PGIM FINANCIAL LIMITED

PILLAR 3 DISCLOSURES

DECEMBER 2021

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 2021, 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 ("PFL"). 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;
- PGIM Private Capital Limited ("PPC"): A Euro 50k BIPRU limited licence investment firm FCA regulated entity; FRN 172071;
- PGIM Real Estate (UK) Limited ("PGIMREL"): A Euro 125k full scope AIFM with a MiFID top-up FCA regulated entity: FRN 181389;
- PGIM Private Capital (Ireland) Limited: Ireland CBI authorisation C184298;
- PGIM Netherlands BV (Netherlands): An AIFM with a MiFID top-up;
- PGIM Wadhwani LLP ('PGIMW') (formerly known as QMA Wadhwani LLP) ("Wadhwani"): An AIFM with a MiFID top-up FCA regulated entity; FRN **219900;**
- Other smaller unregulated entities. (See Appendix 1 for Organization Chart).

PGIM Financial Limited does not have a Significant IFPRU firm in its Group because the following thresholds have not been exceeded:

- 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 received by PGIML in relation to the regulated activities carried out, did not exceed £160 million in the 12 month period immediately preceding the date the firm carried out the assessment under this rule on a rolling basis.

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The PGIM Group does not have permissions to hold client money.

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 the PGIM group other than the UK Companies Act requirements in respect of the declaration and payment of dividends.

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Risk Management Framework

PGIM Financial Limited

PFL is a wholly owned subsidiary 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, PGIM Private Capital, PGIM Investments and PGIM Quantative Solutions.

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.

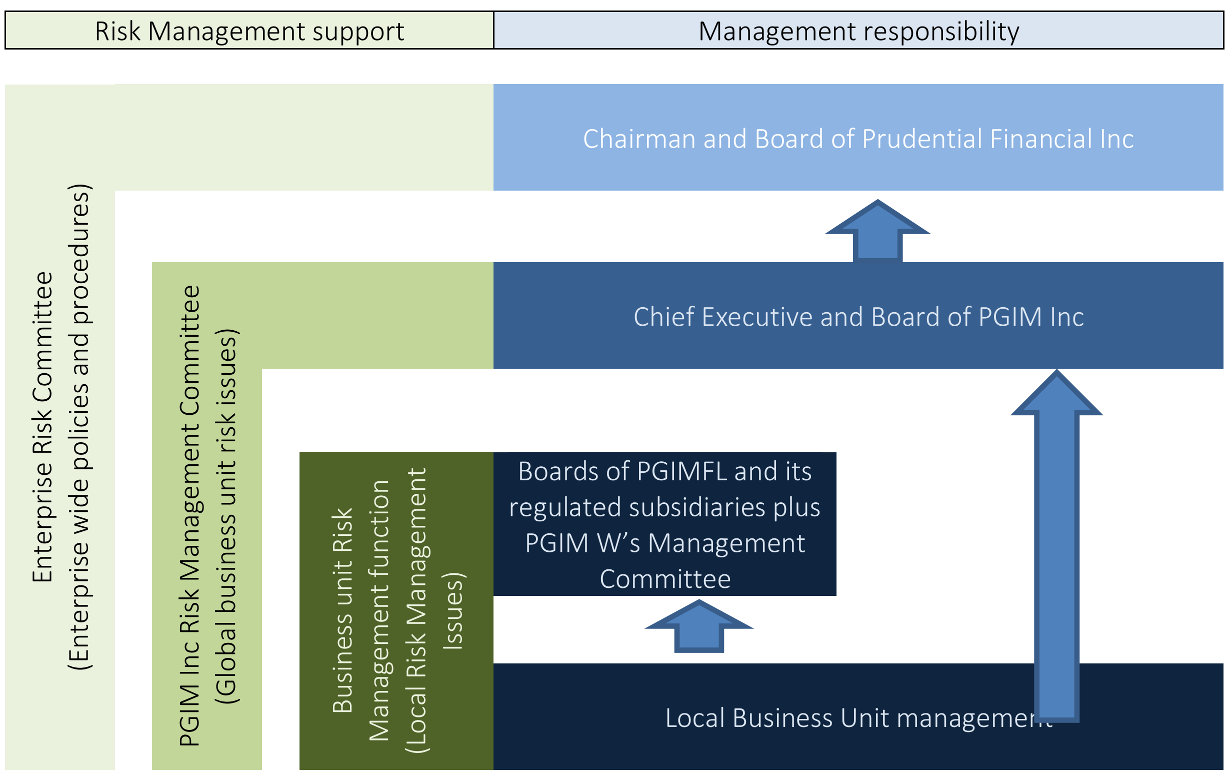

Figure 1: Business Units' Risk Management Framework

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:

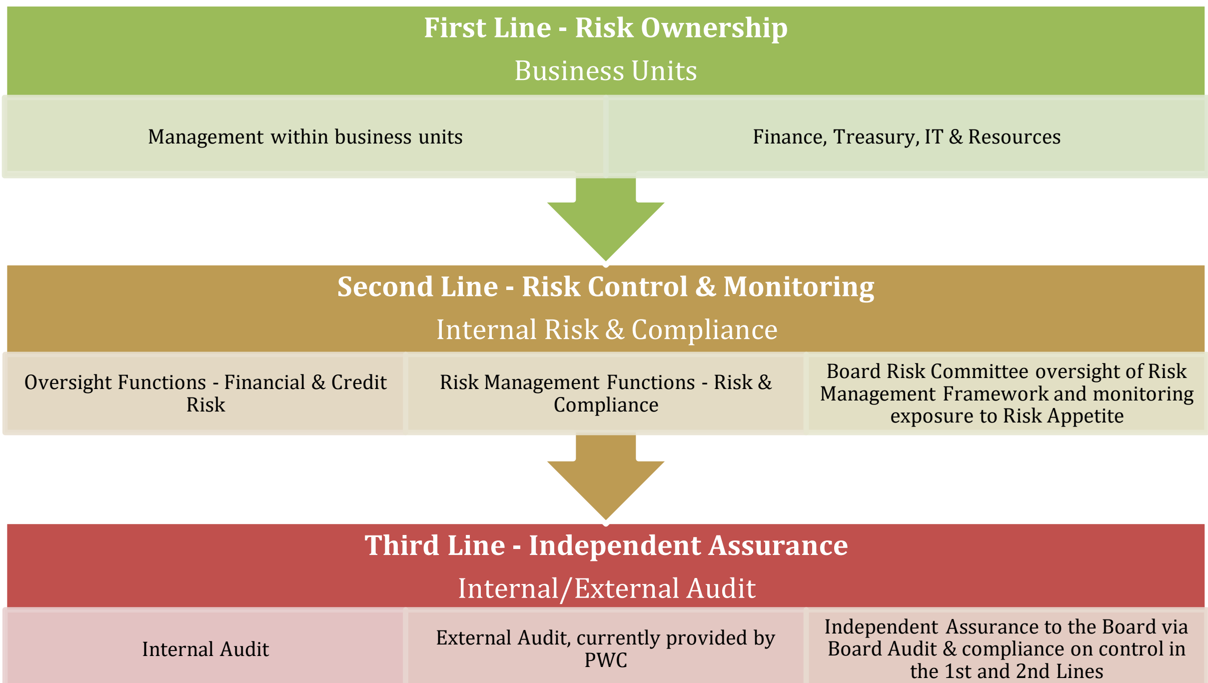

Figure 1: 'Three Lines of Defence' Model

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.

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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 PGIM Group's subsidiaries. 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 2021 (31 December 2020: £nil).

The credit risk exposures of the Group are as follows:

PGIM FINANCIAL LIMITED (GROUP)	31 December 2021		31 December 2020	
Exposures to	Gross Exposures (£m)	Risk Weighted Exposures (£m)	Gross Exposures (£m)	Risk Weighted Exposures (£m)
Central Government	5.1	4.3	3.9	3.5
Institutions	217.8	44.2	142.3	30.0
Corporates	45.4	44.1	68.0	66.7
Other Exposures	48.5	48.5	24.8	24.8
Securitisations	220.4	385.5	347.0	597.4
Total Credit Risk	**537.2**	**526.7**	**586.1**	**722.5**

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Brexit Risk

On 31 January 2020, the UK left the EU with a transition period in relation to existing laws and regulations which ended on 31 December 2020. Although a post-Brexit trade deal was secured prior to the end of the transitional period, it did not cover financial services and so, for regulatory purposes, the UK is now considered a “third country”. The impact of this "hard" Brexit for the Group is mitigated both by its ability to partner with its non-UK affiliates, which benefit from their continuing EU permissions, and the fact that the Group has made preparations by applying for temporary permissions and cross border licences in key EU jurisdictions (where available) where it wishes to do business.

During 2021, the Group applied to the Italian regulatory authorities for (i) a cross-border marketing license in order to be able to market its products to the Italian market on a cross-border basis from the UK and (ii) a licence to operate an Italian branch office. The authorisations were granted by the Italian regulators in March 2022. As the post-Brexit regulatory landscape develops, there will undoubtedly be further changes but, whilst these will be monitored by the Group, it is not anticipated that they will materially impact the Group’s ability to earn fee income from its investment management and investment advisory activities.

Unencumbered assets

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

31 December 2021	Carrying amount of encumbered assets 2021	Carrying amount of unencumbered assets 2021	Carrying amount of encumbered assets 2020	Carrying amount of unencumbered assets 2020
	£m	£m	£m	£m
Loans on demand	-	168.4	-	79.9
Debt securities	-	220.4	-	347.0
Other assets	0.5	147.9	0.4	158.7
Total Assets	**0.5**	**536.7**	**0.4**	**585.7**

The above disclosure is per the Asset Encumbrance filing.

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 £221m. Under the risk retention rules, the Group takes a 5% holding in each tranche of loan note issued by the CLO (a so called “vertical slice”). Under the rules, the Group must hold these loan notes to maturity.

- Pillar 1 capital and method

The Pillar 1 capital set aside at 31 December 2021 is £46.8m. 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 rules 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 by arranger banks are received for the CLO's every month. In addition, the analysts on the CLO desk monitor the credit quality of the CLO's on a daily basis and the management team will trade out of deteriorating loans or bonds and replace them with better quality positions in order to comply with the collateral 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 thus subject to gains or losses on movements in the GBP:EUR 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 at Fair Value through Profit and Loss, and gains / (losses) on fair value are recorded in the Income Statement.

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

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 £0.0K 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 sufficient liquidity available to operate the 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.

Capital Adequacy

Own Funds

At 31st December 2021 the PGIM Group has own funds of £229.2m (2020: £228.7m) from which to meet its capital resources requirements considered under both Pillar 1 and Pillar 2. The composition of PGIM's own funds are detailed below.

31 December 2021	PGIM Group
	£m
Share capital	96.9
Other reserves less tier 1 deductible items	112.2
Total Tier 1 capital	**209.1**
Tier 2 capital	20.1
Own Funds (per Q4 21 filings)	229.2

The tier two capital in PGIM Limited is comprised of fully subordinated loans from PGIM Financial Limited and PGIM Foreign Investments, Inc.

Capital requirements

At 31 December 2021, the PGIM Group Pillar 1 capital resources requirements were based on its consolidated credit and market risk exposures.

31 December 2021	PGIM Group
	£m
Own Funds	229.2
Credit Risk - Capital required	42.1
Market Risk - Capital required	4.7
Total credit risk + market risk (a)	46.8
Fixed Overhead Requirement (FOR) (b)	29.2
Total Pillar 1 Capital Requirement (higher of a and b)	46.8
Total Pillar 2 Capital Requirement	104.4
Total Capital Required (higher of P1 and P2)	104.4
Surplus	124.8

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Pillar I

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

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 Real Estate (UK) 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).

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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

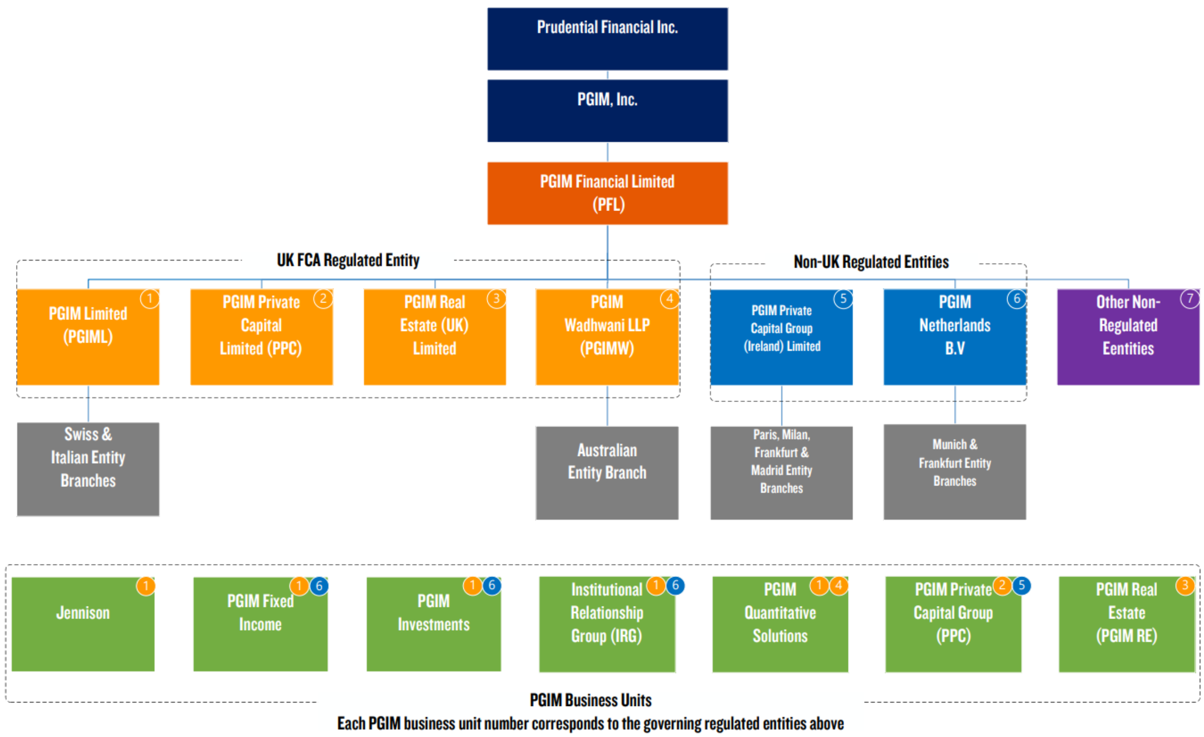
Certain employees of the PGIM Financial Limited Group who perform senior management functions in the Group, who exercise significant influence over the operations of the Group or whose role has a material impact on the risk profile of the Group have been classified as 'Code' staff. The Group has 52 Code staff (2020: 51), 7 of which are employed by affiliates of the Group (2020: 7) (principally PGIM Inc).

The aggregate compensation for Code staff in the year 2021, comprising fixed and variable remuneration (and including pension, benefits and share based remuneration) was £38.7m (2020: £35.1m).

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.

Appendix 1

Organisation Chart as at 31 December 2021



* Prudential Financial, Inc. of the United States is not affiliated in any manner with Prudential plc, incorporated in the United Kingdom or with Prudential Assurance Company, a subsidiary of M&G plc, incorporated in the United Kingdom.