM's interest income from the CLO investments would be £230k loss in revenue. The net interest rate risk to the PGIM Group is therefore not determined to be material and so no interest rate hedging techniques have been used.

Liquidity risk

Liquidity risk is concerned with firms not having available sufficient financial resources to enable it to meet its obligations as they fall due, or only being able to secure such resources at an excessive cost.

The PGIM Group operates under a Liquidity Risk Appetite framework supported further by a Liquidity Management framework and a Liquidity Risk Policy and Cash Management and approval processes.

The Liquidity Risk Policy is to ensure that there is there is sufficient liquidity available to operate its consolidated Group and meet its cash requirements in a timely manner whilst managing its liquidity and funding risks within its risk appetite. PGIM Group ensures that at all times it maintains liquidity resources which are adequate, both as to the amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

The PGIM Group has sufficient liquidity with adequate buffers of cash held with first class banks.

The risk management arrangements within PGIM are adequate given the size and complexity of the organisation.

Capital Adequacy

Own Funds

At 31st December 2018 the PGIM Group has own funds of £161.5m (2017: £87.0m) from which to meet its capital resources requirements considered under both Pillar 1 and Pillar 2. The composition of PGIM's own funds and the own funds of PGIM Limited, PCG Limited and PGIM Fund Management Limited are detailed below.

31 December 2018	PGIML	PCGL	PGIMFML	PGIM Group
	£m	£m	£m	£m
Share capital	51.1	10.3	0.7	43.8
Retained earnings/other reserves	24.2	8.6	2.5	69.0
Total Tier 1 capital	**75.3**	**18.8**	**3.2**	**112.8**
Additional Tier 1 capital				
Tier 2 capital	29.9	0.0	0.0	48.7
Own Funds	105.2	18.8	3.2	161.5

The tier two capital in PGIM Limited is comprised of fully subordinated perpetual interest free loans from PGIM Financial Limited.

Below is a reconciliation of the Tier 1 capital to 2018 audited reserves for the PGIM Group and its' regulated entities.

PGIM FINANCIAL LIMITED (GROUP)	Own funds £m	Audit Reclassification £m	2018 Audited accounts £m
Capital and reserves			
Share capital	43.8	-	43.8
Other reserves	3.0	(2.3)	0.7
Current year retained earnings	44.0	(1.9)	42.1
Retained earnings	70.7	0.5	71.2
Total Shareholders' funds (FSA001)	**161.5**	**(3.8)**	**157.8**
Regulatory deductions:			
Current year profit	(44.0)		
Current year and b/f: AIPC	1.5		
Current year and b/f: Share based payments	(6.1)		
Total tier 1 capital (own funds)	**112.9**		

PGIM LIMITED	Own funds £m	Audit Reclassification £m	2018 Audited accounts £m
Capital and reserves			
Share capital	51.1	-	51.1
Other reserves	(1.5)	1.6	0.1
Current year retained earnings	17.1	(0.1)	17.0
Retained earnings	25.8	(3.2)	22.6
Total Shareholders' funds (FSA001)	**92.4**	**(1.7)**	**90.7**
Regulatory deductions:			
Current year profit	(17.1)		
Current year and b/f: Share based payments	(0.1)		
Total tier 1 capital (own funds)	**75.3**		

PRICOA CAPITAL GROUP LTD	Own funds £m	Audit Reclassification £m	2018 Audited accounts £m
Capital and reserves			
Share capital	10.3	-	10.3
Current year retained earnings	4.1	(1.3)	2.9
Retained earnings	8.9	(2.0)	6.9
Total Shareholders' funds (FSA001)	**24.0**	**(4.5)**	**19.5**
Regulatory deductions:			
Current year profit	(4.1)		
Current year and b/f: Share based payments	(0.9)		
Current year CTA	(0.2)		
Total tier 1 capital (own funds)	**18.8**		

PGIM FUND MANAGEMENT LTD	Own funds £m	Audit Reclassification £m	2018 Audited accounts £m
Capital and reserves			
Share capital	0.7	-	0.7
Current year retained earnings	3.4	2.9	6.3
Retained earnings	2.5	0.7	3.1
Total Shareholders' funds (FSA029)	**6.6**	**3.6**	**10.2**
Regulatory deductions:			
Current year profit	(3.4)		
Total tier 1 capital (own funds)	**3.2**		

Capital requirements

At 31 December 2018, the PGIM Group Pillar 1 capital resources requirements were based on its consolidated credit and market risk exposures.

31 December 2018	PGIML	PCGL	PGIMFML	PGIM Group
	£m	£m	£m	£m
Credit Risk	636.4	18.9		650.5
Market Risk	10.1	3.5		32.8
	646.5	22.3	0.0	683.3
Fixed Overheads	201.7	22.9	12.8	233.4
Total Risk Weighted Exposure	646.5	22.9	12.8	683.3
Total Pillar 1 capital required	51.7	1.8	1.1	54.7
Additional pillar 2 capital required				36.6
Total capital required for pillar 1 and 2	51.7	1.8	1.1	91.3
Surplus	53.5	17.0	2.1	70.2

Pillar I

PGIM Financial Limited (Group), PGIM Limited, Pricoa Capital Group

The Pillar I capital requirement is calculated by taking the higher of credit risk plus market risk and the Fixed Overhead Requirement, multiplied by 8%.

PGIM Fund Management Limited

The Pillar I capital requirement for PGIM's Alternative Investment Fund Manager ("AIFM") is the Fixed Overhead requirement plus the capital requirement for professional negligence.

Pillar II – ICAAP

The ICAAP assesses risks by business unit and allocates capital accordingly. Under the ICAAP the Directors have assessed the principal risks to the group to be operational risk and business risk as described above.

The PGIM Group has assessed its risk profile and determined that its principal risks are its exposure to credit risks (largely arising on its Collateral Loan Obligations "CLOs" holdings) and operational risks related to its trading activities.

PGIM goes through an internal risk identification process, maintaining a Risk Register in order to identify key risks. Risk Registers are prepared independently by each of the risk functions of the business units where a Risk Matrix is used to quantify each risk type.

A forecast is also prepared to calculate the capital requirement in the event of an orderly wind down.

The Pillar 2 capital requirement for the PGIM Group, is an aggregation of the values from the risk assessment exercise and the stress tests, which is higher than the projected wind down analysis.

Staff Remuneration

The PGIM Financial Limited Group's Remuneration Policy is based on the principle that employee remuneration should be consistent with and promote sound and effective risk management and not encourage risk-taking that exceeds the risk appetite of the firm, in particular for Investment Professionals and Senior Management employees.

Decision making process

Remuneration of PGIM Financial Limited Group staff is determined by senior management (both of the Group and of the Group's parent).

Link between performance and pay

Remuneration is based on the personal performance of the individual, performance of the business unit and/or investment fund/account the individual is responsible for, and the overall performance of PGIM/Prudential Financial Inc.

Quantitative remuneration disclosures

Certain employees of the PGIM Financial Limited Group who perform senior management functions in the Group, who exercise significant influence over the operations of the Group or whose role has a material impact on the risk profile of the Group have been classified as 'Code' staff. The Group has 94 Code staff (2017: 68), 43 of which are employed by affiliates of the Group (2017: 28) (principally PGIM Inc).

The aggregate compensation for Code staff in the year 2018, comprising fixed and variable remuneration (and including pension, benefits and share based remuneration) was £36.3m (2017: £33.6m).

PGIM Group has complied with the requirements in Article 450 in a manner that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

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PGIM Financial Limited (UK) Directorships

PGIM Financial Limited (UK) Board of Directors

- Richard Greenwood: Director
- Philip Barrett: Director
- Donald Campbell: Director
- Heather Day: Director
- Marie Fioramonti: Director
- Mark Fresson: Director
- Elizabeth Samson: Director
- Steven Saperstein: Director

PGIM Limited Board of Directors (PGIML)

- Raimondo Amabile: Director
- Philip Barrett: Director
- Jonathan Butler: Director
- Mat Crowther: Director
- Marie Fioramonti: Director
- Heather Day: Director
- Elizabeth Samson: Director
- Steven Saperstein: Director
- Richard Greenwood: Director
- Andrew Macland: Director

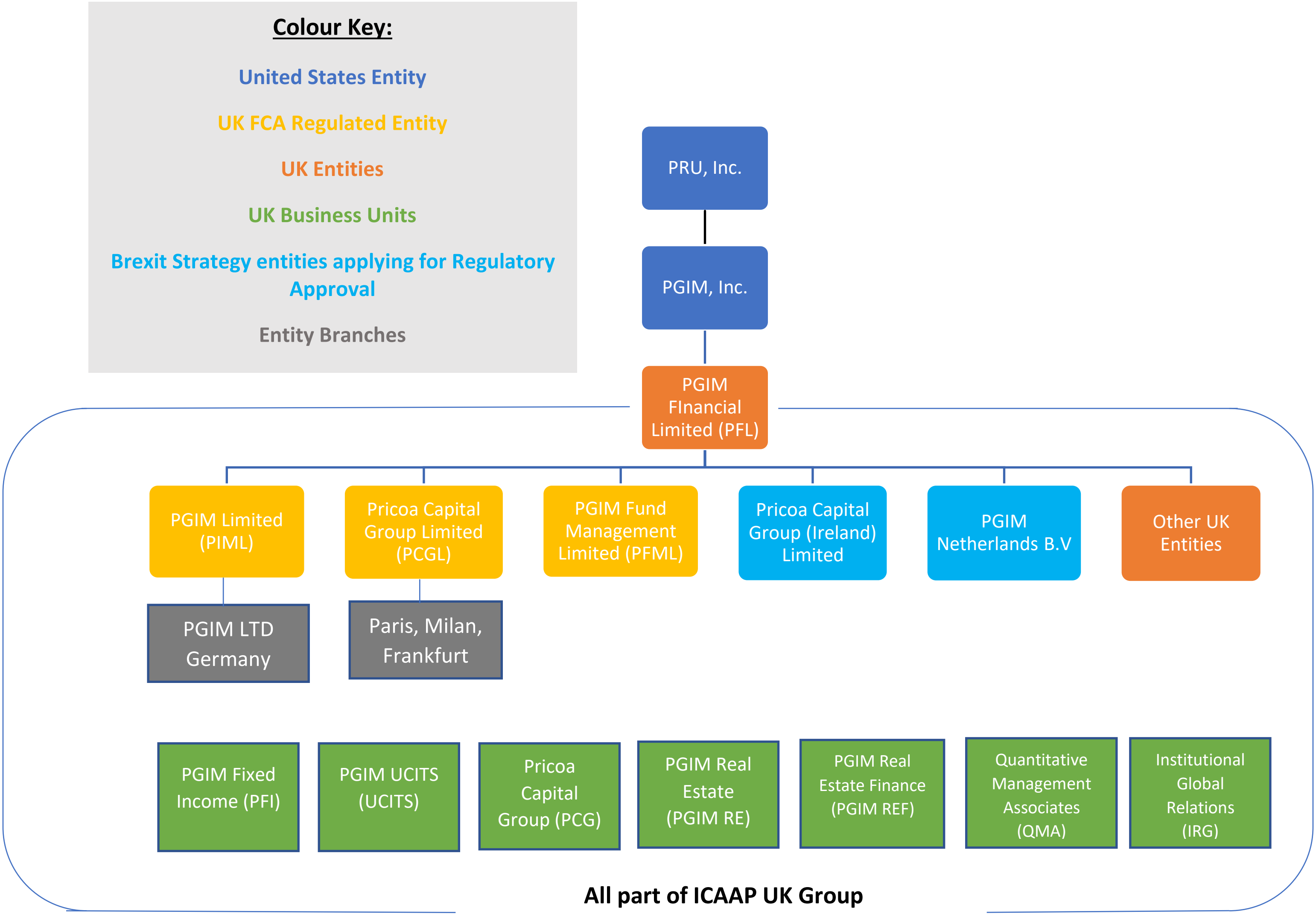
Pricoa Capital Group Limited (PCGL)

- Edward Barker: Director
- Donald Campbell: Director
- Marie Fioramonti: Director
- Edward Jolly: Director
- Tolgar Sirvanci: Director

PGIM Fund Management Limited (PGIMFML)

- Raimondo Amabile: Director
- Philip Barrett: Director
- David Gingell: Director
- Mat Crowther: Director
- Heather Day: Director
- Bryan McDonell: Director
- Andrew Macland: Director

***This chart has been updated with the most recent changes**


Colour Key:
United States Entity
UK FCA Regulated Entity
UK Entities
UK Business Units
Brexit Strategy entities applying for Regulatory Approval
Entity Branches
PRU, Inc.
PGIM, Inc.
PGIM FInancial Limited (PFL)
PGIM Limited (PIML)
Pricoa Capital Group Limited (PCGL)
PGIM Fund Management Limited (PFML)
Pricoa Capital Group (Ireland) Limited
PGIM Netherlands B.V
Other UK Entities
PGIM LTD Germany
Paris, Milan, Frankfurt
PGIM Fixed Income (PFI)
PGIM UCITS (UCITS)
Pricoa Capital Group (PCG)
PGIM Real Estate (PGIM RE)
PGIM Real Estate Finance (PGIM REF)
Quantitative Management Associates (QMA)
Institutional Global Relations (IRG)
All part of ICAAP UK Group