

PRUDENTIAL FINANCIAL INC

Form 10-Q

November 03, 2017

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

New Jersey 22-3703799

(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification Number)

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

(Address and Telephone Number of Registrant's Principal Executive Offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of the Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company)  
Smaller reporting company   
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 31, 2017, 424 million shares of the registrant's Common Stock (par value \$0.01) were outstanding.

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Table of Contents

## TABLE OF CONTENTS

	Page
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. <u>Financial Statements:</u>	
<u>Unaudited Interim Consolidated Statements of Financial Position as of September 30, 2017 and December 31, 2016</u>	1
<u>Unaudited Interim Consolidated Statements of Operations for the three and nine months ended September 30, 2017 and 2016</u>	2
<u>Unaudited Interim Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016</u>	3
<u>Unaudited Interim Consolidated Statements of Equity for the nine months ended September 30, 2017 and 2016</u>	4
<u>Unaudited Interim Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and 2016</u>	5
<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	6
<u>1. Business and Basis of Presentation</u>	6
<u>2. Significant Accounting Policies and Pronouncements</u>	7
<u>3. Acquisitions</u>	11
<u>4. Investments</u>	11
<u>5. Variable Interest Entities</u>	25
<u>6. Closed Block</u>	27
<u>7. Equity</u>	28
<u>8. Earnings Per Share</u>	32
<u>9. Short-Term and Long-Term Debt</u>	35
<u>10. Employee Benefit Plans</u>	37
<u>11. Segment Information</u>	38
<u>12. Income Taxes</u>	40
<u>13. Fair Value of Assets and Liabilities</u>	41
<u>14. Derivative Instruments</u>	67
<u>15. Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters</u>	75
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	80
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	155
Item 4. <u>Controls and Procedures</u>	155
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	156
Item 1A. <u>Risk Factors</u>	156
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	156
Item 6. <u>Exhibits</u>	157
<u>GLOSSARY</u>	158
<u>EXHIBIT INDEX</u>	160
<u>SIGNATURES</u>	161

Table of Contents

Forward-Looking Statements

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends," "should," "will," "shall" or variations of these words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including, among others: (1) general economic, market and political conditions, including the performance and fluctuations of fixed income, equity, real estate and other financial markets; (2) the availability and cost of additional debt or equity capital or external financing for our operations; (3) interest rate fluctuations or prolonged periods of low interest rates; (4) the degree to which we choose not to hedge risks, or the potential ineffectiveness or insufficiency of hedging or risk management strategies we do implement; (5) any inability to access our credit facilities; (6) reestimates of our reserves for future policy benefits and claims; (7) differences between actual experience regarding mortality, morbidity, persistency, utilization, interest rates or market returns and the assumptions we use in pricing our products, establishing liabilities and reserves or for other purposes; (8) changes in our assumptions related to deferred policy acquisition costs, value of business acquired or goodwill; (9) changes in assumptions for our pension and other post-retirement benefit plans; (10) changes in our financial strength or credit ratings; (11) statutory reserve requirements associated with term and universal life insurance policies under Regulation XXX, Guideline AXXX and principles-based reserving requirements; (12) investment losses, defaults and counterparty non-performance; (13) competition in our product lines and for personnel; (14) difficulties in marketing and distributing products through current or future distribution channels; (15) changes in tax law; (16) economic, political, currency and other risks relating to our international operations; (17) fluctuations in foreign currency exchange rates and foreign securities markets; (18) regulatory or legislative changes, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the U.S. Department of Labor's fiduciary rules; (19) inability to protect our intellectual property rights or claims of infringement of the intellectual property rights of others; (20) adverse determinations in litigation or regulatory matters, and our exposure to contingent liabilities, including related to the remediation of certain securities lending activities administered by the Company; (21) domestic or international military actions, natural or man-made disasters including terrorist activities or pandemic disease, or other events resulting in catastrophic loss of life; (22) ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks; (23) possible difficulties in executing, integrating and realizing projected results of acquisitions, divestitures and restructurings; (24) interruption in telecommunication, information technology or other operational systems or failure to maintain the security, confidentiality or privacy of sensitive data on such systems; (25) changes in accounting principles, practices or policies; and (26) Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends or distributions from its subsidiaries to meet debt payment obligations and the ability of the subsidiaries to pay such dividends or distributions in light of our ratings objectives and/or applicable regulatory restrictions. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this document. See "Risk Factors" included in the Annual Report on Form 10-K for the year ended December 31, 2016 for discussion of certain risks relating to our businesses and investment in our securities.

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Financial Position

September 30, 2017 and December 31, 2016 (in millions, except share amounts)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
Fixed maturities, available-for-sale, at fair value (amortized cost: 2017-\$307,527; 2016-\$292,581)(1)	\$ 340,100	\$ 321,419
Fixed maturities, held-to-maturity, at amortized cost (fair value: 2017-\$2,475; 2016-\$2,524)(1)	2,084	2,144
Trading account assets supporting insurance liabilities, at fair value(1)	22,126	21,840
Other trading account assets, at fair value(1)	6,210	5,764
Equity securities, available-for-sale, at fair value (cost: 2017-\$7,145; 2016-\$7,149)	9,739	9,748
Commercial mortgage and other loans (includes \$340 and \$519 measured at fair value under the fair value option at September 30, 2017 and December 31, 2016, respectively)(1)	55,373	52,779
Policy loans	11,765	11,755
Other long-term investments (includes \$1,886 and \$1,556 measured at fair value under the fair value option at September 30, 2017 and December 31, 2016, respectively)(1)	11,986	11,283
Short-term investments	5,508	7,508
Total investments	464,891	444,240
Cash and cash equivalents(1)	14,541	14,127
Accrued investment income(1)	3,278	3,204
Deferred policy acquisition costs	18,724	17,661
Value of business acquired	1,817	2,314
Other assets(1)	16,770	14,780
Separate account assets	301,110	287,636
<b>TOTAL ASSETS</b>	<b>\$ 821,131</b>	<b>\$ 783,962</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Future policy benefits	\$ 252,339	\$ 240,908
Policyholders' account balances	148,342	145,205
Policyholders' dividends	6,327	5,711
Securities sold under agreements to repurchase	8,145	7,606
Cash collateral for loaned securities	4,697	4,333
Income taxes	12,509	10,412
Short-term debt	2,358	1,133
Long-term debt	17,153	18,041
Other liabilities(1)	16,069	14,739
Notes issued by consolidated variable interest entities (includes \$1,194 and \$1,839 measured at fair value under the fair value option at September 30, 2017 and December 31, 2016, respectively)(1)	1,517	2,150
Separate account liabilities	301,110	287,636
Total liabilities	770,566	737,874
<b>COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)</b>		
<b>EQUITY</b>		

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Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	0	0
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 660,111,339 shares issued at both September 30, 2017 and December 31, 2016)	6	6
Additional paid-in capital	24,721	24,606
Common Stock held in treasury, at cost (235,378,104 and 230,537,166 shares at September 30, 2017 and December 31, 2016, respectively)	(16,012	) (15,316 )
Accumulated other comprehensive income (loss)	16,598	14,621
Retained earnings	25,060	21,946
Total Prudential Financial, Inc. equity	50,373	45,863
Noncontrolling interests	192	225
Total equity	50,565	46,088
TOTAL LIABILITIES AND EQUITY	\$ 821,131	\$ 783,962

(1) See Note 5 for details of balances associated with variable interest entities.  
See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

## PRUDENTIAL FINANCIAL, INC.

## Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2017 and 2016 (in millions, except per share amounts)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
<b>REVENUES</b>				
Premiums	\$7,795	\$9,635	\$22,602	\$22,867
Policy charges and fee income	1,502	1,540	3,760	4,415
Net investment income	4,076	4,073	12,226	11,532
Asset management and service fees	1,005	955	2,929	2,780
Other income (loss)	327	(55)	964	8
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(22)	(29)	(132)	(204)
Other-than-temporary impairments on fixed maturity securities transferred to Other comprehensive income	0	0	10	38
Other realized investment gains (losses), net	1,630	842	1,065	4,293
Total realized investment gains (losses), net	1,608	813	943	4,127
Total revenues	16,313	16,961	43,424	45,729
<b>BENEFITS AND EXPENSES</b>				
Policyholders' benefits	8,193	10,155	23,546	25,175
Interest credited to policyholders' account balances	1,035	824	2,922	3,168
Dividends to policyholders	500	569	1,606	1,433
Amortization of deferred policy acquisition costs	643	115	1,166	1,744
General and administrative expenses	2,921	2,983	8,813	8,821
Total benefits and expenses	13,292	14,646	38,053	40,341
<b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>3,021</b>	<b>2,315</b>	<b>5,371</b>	<b>5,388</b>
Total income tax expense (benefit)	800	501	1,320	1,300
<b>INCOME (LOSS) BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES</b>	<b>2,221</b>	<b>1,814</b>	<b>4,051</b>	<b>4,088</b>
Equity in earnings of operating joint ventures, net of taxes	20	18	58	38
<b>NET INCOME (LOSS)</b>	<b>2,241</b>	<b>1,832</b>	<b>4,109</b>	<b>4,126</b>
Less: Income (loss) attributable to noncontrolling interests	3	5	11	42
<b>NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.</b>	<b>\$2,238</b>	<b>\$1,827</b>	<b>\$4,098</b>	<b>\$4,084</b>
<b>EARNINGS PER SHARE</b>				
<b>Basic earnings per share-Common Stock:</b>				
Net income (loss) attributable to Prudential Financial, Inc.	\$5.19	\$4.14	\$9.46	\$9.16
<b>Diluted earnings per share-Common Stock:</b>				
Net income (loss) attributable to Prudential Financial, Inc.	\$5.09	\$4.07	\$9.29	\$9.02
Dividends declared per share of Common Stock	\$0.75	\$0.70	\$2.25	\$2.10

See Notes to Unaudited Interim Consolidated Financial Statements

2

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Table of Contents

## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Comprehensive Income  
 Three and Nine Months Ended September 30, 2017 and 2016 (in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET INCOME (LOSS)	\$2,241	\$1,832	\$4,109	\$4,126
Other comprehensive income (loss), before tax:				
Foreign currency translation adjustments for the period	122	697	719	1,980
Net unrealized investment gains (losses)	153	(678)	1,835	16,642
Defined benefit pension and postretirement unrecognized periodic benefit (cost)	62	44	161	117
Total	337	63	2,715	18,739
Less: Income tax expense (benefit) related to other comprehensive income (loss)	101	(240)	757	6,051
Other comprehensive income (loss), net of taxes	236	303	1,958	12,688
Comprehensive income (loss)	2,477	2,135	6,067	16,814
Less: Comprehensive income (loss) attributable to noncontrolling interests	3	50	(8)	90
Comprehensive income (loss) attributable to Prudential Financial, Inc.	\$2,474	\$2,085	\$6,075	\$16,724

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity

Nine Months Ended September 30, 2017 and 2016 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontro l Interests	Total Equity
Balance, December 31, 2016	\$6	\$24,606	\$21,946	\$(15,316)	\$14,621	\$45,863	\$225	\$46,088
Cumulative effect of adoption of accounting changes		5	(5)			0		0
Common Stock acquired				(937)		(937)		(937)
Contributions from noncontrolling interests							7	7
Distributions to noncontrolling interests							(31)	(31)
Consolidations/(deconsolidations) of noncontrolling interests							(1)	(1)
Stock-based compensation programs		110		241		351		351
Dividends declared on Common Stock			(979)			(979)		(979)
Comprehensive income:								
Net income (loss)			4,098			4,098	11	4,109
Other comprehensive income (loss), net of tax					1,977	1,977	(19)	1,958
Total comprehensive income (loss)						6,075	(8)	6,067
Balance, September 30, 2017	\$6	\$24,721	\$25,060	\$(16,012)	\$16,598	\$50,373	\$192	\$50,565

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (Loss)	Total Prudential Financial, Inc. Equity	Noncontro l Interests	Total Equity
Balance, December 31, 2015	\$6	\$24,482	\$18,931	\$(13,814)	\$12,285	\$41,890	\$33	\$41,923
Cumulative effect of adoption of accounting changes			11			11	(30)	(19)
Common Stock acquired				(1,375)		(1,375)		(1,375)
Class B Stock repurchase adjustment			(119)			(119)		(119)
Contributions from noncontrolling interests							9	9
Distributions to noncontrolling interests							(30)	(30)
Consolidations (deconsolidations) of noncontrolling interests							471	471
Stock-based compensation programs		38		200		238		238
			(938)			(938)		(938)

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Dividends declared on Common  
Stock

Comprehensive income:

Net income (loss)	4,084			4,084	42	4,126
Other comprehensive income (loss), net of tax			12,640	12,640	48	12,688
Total comprehensive income (loss)				16,724	90	16,814
Balance, September 30, 2016	\$6	\$24,520	\$21,969	\$(14,989)	\$24,925	\$56,431
					\$543	\$56,974

See Notes to Unaudited Interim Consolidated Financial Statements

4

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Table of Contents

## PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows  
 Nine Months Ended September 30, 2017 and 2016 (in millions)

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$4,109	\$4,126
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(943 )	(4,127 )
Policy charges and fee income	(1,880 )	(1,417 )
Interest credited to policyholders' account balances	2,922	3,168
Depreciation and amortization	271	402
(Gains) losses on trading account assets supporting insurance liabilities, net	(330 )	(361 )
Change in:		
Deferred policy acquisition costs	(966 )	(391 )
Future policy benefits and other insurance liabilities	6,465	7,668
Income taxes(1)	1,348	749
Derivatives, net	(2,076 )	7,443
Other, net(1)	(159 )	(186 )
Cash flows from (used in) operating activities(1)	8,761	17,074
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available-for-sale	42,243	36,420
Fixed maturities, held-to-maturity	128	205
Trading account assets supporting insurance liabilities and other trading account assets	30,728	24,720
Equity securities, available-for-sale	3,165	2,798
Commercial mortgage and other loans	3,808	4,522
Policy loans	1,830	1,727
Other long-term investments	948	457
Short-term investments	21,497	35,728
Payments for the purchase/origination of:		
Fixed maturities, available-for-sale	(50,140 )	(49,467 )
Trading account assets supporting insurance liabilities and other trading account assets	(30,852 )	(26,049 )
Equity securities, available-for-sale	(2,371 )	(2,413 )
Commercial mortgage and other loans	(6,195 )	(6,011 )
Policy loans	(1,392 )	(1,402 )
Other long-term investments	(1,275 )	(1,537 )
Short-term investments	(19,553 )	(33,196 )
Acquisition of business, net of cash acquired	(64 )	(532 )
Derivatives, net	(61 )	718
Other, net	(633 )	228
Cash flows from (used in) investing activities	(8,189 )	(13,084 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Policyholders' account deposits	20,399	22,207
Policyholders' account withdrawals	(19,798 )	(17,514 )
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	903	488
Cash dividends paid on Common Stock	(976 )	(939 )
Net change in financing arrangements (maturities 90 days or less)	31	516
Common Stock acquired	(927 )	(1,339 )

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Class B stock acquired	0	(119 )
Common Stock reissued for exercise of stock options	208	112
Proceeds from the issuance of debt (maturities longer than 90 days)	1,189	1,449
Repayments of debt (maturities longer than 90 days)	(860 )	(1,452 )
Excess tax benefits from share-based payment arrangements	0	4
Other, net(1)	(472 )	(647 )
Cash flows from (used in) financing activities(1)	(303 )	2,766
Effect of foreign exchange rate changes on cash balances	145	360
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>414</b>	<b>7,116</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>14,127</b>	<b>17,612</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$14,541</b>	<b>\$24,728</b>
<b>NON-CASH TRANSACTIONS DURING THE PERIOD</b>		
Treasury Stock shares issued for stock-based compensation programs	\$102	\$113
Significant Pension Risk Transfer transactions:		
Assets received, excluding cash and cash equivalents	\$2,124	\$2,388
Liabilities assumed	3,066	3,215
Net cash received	\$942	\$827
Acquisition:		
Assets acquired, excluding cash and cash equivalents	\$196	\$0
Liabilities assumed	132	0
Net cash paid on acquisition	\$64	\$0

(1) Prior period amounts have been reclassified to conform to current period presentation.

See Notes to Unaudited Interim Consolidated Financial Statements

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company”) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds and investment management.

The Company’s principal operations are comprised of four divisions: the U.S. Retirement Solutions and Investment Management division, the U.S. Individual Life and Group Insurance division, the International Insurance division and the Closed Block division. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in the Company’s Corporate and Other operations. The Company’s Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested, excluding the Closed Block division.

Basis of Presentation

The Unaudited Interim Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (“SEC”). Intercompany balances and transactions have been eliminated. The Unaudited Interim Consolidated Financial Statements include the accounts of Prudential Financial, entities over which the Company exercises control, including majority-owned subsidiaries and variable interest entities (“VIEs”) in which the Company is considered the primary beneficiary. See Note 5 for more information on the Company’s consolidated variable interest entities.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

The Company’s Gibraltar Life Insurance Company, Ltd. (“Gibraltar Life”) consolidated operations use a November 30 fiscal year end for purposes of inclusion in the Company’s Consolidated Financial Statements. The Company’s unaudited interim consolidated balance sheet data as of September 30, 2017, include the assets and liabilities of Gibraltar Life as of August 31, 2017. The Company’s unaudited interim consolidated income statement data include Gibraltar Life’s results of operations for the three and nine months ended August 31, 2017 and 2016, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The most significant estimates include those used in determining deferred policy acquisition costs (“DAC”) and related amortization; value of business acquired (“VOBA”) and its amortization; amortization of deferred sales inducements

(“DSI”); measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and accruals for contingent liabilities, including estimates for losses in connection with unresolved legal and regulatory matters.

#### Out of Period Adjustments

During the second quarter of 2016, the Company recorded an out of period adjustment resulting in a decrease of \$148 million to “Income (loss) before income taxes and equity in earnings of operating joint ventures” for the three-month period ended June 30, 2016, and which is reflected in the nine-month period ended September 30, 2016. The adjustment reflects a charge to increase reserves, net of a related increase in DAC, for certain universal life products within the Individual Life business. Management evaluated the adjustment and concluded it was not material to the then current quarter or to any previously reported quarterly or

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

annual financial statements. See Note 11 for additional information on the impact of this adjustment to the Company's operating segments.

## Reclassifications

Certain amounts in prior periods have been reclassified to conform to the current period presentation.

## 2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

## Accounting for Certain Reinsurance Contracts in the Individual Life business

During the second quarter of 2017, the Company recognized a charge of \$237 million in the Individual Life segment, reflecting a change in estimate of reinsurance cash flows associated with universal life products as well as a change in method of reflecting these cash flows in the financial statements. Under the previous method of accounting, with the exception of recoveries pertaining to no lapse guarantees, reinsurance cash flows (e.g., premiums and recoveries) were generally recognized as they occurred. Under the new method, the expected reinsurance cash flows are recognized more ratably over the life of the underlying reinsured policies. In conjunction with this change, the way in which reinsurance is reflected in estimated gross profits used for the amortization of unearned revenue reserves, DAC and VOBA was also revised. The change represents a change in accounting estimate effected by a change in accounting principle and is included within the Company's annual reviews and update of assumptions and other refinements. The change in accounting estimate reflected insights gained from revised cashflow modeling enabled by a systems conversion, which prompted the change to a preferable accounting method. This new methodology is viewed as preferable as the Company believes it better reflects the economics of reinsurance transactions by aligning the results of reinsurance activity more closely to the underlying direct insurance activity and by better reflecting the profit pattern of this business for purposes of the amortization of the balances noted above.

## Recent Accounting Pronouncements

Changes to U.S. GAAP are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates ("ASU") to the FASB Accounting Standards Codification.

The Company considers the applicability and impact of all ASU. ASU listed below include those that have been adopted during the current fiscal year and/or those that have been issued but not yet adopted as of the date of this filing. ASU not listed below were assessed and determined to be either not applicable or not material.

ASU adopted during the nine months ended September 30, 2017

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payments Accounting	This ASU simplifies and improves employee share-based payment accounting. The areas updated include income tax consequences, a policy election related to forfeitures, classification of awards as either equity	January 1, 2017 using various transition methods as prescribed by the ASU.	Adoption of the ASU did not have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial



or liability, and classification of  
operating and financing activity on the  
statement of cash flows.

Statements.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

ASU issued but not yet adopted as of September 30, 2017

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2014-09, Revenue from Contracts with Customers (Topic 606)	The ASU is based on the core principle that revenue is recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, and assets recognized from the costs to obtain or fulfill a contract with a customer. Revenue recognition for insurance contracts and financial instruments is explicitly scoped out of the standard.	January 1, 2018 using the modified retrospective method.	Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Liabilities	The ASU revises an entity's accounting related to the recognition and measurement of certain equity investments and the presentation of certain fair value changes for financial liabilities measured at fair value. The ASU requires equity investments, except for those accounted for using the equity method, to be measured at fair value with changes in fair value recognized in net income. The standard also amends certain disclosure requirements associated with the fair value of financial	January 1, 2018 using the modified retrospective method which will include a cumulative-effect adjustment on the balance sheet as of the beginning of the fiscal year of adoption. The amendments are to be applied prospectively as they relate to equity investments without readily determinable fair value that exist as of the date of adoption.	The transition impact to the Company's Consolidated Statements of Financial Position will depend on the net unrealized gain or loss on equity securities and the embedded unrealized gain or loss on equity investments currently accounted for under the cost method as of the effective date. As of September 30, 2017, the net unrealized gain on equity investments is \$2.8 billion. The cumulative-effect adjustment ultimately recorded on January 1, 2018 will differ from that amount after taking into account portfolio activity and market movements that occur during the fourth quarter of 2017, as well as the offsetting impacts related to the policyholder dividend obligation in the Closed Block and deferred taxes. The prospective impact

instruments.

to the Company's Consolidated Statements of Operations will depend on equity investment purchases and sales as well as period-to-period fluctuations in the market values of the Company's equity investments that occur after the effective date.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-02, Leases (Topic 842)	This ASU ensures that assets and liabilities from all outstanding lease contracts are recognized on the balance sheet (with limited exception). The ASU substantially changes a Lessee’s accounting for leases and requires the recording on balance sheet of a “right-of-use” asset and liability to make lease payments for most leases. A Lessee will continue to recognize expense in its income statement in a manner similar to the requirements under the current lease accounting standard. For Lessors, the standard modifies classification criteria and accounting for sales-type and direct financing leases and requires a Lessor to derecognize the carrying value of the leased asset that is considered to have been transferred to a Lessee and record a lease receivable and residual asset (“receivable and residual” approach). The standard also eliminates the real estate specific provisions of the current standard (i.e., sale-leaseback).	January 1, 2019 using the modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments	This ASU provides a new current expected credit loss model to account for credit losses on certain financial assets and off-balance sheet exposures (e.g., loans held for investment, debt securities held to maturity, reinsurance receivables, net investments in leases and loan commitments). The model requires an entity to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The standard also modifies the current OTTI standard for available-for-sale debt securities to require the use of an allowance rather than a direct write down of the investment, and replaces the existing standard for purchased credit deteriorated loans and debt securities.	January 1, 2020 using the modified retrospective method, however prospective application is required for purchased credit deteriorated assets previously accounted for under ASU 310-30 and for debt securities for which an OTTI was recognized prior to the date of adoption. Early adoption is permitted beginning January 1, 2019.	The Company is currently assessing the impact of the ASU on the Company’s Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2016-15, Statement of Cash	This ASU addresses diversity in practice in how certain cash receipts and cash payments are	January 1, 2018 using the retrospective	Based on the assessment

Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a Consensus of the Emerging Issues Task Force)	presented and classified in the statement of cash flows. The standard provides clarity on the treatment of eight specifically defined types of cash inflows and outflows.	method (with early adoption permitted provided that all amendments are adopted in the same period).	completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash	In November 2016, the FASB issued this ASU to address diversity in practice from entities classifying and presenting transfers between cash and restricted cash as operating, investing, or financing activities, or as a combination of those activities in the Statement of Cash Flows. The ASU requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the Statement of Cash Flows. As a result, transfers between such categories will no longer be presented in the Statement of Cash Flows.	January 1, 2018 using the retrospective method (with early adoption permitted).	Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	In January 2017, the FASB issued this ASU to provide a more robust framework to use in determining when a set of assets and activities ("set") is a business and to address stakeholder feedback that the definition of a business in current GAAP is applied too broadly. The primary amendments in the ASU provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business.	January 1, 2018 using the prospective method (with early adoption permitted).	Adoption of the ASU will result in general account real estate acquisitions no longer being accounted for as business combinations. As a result, direct transaction costs associated with such transactions will be capitalized. Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.
ASU 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial	In February 2017, the FASB issued this ASU to clarify the scope and application of ASC 610-20 which provides guidance on accounting for the derecognition of a nonfinancial asset or an in substance nonfinancial asset that is not a business. The ASU defines an in substance nonfinancial asset and requires the application of certain recognition and measurement principles in the new revenue	January 1, 2018 using the full or modified retrospective method (with early adoption permitted).	Based on the assessment completed to date, the Company does not expect the adoption of the ASU to have a significant impact on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

Assets

recognition standard when an entity derecognizes nonfinancial assets and in substance nonfinancial assets, and the counterparty is not a customer.

ASU 2017-08,  
Receivables  
-Nonrefundable Fees and  
Other Costs (Subtopic  
310-20) Premium  
Amortization on  
Purchased Callable Debt  
Securities

This ASU requires certain premiums on callable debt securities to be amortized to the earliest call date.

January 1, 2019  
using the  
modified  
retrospective  
method (with  
early adoption  
permitted).

The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Standard	Description	Effective date and method of adoption	Effect on the financial statements or other significant matters
ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities	This ASU makes targeted changes to the existing hedge accounting model to better portray the economics of an entity's risk management activities and to simplify the use of hedge accounting.	January 1, 2019 using the modified retrospective method (with early adoption permitted).	The Company is currently assessing the impact of the ASU on the Company's Consolidated Financial Statements and Notes to the Consolidated Financial Statements.

**3. ACQUISITIONS**

## Acquisition of Administradora de Fondos de Pensiones Habitat S.A.

In March 2016, the Company completed the purchase of an indirect 40% ownership interest in Administradora de Fondos de Pensiones Habitat S.A. ("AFP Habitat"), a leading provider of retirement services in Chile, from Inversiones La Construcción S.A. ("ILC"), the investment subsidiary of the Chilean Construction Chamber. The Company paid 899.90 Chilean pesos per share, for a total purchase price of approximately \$532 million based on exchange rates at the share acquisition date. The Company and ILC now equally own an indirect controlling stake in AFP Habitat through a joint holding company. The Company's investment is accounted for under the equity method and is recorded within "Other assets." This acquisition enables the Company to participate in the growing Chilean pension market.

**4. INVESTMENTS**

## Fixed Maturities and Equity Securities

The following tables set forth information relating to fixed maturities and equity securities (excluding investments classified as trading), as of the dates indicated:

	September 30, 2017				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$21,951	\$ 3,729	\$ 585	\$25,095	\$ 0
Obligations of U.S. states and their political subdivisions	9,321	970	19	10,272	0
Foreign government bonds	86,965	15,783	441	102,307	0
U.S. corporate public securities	80,324	7,539	480	87,383	(10 )
U.S. corporate private securities(1)	31,453	2,179	179	33,453	(9 )
Foreign corporate public securities	26,494	2,979	103	29,370	(5 )
Foreign corporate private securities	23,231	1,071	460	23,842	0



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Asset-backed securities(2)	10,908	223	15	11,116	(242 )
Commercial mortgage-backed securities	13,011	281	79	13,213	0
Residential mortgage-backed securities(3)	3,869	188	8	4,049	(2 )
Total fixed maturities, available-for-sale(1)	\$307,527	\$ 34,942	\$ 2,369	\$340,100	\$ (268 )
Equity securities, available-for-sale	\$7,145	\$ 2,623	\$ 29	\$9,739	

11

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$866	\$ 265	\$ 0	\$1,131
Foreign corporate public securities	659	87	0	746
Foreign corporate private securities(5)	84	3	0	87
Commercial mortgage-backed securities	0	0	0	0
Residential mortgage-backed securities(3)	475	36	0	511
Total fixed maturities, held-to-maturity(5)	\$2,084	\$ 391	\$ 0	\$2,475

(1) Excludes notes with amortized cost of \$2,310 million (fair value, \$2,310 million), which have been offset with the associated payables under a netting agreement.

(2) Includes credit-tranched securities collateralized by loan obligations, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(4) Represents the amount of OTTI losses in “Accumulated other comprehensive income (loss)” (“AOCI”), which were not included in earnings. Amount excludes \$542 million of net unrealized gains on impaired available-for-sale securities and \$2 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$4,627 million (fair value, \$4,758 million), which have been offset with the associated payables under a netting agreement.

	December 31, 2016				
	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI(4)
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$21,505	\$ 3,280	\$ 1,001	\$23,784	\$ 0
Obligations of U.S. states and their political subdivisions	9,060	716	84	9,692	0
Foreign government bonds	79,862	16,748	354	96,256	0
U.S. corporate public securities	76,383	6,460	1,232	81,611	(17 )
U.S. corporate private securities(1)	29,974	2,122	308	31,788	(22 )
Foreign corporate public securities	25,758	2,784	305	28,237	(6 )
Foreign corporate private securities	21,383	646	1,149	20,880	0
Asset-backed securities(2)	11,759	229	53	11,935	(288 )
Commercial mortgage-backed securities	12,589	240	125	12,704	(1 )
Residential mortgage-backed securities(3)	4,308	238	14	4,532	(3 )
Total fixed maturities, available-for-sale(1)	\$292,581	\$ 33,463	\$ 4,625	\$321,419	\$(337 )
Equity securities, available-for-sale	\$7,149	\$ 2,641	\$ 42	\$9,748	



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)			
Fixed maturities, held-to-maturity:				
Foreign government bonds	\$839	\$ 262	\$ 0	\$1,101
Foreign corporate public securities	651	71	0	722
Foreign corporate private securities(5)	81	4	0	85
Commercial mortgage-backed securities	0	0	0	0
Residential mortgage-backed securities(3)	573	43	0	616
Total fixed maturities, held-to-maturity(5)	\$2,144	\$ 380	\$ 0	\$2,524

(1) Excludes notes with amortized cost of \$1,456 million (fair value, \$1,456 million), which have been offset with the associated payables under a netting agreement.

(2) Includes credit-tranched securities collateralized by loan obligations, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(3) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(4) Represents the amount of OTTI losses in AOCI, which were not included in earnings. Amount excludes \$649 million of net unrealized gains on impaired available-for-sale securities and \$1 million of net unrealized gains on impaired held-to-maturity securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(5) Excludes notes with amortized cost of \$4,403 million (fair value, \$4,403 million), which have been offset with the associated payables under a netting agreement.

The following tables set forth the fair value and gross unrealized losses aggregated by investment category and length of time that individual fixed maturity and equity securities had been in a continuous unrealized loss position, as of the dates indicated:

	September 30, 2017					
	Less Than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$5,087	\$ 127	\$4,612	\$ 458	\$9,699	\$ 585
Obligations of U.S. states and their political subdivisions	600	5	350	14	950	19
Foreign government bonds	6,687	195	2,229	246	8,916	441
U.S. corporate public securities	7,963	107	6,981	373	14,944	480
U.S. corporate private securities	4,679	117	1,224	62	5,903	179
Foreign corporate public securities	2,082	21	1,395	82	3,477	103
Foreign corporate private securities	2,270	36	5,346	424	7,616	460
Asset-backed securities	863	1	428	14	1,291	15
Commercial mortgage-backed securities	2,446	22	1,485	57	3,931	79

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Residential mortgage-backed securities	607	4	151	4	758	8
Total	\$33,284	\$ 635	\$24,201	\$ 1,734	\$57,485	\$ 2,369
Equity securities, available-for-sale	\$439	\$ 28	\$0	\$ 1	\$439	\$ 29

(1) Includes \$12 million of fair value and less than \$1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of September 30, 2017.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2016					
	Less Than Twelve Months	Gross Unrealized Losses	Twelve Months or More	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1):						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$9,345	\$ 1,001	\$ 0	\$ 0	\$9,345	\$ 1,001
Obligations of U.S. states and their political subdivisions	2,677	79	19	5	2,696	84
Foreign government bonds	6,076	325	310	29	6,386	354
U.S. corporate public securities	22,803	905	2,943	327	25,746	1,232
U.S. corporate private securities	7,797	228	1,296	80	9,093	308
Foreign corporate public securities	5,196	162	1,047	143	6,243	305
Foreign corporate private securities	6,557	350	4,916	799	11,473	1,149
Asset-backed securities	2,357	20	1,581	33	3,938	53
Commercial mortgage-backed securities	4,879	123	60	2	4,939	125
Residential mortgage-backed securities	926	12	78	2	1,004	14
Total	\$68,613	\$ 3,205	\$12,250	\$ 1,420	\$80,863	\$ 4,625
Equity securities, available-for-sale	\$637	\$ 41	\$12	\$ 1	\$649	\$ 42

(1) Includes \$12 million of fair value and less than \$1 million of gross unrealized losses, which are not reflected in AOCI, on securities classified as held-to-maturity, as of December 31, 2016.

As of September 30, 2017 and December 31, 2016, the gross unrealized losses on fixed maturity securities were composed of \$2,098 million and \$4,233 million, respectively, related to “1” highest quality or “2” high quality securities based on the National Association of Insurance Commissioners (“NAIC”) or equivalent rating and \$271 million and \$392 million, respectively, related to other than high or highest quality securities based on NAIC or equivalent rating. As of September 30, 2017, the \$1,734 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in U.S. and foreign government bonds and in the energy, utility and consumer non-cyclical sectors of the Company’s corporate securities. As of December 31, 2016, the \$1,420 million of gross unrealized losses on fixed maturity securities of twelve months or more were concentrated in the energy, utility and capital goods sectors of the Company’s corporate securities. In accordance with its policy described in Note 2 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these fixed maturity securities was not warranted at either September 30, 2017 or December 31, 2016. These conclusions were based on a detailed analysis of the underlying credit and cash flows on each security. Gross unrealized losses are primarily attributable to general credit spread widening, increases in interest rates and foreign currency exchange rate movements. As of September 30, 2017, the Company did not intend to sell these securities, and it was not more likely than not that the Company would be required to sell these securities before the anticipated recovery of the remaining amortized cost basis.

As of September 30, 2017, \$7 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, \$4 million of which had been in a gross unrealized loss position for less than six months. As of December 31, 2016, \$9 million of the gross unrealized losses on equity securities represented declines in value of 20% or more, \$8 million of which had been in a gross unrealized loss position for less than six months. In accordance with

its policy described in Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company concluded that an adjustment to earnings for OTTI for these equity securities was not warranted at either September 30, 2017 or December 31, 2016.

The following table sets forth the amortized cost and fair value of fixed maturities by contractual maturities, as of the date indicated:

14

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2017			
	Available-for-Sale Amortized Fair Cost Value		Held-to-Maturity Amortized Fair Cost Value	
	(in millions)			
Fixed maturities:				
Due in one year or less	\$ 10,528	\$ 11,142	\$ 0	\$ 0
Due after one year through five years	47,418	51,382	178	186
Due after five years through ten years	64,610	69,994	568	650
Due after ten years(1)	157,183	179,204	863	1,128
Asset-backed securities	10,908	11,116	0	0
Commercial mortgage-backed securities	13,011	13,213	0	0
Residential mortgage-backed securities	3,869	4,049	475	511
Total	\$ 307,527	\$ 340,100	\$ 2,084	\$ 2,475

Excludes available-for-sale notes with amortized cost of \$2,310 million (fair value, \$2,310 million) and (1) held-to-maturity notes with amortized cost of \$4,627 million (fair value, \$4,758 million), which have been offset with the associated payables under a netting agreement.

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Asset-backed, commercial mortgage-backed and residential mortgage-backed securities are shown separately in the table above, as they do not have a single maturity date.

The following table sets forth the sources of fixed maturity and equity security proceeds and related investment gains (losses), as well as losses on impairments of both fixed maturities and equity securities, for the periods indicated:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Fixed maturities, available-for-sale:				
Proceeds from sales(1)	\$ 7,973	\$ 7,585	\$ 23,860	\$ 21,939
Proceeds from maturities/prepayments	5,068	4,960	18,488	14,583
Gross investment gains from sales and maturities	359	440	1,160	1,234
Gross investment losses from sales and maturities	(109 )	(46 )	(407 )	(343 )
OTTI recognized in earnings(2)	(22 )	(29 )	(122 )	(166 )
Fixed maturities, held-to-maturity:				
Proceeds from maturities/prepayments(3)	\$ 39	\$ 83	\$ 128	\$ 208
Equity securities, available-for-sale:				
Proceeds from sales(4)	\$ 1,421	\$ 978	\$ 3,364	\$ 2,815
Gross investment gains from sales	357	177	829	425
Gross investment losses from sales	(29 )	(30 )	(70 )	(137 )
OTTI recognized in earnings	(12 )	(23 )	(23 )	(65 )

(1) Includes \$105 million and \$102 million of non-cash related proceeds for the nine months ended September 30, 2017 and 2016, respectively.



Excludes the portion of OTTI recorded in “Other comprehensive income (loss)” (“OCI”), representing any difference (2) between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

(3) Includes \$(1) million and \$3 million of non-cash related proceeds for the nine months ended September 30, 2017 and 2016, respectively.

(4) Includes \$199 million and \$17 million of non-cash related proceeds for the nine months ended September 30, 2017 and 2016, respectively.

The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company for which a portion of the OTTI loss was recognized in OCI and the corresponding changes in such amounts, for the periods indicated:

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
	(in millions)			
Credit loss impairments:				
Balance, beginning of period	\$341	\$ 359	\$ 424	\$ 532
New credit loss impairments	3	10	0	27
Additional credit loss impairments on securities previously impaired	0	1	0	0
Increases due to the passage of time on previously recorded credit losses	4	11	5	17
Reductions for securities which matured, paid down, prepaid or were sold during the period	(33 )	(49 )	(76 )	(217 )
Reductions for securities impaired to fair value during the period(1)	0	(14 )	0	(2 )
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1 )	(4 )	(2 )	(6 )
Balance, end of period	\$314	\$ 314	\$ 351	\$ 351

(1) Represents circumstances where the Company determined in the current period that it intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of the security's amortized cost.

## Trading Account Assets Supporting Insurance Liabilities

The following table sets forth the composition of "Trading account assets supporting insurance liabilities," as of the dates indicated:

	September 30, 2017		December 31, 2016	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$626	\$626	\$655	\$655
Fixed maturities:				
Corporate securities	13,811	14,115	13,903	13,997
Commercial mortgage-backed securities	2,154	2,183	2,032	2,052
Residential mortgage-backed securities(1)	999	1,010	1,142	1,150
Asset-backed securities(2)	1,190	1,216	1,333	1,349
Foreign government bonds	1,019	1,032	915	926
U.S. government authorities and agencies and obligations of U.S. states	348	398	330	376
Total fixed maturities	19,521	19,954	19,655	19,850
Equity securities	1,251	1,546	1,097	1,335
Total trading account assets supporting insurance liabilities	\$21,398	\$22,126	\$21,407	\$21,840

(1) Includes publicly-traded agency pass-through securities and collateralized mortgage obligations.

(2)

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Includes credit-tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within "Other income," was \$66 million and \$84 million during the three months ended September 30, 2017 and 2016, respectively, and \$295 million and \$459 million during the nine months ended September 30, 2017 and 2016, respectively.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Other Trading Account Assets

The following table sets forth the composition of “Other trading account assets,” as of the dates indicated:

	September 30, 2017		December 31, 2016	
	Amortized Cost or Cost	Fair Value	Amortized Cost or Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	\$27	\$27	\$26	\$26
Fixed maturities	3,379	3,340	3,634	3,453
Equity securities	971	1,115	985	1,056
Other	13	14	4	5
Subtotal	\$4,390	4,496	\$4,649	4,540
Derivative instruments		1,714		1,224
Total other trading account assets		\$6,210		\$5,764

The net change in unrealized gains (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within “Other income,” was \$56 million and \$49 million during the three months ended September 30, 2017 and 2016, respectively, and \$215 million and \$210 million during the nine months ended September 30, 2017 and 2016, respectively.

## Concentrations of Financial Instruments

The Company monitors its concentrations of financial instruments and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer.

As of the dates indicated, the Company’s exposure to concentrations of credit risk of single issuers greater than 10% of the Company’s stockholders’ equity included securities of the U.S. government and certain U.S. government agencies and securities guaranteed by the U.S. government, as well as the securities disclosed below:

	September 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Investments in Japanese government and government agency securities:				
Fixed maturities, available-for-sale	\$64,567	\$76,263	\$60,240	\$73,051
Fixed maturities, held-to-maturity	845	1,104	818	1,075
Trading account assets supporting insurance liabilities	630	641	537	550
Other trading account assets	22	22	16	16
Total	\$66,064	\$78,030	\$61,611	\$74,692

September 30, 2017	December 31, 2016
Fair	Fair

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	Amortized Cost	Value	Amortized Cost	Value
Investments in South Korean government and government agency securities:				
Fixed maturities, available-for-sale	\$8,543	\$10,161	\$7,581	\$9,435
Fixed maturities, held-to-maturity	0	0	0	0
Trading account assets supporting insurance liabilities	15	16	44	44
Other trading account assets	0	0	0	0
Total	\$8,558	\$10,177	\$7,625	\$9,479

17

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Commercial Mortgage and Other Loans

The following table sets forth the composition of “Commercial mortgage and other loans,” as of the dates indicated:

	September 30, 2017		December 31, 2016	
	Amount (in million)	% of Total	Amount (in million)	% of Total
Commercial mortgage and agricultural property loans by property type:				
Office	\$12,527	23.0 %	\$12,424	23.9 %
Retail	8,825	16.2	8,555	16.5
Apartments/Multi-Family	14,979	27.4	13,733	26.4
Industrial	8,956	16.4	8,075	15.5
Hospitality	1,989	3.6	2,274	4.4
Other	4,148	7.6	3,966	7.6
Total commercial mortgage loans	51,424	94.2	49,027	94.3
Agricultural property loans	3,167	5.8	2,958	5.7
Total commercial mortgage and agricultural property loans by property type	54,591	100.0%	51,985	100.0%
Valuation allowance	(102 )		(98 )	
Total net commercial mortgage and agricultural property loans by property type	54,489		51,887	
Other loans:				
Uncollateralized loans	675		638	
Residential property loans	210		252	
Other collateralized loans	6		10	
Total other loans	891		900	
Valuation allowance	(7 )		(8 )	
Total net other loans	884		892	
Total commercial mortgage and other loans(1)	\$55,373		\$52,779	

Includes loans held for sale which are carried at fair value and are collateralized primarily by apartment complexes.

(1) As of September 30, 2017 and December 31, 2016, the net carrying value of these loans was \$340 million and \$519 million, respectively.

As of September 30, 2017, the commercial mortgage and agricultural property loans were geographically dispersed throughout the United States (with the largest concentrations in California (26%), Texas (9%) and New York (8%)) and included loans secured by properties in Europe (5%) and Asia (1%).

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth the activity in the allowance for credit losses for commercial mortgage and other loans, as of the dates indicated:

	September 30, 2017					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Balance, beginning of year	\$96	\$ 2	\$ 2	\$ 0	\$ 6	\$106
Addition to (release of) allowance for losses	4	1	0	0	(1)	4
Charge-offs, net of recoveries	(1)	0	0	0	0	(1)
Change in foreign exchange	0	0	0	0	0	0
Total ending balance	\$99	\$ 3	\$ 2	\$ 0	\$ 5	\$109

	December 31, 2016					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Balance, beginning of year	\$97	\$ 2	\$ 3	\$ 0	\$ 10	\$112
Addition to (release of) allowance for losses	0	0	(1)	0	(5)	(6)
Charge-offs, net of recoveries	(1)	0	0	0	0	(1)
Change in foreign exchange	0	0	0	0	1	1
Total ending balance	\$96	\$ 2	\$ 2	\$ 0	\$ 6	\$106

The following tables set forth the allowance for credit losses and the recorded investment in commercial mortgage and other loans, as of the dates indicated:

	September 30, 2017					
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	Total
	(in millions)					
Allowance for credit losses:						
Individually evaluated for impairment	\$6	\$ 0	\$ 0	\$ 0	\$ 0	\$6
Collectively evaluated for impairment	93	3	2	0	5	103
Total ending balance(1)	\$99	\$ 3	\$ 2	\$ 0	\$ 5	\$109
Recorded investment(2):						
Individually evaluated for impairment	\$76	\$ 36	\$ 0	\$ 0	\$ 2	\$114
Collectively evaluated for impairment	51,348	3,131	210	6	673	55,368
Total ending balance(1)	\$51,424	\$ 3,167	\$ 210	\$ 6	\$ 675	\$55,482

(1) As of September 30, 2017, there were no loans acquired with deteriorated credit quality.

(2) Recorded investment reflects the carrying value gross of related allowance.





Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2016					Total
	Commercial Mortgage Loans	Agricultural Property Loans	Residential Property Loans	Other Collateralized Loans	Uncollateralized Loans	
	(in millions)					
Allowance for credit losses:						
Individually evaluated for impairment	\$ 6	\$ 0	\$ 0	\$ 0	\$ 0	\$ 6
Collectively evaluated for impairment	90	2	2	0	6	100
Total ending balance(1)	\$ 96	\$ 2	\$ 2	\$ 0	\$ 6	\$ 106
Recorded investment(2):						
Individually evaluated for impairment	\$ 116	\$ 30	\$ 0	\$ 0	\$ 2	\$ 148
Collectively evaluated for impairment	48,911	2,928	252	10	636	52,737
Total ending balance(1)	\$ 49,027	\$ 2,958	\$ 252	\$ 10	\$ 638	\$ 52,885

(1) As of December 31, 2016, there were no loans acquired with deteriorated credit quality.

(2) Recorded investment reflects the carrying value gross of related allowance.

The following tables set forth certain key credit quality indicators based upon the recorded investment gross of allowance for credit losses, as of the date indicated:

## Commercial mortgage loans

	September 30, 2017			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	<1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$ 29,375	\$ 518	\$ 320	\$ 30,213
60%-69.99%	13,591	417	132	14,140
70%-79.99%	6,173	585	28	6,786
80% or greater	110	79	96	285
Total commercial mortgage loans	\$ 49,249	\$ 1,599	\$ 576	\$ 51,424

## Agricultural property loans

	September 30, 2017			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	<1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$ 2,993	\$ 119	\$ 15	\$ 3,127
60%-69.99%	40	0	0	40
70%-79.99%	0	0	0	0
80% or greater	0	0	0	0
Total agricultural property loans	\$ 3,033	\$ 119	\$ 15	\$ 3,167



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Total commercial mortgage and agricultural property loans

	September 30, 2017			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$32,368	\$ 637	\$ 335	\$33,340
60%-69.99%	13,631	417	132	14,180
70%-79.99%	6,173	585	28	6,786
80% or greater	110	79	96	285
Total commercial mortgage and agricultural property loans	\$52,282	\$ 1,718	\$ 591	\$54,591

The following tables set forth certain key credit quality indicators based upon the recorded investment gross of allowance for credit losses, as of the date indicated:

## Commercial mortgage loans

	December 31, 2016			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$28,131	\$ 446	\$ 626	\$29,203
60%-69.99%	12,608	401	115	13,124
70%-79.99%	5,383	694	56	6,133
80% or greater	373	62	132	567
Total commercial mortgage loans	\$46,495	\$ 1,603	\$ 929	\$49,027

## Agricultural property loans

	December 31, 2016			
	Debt Service Coverage Ratio			
	>1.2X	1.0X to <1.2X	< 1.0X	Total
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$2,803	\$ 114	\$ 17	\$2,934
60%-69.99%	24	0	0	24
70%-79.99%	0	0	0	0
80% or greater	0	0	0	0
Total agricultural property loans	\$2,827	\$ 114	\$ 17	\$2,958

## Total commercial mortgage and agricultural property loans

December 31, 2016			
Debt Service Coverage Ratio			
>1.2X	1.0X to <1.2X	Total	

			<	
			1.0X	
	(in millions)			
Loan-to-Value Ratio:				
0%-59.99%	\$30,934	\$ 560	\$643	\$32,137
60%-69.99%	12,632	401	115	13,148
70%-79.99%	5,383	694	56	6,133
80% or greater	373	62	132	567
Total commercial mortgage and agricultural property loans	\$49,322	\$ 1,717	\$946	\$51,985

21

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following tables set forth an aging of past due commercial mortgage and other loans based upon the recorded investment gross of allowance for credit losses, as well as the amount of commercial mortgage and other loans on non-accrual status, as of the dates indicated:

September 30, 2017							
Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)	
(in millions)							
Commercial mortgage loans	\$51,424	\$ 0	\$ 0	\$ 0	\$ 0	\$51,424	\$ 47
Agricultural property loans	3,165	0	0	2	2	3,167	25
Residential property loans	202	4	0	4	8	210	4
Other collateralized loans	6	0	0	0	0	6	0
Uncollateralized loans	675	0	0	0	0	675	0
Total	\$55,472	\$ 4	\$ 0	\$ 6	\$ 10	\$55,482	\$ 76

(1) As of September 30, 2017, there were no loans in this category accruing interest.

For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the

(2) Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

December 31, 2016							
Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due(1)	Total Past Due	Total Loans	Non-Accrual Status(2)	
(in millions)							
Commercial mortgage loans	\$49,006	\$ 21	\$ 0	\$ 0	\$ 21	\$49,027	\$ 49
Agricultural property loans	2,956	0	0	2	2	2,958	2
Residential property loans	241	7	1	3	11	252	3
Other collateralized loans	10	0	0	0	0	10	0
Uncollateralized loans	638	0	0	0	0	638	0
Total	\$52,851	\$ 28	\$ 1	\$ 5	\$ 34	\$52,885	\$ 54

(1) As of December 31, 2016, there were no loans in this category accruing interest.

For additional information regarding the Company's policies for accruing interest on loans, see Note 2 to the

(2) Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

For both the three and nine months ended September 30, 2017, there were no commercial mortgage and other loans acquired, other than those through direct origination and there were \$2 million of commercial mortgage and other loans sold, other than those classified as held-for-sale. For both the three and nine months ended September 30, 2016, there were no commercial mortgage and other loans acquired, other than those through direct origination and there were no commercial mortgage and other loans sold, other than those classified as held-for-sale.

The Company's commercial mortgage and other loans may occasionally be involved in a troubled debt restructuring. During the three and nine months ended September 30, 2017 and 2016, there were no new troubled debt restructurings related to commercial mortgage and other loans and no payment defaults on loans that were modified as a troubled debt restructuring within the twelve months preceding. As of September 30, 2017 and December 31, 2016, the Company had no significant commitments to provide additional funds to borrowers that had been involved in a troubled debt restructuring. For additional information relating to the accounting for troubled debt restructurings, see Note 2 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

As of September 30, 2017, there were \$6 million of private debt commitments to provide additional funds to borrowers that had been involved in a troubled debt restructuring.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Other Long-Term Investments

The following table sets forth the composition of “Other long-term investments,” as of the dates indicated:

	September 30, 2017		December 31, 2016	
	(in millions)			
Joint ventures and limited partnerships:				
Private equity	\$4,214		\$ 4,059	
Hedge funds	3,007		2,660	
Real estate-related	1,233		1,291	
Total joint ventures and limited partnerships	8,454		8,010	
Real estate held through direct ownership(1)	2,381		2,195	
Other(2)	1,151		1,078	
Total other long-term investments	\$11,986		\$ 11,283	

(1) As of September 30, 2017 and December 31, 2016, real estate held through direct ownership had mortgage debt of \$780 million and \$659 million, respectively.

Primarily includes strategic investments made by asset management operations, leveraged leases, member and activity stock held in the Federal Home Loan Banks of New York and Boston and certain derivatives. For (2) additional information regarding the Company’s holdings in the Federal Home Loan Banks of New York and Boston, see Note 14 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

## Net Investment Income

The following table sets forth “Net investment income” by investment type, for the periods indicated:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	(in millions)			
Fixed maturities, available-for-sale(1)	\$2,873	\$2,798	\$8,524	\$8,126
Fixed maturities, held-to-maturity(1)	55	52	163	155
Equity securities, available-for-sale	99	95	293	285
Trading account assets	229	252	698	747
Commercial mortgage and other loans	571	553	1,691	1,669
Policy loans	153	160	460	470
Short-term investments and cash equivalents	51	38	141	105
Other long-term investments	245	300	825	509
Gross investment income	4,276	4,248	12,795	12,066
Less: investment expenses	(200 )	(175 )	(569 )	(534 )
Net investment income	\$4,076	\$4,073	\$12,226	\$11,532

(1) Includes income on credit-linked notes which are reported on the same financial statement line item as related surplus notes, as conditions are met for right to offset.





Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Realized Investment Gains (Losses), Net

The following table sets forth “Realized investment gains (losses), net,” by investment type, for the periods indicated:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Fixed maturities	\$228	\$365	\$631	\$725
Equity securities	316	124	736	223
Commercial mortgage and other loans	21	5	49	36
Investment real estate	0	14	12	15
Joint ventures and limited partnerships	(1 )	(14 )	(22 )	(78 )
Derivatives(1)	1,044	323	(463 )	3,218
Other	0	(4 )	0	(12 )
Realized investment gains (losses), net	\$1,608	\$813	\$943	\$4,127

(1)Includes the hedged items offset in qualifying fair value hedge accounting relationships.

## Net Unrealized Gains (Losses) on Investments

The following table sets forth net unrealized gains (losses) on investments, as of the dates indicated:

	September 30, 2017	December 31, 2016
	(in millions)	
Fixed maturity securities, available-for-sale—with OTIS	\$274	\$ 312
Fixed maturity securities, available-for-sale—all other	32,299	28,526
Equity securities, available-for-sale	2,594	2,599
Derivatives designated as cash flow hedges(1)	333	1,316
Other investments(2)	(9 )	(21 )
Net unrealized gains (losses) on investments	\$35,491	\$ 32,732

(1)See Note 14 for more information on cash flow hedges.

As of September 30, 2017, there were no net unrealized losses on held-to-maturity securities that were previously (2)transferred from available-for-sale. Includes net unrealized gains on certain joint ventures that are strategic in nature and are included in “Other assets.”

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Repurchase Agreements and Securities Lending

In the normal course of business, the Company sells securities under agreements to repurchase and enters into securities lending transactions. The following table sets forth the composition of “Securities sold under agreements to repurchase,” as of the dates indicated:

	September 30, 2017			December 31, 2016		
	Remaining Contractual Maturities of the Agreements Overnight & 30 Days (in millions)			Remaining Contractual Maturities of the Agreements Overnight & 30 Days (in millions)		
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$683	\$7,318	\$8,001	\$950	\$6,417	\$7,367
U.S. corporate public securities	1	0	1	0	0	0
Foreign corporate public securities	0	0	0	6	0	6
Residential mortgage-backed securities	0	143	143	0	233	233
Equity securities	0	0	0	0	0	0
Total securities sold under agreements to repurchase(1)	\$684	\$7,461	\$8,145	\$956	\$6,650	\$7,606

(1) The Company did not have agreements with remaining contractual maturities of thirty days or greater, as of the dates indicated.

The following table sets forth the composition of “Cash collateral for loaned securities” which represents the liability to return cash collateral received for the following types of securities loaned, as of the dates indicated:

	September 30, 2017			December 31, 2016		
	Remaining Contractual Maturities of the Agreements Overnight & 30 Days (in millions)			Remaining Contractual Maturities of the Agreements Overnight & 30 Days (in millions)		
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$39	\$0	\$39	\$9	\$0	\$9
Obligations of U.S. states and their political subdivisions	87	0	87	18	0	18
Foreign government bonds	392	0	392	279	0	279
U.S. corporate public securities	3,249	0	3,249	2,731	0	2,731
Foreign corporate public securities	710	0	710	786	0	786

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Residential mortgage-backed securities	0	78	78	55	74	129
Equity securities	142	0	142	381	0	381
Total cash collateral for loaned securities(1)	\$4,619	\$ 78	\$4,697	\$4,259	\$ 74	\$4,333

(1) The Company did not have agreements with remaining contractual maturities of thirty days or greater, as of the dates indicated.

## 5. VARIABLE INTEREST ENTITIES

In the normal course of its activities, the Company enters into relationships with various special-purpose entities and other entities that are deemed to be variable interest entities (“VIEs”). For additional information, see Note 5 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Consolidated Variable Interest Entities

The table below reflects the carrying amount and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported. The liabilities primarily comprise obligations under debt instruments issued by the VIEs that are non-recourse to the Company. The creditors of these VIEs do not have recourse to the Company in excess of the assets contained within the VIEs.

	Consolidated VIEs for which the Company is the Investment Manager(1)			
	September 30, 2017		December 31, 2016	
			Other Consolidated VIEs	
	September 30, 2017	December 31, 2016	September 30, 2017	December 31, 2016
	(in millions)			
Fixed maturities, available-for-sale	\$95	\$ 65	\$ 278	\$ 269
Fixed maturities, held-to-maturity	84	81	811	783
Trading account assets supporting insurance liabilities	0	0	9	9
Other trading account assets	1,637	2,140	0	0
Commercial mortgage and other loans	564	503	0	0
Other long-term investments	1,243	1,083	107	114
Cash and cash equivalents	149	618	0	1
Accrued investment income	7	10	3	4
Other assets	419	424	0	1
Total assets of consolidated VIEs	\$4,198	\$ 4,924	\$ 1,208	\$ 1,181
Notes issued by consolidated VIEs(2)	\$1,517	\$ 2,150	\$ 0	\$ 0
Other liabilities	429	611	0	7
Total liabilities of consolidated VIEs	\$1,946	\$ 2,761	\$ 0	\$ 7

Total assets of consolidated VIEs reflects \$1,631 million and \$1,386 million as of September 30, 2017 and (1)December 31, 2016, respectively, related to VIEs whose beneficial interests are wholly-owned by consolidated subsidiaries.

Recourse is limited to the assets of the respective VIE and does not extend to the general credit of Prudential (2)Financial. As of September 30, 2017 and December 31, 2016, the maturities of these obligations were greater than five years.

## Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs for which it is the investment manager. The Company's maximum exposure to loss resulting from its relationship with unconsolidated VIEs for which it is the investment manager is limited to its investment in the VIEs, which was \$866 million and \$515 million at September 30, 2017 and December 31, 2016, respectively. These investments are reflected in "Fixed maturities, available-for-sale," "Other trading account assets, at fair value" and "Other long-term investments." There are no liabilities associated with these unconsolidated VIEs on the Company's Unaudited Interim Consolidated Statements of Financial Position.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate-related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its

investment. The Company classifies these investments as “Other long-term investments” and its maximum exposure to loss associated with these entities was \$8,454 million and \$8,010 million as of September 30, 2017 and December 31, 2016, respectively.

In addition, in the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the investment manager. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company’s maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. See Note 4 for details regarding the carrying amounts and classification of these assets. The Company has not provided material financial or other support that was not contractually required to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not control these entities.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 6. CLOSED BLOCK

On December 18, 2001, the date of demutualization, Prudential Insurance established a closed block for certain in force participating insurance policies and annuity products, along with corresponding assets used for the payment of benefits and policyholders' dividends on these products, (collectively the "Closed Block"), and ceased offering these participating products. The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. The Closed Block forms the principal component of the Closed Block division. For more information on the Closed Block, see Note 12 to the Company's Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2016.

As of September 30, 2017 and December 31, 2016, the Company recognized a policyholder dividend obligation of \$1,710 million and \$1,647 million, respectively, to Closed Block policyholders for the excess of actual cumulative earnings over expected cumulative earnings. Additionally, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of \$3,518 million and \$3,011 million at September 30, 2017 and December 31, 2016, respectively, to be paid to Closed Block policyholders unless offset by future experience, with a corresponding amount reported in AOCI.

Closed Block liabilities and assets designated to the Closed Block, as well as maximum future earnings to be recognized from these liabilities and assets, are as follows:

	September 30, 2017	December 31, 2016
	(in millions)	
Closed Block liabilities		
Future policy benefits	\$48,920	\$ 49,281
Policyholders' dividends payable	976	932
Policyholders' dividend obligation	5,228	4,658
Policyholders' account balances	5,154	5,204
Other Closed Block liabilities	5,406	4,262
Total Closed Block liabilities	65,684	64,337
Closed Block assets		
Fixed maturities, available-for-sale, at fair value	41,184	38,696
Other trading account assets, at fair value	334	283
Equity securities, available-for-sale, at fair value	2,391	2,572
Commercial mortgage and other loans	9,332	9,437
Policy loans	4,570	4,660
Other long-term investments	3,167	3,020
Short-term investments	398	837
Total investments	61,376	59,505
Cash and cash equivalents	793	1,310
Accrued investment income	506	491
Other Closed Block assets	223	206
Total Closed Block assets	62,898	61,512
Excess of reported Closed Block liabilities over Closed Block assets	2,786	2,825
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,494	2,990
Allocated to policyholder dividend obligation	(3,518)	(3,011)
Future earnings to be recognized from Closed Block assets and Closed Block liabilities	\$2,762	\$ 2,804



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2017 (in millions)
Balance, January 1	\$ 4,658
Impact from earnings allocable to policyholder dividend obligation	63
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	507
Balance, September 30	\$ 5,228

Closed Block revenues and benefits and expenses are as follows for the periods indicated:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017		2016	
	(in millions)			
Revenues				
Premiums	\$577	\$599	\$1,852	\$1,913
Net investment income	671	707	1,997	1,968
Realized investment gains (losses), net	107	152	461	259
Other income (loss)	25	27	85	29
Total Closed Block revenues	1,380	1,485	4,395	4,169
Benefits and Expenses				
Policyholders' benefits	727	758	2,371	2,423
Interest credited to policyholders' account balances	35	34	100	101
Dividends to policyholders	478	550	1,544	1,372
General and administrative expenses	95	100	289	303
Total Closed Block benefits and expenses	1,335	1,442	4,304	4,199
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	45	43	91	(30)
Income tax expense (benefit)	30	30	50	(65)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	\$15	\$13	\$41	\$35

## 7. EQUITY

The changes in the number of shares of Common Stock issued, held in treasury and outstanding, are as follows for the periods indicated:

	Common Stock		
	Issued	Held In Treasury	Outstanding
	(in millions)		
Balance, December 31, 2016	660.1	230.5	429.6
Common Stock issued	0.0	0.0	0.0



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Common Stock acquired	0.0	8.7	(8.7	)
Stock-based compensation programs(1)	0.0	(3.8	)	3.8
Balance, September 30, 2017	660.1	235.4	424.7	

(1) Represents net shares issued from treasury pursuant to the Company's stock-based compensation program.

In December 2016, Prudential Financial's Board of Directors authorized the Company to repurchase at management's discretion up to \$1.25 billion of its outstanding Common Stock during the period from January 1, 2017 through December 31, 2017. As of September 30, 2017, 8.7 million shares of the Company's Common Stock were repurchased under this authorization at a total cost of \$937 million.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The timing and amount of share repurchases are determined by management based upon market conditions and other considerations, and repurchases may be effected in the open market, through derivative, accelerated repurchase and other negotiated transactions and through prearranged trading plans complying with Rule 10b5-1(c) under the Securities Exchange Act of 1934 (the “Exchange Act”). Numerous factors could affect the timing and amount of any future repurchases under the share repurchase authorization, including increased capital needs of the Company due to changes in regulatory capital requirements, opportunities for growth and acquisitions, and the effect of adverse market conditions on the segments.

## Class B Stock

From December 18, 2001, the date of demutualization, through December 31, 2014, the Company organized its principal operations into the Financial Services Businesses and the Closed Block Business, and had two classes of common stock outstanding. The Common Stock, which is publicly traded (NYSE: PRU), reflected the performance of the Financial Services Businesses, while the Class B Stock, which was issued through a private placement and did not trade on any exchange, reflected the performance of the Closed Block Business.

On January 2, 2015, pursuant to a Share Repurchase Agreement entered into on December 1, 2014, between the Company and the holders of the Class B Stock, the Company repurchased and canceled all of the shares of the Class B Stock for an aggregate cash purchase price of \$651 million, resulting in the elimination of the Class B Stock held in treasury, a \$484 million decrease in “Retained earnings” and a \$167 million decrease in “Additional paid-in capital.”

In accordance with the terms of the Share Repurchase Agreement, the holders of the Class B Stock subsequently exercised their right to dispute the calculation of the purchase price. This dispute was resolved during the first quarter of 2016, resulting in an increase to the cash purchase price of \$119 million, bringing the total aggregate purchase price to \$770 million. The increase to the cash purchase price resulted in a corresponding decrease in “Retained earnings.”

## Accumulated Other Comprehensive Income (Loss)

The balance of and changes in each component of “Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc.” for the nine months ended September 30, 2017 and 2016, are as follows:

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2016	\$(973)	\$ 18,171	\$ (2,577)	) \$ 14,621
Change in OCI before reclassifications	735	3,164	(7)	) 3,892
Amounts reclassified from AOCI	3	(1,329)	) 168	(1,158 )
Income tax benefit (expense)	(95 )	(606)	) (56)	(757 )
Balance, September 30, 2017	\$(330)	\$ 19,400	\$ (2,472)	) \$ 16,598



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2015	\$(1,087)	\$ 15,773	\$ (2,401)	) \$ 12,285
Change in OCI before reclassifications	1,921	17,851	(44)	) 19,728
Amounts reclassified from AOCI	11	(1,209)	) 161	(1,037 )
Income tax benefit (expense)	(375 )	(5,635 )	) (41 )	(6,051 )
Balance, September 30, 2016	\$470	\$ 26,780	\$ (2,325)	) \$ 24,925

Includes cash flow hedges of \$333 million and \$1,316 million as of September 30, 2017 and December 31, 2016, (1)respectively, and \$1,093 million and \$1,165 million as of September 30, 2016 and December 31, 2015, respectively.

## Reclassifications out of Accumulated Other Comprehensive Income (Loss)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016		Affected line item in Consolidated Statements of Operations
	2017	2016	2017	2016	
	(in millions)				
Amounts reclassified from AOCI(1)(2):					
Foreign currency translation adjustment:					
Foreign currency translation adjustments	\$(1 )	\$(3 )	\$(4 )	\$(11 )	Realized investment gains (losses), net
Foreign currency translation adjustments	0	0	1	0	Other income
Total foreign currency translation adjustment	(1 )	(3 )	(3 )	(11 )	
Net unrealized investment gains (losses):					
Cash flow hedges—Interest rate	0	(1 )	(2 )	(4 )	(3)
Cash flow hedges—Currency/Interest rate	(35 )	83	(36 )	265	(3)
Net unrealized investment gains (losses) on available-for-sale securities	544	489	1,367	948	
Total net unrealized investment gains (losses)	509	571	1,329	1,209	(4)
Amortization of defined benefit pension items:					
Prior service cost	1	2	3	6	(5)
Actuarial gain (loss)	(57 )	(56 )	(171 )	(167 )	(5)
Total amortization of defined benefit pension items	(56 )	(54 )	(168 )	(161 )	

Total reclassifications for the period           \$452   \$514   \$1,158   \$1,037

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(1) All amounts are shown before tax.

(2) Positive amounts indicate gains/benefits reclassified out of AOCI. Negative amounts indicate losses/costs reclassified out of AOCI.

(3) See Note 14 for additional information on cash flow hedges.

(4) See table below for additional information on unrealized investment gains (losses), including the impact on deferred policy acquisition and other costs, future policy benefits and policyholders' dividends.

(5) See Note 10 for information on employee benefit plans.

#### Net Unrealized Investment Gains (Losses)

Net unrealized investment gains (losses) on securities classified as available-for-sale and certain other long-term investments and other assets are included in the Company's Unaudited Interim Consolidated Statements of Financial Position as a component of AOCI. Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" in earlier periods. The amounts for the periods indicated below, split between amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains (losses), are as follows:

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Net Unrealized Investment Gains (Losses) on Fixed Maturity Securities on which an OTTI loss has been recognized

	Net Unrealized Investment Gains (Losses) on DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)	
	(in millions)					
Balance, December 31, 2016	\$312	\$ (5 )	\$ (6 )	\$ (47 )	\$ (97 )	\$ 157
Net investment gains (losses) on investments arising during the period	57				(19 )	38
Reclassification adjustment for (gains) losses included in net income	(75 )				25	(50 )
Reclassification adjustment for OTTI losses excluded from net income(1)	(20 )				7	(13 )
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables	3				(1 )	2
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables		9			(3 )	6
Impact of net unrealized investment (gains) losses on policyholders' dividends				(8 )	3	(5 )
Balance, September 30, 2017	\$274	\$ (2 )	\$ 3	\$ (55 )	\$ (85 )	\$ 135

(1) Represents "transfers in" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

All Other Net Unrealized Investment Gains (Losses) in AOCI

	Net Unrealized Investment Gains (Losses) on DAC, DSI, VOBA and Reinsurance Recoverables	Future Policy Benefits, Policyholders' Account Balances and Reinsurance Payables	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related to Net Unrealized Investment Gains (Losses)
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	(in millions)					
Balance, December 31, 2016	\$32,420	\$ (1,056 )	\$ (1,136 )	\$ (2,980 )	\$ (9,234 )	\$ 18,014
Net investment gains (losses) on investments arising during the period	4,031				(1,364 )	2,667
Reclassification adjustment for (gains) losses included in net income	(1,254 )				424	(830 )
Reclassification adjustment for OTTI losses excluded from net income(2)	20				(7 )	13
Impact of net unrealized investment (gains) losses on DAC, DSI, VOBA and reinsurance recoverables		(360 )			133	(227 )
Impact of net unrealized investment (gains) losses on future policy benefits and policyholders' account balances and reinsurance payables			(65 )		20	(45 )
Impact of net unrealized investment (gains) losses on policyholders' dividends				(503 )	176	(327 )
Balance, September 30, 2017	\$35,217	\$ (1,416 )	\$ (1,201 )	\$ (3,483 )	\$ (9,852 )	\$ 19,265

(1) Includes cash flow hedges. See Note 14 for information on cash flow hedges.

(2) Represents "transfers out" related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 8. EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the basic and diluted per share computations of Common Stock based on the consolidated earnings of Prudential Financial for the periods indicated, is as follows:

	Three Months Ended September 30,			2016		
	2017		Per Share Amount	2016		Per Share Amount
	Income	Weighted Average Shares		Income	Weighted Average Shares	
(in millions, except per share amounts)						
Basic earnings per share						
Net income (loss)	\$2,241		\$1,832			
Less: Income (loss) attributable to noncontrolling interests	3		5			
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	27		21			
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	\$2,211	426.2	\$ 5.19	\$1,806	435.9	\$ 4.14
Effect of dilutive securities and compensation programs						
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$27		\$21			
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	27		21			
Stock options		1.9			1.9	
Deferred and long-term compensation programs		1.1			0.9	
Exchangeable Surplus Notes	4	5.8		4	5.6	
Diluted earnings per share						
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	\$2,215	435.0	\$ 5.09	\$1,810	444.3	\$ 4.07



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017		2016	
	Weighted Income Average Shares	Per Share Amount	Weighted Income Average Shares	Per Share Amount
(in millions, except per share amounts)				
Basic earnings per share				
Net income (loss)	\$4,109		\$4,126	
Less: Income (loss) attributable to noncontrolling interests	11		42	
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards	50		47	
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	\$4,048	428.1	\$ 9.46	\$4,037
Effect of dilutive securities and compensation programs				440.7
Add: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Basic	\$50		\$47	
Less: Dividends and undistributed earnings allocated to participating unvested share-based payment awards—Diluted	50		46	
Stock options		2.2		1.7
Deferred and long-term compensation programs		1.0		0.9
Exchangeable Surplus Notes	13	5.8		13
Diluted earnings per share				5.6
Net income (loss) attributable to Prudential Financial available to holders of Common Stock	\$4,061	437.1	\$ 9.29	\$4,051
				448.9
				\$ 9.02

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings attributable to Prudential Financial are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. During periods of net income available to holders of Common Stock, the calculation of earnings per share excludes the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. In the event of a net loss available to holders of Common Stock, undistributed earnings are not allocated to participating securities and the denominator excludes the dilutive impact of these securities as they do not share in the losses of the Company. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2017 and 2016, as applicable, were based on 5.2 million and 5.0 million of such awards, respectively, and for the nine months ended September 30, 2017 and 2016, as applicable, were based on 5.3 million and 5.1 million of such awards, respectively, weighted for the period they were outstanding.

Stock options and shares related to deferred and long-term compensation programs that are considered antidilutive are excluded from the computation of diluted earnings per share. Stock options are considered antidilutive based on application of the treasury stock method or in the event of a net loss available to holders of Common Stock. Shares related to deferred and long-term compensation programs are considered antidilutive in the event of a net loss available to holders of Common Stock. For the periods indicated, the number of stock options and shares related to deferred and long-term compensation programs that were considered antidilutive and were excluded from the computation of diluted earnings per share, weighted for the portion of the period they were outstanding, are as follows:



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30,			
	2017	2016		
	Shares	Exercise Price	Shares	Exercise Price
		Per Share		Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	0.4	\$ 110.20	3.3	\$ 85.22
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.0		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	0.4		3.3	

	Nine Months Ended September 30,			
	2017	2016		
	Shares	Exercise Price	Shares	Exercise Price
		Per Share		Per Share
	(in millions, except per share amounts, based on weighted average)			
Antidilutive stock options based on application of the treasury stock method	0.3	\$ 110.27	3.6	\$ 83.95
Antidilutive stock options due to net loss available to holders of Common Stock	0.0		0.0	
Antidilutive shares based on application of the treasury stock method	0.2		0.0	
Antidilutive shares due to net loss available to holders of Common Stock	0.0		0.0	
Total antidilutive stock options and shares	0.5		3.6	

In September 2009, the Company issued \$500 million of surplus notes with an interest rate of 5.36% per annum which are exchangeable at the option of the note holders for shares of Common Stock. The initial exchange rate for the surplus notes was 10.1235 shares of Common Stock per each \$1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of \$98.78; however, the exchange rate is subject to customary anti-dilution adjustments. In calculating diluted earnings per share under the if-converted method, the potential shares that would be issued assuming a hypothetical exchange, weighted for the period the notes are outstanding, are added to the denominator, and interest expense, net of tax, is added to the numerator, if the overall effect is dilutive.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 9. SHORT-TERM AND LONG-TERM DEBT

## Short-term Debt

The table below presents the Company's short-term debt as of the dates indicated:

	September 30, 2017	December 31, 2016
	(\$ in millions)	
Commercial paper:		
Prudential Financial	\$50	\$65
Prudential Funding, LLC	616	525
Subtotal commercial paper	666	590
Current portion of long-term debt(1)	1,692	543
Total short-term debt(2)	\$2,358	\$1,133
Supplemental short-term debt information:		
Portion of commercial paper borrowings due overnight	\$218	\$292
Daily average commercial paper outstanding	\$1,294	\$1,020
Weighted average maturity of outstanding commercial paper, in days	18	21
Weighted average interest rate on outstanding short-term debt(3)	0.93	% 0.43

(1) Includes \$73 million that has recourse only to real estate investment property at December 31, 2016.

(2) Includes Prudential Financial debt of \$1,242 million and \$535 million at September 30, 2017 and December 31, 2016, respectively.

(3) Excludes the current portion of long-term debt.

Prudential Financial and certain subsidiaries have access to other sources of liquidity, including: membership in the Federal Home Loan Banks, commercial paper programs and a contingent financing facility in the form of a put option agreement. The Company also maintains syndicated, unsecured committed credit facilities as an alternative source of liquidity. At September 30, 2017, no amounts were drawn on the credit facilities. For additional information on these alternative sources of liquidity, see Note 14 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In July 2017, the Company amended and restated its \$4.0 billion five-year credit facility that has both Prudential Financial and Prudential Funding as borrowers and a syndicate of financial institutions as lenders, extending the term of the facility to July 2022. Borrowings under the credit facility may be used for general corporate purposes, and the Company expects that it may borrow under the facility from time to time to fund its working capital needs and those of its subsidiaries. In addition, amounts under the credit facility may be drawn in the form of standby letters of credit that can be used to meet the operating needs of the Company and its subsidiaries. The credit facility contains representations and warranties, covenants and events of default that are customary for facilities of this type, and borrowings under the facility are not contingent on the borrowers' credit ratings nor subject to material adverse change clauses. Borrowings under the facility are conditioned on the continued satisfaction of customary conditions, including the maintenance by the Company of consolidated net worth of at least \$20.958 billion, which for this purpose is calculated as U.S. GAAP equity, excluding accumulated other comprehensive income (loss), equity of non-controlling interests and equity attributable to the Closed Block.

## Long-term Debt

The table below presents the Company's long-term debt as of the dates indicated:

35

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2017	December 31, 2016
	(in millions)	
Fixed-rate notes:		
Surplus notes	\$ 840	\$ 840
Surplus notes subject to set-off arrangements(1)	5,187	4,403
Senior notes	8,883	9,236
Mortgage debt(2)	223	177
Floating-rate notes:		
Surplus notes	0	499
Surplus notes subject to set-off arrangements(1)	1,750	1,456
Senior notes(3)	29	1,063
Mortgage debt(4)	557	409
Junior subordinated notes(5)	6,621	5,817
Subtotal	24,090	23,900
Less: assets under set-off arrangements(1)	6,937	5,859
Total long-term debt(6)	\$17,153	\$ 18,041

(1) The surplus notes have corresponding assets where rights to set-off exist, thereby reducing the amount of surplus notes included in long-term debt.

(2) Includes \$104 million and \$82 million of debt denominated in foreign currency at September 30, 2017 and December 31, 2016, respectively.

(3) Includes \$55 million of debt denominated in foreign currency at December 31, 2016.

(4) Includes \$238 million and \$221 million of debt denominated in foreign currency at September 30, 2017 and December 31, 2016, respectively.

(5) Includes Prudential Financial debt of \$6,564 million and subsidiary debt of \$57 million denominated in foreign currency at September 30, 2017.

(6) Includes Prudential Financial debt of \$15,303 million and \$15,389 million at September 30, 2017 and December 31, 2016, respectively.

At September 30, 2017 and December 31, 2016, the Company was in compliance with all debt covenants related to the borrowings in the table above.

**Surplus Notes**

During the first quarter of 2017, the Company established a new \$1.0 billion captive financing facility to finance non-economic reserves required under Guideline AXXX. Similar to the Company's other captive financing facilities, a captive reinsurance subsidiary issues surplus notes under the facility in exchange for credit-linked notes issued by a special-purpose affiliate that are held to support non-economic reserves. The credit-linked notes are redeemable for cash upon the occurrence of a liquidity stress event affecting the captive and external counterparties have agreed to fund these payments. As of September 30, 2017, \$560 million of surplus notes were outstanding under the facility and no credit-linked note payments have been required. Because valid rights of set-off exist, interest and principal payments on the surplus notes and on the credit-linked notes are settled on a net basis, and the surplus notes are reflected in the Company's total consolidated borrowings on a net basis.

In September 2017, the Company redeemed \$500 million of surplus notes that were issued by a captive reinsurance subsidiary in 2007 to unaffiliated institutions. The surplus notes had been issued to finance non-economic reserves required under Guideline AXXX.

#### Senior Notes

**Medium-Term Notes.** Prudential Financial maintains a medium-term notes program under its shelf registration statement with an authorized issuance capacity of \$20.0 billion. As of September 30, 2017, the outstanding balance of the Company's medium-term notes was \$9.5 billion, a decrease of \$108 million from December 31, 2016, due to maturities.

**Retail Medium-Term Notes.** Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of \$5.0 billion. As of September 30, 2017, the outstanding balance of retail notes was \$456 million, a decrease of \$5 million from December 31, 2016, due to \$7 million of repayments, offset by \$2 million of bond issuance cost amortization.

**Mortgage Debt.** As of September 30, 2017, the Company's subsidiaries had mortgage debt of \$780 million that has recourse only to real estate property held for investment by those subsidiaries. This represents an increase of \$121 million from December 31, 2016, primarily due to new borrowings of \$216 million and \$19 million from foreign currency exchange fluctuations, partially offset by \$73 million of maturities and \$41 million of prepayment activity.

Table of Contents

## Junior Subordinated Notes

In September 2017, Prudential Financial issued \$750 million of 4.50% fixed-to-floating rate junior subordinated notes in a public offering. The notes are considered hybrid capital securities that receive enhanced equity treatment from certain of the rating agencies. The notes have a maturity date of September 15, 2047. Interest is payable semi-annually at a fixed rate of 4.50% until September 15, 2027, from which date interest is payable quarterly at a floating rate of 3-month LIBOR plus 2.38%. Prudential Financial may redeem the notes in whole, but not in part, at any time prior to September 15, 2027, within 90 days after the occurrence of a “tax event”, a “regulatory capital event” or a “rating agency event” at a redemption price equal to (i) in the case of a “tax event” or a “regulatory capital event”, their principal amount plus accrued and unpaid interest or (ii) in the case of a “rating agency event”, 102% of their principal amount plus accrued and unpaid interest. On or after September 15, 2027, Prudential Financial may redeem the notes, in whole or in part, at their principal amount plus accrued and unpaid interest.

## 10. EMPLOYEE BENEFIT PLANS

## Pension and Other Postretirement Plans

The Company has funded and non-funded non-contributory defined benefit pension plans (“Pension Benefits”), which cover substantially all of its employees. For some employees, benefits are based on final average earnings and length of service, while benefits for other employees are based on an account balance that takes into consideration age, service and earnings during their career.

The Company provides certain health care and life insurance benefits for its retired employees, their beneficiaries and covered dependents (“Other Postretirement Benefits”). The health care plan is contributory; the life insurance plan is non-contributory. Substantially all of the Company’s U.S. employees may become eligible to receive Other Postretirement Benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

Net periodic (benefit) cost included in “General and administrative expenses” includes the following components:

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2017	2016	2017	2016
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	\$71	\$64	\$ 5	\$ 5
Interest cost	119	125	20	22
Expected return on plan assets	(195 )	(189 )	(25 )	(26 )
Amortization of prior service cost	(1 )	(2 )	0	0
Amortization of actuarial (gain) loss, net	48	46	9	10
Settlements	7	1	0	0
Special termination benefits	0	0	0	0
Net periodic (benefit) cost	\$49	\$45	\$ 9	\$ 11

Nine Months Ended September 30,	
Pension Benefits	Other Postretirement Benefits



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	2017	2016	2017	2016
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	\$213	\$189	\$ 15	\$ 14
Interest cost	357	374	61	68
Expected return on plan assets	(585 )	(566 )	(76 )	(79 )
Amortization of prior service cost	(3 )	(5 )	0	(1 )
Amortization of actuarial (gain) loss, net	144	136	27	31
Settlements	7	3	0	0
Special termination benefits	3	2	0	0
Net periodic (benefit) cost	\$136	\$133	\$ 27	\$ 33

37

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

During the nine months ended September 30, 2017, the Company made cash contributions of \$155 million to its pension plans and anticipates making an additional \$50 million of cash contributions during the remainder of 2017.

## 11. SEGMENT INFORMATION

### Segments

The Company's principal operations are comprised of four divisions, which together encompass seven segments, and its Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of the Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of the Individual Life and Group Insurance segments. The International Insurance division consists of the International Insurance segment. The Closed Block division consists of the Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations. The Company's Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested.

### Adjusted Operating Income

The Company analyzes the operating performance of each segment using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company's chief operating decision maker to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is the measure of segment performance presented below. Adjusted operating income is calculated by adjusting each segment's "Income (loss) before income taxes and equity in earnings of operating joint ventures" for the following items:

- realized investment gains (losses), net, and related charges and adjustments;
- net investment gains (losses) on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- the contribution to income (loss) of divested businesses that have been or will be sold or exited, including businesses that have been placed in wind-down status, but that did not qualify for "discontinued operations" accounting treatment under U.S. GAAP; and
- equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests.

These items are important to an understanding of overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and the Company's definition of adjusted operating income may differ from that used by other companies. The Company, however, believes that the presentation of adjusted operating income as measured for management purposes enhances the understanding of results of operations by highlighting the results from ongoing operations and the underlying profitability factors of its businesses. For more information on these reconciling items, see Note 22 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

In addition, as discussed in Note 1, the Company recorded an out of period adjustment during the second quarter of 2016, resulting in a decrease of \$148 million to "Income (loss) before income taxes and equity in earnings of operating joint ventures" for the three-month period ended June 30, 2016, and which is reflected in the nine-month period ended September 30, 2016. The adjustment resulted in a decrease in adjusted operating income before income taxes of \$148

million for the Individual Life segment in those periods.

Reconciliation of adjusted operating income and net income (loss)

The table below reconciles “adjusted operating income before income taxes” to “income before income taxes and equity in earnings of operating joint ventures”:

38

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2016	2017	2016
	(in millions)			
Adjusted operating income before income taxes by segment:				
Individual Annuities	\$577	\$588	\$1,657	\$1,343
Retirement	248	239	953	694
Asset Management	259	191	673	563
Total U.S. Retirement Solutions and Investment Management division	1,084	1,018	3,283	2,600
Individual Life	150	111	(289 )	(59 )
Group Insurance	61	62	231	177
Total U.S. Individual Life and Group Insurance division	211	173	(58 )	118
International Insurance	799	780	2,421	2,362
Total International Insurance division	799	780	2,421	2,362
Corporate and Other operations	(310 )	(413 )	(974 )	(1,140 )
Total Corporate and Other	(310 )	(413 )	(974 )	(1,140 )
Total segment adjusted operating income before income taxes	1,784	1,558	4,672	3,940
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	1,395	223	(48 )	2,443
Charges related to realized investment gains (losses), net	(231 )	426	571	(1,096 )
Investment gains (losses) on trading account assets supporting insurance liabilities, net	85	37	330	361
Change in experience-rated contractholder liabilities due to asset value changes	(31 )	1	(188 )	(262 )
Divested businesses:				
Closed Block division	33	31	49	(74 )
Other divested businesses	10	56	51	76
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(24 )	(17 )	(66 )	0
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$3,021	\$2,315	\$5,371	\$5,388

The Individual Annuities segment results reflect DAC as if the individual annuity business is a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy is included in consolidating adjustments within Corporate and Other operations.

## Reconciliation of select financial information

The table below presents revenues and total assets for the Company's reportable segments for the periods or as of the dates indicated:

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Revenues				Total Assets	
	Three Months Ended		Nine Months Ended		September 30,	December 31,
	September 30,	September 30,	September 30,	September 30,	September 30,	December 31,
	2017	2016	2017	2016	2017	2016
	(in millions)					
Individual Annuities Retirement	\$1,304	\$1,221	\$3,825	\$3,473	\$180,005	\$170,861
Asset Management	3,259	5,134	8,803	9,268	178,003	173,509
Total U.S. Retirement Solutions and Investment Management division	827	750	2,370	2,188	49,354	49,255
Individual Life	5,390	7,105	14,998	14,929	407,362	393,625
Group Insurance	1,411	1,410	3,510	3,931	83,148	77,524
Total U.S. Individual Life and Group Insurance division	1,363	1,333	4,108	4,017	41,147	40,642
International Insurance	2,774	2,743	7,618	7,948	124,295	118,166
Total International Insurance division	5,376	5,384	16,268	15,771	211,697	197,119
Corporate and Other operations	5,376	5,384	16,268	15,771	211,697	197,119
Total Corporate and Other	(179)	(182)	(488)	(494)	14,329	13,001
Total	(179)	(182)	(488)	(494)	14,329	13,001
Reconciling items:	13,361	15,050	38,396	38,154	757,683	721,911
Realized investment gains (losses), net, and related adjustments						
Charges related to realized investment gains (losses), net	1,395	223	(48)	2,443		
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(63)	(19)	(154)	57		
Divested businesses:						
Closed Block division	85	37	330	361		
Other divested businesses	1,376	1,481	4,382	4,156	63,448	62,051
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	185	209	594	602		
Total per Unaudited Interim Consolidated Financial Statements	(26)	(20)	(76)	(44)		
	\$16,313	\$16,961	\$43,424	\$45,729	\$821,131	\$783,962

Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other. The Asset Management segment revenues include intersegment revenues, primarily consisting of asset-based management and administration fees, as follows:

	Three Months Ended	September 30,	Nine Months Ended	September 30,
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
	(in millions)			
Asset Management segment intersegment revenues	\$181	\$173	\$534	\$504

Segments may also enter into internal derivative contracts with other segments. For adjusted operating income, each segment accounts for the internal derivative results consistent with the manner in which that segment accounts for other similar external derivatives.

## 12. INCOME TAXES

The Company uses a full year projected effective tax rate approach to calculate year-to-date taxes. In addition, certain items impacting total income tax expense are recorded in the periods in which they occur. The projected effective tax rate is the ratio of projected "Total income tax expense" divided by projected "Income before income taxes and equity in earnings of operating joint ventures." Taxes attributable to operating joint ventures are recorded within "Equity in earnings of operating joint ventures, net

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

of taxes.” The interim period tax expense (or benefit) is the difference between the year-to-date income tax provision and the amounts reported for the previous interim periods of the fiscal year.

The Company’s income tax provision, on a consolidated basis, amounted to an income tax expense of \$1,320 million, or 24.6% of income (loss) before income taxes and equity in earnings of operating joint ventures, in the first nine months of 2017, compared to \$1,300 million, or 24.1%, in the first nine months of 2016. The Company’s current and prior effective tax rates differed from the U.S. statutory rate of 35% primarily due to non-taxable investment income, tax credits and foreign earnings taxed at lower rates than the U.S. statutory rate. In addition, the first nine months of 2017 also includes a \$39 million tax benefit as a result of the Company’s adoption of ASU 2016-09 regarding employee share-based payments. Under prior guidance, such tax benefits related to employee share-based payments would have been reported in “Additional paid-in capital.” See Note 2 for additional information.

### 13. FAIR VALUE OF ASSETS AND LIABILITIES

**Fair Value Measurement**—Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative fair value guidance establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

**Level 1**—Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities.

**Level 2**—Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs.

**Level 3**—Fair value is based on at least one significant unobservable input for the asset or liability. The assets and liabilities in this category may require significant judgment or estimation in determining the fair value.

For a discussion of Company’s valuation methodologies for assets and liabilities measured at fair value and the fair value hierarchy, see Note 20 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

**Assets and Liabilities by Hierarchy Level**—The tables below present the balances of assets and liabilities reported at fair value on a recurring basis, as of the dates indicated.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of September 30, 2017				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$0	\$25,054	\$41	\$	\$25,095
Obligations of U.S. states and their political subdivisions	0	10,260	12		10,272
Foreign government bonds	0	102,154	153		102,307
U.S. corporate public securities	0	87,296	87		87,383
U.S. corporate private securities(2)	0	32,323	1,130		33,453
Foreign corporate public securities	0	29,296	74		29,370
Foreign corporate private securities	0	23,382	460		23,842
Asset-backed securities(3)	0	4,296	6,820		11,116
Commercial mortgage-backed securities	0	13,186	27		13,213
Residential mortgage-backed securities	0	3,796	253		4,049
Subtotal	0	331,043	9,057		340,100
Trading account assets(4):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	324	0		324
Obligations of U.S. states and their political subdivisions	0	199	0		199
Foreign government bonds	0	825	229		1,054
Corporate securities	0	16,876	254		17,130
Asset-backed securities(3)	0	550	768		1,318
Commercial mortgage-backed securities	0	2,162	33		2,195
Residential mortgage-backed securities	0	1,072	2		1,074
Equity securities	1,870	248	543		2,661
All other(5)	69	11,824	6	(9,823 )	2,076
Subtotal	1,939	34,080	1,835	(9,823 )	28,031
Equity securities, available-for-sale	5,699	3,759	281		9,739
Commercial mortgage and other loans	0	340	0		340
Other long-term investments(6)	17	115	95	(10 )	217
Short-term investments	3,198	1,472	5		4,675
Cash equivalents	1,760	6,216	93		8,069
Other assets	0	0	0		0
Separate account assets(7)(8)	42,962	229,983	2,283		275,228
Total assets	\$55,575	\$607,008	\$13,649	\$(9,833 )	\$666,399
Future policy benefits(9)	\$0	\$0	\$8,537	\$	\$8,537
Other liabilities	7	6,221	39	(5,505 )	762
Notes issued by consolidated VIEs	0	0	1,194		1,194
Total liabilities	\$7	\$6,221	\$9,770	\$(5,505 )	\$10,493



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of December 31, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Fixed maturities, available-for-sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	\$0	\$23,784	\$0	\$	\$23,784
Obligations of U.S. states and their political subdivisions	0	9,687	5		9,692
Foreign government bonds	0	96,132	124		96,256
U.S. corporate public securities	0	81,350	261		81,611
U.S. corporate private securities(2)	0	30,434	1,354		31,788
Foreign corporate public securities	0	28,166	71		28,237
Foreign corporate private securities	0	20,393	487		20,880
Asset-backed securities(3)	0	7,591	4,344		11,935
Commercial mortgage-backed securities	0	12,690	14		12,704
Residential mortgage-backed securities	0	4,335	197		4,532
Subtotal	0	314,562	6,857		321,419
Trading account assets(4):					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	301	0		301
Obligations of U.S. states and their political subdivisions	0	194	0		194
Foreign government bonds	0	714	227		941
Corporate securities	0	16,992	188		17,180
Asset-backed securities(3)	0	1,086	329		1,415
Commercial mortgage-backed securities	0	2,061	1		2,062
Residential mortgage-backed securities	0	1,208	2		1,210
Equity securities	1,690	214	487		2,391
All other(5)	208	13,259	1	(11,708)	1,760
Subtotal	1,898	36,029	1,235	(11,708)	27,454
Equity securities, available-for-sale	6,033	3,450	265		9,748
Commercial mortgage and other loans	0	519	0		519
Other long-term investments(6)	44	106	7	(8)	149
Short-term investments	5,623	1,558	1		7,182
Cash equivalents	3,885	4,421	0		8,306
Other assets	0	0	0		0
Separate account assets(7)(8)	38,915	221,253	1,849		262,017
Total assets	\$56,398	\$581,898	\$10,214	\$(11,716)	\$636,794
Future policy benefits(9)	\$0	\$0	\$8,238	\$	\$8,238
Other liabilities	8	6,284	22	(5,945)	369
Notes issued by consolidated VIEs	0	0	1,839		1,839
Total liabilities	\$8	\$6,284	\$10,099	\$(5,945)	\$10,446

“Netting” amounts represent cash collateral of \$4,328 million and \$5,771 million as of September 30, 2017 and (1) December 31, 2016, respectively, and the impact of offsetting asset and liability positions held with the same counterparty, subject to master netting arrangements.

(2) Excludes notes with fair value of \$2,310 million and \$1,456 million as of September 30, 2017 and December 31, 2016, respectively, which have been offset with the associated payables under a netting agreement.

(3)

Includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types.

(4) Includes “Trading account assets supporting insurance liabilities” and “Other trading account assets.”

(5) Level 1 represents cash equivalents and short term investments. All other amounts primarily represent derivative assets.

(6) Other long-term investments excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at net asset value (“NAV”) per share (or its equivalent) as a practical expedient. At September 30, 2017 and December 31, 2016, the fair values of such investments were \$1,910 million and \$1,579 million respectively.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Separate account assets included in the fair value hierarchy exclude investments in entities that calculate net asset value per share (or its equivalent) as a practical expedient. Such investments excluded from the fair value hierarchy (7) include investments in real estate, hedge funds and other invested assets, for which fair value is measured at net asset value per share (or its equivalent). At September 30, 2017 and December 31, 2016, the fair value of such investments was \$25,882 million and \$25,619 million, respectively.

Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees (8) made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.

As of September 30, 2017, the net embedded derivative liability position of \$8.5 billion includes \$0.9 billion of embedded derivatives in an asset position and \$9.4 billion of embedded derivatives in a liability position. As of (9) December 31, 2016, the net embedded derivative liability position of \$8.2 billion includes \$1.2 billion of embedded derivatives in an asset position and \$9.4 billion of embedded derivatives in a liability position.

Transfers between Levels 1 and 2—Transfers between levels are made to reflect changes in observability of inputs and market activity. Transfers into or out of any level are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such assets still held at the end of the quarter. Periodically there are transfers between Level 1 and Level 2 for assets held in the Company's Separate Account. The fair value of foreign common stock held in the Company's Separate Account may reflect differences in market levels between the close of foreign trading markets and the close of U.S. trading markets for the respective day. Dependent on the existence of such a timing difference, the assets may move between Level 1 and Level 2. The following table presents the transfers between Level 1 and Level 2 for dates indicated below:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	\$ 98	\$ 81
Transferred from Level 1 to Level 2	\$35	\$15	\$98	\$81
Transferred from Level 2 to Level 1	\$11	\$2	\$94	\$33

Quantitative Information Regarding Internally-Priced Level 3 Assets and Liabilities—The tables below present quantitative information on significant internally-priced Level 3 assets and liabilities.

As of September 30, 2017

	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
(in millions)							
Assets:							
Corporate securities(2)	\$1,577	Discounted cash flow	Discount rate	0.58%	-20%	5.94%	Decrease
		Market comparables	EBITDA multiples(3)	7.3X	7.3X	7.3X	Increase
		Liquidation	Liquidation value	13.07%	-13.21%	13.14%	Increase

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Separate account assets-commercial mortgage loans(4)	\$ 802	Discounted cash flow	Spread	1.07%	-2.78%	1.19%	Decrease
Liabilities:							
Future policy benefits(5)	\$8,537	Discounted cash flow	Lapse rate(6)	1%	-12%		Decrease
			Spread over LIBOR(7)	0.13%	-1.27%		Decrease
			Utilization rate(8)	52%	-97%		Increase
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0%	-14%		Decrease
			Equity volatility curve	13%	-24%		Increase

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

As of December 31, 2016							
	Fair Value	Valuation Techniques	Unobservable Inputs	Minimum	Maximum	Weighted Average	Impact of Increase in Input on Fair Value(1)
(in millions)							
<b>Assets:</b>							
Corporate securities(2)	\$1,848	Discounted cash flow	Discount rate	0.70%	-20%	7.12%	Decrease
		Market comparables	EBITDA multiples(3)	4.0X	-4.0X	4.0X	Increase
		Liquidation	Liquidation value	15.19%	-98.68%	91.72%	Increase
Separate account assets-commercial mortgage loans(4)	\$971	Discounted cash flow	Spread	1.19%	-2.90%	1.37%	Decrease
<b>Liabilities:</b>							
Future policy benefits(5)	\$8,238	Discounted cash flow	Lapse rate(6)	0%	-13%		Decrease
			Spread over LIBOR(7)	0.25%	-1.50%		Decrease
			Utilization rate(8)	52%	-96%		Increase
			Withdrawal rate	See table footnote (9) below.			
			Mortality rate(10)	0%	-14%		Decrease
			Equity volatility curve	16%	-25%		Increase

(1) Conversely, the impact of a decrease in input would have the opposite impact on fair value as that presented in the table.

(2) Includes assets classified as fixed maturities available-for-sale, trading account assets supporting insurance liabilities and other trading account assets.

(3) Represents multiples of earnings before interest, taxes, depreciation and amortization (“EBITDA”), and are amounts used when the Company has determined that market participants would use such multiples when valuing the investments.

(4) Changes in the fair value of separate account assets are borne by customers and thus are offset by changes in separate account liabilities on the Company’s Unaudited Interim Consolidated Statements of Financial Position. As a result, changes in value associated with these investments are not reflected in the Company’s Unaudited Interim Consolidated Statements of Operations.

(5) Future policy benefits primarily represent general account liabilities for the living benefit features of the Company’s variable annuity contracts which are accounted for as embedded derivatives. Since the valuation methodology for these liabilities uses a range of inputs that vary at the contract level over the cash flow projection period, presenting a range, rather than weighted average, is a more meaningful representation of the unobservable inputs used in the valuation.

(6) Lapse rates are adjusted at the contract level based on the in-the-moneyness of the living benefit and reflect other factors, such as the applicability of any surrender charges. Lapse rates are reduced when contracts are more in-the-money. Lapse rates are also generally assumed to be lower for the period where surrender charges apply.

(7) The spread over London Inter-Bank Offered Rate (“LIBOR”) swap curve represents the premium added to the risk-free discount rate (i.e., LIBOR) to reflect our estimates of rates that a market participant would use to value the

living benefit contracts in both the accumulation and payout phases. This spread includes an estimate of non-performance risk (“NPR”), which is the risk that the obligation will not be fulfilled by the Company. NPR is primarily estimated by utilizing the credit spreads associated with issuing funding agreements, adjusted for any illiquidity risk premium. In order to reflect the financial strength ratings of the Company, credit spreads associated with funding agreements, as opposed to credit spread associated with debt, are utilized in developing this estimate because both funding agreements and living benefit contracts are insurance liabilities and are therefore senior to debt.

The utilization rate assumption estimates the percentage of contracts that will utilize the benefit during the contract duration, and begin lifetime withdrawals at various time intervals from contract inception. The remaining contractholders are assumed to either begin lifetime withdrawals immediately or never utilize the benefit.

(8) Utilization assumptions may vary by product type, tax status and age. The impact of changes in these assumptions is highly dependent on the product type, the age of the contractholder at the time of the sale and the timing of the first lifetime income withdrawal. Range reflects the utilization rate for the vast majority of business with living benefits.

The withdrawal rate assumption estimates the magnitude of annual contractholder withdrawals relative to the maximum allowable amount under the contract. These assumptions vary based on the age of the contractholder, the tax status of the contract and the duration since the contractholder began lifetime withdrawals. As of September 30, 2017 and December 31, 2016, the minimum withdrawal rate assumption is 78% and the maximum withdrawal rate assumption may be greater than 100%. The fair value of the liability will generally increase the closer the withdrawal rate is to 100% and decrease as the withdrawal rate moves further away from 100%.

(9) Range reflects the mortality rate for the vast majority of business with living benefits, with policyholders ranging from 35 to 90 years old. While the majority of living benefits have a minimum age requirement, certain benefits do not have an age restriction. This results in contractholders for certain benefits with mortality rates approaching 0%. Based on historical experience, the Company applies a set of age and duration specific mortality rate adjustments compared to standard industry tables. A mortality improvement assumption is also incorporated into the overall mortality table.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

**Interrelationships Between Unobservable Inputs**—In addition to the sensitivities of fair value measurements to changes in each unobservable input in isolation, as reflected in the table above, interrelationships between these inputs may also exist, such that a change in one unobservable input may give rise to a change in another or multiple inputs. For the discussion of the relationships between unobservable inputs as well as market factors that may affect the range of inputs used in the valuation of Level 3 assets and liabilities, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

**Changes in Level 3 Assets and Liabilities**—The following tables describe changes in fair values of Level 3 assets and liabilities as of the dates indicated, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at the end of their respective periods. When a determination is made to classify assets and liabilities within Level 3, the determination is based on significance of the unobservable inputs in the overall fair value measurement. Transfers into Level 3 are generally the result of unobservable inputs utilized within valuation methodologies or the use of indicative broker quotes for assets that were previously valued using observable inputs. Transfers out of Level 3 are generally due to the use of observable inputs in valuation methodologies as well as the availability of pricing service information for certain assets that the Company can validate. For further information on valuation processes, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

	Three Months Ended September 30, 2017					
	Fixed Maturities Available-For-Sale					
	U.S. government securities	U.S. government securities	Foreign government securities	Corporate securities(1)	Structured securities(2)	
	(in millions)					
Fair Value, beginning of period	\$32	\$ 5	\$ 143	\$ 1,662	\$ 6,744	
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	0	(16	) 8	
Included in other comprehensive income (loss)	0	0	(1	) (11	) 7	
Net investment income	0	0	0	4	1	
Purchases	9	7	0	36	1,131	
Sales	0	0	0	(1	) (207	)
Issuances	0	0	0	0	0	
Settlements	0	0	0	(51	) (605	)
Foreign currency translation	0	0	8	0	7	
Other(4)	0	0	0	(44	) 0	
Transfers into Level 3(5)	0	0	3	223	698	
Transfers out of Level 3(5)	0	0	0	(51	) (684	)
Fair Value, end of period	\$41	\$ 12	\$ 153	\$ 1,751	\$ 7,100	
Unrealized gains (losses) for assets still held(6):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ (10	) \$ 0	

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017				
	Trading Account Assets				
	Foreign government securities	Corporate securities	Structured securities(2)	Equity securities	All other activity
	(in millions)				
Fair Value, beginning of period	\$228	\$ 200	\$ 666	\$ 543	\$ 1
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Other income	0	(12 )	0	5	0
Net investment income	1	1	0	0	0
Purchases	0	11	167	1	18
Sales	0	(1 )	0	(3 )	0
Issuances	0	0	0	0	0
Settlements	0	(14 )	(123 )	(37 )	(13 )
Foreign currency translation	0	0	1	1	0
Other(4)	0	(3 )	0	33	0
Transfers into Level 3(5)	0	74	136	0	0
Transfers out of Level 3(5)	0	(2 )	(44 )	0	0
Fair Value, end of period	\$229	\$ 254	\$ 803	\$ 543	\$ 6
Unrealized gains (losses) for assets still held(6):					
Included in earnings:					
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0
Other income	\$0	\$ (12 )	\$ 1	\$ 5	\$ 0



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017				
	Equity securities available-for-sale	Other long-term investments	Short-term investments	Cash equivalents	Other assets
	(in millions)				
Fair Value, beginning of period	\$273	\$ 76	\$ 2	\$ 0	\$39
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	(2 )	(1 )	0	0	(47 )
Other income	0	0	0	0	0
Included in other comprehensive income (loss)	4	0	0	0	0
Net investment income	0	0	0	0	0
Purchases	11	0	12	93	8
Sales	(7 )	0	0	0	0
Issuances	0	0	0	0	0
Settlements	0	(1 )	(8 )	0	0
Foreign currency translation	0	0	0	0	0
Other(4)	0	11	(1 )	0	0
Transfers into Level 3(5)	2	10	0	0	0
Transfers out of Level 3(5)	0	0	0	0	0
Fair Value, end of period	\$281	\$ 95	\$ 5	\$ 93	\$0
Unrealized gains (losses) for assets still held(6):					
Included in earnings:					
Realized investment gains (losses), net	\$(2 )	\$( 2 )	\$ 0	\$ 0	\$(47)
Other income	\$0	\$ 0	\$ 0	\$ 0	\$0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017			
	Separate account assets(3)	Future policy benefits	Other liabilities	Notes issued by consolidated VIEs
	(in millions)			
Fair Value, beginning of period	\$2,107	\$(10,031)	\$ (34 )	\$ (1,853 )
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	1,777	(6 )	12
Other Income	0	0	0	0
Interest credited to policyholders' account balances	11	0	19	0
Net investment income	0	0	0	0
Purchases	465	0	0	0
Sales	(12 )	0	0	0
Issuances	0	(283 )	0	0
Settlements	(174 )	0	(18 )	0
Foreign currency translation	0	0	0	0
Other(4)	0	0	0	647
Transfers into Level 3(5)	48	0	0	0
Transfers out of Level 3(5)	(162 )	0	0	0
Fair Value, end of period	\$2,283	\$(8,537 )	\$ (39 )	\$ (1,194 )
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$1,698	\$ (6 )	\$ 12
Other income	\$0	\$0	\$ 0	\$ 0
Interest credited to policyholders' account balances	\$13	\$0	\$ 7	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017					
	Fixed Maturities Available-For-Sale					
	U.S. government securities	U.S. government securities	Foreign government securities	Corporate securities(1)	Structured securities(2)	
	(in millions)					
Fair Value, beginning of period	\$0	\$ 5	\$ 124	\$ 2,173	\$ 4,555	
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	0	11	67	
Included in other comprehensive income (loss)	0	0	1	(14	) (6	)
Net investment income	0	0	0	15	6	
Purchases	31	7	0	158	3,572	
Sales	0	0	0	(145	) (602	)
Issuances	0	0	0	0	0	
Settlements	0	0	0	(498	) (2,019	)
Foreign currency translation	0	0	9	9	32	
Other(4)	10	0	0	(54	) (1	)
Transfers into Level 3(5)	0	0	21	349	3,343	
Transfers out of Level 3(5)	0	0	(2	) (253	) (1,847	)
Fair Value, end of period	\$41	\$ 12	\$ 153	\$ 1,751	\$ 7,100	
Unrealized gains (losses) for assets still held(6):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ (50	) \$ 0	

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017				
	Trading Account Assets				
	Foreign government securities (in millions)	Corporate securities	Structured securities(2)	Equity securities	All other activity
Fair Value, beginning of period	\$227	\$ 188	\$ 332	\$ 487	\$ 1
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Other income	0	(4	) 1	25	0
Net investment income	4	2	1	0	0
Purchases	0	84	402	19	18
Sales	0	(7	) (13	) (14	) 0
Issuances	0	0	0	0	0
Settlements	(2	) (99	) (256	) (44	) (13
Foreign currency translation	0	0	4	9	0
Other(4)	0	0	1	30	0
Transfers into Level 3(5)	0	96	561	31	0
Transfers out of Level 3(5)	0	(6	) (230	) 0	0
Fair Value, end of period	\$229	\$ 254	\$ 803	\$ 543	\$ 6
Unrealized gains (losses) for assets still held(6):					
Included in earnings:					
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0
Other income	\$0	\$ (5	) \$ 3	\$ 39	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017				
	Equity securities available-for-sale	Other long-term investments	Short-term investments	Cash equivalents	Other assets
	(in millions)				
Fair Value, beginning of period	\$265	\$ 7	\$ 1	\$ 0	\$0
Total gains (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	2	(2 )	0	0	(25 )
Other income	0	0	0	0	0
Included in other comprehensive income (loss)	13	0	0	0	0
Net investment income	0	0	0	2	0
Purchases	25	0	12	93	25
Sales	(30 )	0	0	0	0
Issuances	0	0	0	0	0
Settlements	0	(1 )	(8 )	(6 )	0
Foreign currency translation	6	0	0	0	0
Other(4)	(1 )	81	(1 )	0	0
Transfers into Level 3(5)	2	10	1	4	0
Transfers out of Level 3(5)	(1 )	0	0	0	0
Fair Value, end of period	\$281	\$ 95	\$ 5	\$ 93	\$0
Unrealized gains (losses) for assets still held(6):					
Included in earnings:					
Realized investment gains (losses), net	\$(3 )	\$(3 )	\$ 0	\$ 0	\$(25)
Other income	\$0	\$ 0	\$ 0	\$ 0	\$0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017			
	Separate Future account policy assets(3)	benefits	Other liabilities	Notes issued by consolidated VIEs
	(in millions)			
Fair Value, beginning of period	\$1,849	\$(8,238)	\$ (22 )	\$ (1,839 )
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	540	(18 )	(2 )
Other Income	0	0	0	0
Interest credited to policyholders' account balances	57	0	19	0
Net investment income	1	0	0	0
Purchases	1,003	0	0	0
Sales	(84 )	0	0	0
Issuances	0	(837 )	0	0
Settlements	(555 )	0	(18 )	0
Foreign currency translation	0	(2 )	0	0
Other(4)	0	0	0	647
Transfers into Level 3(5)	302	0	0	0
Transfers out of Level 3(5)	(290 )	0	0	0
Fair Value, end of period	\$2,283	\$(8,537)	\$ (39 )	\$ (1,194 )
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$345	\$ (18 )	\$(2 )
Other income	\$0	\$0	\$ 0	\$ 0
Interest credited to policyholders' account balances	\$53	\$0	\$ 19	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016		
	Fixed Maturities Available-For-Sale		
	U.S. state government securities	Foreign government securities(1)	Corporate securities(2)
	(in millions)		
Fair Value, beginning of period	\$5 \$ 124	\$ 2,254	\$ 3,267
Total gains (losses) (realized/unrealized):			
Included in earnings:			
Realized investment gains (losses), net	0 0	(8	) 5
Included in other comprehensive income (loss)	0 1	22	7
Net investment income	0 0	3	3
Purchases	0 0	75	1,062
Sales	0 0	(7	) (361
Issuances	0 0	0	0
Settlements	0 0	(156	) (103
Foreign currency translation	0 5	9	24
Other(4)	0 0	0	4
Transfers into Level 3(5)	0 0	195	357
Transfers out of Level 3(5)	0 0	(106	) (756
Fair Value, end of period	\$5 \$ 130	\$ 2,281	\$ 3,509
Unrealized gains (losses) for assets still held(6):			
Included in earnings:			
Realized investment gains (losses), net	\$0 \$ 0	\$ (9	) \$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016					
	Trading Account Assets					
	Foreign govern- ment (in millions)	Corporate securities (2)	Structured securities (2)	Equity securities	All other activity	
Fair Value, beginning of period	\$38	\$ 216	\$ 310	\$ 585	\$ 2	
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	0	0	0	
Other income	0	3	(1	) 11	(1	)
Net investment income	0	0	0	0	0	
Purchases	2	0	30	5	0	
Sales	0	0	(26	) (36	) 0	
Issuances	0	0	0	0	0	
Settlements	0	(3	) (5	) (31	) 0	
Foreign currency translation	0	0	0	18	0	
Other(4)	0	0	2	0	1	
Transfers into Level 3(5)	0	9	29	0	0	
Transfers out of Level 3(5)	0	0	(96	) 0	0	
Fair Value, end of period	\$40	\$ 225	\$ 243	\$ 552	\$ 2	
Unrealized gains (losses) for assets still held(6):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0	
Other income	\$0	\$ 3	\$ 1	\$ 12	\$ 0	



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016			
	Equity securities available- for-sale	Other long-term investments	Short-term investments	Other assets
	(in millions)			
Fair Value, beginning of period	\$301	\$ 14	\$ 0	\$ 62
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	0	0	(5 )
Other income	0	0	0	0
Included in other comprehensive income (loss)	(17 )	0	0	0
Net investment income	0	0	0	0
Purchases	8	0	1	7
Sales	(8 )	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	0
Foreign currency translation	13	0	0	0
Other(4)	0	0	0	0
Transfers into Level 3(5)	0	0	0	0
Transfers out of Level 3(5)	0	0	0	0
Fair Value, end of period	\$298	\$ 14	\$ 1	\$ 64
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 18
Other income	\$0	\$ 0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016			
	Separate account assets(3)	Future policy benefits	Other liabilities	Notes issued by consolidated VIEs
	(in millions)			
Fair Value, beginning of period	\$2,128	\$(13,328)	\$ (2 )	\$ (2,094 )
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	578	(6 )	(17 )
Other Income	0	0	0	(5 )
Interest credited to policyholders' account balances	33	0	0	0
Net investment income	3	0	0	0
Purchases	180	0	0	0
Sales	(61 )	0	0	0
Issuances	0	(271 )	0	(1,228 )
Settlements	(303 )	0	(5 )	0
Foreign currency translation	0	(3 )	0	0
Other(4)	0	0	(6 )	622
Transfers into Level 3(5)	63	0	0	0
Transfers out of Level 3(5)	(70 )	0	0	0
Fair Value, end of period	\$1,973	\$(13,024)	\$ (19 )	\$ (2,722 )
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$492	\$ (5 )	\$ (9 )
Other Income	\$0	\$0	\$ 0	\$ 27
Interest credited to policyholders' account balances	\$22	\$0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016			
	Fixed Maturities		Available-For-Sale	
	U.S. state	Foreign government	Corporate securities(1)	Structured securities(2)
	(in millions)			
Fair Value, beginning of period	\$6	\$ 123	\$ 1,222	\$ 4,269
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	(96	) 7
Included in other comprehensive income (loss)	0	2	42	(32 )
Net investment income	0	0	7	11
Purchases	0	0	266	1,414
Sales	0	0	(13	) (404 )
Issuances	0	0	0	0
Settlements	(1	) 0	(278	) (323 )
Foreign currency translation	0	5	34	85
Other(4)	0	0	0	118
Transfers into Level 3(5)	0	0	1,316	1,561
Transfers out of Level 3(5)	0	0	(219	) (3,197 )
Fair Value, end of period	\$5	\$ 130	\$ 2,281	\$ 3,509
Unrealized gains (losses) for assets still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ 0	\$ (91	) \$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016					
	Trading Account Assets					
	Foreign government securities	Corporate securities	Structured securities(2)	Equity securities	All other activity	
	(in millions)					
Fair Value, beginning of period	\$34	\$ 203	\$ 603	\$ 589	\$ 5	
Total gains (losses) (realized/unrealized):						
Included in earnings:						
Realized investment gains (losses), net	0	0	0	0	0	
Other income	0	(9	) (3	) 6	0	
Net investment income	0	1	1	0	0	
Purchases	8	8	56	10	0	
Sales	0	0	(26	) (48	) 0	
Issuances	0	0	0	0	0	
Settlements	(2	) (38	) (10	) (108	) 0	
Foreign currency translation	0	0	(1	) 60	0	
Other(4)	0	(15	) 21	15	(3	)
Transfers into Level 3(5)	0	136	208	28	0	
Transfers out of Level 3(5)	0	(61	) (606	) 0	0	
Fair Value, end of period	\$40	\$ 225	\$ 243	\$ 552	\$ 2	
Unrealized gains (losses) for assets still held(6):						
Included in earnings:						
Realized investment gains (losses), net	\$0	\$ 0	\$ 0	\$ 0	\$ 0	
Other income	\$0	\$ 12	\$ (3	) \$ 7	\$ 0	

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016			
	Equity securities available- for-sale	Other long-term investments	Short-term investments	Other assets
	(in millions)			
Fair Value, beginning of period	\$266	\$ 49	\$ 0	\$ 7
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	2	(1 )	0	41
Other income	0	0	0	0
Included in other comprehensive income (loss)	(27 )	0	0	0
Net investment income	0	(1 )	0	0
Purchases	61	0	1	16
Sales	(22 )	0	0	0
Issuances	0	0	0	0
Settlements	(13 )	0	0	0
Foreign currency translation	31	0	0	0
Other(4)	0	(33 )	0	0
Transfers into Level 3(5)	7	0	0	0
Transfers out of Level 3(5)	(7 )	0	0	0
Fair Value, end of period	\$298	\$ 14	\$ 1	\$ 64
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ (1 )	\$ 0	\$ 41
Other income	\$0	\$ 0	\$ 0	\$ 0

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2016			
	Separate	Future	Other	Notes issued
	account	policy	liabilities	by
	assets(3)	benefits	consolidated	VIEs
	(in millions)			
Fair Value, beginning of period	\$1,995	\$(8,434)	\$ (2)	\$ (8,597)
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	1	(3,800)	(6)	(14)
Other Income	0	0	0	(14)
Interest credited to policyholders' account balances	36	0	0	0
Net investment income	16	0	0	0
Purchases	438	0	0	0
Sales	(134)	0	0	0
Issuances	0	(786)	0	(1,228)
Settlements	(391)	0	(5)	0
Foreign currency translation	0	(4)	0	0
Other(4)	0	0	(6)	7,131
Transfers into Level 3(5)	336	0	0	0
Transfers out of Level 3(5)	(324)	0	0	0
Fair Value, end of period	\$1,973	\$(13,024)	\$ (19)	\$ (2,722)
Unrealized gains (losses) for assets/liabilities still held(6):				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$(3,959)	\$ (6)	\$ (14)
Other Income	\$0	\$0	\$ 0	\$ (14)
Interest credited to policyholders' account balances	\$19	\$0	\$ 0	\$ 0

(1) Includes U.S. corporate public, U.S. corporate private, foreign corporate public and foreign corporate private securities. Prior period information has been revised to conform to current period presentation.

(2) Includes asset-backed (includes credit-tranched securities collateralized by syndicated bank loans, sub-prime mortgages, auto loans, credit cards, education loans and other asset types), commercial mortgage-backed and residential mortgage-backed securities. Prior period information has been revised to conform to current period presentation.

(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company's Unaudited Interim Consolidated Statements of Financial Position.

(4) Other, for the period ended September 30, 2017, primarily represents deconsolidation of a VIE and reclassifications of certain assets between reporting categories. Other, for the period ended September 30, 2016, primarily represents deconsolidations of certain previously consolidated collateralized loan obligations.

(5) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfers occur for any such assets still held at the end of the quarter.

(6) Unrealized gains or losses related to assets still held at the end of the period do not include amortization or accretion of premiums and discounts.

Derivative Fair Value Information

The following tables present the balances of derivative assets and liabilities measured at fair value on a recurring basis, as of the date indicated, by primary underlying. These tables include NPR and exclude embedded derivatives and associated reinsurance recoverables. The derivative assets and liabilities shown below are included in “Trading account assets-All other,” “Other long-term investments” or “Other liabilities” in the tables contained within the sections “—Assets and Liabilities by Hierarchy Level” and “—Changes in Level 3 Assets and Liabilities”, above.

61

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	As of September 30, 2017				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:					
Interest Rate	\$ 18	\$ 8,853	\$ 3	\$	\$ 8,874
Currency	0	177	0		177
Credit	0	7	0		7
Currency/Interest Rate	0	1,949	0		1,949
Equity	4	659	10		673
Commodity	0	0	0		0
Netting(1)				(9,833 )	(9,833 )
Total derivative assets	\$ 22	\$ 11,645	\$ 13	\$ (9,833 )	\$ 1,847
Derivative Liabilities:					
Interest Rate	\$ 5	\$ 3,996	\$ 2	\$	\$ 4,003
Currency	0	392	0		392
Credit	0	6	0		6
Currency/Interest Rate	0	937	0		937
Equity	0	889	0		889
Commodity	0	0	0		0
Netting(1)				(5,505 )	(5,505 )
Total derivative liabilities	\$ 5	\$ 6,220	\$ 2	\$ (5,505 )	\$ 722

	As of December 31, 2016				
	Level 1	Level 2	Level 3	Netting(1)	Total
	(in millions)				
Derivative Assets:					
Interest Rate	\$ 55	\$ 9,269	\$ 6	\$	\$ 9,330
Currency	0	375	0		375
Credit	0	1	0		1
Currency/Interest Rate	0	3,174	0		3,174
Equity	0	203	0		203
Commodity	0	0	0		0
Netting(1)				(11,716 )	(11,716 )
Total derivative assets	\$ 55	\$ 13,022	\$ 6	\$ (11,716 )	\$ 1,367
Derivative Liabilities:					
Interest Rate	\$ 1	\$ 4,515	\$ 2	\$	\$ 4,518
Currency	0	893	0		893
Credit	0	25	0		25
Currency/Interest Rate	0	365	0		365
Equity	6	483	0		489
Commodity	0	0	0		0
Netting(1)				(5,945 )	(5,945 )
Total derivative liabilities	\$ 7	\$ 6,281	\$ 2	\$ (5,945 )	\$ 345

(1) "Netting" amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.



Changes in Level 3 derivative assets and liabilities—The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the nine months ended September 30, 2017, as well as the portion of gains or losses included in income for the nine months ended September 30, 2017, attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2017.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	Derivative Assets-Equity	Derivative Assets-Interest Rate	Derivative Assets-Equity	Derivative Assets-Interest Rate
	(in millions)			
Fair Value, beginning of period	\$0	\$ 3	\$0	\$ 4
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	(2 )	0	(3 )
Other income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	0
Other(1)	10	0	10	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	\$10	\$ 1	\$10	\$ 1
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period:				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ (3 )	\$0	\$ (3 )
Other income	\$0	\$ 0	\$0	\$ 0

(1) Related to warrants received in an asset restructuring that resulted in reclassification of reporting category.

(2) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfer occurs.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Derivative Assets- Equity	Derivative Assets- Interest Rate	Derivative Assets- Equity	Derivative Assets- Interest Rate
	(in millions)			
Fair Value, beginning of period	\$2	\$ 4	\$32	\$ 5
Total gains (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	0	(1 )
Other income	0	0	0	0
Purchases	0	0	0	0
Sales	0	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	0
Other(1)	(2 )	0	(32 )	0
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	0	0	0	0
Fair Value, end of period	\$0	\$ 4	\$0	\$ 4
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period:				
Included in earnings:				
Realized investment gains (losses), net	\$0	\$ 0	\$0	\$ 0
Other income	\$0	\$ 0	\$0	\$ 0

(1) Primarily related to private warrants reclassified from derivatives to trading securities.

(2) Transfers into or out of Level 3 are generally reported at the value as of the beginning of the quarter in which the transfer occurs.

Nonrecurring Fair Value Measurements—The following table represents information for assets measured at fair value on a nonrecurring basis. The fair value measurement is nonrecurring as these assets are measured at fair value only when there is evidence of impairment. Assets included in the table are those that were impaired, and therefore measured at fair value, during the respective reporting periods and that are still held as of the reporting date. The estimated fair values for these amounts were determined using significant unobservable inputs (Level 3).

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Realized investment gains (losses) net:				
Commercial mortgage loans(1)	\$0	\$(2 )	\$0	\$(6 )

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Mortgage servicing rights(2)	\$2	\$0	\$8	\$(2 )
Cost method investments(3)	\$(7)	\$(18)	\$(24)	\$(70)
General and administrative expenses:				
Long-lived assets held for sale(4)	\$(5)	\$0	\$(19)	\$0

64

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2017	December 31, 2016
	(in millions)	
Carrying value after measurement as of period end:		
Commercial mortgage loans(1)	\$41	\$ 47
Mortgage servicing rights(2)	\$86	\$ 84
Cost method investments(3)	\$157	\$ 284
Long-lived assets held for sale(4)	\$14	\$ 0

(1) Commercial mortgage loans are valued based on discounted cash flows utilizing market rates or the fair value of the underlying real estate collateral.

Mortgage servicing rights are valued using a discounted cash flow model. The model incorporates assumptions for servicing revenues, which are adjusted for expected prepayments, delinquency rates, escrow deposit income and estimated loan servicing expenses. The discount rates incorporated into the model are determined based on the estimated returns a market participant would require for this business plus a liquidity and risk premium. This estimate includes available relevant data from any active market sales of mortgage servicing rights.

(2) For cost method impairments, the methodologies utilized are primarily discounted cash flow and, where appropriate, valuations provided by the general partners taking into consideration investment-related expenses.

(3) Long-lived assets held for sale are valued based on internal estimate utilizing comparable sales and asset specific conditions.

**Fair Value Option**

The fair value option allows the Company to elect fair value as an alternative measurement for selected financial assets and financial liabilities not otherwise reported at fair value. Such elections have been made by the Company to help mitigate volatility in earnings that results from different measurement attributes. Electing the fair value option also allows the Company to achieve consistent accounting for certain assets and liabilities. Changes in fair value are reflected in “Realized investment gains (losses), net” for commercial mortgage and other loans and “Other income” for other long-term investments and notes issued by consolidated VIEs. Changes in fair value due to instrument-specific credit risk are estimated using changes in credit spreads and quality ratings for the period reported. Interest income on commercial mortgage and other loans is included in “Net investment income.” Interest income on these loans is recorded based on the effective interest rates as determined at the closing of the loan.

The following tables present information regarding assets and liabilities where the fair value option has been elected.

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
	(in millions)			

Assets:

Commercial mortgage and other loans:

Changes in instrument-specific credit risk \$0 \$0 \$0 \$0

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Other changes in fair value	\$0	\$0	\$0	\$0
Other long-term investments:				
Changes in fair value	\$33	\$41	\$110	\$17
Liabilities:				
Notes issued by consolidated VIEs:				
Changes in fair value	\$(12)	\$22	\$2	\$28

Three Months Ended September 30, 2017  
 Nine Months Ended September 30, 2016  
 (in millions)

Commercial mortgage and other loans:				
Interest income	\$5	\$3	\$10	\$7
Notes issued by consolidated VIEs:				
Interest expense	\$16	\$24	\$60	\$92

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	September 30, 2017	December 31, 2016
	(in millions)	
Commercial mortgage and other loans(1):		
Fair value as of period end	\$340	\$ 519
Aggregate contractual principal as of period end	\$332	\$ 508
Other long-term investments:		
Fair value as of period end	\$1,886	\$ 1,556
Notes issued by consolidated VIEs:		
Fair value as of period end	\$1,194	\$ 1,839
Aggregate contractual principal as of period end	\$1,233	\$ 1,886

(1) As of September 30, 2017, for loans for which the fair value option has been elected, there were no loans in non-accrual status and none of the loans were more than 90 days past due and still accruing.

## Fair Value of Financial Instruments

The table below presents the carrying amount and fair value by fair value hierarchy level of certain financial instruments that are not reported at fair value. The financial instruments presented below are reported at carrying value on the Company's Unaudited Interim Consolidated Statements of Financial Position. In some cases, as described below, the carrying amount equals or approximates fair value. For additional information regarding the methods and significant assumptions used to estimate their fair value, see Note 20 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

	September 30, 2017(1)				Carrying Amount(2)
	Fair Value				Total
	Level 1	Level 2	Level 3	Total	Total
	(in millions)				
Assets:					
Fixed maturities, held-to-maturity(3)	\$0	\$1,504	\$971	\$2,475	\$ 2,084
Trading account assets	205	50	50	305	305
Commercial mortgage and other loans	0	134	56,716	56,850	55,033
Policy loans	1	0	11,765	11,766	11,765
Short-term investments	810	23	0	833	833
Cash and cash equivalents	6,001	273	198	6,472	6,472
Accrued investment income	0	3,278	0	3,278	3,278
Other assets	46	2,460	680	3,186	3,186
Total assets	\$7,063	\$7,722	\$70,380	\$85,165	\$ 82,956
Liabilities:					
Policyholders' account balances—investment contracts	\$0	\$33,541	\$67,962	\$101,503	\$ 100,804
Securities sold under agreements to repurchase	0	8,145	0	8,145	8,145
Cash collateral for loaned securities	0	4,697	0	4,697	4,697
Short-term debt	0	1,867	501	2,368	2,358

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Long-term debt(4)	2,079	15,396	2,012	19,487	17,153
Other liabilities	0	6,054	713	6,767	6,767
Separate account liabilities—investment contracts	0	70,094	30,302	100,396	100,396
Total liabilities	\$2,079	\$139,794	\$101,490	\$243,363	\$240,320

66

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	December 31, 2016(1)				Carrying Amount(2)
	Fair Value				
	Level 1 (in millions)	Level 2	Level 3	Total	Total
<b>Assets:</b>					
Fixed maturities, held-to-maturity(3)	\$0	\$1,526	\$998	\$2,524	\$2,144
Trading account assets	0	150	0	150	150
Commercial mortgage and other loans	0	139	53,625	53,764	52,260
Policy loans	1	0	11,754	11,755	11,755
Short-term investments	0	326	0	326	326
Cash and cash equivalents	4,945	876	0	5,821	5,821
Accrued investment income	0	3,204	0	3,204	3,204
Other assets	54	1,976	658	2,688	2,688
<b>Total assets</b>	<b>\$5,000</b>	<b>\$8,197</b>	<b>\$67,035</b>	<b>\$80,232</b>	<b>\$78,348</b>
<b>Liabilities:</b>					
Policyholders' account balances—investment contracts	\$0	\$41,653	\$58,392	\$100,045	\$99,719
Securities sold under agreements to repurchase	0	7,606	0	7,606	7,606
Cash collateral for loaned securities	0	4,333	0	4,333	4,333
Short-term debt	0	1,077	73	1,150	1,133
Long-term debt(4)	1,267	15,705	2,957	19,929	18,041
Other liabilities	0	6,540	696	7,236	7,236
Separate account liabilities—investment contracts	0	71,010	27,578	98,588	98,588
<b>Total liabilities</b>	<b>\$1,267</b>	<b>\$147,924</b>	<b>\$89,696</b>	<b>\$238,887</b>	<b>\$236,656</b>

Other long-term investments excluded from the fair value hierarchy include certain hedge funds, private equity funds and other funds for which fair value is measured at NAV per share (or its equivalent) as a practical expedient. At September 30, 2017 and December 31, 2016, the fair values of these cost method investments were \$1,770 million and \$1,514 million, respectively. The carrying value of these investments were \$1,543 million and \$1,478 million as of September 30, 2017 and December 31, 2016, respectively.

Carrying values presented herein differ from those in the Company's Unaudited Interim Consolidated Statements of Financial Position because certain items within the respective financial statement captions are not considered financial instruments or out of scope under authoritative guidance relating to disclosures of the fair value of financial instruments.

As of September 30, 2017, excludes notes with fair value and carrying amount of \$4,758 million and \$4,627 million, respectively. As of December 31, 2016, excludes notes with both fair value and carrying amount of \$4,403 million. These amounts have been offset with the associated payables under a netting agreement.

As of September 30, 2017, includes notes with fair value and carrying amount of \$7,068 million and \$6,937 million, respectively. As of December 31, 2016, includes notes with both fair value and carrying amount of \$5,859 million. These amounts have been offset with the associated receivables under a netting agreement.

**14. DERIVATIVE INSTRUMENTS**

## Types of Derivative Instruments and Derivative Strategies

The Company utilizes various derivatives instruments and strategies to manage its risk. Commonly used derivative instruments include, but are not necessarily limited to:

- Interest rate contracts: swaps, options, swaptions, caps and floors
- Equity contracts: options and total return swaps
- Foreign exchange contracts: futures, options, forwards and swaps
- Credit contracts: single and index reference credit default swaps
- Other contracts: to-be-announced forward contracts, loan commitments, embedded derivatives and synthetic guaranteed investment contracts

For detailed information on these contracts and the related strategies, see Note 21 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Primary Risks Managed by Derivatives

The table below provides a summary of the gross notional amount and fair value of derivatives contracts by the primary underlying, excluding embedded derivatives and associated reinsurance recoverables. Many derivative instruments contain multiple underlyings. The fair value amounts below represent the gross fair value of derivative contracts prior to taking into account the netting effects of master netting agreements, cash collateral and NPR. This netting impact results in total derivative assets of \$1,847 million and \$1,367 million as of September 30, 2017 and December 31, 2016, respectively, and total derivative liabilities of \$722 million and \$345 million as of September 30, 2017 and December 31, 2016, respectively, reflected in the Unaudited Interim Consolidated Statements of Financial Position.

Primary Underlying/Instrument Type	September 30, 2017			December 31, 2016		
	Notional	Gross Fair Value Assets	Gross Fair Value Liabilities	Notional	Gross Fair Value Assets	Gross Fair Value Liabilities
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$1,012	\$15	\$(95)	\$1,117	\$17	\$(111)
Foreign Currency						
Foreign Currency Forwards	177	2	(3)	167	3	(1)
Currency/Interest Rate						
Foreign Currency Swaps	17,384	1,033	(534)	14,737	1,956	(54)
Total Qualifying Hedges	\$18,573	\$1,050	\$(632)	\$16,021	\$1,976	\$(166)
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate						
Interest Rate Swaps	\$164,478	\$8,652	\$(3,753)	\$162,131	\$8,969	\$(4,274)
Interest Rate Futures	26,464	19	(4)	31,183	55	(1)
Interest Rate Options	16,101	177	(148)	13,290	289	(132)
Interest Rate Forwards	1,783	11	(1)	321	0	(1)
Foreign Currency						
Foreign Currency Forwards	24,239	176	(389)	21,042	372	(892)
Foreign Currency Options	69	0	0	93	0	0
Currency/Interest Rate						
Foreign Currency Swaps	13,838	915	(404)	12,336	1,218	(311)
Credit						
Credit Default Swaps	783	7	(6)	918	1	(25)
Equity						
Equity Futures	74	0	0	1,371	0	(5)
Equity Options	59,962	657	(566)	12,020	102	(93)
Total Return Swaps	14,644	16	(323)	18,167	101	(390)
Commodity						
Commodity Futures	0	0	0	1	0	0
Synthetic GICs	76,931	2	(1)	77,197	5	0
Total Non-Qualifying Derivatives	\$399,366	\$10,632	\$(5,595)	\$350,070	\$11,112	\$(6,124)

Total Derivatives(1)	\$417,939	\$11,682	\$(6,227 )	\$366,091	\$13,088	\$(6,290 )
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68

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Excludes embedded derivatives and associated reinsurance recoverables which contain multiple underlyings. The (1) fair value of these embedded derivatives was a net liability of \$8,568 million and \$8,252 million as of September 30, 2017 and December 31, 2016, respectively, primarily included in “Future policy benefits.”

Based on notional amounts, most of the Company’s derivatives do not qualify for hedge accounting as follows: (i) derivatives that economically hedge embedded derivatives do not qualify for hedge accounting because changes in the fair value of the embedded derivatives are already recorded in net income, (ii) derivatives that are utilized as macro hedges of the Company’s exposure to various risks typically do not qualify for hedge accounting because they do not meet the criteria required under portfolio hedge accounting rules, and (iii) synthetic guaranteed investment contracts (“GICs”), which are product standalone derivatives, do not qualify as hedging instruments under hedge accounting rules.

## Offsetting Assets and Liabilities

The following table presents recognized derivative instruments (excluding embedded derivatives and associated reinsurance recoverables), and repurchase and reverse repurchase agreements that are offset in the Unaudited Interim Consolidated Statements of Financial Position, and/or are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in the Unaudited Interim Consolidated Statements of Financial Position.

	September 30, 2017				
	Gross Amounts of Recognized Financial Instruments (in millions)	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
Offsetting of Financial Assets:					
Derivatives(1)	\$11,566	\$ (9,833 )	\$ 1,733	\$ (1,422 )	\$ 311
Securities purchased under agreement to resell	576	0	576	(576 )	0
Total assets	\$12,142	\$ (9,833 )	\$ 2,309	\$ (1,998 )	\$ 311
Offsetting of Financial Liabilities:					
Derivatives(1)	\$6,219	\$ (5,505 )	\$ 714	\$ (629 )	\$ 85
Securities sold under agreement to repurchase	8,145	0	8,145	(8,145 )	0
Total liabilities	\$14,364	\$ (5,505 )	\$ 8,859	\$ (8,774 )	\$ 85

	December 31, 2016				
	Gross Amounts of Recognized Financial Instruments (in millions)	Gross Amounts Offset in the Statements of Financial Position	Net Amounts Presented in the Statements of Financial Position	Financial Instruments/ Collateral(1)	Net Amount
Offsetting of Financial Assets:					

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Derivatives(1)	\$12,987	\$ (11,716 )	\$ 1,271	\$ (399 )	\$ 872
Securities purchased under agreement to resell	1,016	0	1,016	(1,016 )	0
Total assets	\$14,003	\$ (11,716 )	\$ 2,287	\$ (1,415 )	\$ 872
Offsetting of Financial Liabilities:					
Derivatives(1)	\$6,281	\$ (5,945 )	\$ 336	\$ (299 )	\$ 37
Securities sold under agreement to repurchase	7,606	0	7,606	(7,606 )	0
Total liabilities	\$13,887	\$ (5,945 )	\$ 7,942	\$ (7,905 )	\$ 37

(1) Amounts exclude the excess of collateral received/pledged from/to the counterparty.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

For information regarding the rights of offset associated with the derivative assets and liabilities in the table above, see “—Counterparty Credit Risk” below. For securities purchased under agreements to resell and securities sold under agreements to repurchase, the Company monitors the value of the securities and maintains collateral, as appropriate, to protect against credit exposure. Where the Company has entered into repurchase and resale agreements with the same counterparty, in the event of default, the Company would generally be permitted to exercise rights of offset. For additional information on the Company’s accounting policy for securities repurchase and resale agreements, see Note 2 to the Company’s Consolidated Financial Statements included in the Annual Report on Form 10-K for the year ended December 31, 2016.

## Cash Flow, Fair Value and Net Investment Hedges

The primary derivative instruments used by the Company in its fair value, cash flow and net investment hedge accounting relationships are interest rate swaps, currency swaps and currency forwards. These instruments are only designated for hedge accounting in instances where the appropriate criteria are met. The Company does not use futures, options, credit, equity or embedded derivatives in any of its fair value, cash flow or net investment hedge accounting relationships.

The following table provides the financial statement classification and impact of derivatives used in qualifying and non-qualifying hedge relationships, excluding the offset of the hedged item in an effective hedge relationship.

	Three Months Ended September 30, 2017					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders Account Balances	AOCI(1)
	(in millions)					
<b>Derivatives Designated as Hedge Accounting</b>						
<b>Instruments:</b>						
<b>Fair value hedges</b>						
Interest Rate	\$3	\$ (4 )	\$0	\$ 0	\$ 0	\$ 0
Currency	(2 )	0	0	0	0	0
Total fair value hedges	1	(4 )	0	0	0	0
<b>Cash flow hedges</b>						
Interest Rate	0	0	0	(1 )	0	1
Currency/Interest Rate	0	50	(108 )	0	0	(447 )
Total cash flow hedges	0	50	(108 )	(1 )	0	(446 )
<b>Net investment hedges</b>						
Currency	0	0	0	0	0	(2 )
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	0	0	0	0	0	(2 )
<b>Derivatives Not Qualifying as Hedge Accounting</b>						
<b>Instruments:</b>						
Interest Rate	137	0	0	0	0	0
Currency	(113 )	0	1	0	0	0
Currency/Interest Rate	(93 )	0	(2 )	0	0	0
Credit	(8 )	0	0	0	0	0
Equity	(604 )	0	0	0	0	0

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Commodity	0	0	0	0	0	0
Embedded Derivatives	1,726	0	0	0	0	0
Total non-qualifying hedges	1,045	0	(1	) 0	0	0
Total	\$1,046	\$ 46	\$(109)	\$(1 )	\$ 0	\$(448 )

70

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine Months Ended September 30, 2017					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited to Policyholders Account Balances	Net AOCI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	\$ 11	\$ (15 )	\$ 0	\$ 0	\$ 0	\$ 0
Currency	(4 )	0	0	0	0	0
Total fair value hedges	7	(15 )	0	0	0	0
Cash flow hedges						
Interest Rate	0	0	0	(2 )	0	5
Currency/Interest Rate	0	142	(272 )	0	0	(988 )
Total cash flow hedges	0	142	(272 )	(2 )	0	(983 )
Net investment hedges						
Currency	0	0	0	0	0	(9 )
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	0	0	0	0	0	(9 )
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	1,101	0	0	0	0	0
Currency	(121 )	0	0	0	0	0
Currency/Interest Rate	(233 )	0	(4 )	0	0	0
Credit	8	0	0	0	0	0
Equity	(1,761)	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	544	0	0	0	0	0
Total non-qualifying hedges	(462 )	0	(4 )	0	0	0
Total	\$(455)	\$ 127	\$(276)	\$ (2 )	\$ 0	\$(992 )

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Three Months Ended September 30, 2016					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited To Policyholders' Account Balances	AOI(1)
	(in millions)					
Derivatives Designated as Hedge Accounting Instruments:						
Fair value hedges						
Interest Rate	\$9	\$ (8 )	\$ 0	\$ 0	\$ 0	\$ 0
Currency	7	0	0	0	0	0
Total fair value hedges	16	(8 )	0	0	0	0
Cash flow hedges						
Interest Rate	0	0	0	(1 )	0	3
Currency/Interest Rate	0	31	32	0	0	(208 )
Total cash flow hedges	0	31	32	(1 )	0	(205 )
Net investment hedges						
Currency	0	0	0	0	0	(5 )
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	0	0	0	0	0	(5 )
Derivatives Not Qualifying as Hedge Accounting Instruments:						
Interest Rate	340	0	0	0	0	0
Currency	536	0	(1 )	0	0	0
Currency/Interest Rate	(199 )	0	0	0	0	0
Credit	13	0	0	0	0	0
Equity	(954 )	0	0	0	0	0
Commodity	0	0	0	0	0	0
Embedded Derivatives	583	0	0	0	0	0
Total non-qualifying hedges	319	0	(1 )	0	0	0
Total	\$335	\$ 23	\$ 31	\$ (1 )	\$ 0	\$ (210 )

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

	Nine months ended September 30, 2016					
	Realized Investment Gains (Losses)	Net Investment Income	Other Income	Interest Expense	Interest Credited to Policyholders Account Balances	AOCI(1)
	(in millions)					
<b>Derivatives Designated as Hedge Accounting</b>						
Instruments:						
Fair value hedges						
Interest Rate	\$(10 )	\$ (24 )	\$ 0	\$ 0	\$ 0	\$ 0
Currency	28	(1 )	0	0	0	0
Total fair value hedges	18	(25 )	0	0	0	0
Cash flow hedges						
Interest Rate	0	0	0	(4 )	0	(7 )
Currency/Interest Rate	0	89	149	0	0	(65 )
Total cash flow hedges	0	89	149	(4 )	0	(72 )
Net investment hedges						
Currency	0	0	0	0	0	(16 )
Currency/Interest Rate	0	0	0	0	0	0
Total net investment hedges	0	0	0	0	0	(16 )
<b>Derivatives Not Qualifying as Hedge Accounting</b>						
Instruments:						
Interest Rate	8,213	0	0	0	0	0
Currency	1,104	0	(4 )	0	0	0
Currency/Interest Rate	(729 )	0	1	0	0	0
Credit	6	0	0	0	0	0
Equity	(1,705 )	0	0	0	0	0
Commodity	(1 )	0	0	0	0	0
Embedded Derivatives	(3,684 )	0	0	0	0	0
Total non-qualifying hedges	3,204	0	(3 )	0	0	0
Total	\$3,222	\$ 64	\$ 146	\$ (4 )	\$ 0	\$ (88 )

(1) Amounts deferred in AOCI.

For the nine months ended September 30, 2017 and 2016, the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company's results of operations. Also, there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

Presented below is a rollforward of current period cash flow hedges in AOCI before taxes:

	(in millions)
Balance, December 31, 2016	\$ 1,316
Net deferred gains/(losses) on cash flow hedges from January 1 to September 30, 2017	(1,021 )

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Amount reclassified into current period earnings	38
Balance, September 30, 2017	\$ 333

73

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Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Using September 30, 2017 values, it is estimated that a pre-tax gain of approximately \$151 million will be reclassified from AOCI to earnings during the subsequent twelve months ending September 30, 2018, offset by amounts pertaining to the hedged items. As of September 30, 2017, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 40 years. Income amounts deferred in AOCI as a result of cash flow hedges are included in “Net unrealized investment gains (losses)” in the Unaudited Interim Consolidated Statements of Comprehensive Income.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within AOCI were \$528 million and \$536 million as of September 30, 2017 and December 31, 2016, respectively.

Credit Derivatives

Credit derivatives, where the Company has written credit protection on a single name reference, had outstanding notional amounts of \$110 million and \$112 million as of September 30, 2017 and December 31, 2016, respectively. These credit derivatives are reported at fair value as an asset of \$2 million and an asset of less than \$1 million as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, the notional amount of these credit derivatives had the following NAIC ratings: \$36 million in NAIC 1; \$62 million in NAIC 2; \$5 million in NAIC 3; \$1 million in NAIC 4; \$2 million in NAIC 5; and \$4 million in NAIC 6. The Company has also written credit protection on certain index references with notional amounts of \$480 million and \$50 million as of September 30, 2017 and December 31, 2016, respectively. These credit derivatives are reported at fair value as a liability of \$5 million and less than \$1 million as of September 30, 2017 and December 31, 2016, respectively. As of September 30, 2017, the notional amount of these credit derivatives had the following NAIC ratings: \$50 million in NAIC 1; and \$430 million in NAIC 4. NAIC designations are based on the lowest rated single name reference included in the index.

The Company’s maximum amount at risk under these credit derivatives equals the aforementioned notional amounts and assumes the value of the underlying referenced securities become worthless. These single name credit derivatives have maturities of less than 3 years, while the credit protection on the index references have maturities of less than 30 years. This excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance as further disclosed below.

The Company had entered into a credit derivative that required the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. A \$12 million payment was made to terminate the credit derivative effective September 14, 2017. As of December 31, 2016, the notional amount of this credit derivative was \$500 million and was reported at fair value as a liability of \$17 million. No collateral was pledged for this credit derivative.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company’s investment portfolio. As of September 30, 2017 and December 31, 2016, the Company had \$193 million and \$256 million of outstanding notional amounts reported at fair value as a liability of \$6 million and \$8 million, respectively.

Counterparty Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by counterparties to financial derivative transactions. The Company manages credit risk by (i) entering into derivative transactions with highly rated major international financial institutions and other creditworthy counterparties governed by master netting agreement as applicable, (ii) trading through a central clearinghouse and over-the-counter (“OTC”), (iii) obtaining collateral, such as cash and securities, when appropriate, and (iv) setting limits on single party credit exposures which are subject to periodic management review. For detailed information on counterparty credit risk, see “—Counterparty Credit Risk” in Note 21 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

A majority of the Company’s derivative agreements have zero thresholds which require full collateralization by the party in a liability position. The Company also has derivative agreements with non-zero thresholds; if the Company’s credit rating were to fall below a certain level, the counterparties to the derivative instruments in a net liability position may request full collateralization. In addition, certain of the Company’s derivative agreements with counterparties contain credit-risk related contingent features; if the Company’s credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative resulting in settlement.

As of September 30, 2017, there were no net liability derivative positions with non-zero thresholds and/or downgrading of credit ratings; as such all derivatives have been appropriately collateralized by the Company or the counterparty in accordance with the terms of the derivative agreements.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## 15. COMMITMENTS AND GUARANTEES, CONTINGENT LIABILITIES AND LITIGATION AND REGULATORY MATTERS

## Commitments and Guarantees

## Commercial Mortgage Loan Commitments

	September 30, 2017	December 31, 2016
	(in millions)	
Total outstanding mortgage loan commitments	\$3,087	\$ 1,984
Portion of commitment where prearrangement to sell to investor exists	\$704	\$ 454

In connection with the Company's commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company pre-arranges that it will sell the loan to an investor, including to government sponsored entities as discussed below, after the Company funds the loan.

## Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	September 30, 2017	December 31, 2016
	(in millions)	
Expected to be funded from the general account and other operations outside the separate accounts(1)	\$6,812	\$ 7,232
Expected to be funded from separate accounts(1)	\$118	\$ 470

(1) The amounts at December 31, 2016 have been revised to correct the previously reported amounts.

The Company has other commitments to purchase or fund investments, some of which are contingent upon events or circumstances not under the Company's control, including those at the discretion of the Company's counterparties. The Company anticipates a portion of these commitments will ultimately be funded from its separate accounts.

## Indemnification of Securities Lending Transactions

	September 30, 2017	December 31, 2016
	(in millions)	
Indemnification provided to certain securities lending clients	\$5,170	\$ 5,352
Fair value of related collateral associated with above indemnifications	\$5,286	\$ 5,465
Accrued liability associated with guarantee	\$0	\$ 0

In the normal course of business, the Company may facilitate securities lending transactions on behalf of certain client accounts (collectively, "the accounts") for which the Company is also the investment advisor and/or the asset manager. In certain of these arrangements, the Company has provided an indemnification to the accounts to hold them harmless against losses caused by counterparty (i.e., borrower) defaults associated with the securities lending activity facilitated by the Company. Collateral is provided by the counterparty to the accounts at the inception of the loan equal to or

greater than 102% of the fair value of the loaned securities and the collateral is maintained daily at 102% or greater of the fair value of the loaned securities. The Company is only at risk if the counterparty to the securities lending transaction defaults and the value of the collateral held is less than the value of the securities loaned to such counterparty. The Company believes the possibility of any payments under these indemnities is remote.

#### Credit Derivatives Written

As discussed further in Note 14, the Company writes credit derivatives under which the Company is obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security.



Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Guarantees of Asset Values

	September 30, 2017	December 31, 2016
	(in millions)	
Guaranteed value of third parties' assets	\$76,931	\$ 77,197
Fair value of collateral supporting these assets	\$77,989	\$ 77,760
Asset associated with guarantee, carried at fair value	\$2	\$ 5

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives and carried at fair value. The collateral supporting these guarantees is not reflected on the Unaudited Interim Consolidated Statements of Financial Position.

## Indemnification of Serviced Mortgage Loans

	September 30, 2017	December 31, 2016
	(in millions)	
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	\$1,521	\$ 1,371
First-loss exposure portion of above	\$459	\$ 416
Accrued liability associated with guarantees	\$13	\$ 13

As part of the commercial mortgage activities of the Company's Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and makes payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company's percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company determines the liability related to this exposure using historical loss experience, and the size and remaining life of the asset. The Company services \$12,174 million and \$11,445 million of mortgages subject to these loss-sharing arrangements as of September 30, 2017 and December 31, 2016, respectively, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2017, these mortgages had a weighted-average debt service coverage ratio of 1.89 times and a weighted-average loan-to-value ratio of 59%. As of December 31, 2016, these mortgages had a weighted average debt service coverage ratio of 1.82 times and a weighted-average loan-to-value ratio of 59%. The Company had no losses related to indemnifications that were settled for the nine months ended September 30, 2017 and 2016, respectively.

## Other Guarantees

	September 30, 2017	December 31, 2016
	(in millions)	
Other guarantees where amount can be determined	\$ 31	\$ 58
Accrued liability for other guarantees and indemnifications	\$ 4	\$ 3

The Company is also subject to other financial guarantees and indemnity arrangements. The Company has provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by the Company. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Included above are \$31 million and \$51 million as of September 30, 2017 and December 31, 2016, respectively, of yield maintenance guarantees related to certain investments the Company sold. The Company does not expect to make any payments on these guarantees and is not carrying any liabilities associated with these guarantees.

Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. The accrued liabilities identified above do not include retained liabilities associated with sold businesses.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

Contingent Liabilities

On an ongoing basis, the Company's internal supervisory and control functions review the quality of sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. From time to time, this review process results in the discovery of product administration, servicing or other errors, including errors relating to the timing or amount of payments or contract values due to customers or other parties. In certain cases, if appropriate, the Company may offer customers or other parties remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

The Company is subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and is subject to audit and examination for compliance with these requirements. For additional discussion of these matters, see “—Litigation and Regulatory Matters” below.

It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected as a result of payments in connection with the matters discussed above or other matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that ultimate payments in connection with these matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on the Company's financial position.

Litigation and Regulatory Matters

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of the Company's businesses and operations that are specific to it and proceedings that are typical of the businesses in which it operates, including in both cases businesses that have been either divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of litigation or a regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain. The Company establishes accruals for litigation and regulatory matters when it is probable that a loss has been incurred and the amount of that loss can be reasonably estimated. For litigation and regulatory matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimable, no accrual is established but the matter, if material, is disclosed, including matters discussed below. The Company estimates that as of September 30, 2017, the aggregate range of reasonably possible losses in excess of accruals established for those litigation and regulatory matters for which such an estimate currently can be made is less than \$250 million. Any estimate is not an indication of expected loss, if any, or the Company's maximum possible loss exposure on such matters. The Company reviews relevant information with respect to its litigation and regulatory matters on a quarterly and annual basis and updates its accruals, disclosures and estimates of reasonably possible loss based on such reviews.

Prudential of Brazil Labor and Employment Matters

Prudential of Brazil (“POB”) sells insurance products to consumers through life planner franchisees (“Life Planners”), who are engaged as independent life insurance brokers and not as employees. When a Life Planner's contractual relationship with POB is terminated, in many cases the Life Planner commences a labor suit against POB alleging entitlement to employment related benefits. POB is a defendant in numerous such lawsuits in Brazil brought by former Life Planners, and has been subject to regulatory actions challenging the validity of POB's franchise model. POB has recently modified its franchise model to, among other things, mitigate the labor risk involving Life Planners.

POB may continue to become subject to additional Life Planner labor suits and regulatory actions in the future notwithstanding the steps that POB has taken to attempt to mitigate the labor risk.

Behfarin v. Pruco Life

In July 2017, a putative class action complaint entitled Richard Behfarin v. Pruco Life Insurance Company was filed in the United States District Court for the Central District of California, alleging that the Company imposes charges on owners of universal life policies to cure defaults and/or reinstate lapses, that are inconsistent with the applicable universal life policy. The complaint includes claims for breach of contract, breach of implied covenant of good faith and fair dealing, and violation of California law, and seeks unspecified damages along with declaratory and injunctive relief. In September 2017, the Company filed its Answer to the Complaint.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

The following discussion of litigation and regulatory matters provides an update of those matters discussed in Note 23 to the Company's Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, and should be read in conjunction with the complete descriptions provided in the Form 10-K.

Individual Annuities, Individual Life and Group Insurance

Wells Fargo MyTerm Sales

Alex Perea, individually and on behalf of all others similarly situated v. The Prudential Insurance Company of America, et al.

In February 2017, the amended complaint was withdrawn with prejudice.

Huffman v. The Prudential Insurance Company of America

In February 2017, all parties filed motions for summary judgment.

Other Matters

Securities Lending Matter

In 2016, the Company self-reported to the SEC and the DOL, and notified other regulators, that in some cases it failed to maximize securities lending income for the benefit of certain separate account investments. The Company has substantially implemented a remediation plan for the benefit of customers. The Company is cooperating with regulators in their review of this matter (which includes a review of the remediation plan) and has entered into discussions with the SEC staff regarding a possible settlement that would potentially involve charges under the Investment Advisers Act and financial remedies. We cannot predict the outcome of these discussions.

Wood II, et al. v. PRIAC

In August 2017, the court denied Plaintiff's motion for class certification. In October 2017, the court issued an order confirming the parties' stipulation dismissing the claims of the sole remaining Plaintiff with prejudice.

Rosen v. PRIAC, et al.

In March 2017, Plaintiff filed a voluntary notice of dismissal with prejudice as to Ferguson Enterprises, Inc. and Capital Partners, LLC d/b/a Captrust Financial Advisors. In October 2017, a three judge panel from the Second Circuit Court of Appeals affirmed the judgment of the district court, and Plaintiff subsequently filed a petition for rehearing before the entire Court of Appeals.

Bouder v. PFI

In June 2017, the parties filed a consent motion for preliminary approval of the class action settlement. In August 2017, the Court issued an order granting preliminary approval of the parties' class action settlement.

Financial Disclosures Concerning Death Benefits and Unclaimed Property

Stephen Silverman, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, et al.

In September 2017, the Court issued a stipulated consent order dismissing the complaint without prejudice.

Paul Memo, Derivatively on Behalf of Prudential Financial, Inc. v. John R. Strangfeld, et al.

In August 2017, the New Jersey Appellate Division affirmed the trial court decision dismissing the complaint. In September 2017, the plaintiff's time to appeal the New Jersey Appellate Division's decision expired and the case is now closed.

Table of Contents

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements—(Continued)

## Residential Mortgage-Backed Securities Trustee Litigation

PICA et al. v. Citibank N.A.—In April 2017, Citibank filed a motion for summary judgment in the federal court action. In June 2017, the state court issued a decision regarding Defendants' motion to dismiss the amended complaint: (i) sustaining Plaintiffs' breach of contract claims concerning Citibank's pre-Event of Default obligations; (ii) dismissing Plaintiffs' breach of contract claims concerning Citibank's post-Event of Default obligations; (iii) sustaining Plaintiffs' implied covenant of good faith and fair dealing claim; (iv) dismissing Plaintiffs' claim for breach of fiduciary duty; and (v) dismissing Plaintiffs' claim for breach of duty to avoid conflicts of interest. In July 2017, Citibank filed an appeal to the Appellate Division of the Supreme Court of New York, First Department, from the June 2017 decision denying, in part, its motion to dismiss.

PICA et al. v. Deutsche Bank, et al.—In February 2017, the Court issued a decision regarding Defendants' motion to dismiss the amended complaint: (i) sustaining Plaintiffs' breach of contract claims concerning the failure to remedy known servicing violations as to all sixty-two trusts at issue; (ii) sustaining Plaintiffs' breach of contract claims concerning the failure to enforce seller representation and warranty claims as to forty-one trusts, and dismissing such claims as to the remaining twenty-one trusts; (iii) dismissing Plaintiffs' claim for breach of fiduciary duty; and (iv) dismissing Plaintiffs' claim for breach of duty to avoid conflicts of interest.

PICA et al. v. HSBC, et al.—In January 2017, Plaintiffs filed a motion seeking class certification and appointing class representatives and class counsel.

PICA et al. v. Wells Fargo Bank, et al.—In March 2017, the federal court issued an order concerning Defendant's motion to dismiss as to the Indenture trusts: (i) sustaining Plaintiffs' breach of contract claims; Plaintiffs' claims for violations of the Trust Indenture Act of 1939; and Plaintiffs' claims for breach of the duty to avoid conflicts of interest; and (ii) dismissing Plaintiffs' claims for breach of fiduciary duty as duplicative of the sustained contract claims. In May 2017, Wells Fargo filed a third-party complaint for contribution against PGIM, Inc., alleging that, in the event the Prudential Plaintiff Funds prevail on their claims for damages against Wells Fargo, PGIM must contribute to the award due to PGIM's alleged breach of fiduciary duties owed to the Funds in managing the Funds' RMBS investments. In June 2017, Wells Fargo filed a motion to dismiss the complaint in New York state court. In October 2017, PGIM filed a motion to dismiss the third-party complaint filed by Wells Fargo seeking contribution.

Prudential Investment Portfolios 2, f/k/a Dryden Core Investment Fund, o/b/o Prudential Core Short-Term Bond Fund and Prudential Core Taxable Money Market Fund v. Bank of America Corporation, et al.

In February 2017, the Court issued an order holding that antitrust claims cannot be asserted against entities affiliated with a bank that participated in the setting of LIBOR, if they were not involved in the setting of LIBOR. Combined with the Court's December 2016 ruling, the Funds' New Jersey antitrust claims were dismissed for lack of personal jurisdiction, while their antitrust claims continue in the New York and North Carolina actions. In July 2017, the Funds obtained an entry of judgment on the New Jersey antitrust claims previously dismissed on personal jurisdiction grounds and then filed an appeal with the Second Circuit Court of Appeals.

## Summary

The Company's litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that the Company's results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company's litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company's financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of

applicable reserves and rights to indemnification, is not likely to have a material adverse effect on the Company's financial position.

79

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Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## INDEX

	Page
<u>Overview</u>	<u>81</u>
<u>Regulatory Developments</u>	<u>81</u>
<u>Impact of a Low Interest Rate Environment</u>	<u>82</u>
<u>Results of Operations</u>	<u>86</u>
<u>Consolidated Results of Operations</u>	<u>86</u>
<u>Segment Results of Operations</u>	<u>87</u>
<u>Segment Measures</u>	<u>90</u>
<u>Impact of Foreign Currency Exchange Rates</u>	<u>90</u>
<u>Accounting Policies &amp; Pronouncements</u>	<u>93</u>
<u>Application of Critical Accounting Estimates</u>	<u>93</u>
<u>Adoption of New Accounting Pronouncements</u>	<u>94</u>
<u>Results of Operations by Segment</u>	<u>94</u>
<u>Individual Annuities</u>	<u>94</u>
<u>Retirement</u>	<u>100</u>
<u>Asset Management</u>	<u>103</u>
<u>Individual Life</u>	<u>107</u>
<u>Group Insurance</u>	<u>110</u>
<u>International Insurance</u>	<u>111</u>
<u>Corporate and Other</u>	<u>117</u>
<u>Divested Businesses</u>	<u>118</u>
<u>Closed Block Division</u>	<u>118</u>
<u>Income Taxes</u>	<u>120</u>
<u>Experience-Rated Contractholder Liabilities, TAASIL and Other Related Investments</u>	<u>120</u>
<u>Valuation of Assets and Liabilities</u>	<u>121</u>
<u>Realized Investment Gains and Losses</u>	<u>123</u>
<u>General Account Investments</u>	<u>129</u>
<u>Liquidity and Capital Resources</u>	<u>144</u>
<u>Ratings</u>	<u>154</u>
<u>Off-Balance Sheet Arrangements</u>	<u>155</u>

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") addresses the consolidated financial condition of Prudential Financial, Inc. ("Prudential," "PFI," or "the Company") as of September 30, 2017, compared with December 31, 2016, and its consolidated results of operations for the three and nine months ended September 30, 2017 and 2016. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A, the "Risk Factors" section, and the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as well as the statements under "Forward-Looking Statements" and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.



## Table of Contents

### Overview

Prudential Financial, a financial services leader with approximately \$1.366 trillion of assets under management as of September 30, 2017, has operations primarily in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, and investment management. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Our principal operations are currently comprised of four divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance division consists of our International Insurance segment. The Closed Block division consists of our Closed Block segment. The Closed Block division is accounted for as a divested business that is reported separately from the divested businesses that are included in Corporate and Other operations. Our Corporate and Other operations include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested.

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt which are reflected in Corporate and Other operations. The net investment income of each segment includes earnings on the amount of capital that management believes is necessary to support the risks of that segment.

In July 2017, we announced a new organizational structure for our U.S. businesses that better reflects our focus on leveraging our mix of businesses and our digital and customer engagement capabilities to expand our value proposition for the benefit of customers and stakeholders. This new organizational structure will retain our existing segments but will realign them under new divisions. Under the new structure, which will become effective for fourth quarter of 2017 reporting, our principal operations will be comprised of five divisions, which together will encompass seven segments, and our Corporate and Other operations. The U.S. Individual Solutions division will consist of our Individual Annuities and Individual Life segments. The U.S. Workplace Solutions division will consist of our Retirement and Group Insurance segments. The Investment Management division will be comprised of our Investment Management segment (currently named the Asset Management segment). The International Insurance division will continue to consist of our International Insurance segment, and the Closed Block division will continue to consist of our Closed Block segment. Our Corporate and Other operations will continue to include corporate items and initiatives that are not allocated to business segments and businesses that have been or will be divested. There will be no changes to our reporting segments nor to our measure of segment profitability as a result of the new organizational structure.

### Regulatory Developments

#### Fiduciary Rules

The U.S. Department of Labor's ("DOL") new fiduciary rules became applicable, in part, on June 9, 2017, with certain additional provisions scheduled to become applicable on January 1, 2018. In August 2017 the DOL issued a proposed 18-month extension of the January 1, 2018 applicability date to July 1, 2019. In connection with the ongoing examination of the rules as directed by President Trump in February 2017, the DOL also issued a request for information seeking public comment on the rules. In addition, the Secretary of Labor has stated that he will seek to engage with the U.S. Securities and Exchange Commission (the "SEC") on the rules and, in June 2017, the Chairman of

the SEC issued a public statement soliciting comments on the standard of conduct for investment advisers and broker-dealers when they provide advice to retail investors. The National Association of Insurance Commissioners (“NAIC”) has also formed an Annuity Suitability Working Group which is considering the development of enhanced standards for the sale of annuities. We cannot predict what impact these developments will have on the rules or the standard of conduct applicable to some of our businesses.

#### Regulation as a Designated Financial Company

Presidential Memorandum Regarding the Financial Stability Oversight Council—In April 2017, President Trump issued a memorandum directing the Secretary of the Treasury, among other things, to conduct a review of the Financial Stability Oversight Council's (the “Council”) process for designating non-bank financial companies (“Designated Financial Companies”) for supervision by the Board of Governors of the Federal Reserve System (the “FRB”) and to report conclusions to the President within 180 days regarding issues raised in the memorandum, and recommendations for process improvements, including necessary legislative changes. We cannot predict what impact the review will ultimately have on the designation process or the Company.

## Table of Contents

**The Financial CHOICE Act**—In June 2017, the U.S. House of Representatives passed the Financial CHOICE Act, which would amend certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank”), including the authority of the Council to designate non-bank financial companies for FRB supervision. We cannot predict whether this or other legislation impacting Dodd-Frank will ultimately be passed into law, or how such legislation will impact the Company.

**Resolution Planning**—In July 2017, the FRB and the Federal Deposit Insurance Corporation announced that for Designated Financial Companies the next resolution plan filing deadline will be delayed from December 31, 2017 to December 31, 2018.

### U.S. Department of the Treasury Report

In October 2017, in response to President Trump’s February 2017 executive order, the U.S. Department of the Treasury released a report titled “A Financial System That Creates Economic Opportunities - Asset Management and Insurance.” The report identifies laws, regulations and other requirements that promote or inhibit certain core principles of financial regulation that are outlined in the order. Among other things, the report recommends that primary federal and state regulators should focus on potential systemic risks arising from products and activities, and on implementing regulations that strengthen the asset management and insurance industries as a whole, rather than focus on an entity-based regulatory regime. The report also affirms the role of the U.S. state-based system of insurance regulation. In addition, the report supports current efforts at the DOL to reexamine, and delay full implementation of, the Fiduciary Rule, and encourages the DOL and SEC to work with state insurance regulators to evaluate the impacts of a fiduciary rule across markets. The Company is evaluating the recommendations set forth in the report and their potential impact on our business. We cannot predict whether any of the recommendations will ultimately become laws, regulations or other requirements applicable to our business.

### U.S. Tax Legislation

In September 2017, the Trump Administration and Republican Congressional leadership released a “Unified Framework for Fixing Our Broken Tax Code” (“the Framework”) that is intended to serve as a template for the tax-writing committees as they develop tax reform legislation. The Framework would reduce the corporate tax rate to 20%, provide for a partial limitation of the deduction for net interest, introduce a territorial tax system with a one-time deemed repatriation tax and aim to repeal the corporate alternative minimum tax. The Framework does not address insurance industry specific provisions such as the dividends received deduction, tax reserves and deferred policy acquisition costs. The Framework would also reduce individual tax rates from seven brackets to three with a top rate of 35%, repeal the individual alternative minimum tax, increase the standard deduction, eliminate many other deductions and repeal the estate tax.

In November 2017, the Tax Cuts and Jobs Act (the “House Tax Bill”) was introduced in the U.S. House of Representatives. The House Tax Bill would, among other changes, reduce the corporate tax rate from 35% to 20% and modify the taxation of life insurance companies and non-U.S. subsidiaries. For individuals and families, the House Tax Bill would also modify certain deductions and income tax brackets and repeal the alternative minimum tax.

We cannot predict whether the Framework and/or House Tax Bill will ultimately form the basis for changes in the tax laws applicable to the Company, our products or our customers, or the timing of any such changes. Tax reform may change the Company’s tax profile, make our products less attractive and/or reduce our statutory capital position. We are currently analyzing the House Tax Bill for the impact on the Company should it become law.

For additional information on the potential impacts of regulation on the Company, see “Business—Regulation” and “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2016.

### Impact of a Low Interest Rate Environment

As a global financial services company, market interest rates are a key driver of our results of operations and financial condition. Changes in interest rates can affect our results of operations and/or our financial condition in several ways, including favorable or adverse impacts to:

- investment-related activity, including: investment income returns, net interest margins, net investment spread results, new money rates, mortgage loan prepayments and bond redemptions;
- insurance reserve levels, amortization of deferred policy acquisition costs (“DAC”)/value of business acquired (“VOBA”) and market experience true-ups;
- customer account values, including their impact on fee income;
- fair value of, and possible impairments on, intangible assets such as goodwill;
- product offerings, design features, crediting rates and sales mix; and
- policyholder behavior, including surrender or withdrawal activity.

Table of Contents

For more information on interest rate risks, see “Risk Factors—Risks Relating to Economic and Market Conditions” included in our Annual Report on Form 10-K for the year ended December 31, 2016.

See below for discussions related to the current interest rate environments in our two largest markets, the United States and Japan; the composition of our insurance liabilities and policyholder account balances; and the hypothetical impacts to our results if these interest rate environments are sustained.

## U.S. Operations excluding the Closed Block Division

Interest rates in the U.S. continue to remain lower than historical levels, despite the Federal Reserve Board’s decisions in March and June of 2017 to further raise short-term interest rates. Market conditions and events make uncertain the timing, amount and impact of any further monetary policy decisions by the Federal Reserve. Given this continued low rate environment, our current reinvestment yields remain lower than the overall portfolio yield, primarily for our investments in fixed maturity securities and commercial mortgage loans and, as a result, our overall portfolio yields are expected to continue to decline.

For the general account supporting our U.S. Retirement Solutions and Investment Management division, our U.S. Individual Life and Group Insurance division and our Corporate and Other operations, we expect annual scheduled payments and prepayments to be approximately 6.1% of the fixed maturity security and commercial mortgage loan portfolios through 2018. The general account for these operations has approximately \$189 billion of such assets (based on net carrying value) as of September 30, 2017. As these assets mature, the average portfolio yield for fixed maturities and commercial mortgage loans of approximately 4.2% as of September 30, 2017, is expected to decline due to reinvesting in a lower interest rate environment.

Included in the \$189 billion of fixed maturity securities and commercial mortgage loans are approximately \$103 billion that are subject to call or redemption features at the issuer’s option and have a weighted average interest rate of approximately 4%. Of this \$103 billion, approximately 70% contain provisions for prepayment premiums. The reinvestment of scheduled payments at rates below the current portfolio yield, including in some cases at rates below those guaranteed under our insurance contracts, will impact future operating results to the extent we do not, or are unable to, reduce crediting rates on in force blocks of business, or effectively utilize other asset/liability management strategies described below, in order to maintain current net interest margins.

The following table sets forth the insurance liabilities and policyholder account balances of our U.S. Operations excluding the Closed Block Division, by type, for the date indicated:

	As of September 30, 2017 (\$ in billions)
Long-duration insurance products with fixed and guaranteed terms	\$ 112
Contracts with adjustable crediting rates subject to guaranteed minimums	56
Participating contracts where investment income risk ultimately accrues to contractholders	15
Total	\$ 183

The \$112 billion above relates to long-duration products such as group annuities, structured settlements and other insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than portfolio rates. We seek to mitigate the impact of a prolonged low interest rate environment on these contracts through asset/liability management, as discussed further below.

The \$56 billion above relates to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Although we may have the ability to lower crediting rates for those contracts above guaranteed minimums, our willingness to do so may be limited by competitive pressures. The following table sets forth the related account values by range of guaranteed minimum crediting rates and the related range of the difference, in basis points (“bps”), between rates being credited to contractholders as of September 30, 2017, and the respective guaranteed minimums.

83

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Table of Contents

## Account Values with Adjustable Crediting Rates Subject to Guaranteed Minimums:

	At guaranteed minimum	1-49 bps above guaranteed minimum	50-99 bps above guaranteed minimum	100-150 bps above guaranteed minimum	Greater than 150 bps above guaranteed minimum	Total
	(\$ in billions)					
Range of Guaranteed Minimum Crediting Rates:						
Less than 1.00%	\$0.3	\$ 1.1	\$ 0.5	\$ 0.1	\$ 0.0	\$2.0
1.00% - 1.99%	1.0	9.7	6.0	1.5	0.2	18.4
2.00% - 2.99%	1.3	0.6	0.4	2.4	0.3	5.0
3.00% - 4.00%	26.1	2.7	0.2	0.1	0.0	29.1
Greater than 4.00%	1.0	0.0	0.0	0.0	0.0	1.0
Total(1)	\$29.7	\$ 14.1	\$ 7.1	\$ 4.1	\$ 0.5	\$55.5
Percentage of total	54	% 25	% 13	% 7	% 1	% 100

(1) Includes approximately \$1.0 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity.

The remaining \$15 billion of insurance liabilities and policyholder account balances in these operations relates to participating contracts for which the investment income risk is expected to ultimately accrue to contractholders. The crediting rates for these contracts are periodically adjusted based on the return earned on the related assets.

Assuming a hypothetical scenario where the average 10-year U.S. Treasury rate is 2.35% for the period from October 1, 2017 through December 31, 2018, and credit spreads remain unchanged from levels as of September 30, 2017, we estimate that the unfavorable impact to pre-tax adjusted operating income of reinvesting in such an environment, compared to reinvesting at current average portfolio yields, would be approximately \$1 million in 2017 and \$46 million in 2018. This impact is most significant in the Retirement, Individual Life and Individual Annuities segments. This hypothetical scenario only reflects the impact related to the approximately \$56 billion of contracts shown in the table above, and does not reflect: any benefit from potential changes to the crediting rates on the corresponding contractholder liabilities where the Company has the contractual ability to do so, or other potential mitigants such as changes in investment mix that we may implement as funds are reinvested; any impact related to assets that do not directly support our liabilities; any impact from other factors, including but not limited to, new business, contractholder behavior, product modifications, changes in product offerings, changes in competitive conditions or changes in capital markets; or any impact from other factors described below. See “—Segment Measures” for a discussion of adjusted operating income and its use as a measure of segment operating performance.

In order to mitigate the unfavorable impact that the current interest rate environment has on our net interest margins, we employ a proactive asset/liability management program, which includes strategic asset allocation and hedging strategies within a disciplined risk management framework. These strategies seek to match the characteristics of our products, and to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. Our asset/liability management program also helps manage duration gaps, currency and other risks between assets and liabilities through the use of derivatives. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. As a result, our asset/liability management process has permitted us to manage the interest rate risk associated with our products through several market cycles. Our interest rate exposure is also mitigated by our business mix, which includes lines of business for which fee-based and insurance underwriting earnings play a more prominent role in product profitability.

**Closed Block Division**

Substantially all of the \$62 billion of general account assets in the Closed Block division support obligations and liabilities relating to the Closed Block policies only. See Note 6 to the Unaudited Interim Consolidated Financial Statements for further information on the Closed Block.

Table of Contents

## International Insurance Operations

While our international insurance operations have experienced a low interest rate environment for many years, the current reinvestment yields for certain blocks of business in our international insurance operations are generally lower than the current portfolio yield supporting these blocks of business. Recently, the Bank of Japan has been pursuing further expansionary monetary policy resulting in even lower and, at times, negative yields for certain tenors of government bonds. Our international insurance operations employ a proactive asset/liability management program in order to mitigate, to the extent possible, the unfavorable impact that the current interest rate environment has on our net interest margins. In conjunction with this program, we have not purchased negative yielding assets to support the portfolio and we continue to purchase long-term bonds with tenors of 30 years or greater. Additionally, our diverse product portfolio in terms of currency mix and premium payment structure allows us to further mitigate the negative impact from this low interest rate environment. We regularly examine our product offerings and their profitability. As a result, we have repriced certain products, adjusted commissions for certain products and have discontinued sales of other products that do not meet our profit expectations. The impact of these actions, coupled with the strengthening of the yen against the U.S. dollar and introduction of certain new products, has resulted in an increase in sales of U.S. dollar-denominated products relative to products denominated in other currencies. For additional information on sales within our international insurance operations, see “—International Insurance Division—International Insurance—Sales Results,” below.

The following table sets forth the insurance liabilities and policyholder account balances of our Japanese operations, by type, for the date indicated:

	As of September 30, 2017 (\$ in billions)
Long-duration insurance products with fixed and guaranteed terms	\$ 124
Contracts with a market value adjustment if invested amount is not held to maturity	25
Contracts with adjustable crediting rates subject to guaranteed minimums	9
Total	\$ 158

The \$124 billion above is predominantly comprised of long-duration insurance products that have fixed and guaranteed terms, for which underlying assets may have to be reinvested at interest rates that are lower than current portfolio yields. The remaining insurance liabilities and policyholder account balances include \$25 billion related to contracts that impose a market value adjustment if the invested amount is not held to maturity and \$9 billion related to contracts with crediting rates that may be adjusted over the life of the contract, subject to guaranteed minimums. Most of the current crediting rates on these contracts, however, are at or near contractual minimums. Although we have the ability in some cases to lower crediting rates for those contracts that are above guaranteed minimum crediting rates, the majority of this business has interest crediting rates that are determined by formula.

Assuming a hypothetical scenario within our Japanese and Korean operations where 2017 new money yields were 25 basis points lower than projected, and applying these lower new money yields to annualized investment of renewal premiums, proceeds from investment disposition and reinvestment of investment income, we estimate that the unfavorable impact would reduce adjusted operating income in 2017 by approximately \$10 to \$15 million. This hypothetical scenario excludes first-year premium, single pay premium, multi-currency fixed annuity cash flows, any potential benefit from repricing products, and any impact from other factors, including but not limited to new business, contractholder behavior, changes in competitive conditions, changes in capital markets, and the effect of derivative instruments.



Table of Contents

## Results of Operations

## Consolidated Results of Operations

The following table summarizes net income (loss) for the periods presented.

	Three Months		Nine Months	
	Ended September 30, 2017	2016	Ended September 30, 2017	2016
	(in millions)			
Revenues	\$ 16,313	\$ 16,961	\$ 43,424	\$ 45,729
Benefits and expenses	13,292	14,646	38,053	40,341
Income (loss) before income taxes and equity in earnings of operating joint ventures	3,021	2,315	5,371	5,388
Income tax expense (benefit)	800	501	1,320	1,300
Income (loss) before equity in earnings of operating joint ventures	2,221	1,814	4,051	4,088
Equity in earnings of operating joint ventures, net of taxes	20	18	58	38
Net income (loss)	2,241	1,832	4,109	4,126
Less: Income attributable to noncontrolling interests	3	5	11	42
Net income (loss) attributable to Prudential Financial, Inc.	\$ 2,238	\$ 1,827	\$ 4,098	\$ 4,084

Three Month Comparison. The \$411 million increase in “Net income (loss) attributable to Prudential Financial, Inc.” for the third quarter of 2017 compared to the third quarter of 2016 reflected the following notable items:

\$373 million favorable variance reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information); and

\$450 million net favorable variance primarily from higher operating results from our business segments compared to the prior year period.

Partially offsetting these increases in “Net income (loss) attributable to Prudential Financial, Inc.” were the following items:

\$321 million lower net realized gains for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed above (see “—Realized Investment Gains (Losses)” for additional information); and

\$91 million unfavorable variance from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses. This excludes the impact associated with the variable annuity hedging program discussed above (see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities” for additional information).

Nine Month Comparison. The \$14 million increase in “Net income (loss) attributable to Prudential Financial, Inc.” for the first nine months of 2017 compared to the first nine months of 2016 reflected the following notable items:

\$2,402 million net favorable variance primarily from higher operating results from our business segments and income in the current period compared to a loss in the prior period from our Closed Block division;

\$1,987 million favorable variance reflecting changes to the way we manage interest rate risks for certain products. This variance is primarily attributed to changes in our Individual Annuities risk management strategy implemented in 2016, whereby we terminated the existing intercompany derivative transactions between our Corporate and Other operations and Individual Annuities related to managing interest rate risk and we now manage this risk within the Individual Annuities business segment (see “—Results of Operations by Segment—Corporate and Other—Capital Protection Framework” for additional information); and

## Table of Contents

\$462 million favorable variance from adjustments to DAC and other costs as well as reserves, reflecting updates to the estimated profitability of our businesses, including the impact of our annual reviews and update of assumptions and other refinements. This excludes the impact associated with the variable annuity hedging program discussed below (see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities” for additional information).

Partially offsetting these increases in “Net income (loss) attributable to Prudential Financial, Inc.” were the following items:

\$3,292 million unfavorable variance reflecting the net impact from changes in the value of our embedded derivatives and related hedge positions associated with certain variable annuities (see “—Results of Operations by Segment—U.S. Retirement Solutions and Investment Management Division—Individual Annuities—Variable Annuity Risks and Risk Mitigants” for additional information); and

\$1,545 million lower net realized gains for PFI excluding the Closed Block division, and excluding the impact of the hedging program associated with certain variable annuities discussed above (see “—Realized Investment Gains (Losses)” for additional information).

### Segment Results of Operations

We analyze the performance of our segments and Corporate and Other operations using a measure of segment profitability called adjusted operating income. See “—Segment Measures” for a discussion of adjusted operating income and its use as a measure of segment operating performance.

### Summary of Results of Operations by Segment

Shown below are the adjusted operating income contributions of each segment and Corporate and Other operations for the periods indicated and a reconciliation of this segment measure of performance to “Income (loss) before income taxes and equity in earnings of operating joint ventures” as presented in our Unaudited Interim Consolidated Statements of Operations.

Table of Contents

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
	2016	2016	2016	2016
	(in millions)			
Adjusted operating income before income taxes by segment:				
Individual Annuities	\$577	\$588	\$1,657	\$1,343
Retirement	248	239	953	694
Asset Management	259	191	673	563
Total U.S. Retirement Solutions and Investment Management division	1,084	1,018	3,283	2,600
Individual Life	150	111	(289 )	(59 )
Group Insurance	61	62	231	177
Total U.S. Individual Life and Group Insurance division	211	173	(58 )	118
International Insurance	799	780	2,421	2,362
Total International Insurance division	799	780	2,421	2,362
Corporate and Other operations	(310 )	(413 )	(974 )	(1,140 )
Total Corporate and Other	(310 )	(413 )	(974 )	(1,140 )
Total segment adjusted operating income before income taxes	1,784	1,558	4,672	3,940
Reconciling items:				
Realized investment gains (losses), net, and related adjustments(1)	1,395	223	(48 )	2,443
Charges related to realized investment gains (losses), net(2)	(231 )	426	571	(1,096 )
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	85	37	330	361
Change in experience-rated contractholder liabilities due to asset value changes(4)	(31 )	1	(188 )	(262 )
Divested businesses(5):				
Closed Block division	33	31	49	(74 )
Other divested businesses	10	56	51	76
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(6)	(24 )	(17 )	(66 )	0
Consolidated income (loss) before income taxes and equity in earnings of operating joint ventures	\$3,021	\$2,315	\$5,371	\$5,388

(1) Represents “Realized investment gains (losses), net,” and related adjustments. See “—Realized Investment Gains and Losses” and Note 11 to our Unaudited Interim Consolidated Financial Statements for additional information.

(2) Includes charges that represent the impact of realized investment gains (losses), net, on the amortization of DAC and other costs, and on changes in reserves. Also includes charges resulting from payments related to market value adjustment features of certain of our annuity products and the impact of realized investment gains (losses), net, on the amortization of unearned revenue reserves.

(3) Represents net investment gains (losses) on trading account assets supporting insurance liabilities. See “—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.”

(4) Represents changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See “—Experience-Rated Contractholder Liabilities, Trading Account Assets Supporting Insurance Liabilities and Other Related Investments.”

(5) See “—Divested Businesses.”

(6) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income before income taxes and equity in earnings of operating joint ventures as they are reflected on an after-tax U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income before



taxes and equity earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Unaudited Interim Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

Results for the periods presented above reflect the following:

88

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Table of Contents

Individual Annuities. Segment results for the third quarter of 2017 decreased in comparison to the prior year period, primarily driven by a less favorable comparative net impact from changes in the estimated profitability of the business. Excluding this impact, segment results increased in comparison to the prior year period, primarily reflecting higher asset-based fee income and lower amortization costs, partially offset by lower net investment spread results. Segment results for the first nine months of 2017 increased in comparison to the prior year period, primarily reflecting higher asset-based fee income, higher net investment spread results and lower amortization costs. Both periods also experienced favorable comparative net impacts from changes in the estimated profitability of the business, including those resulting from our annual reviews and update of assumptions and other refinements.

Retirement. Segment results for the third quarter of 2017 increased in comparison to the prior year period, primarily reflecting lower general and administrative expenses, net of capitalization, and a higher contribution from reserve experience, partially offset by lower net investment spread results. Segment results for the first nine months of 2017 increased in comparison to the prior year period, primarily reflecting higher net investment spread results, a higher contribution from reserve experience, lower general and administrative expenses, net of capitalization, and higher fee income, partially offset by a net unfavorable impact from our annual reviews and update of assumptions and other refinements.

Asset Management. Segment results for both the third quarter of 2017 and the first nine months of 2017 increased in comparison to the prior year periods, primarily reflecting higher asset management fees, net of related expenses, and higher other related revenues, net of associated expenses.

Individual Life. Segment results for the third quarter of 2017 increased in comparison to the prior year period, primarily reflecting favorable mortality experience, net of reinsurance, the absence of the unfavorable impact of certain reserve refinements incurred in the prior year period, and lower general and administrative expenses. This increase was partially offset by the unfavorable ongoing impact of our second quarter 2017 annual review and update of assumptions and other refinements. Segment results for the first nine months of 2017 decreased in comparison to the prior year period, primarily reflecting unfavorable comparative net impacts from our annual reviews and update of assumptions and other refinements.

Group Insurance. Segment results for the third quarter of 2017 were essentially unchanged from the prior year period, as favorable underwriting results in our group disability and group life businesses were offset by higher expenses, net of fees, and lower net investment spread results. Segment results for the first nine months of 2017 increased in comparison to the prior year period, reflecting favorable underwriting results in our group disability and group life businesses, a larger contribution from net investment spread results, and favorable comparative net impacts from our annual reviews and update of assumptions and other refinements, partially offset by higher expenses, net of fees.

International Insurance. Segment results for the third quarter and the first nine months of 2017 increased in comparison to the prior year periods, inclusive of unfavorable net impacts from foreign currency exchange rates. The nine-month comparison also included comparatively favorable net impacts from our annual reviews and update of assumptions and other refinements. Excluding these items, segment results increased from the prior periods as both current periods benefited from business growth, improved policyholder experience and increases in net investment results, partially offset by higher legal costs and expenses supporting business growth.

Corporate and Other operations. The results for the third quarter and the first nine months of 2017 reflected decreased losses in comparison to the prior year periods, driven by lower levels of corporate expenses, higher investment income, net of interest expense, and higher income from our qualified pension plan.

Closed Block Division. The Closed Block division results for the third quarter of 2017 increased slightly in comparison to the prior year period, primarily driven by a decrease in the policyholder dividend obligation and higher

net insurance activity results, partially offset by lower net realized investment gains and lower net investment income. The Closed Block division results for the first nine months of 2017 increased in comparison to the prior year period, primarily driven by an increase in net realized investment gains and related activity as well as higher net investment income, partially offset by an increase in the policyholder dividend obligation.

## Table of Contents

### Segment Measures

**Adjusted Operating Income.** In managing our business, we analyze our segments' operating performance using "adjusted operating income." Adjusted operating income does not equate to "Income (loss) before income taxes and equity in earnings of operating joint ventures" or "Net income (loss)" as determined in accordance with U.S. GAAP, but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with authoritative guidance, is our measure of segment performance. The adjustments to derive adjusted operating income are important to an understanding of our overall results of operations. Adjusted operating income is not a substitute for income determined in accordance with U.S. GAAP, and our definition of adjusted operating income may differ from that used by other companies. However, we believe that the presentation of adjusted operating income as we measure it for management purposes enhances the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses.

See Note 11 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

**Annualized New Business Premiums.** In managing our Individual Life, Group Insurance and International Insurance businesses, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the business, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of first year premiums or deposits from single pay products. No other adjustments are made for limited pay contracts.

The amount of annualized new business premiums for any given period can be significantly impacted by several factors, including but not limited to: addition of new products, discontinuation of existing products, changes in credited interest rates for certain products and other product modifications, changes in premium rates, changes in tax laws, changes in regulations or changes in the competitive environment. Sales volume may increase or decrease prior to certain of these changes becoming effective, and then fluctuate in the other direction following such changes.

**Assets Under Management.** In managing our Asset Management business, we analyze assets under management, which do not correspond to U.S. GAAP assets, because the principal source of revenues is fees based on assets under management. Assets under management represents the fair market value or account value of assets which we manage directly for institutional clients, retail clients, and for our general account, as well as assets invested in our products that are managed by third-party managers.

**Account Values.** In managing our Individual Annuities and Retirement businesses, we analyze account values, which do not correspond to U.S. GAAP assets. Net sales (redemptions) in our Individual Annuities business and net additions (withdrawals) in our Retirement business do not correspond to revenues under U.S. GAAP, but are used as a relevant measure of business activity.

### Impact of Foreign Currency Exchange Rates

#### Foreign currency exchange rate movements and related hedging strategies

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are subject to foreign currency exchange rate movements that could impact our U.S. dollar-equivalent earnings and shareholder return on equity. We seek to mitigate this impact through various hedging strategies, including the use of derivative contracts and by holding U.S. dollar-denominated assets in certain of our foreign subsidiaries.

The operations of certain of our businesses are subject to currency fluctuations that could materially affect our U.S. dollar-equivalent earnings from period to period, even if earnings on a local currency basis are relatively constant. We enter into forward currency derivative contracts as part of our strategy to effectively fix the currency exchange rates for a portion of our prospective non-U.S. dollar-denominated earnings streams, thereby reducing earnings volatility from foreign currency exchange rate movements. The forward currency hedging program is primarily associated with our insurance operations in Japan and Korea.

Separately, our Japanese insurance operations offer a variety of non-yen denominated products, primarily comprised of U.S. and Australian dollar-denominated products that are supported by investments in corresponding currencies. Our Gibraltar Life Insurance Company, Ltd.'s ("Gibraltar Life") operations are structured such that the U.S. and Australian dollar-denominated businesses are disaggregated into separate divisions, each with its own functional currency that aligns with the underlying products and investments.

Table of Contents

For further information on the hedging strategies used to mitigate the risks of foreign currency exchange rate movements on earnings as well as the U.S. GAAP earnings impact from products denominated in non-local currencies, see “—Impact of foreign currency exchange rate movements on earnings,” below.

We utilize a yen hedging strategy that calibrates the hedge level to preserve the relative contribution of our yen-based business to the Company’s overall return on equity on a leverage neutral basis. We implement this hedging strategy utilizing a variety of instruments, including foreign currency derivative contracts, as discussed above, as well as U.S. dollar-denominated assets and, to a lesser extent, “dual currency” and “synthetic dual currency” assets held locally in our Japanese insurance subsidiaries. We may also hedge using instruments held in our U.S. domiciled entities, such as U.S. dollar-denominated debt that has been swapped to yen. The total hedge level may vary based on our periodic assessment of the relative contribution of our yen-based business to the Company’s overall return on equity.

The table below presents the aggregate amount of instruments that serve to hedge the impact of foreign currency exchange movements on our U.S. dollar-equivalent shareholder return on equity from our Japanese insurance subsidiaries as of the dates indicated.

	September 30, 2017	December 31, 2016
	(in billions)	
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent earnings:		
Forward currency hedging program(1)	\$ 1.6	\$ 1.6
Instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity:		
U.S. dollar-denominated assets held in yen-based entities(2):		
U.S. dollar-denominated investments, at amortized cost	13.4	12.6
Other	0.3	0.1
Subtotal	13.7	12.7
Dual currency and synthetic dual currency investments(3)	0.7	0.7
Total instruments hedging foreign currency exchange rate exposure on U.S. dollar-equivalent equity	14.4	13.4
Total hedges	\$ 16.0	\$ 15.0

(1) Represents the notional amount of forward currency contracts outstanding.

Excludes \$42.1 billion and \$36.2 billion as of September 30, 2017 and December 31, 2016, respectively, of U.S.

(2) dollar-denominated assets supporting U.S. dollar-denominated liabilities related to U.S. dollar-denominated products issued by our Japanese insurance operations.

Dual currency and synthetic dual currency investments are held by our yen-based entities in the form of fixed

(3) maturities and loans with a yen-denominated principal component and U.S. dollar-denominated interest income.

The amounts shown represent the present value of future U.S. dollar-denominated cash flows.

The U.S. dollar-denominated investments that hedge the impact of foreign currency exchange rate movements on U.S. dollar-equivalent earnings and shareholder return on equity from our Japanese insurance operations are reported within yen-based entities and, as a result, foreign currency exchange rate movements will impact their value reported within our yen-based Japanese insurance entities. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of these U.S. dollar-denominated investments reported within our yen-based Japanese insurance entities, and therefore negatively impact their equity and regulatory solvency margins, by employing internal hedging strategies between a subsidiary of Prudential Financial and these yen-based entities. These internal hedging strategies have the economic effect of moving the change in value of these U.S. dollar-denominated investments due to foreign currency exchange rate movements from our Japanese yen-based

entities to our U.S. dollar-based entities.

These U.S. dollar-denominated investments also pay a coupon which is generally higher than what a similar yen-denominated investment would pay. The incremental impact of this higher yield on our U.S. dollar-denominated investments, as well as our dual currency and synthetic dual currency investments, will vary over time, and is dependent on the duration of the underlying investments as well as interest rate environments in both the U.S. and Japan at the time of the investments. See “—General Account Investments—Investment Results” for a discussion of the investment yields generated by our Japanese insurance operations.

91

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Table of Contents

## Impact of foreign currency exchange rate movements on earnings

The financial results of our International Insurance, Retirement and Asset Management segments reflect the impact of intercompany arrangements with our Corporate and Other operations pursuant to which certain of these segments' non-U.S. dollar-denominated earnings are translated at fixed currency exchange rates. Results of our Corporate and Other operations include any differences between the translation adjustments recorded by the segments at the fixed currency exchange rate versus the actual average rate during the period. In addition, specific to our International Insurance segment where we hedge certain currencies, as further discussed below, the results of our Corporate and Other operations also include the impact of any gains or losses recorded from the forward currency contracts that settled during the period, which include the impact of any over or under hedging of actual earnings that differ from projected earnings.

For International Insurance, the fixed currency exchange rates are generally determined in connection with a foreign currency income hedging program designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. Pursuant to this program, our Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings for certain currencies in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods (typically on a three-year rolling basis) in which the identified non-U.S. dollar-denominated earnings are expected to be generated. In establishing the level of non-U.S. dollar-denominated earnings that will be hedged through this program, we exclude the anticipated level of U.S. dollar-denominated earnings that will be generated by U.S. dollar-denominated products and investments. For the nine months ended September 30, 2017, approximately 25% of the segment's earnings were yen-based and, as of September 30, 2017, we have hedged 100% of expected yen-based earnings for 2017 and 99%, 62% and 15% of expected yen-based earnings for 2018, 2019 and 2020, respectively. To the extent currently unhedged, our International Insurance segment's future expected U.S. dollar-equivalent of yen-based earnings will be impacted by yen exchange rate movements.

As a result of these intercompany arrangements, our International Insurance segment's results for 2017 and 2016 reflect the impact of translating yen-denominated earnings at fixed currency exchange rates of 112 and 106 yen per U.S. dollar, respectively, and Korean won-denominated earnings at fixed currency exchange rates of 1130 and 1100 Korean won per U.S. dollar, respectively. We expect our 2018 results to reflect the impact of translating yen-denominated earnings at a fixed currency exchange rate of 111 yen per U.S. dollar and Korean won-denominated earnings at a fixed currency exchange rate of 1150 won per U.S. dollar. Since determination of the fixed currency exchange rates for a given year is impacted by changes in foreign currency exchange rates over time, the segment's future earnings will ultimately be impacted by these changes in exchange rates.

For Retirement, Asset Management and certain currencies within International Insurance, the fixed currency exchange rates for the current year are predetermined during the third quarter of the prior year using forward currency exchange rates.

The table below presents, for the periods indicated, the increase (decrease) to revenues and adjusted operating income for the International Insurance, Retirement and Asset Management segments and for Corporate and Other operations, reflecting the impact of these intercompany arrangements.

Three	Nine
Months	Months
Ended	Ended
September	September
30,	30,



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	2017	2016	2017	2016
	(in millions)			
Segment impacts of intercompany arrangements:				
International Insurance	\$(1)	\$(12)	\$2	\$23
Retirement	0	2	2	5
Asset Management	0	1	1	3
Impact of intercompany arrangements(1)	(1 )	(9 )	5	31
Corporate and Other operations:				
Impact of intercompany arrangements(1)	1	9	(5 )	(31 )
Settlement gains (losses) on forward currency contracts(2)	(6 )	(11 )	(4 )	32
Net benefit (detriment) to Corporate and Other operations	(5 )	(2 )	(9 )	1
Net impact on consolidated revenues and adjusted operating income	\$(6)	\$(11)	\$(4)	\$32

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 Represents the difference between non-U.S. dollar-denominated earnings translated on the basis of actual weighted (1) average monthly currency exchange rates versus fixed currency exchange rates determined in connection with the foreign currency income hedging program.

## Table of Contents

As of September 30, 2017 and 2016, the notional amount of these forward currency contracts within our Corporate (2) and Other operations were \$2.8 billion and \$2.7 billion, respectively, of which \$1.6 billion and \$1.6 billion, respectively, were related to our Japanese insurance operations.

### Impact of products denominated in non-local currencies on U.S. GAAP earnings

While our international insurance operations offer products denominated in local currency, several also offer products denominated in non-local currencies, most notably our Japanese operations, which offer U.S. and Australian dollar-denominated products. The non-local currency-denominated insurance liabilities related to these products are supported by investments denominated in corresponding currencies, including a significant portion designated as available-for-sale. While the impact from foreign currency exchange rate movements on these non-local currency-denominated assets and liabilities is economically matched, differences in the accounting for changes in the value of these assets and liabilities due to changes in foreign currency exchange rate movements have historically resulted in volatility in U.S. GAAP earnings.

In the first quarter of 2015, we implemented a structure in Gibraltar Life that disaggregated the U.S. and Australian dollar-denominated businesses into separate divisions, each with its own functional currency that aligns with the underlying products and investments. For the U.S. and Australian dollar-denominated assets that were transferred under this structure, the net cumulative unrealized investment gains associated with foreign exchange remeasurement that were recorded in “Accumulated other comprehensive income (loss)” (“AOCI”) totaled \$4.0 billion and \$4.4 billion as of September 30, 2017 and December 31, 2016, respectively, and will be recognized in earnings within “Realized investment gains (losses), net” over time as these assets mature or are sold. Absent the sale of any of these assets prior to their stated maturity, approximately 3% of the \$4.0 billion balance as of September 30, 2017 will be recognized throughout the remainder of 2017, approximately 7% will be recognized in 2018, and a majority of the remaining balance will be recognized from 2019 through 2024.

### Accounting Policies & Pronouncements

#### Application of Critical Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires the application of accounting policies that often involve a significant degree of judgment. Management reviews estimates and assumptions used in the preparation of financial statements on an ongoing basis. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, the Company’s results of operations and financial position as reported in the Unaudited Interim Consolidated Financial Statements could change significantly.

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions and require management’s most difficult, subjective, or complex judgments:

- DAC and other costs, including deferred sales inducements (“DSI”) and VOBA;
- Goodwill;
- Valuation of investments, including derivatives, and the recognition of other-than-temporary impairments (“OTTI”);
- Policyholder liabilities;
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

#### DAC and Other Costs

The near-term future equity rate of return assumption used in evaluating DAC and other costs for our domestic variable annuity and variable life insurance products is derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider historical equity returns and adjust projected equity returns over an initial future period of five years (the “near-term”) so that equity returns converge to the long-term expected rate of return. If the near-term projected future rate of return is greater than our near-term maximum future rate of return of 15%, we use our maximum future rate of return. As of September 30, 2017, our variable annuities and variable life insurance businesses assume an 8.0% long-term equity expected rate of return and a 4.2% near-term mean reversion equity rate of return.

Table of Contents

The weighted average rate of return assumptions consider many factors specific to each business, including asset durations, asset allocations and other factors. We generally update the near-term equity rates of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach. We generally update the future interest rates used to project fixed income returns annually and in any quarter when interest rates vary significantly from these assumptions. As a result of our 2017 annual reviews and update of assumptions and other refinements, we reduced our long-term expectation of the 10-year U.S. Treasury rate by 25 basis points and now grade to 3.75% over ten years and in Japan we reduced the long-term expected return by 40 basis points on Japanese government bonds and now grade to 1.5% over ten years. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods' gross profits.

## Accounting for Certain Reinsurance Contracts in our Individual Life business

During the second quarter of 2017, we recognized a charge of \$237 million in our Individual Life segment, reflecting a change in our estimate of reinsurance cash flows associated with universal life products as well as a change in our method of reflecting these cash flows in the financial statements. Under our previous method of accounting, with the exception of recoveries pertaining to no lapse guarantees, we generally recognized reinsurance cash flows (e.g., premiums and recoveries) as they occurred. Under our new method, the expected reinsurance cash flows are recognized more ratably over the life of the underlying reinsured policies. In conjunction with this change, we revised how reinsurance is reflected in estimated gross profits used for the amortization of unearned revenue reserves, DAC and VOBA. The change represents a change in accounting estimate effected by a change in accounting principle and is included within our annual reviews and update of assumptions and other refinements. The change in accounting estimate reflected insights gained from revised cashflow modeling enabled by a systems conversion, which prompted the change to a preferable accounting method. We view this new methodology as preferable as we believe it better reflects the economics of our reinsurance transactions by aligning the results of our reinsurance activity more closely to the underlying direct insurance activity and by better reflecting the profit pattern of this business for purposes of the amortization of the balances noted above.

## Adoption of New Accounting Pronouncements

See Note 2 to our Unaudited Interim Consolidated Financial Statements for a discussion of newly adopted accounting pronouncements and accounting pronouncements issued but not yet adopted.

## Results of Operations by Segment

## U.S. Retirement Solutions and Investment Management Division

## Individual Annuities

## Operating Results

The following table sets forth the Individual Annuities segment's operating results for the periods indicated.

Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2017	2016
(in millions)			

Operating results:

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Revenues	\$1,304	\$1,221	\$3,825	\$3,473
Benefits and expenses	727	633	2,168	2,130
Adjusted operating income	577	588	1,657	1,343
Realized investment gains (losses), net, and related adjustments	1,260	9	(472 )	3,201
Related charges	(247 )	505	512	(371 )
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$1,590	\$1,102	\$1,697	\$4,173

Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$11 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased \$80 million. The increase was

## Table of Contents

primarily driven by higher asset-based fee income, net of associated costs, as well as lower amortization costs and reserve provisions, partially offset by lower net investment spread results. The increase in asset-based fee income, net of a related increase in asset-based commissions, reflects the impact of greater efficiencies in managing product risks associated with the asset-liability management strategy that was implemented in the third quarter of 2016, as discussed under “—Asset Liability Management (“ALM”) Strategy” below, as well as higher average variable annuity account values due to market appreciation. The decrease in net investment spread results reflects lower investment income on non-coupon investments, partially offset by a higher level of invested assets.

The impacts of changes in the estimated profitability of the business include adjustments to the amortization of DAC and other costs as well as to the reserves for certain living and/or death benefit features of our variable annuity products. These adjustments resulted in a net benefit of \$48 million and \$139 million in the third quarter of 2017 and 2016, respectively. The net benefit in the third quarter of 2017 primarily reflected the favorable net impact of equity market performance on contractholder accounts and our hedge effectiveness relative to our assumptions. The net benefit in the third quarter of 2016 primarily reflected the favorable net impact of equity market performance on contractholder accounts relative to our assumptions and fund performance relative to indices.

Nine Month Comparison. Adjusted operating income increased \$314 million. Excluding the impacts of changes in the estimated profitability of the business, discussed below, adjusted operating income increased \$285 million. The increase was primarily driven by higher asset-based fee income, net of associated costs, higher net investment spread results and lower amortization costs and reserve provisions. The increase in asset-based fee income, net of a related increase in asset-based commissions, reflects higher average variable annuity account values due to market appreciation as well as the impact of greater efficiencies in managing product risks associated with the ALM strategy that was implemented in the third quarter of 2016. The increase in net investment spread results reflects higher investment income on non-coupon investments as well as a higher level of invested assets.

Adjustments to the amortization of DAC and other costs as well as to the reserves for certain living and/or death benefit features of our variable annuity products resulted in a net benefit of \$167 million and \$138 million in the first nine months of 2017 and 2016, respectively. The net benefit in the first nine months of 2017 primarily reflects the favorable net impact of equity market performance on contractholder accounts and our hedge effectiveness relative to our assumptions, as well as a net benefit resulting from our annual reviews and update of assumptions on other refinements. The net benefit in the first nine months of 2016 primarily reflected the favorable net impact of equity market performance on contractholder accounts relative to our assumptions and a net benefit resulting from our annual reviews and update of assumptions and other refinements.

## Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$83 million. Excluding a \$23 million net increase related to the impacts of certain changes in our estimated profitability of the business, as discussed above, revenues increased \$60 million. Higher average variable annuity account values and the impact from refinements to our risk management strategy drove increases in policy charges and fee income, and asset management and service fees and other income.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$94 million. Excluding a \$114 million net increase related to the impacts of certain changes in our estimated profitability of the business, as discussed above, benefits and expenses decreased \$20 million, driven by a decrease in policyholders’ benefits, including changes in reserves.

Nine Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$352 million. Excluding a \$75 million net increase related to the impacts of certain changes in our estimated profitability of the

business, as discussed above, revenues increased \$277 million. Higher average variable annuity account values and the impact from refinements to our risk management strategy drove increases in policy charges and fee income, and asset management and service fees and other income. The increase in net investment income was driven by higher income from non-coupon investments and a higher level of invested assets.

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$38 million. Excluding a \$46 million net increase related to the impacts of certain changes in our estimated profitability of the business, as discussed above, benefits and expenses decreased \$8 million. Higher general and administrative expenses, net of capitalization, were primarily driven by higher asset management costs and higher asset-based commissions due to higher average account values, as well as from higher net operating expenses, including those supporting business growth initiatives. Amortization of DAC increased, driven by higher fee income. Partially offsetting these increases was a decrease in policyholders’ benefits, including changes in reserves.

Table of Contents

## Account Values

Account values are a significant driver of our operating results. Since most fees are determined by the level of separate account assets, fee income varies according to the level of account values. Additionally, fee income can be impacted by fee rate structures within certain products that contain predetermined fee rate changes over the life of the contract or by the mix of sales reflecting the varying fee rate structures within our product lines. Our fee income generally drives other items such as the pattern of amortization of DAC and other costs. Account values are driven by net flows from new business sales, surrenders, withdrawals and benefit payments, the impact of market value changes, which can be either positive or negative, and policy charges. The annuity industry's competitive and regulatory landscapes, which have been dynamic over the last few years, have impacted, and may continue to impact, our net flows, including new business sales. The following table sets forth account value information for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30, 2017
	2017	2016	2017	2016	
	(in millions)				
Total Individual Annuities(1):					
Beginning total account value	\$ 162,694	\$ 154,677	\$ 156,783	\$ 152,945	\$ 158,388
Sales	1,329	2,100	4,276	6,398	5,932
Surrenders and withdrawals	(2,309 )	(2,013 )	(7,069 )	(5,732 )	(9,218 )
Net sales	(980 )	87	(2,793 )	666	(3,286 )
Benefit payments	(431 )	(440 )	(1,401 )	(1,372 )	(1,823 )
Net flows	(1,411 )	(353 )	(4,194 )	(706 )	(5,109 )
Change in market value, interest credited and other activity	5,253	4,973	15,778	8,801	15,989
Policy charges	(936 )	(909 )	(2,767 )	(2,652 )	(3,668 )
Ending total account value	\$ 165,600	\$ 158,388	\$ 165,600	\$ 158,388	\$ 165,600

(1) Includes variable and fixed annuities sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment. Variable annuity account values were \$162.1 billion and \$154.9 billion as of September 30, 2017 and 2016, respectively. Fixed annuity account values were \$3.5 billion as of both September 30, 2017 and 2016.

Net sales, for both the three and nine months ended September 30, 2017, decreased in comparison to the prior year periods, reflecting higher surrenders and withdrawals and lower gross sales. The decline in gross sales for both periods was largely driven by the continued impact stemming from the evolving DOL fiduciary rules.

The increase in account values for the twelve months ended September 30, 2017, was largely driven by favorable changes in the market value of contractholder funds, partially offset by unfavorable changes in contract charges on contractholder accounts, net sales and benefit payments.

## Variable Annuity Risks and Risk Mitigants

The following is a summary of: (i) the risks associated with Individual Annuities' products; (ii) our strategies in mitigating those risks, including any updates to those strategies since the previous year end; and (iii) the related financial results. For a more detailed description of these items and their related accounting treatment, refer to the complete descriptions provided in our Annual Report on Form 10-K for the year ended December 31, 2016.



The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including capital markets assumptions such as equity market returns, interest rates and market volatility, along with actuarial assumptions such as contractholder mortality, the timing and amount of annuitization and withdrawals, and contract lapses. For these risk exposures, achievement of our expected earnings and profitability is subject to the risk that actual experience will differ from the assumptions used in the original pricing of these products. We currently manage our exposure to certain risks driven by capital markets fluctuations primarily through a combination of Product Design Features, an Asset Liability Management Strategy and External Reinsurance.

#### Product Design Features

Table of Contents

A portion of the variable annuity contracts that we offer include an automatic rebalancing feature, also referred to as an asset transfer feature. This feature is implemented at the contract level, and transfers assets between certain variable investment sub-accounts selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond fund sub-account within the separate accounts. The objective of the automatic rebalancing feature is to reduce our exposure to equity market risk and market volatility. Other product design features we utilize include, among others, asset allocation restrictions, minimum issuance age requirements and certain limitations on the amount of contractholder deposits, as well as a required minimum allocation to our general account for certain of our products. We have also introduced products that diversify our risk profile and have incorporated provisions in product design allowing frequent revisions of key pricing elements for certain of our products. In addition, there is diversity in our fee arrangements, as certain fees are primarily based on the benefit guarantee amount, the contractholder account value and/or premiums, which helps preserve certain revenue streams when market fluctuations cause account values to decline.

## Asset Liability Management (“ALM”) Strategy (including fixed income instruments and derivatives)

Our current ALM strategy utilizes a combination of both traditional fixed income instruments and derivatives to defray potential claims associated with our variable annuity living benefit guarantees. The economic liability we manage with this ALM strategy consists of expected living benefit claims under less severe market conditions, which are managed through the accumulation of fixed income instruments, and potential living benefit claims resulting from more severe market conditions, which are hedged using derivative instruments. For the portion of our ALM strategy executed with derivatives, we enter into a range of exchange-traded, cleared, and over-the-counter (“OTC”) equity and interest rate derivatives, including, but not limited to: equity and treasury futures; total return and interest rate swaps; and options including equity options, swaptions, and floors and caps.

The valuation of the economic liability we seek to defray excludes certain items that are included within the U.S. GAAP liability, such as non-performance risk (“NPR”) (in order to maximize protection irrespective of the possibility of our own default), as well as risk margins (required by U.S. GAAP but different from our best estimate) and valuation methodology differences. The following table provides a reconciliation between the liability reported under U.S. GAAP and the economic liability we intend to manage through our ALM strategy.

	As of September 30, 2017	As of December 31, 2016
	(in millions)	
U.S. GAAP liability (including non-performance risk)	\$8,481	\$ 8,179
Non-performance risk adjustment	3,995	7,136
Subtotal	12,476	15,315
Adjustments including risk margins and valuation methodology differences	(3,038 )	(5,663 )
Economic liability managed through the ALM strategy	\$9,438	\$ 9,652

As of September 30, 2017, our fixed income instruments and derivative assets exceed the economic liability within the entities in which the risks reside.

The following table illustrates the net impact of changes in the U.S. GAAP embedded derivative liability and hedge positions, and the related amortization of DAC and other costs, for the periods indicated.

Table of Contents

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
	(1)			
	(in millions)			
Excluding impact of assumption updates and other refinements:				
Net hedging impact(2)(3)	\$96	\$(160)	\$497	\$(511)
Change in portions of U.S. GAAP liability, before NPR(4)	2,012	385	2,304	(851)
Change in the NPR adjustment	(883)	(165)	(3,136)	3,052
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions—reported in Individual Annuities	1,225	60	(335)	1,690
Related benefit (charge) to amortization of DAC and other costs	(277)	515	68	(205)
Net impact of assumption updates and other refinements	0	0	(85)	1,455
Net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs—reported in Individual Annuities(3)	\$948	\$575	\$(352)	\$2,940

(1) Positive amount represents income; negative amount represents a loss.

(2) Net hedging impact represents the difference between the change in fair value of the risk we seek to hedge using derivatives and the change in fair value of the derivatives utilized with respect to that risk.

Excludes \$0 million and \$(31) million for the three months ended September 30, 2017 and 2016, respectively, and \$0 million and \$(1,523) million for the nine months ended September 30, 2017 and 2016, respectively,

(3) representing the impact of managing interest rate risk through capital management strategies other than hedging of particular exposures. Because this decision was based on the capital considerations of the Company as a whole, the impact was reported in Corporate and Other operations. See “—Corporate and Other.”

(4) Represents risk margins and valuation methodology differences between the economic liability managed by the ALM strategy and the U.S. GAAP liability, as well as the portion of the economic liability managed with fixed income instruments. These fixed income instruments are designated as available-for-sale; therefore, changes in fair value are not reported in the Unaudited Interim Consolidated Statements of Operations but rather through “Other comprehensive income (loss), before tax” in the Unaudited Interim Consolidated Statements of Comprehensive Income.

For the three months ended September 30, 2017, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impact of NPR, DAC and other costs, was a benefit of \$948 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net benefit of \$1,225 million, predominantly as a result of widening credit spreads used in measuring our living benefit contracts. Partial offsets are included in the \$277 million of related charges to amortization of DAC and other costs. For the nine months ended September 30, 2017, the net impact from changes in the U.S. GAAP embedded derivative and hedge positions, after the impacts of NPR, DAC and other costs, was a charge of \$352 million. The net impact from changes in the U.S. GAAP embedded derivative and hedge positions resulted in a net charge of \$335 million, predominantly as a result of tightening credit spreads used in measuring our living benefit contracts.

The net benefit of \$575 million for the three months ended September 30, 2016, was primarily driven by the amortization of DAC and other costs, which included a benefit of \$515 million related to changes in our estimate of total gross profits as a result of the ALM strategy implemented in the third quarter of 2016. The net benefit of \$2,940 million for the nine months ended September 30, 2016, included a benefit of \$1,690 million primarily driven by the impact of declining interest rates which, in turn, drove increases in the base embedded derivative liability before NPR, with corresponding increases in the NPR adjustment. The net benefit of \$1,455 million from the impact of assumption

updates and other refinements resulted from our annual review and update of assumptions, primarily driven by modifications to our actuarial assumptions and other refinements, including updates to expected withdrawal rates, as well as economic assumptions.

For information regarding the Capital Protection Framework we use to evaluate and support the risks of the ALM strategy, see “—Liquidity and Capital Resources—Capital.”

Through March 31, 2016, we reinsured living benefit guarantees issued by our domestic statutory life insurance companies to a captive reinsurance company, Pruco Reinsurance, Ltd. (“Pruco Re”), in order to facilitate the capital markets hedging program for these living benefit guarantees. Effective April 1, 2016, living benefit guarantees and certain retirement products were recaptured by certain of our domestic statutory life insurance companies. The ALM strategy described above is executed within these domestic insurance companies. After the foregoing transactions, Pruco Re no longer had any material active reinsurance with affiliates. On September 30, 2016, Pruco Re was merged with and into Prudential Annuities Life Assurance Corporation (“PALAC”).

External Reinsurance

Table of Contents

Between April 1, 2015 and December 31, 2016, we reinsured approximately 50% of the new business related to “highest daily” living benefits rider guarantees on our Highest Daily Lifetime Income (“HDI”) v.3.0 product to Union Hamilton Reinsurance, Ltd. (“Union Hamilton”), an external counterparty. During that time period, we ceded approximately \$2.9 billion of new rider premiums to Union Hamilton under this agreement. This reinsurance remains in force for the duration of the underlying annuity contracts.

## Product Specific Risks and Risk Mitigants

As noted above, the risks associated with our products are mitigated through product design features, including automatic rebalancing, as well as through our ALM strategy and external reinsurance. The following table sets forth the risk management profile of our living benefit guarantees and guaranteed minimum death benefit (“GMDB”) features as of the periods indicated.

	September 30, 2017		December 31, 2016		September 30, 2016	
	Account Value	% of Total	Account Value	% of Total	Account Value	% of Total
	(in millions)					
Living benefit/GMDB features(1):						
Both ALM strategy and automatic rebalancing(2)	\$ 112,650	69 %	\$ 106,585	69 %	\$ 107,950	70 %
ALM strategy only	9,324	6 %	9,409	6 %	9,662	6 %
Automatic rebalancing only	1,040	1 %	1,168	1 %	1,225	1 %
External reinsurance(3)	3,153	2 %	2,932	2 %	2,629	1 %
PDI	9,464	5 %	7,926	5 %	7,845	5 %
Other products	2,772	2 %	2,730	2 %	2,780	2 %
Total living benefit/GMDB features	\$ 138,403		\$ 130,750		\$ 132,091	
GMDB features and other(4)	23,704	15 %	22,545	15 %	22,812	15 %
Total variable annuity account value	\$ 162,107		\$ 153,295		\$ 154,903	

(1) All contracts with living benefit guarantees also contain GMDB features, which cover the same insured contract.

(2) Contracts with living benefits that are included in the ALM strategy and have an automatic rebalancing feature.

Represents contracts subject to a reinsurance transaction with an external counterparty that covered most new HDI (3) business from April 1, 2015 through December 31, 2016. These contracts with living benefits also have an automatic rebalancing feature.

(4) Includes contracts that have a GMDB feature and do not have an automatic rebalancing feature.

Table of Contents

## Retirement

## Operating Results

The following table sets forth the Retirement segment's operating results for the periods indicated.

	Three Months Ended September 30, 2017 2016		Nine Months Ended September 30, 2017 2016	
	(in millions)			
Operating results(1):				
Revenues	\$3,259	\$5,134	\$8,803	\$9,268
Benefits and expenses	3,011	4,895	7,850	8,574
Adjusted operating income	248	239	953	694
Realized investment gains (losses), net, and related adjustments	(109 )	(23 )	(42 )	174
Related charges	3	(30 )	1	(280 )
Investment gains (losses) on trading account assets supporting insurance liabilities, net	29	14	219	516
Change in experience-rated contractholder liabilities due to asset value changes	25	24	(77 )	(417 )
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1 )	0	0	0
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$195	\$224	\$1,054	\$687

(1) Certain of our Retirement segment's non-U.S. dollar-denominated earnings are from longevity reinsurance contracts, which are denominated in British pounds sterling, and are therefore subject to foreign currency exchange rate risk. The financial results of our Retirement segment include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

## Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$9 million, primarily driven by lower general and administrative expenses, net of capitalization, and a higher contribution from reserve experience, partially offset by lower net investment spread results. The decrease in general and administrative expenses, net of capitalization, was primarily driven by the absence of certain legal costs incurred in the prior year period. The higher contribution from reserve experience primarily reflected higher mortality gains on a comparative basis for pension risk transfer contracts. The decrease in net investment spread results primarily reflected lower income on non-coupon investments, lower net prepayment fee income and spread compression on full service account values.

Nine Month Comparison. Adjusted operating income increased \$259 million. Results for 2017 and 2016 reflected a net charge of \$20 million and a net benefit of \$6 million, respectively, from our annual reviews and update of assumptions and other refinements. Excluding these impacts, adjusted operating income increased \$285 million, primarily driven by higher net investment spread results, a higher contribution from reserve experience, lower general and administrative expenses, net of capitalization, and higher fee income. The increase in net investment spread results primarily reflected higher income on non-coupon investments and higher invested assets, partially offset by spread compression on full service account values. The higher contribution from reserve experience primarily

reflected higher mortality gains on a comparative basis for pension risk transfer contracts and structured settlement cases in the current year period. The decrease in general and administrative expenses, net of capitalization, was primarily driven by the absence of certain legal costs incurred in the prior year period. Higher fee income primarily reflected growth in average account values as well as an increase in per participant fee charges, partially offset by lower margins on full service account values.

Table of Contents

## Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$1,875 million. Premiums decreased \$1,832 million, primarily driven by more significant pension risk transfer transactions in the prior year period. This decrease in premiums resulted in a corresponding decrease in policyholders’ benefits, as discussed below. Net investment income decreased \$43 million, primarily reflecting lower prepayment fee income, lower income on non-coupon investments and spread compression on full service account values.

Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$1,884 million. Policyholders’ benefits, including the change in policy reserves, decreased \$1,827 million, primarily related to the decrease in premiums discussed above. General and administrative expenses, net of capitalization, decreased \$32 million, primarily driven by the absence of certain legal costs incurred in the prior year period. Interest credited to policyholders’ account balances decreased \$20 million, primarily driven by lower prepayment fee income credited to experienced rated account balances, as discussed above.

Nine Month Comparison. Revenues decreased \$465 million. Premiums decreased \$700 million, primarily driven by more significant structured settlement and pension risk transfer transactions in the prior year period. This decrease in premiums resulted in a corresponding decrease in policyholders’ benefits, as discussed below. Net investment income increased \$180 million, primarily reflecting higher income on non-coupon investments and higher invested assets, partially offset by lower reinvestment rates. Policy charges and fee income, asset management and service fees and other income increased \$55 million, primarily driven by higher fee income from growth in average account values as well as an increase in per participant fee charges, partially offset by lower margins on full service account values.

Benefits and expenses decreased \$724 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses decreased \$750 million. Policyholders’ benefits, including the change in policy reserves, decreased \$726 million, primarily related to the decrease in premiums discussed above. General and administrative expenses, net of capitalization, decreased \$26 million, primarily driven by the absence of certain legal costs incurred in the prior year period.

## Account Values

Account values are a significant driver of our operating results, and are primarily driven by net additions (withdrawals) and the impact of market changes. The income we earn on most of our fee-based products varies with the level of fee-based account values, since many policy fees are determined by these values. The investment income and interest we credit to policyholders on our spread-based products varies with the level of general account values. To a lesser extent, changes in account values impact our pattern of amortization of DAC and VOBA and general and administrative expenses. The following table shows the changes in the account values and net additions (withdrawals) of Retirement segment products for the periods indicated. Net additions (withdrawals) are plan sales and participant deposits or additions, as applicable, minus plan and participant withdrawals and benefits. Account values include both internally- and externally-managed client balances as the total balances drive revenue for the Retirement segment. For more information on internally-managed balances, see “—Asset Management.”



Table of Contents

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30, 2017
	2017	2016	2017	2016	
(in millions)					
<b>Full Service:</b>					
Beginning total account value	\$214,731	\$194,007	\$202,802	\$188,961	\$200,476
Deposits and sales	11,188	5,405	22,695	16,760	27,863
Withdrawals and benefits	(5,132 )	(5,013 )	(17,608 )	(14,812 )	(22,923 )
Change in market value, interest credited and interest income and other activity	6,651	6,077	19,549	9,567	22,022
Ending total account value	\$227,438	\$200,476	\$227,438	\$200,476	\$227,438
Net additions (withdrawals)	\$6,056	\$392	\$5,087	\$1,948	\$4,940
<b>Institutional Investment Products:</b>					
Beginning total account value	\$186,610	\$180,882	\$183,376	\$179,964	\$186,224
Additions(1)	4,764	6,907	11,363	12,389	15,114
Withdrawals and benefits	(3,552 )	(2,339 )	(11,964 )	(8,241 )	(15,884 )
Change in market value, interest credited and interest income	1,341	1,953	4,243	6,204	3,338
Other(2)	(764 )	(1,179 )	1,381	(4,092 )	(393 )
Ending total account value	\$188,399	\$186,224	\$188,399	\$186,224	\$188,399
Net additions (withdrawals)	\$1,212	\$4,568	\$(601 )	\$4,148	\$(770 )

Additions primarily include: group annuities calculated based on premiums received; longevity reinsurance (1) contracts calculated as the present value of future projected benefits; and investment-only stable value contracts calculated as the fair value of customers' funds held in a client-owned trust.

"Other" activity includes the effect of foreign exchange rate changes associated with our United Kingdom longevity reinsurance business and changes in asset balances for externally-managed accounts. For the three and nine months (2) ended September 30, 2017, "other" activity also includes \$1,295 million in receipts offset by \$1,185 million in payments and \$4,216 million in receipts offset by \$3,814 million in payments, respectively, related to funding agreements backed by commercial paper which typically have maturities of less than 90 days.

The increase in full service account values for the twelve months ended September 30, 2017, primarily reflected the favorable changes in the market value of customer funds and net additions from a significant defined contribution transaction in the current year period. The increase in net additions for the three months ended September 30, 2017, compared to the prior year period, were primarily driven by large plan sales, including a significant defined contribution transaction in the current year period. The increase in net additions for the nine months ended September 30, 2017, compared to the prior year period, were primarily driven by higher large plan sales, partially offset by higher large plan lapses.

The increase in institutional investment products account values for the twelve months ended September 30, 2017, primarily reflected increases in the market value of customer funds and the impact from foreign currency fluctuations on longevity reinsurance account values. These increases were partially offset by net withdrawals primarily from investment-only stable value accounts. The decrease in net additions for the three months ended September 30, 2017, compared to the prior year period, was primarily driven by net withdrawals from investment-only stable value accounts in the current year period compared to net additions in the prior year period as well as lower net additions from pension risk transfer transactions. The net withdrawals for the nine months ended September 30, 2017, compared

to net additions for the prior year period, were primarily driven by net withdrawals from investment-only stable value accounts in the current year period compared to net additions in the prior year period.

Table of Contents

## Asset Management

## Operating Results

The following table sets forth the Asset Management segment's operating results for the periods indicated.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Operating results(1):				
Revenues	\$827	\$750	\$2,370	\$2,188
Expenses	568	559	1,697	1,625
Adjusted operating income	259	191	673	563
Realized investment gains (losses), net, and related adjustments	(2 )	(5 )	(2 )	2
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(1 )	3	(1 )	39
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$256	\$189	\$670	\$604

(1) Certain of our Asset Management segment's investment activities are based in currencies other than the U.S. dollar and are therefore subject to foreign currency exchange rate risk. The financial results of our Asset Management segment include the impact of an intercompany arrangement with our Corporate and Other operations designed to mitigate the impact of exchange rate changes on the segment's U.S. dollar-equivalent earnings. For more information related to this intercompany arrangement, see "—Results of Operations—Impact of Foreign Currency Exchange Rates," above.

## Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$68 million. The increase primarily reflected higher asset management fees, net of related expenses, driven by an increase in average assets under management as a result of net fixed income inflows and equity market appreciation partially offset by net equity outflows. Also contributing to the increase were higher other related revenues, net of associated expenses, primarily reflecting higher strategic investing results, driven by favorable investment performance and portfolio growth, and an increase in commercial mortgage agency loan originations.

Nine Month Comparison. Adjusted operating income increased \$110 million. The increase primarily reflected higher asset management fees, net of related expenses, driven by an increase in average assets under management as a result of net fixed income inflows, market appreciation, and a favorable fee rate modification within certain real estate funds that occurred in the third quarter of 2016. This increase was partially offset by the impact of a change in the timing of expense recognition related to certain long-term compensation plans, which is discussed further in "—Corporate and Other," below. Also contributing to the increase were higher other related revenues, net of associated expenses, reflecting higher strategic investing results, driven by favorable investment performance, and an increase in commercial mortgage agency loan originations.

## Revenues and Expenses

The following table sets forth the Asset Management segment's revenues, presented on a basis consistent with the table above under "—Operating Results," by type.

103

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Table of Contents

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2016	2017	2016	2016
(in millions)				
Revenues by type:				
Asset management fees by source:				
Institutional customers	\$296	\$273	\$850	\$771
Retail customers(1)	203	182	582	524
General account	120	122	354	353
Total asset management fees	619	577	1,786	1,648
Other related revenues by source:				
Incentive fees	6	10	20	75
Transaction fees	4	5	20	16
Strategic investing	34	10	77	29
Commercial mortgage(2)	39	27	93	70
Total other related revenues(3)	83	52	210	190
Service, distribution and other revenues(4)	125	121	374	350
Total revenues	\$827	\$750	\$2,370	\$2,188

(1) Consists of fees from: individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Revenues from fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

(2) Includes mortgage origination and spread lending revenues from our commercial mortgage origination and servicing business.

(3) Future revenues will be impacted by the level and diversification of our strategic investments, the commercial real estate market, and other domestic and international markets.

(4) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004, implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the

(4) Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was \$19 million and \$21 million for the three months ended September 30, 2017 and 2016, respectively, and \$61 million and \$62 million for the nine months ended September 30, 2017 and 2016, respectively.

Three Month Comparison. Revenues, as shown in the table above, increased \$77 million. Total asset management fees increased \$42 million, primarily as a result of net inflows within fixed income and equity market appreciation. Other related revenues increased \$31 million reflecting higher strategic investing results, driven by favorable investment performance, and an increase in commercial mortgage agency loan originations.

Expenses, as shown in the table above under “—Operating Results,” increased \$9 million, reflecting higher compensation attributable to higher earnings, in addition to an increase in non-compensation related expenses.

Nine Month Comparison. Revenues increased \$182 million. Total asset management fees increased \$138 million, primarily as a result of net inflows within fixed income, market appreciation, and the impact of a favorable fee rate modification within certain real estate funds. Service, distribution and other revenues increased \$24 million reflecting

higher net investment income and other revenue related to certain consolidated funds. Other related revenues increased \$20 million, primarily due to higher strategic investing results, driven by favorable investment performance, and an increase in commercial mortgage agency loan originations, partially offset by a decrease in gross performance-based incentive fees primarily related to certain fixed income funds.

Expenses increased \$72 million, primarily reflecting higher compensation attributable to higher earnings, in addition to an increase in non-compensation related expenses and the impact of a change in the timing of expense recognition related to certain long-term compensation plans, as noted above and discussed further in “—Corporate and Other,” below.

#### Assets Under Management

The following table sets forth assets under management by asset class and source as of the dates indicated.

Table of Contents

	September 30, 2017	December 31, 2016	September 30, 2016
(in billions)			
Assets Under Management (at fair value):			
Institutional customers:			
Equity	\$65.1	\$59.3	\$59.6
Fixed income	370.1	332.2	345.7
Real estate	43.1	40.0	40.6
Institutional customers(1)	478.3	431.5	445.9
Retail customers:			
Equity	127.9	112.4	116.2
Fixed income	110.3	94.5	90.6
Real estate	1.7	2.3	2.2
Retail customers(2)	239.9	209.2	209.0
General account:			
Equity	6.2	6.4	6.4
Fixed income	407.6	391.3	422.2
Real estate	1.9	1.7	1.7
General account	415.7	399.4	430.3
Total assets under management	\$1,133.9	\$1,040.1	\$1,085.2

(1) Consists of third-party institutional assets and group insurance contracts.

(2) Consists of individual mutual funds and variable annuities and variable life insurance separate account assets; funds invested in proprietary mutual funds through our defined contribution plan products; and third-party sub-advisory relationships. Fixed annuities and the fixed-rate accounts of variable annuities and variable life insurance are included in the general account.

Table of Contents

The following table sets forth the component changes in assets under management by asset source for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,
	2017	2016	2017	2016	2017
	(in billions)				
<b>Institutional Customers:</b>					
Beginning assets under management	\$461.2	\$418.8	\$431.5	\$389.1	\$ 445.9
Net additions (withdrawals), excluding money market activity:					
Third-party	4.7	3.4	11.7	2.8	14.2
Third-party via affiliates(1)	0.0	0.0	(0.8 )	1.1	(1.1 )
Total	4.7	3.4	10.9	3.9	13.1
Market appreciation (depreciation)(3)	10.2	9.5	33.0	35.6	21.6
Other increases (decreases)(2)	2.2	14.2	2.9	17.3	(2.3 )
Ending assets under management	\$478.3	\$445.9	\$478.3	\$445.9	\$ 478.3
<b>Retail Customers:</b>					
Beginning assets under management	\$231.2	\$202.1	\$209.2	\$197.3	\$ 209.0
Net additions (withdrawals), excluding money market activity:					
Third-party	1.3	0.9	2.6	2.0	1.0
Third-party via affiliates(1)	(1.5 )	(1.7 )	2.3	(1.8 )	3.6
Total	(0.2 )	(0.8 )	4.9	0.2	4.6
Market appreciation (depreciation)(3)	9.3	7.7	26.2	10.7	24.6
Other increases (decreases)(2)	(0.4 )	0.0	(0.4 )	0.8	1.7
Ending assets under management	\$239.9	\$209.0	\$239.9	\$209.0	\$ 239.9
<b>General Account:</b>					
Beginning assets under management	\$412.3	\$426.3	\$399.4	\$376.7	\$ 430.3
Net additions (withdrawals), excluding money market activity:					
Third-party	0.0	0.0	0.0	0.0	0.0
Affiliated	(0.9 )	5.5	2.5	7.6	3.8
Total	(0.9 )	5.5	2.5	7.6	3.8
Market appreciation (depreciation)(3)	2.5	(0.7 )	11.4	28.1	(3.4 )
Other increases (decreases)(2)	1.8	(0.8 )	2.4	17.9	(15.0 )
Ending assets under management	\$415.7	\$430.3	\$415.7	\$430.3	\$ 415.7

Represents assets that our Asset Management segment manages for the benefit of other reporting segments within (1) the Company. Additions and withdrawals of these assets are attributable to third-party product inflows and outflows in other reporting segments.

Includes the effect of foreign exchange rate changes, net money market activity and the impact of acquired business. The impact from foreign currency fluctuations, which primarily impact the general account, resulted in (2) gains of \$0.0 billion and \$1.8 billion for the three months ended September 30, 2017 and 2016, respectively, gains of \$4.6 billion and \$17.2 billion for the nine months ended September 30, 2017 and 2016, respectively, and a loss of \$9.9 billion for the twelve months ended September 30, 2017.

(3) Includes income reinvestment, where applicable.





Table of Contents

## Strategic Investments

The following table sets forth the strategic investments of the Asset Management segment at carrying value (including the value of derivative instruments used to mitigate equity market and currency risk) by asset class and source as of the dates indicated.

	September 30, 2017	December 31, 2016
	(in millions)	
Co-Investments:		
Real estate	\$ 193	\$ 165
Fixed income	427	218
Seed Investments:		
Real estate	50	46
Public equity	622	441
Fixed income	252	279
Investments Secured by Investor Equity Commitments	0	0
Total	\$ 1,544	\$ 1,149

The increase in strategic investments was primarily driven by the funding of new mutual funds and a higher level of investment in collateralized loan obligations.

## U.S. Individual Life and Group Insurance Division

## Individual Life

## Operating Results

The following table sets forth the Individual Life segment's operating results for the periods indicated.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	(in millions)			
Operating results:				
Revenues	\$ 1,411	\$ 1,410	\$ 3,510	\$ 3,931
Benefits and expenses	1,261	1,299	3,799	3,990
Adjusted operating income	150	111	(289 )	(59 )
Realized investment gains (losses), net, and related adjustments	25	91	84	670
Related charges	12	(22 )	94	(426 )
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$ 187	\$ 180	\$(111 )	\$ 185

## Adjusted Operating Income

Three Month Comparison. Adjusted operating income increased \$39 million, primarily reflecting favorable mortality experience, net of reinsurance, the absence of the unfavorable impact of certain reserve refinements incurred in the

prior year period, and lower general and administrative expenses including lower legal costs. These increases were partially offset by the unfavorable ongoing impact of our second quarter 2017 annual review and update of assumptions and other refinements.

Table of Contents

Nine Month Comparison. Adjusted operating income decreased \$230 million, primarily reflecting unfavorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Results for 2017 included a \$653 million net charge from this annual review, mainly driven by a charge related to the unfavorable impacts for universal life and variable life products from modeling enhancements and other refinements related to a valuation systems conversion, including a net charge related to a change in the method of accounting for reinsurance associated with certain long-duration insurance contracts (see “—Accounting Policies & Pronouncements—Application of Critical Accounting Estimates—Accounting for Certain Reinsurance Contracts in our Individual Life business”), as well as unfavorable lapse rate assumptions primarily for universal life products. Results for 2016 included a \$420 million net charge from our annual reviews and update of assumptions and other refinements, mainly driven by a charge to accrue a liability to offset the present value of losses expected to be recognized in later years and a charge related to an out of period adjustment (see Note 1 to the Unaudited Interim Consolidated Financial Statements), partially offset by a net benefit from the impacts of other refinements. Excluding these impacts, adjusted operating income increased \$3 million, primarily reflecting higher net investment spread results and less unfavorable mortality experience, net of reinsurance, partially offset by the unfavorable ongoing impact of our second quarter 2017 annual review and update of assumptions and other refinements.

## Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$1 million. Net investment income increased \$15 million primarily reflecting higher average invested assets resulting from continued business growth, partially offset by lower income on non-coupon investments and lower prepayment fee income. Premiums increased \$7 million primarily driven by growth in our term life insurance business. Policy charges and fee income, asset management and service fees and other income decreased \$21 million, reflecting higher cost of reinsurance premiums, partially offset by a higher amortization of unearned revenue reserves and an increase in asset management and service fees and other income from continued business growth.

Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$38 million. Policyholders’ benefits and interest credited to account balances decreased \$53 million primarily reflecting favorable mortality experience and the ongoing impact of the second quarter 2017 change in the method of accounting for reinsurance, partially offset by continued business growth. The amortization of DAC decreased \$11 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions. Interest expense increased \$17 million related to higher reserve financing costs.

Nine Month Comparison. Revenues decreased \$421 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$112 million. Net investment income increased \$99 million primarily reflecting higher income on non-coupon investments, higher average invested assets resulting from continued business growth and higher investment income from unaffiliated reserve financing activity, partially offset by lower prepayment fee income. Premiums increased \$27 million primarily driven by growth in our term life insurance business. Policy charges and fee income, asset management and service fees and other income decreased \$14 million, reflecting higher cost of reinsurance premiums, as discussed above, partially offset by an increase in asset management and service fees and other income from continued business growth.

Benefits and expenses decreased \$191 million. Excluding the impact of our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$109 million. General and administrative expenses, net of capitalization, increased \$70 million primarily reflecting higher amortization of VOBA driven by a favorable impact from mortality experience and higher operating expenses including business growth initiatives. Interest expense increased \$49 million related to higher reserve financing costs. Policyholders’ benefits and interest credited to account balances increased \$4 million, reflecting continued business growth, partially offset by favorable mortality experience and the ongoing impact of the second quarter 2017 change in the method of accounting for

reinsurance. The amortization of DAC decreased \$14 million, including the impact of changes in the estimated profitability of the business due to market performance and other experience relative to our assumptions.

Table of Contents

## Sales Results

The following table sets forth individual life insurance annualized new business premiums, as defined under “—Results of Operations—Segment Measures” above, by distribution channel and product, for the periods indicated.

	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Prudential Advisory	Third Party	Total	Prudential Advisory	Third Party	Total
	(in millions)					
Term Life	\$7	\$50	\$57	\$8	\$44	\$52
Guaranteed Universal Life(1)	3	28	31	6	48	54
Other Universal Life(1)	10	18	28	8	13	21
Variable Life	9	17	26	6	10	16
Total	\$29	\$113	\$142	\$28	\$115	\$143

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Prudential Advisory	Third Party	Total	Prudential Advisory	Third Party	Total
	(in millions)					
Term Life	\$22	\$138	\$160	\$24	\$126	\$150
Guaranteed Universal Life(1)	13	111	124	19	147	166
Other Universal Life(1)	27	55	82	25	39	64
Variable Life	23	52	75	19	48	67
Total	\$85	\$356	\$441	\$87	\$360	\$447

(1) Single pay life premiums and excess (unscheduled) premiums are included in annualized new business premiums based on a 10% credit and represented approximately 21% and 10% of Guaranteed Universal Life and 1% and 2% of Other Universal Life annualized new business premiums for the three months ended September 30, 2017 and 2016, respectively, and approximately 17% and 11% of Guaranteed Universal Life and 1% and 4% of Other Universal Life annualized new business premiums for the nine months ended September 30, 2017 and 2016, respectively.

Annualized new business premiums for both the third quarter and the first nine months of 2017 decreased compared to the prior year periods primarily driven by lower guaranteed universal life sales, partially offset by higher sales across other products, as a result of certain distribution and product actions implemented to enhance product mix diversification.

Table of Contents

## Group Insurance

## Operating Results

The following table sets forth the Group Insurance segment's operating results and benefits and administrative operating expense ratios for the periods indicated.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017		September 30, 2016	
	(in millions)					
Operating results:						
Revenues	\$1,363	\$1,333	\$4,108	\$4,017		
Benefits and expenses	1,302	1,271	3,877	3,840		
Adjusted operating income	61	62	231	177		
Realized investment gains (losses), net, and related adjustments	(11 )	(5 )	(23 )	9		
Related charges	1	0	0	(6 )		
Income (loss) before income taxes and equity in earnings of operating joint ventures	\$51	\$57	\$208	\$180		
Benefits ratio(1):						
Group life(2)	87.0	% 88.6	% 88.7	% 89.6	%	
Group disability(2)	78.7	% 80.4	% 67.1	% 70.3	%	
Total Group Insurance(2)	85.5	% 87.1	% 84.8	% 86.3	%	
Administrative operating expense ratio(3):						
Group life	11.2	% 10.6	% 10.8	% 10.6	%	
Group disability	29.2	% 31.4	% 29.2	% 31.5	%	
Total Group Insurance	14.6	% 14.3	% 14.2	% 14.3	%	

(1) Ratio of policyholder benefits to earned premiums plus policy charges and fee income.

Benefit ratios for the nine months ended September 30, 2017 and 2016 reflect the impacts of our annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and (2) total group insurance benefit ratios were 88.5%, 76.6% and 86.4% for the nine months ended September 30, 2017, respectively, and 88.9%, 80.0% and 87.3% for the nine months ended September 30, 2016, respectively.

(3) Ratio of general and administrative expenses (excluding commissions) to gross premiums plus policy charges and fee income.

## Adjusted Operating Income

Three Month Comparison. Adjusted operating income decreased \$1 million, reflecting higher expenses, net of fees, and a lower contribution from net investment spread results, largely offset by more favorable underwriting results in our group disability and group life businesses.

Nine Month Comparison. Adjusted operating income increased \$54 million, including favorable comparative net impacts from our annual reviews and update of assumptions and other refinements. Results for 2017 included a \$55 million net benefit from these updates while results for 2016 included a \$41 million net benefit. The net benefit in both periods was primarily driven by favorable experience related to our group disability business. Excluding the effect of these items, adjusted operating income increased \$40 million, primarily reflecting favorable underwriting results in our group disability and group life business, and a larger contribution from net investment spread results, driven by higher returns on non-coupon investments, partially offset by higher expenses, net of fees. The underwriting

results in our group disability business reflect increased new business, and more favorable claim experience, while the underwriting results in our group life business primarily reflect the impact of fewer claims.

#### Revenues, Benefits and Expenses

Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$30 million. This increase was primarily driven by \$33 million of higher premiums and policy charges and fee income, reflecting increases in new business in both our group life and group disability businesses, partially offset by lower income from non-coupon investments.



Table of Contents

Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$31 million. The increase reflected higher policyholders’ benefits and changes in reserves in our group disability business, and an increase in general and administrative expenses.

Nine Month Comparison. Revenues increased \$91 million. Excluding an unfavorable comparative impact of \$37 million resulting from our annual reviews and update of assumptions and other refinements, as discussed above, revenues increased \$128 million. The increase reflected \$104 million of higher premiums and policy charges and fee income, driven by increases in new business in both our group life and group disability businesses, and higher premiums on experience-rated contracts in our group life business with corresponding offsets in benefits and expenses. Net investment income increased \$23 million, driven by higher income from non-coupon investments.

Benefits and expenses increased \$37 million. Excluding a favorable comparative impact of \$51 million resulting from our annual reviews and update of assumptions and other refinements, as discussed above, benefits and expenses increased \$88 million. This increase primarily reflected higher policyholders’ benefits and changes in reserves, driven by higher benefits on group life experience-rated contracts, as discussed above, less favorable claims experience in our group disability business and our non-experience rated group life contracts, and an increase in general and administrative expenses.

## Sales Results

The following table sets forth the Group Insurance segment’s annualized new business premiums, as defined under “—Segment Measures” above, for the periods indicated.

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	2017	2016	2017	2016
Annualized new business premiums(1):				
Group life	\$23	\$29	\$265	\$285
Group disability	12	13	141	113
Total	\$35	\$42	\$406	\$398

Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage under (1) our Servicemembers’ Group Life Insurance contract and from excess premiums on group universal life insurance that build cash value but do not purchase face amounts.

Total annualized new business premiums for the three months ended September 30, 2017, decreased \$7 million compared to the three months ended September 30, 2016, primarily driven by lower sales in our group life business, while sales in our group disability business remained relatively flat. Total annualized new business premiums for the nine months ended September 30, 2017, increased \$8 million compared to the nine months ended September 30, 2016, primarily driven by sales to new clients in our group disability business, partially offset by lower sales in our group life business, including a single large client sale in 2016.

## International Insurance Division

## International Insurance

Business Updates

We continue to seek opportunities for expansion into targeted countries with attractive markets and long-term growth potential, as well as opportunities to go deeper into countries where we already have a presence.

111

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Table of Contents

In April 2017, we completed the purchase of a portfolio of group life insurance business from Itau Unibanco S.A. The acquired business is a leading provider of group life and personal accident insurance products to corporate clients through a network of third-party brokers in Brazil.

In June 2017, LeapFrog Strategic African Investments (LSAI), a fund in which we are the primary investor, signed an agreement to acquire a minority interest in Enterprise Group Limited and affiliates (“Enterprise Group”). Enterprise Group offers financial services including life insurance and pensions for emerging consumers in Ghana. This transaction closed in August 2017.

In July 2017, we formed a joint venture with CT Corp to provide life insurance solutions in Indonesia. CT Corp controls one of Indonesia’s largest and most prominent business groups with primary areas of focus in the financial services, media, retail, property, lifestyle and entertainment sectors. The joint venture, in which we own a 49% interest, is expected to take a multi-product and multi-channel distribution approach and will leverage CT Corp’s existing businesses and strategic partnerships to offer insurance products to customers.

While these transactions are expected to provide long-term growth potential, they are not currently significant to the operating results of the International Insurance segment.

Operating Results

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed in “—Results of Operations—Impact of Foreign Currency Exchange Rates” above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations, excluding the effect of foreign currency fluctuations, were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 112 yen per U.S. dollar and Korean won at a rate of 1130 won per U.S. dollar, both of which were determined in connection with the foreign currency income hedging program discussed in “—Results of Operations—Impact of Foreign Currency Exchange Rates” above. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is generally reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the “Sales Results” section below reflect translation based on these same uniform exchange rates.

The following table sets forth the International Insurance segment’s operating results for the periods indicated.

Table of Contents

	Three Months		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	\$2,627	\$2,533	\$7,982	\$7,509
Gibraltar Life and Other operations	2,749	2,851	8,286	8,262
Total revenues	5,376			